SUNWAY UNIVERSITY

MFA
Malaysian Finance Association

MFAC 2019

Program Book

21st Malaysian Finance Association Conference 2019

"Charting A New Course in Financial Innovation and Education"

31 Jul - 1 Aug 2019
JC 2, Level 1, Sunway University

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Program Booklet

Message from the Vice Chancellor

Prof. Graeme G. Wilkinson

Vice Chancellor, Sunway University

I am delighted to welcome all distinguished guests, speakers, and delegates to the 21st Malaysian Finance Association Conference. It is our pleasure and honour to host this conference at Sunway University and to welcome so many experts in the field of finance and economics from both near and far.

Financial services are an important and growing component of the Malaysian economy and of many overseas economies. As one of the nation's leading private universities, Sunway University is committed to providing high quality education and research in support of economic development. We are a leading provider of finance related education with a broad range of degrees in fields such as accounting and finance, financial economics, financial analysis, and actuarial studies. Sunway Education Group more generally is also a leading provider of finance and accounting related education through Sunway College and Sunway TES Centre for Accounting Excellence, offering further diploma and professional programmes related to accounting and finance.

We at Sunway are particularly proud of our contribution to building the nation's talent in the financial field and are delighted that so many experts from the world of finance will be sharing their thoughts and research ideas about the future of financial services and about new developments in economics and finance with us through this conference.

I would personally like to express my sincere thanks to all of the distinguished speakers, the moderators, the paper contributors, the members of the organising committee, and the sponsors, for their contributions towards making this important conference an outstanding success. I wish everyone a highly successful conference.

Message from MFA President

Prof. Catherine S. F. Ho

President, Malaysian Finance Association

On behalf of the Malaysian Finance Association and its executive committee, I am delighted to welcome all of you to the 21st Annual MFA Conference 2019. This year's host, Sunway University has decided on the theme "Charting a New Course in Financial Innovation and Education".

We are indeed in the midst of a defining moment in financial innovation where new financial instruments as well as new financial technologies, institutions, and markets are created at a speed unlike anything we have ever experienced. Some expect that new technology will cause a complete disruption of traditional financial institutions, giving businesses and household access to more convenient and customized services. Fintech has the potential to transform the financial system across a broad range of services. Some of the major financial innovation has come in the raising of equity capital through different forms of crowdfunding; new start-ups that created contemporary applications for online global remittances replacing the services of traditional banks; and major innovation in services for the convenience of retail customers with mobile banking facilities.

It is currently vital for financial institutions, new entrants and policy-makers to work together to create the right environment for modernizing the financial sector and sensibly managing the risks that arise. This applies to many areas and one main focus is on preserving financial stability and maintaining the safe and sound operation of core financial markets in Malaysia as well as the world. The quality of education therefore must be in line and advance by seeking knowledge that will support new and unique ideas in curriculum, resources and instructional techniques that will reach the students in more effective and exciting ways.

A brief history, MFA was established in September 1998 with the main objective to stimulate interest in financial research and encourage discussion on finance related issues with special reference to Malaysia. These objectives are achieved through dialogues on current financial and economic environment, particularly via our annual meetings. This has started as an inaugural half-day workshop in 1999, grown to a full-day symposium and later to an annual conference more than 10 years ago with overwhelming local and international responses. It has been our tradition since then to organize annual conferences in collaboration with local institutes of higher learning and received tremendous support from the industry, academia and practitioners.

Message from the Dean

Prof. Steven W. Williams

Dean, Sunway University Business School

We take this opportunity to welcome you to the 21st Malaysian Finance Association (MFA) Conference 2019 held at Sunway University in Sunway City, Malaysia on 31 July and 1 August 2019. This conference aims to bring together diverse stakeholders to share and discuss the most recent and advanced findings in all areas of finance, including corporate finance, asset pricing, market microstructure, behavioural finance, Islamic finance, financial institutions, international finance, emerging capital markets, finance education, and other finance-related topics.

The 21st MFA Conference 2019 highlights several Best Papers Awards, including three MFA best papers that will be published in Capital Markets Review, two best paper awards sponsored by The Pacific-Basin Finance Journal, and two best paper awards sponsored by CFA Society Malaysia to be published in CFA Institute Asia-Pacific Research Exchange.

The Malaysian Finance Association was officially established in September 1998 with the objectives of stimulating public interest in finance-related studies, encouraging and promoting research and discussion of finance-related issues with special reference to Malaysia, and playing a supporting role in promoting Kuala Lumpur as the regional financial centre. The MFA currently has a permanent roster of about 800 ordinary members with approximately 150-200 new members joining every year to participate in the annual conference. The MFA, under current president Professor Catherine Ho Sok Fun, produces the academic journal Capital Markets Review, which publishes scholarly articles funded by the Bursa Malaysia.

We are proud to host the 21st MFA Conference 2019 in amazing Sunway City, the multiple award winning integrated green township recognized as the higher education hub of Malaysia. Like the city that surrounds it, Sunway University is on the cutting edge frontier with its commitment to building and maintaining a sustainable environment as evidenced by the first-in-Malaysia electric bus service, interconnecting canopy walkways, and the new Jeffrey Sachs Centre on Sustainable Development.

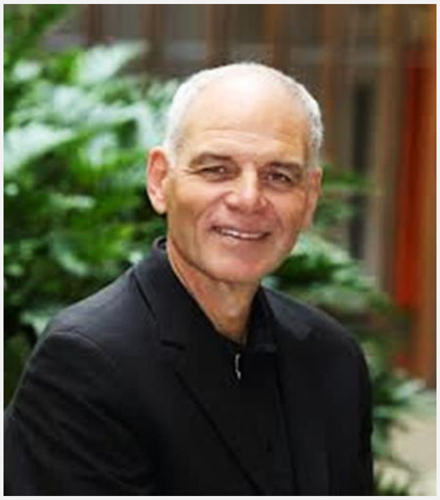
Just as Sunway University is assuming a pioneering role in addressing the United Nations Sustainable Development Goals, the 21st MFA Conference 2019, with its theme "Charting a New Course in Financial Innovation and Education," is advancing the frontiers of scholarship with recognized experts discussing the frontiers of finance education.

During this 21st MFA Conference 2019, you will have an opportunity to listen to a number of innovative papers and to network with many knowledgeable and interesting colleagues. We are confident you will find your time spent to be highly informative and trust you will not miss the chance to get to know the conference's expert presenters, your fellow attendees, and the students and staff of Sunway University before you return home. As the Dean of the School, I am very happy to recognise the hard work put in successfully by the Program Committee members from the Department of Economics & Finance, the Conference Chair and the Program Committee Chair to make this conference organised. We wish you continued success and fruitful work, and we are confident you will have a great experience at the 21st MFA Conference 2019.

Keynote Speaker 1

Prof. Robert F. Faff

University of Queensland Business School, Australia

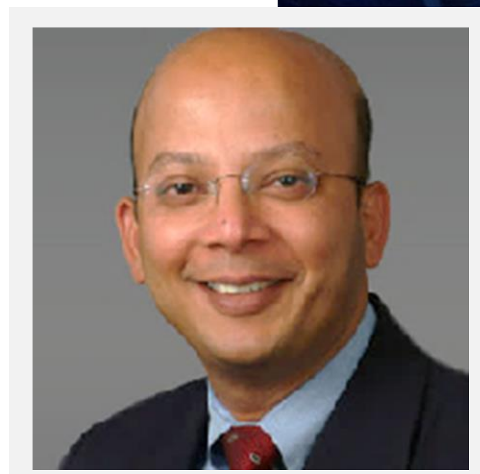


Robert Faff is Professor of Finance and formerly Director of Research at the UQ Business School. He has an international reputation in empirical finance research: securing 14 Australian Research Council grants (funding exceeding $4 million); >310 refereed journal publications; career citations >13,000 (Google Scholar); and a h-index of 57 (Google Scholar). His particular passion is nurturing the career trajectories of early career researchers. Robert has supervised over 40 PhD students to successful completion and examined 50 PhD dissertations. Building on a 35-year academic career, his signature focus is "Pitching Research" [https://ssrn.com/abstract=2462059], with worldwide penetration signalled by: (a) >13,900 SSRN downloads; (b) >300 pitching talks/events; (c) at 37 Australian universities; and (d) spanning 52 different countries. In addition, Robert is Editor-in-Chief of Pacific-Basin Finance Journal; formerly: Editor of Accounting and Finance (2002-2011) and Associate Editor of several journals including Abacus and Australian Journal of Management.

Keynote Speaker 2

Iftekhar Hasan

Fordham School of Business, United States



Iftekhar Hasan is the E. Gerald Corrigan Chair in International Business and Finance at Gabelli School of Business and co-director of the Center for Research in Contemporary Finance. Professor Hasan serves as the scientific advisor at the Central Bank of Finland. He is the managing editor of the Journal of Financial Stability. Professor Hasan's research interests are in the areas of financial institutions, corporate finance, capital markets and entrepreneurial finance. Professor Hasan has more than 300 publications in print, including 14 books and edited volumes, and more than 175 peer-reviewed articles in finance, economics, accounting and management journals such as JFE, JFQA, JoB, JME, RoF, JFI, JMCB, JCF, FM, JEF, JIMF, JBF, SMJ, RP, CAR, JAAF, and JMIS. Professor Hasan has presented his research at more than 450 professional meetings and institutions worldwide and has been a consultant for numerous international organizations, including the World Bank, the IMF, the United Nations, the Federal Reserve Bank of Atlanta, the Banque de France and the Italian Deposit Insurance Corporation. Professor Hasan is a research fellow at the Berkley Center of Entrepreneurial Studies at New York University's Stern School of Business and the Center for Financial Studies at RPI. He is a Fulbright Scholar and holds an honorary PhD from the Romanian-American University in Bucharest. Professor Hasan has held visiting faculty positions at several American and European universities, including the University of Rome, Italy; the University of Strasbourg, France; the University of Carlos III, Madrid; EPFL at Lausanne, Switzerland; the University of Limoges, France; National Taiwan University at Taipei; the University of Romania at Bucharest; and NYU's Stern School of Business.

BEST PAPER AWARDS

THE 21ST MALAYSIAN FINANCE ASSOCIATION CONFERENCE (MFAC) RECOGNISES THE CONTRIBUTION OF OUTSTANDING QUALITY PAPERS BY GRANTING THE FOLLOWING AWARDS

- CMR: Three Malaysian Finance Association (MFA) Best Paper Awards to be published in *Capital Markets Review* worth RM1000 each;
- CFA: Two Chartered Financial Analyst (CFA) Best Paper Awards worth USD$500 each; and
- PBFJ: Two *Pacific-Basin Finance Journal* Awards (Islamic Finance) worth USD$500 each.

