Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.9, No.8, 2018

Role of ASEAN Corporate Governance Scorecard in Relationship Between Foreign Ownership and Profitability of ASEAN Countries

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Abstract

This research is aimed to examine effect of ASEAN corporate governance scorecard on relationship between foreign ownership and profitability in ASEAN. Research samples are 491 manufacture firms listed in stock market of Thailand, Singapore, Philippines, Indonesia, and Malaysia from 2012-2013. With regression analysis, this research find that ASEAN corporate governance scorecard have effect on relationship between foreign ownership and profitability in ASEAN. High ASEAN corporate governance scorecard; as improvement of rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, responsibilities of the board; supports foreign shareholder role in profits increasing. This research shows new evidence of role of macro economics level factor, which is corporate governance level in ASEAN countries, as foreign owners' role supporting in profits increasing. ASEAN corporate governance scorecard is important factor to answer inconsistencies of role of foreign owner, since foreign ownership will be more growing up in open market between countries.

Keywords: ASEAN corporate governance scorecard, foreign ownership, profitability

1. Introduction

In general, a business firm established to maximizes profits. Profits are the most vital entity which demonstrates the financial stability and strength of any firm (Tabassum et al., 2014). It refers to the bottom line item of income statement which exhibits how company is financially beneficial and adding value to the shareholder's wealth. It is an indicator of financial health and competitive position within industry. Firm ability to increases profits is profitability.

Agency conflict is one of problem to increases profitability. Agency conflict exists because there is conflict of interest between shareholders and management (Chen et al., 2012; Gilson and Whitehead, 2008; Renders and Gaeremynck, 2012). Management with bigger power than shareholder will act based on their own interests (Lee, Park, et al., 2015). Management works with less consideration of shareholders wealth, such as profit maximization. This conflict is getting bigger because shareholders could not monitors daily activities of management. In order to minimize agency conflict, shareholders have to do management monitoring, so management will act based less on their own interests and more on increasing shareholders wealth and firm value by profits increasing. Previous researches have been proving that share ownership factors can decrease agency conflict by minimizing of information asymmetry (Shiri et al., 2016), financing cost (Tan and Ma, 2016), and maximizing of profit (Cheung et al., 2011; Wei et al., 2005).

One type of share ownership is foreign ownership. Foreign ownership is shareholders of firm of across country. Foreign investor can increase management performance (Kalemli-Ozcan et al., 2014; Wei et al., 2005). Foreign investor have specific financial and business characteristics, which are the international diversification of earnings should decrease the variability of cash flows and bankruptcy costs than domestic firms (Gurunlu and Gursoy, 2010). Foreign shareholders have higher labor productivity, wages and export intensity than local firms, though technological intensities (Rasiah and Malakolunthu, 2009). Foreign shareholders have better monitoring of management as well is, than domestic shareholders, because foreign shareholders is more independent (Ahmed and Iwasaki, 2015).

In the other hand, foreign ownership can decrease profits as well. Foreign shareholders do not really attach to domestic firm, because they have international investment channels than domestic shareholders, so foreign shareholders have short term relationship to domestic firm (Kim, 2011). Foreign ownership leads to bigger cost of foreign capital structure (Eun and Janakiramanan, 1998), so it will decrease profitability. Foreign ownership can improve information asymmetric as well, because of differences of language and geographic between home country (origin of foreign shareholders) and host country (firm owned by foreign shareholders).

It is important to analyze foreign ownership, because the rapid globalization of financial markets in recent years has been accompanied by a growing number of firms raising capital abroad (Bell et al., 2014). In China, external opening market of import makes foreign direct investment increases (Zhang and Roelfsema, 2014), such as acquisition of assets (Lau and Bruton, 2008). It shows that foreign ownership is one of the most important factor that affect firm performance, especially profitability, when ownership of firm's shares across country.

Association of South East Asian Nation (ASEAN) countries have been affect by globalization as well. ASEAN countries have established ASEAN Economics Community (AEC), and it is believed that in 2015, ASEAN borders will be fully open to allow free flows of capital and labor across country's borders (Nikomborirak, 2015), include stock market integration (Lee and Jeong, 2016). Less barriers of capital market between ASEAN countries will increases foreign investment and capital as well. Based on data accessed in World Bank (2016a), there are increasing of foreign direct investments in ASEAN countries from 2012 to 2013, for Indonesia 10 percent, Malaysia 27 percent, Philippines 16 percent, Singapore 16 percent, Thailand 24 percent. Weather foreign ownership increases profits or not, depends on corporate governance of firms in stock market in each country of ASEAN. Each country have optimal standards of ownership supporting by good corporate governance implementation, so it can maximizes shareholders wealth and increases profits.

