

Is Thailand Better than Indonesia? A Comparative Study Between the Listed State-Owned Enterprises (SOEs) Corporate Governance Practices on Disclosures and Transparency

Muhammad Masyhuri

Institute of Economic Science, GICI Business School, Jawa Barat, Indonesia

Abstract: The aim of this study is to analyse the specific part of Good Corporate Governance (GCG) practices between Indonesia and Thailand's State-Owned Enterprises (SOEs) which listed in the Indonesia Stock Exchange (IDX) and Stock Exchange of Thailand (SET) by applying the ASEAN Corporate Governance Scorecard (ACGS) with focus on the Disclosures and Transparency (D&T) items. This study uses descriptive analysis approaches based on secondary data sources, namely the SOEs annual report in 2013 and the companies' website. The research framework tools used in this study was taken from the ASEAN Corporate Governance Scorecard (ACGS) which was initiated and developed by the ASEAN Capital Markets Forum (ACMF). It found that in general Indonesia and Thailand SOEs have achieved a Good Corporate Governance (GCG) grades which score above 71%. Overall, Thailand listed SOEs have better performance againsts Indonesia listed SOEs. However, both countries shared the similar poorly experience in terms of implementation in the disclosure of information regarding the directors/commissioners dealings in shares of the company and the disclosure of external auditor and auditor report's fees.

Key words: Corporate governance, SOEs, ACGS, IDX, SET, dealings

INTRODUCTION

Since, the late 1990's, corporate governance has begun to receive earnest attention from regulators and investors in the Asia-Pacific region (Cheung *et al.*, 2014). The reason for the scrutiny is that corporate governance was identified as one of the key factors believed to have caused the Asian financial crisis in 1997. Zhuang *et al.* (2000) argue that poor corporate governance practices led to poor investment and financing decisions among firms in East Asia.

Meanwhile, despite the wave of privatisation across developing markets, the importance of State-Owned Enterprises (SOEs) as country providers of essential public or commercial services are increasingly viewed as tools for accelerated economic development (Bruton *et al.*, 2015). At least five reasons can explain these phenomenon (World Bank, 2014); first, SOEs continue to play an economic important role, both in the developed and emerging markets. It is supported by the Organisation for Economics Co-operation and Development report (OECD, 2014) that even in several OECD countries, SOEs still represent a substantial part of country's GDP. In developing nations, the role of SOEs is much more important for instance providing employment and market capitalisation (around 30% of

GDP in China and 38% in Vietnam). Furthermore, in India and Thailand, SOEs roughly contribute 25% of the GDP in Malaysia and Singapore close to 15%. Second, SOEs are especially, prominent in sectors of the economy that provide critical services for businesses and consumers and that contribute directly to economic growth and poverty reduction, including infrastructures, banking and other financial services, energy and industry and services. Third, many large SOEs, based in developed and major emerging market economies are now becoming global players and among the world biggest capital market players. Fourth, some countries are establishing new SOEs to develop strategic industries and compete in an increasingly globalized economy. Fifth, a few countries have expanded SOEs through nationalization and through the acquisition of stakes in private enterprises.

Numerous regulations have been decreed and institutions have been established to monitor the implementation of Good Corporate Governance (GCG) in publicly SOEs and privately-owned enterprises as well as financial and non-financial companies. However, there have been quite few researcher and scholarly journals both from Indonesia and Thailand to analyse the CGC best practices towards on information disclosures from the listed SOEs in the Indonesia Stock Exchange (IDX) and Stock Exchange of Thailand

(SET). This study aims to compare and analyse the specific part of GCG disclosures and transparency practices between Indonesia and Thailand for their listed SOEs by applying the ASEAN Corporate Governance Scorecard. The most reason chosen this objective is according to International Finance Corporation (IFC, 2014) the transparency and disclosure issues are amongst the most critical points in the SOEs operations and these remain challenging issues especially for the emerging countries.

Literature review

Corporate Governance (CG) concept, framework and

general principles: According to Mike (2006), Corporate Governance (CG) is defined as the relationship amongst various participants in determining the direction and performance of corporation involving all corporate stake holders including shareholders, employees, customers, suppliers, creditors, government and the community. Furthermore, Steiner (2012) stated that, CG is the exercise of authority over members of corporate community based on formal structures, rules and procedures. Lawrence and Weber (2014) solidified this term by declaring that CG refers to the process by which a corporation is controlled or governed. Just as nations have governments that respond to the needs of citizens and establish policy, so do corporations have systems of internal governance that determine overall strategic direction and balance sometimes divergent interests. Therefore, a Good Corporate Governance (GCG) refers to how a corporation is a well controlled and governed for the benefits of all its stake holders.

OECD (2004) clarified that, corporate governance is only part of the larger economic context in which firms operate that, includes for example, macroeconomic policies and the degree of competition in product and factor markets. The corporate governance framework also depends on the legal, regulatory and institutional environment. In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which a company operates can also have an impact on its reputation and its long-term success. The OECD corporate governance framework is built on four core values (IFC, 2014), namely.

Fairness: The corporate governance framework should protect shareholder rights and ensure the equitable treatment of all shareholders including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violations of their rights.

Responsibility: The corporate governance framework should recognize the rights of stake holders as established by law and encourage active co-operation between corporations and stake holders in creating wealth, jobs and the sustainability of financially sound enterprises.

Transparency: The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the company including its financial situation, governance structure, performance and ownership.

Accountability: The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board and the board's accountability to the company and shareholders.

The importance of good corporate governance implementation: Good corporate governance is important on a number of different levels. At the company level, well-governed companies tend to have a better and cheaper access to capital and tend to outperform their poorly governed peers over the long-term. Companies that insist upon the highest standards of governance reduce many of the risks inherent to an investment in a company (Lin *et al.*, 2006).