THE CONFERENCE COMMITTEE WISH TO THANK ALL THE REVIEWERS AND OVERSIGHT COMMITTEE MEMBERS FOR NOMINATING THE PAPERS FOR THE BEST PAPER AWARDS

CONFERENCE PROGRAM SCHEDULE

21ST MALAYSIAN FINANCE ASSOCIATION CONFERENCE

'CHARTING A NEW COURSE IN FINANCIAL INNOVATION AND EDUCATION'

(31 JULY- 01 AUGUST 2019)

HOST: SUNWAY UNVERSITY, SUNWAY CITY, SELANGOR

Day1: Wednesday 31 July 2019

7:30 am	Registration
8:30 am to 10:00 am	Parallel Session 1 (Each parallel session will have 4 papers presented with discussant reports & floor discussion)
10:00 am to 10:30 am	Welcoming Address: **Prof. Steven W. Williams,** **Dean, Sunway University Business School**
10:30 am to 11:00 pm	Coffee Break and Networking
11:00 am to 12:30 pm	Parallel Session 2 (Each parallel session will have 4 papers presented with discussant reports & floor discussion)
12:30 pm to 2:00 pm	Lunch Break
2:00 pm to 3:00 pm	Keynote Address 1: Responsible Science & Replication Matters **Prof. Robert F. Faff, University of Queensland** (Chair: Prof. Steven W. Williams)
3:00 pm to 4:30 pm	Parallel Session 3 (Each parallel session will have 4 papers presented with discussant reports & floor discussion) ***Annual General Meeting of Malaysian Finance Association***
4:30 pm to 5:00 pm	Coffee Break and Networking
5:00 pm to 6:30 pm	Parallel Session 4 (Each parallel session will have 4 papers presented with discussant reports & floor discussion)

Gala Dinner of MFA-21-Sunway University Conference	
Venue:	Grand Forum, Level 10, Sunway Resort Hotel & Spa, Bandar Sunway
Time:	8:00 pm to 10:00 pm

7:30 pm – 8:00 pm	Arrival of Delegates & Guests
8:00 pm – 8:05 pm	Arrival of VIP
	Welcoming Messsage
8.05 pm – 8.30 pm	Cultural Performance
8.30 pm – 9.30 pm	Dinner Served
9.30 pm – 9.40 pm	MFA President's Speech
9:40 pm – 9:55 pm	Celebrating the 2019 **Best Paper Awards** Presented by VIP
	Conference Host for MFA-2020: Host's Speech
9:55 pm – 10:00 pm	Farewell by MC: MFA President, Conference Chair & Program Chair

Day 2: Thursday 1 August 2019

8:00 am	Registration
9:00 am to 10:15 am	**Opening Address** 9:00 am – 9:10 am: The Arrival of Minister of Finance 9:10 am – 9:20 am: MFA President Speech 9:20 am – 9:30 am: VC Speech 9:30 am – 9:40 am: Chancellor Speech 9:40 am – 10:00 am: Ministerial Speech 10:00 am – 10:15 am: Photo session 10:15 am – 11:00 am: Press Release & Refreshments served
10:15 am to 10:45 am	Coffee Break and Networking
10:45 am to 11:30 am	Panellist: **Mr. Khairul Nizam, CEO, Financial Accreditation Agency** (Moderator) **Datin Azleen Osman Rani, Director, Institute for Capital Market Research** **Mr. Mahdzir Bin Othman, Director of Securities Market, Bursa Malaysia** Industry and Academia Research Forum on "The New Financial Landscape: Matching Expectations from Industry and Academia"
11:30 am to 1:00 pm	Parallel Session 5 (Each parallel session will have 4 papers presented with discussant reports & floor discussion)
1:00 pm to 2:30 pm	Lunch Break
2:30 pm to 3:30 pm	Keynote Address 2: The Effects of Political Ties on Raising Capital **Prof. Iftekhar Hasan, Fordham University** (Chair: Prof. Mohamed Ariff, MFA 2019 Conference Chair)
3:30 pm to 4:00 pm	Coffee Break and Networking
4:00 pm to 5:30 pm	Parallel Session 6 (Each parallel session will have 4 papers presented with discussant reports & floor discussion)

THANK YOU FOR YOUR PATRONAGE OF THE 21ST MALAYSIAN FINANCE ASSOCIATION CONFERENCE 2019 AT THE SUNWAY UNIVERSITY

Mr. Khairul Nizam

CEO

Finance Accreditation Agency (FAA)

Khairul Nizam is the Chief Executive Officer of Finance Accreditation Agency (FAA), based in Kuala Lumpur, Malaysia, which is established and supported by the Central Bank of Malaysia and Securities Commission, Malaysia. FAA provides independent accreditation and quality assurance services on academic, learning and training programmes related to finance as well as accreditation and competency assessment services for finance professionals to support human capital development for the international finance industry.

Khairul was previously the Deputy Secretary General of Accounting and Auditing Organisation for Islamic Finance Institutions (AAOIFI)-the international organisation responsible for development and issuance of standards on Shariah principles, accounting, auditing, ethics and governance for the global Islamic finance industry. Khairul served AAOIFI, based in Manama, Bahrain, for over 10 years in various positions.

Prior to AAOIFI, Khairul was with the Malaysia's largest financial services group for over 10 years and was the Head of Islamic Banking in the offshore banking arm groups. He also served in various areas of the group's operations, including corporate banking, auditing and international banking. Khairul Nizam graduated from the University of Nottingham, United Kingdom, and is a Certified Islamic Professional Accountant (CIPA).

Datin Azleen Osman Rani

Director

Institute for Capital Market Research (ICMR)

Datin Azleen Osman Rani is currently the Director of the Institute for Capital Market Research Malaysia (ICMR). The ICMR was launched in 2018 as an initiative of the Securities Commission Malaysia (SC) (funded by the Capital Market Development Fund (CDMF)) as an independent think tank to undertake research projects through a multi-stakeholder and collaborative approach between policymakers, industry players and academia.

Datin Azleen has 17 years of experience from the financial and capital market industry in the banking & asset management industry. Prior to being tasked to set up ICMR she was the Head, Equities and Capital Market Research of ValueCap Sdn Bhd, where she led a team of buy-side analysts covering various sectors and industries while her core focus was on equity market strategy, ESG integration and thematic research.

She graduated with a Bachelor of Science in Economics & Accounting from the University of Bristol, UK and a Master's of Science in International Accounting & Finance from the London School of Economics and Political Science, UK.

Mr. Mahdzir Bin Othman

Director of Securities Market,

Bursa Malaysia

Mahdzir is currently the Director of Securities Market and the Acting Director of Islamic Capital Market at Bursa Malaysia Berhad. He is also a member of Bursa Malaysia's Management Committee. He joined Bursa in August 2017 and currently oversees the market and product development as well as marketing and promotion of Malaysian equities market.

Prior to joining Bursa, Mahdzir was the CEO of i-VCAP Management, a licensed Islamic fund management company, for seven years. He was previously the CIO of Valuecap Sdn Bhd., the parent company of i-VCAP, which he joined in 2003. Together with the stint in Valuecap, Mahdzir carries with him more than 23 years of working experience in fund management and capital market development activities, which include strategically leading an asset management company, marketing of investment products and services, and executing investment strategies.

Aside from his current role, Mahdzir is a Director of the Malaysian Investor Relations Association (MIRA). Mahdzir holds a Bachelor of Science (Hons.) in Finance from Northern Illinois University, USA.

SESSION SCHEDULE

Parallel Session	Time	Venue Topic	Chair	Number of Papers
		ROOM 1		
1.1	8.30am-10.00am	Corporate Finance I	Gary John Rangel (USM)	4
2.1	11.00am-12.30pm	Corporate Finance II	Mansor Isa (UM)	4
3.1	3.00pm-4.30pm	Corporate Finance III	Woojin Kim (Seoul)	4
4.1	5.00pm-6.30pm	Corporate Finance IV	Ray McNamara (James Cook)	4
5.1	11.30am-1.00pm	Corporate Finance V	Karren Lee-Hwei Khaw (UM)	4
6.1	4.00pm-5.30pm	Investment and Funds	Chaiporn Vithessonthi (Sunway)	3
		ROOM 2		
1.2	8.30am-10.00am	Corporate Governance I	Kym Brown (Monash)	4
2.2	11.00am-12.30pm	Corporate Governance II	Khakan Najaf (Taylor)	4
3.2	3.00pm-4.30pm	Corporate Governance III	Sarkar Kabir (Coventry)	4
4.2	5.00pm-6.30pm	Corporate Governance IV	Maran Marimuthu (UTP)	4
5.2	11.30am-1.00pm	Corporate Governance V	Noor Afza Amran (UUM)	4
6.2	4.00pm-5.30pm	Auditing	Sin-Huei Ng (Xiamen)	4
		ROOM 3		
1.3	8.30am-10.00am	Islamic Finance I	Shamsher Mohamad (INCEIF)	4
2.3	11.00am-12.30pm	Islamic Banking	Muhammad Wajid Raza (Vrije)	4
3.3	3.00pm-4.30pm	Governance in Islamic Finance	Ari Kuncara Widagdo (Sebelas Maret)	4
4.3	5.00pm-6.30pm	Islamic Finance II	Ziyaad Mahomed (INCEIF)	3
5.3	11.30am-1.00pm	Islamic Finance III	M. Kabir Hassan (New Orleans)	5
6.3	4.00pm-5.30pm	Islamic Finance IV	Zulkarnain Muhamad Sori (INCEIF)	5
		ROOM 4		
1.4	8.30am-10.00am	Stock Return, Risk & Liquidity	Philip Sinnadurai (Macquarie)	3
2.4	11.00am-12.30pm	Islamic Finance & Interest Rate	Viverita (Universitas Indonesia)	4
3.4	3.00pm-4.30pm	Banking	Othman Yong (UKM)	4
4.4	5.00pm-6.30pm	Initial Public Offering (IPO)	Samuel Jebaraj Benjamin (Otago)	5
5.4	11.30am-1.00pm	Micro Finance & Others	Chu Ei Yet (USM)	4
6.4	4.00pm-5.30pm	Behavioural Finance	Kian Tek Jason Lee (Sunway)	4
		ROOM 5		
1.5	8.30am-10.00am	Financial Economics	Imtiaz M. Sifat (Sunway)	3
2.5	11.00am-12.30pm	Fiscal and Monetary Policies	Poon Wai Ching (Monash)	4
3.5	3.00pm-4.30pm	Economic Growth	Yeah Kim Leng (Sunway)	3
4.5	5.00pm-6.30pm	Price Discovery	Keshab Shrestha (Monash)	3
5.5	11.30am-1.00pm	International Trade	Lau Wee Yeap (UM)	3
6.5	4.00pm-5.30pm	Exchange Rate and Others	Catherine S.F. Ho (UITM)	3
		ROOM 6		
1.6	8.30am-10.00am	Finance and Sustainability	Lee Siew Peng (UTAR)	4
2.6	11.00am-12.30pm	Foreign Direct Investment	Nur Ain Shahrier (Sunway)	4
3.6	3.00pm-4.30pm	Real Estate Finance	Young Kyung Ko (Sunway)	4
4.6	5.00pm-6.30pm	Finance and Education	David Ng Ching Yat (UTAR)	4
5.6	11.30am-1.00pm	FinTech	Hooy Chee Wooi (USM)	5
6.6	4.00pm-5.30pm	Crowdfunding and Lending	Leong Choon Heng (Sunway)	5

ABSTRACTS AND PARALLEL SESSIONS

Day 1: Wednesday 31 July 2019

Session 1.1: Corporate Finance I (Debt)

Malaysian Corporate Spin-offs – Wealth Transfer and Debt Risk Reallocation

Yoon Teik Wei (Universiti Putra Malaysia)
Annuar Bin Md Nassir (Xiamen University Malaysia)

Abstract

This event study examines shareholder wealth effect of 90 listed companies' corporate spinoff announcements from year 1987 to year 2019 in Bursa Malaysia. Market Model analysis showed spin-offs in Malaysia generally resulted statistically significant 0.86% positive cumulative average abnormal returns and, specifically, further sub-sampling analysis found spinoffs under normal market conditions achieved more at 1.74%, while spin-offs during financial crisis achieved adversely -2.40%. The results were then regressed with firm's spun-off collaterals and debt risk variables in four dimensions: namely, leverage, maturity, security and the combination of maturity and security. The findings showed evidence of wealth transfer through debt risk reallocations where asset size of spun-off collaterals, short term debts and interest-bearing-secured debts positively affect spin-off abnormal gains. The market share prices responded much faster to short term debts for spin-offs during financial crisis.

