PROCEEDING
The 3rd International Conference on Economics, Business, and Accounting Studies (ICEBAST) 2017
"Social Cohesion, Public Policy Reformation, and Market Integration towards Inclusive Global Economy"
Faculty of Economics and Business - Universitas Jember, 24-25 November 2017

CORPORATE GOVERNANCE OF SELECTED PUBLICLY LISTED PHILIPPINE HOTELS

Challoner A. Matero[a]*, Marie Jane Jumawan Matero[b], and Eleanor D. Paclijan[a]

[a]University of San Carlos, Cebu
[b]University of the Philippines–Cebu
*Corresponding Author: chalmatero@yahoo.com

Abstract

Corporate financial scandals and recent financial crises have significantly affected economies and companies worldwide, which renewed emphasis on corporate governance. Mostly, financial performance is still widely used tool for fundamental analysis. This exploratory qualitative research evaluated the corporate governance practices and financial performance of selected publicly listed Philippine hotels in order to present future researches on corporate governance. It discussed the corporate-governance practices of Philippine companies as determined by the OECD scorecard. The financial-performance dimension in comparison to industry average is independently computed. Results showed that publicly listed hotels were not widely held by public investors, the presence of the RPTs that can be classified as financial assistance to entities other than wholly owned subsidiary companies, the need for improvements of environmentally friendly value chains, the nonpublication of relevant information on training and development programs for its employees, and the nondisclosure of the attendance of members of the board of directors in their meetings. Recommendations for future researches were provided.

Keywords: Corporate Governance; Financial Performance; OECD scorecard; Fundamental analysis

INTRODUCTION

The growth of hospitality facilities like hotels is evident in Philippine cities and provinces [33]. Each hotel establishment plays an integral role in the promotion of the tourism sector of the Philippines as noted by [33]. The massive promotions of the Department of Tourism (DOT), particularly the viral effect of the It's More Fun in the Philippines campaign, led to an increasing number of foreign and local tourists. The tourism sector contributed 7.8% of the total GDP of the Philippines for the year 2014, and increases have been noted for the past five years [40].

The hotel sector should be bracing itself for impact of the Association of Southeast Asian Nations (ASEAN) economic integration. This is expected to bring in new investors and new travelers. In addition, different hotels are continually adapting to new trends and business strategies locally and internationally to keep up with other countries. To take its active role and its share of benefits with the ASEAN integration, the country must continue to pursue relevant market reforms in order to remain competitive. This heightens the urge to conduct corporate-governance studies because the corporate-governance practices of the hotel sector prior to the ASEAN integration might no longer be suitable to the current times; hence, it is probable that a new corporate-governance framework be established.

An active hotel industry is one of the indicators of economic growth, and it proves to be no exception to the need for corporate-governance studies. Conducting this study is a big opportunity for the hotel sector to review its governance, and it paves the way to improve this sector's reputation and professionalism. There is a need to figure out which corporate-governance practices are compatible for the complex or simple business structures of the hotel sector in the Philippines in order to establish better corporate governance. There appears to be a lack of professional management qualification, no regular property valuations, no disclosure of the market value of real estate assets and the appraisal methods, no efficient control of the management of subsidiary real estate companies, no explanation of corporate strategy, no future lines of business and growth forecasts, and an insufficient control of possible conflicts of interest [47]. Corporate financial scandals and financial crises have significantly affected economies and companies worldwide, which renewed emphasis on corporate governance. Mostly, financial performance is still a widely used tool for fundamental analysis. With all that has been said, it is safe to say that not only is the study of corporate governance highly recommended; it is also needed.

With the results of this study, our research aimed to contribute to the proposal of future researches that will enhance the understanding of corporate governance in the context of the hotel industry in developing economies and provide business professionals the governance issues to improve on. Corporate-governance studies encourage the integrity and efficiency of financial markets as they carry the goal to improve established good corporate-governance practices. Good corporate governance is the key to the proper functioning of a market sector since it helps lay down the confidence necessary for investment.

 ISBN: 978-602-5617-05-8

Statement of the Problem

This exploratory qualitative study evaluated the corporate-governance practices and financial performance for the year 2015 of selected publicly listed hotels in the Philippines and proposed studies of corporate governance. Specifically, it (1) determined financial performance as measured by the DuPont model and different financial ratios; (2) determined the corporate- governance practices using the ASEAN corporate-governance scorecard; and (3) proposed studies of hotels' corporate governance.

Review of Related Literature

The Corporation Code of the Philippines, enacted through Batas Pambansa Bilang 68, governs the creation of corporations. A corporation is created as a judicial being through the operation of law, with right of succession, powers, attributes, and properties expressly authorized by law or incident to its existence. The Asian financial crisis in 1997 revealed that the Philippine nonfinancial corporate sector had been a relatively efficient user of funds of Philippine savers, the country was in an advantageous fiscal position, the financial system was strong, and the corporate sector had accumulated internal funds from three years of robust profits. More importantly, the crisis did not catch the corporate sector, investing and financing by debt, into a recession.

The Philippines had its own share of corporate scandal with BW Resources Corporation [14] before the collapse of American companies Enron and WorldCom. These scandals affected the stock market's image and weakened private-investor confidence. Commonly, it had their roots in the management's desire to project a false picture of financial performance, with the aim of driving up the value of the corporation in a competitive global market. A dominant theme in all issues related to corporate governance is the importance of disclosures. The corporate scandals involved the lack of transparency and disclosure of financial reports and are corporate governance failures.