Generally, well-governed companies are better contributors to the national economy and society (Claessens and Yurtoglu, 2013). They tend to be healthier companies that add more value to shareholders, workers, communities and countries in contrast with poorly governed companies that may cause job and pension losses and even undermine confidence in securities markets (IFC, 2014).

Corporate governance framework in Indonesia; development and challenges: In Indonesia, the financial crisis in 1997-1998 has had dramatic social, economic and political effects. That event brought the Rupiah currency down by almost 80% and dramatically increased poverty. The depth of the collapse in Indonesia is not unparalleled is among the largest peacetime contractions, since, at least 1960, excluding the experience of the transition economies (IFC, 2014). According to several experts, the recession in Indonesia was fuelled by many institutional weaknesses, among which the lack or inadequate enforcement of the central bank's regulations along with irregular banking practices and the extremely poor financial regulation.

Since, then, it is fair to say that, although, there is still plenty of room for improvement, the awareness,

enthusiasm as well as legal and regulatory framework on corporate governance in Indonesia has changed and improved dramatically in recent years.

Indonesia had done a lot of initiatives and efforts to implement good corporate governance, both from government side as well as private (IFC, 2014). Bapepam-LK, the securities regulator (currently has merged into the Financial Services Authority Agency Otoritas Jasa Keuangan/OJK) has continued to introduce and amend its regulations and has actively enforced these regulations to better protect investors. In 2006, Bank Indonesia introduced rules for corporate governance in banks and has actively monitored and enforced their implementation. The Code of Good Corporate Governance (CGCG), first adopted in 1999 was amended in 2006 and sector specific codes issued for banking and insurance. In 2007 a new company law was adopted that introduced explicit duties for board members.

The Ministry of State Owned Enterprises has also carried out significant corporate governance reform in the State Owned Enterprise (SOE) sector. Basic shareholder rights are in place. Under recently, revised Bapepam-LK regulation, nonconflicted shareholders approve certain related party transactions before they take place and the 2007 company law expanded shareholder rights to private redress. Regulatory requirements and private actions have improved board professionalism and company disclosure. The authorities have declared their intention to fully adopt international accounting and auditing standards. Companies produce relatively timely and complete reports. Boards of commissioners are more professional about their responsibilities and have independent members. Many board members have received training on their duties and other areas (World Bank, 2014).

Nevertheless, some challenges are still put in place. While, the new company law has clarified the basic duties of board members, commissioners still do not carry out many key functions required by the OECD principles of corporate governance, particularly the choice of CEO (President Director). Board committees have permanent members who do not serve on either board tier in part because commissioners are not believed to have sufficient technical skills. Besides that, minority shareholders have little influence on board member selection.

A significant weakness is a lack of reporting of ultimate ownership and control which hinders the effectiveness of rules on conflicts of interest. Shareholders also have limited rights to access other information from the company, like the articles of association and many companies post little or no relevant information on their company websites. Mandatory corporate governance statements also tend to have

limited content. While shareholder rights are generally respected, shareholders have relatively weak rights to propose agenda items or ask questions. Rules on takeovers were changed in June 2008 and now require a higher threshold before a tender offer has to be made. Market participants have noted that these changes have made it difficult for large shareholders to accumulate shares and delist their companies from the exchange. While some of its provisions have been adopted into regulation, the CGCG is voluntary and companies do not have to “comply or explain” their adherence. This has reduced awareness of and compliance with the code. Shareholders have made limited use of their redress rights under the law. Courts are slow and few suits have been filed against companies or board members (World Bank, 2014).

Corporate governance framework in Thailand; Development and challenges: Corporate governance reform has been a priority since, the 1997 financial crisis and has continued up to present with significant revisions to the Securities and Exchange Act 1992 (SEA), new principles of good corporate governance for listed companies and a new banking act and supporting regulation to improve bank corporate governance. The amendments to the SEA included clearer duties for directors, stronger protection for shareholder rights, whistle blower protection and provisions to increase the independence and professionalism of the Securities and Exchange Commission (SEC). The SEC has also increased direct oversight of auditors of listed companies and local accounting standards are converging to International Financial Reporting Standards.

The SEC and Bank of Thailand (BoT) are well resourced and active in enforcing the various rules and requirements under their jurisdiction. The State Enterprise Policy Office (SEPO) has continued its efforts to improve the governance of State Owned Enterprises (SOEs) which include some of the largest listed companies. Thailand is also not able for a number of initiatives to improve corporate governance that go beyond legal or regulatory requirements. These include various programs of the Stock Exchange of Thailand and the Thai Associations of Listed Companies and Investors and the work of the Thai Institute of Directors (Thai IoD). Thai IoD has been a pioneer in providing training to directors and through its corporate governance report introduced one of the first and most successful corporate governance score cards in an emerging market economy.

Basic shareholder rights are well established and shareholders freely trade their shares, participate in shareholders meetings including by proxy and receive a

range of information from listed companies. They approve board members, dividends, major and Related Party Transactions (RPTs), capital increases and changes to the company's articles and have preemptive rights for new issues of shares. RPT rules require interested shareholders to recuse themselves from voting. Shareholders are to approve potential anti-takeover devices and receive tender offers from share holders that acquire 25, 50 or 75% of shares. Insider trading is prohibited and other types of self-dealing and conflicts of interest are regulated. The SEC actively monitors the market for abusive practices. Institutional investors regularly vote their shares and some have issued voting policies and disclose their voting as required by SEC regulations for asset managers. They occasionally vote against management. Companies produce complete audited annual reports largely consistent with international standards. These include disclosure of industry and company trends and prospects; details on directors; risk and risk management; shareholdings of major shareholders and directors; details on RPTs and statements on corporate governance and Corporate Social Responsibility (CSR).