Does Corporate Social Responsibility Facilitate Public Debt Financing?

Bin Xu (University of Leeds)
Yung Chiang Yang (University College Dublin)

Abstract

This paper investigates whether firms' corporate social responsibility (CSR) performance facilitates their public debt financing and reduces their reliance on the more expensive bank debt. We find that higher CSR performance increases the share of public debt to total debt. We further show that the effect of CSR is stronger for firms facing severe agency and information costs, confirming that CSR drives debt structure by mitigating these frictions. To establish causality, we document that after a firm's initial inclusion in the Dow Jones Sustainability Index (DJSI), signalling the outstanding CSR performance of the firm, the public debt financing increases substantially. Utilizing BP oil spill event, we document that the effect of CSR becomes stronger after the oil spill but only for firms in the non-sinful industry. The increased effect suggests that investors value CSR more after the spill for non-sinful firms but still perceive CSR as windows dressing for sinful firms. The effect of CSR is stronger when firms are financially constrained.

Nonlinear Impacts of Board Independence on Debt Financing: Contingent On the Shareholdings of the Largest Shareholder

Mohammad Nourani (Universiti Sains Malaysia)
Qian Long Kweh (Canadian University Dubai)
Irene Wei Kiong Ting (Universiti Malaysia Pahang)
Le Thi My Hanh (Ton Duc Thang University)

Abstract

This study aims to delineate the association between board independence and debt financing when the largest shareholders are likely to play a significant role between them. With a sample of Vietnamese listed companies from 2007 to 2016, our regression analyses show that a nonlinear U-shaped relationship between level of board independence and debt financing is stronger among the largest shareholders with a high level of shareholdings in their shareholding group than the full sample. This finding implies the determining influence of the largest shareholders with a high level of shareholdings in a company. However, this association is not found in companies with a low level of shareholdings by the largest shareholders. Results reveal that the largest shareholders have the incentive to influence the decision making of independent directors about debt financing when their shareholdings are high. The results are further supported by several robustness checks.

Factors Affecting Credit Ratings Revision, A Multi-Country Study

Angeline Ng (Universiti Putra Malaysia)
Mohamed Ariff (Sunway University)

Abstract

This paper reveals findings from extending corporate credit rating studies towards (i) new ratings, affirmation, confirmation, watchlists, and withdrawal, represents five out of eight rating types yet to be studied rigorously (literatures are rich on upgrades and downgrades); and (ii) identifying key firm-specific factors affecting these rating revisions in markets not yet studied. Four selected countries are covered: Australia, Japan, Korea and Hong Kong. The firm-specific factor effects are measured using Ordered Probit methodology. The distinction of investment and speculative ratings has the most pronounced effect. Further findings are: interest-coverage, profitability and leverage ratios stand out as the most relevant firm-specific factors. An interesting new finding is discovering corruption perception index (this is new) significantly influence affirmation, confirmation and downgrade ratings.

Session 1.1: Corporate Finance I (Debt) — 8:30 am to 10:00 am

Chair: Gary John Rangel (USM)

1. **Malaysian Corporate Spin-offs – Wealth Transfer and Debt Risk Reallocation**

   Yoon Teik Wei (Universiti Putra Malaysia)*
   Annuar Bin Md Nassir (Xiamen University Malaysia)

   Discussant: Mohammad Nourani (Universiti Sains Malaysia)

2. **Does Corporate Social Responsibility Facilitate Public Debt Financing?**

   Bin Xu (University of Leeds)
   Yung Chiang Yang (University College Dublin)*

   Discussant: Angeline Ng (Universiti Putra Malaysia)

3. **Nonlinear Impacts of Board Independence on Debt Financing: Contingent on the Shareholdings of the Largest Shareholder**

   Mohammad Nourani (Universiti Sains Malaysia)*
   Qian Long Kweh (Canadian University Dubai)
   Irene Wei Kiong Ting (Universiti Malaysia Pahang)
   Le Thi My Hanh (Ton Duc Thang University)

   Discussant: Yoon Teik Wei (Universiti Putra Malaysia)

4. **Factors Affecting Credit Ratings Revision, A Multi-Country Study**

   Angeline Ng (Universiti Putra Malaysia)*
   Mohamed Ariff (Sunway University)

   Discussant: Yung Chiang Yang (University College Dublin)

*Presenter

Session 1.2: Corporate Governance I

Corporate Governance Dynamics and Quality of Bank and Insurance Boards: An Empirical Study Based on Global Data

Sarkar Kabir (Coventry University)
Md Hamid Uddin (Taylor's University)
Rashedul Hasan (INTI International University)

Abstract

This paper investigates if board quality varies across banking and insurance firms. The study based on eight years' data for 455 banks and 137 insurance firms from 28 countries finds that insurance firms have a low-quality corporate board as compared to banks. The reasons include: Insurance firms, in comparison to banks, are less likely to have an audit committee and infrequently meet if they have an audit committee, high existence of CEO duality and involvement in the nomination committees, long-serving CEOs, gender imbalance in the board, fewer independent directors, and higher percentage of directors' ownership. The findings persist across all subsamples except that insurance companies operating in highly corrupt countries have a superior quality board in contrast to a bank. Finally, we confirm that higher agency problem leads to the deterioration of the quality of Insurance boards relative to those of the banks.

Does Leverage Mediate the Effect of Corporate Governance on Firm Performance? A Case Study on Indonesia

Irfan Dwisaputra (Universitas Indonesia)
Eko Rizkianto (Universitas Indonesia)
Zuliani Dalimunthe (Universitas Indonesia)

Abstract

This research examines the relationship between corporate governance mechanisms, such as board size, board independence, female directorship, ownership concentration, director's ownership and audit reputation on firm performance. We also look at the effect of financial leverage in mediating corporate governance and firm performance. This research was conducted on 113 manufacturing companies listed on the Indonesia Stock Exchange during 2013-2017, with a total of 565 observations. Using panel regression, we find that board size has a positive effect on firm performance, while female directorship and ownership concentration have a negative effect on firm performance. Financial leverage partially mediates the effect of board size on firm performance.

Governance of Conglomerate Affiliated Firms: An Analysis and Evidence from Global Data

Md Hamid Uddin (Taylor's University)
Khakan Najaf (Taylor's University)
Nor Shaipah Binti Abdul Wahab (Taylor's University)

Abstract

The focus of corporate governance theory is to reduce agency problem that evolves in many different ways in the firms when a corporate board cannot make an independent decision for the best interest of the shareholders. We find this problem occurs when firms affiliate to a business conglomerate group. It happens because the board of the conglomerate affiliated firm becomes accountable to a superior board of the business group. Based on a sample of 304 firms listed from 18 countries, we find that corporate board of the conglomerate affiliated firms is significantly less independent than that of the standalone firms which do not have a superior body to report. The analysis shows that lower board independence of conglomerate affiliated firms is not due to the majority shareholding by the conglomerate business group, but it occurs because an affiliate firm is the member of the business group.

Corporate Governance Spillover through Bootstrapping and ASEAN Bidder CBMA Success

Nurhazrina Mat Rahim (UiTM Selangor)
Ruhani Ali (Universiti Sains Malaysia)
Chu Ei Yet (Universiti Sains Malaysia)

Abstract

This study aims to examine whether the difference in country-level corporate governance between ASEAN bidding and the target country could explain the performance change (Tobin's Q) following a CBMA; hence, the CBMA success. Grounded on corporate governance spillover hypothesis by Martynova and Renneboog (2008) and using 157 CBMAs involving ASEAN firms as the bidder, the study found that the difference in country-level corporate governance could result in corporate governance spillover through bootstrapping. This has resulted in the improvement of ASEAN bidder corporate governance and positively affected the CBMA success. However, the improvement must be large enough to outweigh the high acquisition cost.

Session 1.2: Corporate Governance I — 8:30 am to 10:00 am

Chair: Kym Brown (Monash Business School)

1. **Corporate Governance Dynamics and Quality of Bank and Insurance Boards: An Empirical Study Based on Global Data**

   Sarkar Kabir (Coventry University)*
   Md Hamid Uddin (Taylor's University)
   Rashedul Hasan (INTI International University)

   Discussant: Chu Ei Yet (Universiti Sains Malaysia)

2. **Does Leverage Mediate the Effect of Corporate Governance on Firm Performance? A Case Study on Indonesia**

   Irfan Dwisaputra (Universitas Indonesia)*
   Eko Rizkianto (Universitas Indonesia)
   Zuliani Dalimunthe (Universitas Indonesia)

   Discussant: Sarkar Kabir (Coventry University)

3. **Governance of Conglomerate Affiliated Firms: An Analysis and Evidence from Global Data**

   Md Hamid Uddin (Taylor's University)
   Khakan Najaf (Taylor's University)*
   Nor Shaipah Binti Abdul Wahab (Taylor's University)

   Discussant: Irfan Dwisaputra (Universitas Indonesia)

4. **Corporate Governance Spillover through Bootstrapping and ASEAN Bidder CBMA Success**

   Nurhazrina Mat Rahim (UiTM Selangor)
   Ruhani Ali (Universiti Sains Malaysia)
   Chu Ei Yet (Universiti Sains Malaysia)*

   Discussant: Khakan Najaf (Taylor's University)

*Presenter

Session 1.3: Islamic Finance I

Equity-Based Financing and Liquidity Risk: Insights from Southeast Asia

Aisyah Abdul-Rahman (Universiti Kebangsaan Malaysia)
A-M, Mariani (Universiti Kebangsaan Malaysia)
K.J. Nurul Fatihah (Universiti Kebangsaan Malaysia)

Abstract

This study examines the effect of equity-based financing (EBF) on Islamic bank liquidity risk (LR) in Southeast Asia. The EBF-LR relationship is compared between the traditional and BASEL III liquidity measures. The results provide little evidence that EBF increases banks' LR using the Net Stable Funding Ratio (NSFR). The higher the EBF, the higher the required stable funding; hence, lower NSFR sequentially raise the LR, supporting the maturity transformation hypothesis. EBF may increase exposure to LR if Islamic banks often use short-term deposits to fund long-term financing. However, EBF does not have a significant influence on traditional LR measure, suggesting the pass-through mechanism exists, implying in cases of default, investment account holders absorb the losses.