In response, the Code of Corporate Governance (CCG) through BSP Circular Nos. 283 and 296 of 2001 were issued and promulgated by the Philippine Securities and Exchange Commission (SEC) through Memorandum Circular No. 2 of 2002 to promote corporate governance reforms aimed to raise investor confidence, develop the capital market, and help achieve a high-sustained growth for the corporate sector and the economy.

Corporate governance is a system whereby shareholders, creditors, and other stakeholders ensure that the management enhances the value of the corporation as it competes in an increasingly global marketplace. The CCG applies to corporations whose securities are publicly listed.

Publicly listed corporations tend to structure their organization because these are better regulated than non-listed companies. They acquire much of their capital from a number of shareholders, and their operations are vast and affect a number of stakeholders that rely on them. They have a vast number of operations in which they employ a lot of capital, concentrate on a particular operation where the returns are high, and diversify on areas where contingencies can be generated in a particular operation Moreover, for the board of directors, as a body and as individual directors, the CCG specifies their duties and responsibilities, accountability, audit function, stockholders' rights and protection of minority stockholders' interests, evaluation systems, disclosure and transparency requirements, and the required commitment to corporate governance.

Four structural issues still need to be addressed after the study of [12] discovered that (1) most publicly listed companies were not widely held by public investors; (2) large shareholders dominate ownership of companies and pursue a financing policy characterized as trading on equity, resulting in further dominance by these companies in their industries; (3) corporate groups with affiliate banks enjoy advantages in terms of access to financing and economies of investments and operations in related industries; and (4) the regulatory framework for corporate governance is inadequate in the context of Philippine conditions.

The country's history of economic, policy, legal, environmental, and the relatively weak external control agents suggest that highly concentrated ownership constitutes a structural weakness that limits future growth and leads to inefficiencies in investments and financing in the corporate sector. The absence of a wide shareholder base in most public Philippine corporations weakens corporate governance. There is a resulting lack of active shareholder discussions of major management actions and weak signals from investors regarding their judgment of a company's performance [46].

Driven by the existence of shareholders with a greater propensity to invest in specific sectors [21], the company characteristics comprised the type of business, investment, and control strategies adopted by shareholders and the board of directors.

A dominant theme in all issues related to corporate governance is the importance of disclosures. The CCG states that anything that could potentially affect share price is considered material information and should be publicly, officially, and timely disclosed through the approved stock exchange procedure for corporate announcements and in the annual report. Under the CCG, the corporation's annual and current reports must include a discussion of any disagreement with its external auditor on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure that caused the corporation to change auditors. Corporate disclosure and financial earnings are considered the two most important means by which the management can communicate firm performance and governance to outsiders. More transparent firms have persistent higher earnings; their earnings are more predictive of future profitability, supporting the view that vibrant public securities rely on complex reporting systems to promote the governance of public companies [24].

In essence, corporate governance creates a framework of goals and policies to guide an organization's progress and forms a foundation for assessing board and management performance. According to [31], there is strong evidence to suggest that corporate performance— and to an extent, economic stability— is directly affected by the quality of corporate governance.

When fully implemented, good corporate governance ensures that large corporations are well-run institutions that earn the confidence of investors and lenders. The process ensures safeguards against corruption and mismanagement while promoting fundamental values of a market economy in a democratic society. In a globalized economy, the implementation or otherwise of good corporate governance will increasingly determine the fate of individual companies and entire economies.

The quality of governance is of absolute importance to shareholders as it provides them with a level of assurance that the business of the company is being conducted in a manner that adds shareholder value and safeguards its assets. This means that there is less uncertainty associated with the investment—a situation that encourages bankers and lenders to be favorably disposed to the company. Furthermore, the higher the risk, the higher the expected rate of return. If a company adopts and implements good corporate-governance practices, shareholders are retained, and new investors are attracted. Institutional investors have indicated a willingness to pay a premium for the shares of a well-governed company [18]. [18] further disclosed that corporate governance enhances the performance and ensures the conformance of corporations. Its principles stimulate the performance of corporations by creating and maintaining a business environment that motivates managers and entrepreneurs to maximize firms' operational efficiency, returns on investment, and long-term productivity growth. He said that they ensure corporate conformance with investors' and society's interests and expectations by limiting the abuse of power, the siphoning off of assets, the moral hazard, and the wastage of corporate-controlled resources (so-called "agency problems"). Simultaneously, they establish the means to monitor managers' behavior to ensure corporate accountability and provide for the cost–effective protection of investors' and society's interests vis-à-vis corporate insiders.

A study by [6] found out that those firms with weaker corporate governance will perform poorly and will be less profitable compared to firms with strong corporate governance. They have lower returns on assets, lower returns on average equity, lower returns on average investment, lower returns on equity, and lower returns on investment than firms with stronger governance. Firms with weaker corporate governance tend to be riskier. For example, firms with weaker corporate governance have more share-price volatility than firms with stronger corporate governance. Also, firms with weaker corporate governance are riskier based on two of the three risk measures considered by [16] in their highly influential study— namely, they have lower price-to-book ratios and are smaller. Moreover, firms with weaker corporate governance have less interest coverage and lower operating cash flow to current liabilities than firms with stronger corporate governance. In addition, firms with weaker corporate governance have lower dividend payouts and lower dividend yields than firms with stronger corporate governance [6].

