

Compliance to Corporate Governance among Publicly-listed Companies in the Philippines

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Received date: January 03, 2015, Accepted date: January 13, 2015, Published date: January 20, 2015

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Abstract

In the present corporate world, code of governance plays a major role in assessing a company's strengths and weaknesses. A company which implements a sound corporate code of governance tends to maximize the quality of its assets and enterprise value with respect to its shareholders. Such company also gives the impression of transparency and fairness in dealing to all stakeholders. The study randomly selected and downloaded thirty publicly-listed companies with annual reports in 2012 in the Philippine Stock Exchange (PSE) to answer the research instruments specially developed for the study. The paper used descriptive-quantitative design. Frequency and percentage method and ANOVA were used to determine the significant difference between the independent and dependent variables. The results revealed that companies' characteristics have no significant difference and did not influence the level of compliance to corporate governance among the respondents. Nevertheless, most businesses that are publicly-listed have high compliance to the requirements of the Securities of Exchange and Commission (SEC) particularly to the compliance, communication and reportorial processes in order to operate efficiently, to attract potential investors and to disclose information about security risks and associated events to protect the interest of the shareholders.

Keywords: Accounting; Corporate governance; Compliance; Publicly-listed companies; Quantitative research; Descriptive design; Davao city; Philippines

Introduction

An organization which has effective corporate controls will most likely prevent any conflict of interest between those insiders who directly manage company affairs and those passive investors. Without constant disagreements and doubts inside the organization, it will lead to enhance the firm's value and improve its management efficiency. By implementing good governance, a firm can provide relevant information to external users through quality financial reports [1].

Based on the study of Koehn and Ueng [2], one cannot distinguish whether a good financial information provided came from a company that practices strong corporate governance or not. Even firms with poor corporate governance can also produce good reports.

However, Faber [3] discovered that a company which had experiences in committing fraud in one way or another find it difficult to overcome the stigma for a long time, even after correcting its ways by practicing good governance. Hence, it is still doubtful whether those which practice good governance in a corporate environment can achieve the ultimate goal of producing more accurate and transparent financial reporting.

There have been a number of valuable studies in corporate governance and these studies are more on the impact of corporate governance on the financial performance [4] and compliance with modern legislations to corporate governance and its implementation in the companies [5]. However, none of these provided the compliance

to corporate governance among publicly-listed companies in the Philippines.

Framework

This study was anchored in the study of Sarbanes-Oxley Act [6] which was a by-product of the corporate governance challenges in America. It posited that it is the management's responsibility to establish structures and procedures for financial reporting at the same time maintain adequate internal control.

The Philippine Securities and Exchange Commission (SEC) [7] issued Memorandum Circular 2, also known as the Code of Corporate Governance. The Code aims to encourage reforms in corporate governance in order to develop the capital market, lift-up investors' confidence in the market and as a result sustain the growth of the economy as well as the corporate sector.

Further, Kothari expounded that the quality of accounting information is not only influenced by the quality of accounting standards but also constituted by the nature of corporate governance. The legal system and the existence and enforcement of effective laws that govern the accounting standards are IFRS and conceptual framework. This consequently highlights the important role played by corporate governance in shaping the quality of financial reporting in organizational settings and in ensuring credibility and integrity of the governance. Many users of financial information are interested in the performance and potential of one particular part of the company's operations or the other, rather than the company as a whole.

Method

Research design and respondents

This study used quantitative descriptive method. The respondents of the research were publicly-listed companies in the Philippines with 2012 annual reports in the Philippine Stock Exchange. They were purposively selected in the PSE website.

Research instrument

The instrument used in this study was a validated self-constructed survey questionnaire. It is designed to draw information on the compliance of the companies to the code of corporate governance. The questionnaire is divided into two (2) parts: Part 1 is to determine the

company's characteristics and Part 2 is to determine the level of compliance to Corporate Governance in terms of compliance, communication and reportorial processes.

Data gathering procedure

The sampling plan included 30 annual reports of publicly-listed companies that have been taken in the PSE web site.