The Determinants of Islamic Mutual Fund Flows: Evidence from Saudi Arabia

Anas Bani Atta (Universiti Sains Islam Malaysia)
Ainulashikin Marzuki (Universiti Sains Islam Malaysia)

Abstract

Islamic mutual funds (IMF) are growing as a substitute investment vehicle for investors who want to combine value and financial objectives in their investment. A group of the funds is managed by one Investment Company called the family of funds. This study investigates the flow-performance relationship in IMF, in addition to the extent to which family and fund characteristics contribute to explaining fund flows in Saudi Arabia for the period from 2007 to 2017. The study uses raw returns to calculate the fund performance and uses the percentage money flow (FLOW), defined as money flow scaled by the total net asset of the fund. The results show there is a positive relationship between past performance and fund flow. From this we can infer that IMF investors make rational financial decisions by directing fund flows to better performing funds. In addition, the results show family characteristics have an impact on IMF inflow.

Regulation in Islamic banking: Is it Good or Bad for Liquidity Risk?

Syajarul Imna Mohd Amin (Universiti Kebangsaan Malaysia)
Aisyah Abdul-Rahman (Universiti Kebangsaan Malaysia)

Abstract

The liquidity crisis in 2008 has sparked interest in the role of regulation that could promote resilience and stability in the banking system. Nonetheless, while legal policies aim to discipline banking activities, the implementation, however, increases intermediation cost that could impair banking performance. The conflicting theories warrant comprehensive research especially for Islamic banks as they emerge to gain their systemic importance. Given this, this study examines the role of regulatory and supervisory structures on liquidity risk of banks in OIC countries from 2000 to 2017 using the panel data Generalised Method of Moments (GMM) technique. The findings suggest that regulatory variables pose a significant impact on liquidity risk in Islamic banking.

Financial Inclusion Index: The Case of Countries with Presence of Islamic Finance

Nur Amirah Borhan (Universiti Teknologi MARA)
Saadiah Mohamad (Universiti Teknologi MARA)
Ruhaini Muda (Universiti Teknologi MARA)

Abstract

Despite the rapid growth of Islamic finance in the past three decades, the World Bank reported that 1.7 billion adults worldwide still do not have a formal bank account, wherein nearly half of these are Muslims. To be true to its premise, Islamic finance should be able to make a difference to the global agenda on financial inclusion, particularly in the countries where the industry has flourished. However, not much had been known regarding the current level of financial inclusion in these countries as there is still no globally established measure of financial inclusion. Therefore, this paper fills a gap by constructing a multidimensional Financial Inclusion Index (FII) incorporating four financial inclusion indicators for 44 countries with presence of Islamic finance for 2013 until 2017. This research contributes to the body of knowledge by providing an insight to the level of financial inclusion in these countries.

Session 1.3: Islamic Finance I — 8:30 am to 10:00 am

Chair: Shamsher Mohamad (INCEIF)

1. **Equity-Based Financing and Liquidity Risk: Insights from Southeast Asia**

   Aisyah Abdul-Rahman (Universiti Kebangsaan Malaysia)*
   A-M, Mariani (Universiti Kebangsaan Malaysia)
   K.J. Nurul Fatihah (Universiti Kebangsaan Malaysia)

   Discussant: Anas Bani Atta (Universiti Sains Islam Malaysia)

2. **The Determinants of Islamic Mutual Fund Flows: Evidence from Saudi Arabia**

   Anas Bani Atta (Universiti Sains Islam Malaysia)*
   Ainulashikin Marzuki (Universiti Sains Islam Malaysia)

   Discussant: Aisyah Abdul-Rahman (Universiti Kebangsaan Malaysia)

3. **Regulation in Islamic banking: Is it Good or Bad for Liquidity Risk?**

   Syajarul Imna Mohd Amin (Universiti Kebangsaan Malaysia)*
   Aisyah Abdul-Rahman (Universiti Kebangsaan Malaysia)

   Discussant: Nur Amirah Borhan (Universiti Teknologi MARA)

4. **Financial Inclusion Index: The Case of Countries with Presence of Islamic Finance**

   Nur Amirah Borhan (Universiti Teknologi MARA)*
   Saadiah Mohamad (Universiti Teknologi MARA)
   Ruhaini Muda (Universiti Teknologi MARA)

   Discussant: Syajarul Imna Mohd Amin (Universiti Kebangsaan Malaysia)

*Presenter

Session 1.4: Stock Return, Risk and Liquidity

The Effect of Whistleblowing Disclosure and Independent Director Toward Return Volatility

Vina Selistiawati (University of Indonesia)
Cynthia A. Utama (University of Indonesia)

Abstract

This research examines the disclosure of whistleblowing implementation and the existence of independent director in reducing return volatility. The subject of this research is public manufacturing companies listed in Indonesian Stock Exchange during the period 2013-2017 resulting in a total of 115 observation data. The panel data regression method was conducted to test the hypotheses. This research found that whistleblowing system has a negative significant effect on firm risk, while independent director had a positive but insignificant effect on firm risk. This study contributes to the literature by adding whistleblowing system disclosure in examining risk.

Proprietary Day Trading and Higher-Order Moments of Liquidity

Ping-Xin Liew (University of Malaya)
Kian-Ping Lim (University of Malaya)
Kim-Leng Goh (University of Malaya)

Abstract

This paper undertakes the first empirical assessment on the liquidity effect of proprietary day traders' (PDTs) participation in Malaysia. Using daily data spanning October 2012 to June 2018, we find that PDTs' trade volume is associated with higher aggregate liquidity in the Malaysian stock market, attributable to intense competition among informed traders. However, such improved liquidity is accompanied by higher conditional volatility and conditional skewness of closing percent quoted spreads. The former is due to the exchange-imposed immediacy for PDTs to close their open positions, whereas the latter can be attributed to the exclusive intraday short-selling rights granted to PDTs.

Corporate Diversification, Board Diversity, and Stock-Price Crash Risk: Evidence from Publicly Listed Firms in Malaysia

Kian Tek Jason Lee (Sunway University)
Chai-Aun Ooi (Universiti Sains Malaysia)
Chee-Wooi Hooy (Universiti Sains Malaysia)

Abstract

This study investigates whether corporate diversification can be a mitigation contender for stock-price crash risk. Using a sample of Malaysian firms based on 2010-2015 data, our study shows evidence of the mitigating effect of diversification on crash risk, consistent with the theory of coinsurance effect. Our analysis shows that the mitigating effect is only evident on highly diversified firms but not on firms of low to moderate degrees of diversification. This finding accords with the dominant view of the existence of crash risk following the managerial bad-news hoarding model. Furthermore, we find that the mitigating effect of diversification is more pronounced for firms with board diversity in gender which is in support of the notion of board diversity in promoting corporate governance. Our findings are useful to firms (and shareholders) who want to manage “tail risk” in stock prices and to investors who want to incorporate crash risk as parts of their portfolio and risk management decisions.

Session 1.4: Stock Return, Risk and Liquidity — 8:30 am to 10:00 am

Chair: Philip Sinnadurai (Macquarie University)

1. **The Effect of Whistleblowing Disclosure and Independent Director Toward Return Volatility**

   Vina Selistiawati (University of Indonesia)*
   Cynthia A. Utama (University of Indonesia)

   Discussant: Kian Tek Jason Lee (Sunway University)

2. **Proprietary Day Trading and Higher-Order Moments of Liquidity**

   Ping-Xin Liew (University of Malaya)*
   Kian-Ping Lim (University of Malaya)
   Kim-Leng Goh (University of Malaya)

   Discussant: Vina Selistiawati (University of Indonesia)

3. **Corporate Diversification, Board Diversity, and Stock-Price Crash Risk: Evidence from Publicly Listed Firms in Malaysia**

   Kian Tek Jason Lee (Sunway University)*
   Chai-Aun Ooi (Universiti Sains Malaysia)
   Chee-Wooi Hooy (Universiti Sains Malaysia)

   Discussant: Ping-Xin Liew (University of Malaya)

*Presenter

Session 1.5: Financial Economics

Institutional Quality, Tax Avoidance, And Analysts' Forecast: International Evidence

Akmalia M. Ariff (Universiti Malaysia Terengganu)
Khairul Anuar Kamarudin (Universiti Teknologi Mara)

Abstract

This study examines the joint effect of tax avoidance and institutional quality on analysts forecast accuracy and dispersion. Using a dataset of 22,690 firm-year observations from 36 countries over the period 2007-2016, we find that high tax avoidance is associated with high forecast dispersion and more accurate forecast. We find evidence that the effect of tax avoidance on analysts' forecast is higher in low institutional quality countries as compared to countries with high institutional quality. Our results are robust even after employing the two-stage least square regression to address endogeneity issue, and the weighted least square in overcoming issue of differences in sample size between countries. Our study corroborates evidence of tax avoidance on forecast accuracy and dispersion internationally and gives additional insights to policy makers on the role of institutional quality in reducing information asymmetry.

The Effect of Macroeconomic Factors on The Movement of the Composite Stock Price Index on The Indonesia Stock Exchange Period 2007 – 2018

Teddy Oswari (Universitas Gunadarma)
Netti Natarida Marpaung (Universitas Gunadarma)
Renny (Universitas Gunadarma)

Abstract

This research uses secondary data obtained from monthly data from June 2007 until June 2018 published by Indonesia Stock Exchange (IDX), Bank Indonesia (BI), Central Bureau of Statistics and other official sites. The purpose of this research is to analyze the influence of BI Rate, Inflation, Rupiah to Dollar, World Oil Price, World Gold Price, and Gross Domestic Product of JCI. The method of analysis used in this study is multiple regression analysis. The results of this study indicate that the variable BI Rate, World gold prices have no significant effect on JCI. Inflation and the exchange rate of Rupiah to dollar has a significant effect on JCI and the direction of negative relationship. World oil prices, GDP have a significant effect on JCI and the direction of positive relationship.