Information is available through company websites and through the Department of Business Development, the company registrar in the Ministry of Commerce, both online and offline. Companies also pass on a range of material information to the SEC and SET which is then posted on their websites. Most directors are non-executive and typically at least one third are considered independent of management and major shareholders. Most boards also have separate chairs and CEOs. Duties of loyalty and care are found in the law and responsibilities are spelled out in the principles and listing rules. These include oversight of management and strategy, approval of budgets and major expenditures and ensuring that risk management and internal controls are established. In practice, directors take their responsibilities seriously. Directors participate in director training and many undertake annual self evaluations of their performance. The SEC screens directors of listed companies and can disqualify them under the SEA. Directors and major shareholders in financial institutions must also pass a fit and proper test and can be rejected and removed by the BoT. Guidelines for banks and other financial institutions have additional norms including a risk committee for the board. Listed companies have audit committees of independent members and many also have nomination and remuneration committees as encouraged by the principles. Companies also have internal audit functions that report to the audit committee and generally have internal control and risk management systems. Whistle blowers are legally

protected (World Bank, 2014). While the underlying legislation is generally clear, it has been supplemented by a range of regulations and guidelines, many of which are still considered relevant or in force from several years before, even when more recent statements may cover the same ground. There is also potentially confusing differences and overlap between the SEA and Public Limited Company Act (PLCA). In spite of wide spread training and awareness raising, market participants may not always fully understand relevant parts of the corporate governance framework. While active enforcers, the response of the SEC and BoT to the global financial crisis has been limited and they do not conduct joint inspections in spite of the growing importance of diversified financial companies to the Thai economy. The chair of the SEC recently, resigned in scandal and neither the BoT nor the SEC are fully independent of the government and Ministry of Finance (MoF). The ministry also excerpts influence through SEPO. SOEs also still face a range of governance challenges including large numbers of civil servants on their boards. Line ministries combine de facto shareholder powers in SOEs with policy and sometimes regulatory functions for both SOEs as well as the private sector and lack guidance more generally on board appointment and other key shareholder functions.

Shareholders may receive as little as 7 days notice for the GMS (General Meeting of Shareholders) and postal and electronic voting are not allowed. Foreign shareholders face limits on their participation in certain companies and custodians do not have explicit requirements to act on their behalf. Minority shareholders have limited influence on actual board selection and high barriers to call a GMS influence the meeting agenda or bring legal action against the company or a director under the law.

Accounting to standards still have some significant differences from international standards, particularly with respect to financial instruments. Owners and companies disclose direct shareholdings but often do not disclose indirect control or control held through custodians or shareholder agreements in spite of SEC rules that imply they should. Independence requirements for auditors still allow for the provision of a range of non-audit services to clients and until recently, there was little oversight of audit quality or independence. Other reputational agents also have limited requirements in terms of disclosing or managing conflicts of interest. SOEs are audited by the Office of Auditor General (OAG), a state auditor with limited capabilities to audit statements prepared in accordance with current accounting standards.

While board chair and CEO are generally not the same, the chairman is often not independent and may act as a "full-time" chair. Some market participants also question the effective independence of some long-tenured board members and SOE directors. In

practice, the controlling shareholder still has great influence board selection. The controlling shareholder may also pick the CEO which is not an explicit board power and in turn some board members may see the interest of the company and the controlling shareholder as being largely the same thing (World Bank, 2014).

State-owned enterprises; The roles and importance: As providers of essential public or commercial services, State-Owned Enterprises (SOEs) still have important roles in modern economies and even in the globalization of State-Owned Multi Nation Companies-SOMNCs (Cazurra *et al.*, 2014). It is supported by the OECD (2005) reports that in several OECD countries, State-Owned Enterprises (SOEs) still represent a substantial part of GDP, employment and market capitalisation. Moreover, SOEs are often prevalent in utilities and infrastructure industries such as energy, transport and telecommunication. Those performance are of great importance to broad segments of the population and to other parts of the business sectors. Furthermore, the scale and scope of SOEs in many Asian economies calls for specific attention to be given to their corporate governance. Even if their economic significance varies greatly from country to country, they still represent a major if not dominant, part of the economy in some countries (around 30% of GDP in China and 38% in Vietnam). SOEs remain significant in many other large and key Asian economies. In India and Thailand for instance they roughly contribute 25% of the GDP in Malaysia and Singapore close to 15%. SOEs might also represent a not insignificant part of total employment (15% in China, 5% in Malaysia) or of fiscal revenues (25-30% in Vietnam). Benefits from improving SOE governance are great but they are difficult to obtain as SOE reforms can be complex and SOEs indeed face specific challenges in terms of governance (OECD, 2010).

In Indonesia as it stated in Article 33 of the Constitution of the Republic of Indonesia, 1945 that all resources in the country shall be utilized for the economic advancement of all Indonesians. The constitution further prescribes that the government is responsible for ensuring that wealth is created and distributed throughout the nation. In response to the task, the Indonesian government has created, among other entities, various SOEs. According to Article 1 of the SOE Act (UU No. 19/2003/BUMN), the government must have at least 51% ownership in SOEs. The act also states that the main objective of the SOEs is to gain profits by providing superior goods and services to customers and to spur economic growth and national prosperity

(Warganegara *et al.*, 2013). Based on the Indonesian economic performance, SOEs play a major role in the economy. In terms of their number, there are 141 SOEs actively engaged in the production of goods and services in the economy. According to SOEs Ministry, publicly listed SOEs in 2013 (20 SOEs listed company) had 26% of the total market capitalization of the Indonesia Stock Exchange. Furthermore, five of these SOEs belonged to the top ten firms with the highest market capitalization. In terms of total assets and revenues, the asset value owned by SOEs is 42% of the 2012 Indonesian Gross Domestic Product (GDP) and the revenue is 19% of the GDP. Given the massive stake SOEs have in the economy, the Indonesian government must monitor the performance of its 141 SOEs closely. This may not be an easy task given their number, size, complexity and the variety of industry types and geographic locations in which they operate.