According to another study by [2], there is a positive direct relationship between dividend per share and corporate governance, coupled with a positive direct relationship between liquidity and corporate governance. As the liquidity of Jordanian industrial firms increases, it will result in good corporate-governance practices.

Better corporate governance will bring down the cost of equity, leading to greater investments in new projects and bringing about greater overall development for the economy [3]. Additionally, a study by Gerard and Weber (2015) states that a strong and effective compliance function supports strong corporate governance as there is a positive relationship between the extent of compliance measures combined with strong corporate-governance practices and operating performance measured by the return on assets.

In addition, a study by [2] finds a positive direct relationship between corporate governance and corporate performance. When the company has good corporate- governance practices, it will be reflected in enhancing the firm value and its performance of the company. Likewise, corporate governance allows for better monitoring and control so that the managers are more likely to make decisions that are for the best interest of the shareholders, such as investing in positive NPV projects. It also improves the protection of shareholders by minimizing opportunistic behavior of managers that decrease firm value. Therefore, firms that implement corporate governance are more likely to have a higher firm value [49].

In contrast to those studies finding a direct relationship between the corporate-governance practices and financial performance of a firm, there are those who found no relationship between the two. In a study by [46], corporate-governance classifications have no significant effect on the profitability of firms that are ROE and ROA and stock price of respective firms [46]. Similarly, corporate-governance classifications of top-performance publicly listed companies in the Philippines (Platinum plus, Platinum, Gold and Silver) did not have any significant impact on firm performance (ROE) and stock price [38]. Additionally, according to a study entitled "Impact of Corporate Governance on Intellectual Capital Efficiency and Financial Performance" by [35], the company's corporate-governance measures have no direct impact on financial performance.

In addition to that, they asserted that corporate governance does not directly affect financial performance. Rather, it affects the financial performance through internal-control efficiency. Agreeing with this are [52], who argue that the size of the firms remains insignificant to the performance of the company.

Profitability ratios evaluate a company's performance in generating earning, profits, and cash flows relative to the amount of money invested [44]. They emphasize how effectively the profitability of a company is managed and how the company performs at generating revenue or profit relative to the investment. Return of equity (ROE) is an example of a profitability ratio that provides an indication regarding how well managers are investing the funds provided by investors.

Corporate governance and financial leverage play a big role in maximization of shareholders' wealth. While good corporate governance plays an important role in increasing the market value of the firm [4], [32], [23], higher financial leverage decreases firm value by increasing bankruptcy risk. Therefore, sound corporate governance and an optimal capital structure are necessary for every firm to enhance its market value. Financial leverage has different impacts on the value of the firm country to country because of the different tax brackets and tax laws of various countries.

[34] tested the relationship between leverage and corporate performance in France, Germany, and Italy. The regression statistical technique was adopted on various sets of variables (leverage, tangibility, short-term liabilities, inventory, and size). The study found mixed evidence depending on the country; while significantly negative in Italy, the relationship between leverage and corporate performance is significantly positive in France and Germany.

Debt is a conceivable signal of the quality of firms, and good-quality firms tend to issue more debt [45]. Therefore, this theory suggests that the highest-performing firms, those having the more profitable investments, acquire more debt. Consequently, a positive relationship should exist between financial leverage and corporate performance. The second one to note is that debt financing increases the burden on managers to act; as a result, it lowers the moral hazard behavior by decreasing free cash flow at the disposal of managers [27]. Accordingly, the firms with the higher leverage may better their performance (i.e., a positive relationship should occur between financial leverage and corporate performance). The third factor to watch out for is that higher leverage implies higher agency costs owing to the disparate interests between shareholders and debt holders, which enhance the total cost of the company, so that leverage may be negatively linked to performance [26].

Theoretical Framework

This study anchored on the underlying theories associated with corporate governance. **The agency theory** purports that an agency relationship exists under a contract between two parties, whereby the principal persons engage another person(s) to act as their agent to perform some decision-making in behalf of the principals [26]. The theory recognizes that people are self-interested to maximize their own advantages, and they cannot be trusted to act in the best interests of others. This implies that the actions of directors, acting as agents of shareholders, might act in their own interests. To mitigate the opportunity for self-interest, a corporate-governance mechanism is instituted to ensure that agents act in the interests of shareholders and maximize their wealth [5]. However, the stewardship theory views that corporations and social entities have long-term goals beyond maximizing the wealth of shareholders; and its board of directors, serving as stewards, acts for the best interests of the firm [10], [51], [36].

The stakeholder theory holds that corporations are social entities that affect the welfare of stakeholders. Stakeholders are individuals or groups, internal and external, expanded to include interest groups who are expected to interact with the corporation(s) for or against the achievement of the its objectives[13], [10], [9], [7], as likewise promoted by the OECD Principles. This relationship is a platform for the implementation of corporate-governance mechanisms and practices.

The Organization for Economic Co-operation and Development (OECD) has developed the **OECD Principles** of Corporate Governance, which has become an international benchmark starting in 1999 for policy makers, investors, corporations, and other stakeholders. Using the following characteristics—such as board size, leadership structure, board composition, and audit-committee independence—as the monitoring corporate-governance mechanisms is consistent with the agency theory perspective. Level 1 scorecard items are rights of shareholders, equitable treatment of shareholders, and role of stakeholders, disclosure and transparency, and the responsibilities of the board.