Inconsistency of foreign ownership effects on profitability depends on condition of the country, especially condition of corporate governance in stock market. If the country believes and fully supports foreign ownership as corporate governance mechanism, then foreign ownership will increases profitability (Viana et al., 2010). Corporate governance tend to foster a more open and equitable distribution of information and place a stronger emphasis on the protection of shareholders rights and, in particular, those of minority investors (Maher and Andersson, 1999). Since role of foreign shareholders is important, then this research will examine whether foreign shareholders protection and transparency strengthen the role of foreign ownership to increases profitability.

The corporate governance structure specifies the distribution of rights and responsibilities among different stakeholders in the system, such as the board, managers, shareholders and spells out the rules and procedures for making decisions on corporate affairs (Madhani, 2016). Further, Madhani (2016) stated that corporate governance provides an ethical process as well as well-defined structure through which the objectives of the firm, the means of attaining such objectives, and systems of monitoring performance are also set. Corporate governance in stock market could be seen as well as corporate governance mechanism by political and legal structure, public monitoring (Forti et al., 2011), investor protections and public policy making (Guillen and Capron, 2016) to increases profitability.

ASEAN Capital Market Forum (2015) introduce ASEAN corporate governance scorecard as assessment of corporate governance of all listed firms of capital markets in countries of ASEAN. It shows corporate governance practices covers area of rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, responsibilities of the board (ASEAN-Capital-Market-Forum, 2015). It is important to examine corporate governance in ASEAN, because firms in ASEAN nations have operated in environments where government policies were lacking and the market structure was underdeveloped (Liu, 2016), at the same time, ASEAN will be a powerful by representing the third largest economic cooperation following the North America Free Trade Agreement (NAFTA) and the Europe Union (EU) (Lee and Jeong, 2016).

ASEAN Economics Community (AEC) is just fully performed in 2015 (Nikomborirak, 2015; Yean and Das, 2015), and yet, there are researches studying macro economics level factors as one region (eg. Lee and Jeong, 2016; Niblock et al., 2014; Nikomborirak, 2015; Yean and Das, 2015) in order to examine impact of AEC as an act to keep up the development of AEC. This research will use macro economics level factor, which is corporate governance of all listed firms in stock market, as consideration of micro economics level factor decision making. This research shows new evidence of role of macro economics level factor, which is corporate governance in stock market of ASEAN countries, as foreign owners' role supporting in profitability increasing. Corporate governance is important factor to answer inconsistencies of role of foreign owner, since foreign ownership will be more growing up in open market between countries, in profitability increasing.

2. Literature Review

2.1 Foreign Ownership and Profitability

In terms of agency theory, management (agent) have a contract with owner (principal) which is delegating of authority from owner to management to manage firm as owner interests (Jensen and Meckling, 1976). Owner have to monitor management, so that management could increases owner wealth by profit increasing. In stock market context, shareholders wealth is the purpose of agency relationship. One of shareholders wealth indicators is net profits. Profits can be increased if shareholders have better support and monitoring to management. Type of ownership is important to determine if management is working follow shareholders interest.

Foreign shareholder is one type of ownership that have effect on profitability. There are arguments said that foreign ownership have positive relationships with firm performance, while others predict negative relationships; each theory have conditions under which its arguments hold (Lee, Kim, et al., 2015). Firm with foreign ownership have competitive advantages. Internalization theory said that foreign ownership enhances revenue by developing new markets for its assets from abroad; such as superior research and development (Gande et al., 2009), marketing production capabilities, consumer goodwill (Fang et al., 2008; Lee, Kim, et al., 2015), higher labor productivity, wages, export, technological intensities (Mithas and Rust, 2016; Rasiah and Malakolunthu, 2009; Wei et al., 2005) and international manager talents (Wei et al., 2005). Those components are unique competitive advantages that cannot easily enhanced by domestic ownership. In cost efficiency, foreign ownership have financial and business advantages as well, such as open accesses of international capital market and hard currency (Wei et al., 2005), the international diversification of profits should decrease the variability of cash flows and bankruptcy costs than domestic firms (Gurunlu and Gursoy, 2010). In terms of corporate governance, foreign shareholders have better monitoring of management as well, than domestic shareholders, because foreign shareholders is more independent (Ahmed and Iwasaki, 2015).

