IMPACT OF CORPORATE GOVERNANCE ON SOCIAL INFORMATION DISCLOSURE

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Abstract

Information disclosure is an integral to corporate governance, i.e., an important element of corporate governance, since higher disclosure could be able to reduce the information asymmetry, to clarify the conflict of interests between the shareholders and the management, and to make corporate insiders accountable.The study has utilized primary data. In order to collect the primary data, 150 questionnaires were distributed to the customers of 16 Nepalese commercial banks that include private banks, joint venture banks and public banks. The study includes eight non joint venture banks, six joint venture banks and two public banks. The opinion survey reveals that the most of the respondents are convinced about effective corporate governance is linked towards the better level of social information disclosure. The majority of respondents have highlighted that CEO and Chairman must be different for high level of social information disclosure.

Key words: *Corporate governance, Information discloser, Ownership structure, Size of customer, Size of audit firm.*

INTRODUCTION

Corporate social disclosure refers to companies' disclosure about societal performance respectively. Social performance includes improving human resource related practices (e.g. employees' training and development, employees' health and safety, diversity, equal opportunity, and wage discrimination issues), addressing consumer' issues (e.g. customers' health & safety, product labeling, communication practices, customer's complaints, and compliance with product laws), protecting human rights (e.g. freedom of association, removing child labor issues, non-discrimination, and other safety measures etc.), and addressing other issues of broader stakeholders & community concerns such as: involving local community, reducing corruption, showing public policy concerns, discouraging anti-competitive behavior, and complying with law. Thus, corporate social disclosure includes dissemination of information about their human resource related practices, community involvement activities and projects, quality and safety of products & services (Thompson and Zarina 2004; Othman and Ameer 2009).

Htay (2013) observed that the governance is a very important organ of a corporation, which is more essentially required in the banking sector in order to have an influential power on information disclosure of the annual reports. The aim of this paper was to investigate the impact of corporate governance on the strategic information disclosure of the banks. In this light, it is important to disclose high level of information in general to minimize informational asymmetry and the probability of fraud. However, it

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is true that each bank may not be able to provide a wide level of information disclosure due to their different nature such as commercial bank, development bank, agriculture bank or micro credit bank. Nevertheless, it is important to analyze whether or not the banks disclose the social information to gives the stakeholders a true and fair view of the firm and the quality of the corporate governance standards through their banking interfaces and websites in a user-friendly manner with the aim to minimize informational asymmetry.

STATEMENT OF THE PROBLEMS

In service sector like banking industry where bank operators face immense pressure and new challenges, they have little scope for differentiation either for the products or services they offer or for the cost they charge and above all customers are being approached by many competitors who are willing to use more than one financial institution to meet their needs and to switch funds for short-term gains. In such a scenario, the ultimate challenge faced by banking organizations today is to produce satisfied customers in order to produce loyal customers for strategic purposes. In such situation providing adequate information to all stakeholders in a right way at right time plays a vital role to make intense loyalty. Furthermore, disclosing social information issues have long been ignored in developing economies when compared to research carried out in developed economies such as USA and Europe (Firoz & Maghrabi, 1994).

Thus, corporate governance reporting may support value- based management with its primary target to increase shareholder value. International research supports this assumption: capital markets equal non- private, relevant governance information with bad information if they are able to evaluate the information on correctness and completeness (Milgrom, 1981). In case of missing governance information investors aren't able to allocate capital perfectly.

The study seeks to examine the impact of corporate governance on social information disclosure in context of Nepalese Commercial banks. Hence, there is a lack of publication in regards to the fundamental factors of corporate governance and level of social information disclosure in Nepal's banks. The Nepalese commercial banks are providing and disclosing some level of social information to the stakeholders but there is a need to explore whether the information provided by Nepalese commercial banks sufficient or not as well as it is realistic or not. This study attempts to find out whether the established corporate governance mechanism; namely the proportion of independent non-executive directors, the size of audit committee, practice of separate CEO and Chairman of the board have significant relationships with the level of social information disclosure particularly in one of the developing country such as Nepal. The study raises some research questions:

- What is the level of social information disclosure in different selected commercial banks in Nepal?
- Is there any significant relationship between size of the board, size of audit firm, size of customer and social information disclosure in commercial banks of Nepal?

PURPOSE OF THE STUDY

The main purpose of the study is to investigate the impact of corporate governance on social information disclosure in Nepal.