Similar to global trends, Thai state-owned enterprises have operated as a state mechanism to provide essential services to citizens such as utilities infrastructure and mass transportation. They have total assets of 5,519 billion baht (\$US137.05 bln.) or 85% of GDP and an annual capital investment of 352 billion baht (\$US8.74 bln.) or 70% of government capital expenditure. Beginning in 2004, the Ministry of Finance implemented a corporate governance restructuring program to enhance, the efficiency and effectiveness of Thai state-owned enterprises. So far, 53 of 58 Thai state-owned enterprises have restructured their corporate governance systems (Khongmalai *et al.*, 2010).

Since, the late 1990's, Thailand has committed itself to the privatization of some state-owned enterprises to improve efficiency and transparency. However, efforts at privatization have hit a wall given resistance from parts of civil society as well as entrenched, vested interests. Privatization has been further hindered given the political turmoil and the five changes in government, since, 2006. Some fear that further privatization while improving market competitiveness would also enable vested interests to gain controlling shares in important sectors. In fact, the state has enacted legislation forbidding the privatization of socially vital state enterprises (or those holding "commanding heights") such as the Electricity Generating Authority of Thailand (EGAT) or the Water Works Authority (MWWA). As such, privatizations efforts such as those of the Port Authority of Thailand, the State Railway of Thailand, the national energy conglomerate PTT, Thai Airways International, the Airport Authority of Thailand (later renamed Airports of Thailand or AOT), the BKS bus system and the Mass Communication Organization of Thailand (MCOT) have all been stymied

(BTI, 2014). Based on the SET news, there are 15 SOEs and SOEs subsidiaries listed on the Stock Exchange of Thailand which constitute resources, services, financials industrial and technology industrial sectors.

CG disclosures and transparency; Implementation challenges in SOEs: According to IFC (2014), disclosure is defined as ensuring access to information for all interested parties, regardless of the purpose of obtaining the information, through a transparent procedure that guarantees information is easily found and obtained in timely manner. Timely and accurate disclosure is essential for shareholders, potential investors, regulatory authorities and other stakeholders. Disclosure makes it possible to assess and oversee management as well as to keep management accountable for the company and shareholders. Disclosure benefits companies, since it allows them to demonstrate accountability towards shareholders, act transparently towards the markets and maintain public confidence and trust. Good disclosure policies should also reduce the cost of capital. Finally, information is also useful for creditors, suppliers, customers and employees to assess their positions, respond to changes and shape their relations with companies. In a nutshell, improving GCG'S disclosures and transparency circumstances will lead to more positive impacts to all stakeholders (Ahmed and Ahmed, 2013; Masry, 2015).

In Indonesia, it is noted that transparency and disclosures issues are amongst the most critical points in the SOEs operation and these remain challenging issues, although, the Indonesian SOEs have been required to apply GCG in terms of transparency and disclosure. In the past, lack of transparency and disclosure was apparent. These days, efforts to create transparent SOEs seem to be everlasting homework for SOEs.

Information disclosure in SOEs is governed in Clause 32 of the Minister Regulation. This clause states "SOEs must disclose important information on its annual report and financial statements in accordance with the state laws and regulations not only in a timely manner but also in an accurate, clear and objective way". While SOEs are required to be transparent they shall respect any confidential information. Unless otherwise, provided by statutory provisions, the Articles of Association and/or company rules the external auditors internal auditors and the audit committee and other committees (if any), SOEs must keep confidential information obtained while performing their duties. Accordingly, it is the responsibility of both the Board of Directors (BOD) and Board of Commissioners (BOC) to maintain the confidentiality of company

information. The conflict between principles of transparency and disclosures and confidential information is considered the primary issue that the Indonesian SOEs shall take into account. Meanwhile, it is understood that there are no clear measures on the extent of transparency and confidentiality. This is coupled with the fact that the Indonesian SOEs are still reluctant in disclosing their financial statement. Hence, the number of SOEs which are listed in the stock exchange is low. Since, the establishment of Indonesian Stock Exchange (previously Jakarta Stock Exchange) dating back 20 years ago, there have been only 20 SOEs listed.

While information disclosure has been clearly regulated under SOE Act, GCG Regulation and Act No. 14 year 2008 concerning public information disclosure, there are no clear reasons upon the reluctance to exercise the transparency amongst the Indonesian SOEs. Many believe that lack of transparency seems to be an intentional agenda of political interest groups and bureaucrats. Hence, lack of transparency is linked to inefficiencies in the SOEs. One of the commonly noted cases is in the budgeting in procurement of goods and services. This is the fragile area where the lack of transparency entails to inefficiencies due to breach of integrity committed by the SOEs boards and personnel.

While a number of SOEs have performed well, it is noted that many of them are exposed to the alleged Breach of Integrity issue. In several SOEs, there is a resistance to commit to reforms and often there are close ties between business and politics. Indeed, the integrity of SOEs personnel is still questionable. As widely known, a number of officials in a number of SOEs have been committed to and processed for breach of integrity allegations such as corruption and collusion. Hence, breach of integrity issues may be considered as the top challenge in SOEs operations. In the last 3 years, the Indonesian Corruption Eradication Commission (KPK) has processed quite a few numbers of the alleged cases (IFC, 2014).

Similar to Indonesia as stated by Jongsureyapart (2006) a low transparency and the lack of disclosure were the two major problems of corporate governance implementation in Thailand.