In the other hand, foreign ownership can reduce profitability as well. In international level, imperfections of global market support this argument, because it is difficult to optimally diversify their businesses internationally due to such barriers as institutional restrictions on overseas capital flows and information asymmetries (Lee, Kim, et al., 2015). It leads to bigger cost of foreign capital structure (Eun and Janakiramanan, 1998), and will decrease profitability. There is lack of compatible of development of competitive advantages brought from home country (origin of foreign ownership) as well, such as technological investment. New technological investment have risks such as firms may not be able to realize complex interrelationships among information technology systems, get locked into poor and incompatible systems and may suffer from information overload, leading to reduced learning (Mithas and Rust, 2016). It will be able to get benefits of international diversification if global market is sufficiently integrated.

In firm level, manager factor can be a reason why foreign ownership reduces profitability. Foreign manager can improve information asymmetric as well, because of differences of language and geographic between home country and host country. In multinational firm context, it is hard for foreign shareholders to monitor managerial decision because of complexity of corporate structure with many foreign subsidiaries across country (Lee, Kim, et al., 2015). Not only foreign manager have adaptation difficulty in domestic environment, but domestic manager have adaptation difficulty in firm where foreign shareholders have brought foreign atmosphere in some business activities, such as social capital domestic CEO that can reduce foreign ownership (Goyer and Jung, 2011).

This research will analyze two of contrast arguments about relationship between foreign ownership and profitability with consideration of country level, especially in ASEAN. It is important because ASEAN Economic Community have been established and will affect barriers between countries as restrictions effect of foreign shareholder to increase profitability.

2.2 ASEAN Economics Community (AEC)

ASEAN consists of ten diverse economies, ranging from Singapore, with GDP per capita at nominal value of US$ 55,182 (ranked 8th of 183 countries in the world in 2013) to Cambodia with GDP per capita at nominal value of US$ 1,028 (ranked 156th) (Nikomborirak, 2015). ASEAN has come a long way in reducing barriers to trade in goods among member countries since the creation of the ASEAN Free Trade Area Agreement, signed in 1993 (Nikomborirak, 2015), and have been made blueprint of ASEAN Economics Community (AEC) in 2007 with goal level about 90.5 percent in 2015 (Yean and Das, 2015). The Blueprint consists of four key pillars: (1) a single market and production base; (2) a highly competitive economic region; (4) a region of equitable economic development; and (4) a region fully integrated into the global economy (Nikomborirak, 2015). AEC could produce gains similar to those resulting from the single European market and the benefits could be doubled if the regional integration also leads to new free trade agreements with key external partners (Lee and Jeong, 2016). Advantage of AEC is less barriers can make less cost to make business within countries in ASEAN. In contrary, disadvantage of AEC is transferring resources from home country abroad will make domestic business decreases.

AEC have effect on stock market as well. Capital market in ASEAN countries have been integrated and driven by country-level economic situations (Lee and Jeong, 2016). It leads to growing up of foreign investment flows in to ASEAN. AEC makes investment, especially stock investment between countries will be less barriers. Foreign investors, especially in develop countries, will send significant portion of their investment to emerging market, such as Southeast Asia (Niblock et al., 2014). It leads to more foreign ownership in a country, either from other ASEAN countries or outside ASEAN countries.

2.3 ASEAN Corporate Governance Scorecard

In 2009, the ASEAN Finance Ministers endorsed the ASEAN Capital Market Forum (ACMF) implementation plan to promote the development of an integrated capital market (ASEAN-Capital-Market-Forum, 2015). 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 aspirations through the following areas, which are 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 (ASEAN-Capital-Market-Forum, 2015).

The ASEAN corporate governance initiative comprising the ASEAN Corporate Governance Scorecard and the ranking of corporate governance of ASEAN public-listed firms are among several regional initiatives under the ACMF (ASEAN-Capital-Market-Forum, 2015), started in early 2011 and is supported by the Asian Development Bank (2016). The objectives of the Scorecard and the ranking exercise are to raise corporate governance standards and practices of ASEAN public-listed firms, showcase and enhance the visibility as well as investability of well-governed ASEAN public-listed firms internationally, complement the other ACMF initiatives and promote ASEAN as an asset class (ASEAN-Capital-Market-Forum, 2015). The ASEAN Scorecard was developed based on national benchmarks such as the Organization for Economic Co-operation and Development (OECD) Principles of Corporate Governance, International Corporate Governance Network Corporate Governance Principles, as well as best practices from the ASEAN and the world (Asian-Development-Bank, 2016a). The Scorecard covers the following five areas of the OECD principles, which are rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board (Asian-Development-Bank, 2016a). Full assessment divided by weightage allocation of those five areas; which are 10 percent of rights of shareholders, 15 percent of equitable treatment of shareholders, 10 percent of role of stakeholders, 25 percent of disclosure and transparency, and 40 percent of responsibilities of the board. Assessment of each country is done by the Indonesian Institute for Corporate Directorship for Indonesia; the Minority Shareholder Watchdog Group for Malaysia; the Institute of Corporate Directors for Philippines; the Singapore Institute of Directors and Centre for Governance, Institutions and Organizations as well as National University of Singapore Business School for Singapore; and the Thai Institute of Directors for Thailand (Asian-Development-Bank, 2016b).