The protection for the exercise of the rights of shareholders is the main aspect of a sound corporate-governance system [37]. Firms that do are likely to engage and invest in risks that will bring in more returns [29]. Concurrently, the respect for rights is addressed by the Code of Corporate Governance (Code), specifically the voting rights and right to dividends. Moreover, the Code provides adequate and special protection to minority stockholders and the assurance of its representation in the board [1]. The protection of minorities carries an **equitable treatment of shareholders**. Consistent with the stakeholders' theory, the **role of stakeholders** is recognized in the organization and stakeholder engagement in the creation of value. Otherwise, the organization's growth is impeded [28], [50].

A timely and adequate **disclosure and transparency** establishes strong corporate governance and is directly correlated with company performance [8]. Consistent with the stewardship theory, all material matters regarding the corporation are disclosed to provide all stakeholders information basis for sound decision-making [22], [48]. The conduct of the **board and its responsibilities** are specified in the code, such as the establishment of special-purpose committees for audit, for compensation, and for nomination, and to establish the vision and mission, strategic objectives, policies, and procedures that may guide and direct the activities of the company. It is accountable to the stockholders with an objective financial reporting conducted by a duly accredited external auditor up to five-year term and that undertake an independent audit with prohibition on internal audit services. Independent directors enhance board governance, reduces financial statement fraud, increases transparency and disclosure, and protects minority shareholders. The large board size supports corporate governance to monitor agency problems, review management actions, and bring in greater opportunities [30].

We employed the profit margin, total asset turnover, and return on equity to provide fuller picture of the hotels' overall financial health and performance compared to industry average. In most cases, an increasing number of the ROE indicates a favorable sign for the company because it shows that they are using their resources efficiently. However, this is not always the case. Another implication would also be the increased financial leverage of the company. The same amount of income but with a lower amount of equity will result to a larger ROE. Although increasing the financial leverage of a company is favorable at times, this would also present greater risks compared to companies with lower debts. However, the optimal capital structure of a certain company also considers a substantial amount of debt so it goes to show that this is really a case-to-case basis.

METHODS

Our qualitative study was geared toward gaining an exploratory understanding of the effect of corporate governance on the firm's performance in the hotel sector in the Philippines. We evaluated the corporate-governance practices of selected publicly listed hotels in the Philippines through a checklist of the ASEAN corporate-governance scorecard. We conducted item analyses of the publicly available documents such as SEC 17 annual reports, minutes of meetings, ASEAN corporate-governance reports, public ownership reports, definitive information reports, and other online reports. The OECD's five areas—the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board—were utilized. The OECD principles became the basis of Code of Corporate Governance developed in many countries [25], including the ASEAN and the Philippines.

FINDINGS AND ARGUMENT

The Profile and Corporate Governance Practices of Selected Hotels

Hotel 1 is 65 years a corporation and 49 years a hotel. Majority of this hotel (60%) is owned and controlled by Hotel 5 (one of the research subjects). It is currently located in Metro Manila and runs hotel and restaurant operations. This hotel has 300 million issued and outstanding shares with a market capitalization of 2.3 billion pesos or 46 million US dollars. The items in the rights of shareholders and key ownership functions have been completely complied with. The equitable treatment of shareholders noted the absence of a policy requiring a committee of independent directors to review material / significant related party transactions (RPTs) to determine whether they are in the best interests of the company and shareholders. The role of stakeholders in corporate governance has seen the lack of environmentally friendly value chains. Disclosure and transparency items revealed that the non-audit fee exceeded the audit fees, while the responsibilities of the board included the following lacking items, such as disclosure of the terms of reference / governance structure / charter of the nominating committee, remuneration committee, and audit committee; the profile or qualifications of the audit-committee members; orientation programs for new directors; and the criteria used in the director assessment as well the remuneration committee meeting less than twice a month and the chair of the audit committee not being an independent director.

Hotel 2 is 23 years a holding company, which is primarily involved in the ownership of companies involved in the development of hotels and resorts and tourism-related businesses and investments in strategic land locations in the Visayas, Philippines. It owns the land on which Hotel 1 (one of the research subjects) is situated. This hotel has 12 billion issued and outstanding shares with a market capitalization of 2 billion pesos or 40 million US dollars. The rights of shareholders and key ownership functions cited that the company didn't pay dividends in a timely manner—that is, all shareholders are treated equally and paid within thirty days after being (1) declared for interim dividends and (2) approved by shareholders at general meetings for final dividends. The equitable treatment of shareholders included lacking items such as an explanation of the dividend policy provided, the disclosure of the amount payable for final dividends, and any RPTs that can be classified as financial assistance to entities other than wholly owned subsidiary companies. The role of stakeholders in corporate governance has seen the absence of environmentally friendly value chains. The disclosure and transparency items noted that the non-audit fee exceeded the audit fees and the nondisclosure of the nature and value for each material/significant RPTs. The responsibilities of the board noted exceptions such as nondisclosure of the terms of reference / governance structure/ charter of the nominating committee and audit committee; the chair of the audit committee not being an independent director; the company secretary not being legally trained in legal, accountancy, or company secretarial practices; nondisclosure of the criteria used in selecting new directors/commissioners; and the presence of a director who was a former CEO of the company in the past 2 years.