According to the Thai Institute of Directors Report (2012), the disclosure of certain corporate information should be more encouraged. They are such as the basis of the board remuneration, a policy requiring directors to report transactions of the company's shares and possible conflicts of interest and contact information of the investor relations. The use of analysts and press briefings

is also encouraged. In view of transparency and disclosure issues, there is no quick fix to favor these in the SOE operation. Go public can be one of the best ways where SOEs can exercise their transparency and disclosure initiative. However, the road to go there is quite stiff and there is always a need to have the right measures.

MATERIALS AND METHODS

This study uses descriptive analysis approaches based on secondary data sources, namely the SOEs Annual Report in 2013 and their company's website. In addition, the researcher chooses in a purpose all Indonesia's listed State-Owned Enterprises (SOEs) as well as all Thailand listed SOEs and subsidiaries as a sample research case study.

At the end of 2013, there were only 20 companies from 141 SOEs listed in Indonesia Stock Exchange (IDX) which representing variety of different sectors including property and building constructions, mining, banking, consumer goods, basic industries and chemicals and infrastructures, utilities and transportations with total assets was Rp. 2.273.846 billion or US\$ 186,549 million. From the listing date data, it found that only four SOEs that listed in the IDX before Asian crisis in 1997 while the rest (16 SOEs) listed after 1997. The listed SOEs can be seen in Table 1.

As the same its counterpart, at the end of 2013, there were only 15 companies (including the SOE's subsidiaries) from 58 SOEs listed in Stock Exchange of Thailand (SET) which representing variety of different

sectors, including resources, services, financials industrial and technology with total assets was Thai Baht 6,717,709 million or US\$ 205,180 million (Table 2). In Thailand, there were 6 SOEs which listed in SET before 1997 while the rest (9 SOEs) listed more recently after the Asian crisis. In addition, only 5 SOEs that directly have shareholders owned by the Thai Government (Ministry of Finance), they are AOT, THAI, MCOT, KTB and PTT. For the rest (10 companies) were owned by the SOEs company as the company's subsidiaries. The listed Thailand SOEs and subsidiaries can be seen in Table 2.

Research framework tools: The research framework tools used in this study was taken from the ASEAN Corporate Governance Scorecard (ACGS) which was initiated and developed by the ASEAN Capital Markets Forum (ACMFI, 2011). This initiative is undertaken in parallel with the efforts to achieve convergence in ASEAN countries by 2015 as an economic community. Broadly the ACMF Implementation Plan seeks to achieve the objectives of the ASEAN Economic Community (AEC) aspirations through the following are as (ACMFI, 2011):

- Creating an enabling environment for regional integration
- Creating the market infrastructure and regionally focused products and intermediaries
- Strengthening the implementation process
- Enhancing the visibility integrity and branding of ASEAN as an asset class

Table 1: The listed SOE's companies in the Indonesia Stock Exchange (2013)

Industrial sectors/SOEs name	IDX code	Total assets (Rp. billion)	Total assets (US\$ million)	Listing dated	Govt. shares (%)
Property and building constructions					
PT Adhi Karya Tbk	ADHI	9,7210	7970	7 Nov. 2003	51.00
PT PP Tbk	PTPP	12,416	1,018	9 Feb. 2010	51.00
PT Wijaya Karya Tbk	WIKA	12,595	1,033	29 Oct. 2007	65.15
PT Waskita Karya Tbk	WSKT	8,7880	7210	17 Dec. 2012	68.00
Mining					
PT Aneka Tambang Tbk	ANTM	21,865	1,794	27 Nov. 1997	65.00
PT Bukit Asam Tbk	PTBA	11,677	9580	23 Dec. 2002	65.02
PT Timah Tbk	TINS	7,8830	6470	27 Sep. 1995	60.00
Banking					
PT Bank BNI Tbk	BBNI	386,655	31,722	Nov. 1996	60.00
PT Bank BRI Tbk	BBRI	626,183	51,373	10 Nov. 2003	56.75
PT Bank BTN Tbk	BBTN	131,170	10,761	17 Dec. 2009	60.14
PT Bank Mandiri Tbk	BMRI	733,100	60,144	14 Jul. 2003	60.00
Consumer's goods					
PT Kimia Farma Tbk	KAEF	2,472	20300	4 Jul. 2001	90.03
PT Indo Farma Tbk	INAF	1,337	11000	17 Apr. 2001	80.66
Basic Industry and Chemicals					
PT Krakatau Steel Tbk	KRAS	29,004	2,3790	10 Nov. 2010	80.00
PT Semen Baturaja Tbk	SMBR	2,711	222000	28 Jun. 2013	76.23
PT Semen Indonesia Tbk	SMGR	30,793	2,5260	4 Jul. 1991	51.01
Infrastructures, utilities and transportation					
PT Garuda Indonesia Tbk	GIAA	36,004	2,9540	11 Feb. 2011	69.14
PT Jasa Marga Tbk	JSMR	28,366	2,3270	1 Nov. 2007	70.00
PT Gas Negara Tbk	PGAS	53,183	4,3630	15 Dec. 2003	56.97
PT Telekomunikasi Indonesia Tbk	TLKM	127,951	10,497	14 Nov. 1995	53.14
		2,273,846	186,549		

Table 2: The listed SOE's companies and subsidiaries in the stock exchange of Thailand (SET) as of 31 December 2013