Consumer Sentiment: Does it matter for Firm Leverage Policy Decisions? Evidence from US Sectors

Huson Ali Ahmed (Deakin University)
Wai Ching Poon (Deakin University)

Abstract

This paper investigates the impact of consumer sentiment on firms' debt policy decisions and identifies the channels through which consumer sentiment impacts corporate debt policy of U.S. firms at sectoral level. We model sectoral level firms leverage as a function of consumer sentiment, macroeconomic factors and firms' specific factors. Using panel frameworks, overall findings suggest a clear link between consumer sentiment, which reflects personal financial conditions, business conditions and buying conditions for major ticket items and the choice of debt financing after controlling for firms' specific factors and macroeconomic factors. Besides, the effects of consumer sentiment on firms' leverage policy are primary conditioning, i.e., leverage policy depends also on sentiment with firm profitability. Consumer sentiment positively affects personal consumption expenditures, confirming a link between consumer sentiment and corporate debt policy. Further, quantile regressions suggested that firms in lower leverage quantiles appear to increase leverage as consumer optimism improves, to reap tax shield benefits. The findings are robust to different analysis period and alternative measures of sentiment and debt policy.

Session 1.5: Financial Economics — 8:30 am to 10:00 am

Chair: Imtiaz M. Sifat (Sunway University)

1. **Institutional Quality, Tax Avoidance, And Analysts' Forecast: International Evidence**

   Akmalia M. Ariff (Universiti Malaysia Terengganu)*
   Khairul Anuar Kamarudin (Universiti Teknologi Mara)

   Discussant: Wai Ching Poon (Monash University)

2. **The Effect of Macroeconomic Factors on the Movement of the Composite Stock Price Index on the Indonesia Stock Exchange Period 2007 – 2018**

   Teddy Oswari (Universitas Gunadarma)*
   Netti Natarida Marpaung (Universitas Gunadarma)
   Renny (Universitas Gunadarma)

   Discussant: Akmalia M. Ariff (Universiti Malaysia Terengganu)

3. **Consumer Sentiment: Does it matter for Firm Leverage Policy Decisions? Evidence from US Sectors**

   Huson Ali Ahmed (Deakin University)
   Wai Ching Poon (Monash University)*

   Discussant: Teddy Oswari (Universitas Gunadarma)

*Presenter

Session 1.6: Finance and Sustainability

Integration, Controversies and the Impact on Malaysian Sustainable Firms

Lalua Rahsiad (Putra Business School)
Sruthi Susan George (Putra Business School)
Nur Firdaus Mohd Azman (Putra Business School)

Abstract

United Nations Principles for Responsible Investment urges investors to consider ESG considerations when gauging the firm performance. The involvement of firms towards sustainable development is a major concern of investors, administrators and environmental agencies to make world a better place. The purpose of this study is to examine the impact of ESG integration and controversies on the performance of Malaysian sustainable listed firms on profitability and value. A total of 54 companies were listed in Thomson Reuter's ESG database as at 2017. Based on the findings, there is no significant relationship between ESG integration and controversies on firm profitability and value. In particular, ESG does not increase the performance of the firm in the short term. This could be because of the lack of public awareness about ESG and the benefits.

A Study on Volatility and Regime Switch of Sustainable Indices in the World

Mohammad Irfan (Auro University)

Abstract

This research aims to examine the best-fit volatility models on global stock indices on more recent data and investigate the reasons for regime switching in the sustainable indices. This paper covers the most recent data from 2009 to 2017 using daily close prices of the major sustainable indices worldwide. The ADF test confirms that the data of all the other indices are stationary at 1st difference. The GARCH variance equation demonstrates that asymmetric behavior exists in volatility, which means that the positive shocks affect volatility differently than the negative ones. The results imply that there is significant impact of the regime switch on the price volatility of the sustainable indices.

Exploring Environmental Sustainability Through the Lens of Trade and Financial Globalization: Evidence from Middle Income Countries

Yasmin Yashodha (Sunway University)
Muzafar Shah Habibullah (Universiti Putra Malaysia)
M. Azali (Universiti Putra Malaysia)
Shaufique Fahmi Ahmad Sidique (Universiti Putra Malaysia)

Abstract

This study examines the impact of trade and financial globalisation on environmental sustainability based on the revised KOF globalisation index for 73 middle-income nations from 1994 to 2014. The System Generalised Method of Moments (GMM) is adopted spanning 7-year panel data to examine the implications of trade and financial globalisation on climate change by utilising the ecological footprint per capita as a proxy to assess environmental sustainability. The trade and financial globalisation index are explored from both the de facto and de jure perspective to determine its impact on environmental sustainability. Based on the findings derived upon the implementation of the Emissions-Energy-Output (EEO) framework, it is crucial for policymakers in middle-income nations to address current trade and financial liberalisation and restrictive policies pertaining to climate change.

Corporate Social Performance and CDS Spreads: The Role of Country Sustainability

Lutfi Abdul Razak (INCEIF, Malaysia)
Mansor H Ibrahim (INCEIF, Malaysia)
Adam Ng (INCEIF, Malaysia)

Abstract

Based on 2,092 firm-year observations for 594 global firms between 2013 and 2016, we provide empirical evidence on how corporate social performance (CSP) affects corporate creditworthiness using an advanced econometric technique, system generalized method of moments (GMM). We use credit default swap (CDS) spreads as a market-based measure of credit risk, and a CSP measure from MSCI ESG, which accounts for the materiality of ESG issues across different industries. Firstly, we find that improvements in CSP, especially in across the governance and social pillar, reduces credit risk. However, we do not find evidence that the environmental pillar affects credit risk. Secondly, we find that the magnitude of the CSP-credit risk relationship is stronger at lower levels of country sustainability but diminishes as country sustainability improves. This suggests that in the absence of country-level institutions that support sustainable development, firms that develop effective CSP strategies can benefit from lower credit risk.

Session 1.6: Finance and Sustainability **8:30 am to 10:00 am**

Chair: Lee Siew Peng (UTAR)

1. **Integration, Controversies and the Impact on Malaysian Sustainable Firms**

   Lalua Rahsiad (Putra Business School/Management & Science University)*
   Sruthi Susan George (Management & Science University)
   Nur Firdaus Mohd Azman (Management & Science University)

   Discussant: Lutfi Abdul Razak (INCEIF)

2. **A Study on Volatility and Regime Switch of Sustainable Indices in the World**

   Mohammad Irfan (Auro University)*

   Discussant:
   Lalua Rahsiad (Putra Business School/Management & Science University)

3. **Exploring Environmental Sustainability Through the Lens of Trade and Financial Globalization: Evidence from Middle Income Countries**

   Yasmin Yashodha (Sunway University)*
   Muzafar Shah Habibullah (Universiti Putra Malaysia)
   M. Azali (Universiti Putra Malaysia)
   Shaufique Fahmi Ahmad Sidique (Universiti Putra Malaysia)

   Discussant: Mohammad Irfan (Auro University)

4. **Corporate Social Performance and CDS Spreads: The Role of Country Sustainability**

   Lutfi Abdul Razak (INCEIF)*
   Mansor H Ibrahim (INCEIF)
   Adam Ng (INCEIF)

   Discussant: Yasmin Yashodha (Sunway University)

*Presenter

Session 2.1: Corporate Finance II (Investment)

Foreign Investments and Firm Performance: Evidence from Asia

Napaporn Likitwongkajon (Khon Kaen University)
Chaiporn Vithessonthi (Sunway University)

Abstract

We study the implications of foreign investments for firm performance. Using a panel sample of publicly listed non-financial firms in 17 countries in Asia Pacific from 1990 to 2016, we examine whether firms with larger foreign investments perform better than those with smaller foreign investments. The IV-2SLS results show that firms with larger foreign investments tend to have poorer firm performance at both short and long horizons. Our findings provide some suggestive evidence that revenue growth partially mediates the relationship between foreign investments and firm performance. We further document that the negative effect of foreign investments on firm performance is evident for firms in developing countries but is not evident for firms in developed countries.

Do Bad Targets Become Worse Targets? Evidence from Sequential Transfers of Control Blocks

Euna Cho (Bank of Korea)
Woojin Kim (Seoul National University)

Abstract

This study examines whether control block transactions, a dominant form of takeovers in emerging markets, is efficient in a neo-classical sense. Based on a large sample of control block transactions in Korea, we find that a key factor behind a takeover is financial distress in the target, not just for the initial takeover, but also for a series of subsequent takeovers. We also find that new equities are issued by the target during the control transfer process, the proceeds of which are used as capital infusions to the distressed target. Moreover, creditor banks effectively mediate control transfers between outgoing and incoming controlling shareholders, potentially with a lag. Despite this restructuring process, target's financial distress is further exacerbated as control block changes hands, especially multiple times.

Impact of Toeholds in Corporate Takeovers

Ray McNamara (James Cook University)
Simone Kelly (James Cook University)
Samuel Herlihy (James Cook University)

Abstract

This study tests the significance of a toehold variable in predicting corporate takeovers. This study is the first to test the toehold variable in the Australian market and uses two previously designed toehold variables as well as two newly designed variations. The toehold variables are found to be statistically significant, and when applied to an out-of-sample data set correctly classify 82% of companies as either a target or non-target. When the model is used to form an investment portfolio it achieves significant positive abnormal returns and successfully beats the return of the ASX 300 index. The results of this study further support the importance of a toehold variable in takeover prediction models. It has also been found that the unique position of having a bid that acts as both a buying and selling price has incredible advantages. Essentially, gaining a toehold results in a win-win situation. If, you have a toehold you can profit through purchasing only the limited amount of shares left at a premium versus the full amount. While if you have a toehold and you lose an auction to a rival bidder you can profit through selling your shares at a higher than purchase price. Overall, it is clear that toeholds are an intelligent, advantages strategy. It is this conclusion that has resulted in the new era of investment strategy toehold research.

Does Pre-IPO Shariah-Compliance Disclosure Matter? Evidence from Malaysia

Nurwahida Yaakub (Heroit-Watt University)
Mohamed Sherif (Heroit-Watt University)

Abstract

This paper examines whether the shariah-compliance disclosure in the initial public offering (IPO) prospectus has an impact on the initial valuation of the IPO stocks. This study introduces a novel approach to measure shariah-compliant status. Using 225 IPOs listed on Bursa Malaysia between 2004 and 2013, we find that shariah-compliant IPOs are less under-priced than their conventional counterparts, at 17.0% and 24.7%, respectively. We discovered that shariah-compliant status, although negatively related to under-pricing, does not have explanatory power on under-pricing. We do not find evidence of the informational value of the shariah-compliance disclosure on IPO status. Therefore, the disclosure does not reduce ex-ante uncertainty between IPO investors and issuers. Importantly, we found that firm size, listing board and IPO market condition are significant in explaining the initial returns in IPOs.

