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Corporate Governance Disclosure: An International Comparison

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This article aims at identifying the percentage of companies with the three compulsory corporate governance disclosure items under the NYSE listing rules for foreign companies on their websites. The three elements investigated are: disclosure on differences between NYSE corporate governance rules and national rules, information on an audit committee and the committee charter. Websites of two hundred foreign companies listed on the NYSE were analysed for the presence of these elements in the corporate governance section or elsewhere on the company's website. The companies' were divided into sub groups of regions, industries and economic development classifications. It was found that there is a gap between what is prescribed by the NYSE as the minimum disclosure for foreign companies and what is presented on the websites in relation to corporate governance disclosure. This may have a negative impact on informed decision making if there is sole reliance on what financial reporting is presented on companies' websites.

Field of research: Accounting, Corporate Governance disclosure

1. Introduction

According to Cowan (2004) corporate governance is the way that companies are directed and controlled. According to Poon, Li and Yu (2003), "In the past few years, there has been a new marketing application of the Internet—Internet financial reporting (IFR)." As far as inclusion of corporate governance disclosure in IFR is concerned Radner (2002) has made an insightful statement, "To remain credible, companies need to make this information readily accessible and focus their efforts on providing a clear, concise message in the most transparent manner possible." Radebaugh, Gray and Black (2006) have pointed out that large companies now have major sections primarily on corporate governance on their websites.

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The failures of a few large companies more recently and the problems with practice of corporate governance elements in the companies saw the enforcement of the Sarbanes –Oxley Act in 2002 making corporate governance a legal requirement (Cowan 2004). According to Naylor (2008) "while it is a U.S. law, Sarbanes-Oxley has implications around the world." According to Aly & Simon (2008) foreign exchange listing (such as the sample included in this study) has an impact on Internet Financial reporting and disclosure. The same view is supported by Debreceny, Gray and Rahman (2002) and Cook (1992). According to Debreceny, Gray and Rahman (2002) listing on U.S. stock exchanges is an important influence on IFR. The aim in this paper is to identify the proportion of companies with corporate governance disclosure on three compulsory elements for foreign listed companies on the NYSE on their websites. The paper also seeks to identify the impact of country, region, industry and economic development on this disclosure.

2. Literature Review

2.1. NYSE Listing Requirements For Foreign Companies

The sample of companies studied is derived from the December 2005 NYSE list of foreign issuers. There are three mandatory items that are required by the NYSE for these companies to disclose in relation to corporate governance. These three conditions must be satisfied by all listed foreign companies: According to Section 303 A:

- Listed companies must have an audit committee that satisfies the requirements (this condition is divided into two disclosure items: existence of an audit committee and existence of an audit committee charter),
- differences between the national and NYSE listing requirements must be disclosed
- A written notification must be sent to the NYSE if there is non compliance with the above provisions, not analysed in this study since this is direct correspondence with NYSE.) (NYSE 2008).

According to the Canadian Performance Reporting Board (CPRB) of the Canadian Institute of Chartered Accountants and the Canadian Investor Relations Institute (CIRI) (2008) "Entities will want to disclose sufficient corporate governance information to enable a reader to understand the entity's governance processes." This view is supported by Radner (2002) observing that according to a survey conducted by McKinsey & Co. 80% of the respondents were happy to pay a premium for companies that are visibly well governed. The important point in this quote is the "visibility" of good governance. According to the NYSE (2002) “Given the importance of corporate governance, each listed company’s website must include its corporate governance guidelines, the charters of its most important committees (including at least the audit, Compensation and nominating committees) and the company’s code of business conduct and ethics. The quality of the content presented on the website plays a very important role in the business of an organization (Smith and Peppard, 2005).