The specific objectives are as follows:

i. To examinethe corporate governance on social information disclosure.
ii. To explore the impact of the board size, audit committee size and size of customer on the transparency and information disclosure.

LITERATURE REVIEW

Beekes and Brown (2006) found out that companies with better governance also disclose more information. They thought that transparency on corporate governance may substitute financial disclosure and increase analysts' accuracy.

Information disclosure is an important and efficient means of protecting shareholders and is at the heart of corporate governance. It is also integral to corporate governance, i.e. an important element of corporate governance, since higher disclosure could be able to reduce the information asymmetry, to clarify the conflict of interests between the shareholders and the management, and to make corporate insiders accountable. Among the different types of information disclosed in the annual reports, disclosure on social information is focused in this study because corporate governance guidelines extend the responsibilities of the board of directors from the shareholders to wider aspect, i.e. stakeholders. Moreover, taking care of society is essential for the long-term sustainability of the firms and corporate societal reporting becomes an important issue nowadays (Pramanik, Shil and Das, 2008).

Saleh (2009) examined corporate governance factors and firms' specific characteristics and their influence on corporate social responsibility disclosure. It showed that a positive association between proportion of Independent Directors (INDS) and Corporate Social Responsibility Disclosure (CSRD). The result showed that a higher proportion of independent non-executive directors on a board are positively related to the level of corporate social responsibility disclosure but the extent of corporate social responsibility disclosure is negatively related for firm's size.

Cortez and Penacerrada (2010) mention that protecting the society is part of the corporate social responsibility of the corporation.

Ariff (2015)focused that quality of voluntary disclosure of intangibles to be lower for firms with greater managerial ownership. Study showed that there is no evidence that the quality of voluntary disclosure of intangibles is affected by the proportion of shares held by directors.

Neifar and Halioui (2018)urged that companies which disclose more about corporate governance are those characterized by the high growth potential, dispersed ownership structure, whose leaders do not stack as the chairman of the board of administration and general director, the more successful and the less indebted. The researcher also tested the effect of the variable foreign participation in the same relationship; however, the results showed no significant effect of this variable. The initial sampled consisted of firms listed on the Tunis Stock Exchange. The researcher eliminated financial companies (banks, insurance companies, leasing companies and investment companies) not to bias the results because of their specificregulations regarding financial statements and disclosure.

In the context of Nepal, Poudel (2015) found that different variables associated with corporate governance practices are positively and significantly correlated with the level of corporate social responsibility initiatives based on all three models. the evidence and motivation to all commercial banks in Nepal to take a serious view in the implementation of good governance and thus contribute more to the corporate social responsibility There can be a lot of advantages and benefits for companies especially with good corporate social responsibility disclosure either in or outside Nepal.

Furthermore, there is a positive correlation with the profitability of the company and corporate social responsibility. Indicates that the increase in the profitability of the company leads to an increase in corporate social responsibility. Likewise, customer retention is positively related to corporate social responsibility. Indicates that higher customer retention leads to increased corporate social responsibility. Likewise, employee engagement is positive related to corporate social responsibility. Indicates that increase in employees Participation leads to an increase in corporate social responsibility (Pradhan & Chaudhary, 2020).

Although several international empirical studies have been conducted on the impact of Corporate Governance on Social Information Disclosure in international financial sector, little has been done in Nepalese banking industry. These studies revealed that Corporate Governance is the major indicator for predicting level of social information disclosure. But there is no any uniformity in the findings of the previous studies. The empirical results found in the other country cannot be generalized in the context of Nepal. This study is all about corporate governance and its impact on the level of social information disclosure of commercial banks in Nepal. It aims to address the contemporary issue and challenges of corporate governance and level of social information disclosure in the Nepalese commercial banks. The research is an attempt to fill this empirical literature gap by taking the case of Nepal.

METHODOLOGY

This study is a survey-based and descriptive approach. The descriptive approach has been focused on revealing the current level of social information disclosure with dimensions of corporate governance. The main instrument for data collection is structured questionnaires.It is based on primary sources of data. The primary sources of data have been used to assess the opinion of respondents with the respect of corporate governance with level of social information disclosure provided by the Nepalese commercial banks.

A sample of 150 respondents of different commercial banks is covered for questionnaires concerning their dimensions on corporate governance and level of social information disclosure between public, joint venture and non-joint venture banks. The dimensions of corporate governance are audit firm size, Board size, Ownership structure, Size of customer and Type of directors. The primary source of data is collected from the employees of different banks. Questionnaire includes both close-end and open-end questions.