Industrial sectors/SOEs name	SET code	Total assets (Million baht)	Total assets (US\$ million)	Listing dated	Govt. shares (%)
Services/transportation and logistics					
Airports of Thailand Plc	AOT	153,061	4,675	11 Mar. 2004	70.00 (MOF)
Thai Airways Int'l Plc	THAI	307,085	9,379	19 Jul. 1991	51.03 (MOF)
Bangkok Metro Plc	BMCL	20,359	622	21 Sep. 2006	14.57 (MRTA)
Services/media and publishing					
MCOT Plc	MCOT	11,168	341	17 Nov. 2004	65.80 (MOF)
Financials/banking					
Krung Thai Bank Plc	KTB	2,514,771	76,809	2 Aug. 1989	55.05 (FIDF)
Resources/energy utilities					
PTT Plc	PTT	1,801,722	55,030	6 Dec. 2001	65.29 (MOF)
Bang Chak Petroleum Plc	BCP	72,389	2,211	2 Aug. 1994	27.22 (PTT); 9.98 (MOF)
Electricity Generating Plc	EGCO	130,937	3,999	16 Jan. 1995	25.41 (EGAT)
IRPC Plc	IRPC	162,668	4,968	17 Mar. 1995	38.51 (PTT); 9.65 (GSB); 5.79 (GPF)
PTT Exploration and Production Plc	PTTEP	707,867	21,620	10 Jun. 1993	65.29 (PTT)
Ratchaburi electricity generating holding Plc	RATCH	88,903	2,715	2 Nov. 2000	45.00 (EGAT)
Thai Oil Plc	TOP	208,519	6,369	26 Oct. 2004	49.10 (PTT)
Industrial/petrochemicals and chemicals					
PTT Global Chemical Plc	PTTGC	432,362	13,206	19 Oct. 2011	48.89 (PTT)
Technology/information communication and technology					
Total access communication Plc	DTAC	105,054	3,209	22 Jun. 2007	5.6 (TOT)
Internet Thailand Plc	INET	844	26	14 Nov. 2001	16 (TOT); 17 (NSTDA); 16 (CAT)
	6,717,709	205,180			

Companies annual report 2013 and SET Websites

In line with the AEC issues, therefore, the objectives of the ACGS are to (ACMFI, 2011):

- Raise corporate governance standards and practices of ASEAN Public Listed Companies (PLCs)
- Showcase and enhance, the visibility as well as investability of well-governed ASEAN PLCs internationally
- Complement the other ACMF initiatives and promote ASEAN as an asset class

The ACGS covers the following five areas of the OECD Principles, namely: Rights of shareholders;. Equitable treatment of shareholders. Role of stake holders. Disclosure and transparency; responsibilities of the board. However, because of the limitation of the study and the crucial point of the Disclosure and Transparency (D&T) issues which was proposed by the IFC (2014), the researcher only applies the disclosure and transparency focus area for this study (Table 3).

The disclosure and transparency area of the ACGS has nine subjects analysis which is divided by 41 focus items (ACMFI, 2011). The details of the ACGS on the disclosure and transparency area can be seen in the Appendix 1. Each item is marked by one point; after that is summed to get the total mark. The final

Table 3: Disclosures and Transparency (D&T) CG scores grading range

Final score (%)	CG grades	Comments
≤ 60	Poorly disclosure	Lack of disclosure and transparency in most items. It needs radical and major improvements changes
61-70	Satisfactory disclosure	Only fulfilled minimum requirements of disclosure and transparency items. It needs medium to major improvements
71-80	Good disclosure	Fulfilled majority of disclosure and transparency items with needs minor improvements
81-90	Very good disclosure	Fulfilled most of disclosure and transparency items
91-100	Excellent disclosure	Fulfilled all of disclosure and transparency items
ACMFI (2011)		

percentage score is calculated by dividing the total mark with total items of disclosure and transparency area, i.e., 41 and multiply by 100%. Then, every SOEs listed's final score is ranked by using of the grade scale percentage criterias as follows.

RESULTS AND DISCUSSION

Overall in terms of the D&T implementation both nations have achieved a good Corporate Governance (CG) grades (above 71%). However, Thailand listed SOEs have outperformed against Indonesia listed SOEs where Thailand SOEs achieved a very good CG disclosure grades (at 84%) while Indonesia SOEs has only

Table 4: Comparison D&T scores percentage, Indonesia and Thailand SOEs performance

Disclosure and Transparency (D&T) subject	Indonesia SOEs		Thailand SOEs	
	Total avg. score	Percentage	Total avg. score	Percentage
Transparent ownership structure (5 items)	3.780	76	4.900	98
Quality of annual report (12 items)	10.710	89	10.500	88
Disclosure of Related Party Transactions (RPT) 3 items	0.330	11	2.470	82
Directors and commissioners dealings in shares of the company (1 item)	0.010	8	0.070	7
External auditor and auditor report (3 items)	0.580	19	0.870	29
Medium of communications (4 items)	3.450	86	3.800	95
Timely filing/release of annual/financial reports (3 items)	3.000	100	3.000	100
Company website (9 items)	6.860	76	8.070	90
Investor relations (1 item)	0.910	91	0.910	91
Total scores	29.680	72	34.580	84

ACMFI (2011), SOEs Annual Report and SOEs website (processed)

reached to a good CG grade (at 72%). Thailand SOEs has succeeded achieve seven D&T subjects which qualifying a very good and excellent D&T CG grade (above 81%) while Indonesia SOEs only achieved four D&T subjects with the similar CG grades qualification. It is one of indication that the D&T CG implementation in Thailand much more well a head compared to Indonesia. Nevertheless, both countries shared the similar poorly experience in terms of implementation in the disclosure of information regarding the directors/commissioners dealings in shares of the company which results only 8 and 7%, respectively as well as the disclosure of external auditor and auditor reports which only achieve 19 and 29%, respectively. These two items should have more pay attentions and need a major change improvements by the SOEs listed in both nations. In addition, for Indonesia SOEs, there was another one subject should be taken into account, namely disclosure of Related Party Transaction (RPTs) which obtain a poor D&T CG grades. The details comparison figures from both countries can be seen in Table 4.

In analysing D&T grades by industrial sectors, it clears that banking sectors have the highest CG grades for Indonesia and Thailand by 79 and 88%, respectively. It is proven that banking sectors in both countries have more advance compare its counterparts due to the applying of stiff rules and regulations by the regulator.