Abdelsalam, Bryant and Street (2007) have stated that despite its growing importance as a source of corporate information to investors, the content, usability, and perceived credibility of the information provided on corporate websites varies greatly. This point of view is also supported by Radner (2002) who has suggested that most companies are disclosing corporate governance policies and practices at various levels. KPMG (2005) conducted a survey of Corporate Responsibility reporting which incorporated a sample of the top 250 companies of the Fortune 500, which included Global 250 companies and top 100 companies in 16 countries, National 100, downloaded from the corporate websites. KPMG (2005) found that only 6 % of the sample companies had disclosure on links between Sarbanes Oxley and the companies’ corporate governance policies although 61% of the companies had a section on corporate governance. Blunn & Company (2003) carried out two surveys, one before and another one soon after the Enron collapse of the website practices of 37 US-based companies, 28 European, 10 from the U.K.10 Japanese, nine Canadian, and six Australian. Before the collapse 84% of the companies did not have a corporate governance section on their website and only 14% prominently displayed their Corporate Governance policies. After the collapse companies were including more content as well as improving the quality of IFR on their websites.

3. Methodology and Research design

As of 2008, majority of the foreign companies listed on the NYSE do have corporate governance disclosure on their websites. The issue though, relates to the level of disclosure and the amount of detail provided. As mentioned earlier, the disclosure analysis is limited to three key corporate governance elements that are compulsory according to the NYSE Listing requirements. These three variables investigated in this study are as follows:

1. Disclosure on differences between national corporate governance and NYSE listing requirements (mandatory for foreign companies listed on the NYSE),
2. Existence of audit committee (mandatory for foreign companies listed on the NYSE), and

3. Existence of the audit committee charter (mandatory for companies listed on the NYSE) (NYSE 2008)

The disclosure of these three variables was also analysed on the basis of sub classifications including: countries, regions, industries and economic development. The point of this was to analyse the significance of the impact of these classifications on disclosure.

3.1. Sample

The study looked at two hundred companies (from a population of four hundred and sixty) from forty one countries selected at random from the January 2006 list of non U.S. companies listed on the NYSE. The sample represents a confidence interval of 5 and confidence level of 95%.The companies were also analysed based on sub classifications of forty one countries, twenty one industries, eight regions and two economic development classifications (developing and developed). The websites were analysed over the period of January 2006 to June 2006. SPSS was used for data entry and analysis. The analysis included descriptive statistics for example frequency percentages and means as well as ANOVA and Chi square tests.

4. Discussion Of Findings

Tables 1 and 2 provide the significance of the factors in relation to influence on disclosure based on two tests: Pearson's Chi square and ANOVA.

Table 1: Significance tests of differences between corporate governance items (Pearson Chi Square results)

Impacting factor	Test	Value	Significance
Country	Pearson Chi Square		
	Differences between Corp Gov Policies	48.378	0.338
	Audit Committee	54.6	0.154
	Committee Charter	66.75	0.019
Region	Pearson Chi Square		
	Differences between Corp Gov Policies	9.031	0.340
	Audit Committee	10.718	0.253
	Committee Charter	19.866	0.011
Industry	Pearson Chi Square		
	Differences between Corp Gov Policies	21.433	0.371
	Audit Committee	21.542	0.366
	Committee Charter	14.353	0.812
Economic development	Pearson Chi Square		
	Differences between Corp Gov Policies	4.033	0.045
	Audit Committee	8.268	0.004
	Committee Charter	12.666	0.000

According to the Pearson chi square results in Table 1, the important influence on the disclosure on corporate governance policies' differences is Economic development. As far as the information on Audit committees is concerned, once again, Economic development is a discerning factor. It is interesting to observe though that country, region and level of economic development, all have a significant influence on Audit committee charter disclosure. According to this test, industry does not have a significant influence on any of the three corporate governance items investigated. Significance tests were also carried out with ANOVA. The results are presented in Table 2.