Session 2.1: Corporate Finance II (Investment) **11:00 am to 12:30 pm**

Chair: Mansor Isa (University of Malaya)

1. **Foreign Investments and Firm Performance: Evidence from Asia**

   Napaporn Likitwongkajon (Khon Kaen University)
   Chaiporn Vithessonthi (Sunway University)*

   Discussant: Woojin Kim (Seoul National University)

2. **Do Bad Targets Become Worse Targets? Evidence from Sequential Transfers of Control Blocks**

   Euna Cho (Bank of Korea)
   Woojin Kim (Seoul National University)*

   Discussant: Ray McNamara (James Cook University)

3. **Impact of Toeholds in Corporate Takeovers**

   Ray McNamara (James Cook University)*
   Simone Kelly (James Cook University)
   Samuel Herlihy (James Cook University)

   Discussant: Nurwahida Yaakub (Heroit-Watt University)

4. **Does Pre-IPO Shariah-Compliance Disclosure Matter? Evidence from Malaysia**

   Nurwahida Yaakub (Heroit-Watt University)*
   Mohamed Sherif (Heroit-Watt University)

   Discussant: Chaiporn Vithessonthi (Sunway University)

*Presenter

Session 2.2: Corporate Governance II (Earnings Management)

Financial Market Effect from Disclosures of Earnings Report in the Tokyo Stock Exchange

Ariff, M. (Sunway University)
AlBaidhani, A. (Universiti Putra Malaysia)
Karbhari, Y. (Cardiff University)

Abstract

This paper reports a significant financial market impact around the date of announcements in response to earnings disclosed: we find a very large significant earnings response coefficient over 14 years. The abnormal returns to shareholders are significantly negative 5 per cent by day +14 when earnings decline: positive 4 per cent if earnings increased. Second, we also use for the first time a portfolio aggregation method to eliminate the idiosyncratic-errors-in-variable problem in past studies of individual events. By regressing the 10 portfolio stock returns against the size of the earnings, we find a much bigger and theory-consistent earnings response coefficient. The improved results are attributable to the portfolio method that eliminates errors-in-variables. These results urge us to believe that investors in Japan price earnings rationally by pricing the full value of retained earnings less the average payout of about 50 per cent as price changes, a finding that is new to this literature.

The Role of Earnings Management and IFRS Adoption in the Value Relevance of Earnings and Book Value of Equity

Ratnaningrum (Sebelas Maret University)
Rahmawati (Sebelas Maret University)
Djuminah (Sebelas Maret University)
Ari Kuncara Widagdo (Sebelas Maret University)

Abstract

This study examines the impact of IFRS adoption and accrual and real earnings management on the value relevance of earnings and the book value of equity for manufacturing companies listed in the Indonesia Stock Exchange (IDX). The result confirms that the value relevance of earnings is higher after IFRS adoption, whereas the book value of equity is lower in the similar period. The accrual-based earnings management is detected to have an impact on the value relevance of earnings and book value of equity after IFRS adoption, but no such impact of real earnings management on that in the said period is observed. Also, the value relevance of book value of equity is lower compared to before IFRS adoption due to the IFRS instead of earnings management. Overall, we conclude that mandating IFRS may prove beneficial.

Earnings Management and Stock Returns of Malaysian Public Listed Companies: The Impact of Foreign Exchange Movements

Bao Quan Lock (Universiti Sains Malaysia)
EI Yet Chu (Universiti Sains Malaysia)
Saw Imm, Song (Universiti Teknologi Mara)
Lee Lian Yin (Universiti Sains Malaysia)

Abstract

This paper examines the relationship between the uses of accounting earnings management practices and the exchange rate movements, and how it affects the stock returns of the Malaysian public listed firms. The paper uses discretionary accruals as a proxy of earnings management. The changes of foreign exchange rates and stock prices are used to investigate the impact of exchange rate movements on earnings management and the effects of earnings management on stock returns. The findings indicate that exchange rate movements do contribute to earnings management by firms when the exchange rates weaken. However, earnings management does not present significant relationship with foreign exchange rates when the exchange rates strengthen. Furthermore, the finding concludes that earnings management does have positive relationships with annual stock return in Malaysia.

Political Connections, Corporate Governance and Earnings Quality: Evidence from Indonesia

Siti Rochmah Ika (Janabadra University Yogyakarta)
Sri Maryuni (Janabadra University Yogyakarta)
Ari Kuncara Widagdo (Sebelas Maret University)

Abstract

The objective of this study is to investigate whether political connection in Indonesian firms and corporate governance impacts on earnings quality. The study uses historical data from 348 firms listed on the Indonesian Stock Exchange during 2009-2016, which results in 2149 final sampled. To test the robustness of the empirical relationship, the study used two proxies of earnings quality, i.e., the Jones Model (1991) and Modified Jones Model (1995). Results of multiple regression indicate that politically connected firms are associated with a lower earnings quality as compared to non-connected firms. Corporate governance practices do not influence earnings quality; however, it moderates the negative effect of political connections on earnings quality. This finding implies that corporate governance practices in politically connected firms improve the earnings quality of the firm.

Session 2.2:
Corporate Governance II (Earnings Management) **11:00 am to 12:30 pm**
Chair: Khakan Najaf (Taylor's University)

1. **Financial Market Effect from Disclosures of Earnings Report in the Tokyo Stock Exchange**

   Mohamed Ariff (Sunway University)*
   AlBaidhani, A. (Universiti Putra Malaysia)
   Karbhari, Y. (Cardiff University)

   Discussant: Siti Rochmah Ika (Janabadra University Yogyakarta)

2. **The Role of Earnings Management and IFRS Adoption in the Value Relevance of Earnings and Book Value of Equity**

   Ratnaningrum (Sebelas Maret University)
   Rahmawati (Sebelas Maret University)
   Djuminah (Sebelas Maret University)
   Ari Kuncara Widagdo (Sebelas Maret University)*

   Discussant: Susela Devi Suppiah (Sunway University)

3. **Earnings Management and Stock Returns of Malaysian Public Listed Companies: The Impact of Foreign Exchange Movements**

   Lock Bao Quan (Universiti Sains Malaysia)
   Chu Ei Yet (Universiti Sains Malaysia)*
   Song Saw Imm (Universiti Teknologi Mara)
   Yin Lee Lian (Universiti Sains Malaysia)

   Discussant: Ari Kuncara Widagdo (Sebelas Maret University)

4. **Political Connections, Corporate Governance and Earnings Quality: Evidence from Indonesia**

   Siti Rochmah Ika (Janabadra University Yogyakarta)*
   Sri Maryuni (Janabadra University Yogyakarta)
   Ari Kuncara Widagdo (Sebelas Maret University)

   Discussant: Chu Ei Yet (Universiti Sains Malaysia)

*Presenter

Session 2.3: Islamic Banking

The Power of Investor Sentiment in Explaining the Bank Stock Performance: Listed Conventional vs. Islamic Banks

Li Di (Monash University)
Mohammed Sharaf Shaiban (Monash University)
Akram Hasanov (Monash University)

Abstract

This study is motivated by prior theoretical and empirical research which indicate investors' herding behavior might contribute to the contagion from US banking sector to Islamic banking sector. Given that substantial idiosyncratic differences exist between the two sectors due to, inter alia, relatively young age, rapid growth and niche nature of Islamic banking, investigating the explanatory power of investor sentiment vis-à-vis the two sectors is merited. Thus, we utilize Google-based Search Volume Index and Turnover to examine market sentiment's effect on returns. Regression results show that Islamic banks are more sensitive to the fluctuation of investor sentiment indicators than conventional banks in the same country. Moreover, the effect of investor sentiment on both conventional and Islamic banks is, to some extent, asymmetric.

What Drives the Islamic Banking Efficiency? The Role of Financial Inclusion

Hasanul Banna (University of Malaya)
Md Rabiul Alam (University of Malaya)
Rubi Ahmad (University of Malaya)
Norhanim Mat Sari (Putra Business School)

Abstract

Considering the reverberations of financial crisis of 2007-09 that the banking industry witnessed, this paper aims to estimate both the non-bias corrected and bias-corrected efficiency by employing the data envelopment analysis and Simar-Wilson double bootstrapping regression techniques over the period of 2011 to 2017 and see how the financial inclusion impacts on Islamic banks. This study finds most of the countries, except some Asian and Middle-Eastern countries, have inconsistent efficiency trends in Islamic banking sector. It also shows that financial inclusion is significantly allied with Islamic banking efficiency. Eventually, the results propose that Islamic banks are still bearing the consequence of that economic recession and, therefore, banks should focus more on financial inclusion.

Liquidity Risk and Regulation in Banking

Syajarul Imna Mohd Amin (Universiti Kebangsaan Malaysia)
Aisyah Abdul-Rahman (Universiti Kebangsaan Malaysia)

Abstract

The liquidity crisis in 2008 has sparked interest in the role of regulation that could promote resilience and stability in the banking system. Nonetheless, while legal policies aim to discipline banking activities, the implementation, however, increases intermediation cost that could impair banking performance. The conflicting theories warrant comprehensive research especially for Islamic banks as they emerge to gain their systemic importance. Given this, we examine the role of banking regulation on liquidity risk management of banks in OIC countries from 2000 to 2017 using panel system GMM. The findings show that the impact of regulations on liquidity risk is not uniform. Asset restrictions, private monitoring, and regulatory capital reduce liquidity risk while supervisory power increases it in banking. However, conventional banks are more affected by asset restrictions and capital requirements than Islamic banks.

Web-Based Fatwa Financial Disclosure: Evidence from Selected Islamic Banking in Malaysia

Adel Sarea (Ahlia University)
Zakir Hossen Shaikh (Bahrain Training Insitite)

Abstract

The aim of this study is to investigate the level of fatwa financial disclosure (FFD) in Islamic banking in Malaysia. The author constructs a fatwa index to measure the level of web-based fatwa financial disclosure in Islamic banking. This index consists of 6 products: Murabahah, Mudaraba, Musharakah, Ijarah, Tawarruq, and Jaizah. The sample of the study consists of selected Islamic banking in Malaysia. The findings showed high level of fatwa disclosure at 71%. The expected implication of this paper could help Islamic financial institutions including Islamic banking in the future to disclose Web-Based Fatwa information to reach fully online financial disclosure to all interested parties.