Hotel 3 is 24 years a corporation. Its primary purpose is to develop, invest in, own, acquire, administer, construct, and operate hotels, resorts, apartelles, condominiums, townhouses, buildings, other tourist-related structures, and their usual facilities. This hotel has 600 million issued and outstanding shares with a market capitalization of 2.5 billion pesos or 50 million US dollars. The rights of shareholders and key ownership functions have been complied with fully. The equitable treatment of shareholders noted that there are RPTs that can be classified as financial assistance to entities other than wholly owned subsidiary companies. The role of stakeholders in corporate governance cited the following—lacking environmentally friendly value chains; publication of relevant information on training and development programs for its employees; and a reward/compensation policy that accounts for the performance of the company beyond short-term financial measures. The disclosure and transparency included items that need to be looked upon for compliance, namely the non-audit fees exceeding the audit fees. And the responsibilities of the board cited items such as non-disclosure of the terms of reference / governance structure / charter of the nominating committee, remuneration committee, and audit committee. Likewise, there was the nondisclosure of the attendance of members at meetings of remuneration committee, the chairman of the audit committee is not an independent director, not one independent director of the committee has accounting expertise (accounting qualification or experience), there was nondisclosure of the fee structure for nonexecutive directors/commissioners, the same person assumes the roles of chairman and CEO, the chairman is not an independent director, and the company has no orientation programs for new directors/commissioners.

Hotel 4 engages in the hotel and resort business in the Visayas, Philippines, and South Luzon, Philippines. It is already a 10-year-old corporation. It has memorandums of agreement to manage a Visayas hotel and major ownership of southern and northern businesses in the Philippines. This hotel has 53 million issued and outstanding shares with a market capitalization of 1.1 billion pesos or 22 million US dollars. The rights of shareholders and key ownership functions have been complied with fully. The equitable treatment of shareholders cited deficiency of the availability of proxy documents and RPTs that can be classified as financial assistance to entities other than wholly owned subsidiary companies. The role of stakeholders in corporate governance included items that did not explicitly disclose the health, safety, and welfare policy for its employees; the company has no specific training and development programs for its employees; there was non-publication of relevant information on training and development programs for its employees; and it has no policy or procedures to protect an employee/person who reveals illegal/unethical behavior from retaliation. The disclosure and transparency noted that items such as nondisclosure of the number of meetings of the board of directors held during the year and nondisclosure of the name of the related party and relationship for each material/significant RPT. The responsibilities of the board items include deficiencies such as nondisclosure of the terms of reference / governance structure / charter of the nominating committee, remuneration committee, and audit committee as well as nondisclosure of the attendance of members at meetings of the nominating committee meetings, the remuneration committee meeting less than twice during the year, the chairman of the audit committee not being an independent director, not one independent director of the committee having accounting expertise (accounting qualification or experience), nondisclosure of its remuneration (fees, allowances, benefit in kind, and other emoluments) policy/practices (i.e., the use of short-term and long-term incentives and performance measures) for its executive directors and CEO and nonexecutive directors, the same person assuming the roles of chairman and CEO, the chairman not being an independent director, a director being a former CEO of the company in the past 2 years, having no policy that encourages directors/commissioners to attend ongoing or continuous professional education programs, and nondisclosure of how the board of directors/commissioners plans for the succession of the CEO / managing director / president and key management.

Hotel 5 is a 23-year-old hotel that is owned 46 % by a conglomerate whose primary purpose is to employ capital for the purpose of assisting mining enterprises and secondarily on all types of business enterprises, such as property holding and development and management. The hotels of Hotel 5 are located in Luzon, Visayas, and Mindanao, Philippines. This hotel has 2.5 billion issued and outstanding shares with a market capitalization of 8.5 billion pesos or 170 million US dollars. The rights of shareholders and key ownership functions items are complied with fully. The equitable treatment of shareholders needed improvements for any RPTs that can be classified as financial assistance to entities other than wholly owned subsidiary companies. The role of stakeholders in corporate governance includes the company having no procedures for complaints by employees concerning illegal (including corruption) and unethical behavior and having no policy or procedures to protect an employee/person who reveals illegal/unethical behavior from retaliation. The responsibilities of the board cited nondisclosure of the number of board of directors meetings held during the year, nondisclosure of the terms of reference / governance structure / charter of the nominating committee and remuneration committee, as well as nondisclosure of the attendance in the meetings held and the presence of a director who was a former CEO of the company in the past 2 years.

Rights of Shareholders

The OECD principles stated that companies should protect and facilitate the exercise of the rights of the shareholders. The areas of shareholder rights are the main aspects of a sound corporate-governance system [37]. The hotels had high regard toward their shareholders since the rights of shareholders and key ownership function items of the ACGS are fully complied with. Except for Hotel 2, which didn't pay dividends in a timely manner for what should be paid within 30 days after being (1) declared for interim dividends and (2) approved by shareholders at general meetings for final dividends. Their strengths include the basic shareholder rights, right to participate in decisions concerning fundamental corporate changes, right to participate effectively in and vote in general shareholder meetings, and being informed of the rules, including voting procedures that govern general shareholder meetings, and the exercise of ownership rights by all shareholders, including institutional investors, should be facilitated. Furthermore, the Corporation Code directs the board to respect the stockholders' rights, such as voting rights and right to dividends. Thus, it is expected that the corporations at least complied with the said provisions.