The population of this study includes employees of 16 commercial banks. The banks are divided into three categories such as government owned banks, non-joint venture banks and joint venture banks. In the study, the sample represents the employees who are currently working in different banks such as 2 government owned banks, 6 joint venture banks and 8 non joint venture banks are represented as sample for study. Due to the various constraints (like study period, unavailability of data), it is difficult to include whole population in the study. For the representation of more reliable and adequate population in the sample, stratified sampling technique has been used in this study. Stratified sampling technique categories the banks in three strata namely joint ventures, government owned and non-joint venture banks out of total population of 27 commercial banks. After divided the population into three strata, 6 joint venture banks, 2 governments owned banks and 8 non joint venture banks have been included in the sample.

The Model

In this study, the model has been used to test the theoretical relation between the corporate governance and social information disclosure. The social information disclosure is function of the size of audit firm, size of board of directors, ownership structure, type of director and size of customers. The theoretical statement may be framed as under:

Y = ? (X1, X2, X3, X4, X5)

Y = level of social information disclosure (SID)

X1 = Size of audit committee

X2 = size of board of directors (BoD)

X3 = ownership structure and type of directors

X4 = size of customer

RESULTS

Descriptive Analysis

Correlation Analysis

The research has five dimensions in total with one dependent and four independent dimensions which are determining their effect on level of social information disclosure. The dependent variable is social information disclosure and the independent variables are audit committee, board of directors (size and kind), ownership structure (CEO duality and types of ownership structure), and size of customers. The correlations are shown on the table 1.This table presents bivariate Pearson's correlation coefficient between differentvariables used in the study.

Table 1

Correlation Coefficient of SID and Element of Corporate Governance

	SID	BoD	Ownership	Customer	Audit
SID	1.000	0.202*	-0.192*	0.187*	-0.214**
BoD		1.000	.292**	0.825**	0.379**
Ownership			1.000	0.280**	0.233**
Customer				1.000	0.269**
Audit					1.000

Source: Response on survey questionnaire

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Here, social information disclosure has a relation with variables dimension of corporate governance like size and independency of audit firm, CEO duality and types of ownership structure, size and kind of board of directors, size of customers. Some of the variables have positive and significance relationship with social information disclosure and some have negative. Positive correlation implies that as one variable increases in values so does the other and vice versa. The data shows size and kind of board of directors which is the element of the corporate governance is positively correlated with social information disclosure .202 and is significant at 5 percent level of significance. Similarly, the correlation between social information disclosure and size of customer is positively correlated which is accounted at .187and is significant at 5 percent level of significance. CEO duality and types of ownership structure is negatively correlated with social information disclosure by -0.192 which is in significant at level of 5 percent. Similarly, size and independency of audit firm is also negatively correlated with social information disclosure at magnitude of -0.214 significant at level of 1 percent.

StepwiseRegression Analysis

In this part of analysis, regression between the independent variables namely are size of audit firm, size of customer, ownership structure and board size as well as the regression between the dependent variable, level of social information disclosure are explained in table 2.

Table 2

Regression Analysis of Social Information and the Independent Variables

This table presents regression analysis of $CS_t = \beta o + \beta_1 AS_t + \beta_2 CS_t + \beta_3 OS_t + \beta_4 BS_t + \varepsilon_t$ *used in the study and * and ** denote that the results are significant at 1% and 5% level of significance respectively.*

Models	Constant	AS	CS	OS	BS	Adjusted r^2	F value
(1)	4.496 (14.717)*	-0.218 (-2.668)*				0.039	7.120
(2)	4.060 (12.500)*	-0.291 (-3.530)*	0.198 (3.266)*			0.098	9.106
(3)	4.435 (12.840)*	-0.252 (-3.085)*	0.237 (3.884)*	-0.178 (-2.767) *		0.137	8.897
(4)	4.495 (13.536)*	-0.312 (3.762)*		-0.187 (-2.964) *	0.291 (4.663)*	0.171	11.277
(5)	4.070 (12.697)*	-0.345 (-4.066)*	0.013 (0.131)		0.238 (2.224)**	0.122	7.882
(6)	4.469 (13.153)*	-0.309 (-3.699)*	0.039 (0.385)	-0.189 (-2.977) *	0.259 (2.480) **	0.167	8.445