Session 2.3: Islamic Banking — 11:00 am to 12:30 pm

Chair: Muhammad Wajid Raza (Vrije University Brussels)

1. **The Power of Investor Sentiment in Explaining the Bank Stock Performance: Listed Conventional vs. Islamic Banks**

   Li Di (Monash University)*
   Mohammed Sharaf Shaiban (Monash University)
   Akram Hasanov (Monash University)

   Discussant: Adel Sarea (Ahlia University)

2. **What Drives the Islamic Banking Efficiency? The Role of Financial Inclusion**

   Hasanul Banna (University of Malaya)
   Md Rabiul Alam (University of Malaya)
   Rubi Ahmad (University of Malaya)
   Norhanim Mat Sari (Putra Business School)*

   Discussant: Li Di (Monash University)

3. **Liquidity Risk and Regulation in Banking**

   Syajarul Imna Mohd Amin (Universiti Kebangsaan Malaysia)*
   Aisyah Abdul-Rahman (Universiti Kebangsaan Malaysia)

   Discussant: Norhanim Mat Sari (Putra Business School)

4. **Web-Based Fatwa Financial Disclosure: Evidence from Selected Islamic Banking in Malaysia**

   Adel Sarea (Ahlia University)*
   Zakir Hossen Shaikh (Bahrain Training Insitite)

   Discussant: Syajarul Imna Mohd Amin (Universiti Kebangsaan Malaysia)

*Presenter

Session 2.4: Islamic Finance & Interest Rate

The Effect of Interest Rate on Islamic Bank Financing Instruments: Cross-Country Evidence from Dual-Banking Systems

Mirzet Šeho (Sunway University)
Obiyathulla Ismath Bacha (INCEIF)

Abstract

In theory, the cornerstones of Islamic finance are interest avoidance and risk sharing. In practice, however, Islamic banks seem to be lacking both. We investigate the interest rate impact on Islamic banks' three most-widely used types of financing instruments by employing the system GMM estimators on a unique panel data set of 77 Islamic banks from 13 countries over the period 2003-2017. We find that sale- and lease-based financing instruments are negatively correlated with the interest rate and that their exposure is amplified in more developed Islamic banking jurisdictions. Risk-sharing instruments, however, appear to be out of the interest rate domain of influence except in less developed Islamic banking jurisdictions, where the impact is positive. The findings imply that predominant use of sale- and lease-based financing instruments in their current form undermines the interest-free and risk-sharing essence of Islamic banking and runs the risk of converging with its conventional counterpart.

Demystifying Islamic Banking using Loan Level Data

Saad Azmat (Lahore University of Management Science)
Michael Skully (Monash Business School)
Kym Brown (Monash Business School)

Abstract

We use a unique dataset of bank level data to understand specific areas of Islamic finance offered for home loans. It is useful to understand if in practice the theoretical features of home purchase using rent-to-purchase type of finance are enacted following specific Islamic guidelines. The areas we specifically consider are in regard to penalties for late payment, possession of the house by the customer (which then begins payment) and the promise to purchase the house back from the bank. Our findings suggest that people do not pay rent on the house they are purchasing until they effectively take 'possession' by moving in. The Islamic bank can therefore be exposed to a delay between the dates that the house is purchased and when the client moves in when they will start to receive payments. We do not find any examples of a penalty being imposed.

Is Interest Rate a Benchmark for Islamic Bank? Evidence from Indonesia

Agus Widarjono (Universitas Islam Indonesia)
Abdur Rofik (Universitas Islam Indonesia)

Abstract

Islamic banks in Indonesia face two problems: a dual banking system; and market share of Islamic banks are small so that conventional banks control the banking market. Based on those two facts, this paper analyzes whether the interest rate of conventional bank influences investment rate of Islamic bank in Indonesia. The data used are monthly data from January 2009 to December 2018. This study finds a strong long-run relationship between the interest rate and Islamic investment rate. More interestingly, the relationships between them are non-linear. The asymmetric pricing behaviour of Islamic deposit rate follows the deposit interest rate of the conventional bank. However, it tends to weaken for longer maturity. The asymmetric pricing of the Islamic financing rate is not clear. Mudharabah rate is based on interest rates while musyarakah rate does not follow interest rates.

Interest Rate Sensitivity of U.S. Islamic Equity Market Indexes: A Comparative Analysis

Muhammad Shariq (National University of Sciences & Technology)

Abstract

Major stock market index providers differ in the stock selection criteria they use to select stocks for their Islamic indexes. Past research shows that this can cause the investment characteristics of their Islamic indexes to differ, which has implications for use of Islamic indexes for benchmarking. This study empirically examines if differences in the stock selection criteria of Islamic indexes lead to variation in their levels of sensitivity to changes in interest rates. Monthly data of Islamic indexes of four major index providers (MSCI, FTSE, Dow Jones and S&P) is analysed for the period Jan 2008 to Dec 2016. Empirical durations of the Islamic indexes are estimated as a measure of their sensitivity to changes in interest rates. Overall results suggest that all of the examined Islamic indexes show different levels of sensitivity to interest rates.

Session 2.4: Islamic Finance & Interest Rate — 11:00 am to 12:30 pm

Chair: Viverita (Universitas Indonesia)

1. **The Effect of Interest Rate on Islamic Bank Financing Instruments: Cross-Country Evidence from Dual-Banking Systems**

   Mirzet Šeho (Sunway University)*
   Obiyathulla Ismath Bacha (INCEIF)

   Discussant: Muhammad Shariq (National University of Sciences & Technology)

2. **Demystifying Islamic Banking using Loan Level Data**

   Saad Azmat (Lahore University of Management Science)
   Michael Skully (Monash Business School)
   Kym Brown (Monash Business School)*

   Discussant: Mirzet Šeho (Sunway University)

3. **Is Interest Rate a Benchmark for Islamic Bank? Evidence from Indonesia**

   Agus Widarjono (Universitas Islam Indonesia)*
   Abdur Rofik (Universitas Islam Indonesia)

   Discussant: Kym Brown (Monash Business School)

4. **Interest Rate Sensitivity of U.S. Islamic Equity Market Indexes: A Comparative Analysis**

   Muhammad Shariq (National University of Sciences & Technology)

   Discussant: Agus Widarjono (Universitas Islam Indonesia)

*Presenter

Session 2.5: Fiscal and Monetary Policies

Cross-Country Comparison of Developed Economy Fiscal Economics

Chung Tin Fah (HELP University)
Mohamed Ariff (Sunway University)
Yeah Kim Leng (Sunway University)

Abstract

This paper provides a comparison of the tax structures of Japan, Korea, Philippines, Singapore, Indonesia, and selected Organisation for Economic Co-operation and Development, OECD, countries. The findings provide a set of key principles that drive the taxation policies that underpin the fiscal economics of the selected economies. Using the OECD as a reference point, Malaysia's tax incidence of about 17–20 percent of the GDP suggests that the country is far from reaching its desired high-income nation status. Hence, adoption of a fiscal system à la developed economies with incidence ratio of about 30 percent may be premature. This is premised on the very low-income share of some 14 million labour force with an average income per household of US$5,270 per annum compared to about three-times larger household income in OECD developed countries. A prudent rebalancing of Malaysia's tax base is needed; more so in an economy facing low global oil prices for its export.

An Analysis of Money Supply in Indonesia: A Vector Autoregressive (VAR) Approach

Imamudin Yuliadi (Universitas Muhammadiyah Yogyakarta)

Abstract

This research about money supply (M1) in Indonesia aims at analysing factors which influence money supply and to what extent the economic factors influence it in Indonesia. The analysis method used is Vector Autoregressive (VAR) based on money supply (M1), interest rate, and Gross Domestic Product (GDP) from the 1st quarter of 2001 until 1st quarter of 2013. The data collecting method is in the form of data compilation from credible sources such as Bank of Indonesia (BI), Central Bureau of Statistic (CBS), and International Financial Statistic (IFS). To obtain adequate analysis result, several tests are done such as unit root test, Granger causality test, and optimal lag. VAR analysis formulates the correlation among independent variables so it also sees the analysis of impulse response and matrix decomposition.

Fiscal Sustainability of Sovereign Debt: A Multi-Country Study

Reza Tahmoores Pour (Universiti Putra Malaysia)
Mohamed Ariff (Sunway University)
Alireza Zarei (Sunway University)

Abstract

This paper documents new evidence on the economics of credit-rating changes and the financial viability of sovereign debts funding across several major economies. It provides new insights on fiscal sustainability of sovereign borrowing when debt is taken. It (i) examines the public debt impact on the sustainability of the government's fiscal economics; and (ii) helps locate the debt threshold by identification of optimal debt level. We use the panel data regression method to examine the factors affecting the sovereign rating changes after controlling for country heterogeneity using the latest econometric methods. Results of the study are interesting, and could contribute to the fiscal economics literature on what is optimal level of debt. Among the various economic variables, Gross National Saving has the biggest positive impact on sustainability of debt-taking and sovereign rating changes, which has the biggest probability of affecting the outcome. Debt serviceability has also the highest probability of changing sovereign rating grade by 0.096. These are new findings that may help to extend the sovereign rating literature in terms of testing multiple countries on sustainability of debt taking.

Hot Money and Stock Market in China: Empirical Evidence from ARDL and NARDL Approaches

Kwang-Jing Yii (Swinburne University of Technology)
Chai-Thing Tan (Universiti Tunku Abdul Rahman)
Nian-Meng Tan (Universiti Tunku Abdul Rahman)
Xue-Wen Teng (Universiti Tunku Abdul Rahman)
Sui-Hang Fan (Universiti Tunku Abdul Rahman)

Abstract

This study discusses the relationship between the stock market performance and hot money in China by employing Autoregressive Distributed Lag (ARDL) and Nonlinear Autoregressive Distributed Lag (NARDL) methods. The data used in this study is quarterly data from 2000:Q1 to 2017:Q4. The study shows that oil price, economic growth and hot money possess a long-run relationship towards stock market performance in China whereas no effect is found from inflation. Oil price and economic growth are positively related to stock market performance while there is a negative relation from hot money. Furthermore, the study supports the existence of asymmetric effect between hot money and stock market performance. The findings imply that policy makers should form a better monitoring system to control the inflow and outflow of hot money to strengthen the investors' confidence and avoid unwanted bubbles.

Session 2.5: Fiscal and Monetary Policies — 11:00 am to 12:30 pm

Chair: Poon Wai Ching (Monash University)

1. **Cross-Country Comparison of Developed Economy Fiscal Economics**

   Chung Tin Fah (HELP University)*
   Mohamed Ariff (Sunway University)
   Yeah Kim Leng (Sunway University)

   Discussant: Kwang-Jing Yii (Swinburne University of Technology)

2. **An Analysis of Money Supply in Indonesia: A Vector Autoregressive (VAR) Approach**

   Imamudin Yuliadi (Universitas Muhammadiyah Yogyakarta)*

   Discussant: Chung Tin Fah (HELP University)

3. **Fiscal Sustainability of Sovereign Debt: A Multi-Country Study**

   Reza Tahmoores Pour (Universiti Putra Malaysia)
   Mohamed Ariff (Sunway University)
   Alireza Zarei (Sunway University)*

   Discussant: Imamudin Yuliadi (Universitas Muhammadiyah Yogyakarta)

4. **Hot Money and Stock Market in China: Empirical Evidence from ARDL and NARDL Approaches**

   Kwang-Jing Yii (Swinburne University of Technology)*
   Chai-Thing Tan (Universiti Tunku Abdul Rahman)
   Nian-Meng Tan (Universiti Tunku Abdul Rahman)
   Xue-Wen Teng (Universiti Tunku Abdul Rahman)
   Sui-Hang Fan (Universiti Tunku Abdul Rahman)

   Discussant: Alireza Zarei (Sunway University)

*Presenter

Session 2.6: Foreign Direct Investment

Are Foreign Direct Investment in Indonesia Influenced by Political Risk? A Panel Regression Approach

Angelina Ika Rahutami (Soegijapranata Catholic University)
Widuri Kurniasari (Soegijapranata Catholic University)

Abstract

Prior research shows that foreign direct investment is not only influenced by macroeconomic variables, but also institutional and political. Using six political risk indicators from the World Bank, this study looks at the influence of political risk and macroeconomic variables on investment in Indonesia from 2005 to 2017. Based on panel regression models, we find that political risk indicator data shows that Indonesia's political indicators are getting better from year to year. While the results show that overall political risk does not have a significant effect, the effectiveness of bureaucracy significantly influences foreign direct investment.