The first structural issue according to [12] was that most publicly listed companies were not widely held by public investors. Three out of five research subjects are parent-subsidiary relationships and majority of treasury stocks. This substantiates that the shares are not widely held. Few holders of the stocks are controlling the hotels and will not exit every now and then, which contributes to the volatility of the stock prices. Internal control rather than external capital market should be implemented. The minority-capital-market investors cannot control these hotels and discipline their management toward broad market standards of efficiency. This phenomenon is not in the context of [29], which state that "good governance enables more shareholders to engage in riskier investments that can create firm value" because the public investors are minority and act passively toward corporate governance [12].

Equitable treatment of shareholders

The shareholders should have the opportunity to redress their concerns. This part ensured whether the companies provide fair treatment over the shareholders and whether they are the controlling shareholder or the minorities. The notice on the annual general meeting and the company disclosure regarding the related party transactions remained strengths of the companies. They disclosed policies requiring members to abstain from participating in board discussion and forbidding loan grants to directors to mitigate the conflicts of interest and abusive insider trading. The International Accounting Standards require disclosure of the relationship between the parties and information, but generally, it is appropriate to disclose the relationship between the parties in case of existing control, irrespective of whether any transactions have occurred.

The presence of the RPTs that can be classified as financial assistance to entities other than wholly owned subsidiary companies is a common occurrence among the selected hotels. [39] underscored that companies should have a process for reviewing and monitoring related party transactions that should be highlighted in the OECD principles. Proper treatment of RPTs was the item least complied with, which will protect shareholders of the hotels. But it is given that these minority stockholders are passive to corporate governance, which was suited to the second issue of [12] in reference to the large shareholders that dominate ownership of companies pursuing a financing policy characterized as trading-on-equity, resulting in further dominance by these companies in their industries.

The Role of the Stakeholders

Together with the stakeholders, hotels create jobs for the sustainability of the community. This emphasizes the overall responsibility of the company as a juridical entity in the society. Hotels have kept the well-being of its stakeholders, having a total average score of 89.88%, giving evidence of a very high compliance with the scorecard. It can be determined from the data that companies valued the rights of their stakeholders and gave them protection over their rights. They improved their roles in the industry in taking care of employees, going the extra mile to serve customers and doing some community projects. This part of the scorecard assessed the conformance of the hotels with their corporate actions relating to their relationship with their employees, creditors, suppliers, customers, community, and the environment. These activities were collectively called corporate social responsibility (CSR) activities, which are important not only for the investors and customers but also for the public's confidence in the company [7].

The common items that needed improvements are environmentally friendly value chains and nonpublication of relevant information on training and development programs for its employees.

Disclosure and Transparency

The OECD principles require disclosure of material information on major share ownership and voting rights. This part of the scorecard assessed how well the company disclosed reliable, transparent, and timely information increasing confidence among decision-makers within the company, therefore affecting growth and profitability. The companies had an average score of 90.01%, showing a very high compliance. They placed emphasis on letting the public know about their company and its financial performance by having company websites where the public can easily access data about them, except for nondisclosure of the attendance of members of the board of directors in their meetings.

Responsibilities of the Board

The OECD principles required the board to fulfill various functions concerning matters related to the company. This section of the scorecard evaluated the effectiveness of the board in carrying out its many functions, especially those functions that directly affect firm performance. The Philippine companies only had an average of 77.75% conformance to these practices. This was the lowest compared to the other parts of the scorecard. The shared phenomenon included the chairman of the audit committee not being an independent director, the chairman of the board of directors not being an independent director, the presence of a director who was a former CEO of the company in the past 2 years, and nondisclosure of the remuneration (fees, allowances, benefit in kind, and other emoluments) policy/practices (i.e., the use of short-term and long-term incentives and performance measures) for its executive directors and CEO.

The corporation CCG provides that management is primarily accountable to the board and the board is primarily accountable to the stockholders. The management of the day-to-day affairs of the corporation is the responsibility of management; the board is, however, responsible for monitoring and overseeing management action. The board of directors is primarily responsible for ascending or descending bottom lines or reputation.

Table 1. Company Financial Performance (n=5)

Hotels	Profit Margin: Variance (Industry Average=0.0812)	Asset Turnover: Variance (Ind. Ave.= 0.186)	ROE: Variance Industry (Average=0.026)
1	0.0388	0.104	0.024
2	-0.6512	-0.146	-0.046
3	0.0588	0.014	0.034
4	-0.0712	0.214	-0.016
5	-0.0012	0.064	0.004

The financial performance of each hotel was compared with a suitable industry average based on Industries CFO, and the variances were independently computed. The profit margin of hotels is positive except for hotel 2. Although hotel 4 and 5 posted positive profit margin, it was too low that the resulting variance became negative. Unfavorable or negative variances were attributed to the high maintenance expenses and depreciation.

A big portion of hotels assets goes out to their properties (land, building, equipment, and machinery). Assets were usually way above company sales; that is why all the hotels had low asset turnovers. Hotels can be classified as service sectors, so they did not have many inventories for sale.