In Indonesia, the property, building and constructions has placed second of D&T grades at 76% followed by mining infrastructures and industry sectors by 74, 72 and 67%, respectively. Consumers goods sector has experienced as the lowest D&T grades which only achieved 60% or poorly CG disclosure. Interestingly enough, however, most sectors have poorly D&T grades (below 60%) in three items, i.e., disclosure of RPTs, directors and commissioners dealings in shares of the company and external auditor and auditor reports. Table 5 explain more figures which related to D&T scores result by industrial sectors in

Indonesia. In Thailand, all sectors achieved a good and very good D&T disclosure grades. Even the media and publishing sector has reached the similar D&T grade with the banking sector, i.e., at 88%. Followed by resources, energy and utilities, technology, industry and services, transportation and logistics sectors by 87, 83, 81 and 79%, respectively. A quite similar with Indonesia's counterparts, nevertheless, all Thailand listed SOEs have poorly D&T grades in directors and commissioners dealing in shares of the company as well as the external auditor and auditor report subjects. Table 6 explain more figures which related to D&T scores result by industrial sectors in Thailand.

Therefore, for all industrial sectors in both nations, the areas which should be disclosed and improved in the immediate terms which have the lowest D&T grades are the disclosure of information regarding the directors/commissioners dealing in shares of the company and the disclosures of external auditor and auditor report fees. Especially for Indonesia, other major D&T items which need major improvements is the disclosure of related party transactions.

From the individual listed SOEs analysis comparison in both countries, Thailand's Electricity Generating Plc (EGCO) placed the highest D&T grades at 95%, the only one SOE company that achieved excellent disclosure. In general, individually, Thailand listed SOEs have better D&T grades compared its counterparts by placing 11 companies in a very good disclosure and three companies in a good disclosure ranges and none in the satisfactory and poorly disclosure ranges.

In the second D&T grades range (a very good disclosure), Thailand posted 11 SOEs companies, namely KTB (88%), MCOT (88%), PTTEP (88%), THAI (88%), BCP (88%), IRPC (85%), RATCH (85%), TOP (85%), PTTGC (83%), PTT (82%) and DTAC (81%), respectively. Meanwhile, Indonesia placed 3 SOEs companies, they are PTPP (84%), ANTM (82%) and BBRI (82%),

Table 5: D&T scores results (%) by industrial sectors (Indonesia SOEs)

Disclosure and transparency (D&T) Subject	Property, building constructions (%)	Mining (%)	Banking (%)	Infrastructure, utilities and transportation (%)	Consumer goods (%)	Basic industry and chemicals
Transparent ownership structure (5 items)	75	77	85	70	70	73
Quality of annual report (12 items)	94	94	95	87	76	84
Disclosure of Related Party Transactions (RPT) (3 items)	21	11	17	11	0	0
Directors and commissioners dealings in shares of the company (1 item)	25	16	0	0	0	0
External auditor and auditor report (3 items)	21	11	17	75	0	22
Medium of communications (4 items)	100	100	100	81	50	67
Timely filing/release of annual/financial reports (3 items)	100	100	100	100	100	100
Company website (9 items)	75	67	86	81	67	74
Investor relations (1 item)	92	100	100	100	50	83
Total scores (%)	76	74	79	72	59	67

Table 6: D&T scores results (%) by industrial sectors (Thailand SOEs)

Disclosure and transparency (D&T) Subject	Services/transportation and logistics (%)	Services/media and publishing (%)	Finance/banking (%)	Resources/energy and utilities (%)	Industrial/petrochemical and chemicals (%)	Technology (ICT) (%)
Technology (ICT)						
Transparent ownership structure (5 items)	90	100	100	100	100	100
Quality of Annual Report (12 items)	87	92	92	90	79	83
Disclosure of related party transactions (RPT)-3 items	57	67	67	90	100	100
Directors and commissioners dealings in shares of the company (1 item)	0	33	0	0	0	0
External auditor and Auditor Report (3 items)	11	33	33	29	17	33
Medium of communications (4 items)	92	100	100	100	88	75
Timely filing/release of annual/financial reports (3 items)	100	100	100	100	100	100
Company website (9 items)	89	89	78	92	89	89
Investor relations (1 item)	83	100	100	95	75	100
Total scores (%)	79	88	88	87	81	83

Table 7: Comparison D&T Percentage by SOEs company (Indonesia and Thailand)

Indonesia SOEs (%)	Thailand SOEs (%)	D&T grades (%)
None	EGCO (95)	Excellent disclosure (91-100)
PTPP (84)	KTIB (88)	Very good disclosure (81-90)
ANTM (82)	MCOT (88)	
BBRI (82)	PTTEP (88)	
	THAI (88)	
	BCP (88)	
	IRPC (85)	
	RATCH (85)	
	TOP (85)	
	PTTGC (83)	
	PTT (82)	
	DTAC (81)	
WIKA (80)	INET (80)	Good disclosure (71-80)
SMGR (80)	BMCL (78)	
TLKM (80)	AOT (71)	
BMRI (79)		
BBTN (78)		
BBNI (76)		
JSMR (73)		
PGAS (73)		
ADHI (72)		
PTBA (72)		
TINS (67)	None	Satisfactory disclosure (61-70)
WSKT (66)		
SMBR (63)		
GLAA (63)		
KAUF (60)	None	Poorly disclosure (≤ 60)
KRAS (59)		
INAF (57)		

ACMFI (2011), SOEs annual report (2013) and SOEs website (processed)

respectively. In the third D&T grades range (a good disclosure) Indonesia posted 10 SOEs companies, namely WIKA (80%), SMGR (80%), TLKM (80%), BMRI (79%), BBTN (78%), BBNI (76%), JSMR (73%), PGAS (73%), ADHI (72%) and PTBA (72%), respectively. Meanwhile, Thailand placed 3 SOEs companies, they are INET (80 %), BMCL (78%) and AOT (71%), respectively.