Source: Field Survey, 2020

Notes: Figures in parentheses are t values

Table 2 presents the regression analysis of the study which helps to determine the positives and negatives significant and insignificant impact on level of social information disclosure of different dimension of corporate governance. The t statistics suggests that the coefficient of size audit firm and ownership structure are negative and more significant.i.e. at 1% level of significance it means these influences more than other dimensions of corporate governance to high level of social information disclosure in Nepalese Commercial banks and coefficient of board size is positive and significant at 5% level. The coefficient of size of customers is insignificant to level of social information disclosure. Therefore, size of customers does not play significant role in level of social information disclosure and corporate governance size of audit firm, ownership structure and size of board of directors has higher explanatory power than other variables to level of social information disclosure in Nepalese commercial banks.

CONCLUSIONS &DISCUISSION

The main purpose of the study is to investigate the impact of corporate governance on social information disclosure in Nepal. It first objective was to study the effect of the presence of independent non-executive directors on board in information disclosure in Nepalese commercial banks. The second objective was to analyze the effect of practice of a clear separation of the responsibilities of the CEO and Chairman of the board toward transparency and information disclosure in Nepalese commercial banks. The third objective was to examine the impact of the board size and presence of female directors in the board on social information disclosure. The fourth objective was to analyze the effect of audit committee size on the transparency and information disclosure of Nepalese commercial banks. The fifth objective was to study the effect of size of customer and type of ownership on social information disclosure.

The study also concludes that among all of the elements of corporate governance size of audit firm have great impacts on the level of social information disclosure as shown by the result. For Nepalese commercial banks good corporate governance is considered as the most important factor for influencing the level of social information disclosure. The results of correlation test of social information disclosure and dimensions corporate governance it is showed that social information disclosure is positively correlated with corporate governance dimensions (board size and board composition, size of customer) and negatively correlated with (size of audit firm, ownership structure and CEO duality). The result also indicates that in case of Nepalese commercial banks social information disclosure level is highly affected by audit firm size, size of customer, board size and ownership structure at 1 percent, 5 percent level, 5 percent level and 5 percent level of significance.

Information disclosure is an important and efficient means of protecting shareholders and is at the heart of corporate governance. Among the different types of information disclosed in the annual reports, disclosure on social information is focused in this study because a corporate governance guideline extends the responsibilities of the board of directors from the shareholders to wider aspect, i.e. stakeholders. Moreover, taking care of society is essential for the long-term sustainability of the firms and corporate social reporting becomes an important issue nowadays (Pramanik et al., 2008). Cortez and Penacerrada (2010) mention that protecting the society is part of the corporate social responsibility of the corporation.

Indeed, Beeks and Brown (2006) find that firms with higher corporate governance quality make more informative disclosures. Understandable, relevant, transparent, reliable, timely, and full disclosure of the results of economic activities and the structure and processes used in its organizational units entrusted to operate in shareholders' interests, gives the stakeholders a true and fair view of the firm and the quality of the corporate governance standards it follows. In this sense, good disclosure and transparency mechanisms are set in place to essentially protect the rights of the minority shareholders, creditors and other outside decision makers who do not have firsthand knowledge about the firm and its prospects, from extraction of private benefits by insiders based on their superior information. This, in turn, is expected to minimize informational asymmetry and the probability of fraud, also enhancing its easier detection, leading to lower cost of capital and hence higher firm value. A related informational advantage of good disclosure and transparency practices is that it increases investor awareness and trust which will reduce the uncertainty of the returns to capital suppliers which, again, is expected to reduce the firm's cost of external capital and hence increase its value, which is consistent with Pradhan & Chaudhary, 2020.

IMPLECATIONS

This research concludes that Nepalese commercial banks have achieved significant development in corporate governance since the introduction of the recent reforms. Above all, it is noted that the main objective of the reforms has been achieved by making the board of directors more accountable to all stakeholders. The introduction of at least one female administrator on board is a significant advance for Nepalese banks. Regulators can further improve the representation of women on board to improve gender equality in top management. Nepalese banks should appoint more independent directors as the role of independent directors becomes very important for the successful implementation of these reforms. Till now, there is no published empirical research that identifies or examines the impact of Corporate Governance on Social Information Disclosure in Nepalese commercial banks. Therefore, an analysis of banks in Nepal from an "impact of corporate governance on social information disclosure" should be an interesting prospect. Such an investigation may provide the banks with fine and complicated information that will help them to reach the indefinable competitive edge they are searching for.

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