2.4 ASEAN Corporate Governance Scorecard, Foreign Ownership and Profitability

There is argument said that foreign ownership have positive relationships with profitability. Firm with foreign ownership have competitive advantages from abroad; such as superior research and development (Gande et al., 2009) that leads to higher export (Rasiah and Malakolunthu, 2009), higher product quality and higher revenues. Foreign shareholders could brings marketing and production capabilities, and consumer goodwill (Lee, Kim, et al., 2015) that leads to higher revenues. Foreign shareholders increases wages (Rasiah and Malakolunthu, 2009), brings international manager talents as well as open accesses of international capital market and hard currency (Wei et al., 2005), and the international diversification of profits (Gurunlu and Gursoy, 2010), and will leads to higher labor productivity (Rasiah and Malakolunthu, 2009) and cost efficiency and wider international market. Foreign shareholders have better monitoring of management as well, than domestic shareholders, because foreign shareholders are more independent (Ahmed and Iwasaki, 2015), so foreign shareholders can make management works effectively and increases profitability. Those advantages that brought by foreign shareholders can increases firm profits.

In contrary, foreign ownership can reduce profitability as well. In international level, imperfections of global market support this argument, because it is difficult to optimally diversify their businesses internationally due to such barriers as institutional restrictions on overseas capital flows and information asymmetries (Lee, Kim, et al., 2015). It leads to bigger cost, especially cost of foreign capital structure (Eun and Janakiramanan, 1998), and will decrease profitability. There is lack of compatible of development of competitive advantages brought from home country (origin of foreign ownership) as well, such as technological investment. New technological investment have risks such as firms may not be able to realize complex interrelationships among information technology systems, get locked into poor and incompatible systems and may suffer from information overload, leading to reduced learning (Mithas and Rust, 2016). Firm will spends more money to make good technology implementation and reduce profits.

In firm level, manager factor can be a reason why foreign ownership reduces profitability. Foreign manager can improve information asymmetric as well, because of differences of language and geographic between home country and host country. Foreign manager will having hard time to determines consumers target. In multinational firm context, it is hard for foreign shareholders to monitor managerial decision because of complexity of corporate structure with many foreign subsidiaries across country (Lee, Kim, et al., 2015). Not only foreign manager have adaptation difficulty in domestic environment, but domestic manager have adaptation difficulty in firm where foreign shareholders have brought foreign atmosphere in some business activities. Foreign shareholders have different perception on business activities with domestic manager. Foreign shareholders see business activities in international context, while domestic manager look business activities in domestic context Previous research found that social capital domestic CEO can reduce foreign ownership (Goyer and Jung, 2011) because of difference perception between foreign shareholders and domestic manager.

Inconsistency of foreign ownership effects on profitability depends on corporate governance. Corporate governance is the key of monitoring mechanism to create good performance of firm. One of monitoring mechanism is shareholders structure, includes foreign shareholders, while the other is shareholders protection (Man and Wong, 2013). It shows that role of shareholders will have no effect on profitability if their rights does not support by condition of good governance by firm. One of measurement of corporate governance, especially in ASEAN countries, is ASEAN corporate governance scorecard. ASEAN corporate governance scorecard shows corporate governance practices in areas of rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board (Asian-Development-Bank, 2016a).

Area of rights of shareholders and equitable treatment of shareholders ensures clear voting right, decision making process, approve of board selection, voting class of shares, and conflict of interests (Asian-Development-Bank, 2016a). Both areas of rights of shareholders and equitable treatment of shareholders makes sure that foreign ownership could uses their rights to contributes in decision-making of competitive advantages increasing (Fang et al., 2008; Gande et al., 2009; Gurunlu and Gursoy, 2010; Lee, Kim, et al., 2015; Mithas and Rust, 2016; Rasiah and Malakolunthu, 2009; Wei et al., 2005), monitoring of management (Ahmed and Iwasaki, 2015) as well as picture of reducing entrenchment effect of majority shareholders (Zerni et al., 2010), if foreign shareholders act as minority shareholders. Another evaluation such as is there any disclosure in English language (Asian-Development-Bank, 2016a), so foreign shareholders have low information asymmetric. Shareholders protection is the key of good corporate governance to improve role of shareholders (Maher and Andersson, 1999; Man and Wong, 2013).