Table 2: Significance tests of differences between corporate governance items (ANOVA)

Country	One Way ANOVA Differences between Corp Gov Policies Audit Committee Committee Charter	value 1.092 1.285 1.714	significance 0.34 0.133 0.008
Region	One Way ANOVA Differences between Corp Gov Policies Audit Committee Committee Charter	F: 1.129 1.280 2.636	 0.345 0.256 0.009
Industry	One Way ANOVA Differences between Corp Gov Policies Audit Committee Committee Charter	F: 1.075 1.080 0.692	 0.380 0.374 0.831
Economic development	One Way ANOVA Differences between Corp Gov Policies Audit Committee Committee Charter	F: 4.074 8.538 13.387	 0.045 0.004 0.000

As observable in Table 2, as far as the country element is concerned the variable that is impacted significantly is the committee charter, which is consistent with the significant result under Pearson's Chi Square. The same can be observed in relation to impact of region. The industry that the company belongs to seems to have no impact on the disclosure items studied. As far as economic development is concerned, all three variables bear a significant relationship to whether the country belongs to an economically developed region or not.
Details on the percentage of companies with disclosure as a total and as classified into sub groups are now discussed.

4.1 An Overall Picture

Table 3 provides an overall comparison of the percentage of total companies with disclosure in relation to the three elements.

Table 3: International Comparison of CG Disclosures Summary

Corporate Governance Disclosure item	Companies total=200 (% with disclosure)	Countries (Total=44) % with disclosure (companies represent at least 50% of the population from each country; some countries only had < or= 2 companies listed on the NYSE)	Industries (total =21) % with disclosure (industries with at least one company with disclosure)	Regions(total=8) % with disclosure regions represented by one or more companies
1. Differences between the national and NYSE listing requirements	31.5%	47.7%	71.4%	87.5%
2. Existence of Audit Committee	58%	75%	90.4%	100%
4. Existence of Charter	51.5%	63.6%	90.4%	100%

The percentage of companies with disclosure on the first variable, is low at 31.5%. The audit committees' information is also a relatively limited disclosure with just over half of the sample companies disclosing this item. It is also observable that companies may disclose information on the audit committee without a detailed Audit committee charter. As the companies were classified into country groups, slightly less then half of the countries disclosed the differences between national and NYSE corporate governance policies, with most of the country groups including a disclosure on the audit committee. This became a more positive result when the companies were classified into industry groups and regions. Provided below is a more detailed analysis for each sub group.

4.2 Corporate Governance disclosure by country

The forty four countries that identify the sample with the number of companies belonging to each country and the three variables disclosure are provided in Table 4.

Table 4 International comparison of Corporate Governance disclosure by country

Country (number of companies)	Differences between the national and NYSE listing requirements	Existence of Audit Committee	Existence of Audit Committee Charter
Argentina (4)	25%	0%	0%
Australia (9)	11%	67%	67%
Austria (1)	**0%**	**0%**	**0%**
Bahamas (2)	0%	50%	50%
Belgium (1)	100%	100%	100%
Bermuda (9)	33%	89%	89%
Brazil (8)	13%	50%	25%
Canada (24)	33%	67%	67%
Cayman Islands (2)	0%	100%	100%
Chile (10)	20%	60%	60%
China (9)	22%	56%	33%
Colombia (1)	100%	100%	100%
Denmark (1)	0%	100%	100%
Dominican Republic (1)	**0%**	**0%**	**0%**
Finland (3)	67%	100%	100%
France (9)	22%	44%	44%
Germany (9)	67%	89%	78%
Greece (9)	0%	33%	33%
Guernsey (1)	0%	100%	100%
Hong Kong (4)	100%	100%	100%
Hungary (1)	0%	100%	100%
India (3)	0%	33%	33%
Indonesia (1)	**0%**	**0%**	**0%**
Ireland (2)	50%	100%	100%
Israel (2)	50%	50%	50%
Italy (4)	50%	50%	50%
Japan (7)	29%	71%	57%
South Korea (3)	0%	33%	0%
Luxembourg (1)	**0%**	**0%**	**0%**
Mexico (9)	33%	33%	22%
Netherlands (6)	50%	83%	67%
New Zealand (2)	**0%**	**0%**	**0%**
Norway (2)	50%	50%	0%
Panama (2)	0%	50%	50%
Peru (1)	**0%**	**0%**	**0%**
Philippines (1)	**0%**	**0%**	**0%**
Portugal (2)	100%	50%	50%
Puerto Rico (2)	0%	50%	50%
Russian Federation (3)	67%	33%	0%
Spain (4)	50%	75%	75%
South Africa (4)	50%	50%	50%
Switzerland (5)	40%	100%	100%
Taiwan (3)	33%	33%	33%
Turkey (1)	**0%**	**0%**	**0%**
United Kingdom (17)	29%	41%	295
Venezuela (1)	**0%**	**0%**	**0%**