Return on equity (ROE) is an important indicator that tells us how the hotels have used the resources of its owners. This ratio reflects the extent to which the objective of the wealth maximization of shareholders has been achieved. The results showed that hotels 2 and 4 had the most negative variances.

Conclusion

The selected hotels had large shareholders that dominated them and that run counter to the fundamental principles of corporate governance as a regulatory framework [12]. In sum, the legal framework for shareholder rights is generally adequate. However, in practice, shareholder protection is eroded by the dominance of large shareholders in corporations even for major decisions involving two-thirds vote. A serious limitation of the legal framework is its inability to protect minority investors from management dominated by large shareholders in areas involving conflict of interest and insider trading. There is very little deterrent on management regarding conflicts of interest because, at worst, the corporation CCG only requires special approval by two-thirds vote in AGSMs, which can be done due to dominant control by large shareholders. Insider trading regulations have been poorly enforced in the past, although there is hope in the current revision of the law.

Recommendations

Studies on the following areas are recommended:

1. Detailed characteristics of publicly listed companies that are not widely held by public investors
2. RPTs that can be classified as financial assistance to entities other than wholly owned subsidiary companies
3. Environmentally friendly value chains and publication of relevant information on training and development programs for its employees
4. Why the audit committee and the chairman of the board of directors must be independent directors
5. Why the presence of a director who was a former CEO must be discontinued by the company in the next 2 years

References

[1]. Al-haddab, B. & Puig, G. V. (2013). The protection of minority shareholders in the gulf cooperation council. *Journal of Corporate Law Studies Volume 13,* Issue 1.

[2]. Al-haddah, G., & Waseem, A. (2011). The effect of corporate governance on the performance of Jordanian industrial companies: an empirical study of Amman stock exchange. *International Journal of Humanities and Social Science*, Vol. 1 No. 4.

[3]. Azeem, M., Hassan, M., & Kouser, R. (2013). Impact of quality corporate governance on firm performance: a ten year perspective. *Pakistan Journal of Commerce and Social Sciences*, *7*(3), 656–670.

[4]. Black, B. (2001). The corporate governance behavior and market value of Russian firms. *Emerging Markets Review*, 2(2), 89–108.

[5]. Blair, M. M. (1995). Ownership and Control, Washington: *The Brookings Institutions*.

[6]. Brown, L. D., & Caylor, M. L.. (2004). Corporate governance and firm performance. *Journal of Business Finance & Accounting*, 4(1) 1–53.

[7]. Cheung, Y., Jiang, P., Limpaphayom, P., & Lu, T. (2008). Does corporate governance matter in China?. *China Economic Review*, 19(3), 460–479.

[8]. Chi, L. (2009). Do transparency and disclosure predict firm performance? Evidence from the Taiwan market. *Expert Systems with Applications*, 36(8), 11198–11203.

[9]. Christopher, J. (2010). Corporate governance—a multi-theoretical approach to recognizing the wider influencing forces impacting on organizations. *Critical Perspectives on Accounting*, 21(8), 683–695.

[10]. Clarke, T. (2004). Theories of corporate governance: *The philosophical foundations of corporate governance*, Routledge, London.

[11]. Code of Corporate Governance (2002). *Philippines Corporation Code of the Philippines* (Batas Pambansa Blg, 68).

[12]. De Ocampo, R. F. (2000). Corporate ownership and corporate governance: issues concerns in the Philippines. Retrieved March 5, 2016 from http://www.oecd.org/corporate/ca/corporategovernanceprinciples/1931183.pdf

[13]. Donaldson, T. & Preston, L. E. (1995). The stakeholder theory of the corporation: concepts, evidence and implications. *Academy of Management Review*, vol. 20, 1, pp. 65–91.

[14]. Dow Jones Newswire. (2009). *The Wall Street Journal*. Retrieved March 3, 2016 from http://www.wsj.com/articles/SB977221403172617352.

[15]. Eichholtz, P.M.A. and Kok N. (2007). How does the market for corporate control function for property companies? *Journal of Real Estate Finance & Economics*,36(2), pp. 141–63

[16]. Fama, E. & French K. (1992). The cross-section of expected stock returns. *The Journal of Finance* 47, 427–465

[17]. Fama, E. F. & Jensen, M.C. (1983). Separation of ownership and control. *Journal of Law and Economics*, vol. 26, pp. 301–25.

[18]. Fama, E. F. (1980). Agency problems and the theory of the firm, *Journal of PoliticalEconomics*, Vol. 88, 288-307

[19]. Fama, E. F., & Jensen, M. C. (1983). Agency problems and residual claims. *Journal oflaw and Economics*, 327–349.

[20]. Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of lawand Economics*, 301–325.

[21]. Felício, J. A., &Villardón, M. P. G. (2014). Governance mechanisms and performance ofpublicly traded companies. *International Journal of Business and Management*, *9*(12), p1.

[22]. Gill, M. S., Vijay T. S., & Jha, S. (2009). Corporate governance mechanisms and firm performance: A survey of literature. *ICFAI University journal of corporate governance*, 8(1), 7–21.

[23]. Gompers, P, Ishii, J & Metrick, A. (2003). Corporate governance and equity prices. *The Quarterly Journal of Economics*, 118(1), 107–56.

[24]. Healy P. M. & Palepu K.G. (2000). Information asymmetry, corporate disclosure and the capital markets: a review of the empirical disclosure literature. Retrieved March 2, 2016, from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=258514.