Area of role of stakeholders ensures activities related to customer welfare; communities; creditors' rights; environmental sustainability; and employee safety, health, and welfare (Asian-Development-Bank, 2016a). Corporate governance area of role of stakeholders makes sure role of foreign shareholders to improves decision-making process related to consumer goodwill (Lee, Kim, et al., 2015), higher labor productivity and wages (Rasiah and Malakolunthu, 2009; Wei et al., 2005).This corporate governance area will support foreign shareholders decision making of foreign manager hiring, related to employee safety, health, and welfare.

Area of disclosure and transparency related to annual report; ensures disclosure of board activities, risk management, financial performance, auditing activities, whistle blowing policy, related party transaction, language availability and firms' website (Asian-Development-Bank, 2016a). Corporate governance area of disclosure and transparency will improves role of foreign shareholders by reducing information asymmetric (Madhani, 2016) because differences of domestic language and environment (Asian-Development-Bank, 2016a; Lee, Kim, et al., 2015) as well as insider trading (Kho et al., 2009).

Area of responsibilities of the board ensures board and its committee activities to implement good corporate governance (Asian-Development-Bank, 2016a). Corporate governance area of responsibilities of the board improves foreign ownership in management monitoring. As proxy of shareholders in management daily activities, board have important role to make sure management acts in line with shareholders interests (Man and Wong, 2013), including foreign shareholders interest.

Ha: Foreign ownership increases profitability, if ASEAN Corporate Governance Scorecard of country is high.

3. Methods

3.1 Sources of Data

This research will examine effect of stock market development on relationship between foreign ownership and profitability in five countries of ASEAN, which are Indonesia, Malaysia, Philippines, Singapore, Thailand. These five countries have better access of data of this research than other countries of ASEAN. Data will be got from financial statement and Asian Development Bank (2016a, 2016b). Financial statement can be accessed from website of stock market of five countries. Data that will be needed are number of share held by foreigner, number of share traded in stock market, closing market price of share, book value of equity, book value of liabilities from financial statement. ASEAN corporate governance scorecard of country and rank of ASEAN corporate governance scorecard of firms will be got from Asian Development Bank (2016a, 2016b) accessed in www.worlbank.org.

3.2 Research Sample

Research sample of this research is manufacture firms listed from 2012-2013 in stock market of five countries of ASEAN. Based on data available in World Bank (2016b), contributions of manufactures industry to economics of Indonesia, Malaysia, Philippines, Singapore, Thailand, have decreased from 2011-2013. Therefore, it is important to examine manufacture firms value related to foreign ownership as an effect of establishment of integrated stock market in ASEAN. Firm with negative book value of equity will be excluded because it indicates insufficiency of shareholder financing on firm activities. Based on table 1, there are 491 firms as research sample and 982 observations.

Table 1. Research Sample

Firms in each country			Total
Indonesia	Manufacture firms listed 2012-2013	93	80
	Incomplete data	(10)	
	Negative Book Value of Equity	(3)	
Malaysia	Manufacture firms listed 2012-2013	211	208
	Negative Book Value of Equity	(3)	
Philippine	Manufacture firms listed 2012-2013	20	20
Singapore	Manufacture firms listed 2012-2013	120	117
	Negative Book Value of Equity	(3)	
Thailand	Manufacture firms listed 2012-2013	71	66
	Data in local language	(5)	
Number of Firms			491
Number of Observations			982

3.3 Analysis Model

This research will run regression analysis as hypothesis test. Regression model proposed is as followed:

$$\begin{aligned} Profitability_{it} &= \sigma + \beta 1FOR_{ijt} + \beta 2SCORECARD_{jt} + \beta 3FOR_{ijt}\_SCORECARD_{jt} \\ &+ \beta 4LEV_{ijt} + \beta 5SIZE_{ijt} + \beta 6MBV_{ijt} + \beta 7Rank50_{ijt} \end{aligned}$$

where:

$Profitability_{it}$	=	Profitability i country j period t
FOR_{ijt}	=	Foreign Ownership firm i country j period t
$SCORECARD_{jt}$	=	ASEAN Corporate Governance Scorecard country j period t
LEV_{ijt}	=	Leverage firm i country j period t
$SIZE_{ijt}$	=	Size of firm i country j period t
MBV_{ijt}	=	Market to Book Value firm i country j period t
$Rank50_{ijt}$	=	Big 50 of ASEAN Corporate Governance Scorecard (dummy variable) firm i country j period t

This research will run panel regression model selection test as preliminary test. This research will use fixed-effect redundant test and hausman test to select robust model between common-effect model, fixed-effect model, and random-effect model.