The companies with no disclosure on any one of the items are presented in bold. They belong to Austria, Dominican Republic, Indonesia, Luxembourg, New Zealand, Peru, Philippines, Turkey and Venezuela. The companies that disclosed all three items are from Belgium, Colombia and Hong Kong. The remaining countries had a mixture of companies with no disclosure on some items to maximum number of companies with disclosure.

4.3 Corporate Governance Disclosure By Region

Table 5 provides the frequency percentages of companies with disclosure based on regional classification. The companies are grouped into nine regions.

Table 5 International Comparison of Corporate Governance Disclosure by regions

Country Groups	Existence of Audit Committee	Existence of Audit Committee Charter	Differences between the national and NYSE listing requirements
European Union total companies=67	64.1%	58.2%	38.8%
Asia total companies=32	53.1%	41.9%	28.1%
Oceania total companies=11	54.5%	54.5%	9.1%
Central & South America total companies=41	41.5%	34.1%	24.3%
Caribbean total companies=14	78.5%	78.5%	21.4%
Russian Federation total companies=3	33.3%	0%	66.6%
Africa total companies=6	66.6%	66.6%	50%
North Americas total companies=24	66.6%	66.6%	33.3%
Europe total companies=2	50%	0%	50%

NYSE has prescribed that the foreign company must disclose details of the audit committee. The percentage of companies with the highest level of disclosure on audit committees and committee charters were the Caribbean companies. The percentage of the Russian Federation companies with disclosure on this item ranked the lowest followed by the Central and South American companies. The Asian, Oceania and European companies had similar percentage of companies with disclosure on their audit committees with around half of the companies providing this disclosure. The two European companies that belong to a country that is not a member of the European Union came were based in Norway. The European Union, African and North American (Canadian) companies had a higher percentage of companies with the disclosure equal to or more than 64% of the companies disclosing the differences.

The Oceania, North American, African and the Caribbean companies had the Audit committee Charters if they had information on the Audit committee. For all other regions the companies with charter disclosure were less than the companies with audit committee disclosure. The Russian Federation and the Norwegian companies provided disclosure on their audit committees but did not provide details on the audit committee charter. As far as the disclosure on differences between the national corporate governance requirements and the NYSE requirements, the percentage of companies with this disclosure ranked the lowest for the Oceania companies followed by the Caribbean, Central and South American and the Asian companies. Between thirty and forty percent of the North American and European Union companies had disclosure on this item. Half of the African and Norwegian companies had the disclosure and the Russian Federation group had the highest number of companies with this disclosure, still less than 70%. Inference of these results is that transparency by companies in regards to IFR on their websites remains a problem in regions where public disclosures through local stock exchanges is weak. More detailed analysis on this factor is scope for further research.

4.4 Corporate Governance Disclosure By Industry

Oyler et al (2003), Debreceny et al (2002), Lymer (1997), Brennan and Hourigan (1998), and Ismail (2002) found a significant association between industry type and the extent of financial disclosure on the internet. On the other hand Craven and Marston (1999:331) found no relationship between industrial classification and internet financial reporting (Aly & Simon (2008). The companies were classified into 21 industry groups as presented in Table 6.