[25]. Ioana, D., Gherghina, R., Doinita, C., Vuta, M., Aurelia, S., Monica, D., Trica, C., & Chivu, I. M. (2007). Corporate Governance Practices' Implementation in Romania-Achievements, Deficiencies, Action Items, in *The 47th Congress of the European Regional Science Association*, ERSA, Paris August 29th–September 2nd.

[26]. Jensen, M. C. & Meckling, W.H. (1976). Theory of firm: managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, vol. 3, pp.30550.

[27]. Jensen, M.C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review, 76(2),* pp. 323–29.

[28]. Jensen, M. C. (2010). Value maximization, stakeholder theory, and the corporate objective function. *Journal of Applied Corporate Finance*, 22(1), 32–42.

[29]. John, K., Litov, L., & Yeung, B. (2008). Corporate governance and risk taking. *The Journal of Finance*, 63(4), 1679–1728.

[30]. Kabigting, L. C. (2011). Corporate governance among banks listed in the Philippines stocks exchange. *Journal of International Business Research 10 (Special Issue)*

[31]. Kaplan, S. N. (1994). Top executive rewards and firm performance: a comparison of Japan and the United States. *Journal of Political Economy*, 102, 1994, 510–546.

[32]. Klapper, L. F., & Love, I. (2004). Corporate governance, investor protection, and performance in emerging markets. *Journal of corporate Finance*, 10(5), 703–728. KMC MAG Group, Inc. (2015). Metro manila property outlook 2015. Retrieved March 6, 2016 from http://kmcmaggroup.com/media/427800/2015_property_outlook_kmc_mag_group_philippines.pdf.

[33]. Lacap, J. G. (2014). Competitiveness and Sustainability of the Hotel. Mac Arthur Highway, 2009, Angeles, Philippines: *Business Management and Strategy*

[34]. Laurent, W. (2002). Leverage and Corporate Performance: A Frontier Efficiency Analysis. *Universite Robert Schuman*, 1–20.

[35]. Makki, M. A. M., &Lodhi, S. A. (2014). Impact of corporate governance on intellectual capital efficiency and financial performance. *Pakistan Journal of Commerce and Social Sciences*, *8*(2), 305–330.

[36]. Mallin, C. A. (2004). Corporate Governance, Oxford: *Oxford University Press*.

[37]. Mallin, C. & Melis, A. (2012). Shareholder rights, shareholder voting, and corporate performance. *Journal of Management and Governance*, 16(2), 171–176

[38]. Mohammadpoor, H., & Teehankee, B. L. (2014). The impact of corporate governance on firm performance on stock price among publicly listed companies in the Philippines 2009 to 2011. *International Journal of Finance and Accounting*, *3*(4), 209–226.

[39]. Nestor, S. & Jesover, F. (2000). OECD principles of corporate governance on shareholder rights and equitable treatment: their relevance to the Russian Federation. *2nd OECD/World Bank Corporate Governance Roundtable for Russia, Moscow*

[40]. Octaviano, T. P. (2014, March 28). Tourism contributes 7.8% GDP in 2014. Retrieved March 19, 2016 from http://www.philstar.com/ business/2015/07/21/1479399/ tourism-contributes-7.8-gdp-2014.

[41]. OECD (1999). OECD principles of corporate governance, organization for economic co- operation and development Paris.

[42]. OECD (2006). Methodology for assessing the implementation of the OECD principles on corporate governance, Paris

[43]. Otman, K. M. (2014). Corporate Governance and Firm Performance in Listed Companies in the United Arab Emirates, 1–378.

[44]. Palepu, K., Healy, P., & Peek, E. (2010). *Business Analysis and Valuation.* Cengage Learning.

[45]. Ross, S. (1977). The determination of financial structure: the incentive-signaling approach. *The Bell Journal of Economics*, 23–40

[46]. Saldaña, C., & Principal, P. S. R. (1999). Philippine corporate governance environment and policy and their impact on corporate performance. In *a Conference on Corporate Governance in Asia: A Comparative Perspective, Seoul, Korea*.

[47]. Schulte, K. W. & Kolb, C. (2005). Corporate governance in the real estate industry. Retrieved March 5, 2016 from http://www.prres.net/papers/schulte_corporate_gov ernance_in_the_real_estate.pdf.

[48]. Shanikat, M. & Abbadi, S.S. (2011). Assessment of corporate governance in Jordan: an empirical study. *Australasian Accounting Business and Finance Journal*, 5(3), 93–106.

[49]. Siagian, F., Siregar, S. V., & Rahadian, Y. (2013). Corporate governance, reporting quality, and firm value: evidence from Indonesia. *Journal of Accounting in Emerging Economies*, *3*(1), 4–20.

[50]. Sinclair, M. (2011). Developing a model for effective stakeholder engagement management. *Asia Pacific Public Relations Journal*, 12(1), 1–20.

[51]. Wheelen & Hunger (2002). Corporate governance and social responsibility. Retreived March 3, 2016 from http://vig.prenhall.com/catalog/uploads/Wheelan-Hunger Ch2.ppt.

[52]. Zaman, K., Khatab, H., Masood, M., Saleem, S., &Saeed, B. (2011). Corporate governance and firm performance: A case study of Karachi stock market. *International Journal of Trade, Economics and Finance*, *2*(1), 39–43.