3.4 Variables

Dependent variable is profitability. Profitability could seen by return on equity (ROE). ROE is measured is as followed:

$$Return\ on\ Equity = \frac{Earnings\ after\ tax}{Book\ value\ of\ equity}$$

This research uses ROE because of consideration of profitability based on shareholders role. It is showed by profits that generates by the use of equity (shareholders financing).

Independent variable is foreign ownership. Foreign ownership is measured by the proportion of shares held by foreign investors as follow (Ahmed and Iwasaki, 2015; Eun and Janakiramanan, 1998; Wei et al., 2005):

$$Foreign\ ownership = \frac{Number\ of\ firm\ shares\ held\ by\ foreign\ investor}{Number\ of\ outstanding\ firm\ shares}$$

Moderating variable is corporate governance in country level. Corporate governance measured by country's average score of ASEAN corporate governance scorecard of all listed firms in five capital markets of Thailand, Singapore, Philippines, Malaysia and Indonesia accessed in ASEAN corporate governance scorecard assessment report by Asian Development Bank(2016a, 2016b). It shows average corporate governance score that covers area of rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, responsibilities of the board (ASEAN-Capital-Market-Forum, 2015).

Control variables are leverage, size of firm, market to book value, firm's rank in ASEAN corporate governance scorecard. Leverage is the use of debt in capital structure. Debt is a capital source that increases the risk associated with future profits, while firm with big size have big assets as resources to increase performance (Muzir, 2011), while market to book value shows firm growth that can increases profits. Leverage measured by debt to equity ratio (total of debt divided by total equity). Firm size measured by value of logarithm of total assets. Market to book value is measured by firm market capitalization end of period divided by total equity.

Firm's rank in ASEAN corporate governance scorecard shows good corporate governance based on ASEAN corporate governance scorecard assessment; measured as dummy variable; value 1 (one0 if firm includes in big 50 of ASEAN corporate governance scorecard in its country, 0 (zero) otherwise.

4. Results and Discussion

4.1 Descriptive Statistics

Table 2. Descriptive Statistics

		ROE	FOR	SCORECARD	LEV	SIZE	MBV	Rank50	
								BIG50	Non-BIG50
Thailand	N	132	132	132	132	132	132	17	115
	% of Total N	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%	
	Mean	0.0749	0.1108	71.5250	1.0239	9.8345	1.7759	0.1288	
Singapore	N	234	234	234	234	234	234	3	231
	% of Total N	23.8%	23.8%	23.8%	23.8%	23.8%	23.8%	23.8%	
	Mean	0.2357	0.1261	63.6750	0.7817	8.1559	0.9693	0.0128	
Philippines	N	40	40	40	40	40	40	8	32
	% of Total N	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	
	Mean	0.0700	0.2251	53.4450	0.9431	9.8080	3.0452	0.2000	
Malaysia	N	416	416	416	416	416	416	12	404
	% of Total N	42.4%	42.4%	42.4%	42.4%	42.4%	42.4%	42.4%	
	Mean	0.0570	0.1102	66.9900	0.7694	8.4451	1.4712	0.0288	
Indonesia	N	160	160	160	160	160	160	12	148
	% of Total N	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	
	Mean	0.2847	0.3510	48.9200	1.3876	12.4692	2.6770	0.0750	
Total	N	982	982	982	982	982	982	52	930
	% of Total N	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
	Mean	0.1396	0.1580	63.3137	0.9144	9.2741	1.6531	0.0530	

ROE = Return on Equity
FOR = Foreign Ownership
SCORECARD = ASEAN Corporate Governance Scorecard
LEV = Leverage of firm
SIZE = Size of firm
MBV = Market to Book Value
Rank50 = Big 50 of ASEAN Corporate Governance Scorecard (dummy variable)

Based on table 2, mean of ROE in five countries of ASEAN is 0.1396. The lowest mean of ROE in Malaysia which is 0.0570, while the highest in Indonesia which is 0.2847. Mean value of foreign manufacture firm ownership in five countries of ASEAN is 0.1580. Surprisingly, Indonesia that have requirement to apply for permission from the Central Bank of Indonesia for the repatriation and inflows of foreign funds (Niblock et al., 2014) have the highest mean value of foreign ownership with 0.3510, while Malaysia that have regulation to free inflows of foreign funds (Niblock et al., 2014) have the lowest mean value of foreign ownership with 0.1102. On average, ASEAN corporate governance scorecard in five countries of ASEAN is 63.3137. Indonesia have the lowest development of stock market with mean value 48.9200, while Singapore have the highest development of stock market with mean value 71.5250.