Table 6: International Comparison of Corporate Governance Disclosure by industries

Industry groups (number of companies)	Differences between the national and NYSE listing requirements	Existence of Audit Committee	Existence of Audit Committee Charter
Banking (30)	30%	63%	60%
Telecommunications (48)	25%	46%	44%
Retail (7)	29%	57%	43%
Insurance (8)	12.5%	63%	63%
Financial (7)	0%	57%	29%
Engineering (10)	40%	70%	70%
Crude Oil (18)	39%	67%	56%
Diversified (6)	67%	83%	83%
Construction (3)	33.3%	33.3%	33.3%
Media (4)	0%	25%	25%
Hotels (3)	33.3%	33.3%	33.3%
Manufacturing (26)	38.4%	54%	50%
Energy & Chemicals (7)	43%	86%	57.1%
Airlines (1)	0%	0%	0%
Pharmaceuticals (7)	71.4%	100%	57.1%
I.T. (2)	50%	50%	50%
Transport (5)	40%	60%`	60%
Agriculture (3)	0%	67%	67%
Utilities (4)	25%	25%	25%
Auction (1)	0%	100%	100%

The degree of variability in proportion to the companies' websites with disclosure on differences between NYSE listing rules and national requirements is ranging from no companies disclosing (financial, media, airlines, agriculture and auction) to most of the companies disclosing (pharmaceuticals). Lymer (1997) conducted a survey of the top 50 U.K. companies and as far as industries were concerned, he found that retail companies and pharmaceuticals had better IFR disclosure compared to banks and insurance organizations. Almost a decade later, the results are almost similar where more pharmaceuticals have the corporate governance disclosure compared to the banks. The retail companies had equal or lesser disclosure compared to the Banks and the Insurance companies. The industries were re classified into two broad types: service and production. The results for Pearson's chi square are presented in Table 7.

Table 7: Significance tests of impact of industry with broader classification (Service and production)

variable	value	significance
Differences between the national and NYSE listing requirements	6.922	0.009
Existence of Audit Committee	5.195	0.023
Existence of Audit Committee Charter	1.963	0.161

Table 7 is showing a significant impact of industry classification on the disclosure of corporate governance policies' differences and information on Audit committee. It can therefore be inferred that industry does have an impact on the level of corporate governance disclosure by companies on their websites.

4.5 Corporate Governance Disclosure By Economic Development

The development of a country is measured with statistical indexes such as income per person, life expectancy, literacy and other measures. Developing countries are countries which have not achieved a significant degree of industrialization relative to their populations (Wikipedia 2008). It is assumed that less economic development would have a negative impact on IFR supported by the findings by Debreceny, Gray and Rahman (2002).

Table 7 International Comparison of Corporate Governance Disclosure by economic development

Economic development type	Differences between the national and NYSE listing requirements	Existence of Audit Committee	Existence of Audit Committee Charter
Developing (57)	21%	42%	31.5%
Developed (143)	35.7%	64.3%	59.4%

It can be observed in Table 7 that there is a clear gap between the percentage of companies with disclosure in relation to all the items between the developing and the developed countries. This is in spite of the companies being multinationals and being listed on the NYSE. The largest gap exists regarding Committee Charters.

5. Conclusion

The study has supported the idea that information in relation IFR is varied in depth and quality. This lack of uniformity and consistency in the degree of IFR disclosure can lead to a negative impact on informed decision making. It has been observed that the country of origin, the regional classification, the industrial grouping and the economic development, have an impact on the percentage of companies with disclosure on the IFR on their websites. This is in spite of the three variables investigated being compulsory requirements of the NYSE listing rules and literature pointing towards the positive influence of U.S. Stock exchanges listing on IFR by companies. The implication therefore is that the NYSE's policy of requiring corporate governance disclosure on companies' websites is not enforced by all foreign companies listed on the NYSE. This calls for a monitoring system of companies' websites to promote better transparency to the global community.

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