The lowest three D&T scorers (poorly disclosure) from Indonesia SOEs were placed by INAF at 57% followed by KRAS at 59% and KAUF at 60%, respectively. Lack of or no disclosure information regarding to the related party transactions, the directors/commissioners dealings in shares of the company and the external auditor fees report are the three most factors which make the lowest overall scores of the D&T items. Table 7 describes the details of each listed SOEs CG scores percentage in Indonesia and Thailand.

CONCLUSION

The Corporate Governance (CG) issues have become hot topic discussions, since, the last decade by both academicians scholars as well as business people across the globe. In ASEAN countries, this issue has obtained

more attention, especially after the economic crisis hit this region in the end of 1990's. Every country including Indonesia and Thailand has promoted the CG regulations and legal framework to implement the best GCG in the company's operations and performance.

To face and challenge the AEC by 2015, the ACMF has released the ACG scorecard which is recommended used by all public listed companies within this ASEAN Region. For the study objective, the D&T items was chosen in a purpose to analyse the listed SOEs performance against the ACG scorecards in Indonesia and Thailand.

It found that in general Indonesia and Thailand SOEs have achieved a good Corporate Governance (CG) grades (above 71%). However, Thailand listed SOEs have better performance against Indonesia listed SOEs, where Thailand SOEs achieved a very good CG disclosure

grades (at 84%) while Indonesia SOEs has only reached to a good CG grade (at 72%). It signs that the D&T CG implementation in Thailand much more well a head compared to Indonesia. In other words, Thailand listed SOEs much more ready to face the AEC integration challenge in the years to come.

Note with standing, both countries shared the similar poorly experience in terms of implementation in the disclosure of information regarding the directors/commissioners dealings in shares of the company as well as the disclosure of external auditor and auditor reports. Therefore, it is recommended, these two items should have more pay attentions and need a major change improvements by the SOEs listed in both nations. For Indonesia SOEs, another subject that should be taken into account is a disclosure of Related Party Transaction (RPTs) which obtain a poor D&TCG grades.

APPENDIX

Appendix 1: ASEAN corporate governance scorecard items-part D. (D. Disclosure and transparency (41 items)

D.1: Transparent ownership structure (5 items):

- D.1.1: Does the information on shareholdings reveal the identity of beneficial owners, holding 5% shareholding or more?
- D.1.2: Does the company disclose the direct and indirect (deemed) shareholdings of major and/or substantial shareholders?
- D.1.3: Does the company disclose the direct and indirect (deemed) shareholdings of directors (commissioners)?
- D.1.4: Does the company disclose the direct and indirect (deemed) shareholdings of senior management?
- D.1.5: Does the company disclose details of the parent/holding company, subsidiaries, associates, joint ventures and special purpose enterprises/vehicles (SPEs)/(SPVs)?

D.2: Quality of annual report (12 items):

Does the company's annual report disclose the following items?

- D.2.1: Key risks
- D.2.2: Corporate objectives
- D.2.3: Financial performance indicators
- D.2.4: Non-financial performance indicators
- D.2.5: Dividend policy
- D.2.6: Details of whistle-blowing policy
- D.2.7: Biographical details (at least age, qualifications, date of first appointment, relevant experience and any other directorships of listed companies) of directors/commissioners
- D.2.8: Training and/or continuing education programme attended by each director/commissioner
- D.2.9: Number of board of directors/commissioners meetings held during the year
- D.2.10: Attendance details of each director/commissioner in respect of meetings held
- D.2.11: Details of remuneration of the CEO and each member of the board of directors/commissioners
- D.2.12: Does the annual report contain a statement confirming the company's full compliance with the code of corporate governance and where there is non-compliance, identify and explain reasons for each such issue?

D.3: Disclosure of Related Party Transactions (RPT)-3 items:

- D.3.1: Does the company disclose its policy covering the review and approval of material/significant RPTs?
- D.3.2: Does the company disclose the name of the related party and relationship for each material/significant RPT?
- D.3.3: Does the company disclose the nature and value for each material/significant RPT?

D.4: Directors and commissioners dealings in shares of the company (1 item):

- D.4.1: Does the company disclose trading in the company's shares by insiders?

D.5: External auditor and auditor report (3 items):

- D.5.1: Are audit fees disclosed?
Where the same audit firm is engaged for both audit and non-audit services
- D.5.2: Are the non-audit fees disclosed?
- D.5.3: Does the non-audit fees exceed the audit fees?

D.6: Medium of communications (4 items):

Does the company use the following modes of communication?

- D.6.1: Quarterly reporting
- D.6.2: Company website
- D.6.3: Analyst's briefing
- D.6.4: Media briefings/press conferences

D.7: Timely filing/release of annual/financial reports (3 items):

D.7.1: Is the audited annual financial report released within 120 days from the financial year end?

D.7.2: Is the audited annual financial report released within 90 days from the financial year end?

D.7.3: Is the true and fairness/fair representation of the annual financial statement/reports? affirmed by the board of directors/commissioners and/or the relevant officers of the company?

D.8: Company website (9 items):

Does the company have a website disclosing up-to-date information on the following?

D.8.1: Business operations

D.8.2: Financial statements/reports (current and prior years)

D.8.3: Materials provided in briefings to analysts and media

D.8.4: Shareholding structure

D.8.5: Group corporate structure

D.8.6: Downloadable annual report

D.8.7: Notice of AGM and/or EGM

D.8.8: Company's constitution (company's by-laws, memorandum and articles of association)

D.8.9: All of the above (D.8.1-D.8.8) are available in English

D.9: Investor relations (1 item):

D.9.1: Does the company disclose the contact details (e.g., telephone, fax and email) of the officer responsible for investor relations?

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