4.2 Hypothesis Test

Table 3. Regression Test of All Sample

	COEFFICIENT		
	Common-Effect	Fixed-Effect	Random-Effect
Constant	0.689528	0.784136	0.650890
FOR	-3.715914**	2.330694	-3.680884**
FOR_SCORECARD	0.076493*	0.082031**	0.076897*
SCORECARD	-0.010480	-0.008615	-0.009903
LEV	0.054826	0.115299	0.055254
SIZE	-0.006267	-0.149772	-0.007039
MBV	-0.007315	0.026756	-0.007622
Rank50	0.008684	-0.007809	0.009756
Sig. of Redundant Fixed-Effect Test		0.0139**	
Sig. of Hausman Test			0.0000*
Sig. of F-Statistics	0.003274*	0.006523*	0.002319*
Adjusted R-Squared	0.014604	0.113195	0.015483

***Significant in level 0.01**
****Significant in level 0.05**
*****Significant in level 0.10**

FOR = Foreign Ownership
SCORECRAD = ASEAN Corporate Governance Scorecard
LEV = Leverage of firm
SIZE = Size of firm
MBV = Market to Book Value
Rank50 = Big 50 of ASEAN Corporate Governance Scorecard (dummy variable)

Based on table 3, significance value of fixed-effect redundant test is 0.0139 (significant in level 0.05). It means that fixed-effect model is better than common-effect model. Significance value of hausman test is 0.000 (significant in level 0.01). It means that fixed-effect model is better than random-effect model. This result shows that fixed-effect model is the best model among these three models.

Foreign ownership have coefficient value 2.330694 (insignificant). It means that foreign ownership have no positive on profitability. This result is in line with inconsistence role of foreign ownership that gives competitive advantage on profitability, and have to be moderates by corporate governance that supports foreign shareholders position.

Variable of interaction between foreign ownership and ASEAN corporate governance scorecard have coefficient value 0.082031 (significant in level 0.05). It means that ASEAN corporate governance scorecard have significant effect on relationship between foreign ownership and profitability. ASEAN corporate governance scorecard is strengthening positive effect of foreign ownership on profitability. Hypothesis of this research is accepted. Foreign ownership increases profitability if ASEAN corporate governance scorecard of a country is high. High governance scorecard; in areas of rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board; improving contribution of foreign shareholders in decision-making of competitive advantages increasing, improving monitoring of management, reducing entrenchment effect of majority shareholders, increases role of foreign ownership to improving decision-making process related to consumer goodwill and higher labor productivity and wages, reducing information asymmetric and insider trading, and have support by board roles as well.

4.3 Robustness Test

As robustness test, this research will performs regression of each country as well. Results of regression of each country are as followed:

Table 4. Regression Test of Each Country

	COEFFICIENT				
	Thailand	Singapore	Philippines	Malaysia	Indonesia
Constant	-0.069	5.264	0.314	-0.127	0.328
FOR	0.600**	3.415*	-0.095	-0.037	-0.086
LEV	0.082***	-.0245	0.097**	0.063*	0.094
SIZE	-0.012	-0.632	-0.032	0.017	-0.012
MBV	0.058	-0.126	-0.001	-0.003	-0.002
Rank50	0.069	0.968	0.022	0.076	0.081
N	132	234	40	416	160

***Significant in level 0.01**
****Significant in level 0.05**
*****Significant in level 0.10**

FOR = Foreign Ownership
LEV = Leverage of firm
SIZE = Size of firm
MBV = Market to Book Value
Rank50 = Big 50 of ASEAN Corporate Governance Scorecard (dummy variable)

Based on table 4, foreign ownership have no significant effect on profitability in Malaysia, Philippines, and Indonesia. In the other hand, foreign ownership have positive significant effect on profitability in Thailand (significant in level 0.05) Singapore (significant in level 0.01). As expected, Thailand and Singapore with the highest and second highest ASEAN corporate governance scorecard assessment between five countries of ASEAN supports the role of foreign shareholders in profits increasing. It is consistence with result of hypothesis test.