Results and Discussion

As observed in Table 1, 66.67% of the respondents belong to service industry. Service industry tops most in the publicly-listed companies, 46.67% of the respondents have been operating more than 50 years, and 56.67% of the respondents have more than 10 billion assets.

Descriptive Characteristics	Frequency	Percentage (%)
Nature of Business		
Manufacturing	8	26.67
Merchandising	2	6.67
Services	20	66.67
Company Age		
Less than 10 years	3	10.00
10-30 Years	8	26.67
30-50 Years	5	16.67
More than 50 Years	14	46.67
Total Assets		
Less than 350 million	3	10.00
350 million to 1 billion	3	10.00
1 billion to 5 billion	4	13.33
5 billion to 10 billion	3	10.00
More than 10 billion	17	56.67

Table 1: Company Characteristics.

Table 2 revealed that the publicly-listed companies highly complied with the code in terms of compliance process, communication process

and reportorial process with the corresponding percentage of 89%, 86% and 85%, respectively.

Level of Compliance			
Indicators	Frequency	Percentage	Descriptive Meaning
Compliance Process	400	89%	Signifies a high compliance to the code
Communication Process	154	86%	Signifies a high compliance to the code
Reportorial Process	153	85%	Signifies a high compliance to the code

Table 2: Level of Compliance.

Level of Compliance to Corporate Governance	Nature of Business			F-value	P-value	Decision on Ho
	Manufacturing	Merchandising	Services			
Compliance Process	0.8833	0.9667	0.8833	0.38	0.688	Accept
Communication Process	0.8125	0.8333	0.8750	0.50	0.611	Accept
Reportorial Process	0.8958	0.8333	0.8333	0.27	0.768	Accept
Overall	0.8639	0.8778	0.8639	0.02	0.985	Accept

Table 3.1: Significant Difference on Company's Compliance to the Code of Corporate Governance by Nature of Business.

Level of Compliance to Corporate Governance	Company Age				F-value	P-value	Decision on Ho
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years			
Compliance Process	0.9111	0.9083	0.8933	0.8714	0.17	0.919	Accept
Communication Process	1.000	0.8333	0.8667	0.8333	1.11	0.363	Accept
Reportorial Process	0.8889	0.8750	0.9000	0.8095	0.34	0.795	Accept
Overall	0.9333	0.8722	0.8867	0.8381	0.81	0.502	Accept

Table 3.2: Significant Difference on Company's Compliance to the Code of Corporate Governance by Company Age.

Level of Compliance to Corporate Governance	Company Age					F-value	P-value	Decision on Ho
	Less than 50M	50M to 150M	150M to 250M	250M to 350M	More than 350M			
Compliance Process	0.8889	0.8889	0.7500	0.9556	0.9098	1.63	0.199	Accept
Communication Process	0.9444	0.8333	0.8333	0.8889	0.8431	0.33	0.852	Accept
Reportorial Process	1.000	0.6667	0.7083	0.9444	0.8725	1.97	0.130	Accept
Overall	0.9444	0.7963	0.7639	0.9296	0.8752	2.42	0.075	Accept

Table 3.3: Significant Difference on Company's Compliance to the Code of Corporate Governance by Total Assets.

Tables 3.1 to 3.3 revealed that the level of compliance to the code and the companies' characteristics are not related to each other. It means further that one will not depend on the other and the companies' characteristics will not affect the level of compliance to the code of corporate governance. For this reason, there was an acceptance of the null hypothesis which states that there is no significant difference of the level of compliance to corporate governance when respondents are grouped according to profile.

Conclusion

According to statistical results, in terms of compliance, communication and reportorial processes, the level of the companies' compliance to corporate codes have been highly complied. In determining the significant difference in the level of compliance to corporate governance when respondents are grouped by profiles, the proposed hypothesis has been accepted that there is no significant difference between the main and moderating variables. This means

that their profile does not affect or does not have an impact on their compliance to the code.

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