Main strength of Thailand corporate governance in “Right of Shareholders” area is shareholders are allowed to elect directors individually and discloses detail activities of annual general meeting in minutes (Asian-Development-Bank, 2016a). Main strength of Thailand corporate governance in “Equitable Treatment of Shareholders” area is notice of auditor and dividend as well as disclosure of related party transactions are fair and at arm’s length (Asian-Development-Bank, 2016a). Main strength of Thailand corporate governance in “Right of Stakeholders” area is policy of treatments of stakeholders and social responsibility (Asian-Development-Bank, 2016a). Main strength of Thailand corporate governance in “Disclosure and Transparency” area is good firm’s website and disclosure of corporate group structure, related party transactions, audit fees, and contact details of investor relations (Asian-Development-Bank, 2016a). Main strength of Thailand corporate governance in “Responsibility of the Boards” area is clear disclosure of responsibility, policy and code of conduct, separation chair and executive officer, orientation programs, and review of the internal control and risk management system of the boards (Asian-Development-Bank, 2016a).

Main strength of Singapore corporate governance in “Right of Shareholders” area are boards appoint an independent party to evaluate fairness of the terms and conditions of the transaction in case of substantial mergers, acquisitions, and/or takeovers, and discloses detail activities of annual general meeting in minutes

(Asian-Development-Bank, 2016a). Main strength of Singapore corporate governance in "Equitable Treatment of Shareholders" area is notice of insider information and dividend as well as disclosure in English version (Asian-Development-Bank, 2016a). Main strength of Singapore corporate governance in "Right of Stakeholders" area is policy of reward/compensation, whistle-blowing, and social responsibility (Asian-Development-Bank, 2016a). Main strength of Singapore corporate governance in "Disclosure and Transparency" area is disclosure of boards' activities and its committees performance, indirect shareholding, and fast 120 days of audited financial report releases (Asian-Development-Bank, 2016a). Main strength of Singapore corporate governance in "Responsibility of the Boards" area is clear disclosure of responsibility and review of the internal control and risk management system of the boards and more contribution of independent board members (Asian-Development-Bank, 2016a).

Main strength of Thailand and Singapore corporate governance supports role and monitoring of shareholders, especially foreign shareholders, on profitability. Points that have to be improved for Philippines, Malaysia, and Indonesia are lack of details in annual general meeting, poor dividend policy, poor responsibility of board disclosure, lack of auditor services fee disclosure, poor customers and suppliers policy, and poor shareholding disclosure (Asian-Development-Bank, 2016a).

As robustness test, this research will performs panel regression with other alternatives variables measurement as well. Alternative is measurement of profitability. This research will performs panel regression test with return on assets (ROA) as profitability as well. ROA shows firm's ability to generate profits with the use of total assets. ROA is measured by earnings after tax divided by total assets.

Table 5. Alternatives of Regression Test

	COEFFICIENT	
Constant	0.251755	0.784136
FOR	0.671529	2.330694
FOR_SCORECARD	0.082624**	0.082031**
SCORECARD	-0.006079	-0.008615
LEV	0.009912	0.115299
SIZE	-0.076609	-0.149772
MBV	0.025596	0.026756
Rank50	-0.041631	-0.007809
Dependent Variable	ROA	ROE
Sig. of F-Statistics	0.013035**	0.000000*
Adjusted R-Squared	0.101535	0.383108

***Significant in level 0.01**
****Significant in level 0.05**
*****Significant in level 0.10**

ROA = Return on Assets
ROE = Return on Equity
FOR = Foreign Ownership
SCORECRAD = ASEAN Corporate Governance Scorecard
LEV = Leverage of firm
SIZE = Size of firm
MBV = Market to Book Value
Rank50 = Big 50 of ASEAN Corporate Governance Scorecard (dummy variable)

Table 5 shows that variable interaction between ASEAN corporate governance scorecard and foreign ownership have coefficient value 0.082624 (significant in level 0.05), with ROA as dependent variable. The result is consistent with hypothesis test that use ROE as profitability measurement in this research. In other aspects of profitability; such as effectiveness of the uses of assets to generate profits; foreign ownership increases profitability if ASEAN corporate governance scorecard is high.

4.4 Conclusion

This research is aimed to examine effect of ASEAN corporate governance scorecard on relationship between foreign ownership and profitability in five countries of ASEAN. Corporate governance, as a function of shareholders protection and transparency; support foreign shareholder role in profits increasing. With good corporate governance in areas of rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board, foreign ownership could maximizes increasing of competitive advantages brought by foreign shareholders and management monitoring and leads to high profitability.

4.5 Implication

This research have implication to firm management, especially manufacture firm in ASEAN. Management could make firm policy about optimal foreign ownership structure, or make firm policy about optimal corporate governance, so management could maximizes shareholders wealth trough profits increasing. This research have implication to stock investor as well. Investors, who have interest send their investment abroad especially in ASEAN, have to see condition of corporate governance of public-listed firms, so investors wealth could be maximized.

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