Political Risk and Foreign Direct Investment (FDI): Evidence from The Kingdom of Saudi Arabia (KSA)

Al-Muhana, Moala (Universiti Putra Malaysia)
Ku Nor Izah Ku Ismail (Universiti Putra Malaysia)

Abstract

The purpose of the present study is to examine the impact of political risk on FDI inflows into the KSA after controlling for other relevant determinants of FDI such as the Gross Domestic Product (GDP), inflation and the exchange rate. This study uses the Auto-Regressive Distributed Lag (ARDL) approach to cointegration by using time series data over the period of 1984–2016. The results reveal that political risk adversely impacts the inflows of FDI in both the short-run and long-run in the KSA. In addition, the growth of the per capita GDP and the quality of infrastructure are important factors in increasing FDI inflows into the KSA. Conversely, the findings show a negative impact of inflation on FDI inflows.

Do Different Streams of Capital Flows Affect Asset Prices? Empirical Evidence from ASEAN-4

Nur Ain Shahrier (Sunway University)
Lay Lian, Chuah (World Bank Group)

Abstract

Despite the indisputable importance of international capital flows in business cycles, policymakers grapple with the contingency that liquidity could potentially cause asset price booms and trigger bubbles. In this context, the first part of the paper decomposes capital flows to ASEAN-5 countries into debt-led, equity-led and bank-led flows and identifies the periods of “surge”, “stop”, “flight” and “retrenchment”. The second part of the paper establishes the link between the pattern of capital flows and asset price cycles. The findings using heteroscedasticity probit and ordinal generalized linear models show that excessive deviations of house prices and output from underlying fundamentals cause imbalances in the asset market while bank inflows and equity outflows have an impact on asset price boom and subsequently the bust of the asset price cycle after eight quarters.

Multinationals Finance and Accounting Offshore Sourcing Strategy in Malaysia: An Empirical Integrated Transaction Costs Economics and Resource-Based View Analysis

Jeannie Hoh (University of Nottingham Malaysia)
Tang, Kin Boon (University of Nottingham Malaysia)
Hooi, Lai Wan (University of Nottingham Malaysia)

Abstract

A model derived from integrating transaction costs economics and resource-based view is tested empirically on multinationals corporations offshore sourcing of their finance and accounting activities. Evidence from the study shows that uncertainty due to technology and human asset specificity are positively and significantly related to offshore insourcing of the finance and accounting activities. The research also suggests apart from the economic factors, strategic value activities and the development of skills that are customised to the requirement of the firm affects the intensity to offshore insource. The interaction effects between uncertainty due to technology and strategic value activities on offshore insourcing strategy is evidenced, proving that this collaborated effort will not only empower the multinationals to gain and create competitive advantage through innovations.

Session 2.6: Foreign Direct Investment — 11:00 am to 12:30 pm

Chair: Nur Ain Shahrier (Sunway University)

1. **Are Foreign Direct Investment in Indonesia Influenced by Political Risk? A Panel Regression Approach**

   Angelina Ika Rahutami (Soegijapranata Catholic University)*
   Widuri Kurniasari (Soegijapranata Catholic University)

   Discussant: Jeannie Hoh (University of Nottingham Malaysia)

2. **Political Risk and Foreign Direct Investment (FDI): Evidence from The Kingdom of Saudi Arabia (KSA)**

   Al-Muhana, Moala (Universiti Putra Malaysia)
   Nur Syazwani Mazlan (Universiti Putra Malaysia)*

   Discussant: Angelina Ika Rahutami (Soegijapranata Catholic University)

3. **Do Different Streams of Capital Flows Affect Asset Prices? Empirical Evidence from ASEAN-4**

   Nur Ain Shahrier (Sunway University)*
   Lay Lian, Chuah (World Bank Group)

   Discussant: Nur Syazwani Mazlan (Universiti Putra Malaysia)

4. **Multinationals Finance and Accounting Offshore Sourcing Strategy in Malaysia: An Empirical Integrated Transaction Costs Economics and Resource-Based View Analysis**

   Jeannie Hoh (University of Nottingham Malaysia)*
   Tang, Kin Boon (University of Nottingham Malaysia)
   Hooi, Lai Wan (University of Nottingham Malaysia)

   Discussant: Nur Ain Shahrier (Sunway University)

*Presenter

Session 3.1: Corporate Finance III (Cash Flow)

The Impact of Cash Flow Volatility on Idiosyncratic Volatility: Evidence from Emerging Markets

Aulia Haskoro Trisunu (Universitas Indonesia)
Zaafri Ananto Husodo (Universitas Indonesia)

Abstract

This study aims to analyze the impact of cash flow volatility, using DuPont ROE proxy, on idiosyncratic volatility in emerging countries Indonesia, Turkey, and Mexico. The data is derived from publicly traded companies listed in each country's stock exchange from 2013 to 2017. Panel data regression is used to examine the effects of the components of DuPont ROE; Profit Margin, Asset Turnover, and Equity Multiplier; on idiosyncratic volatility, with controlling variable of firm size and illiquidity. The result of the study is although there are some proxies that significantly contribute to firm-specific risk, there is still an inconsistent result regarding the relationship between DuPont ROE with idiosyncratic volatility.

Free Cash Flow, Moderator, Corporate Diversfication, and Firm Financial Performance

Ling-Foon Chan (Sunway University)
Bany-Ariffin Bin Amin Noordin (Universiti Putra Malaysia)
Annual Bin Md. Nasir (Universiti Putra Malaysia)

Abstract

The research examines the moderating effect of Free Cash Flow on corporate diversification and firm's financial performance by using market data from an emerging market. We employ GMM technique on a sample of 423 Malaysian publicly listed companies, resulting in 2538 observations from 2007 to 2012. The empirical findings demonstrate that FCF did bring a positive effect to firm's financial performance, significant at 1% level. However, further analysis of FCF as a moderator between corporate diversification and firm's financial performance reveals a negative effect on corporate diversification and firm's financial performance; significant at 1% level. Subsequent tests on moderation of FCF considering quadratic effect of the corporate diversification show that FCF also negatively impacts financial performance. The more the firm has FCF, the more the negative impact on financial performance. Lastly, there is insufficient evidence to explain any relationship among the crisis, debt ratio, market capital and firm's financial performance.

Discouraging Corporate Savings

Hwanki Brian Kim (Baylor University)
Woojin Kim (Seoul National University)
Mathias Kronlund (University of Illinois)

Abstract

This paper studies the effects of a unique tax reform in South Korea in 2015 that sought to stem the tide of corporate cash accumulation. Firms with shareholder's equity above 50B Won, or that were part of larger business groups (Chaebol), had to pay a sur-tax of 10% on any earnings above a threshold that were saved rather than invested or paid out to shareholders. Employing a difference-in-difference design, we find that the treated firms cut cash savings and instead direct earnings mainly towards new investments, resulting in stronger revenue growth, as well as towards higher wage increases and shareholder payouts. We find no evidence of reduced profitability, suggesting that these marginal investments were profitable. An event study analysis suggests that shareholders viewed benefits from discouraging savings to outweigh the costs from a potentially higher tax bill.

Relationship Analysis Between Presidency Period and Bankruptcy Prediction Model of Construction Firm in Indonesia

Riandy Ar Rasyid (Universitas Indonesia)
Imo Gandakusuma (Universitas Indonesia)
Zuliani Dalimunthe (Universitas Indonesia)

Abstract

Over the past five years, the construction industry in Indonesia is growing rapidly and in 2018 had contributed 6.09% to the country's GDP. However, positive growth doesn't always mean a healthy financial condition. A huge debt could cause any firms to face financial distress. Predicting bankruptcy is one of the fundamental aspects a company require to do and thus understanding the position of the firm financially. A total of 50 construction firms listed on the Indonesia Stock Exchange are sampled for the research to compare its financial condition between two difference presidency period. The method used in this research is calculating the bankruptcy prediction score (Z, Z", and S) for each firm in two different years (2014 and 2018) and then conduct regression analysis to determine the significance influence statistically. The results of bankruptcy prediction score are; for Z-Score and Z"-score, from 2014 to 2018, the number of healthy firms are decreasing. Meanwhile, the number of bankrupted firms are increasing. As for S-Score, the number of healthy firms is increasing meanwhile bankrupted firms are decreasing. The regression analysis resulted that all the models used has significant influence between two different presidency periods. Meanwhile, in Z-score model, DFL also has significant influence. In Z"-Score, all control and independent variables has significant influence on the score.

Session 3.1: Corporate Finance III (Cash Flow) **3:00 pm to 4:30 pm**
Chair: Woojin Kim (Seoul National University)

1. **The Impact of Cash Flow Volatility on Idiosyncratic Volatility: Evidence from Emerging Markets**

   Aulia Haskoro Trisunu (Universitas Indonesia)*
   Zaafri Ananto Husodo (Universitas Indonesia)

   Discussant: Woojin Kim (Seoul National University)

2. **Free Cash Flow, Moderator, Diversification and Firm Financial Performance**

   Ling-Foon Chan (Sunway University)*
   Bany-Ariffin Bin Amin Noordin (Universiti Putra Malaysia)
   Annual Bin Md. Nasir (Universiti Putra Malaysia)

   Discussant: Aulia Haskoro Trisunu (Universitas Indonesia)

3. **Discouraging Corporate Savings**

   Hwanki Brian Kim (Baylor University)
   Woojin Kim (Seoul National University)*
   Mathias Kronlund (University of Illinois)

   Discussant: Riandy Ar Rasyid (Universitas Indonesia)

4. **Relationship Analysis Between Presidency Period and Bankruptcy Prediction Model of Construction Firm in Indonesia**

   Riandy Ar Rasyid (Universitas Indonesia)*
   Imo Gandakusuma (Universitas Indonesia)
   Zuliani Dalimunthe (Universitas Indonesia)

   Discussant: Ling-Foon Chan (Sunway University)

*Presenter

Session 3.2: Corporate Governance III (Political Connections)

Political Connections and Cost of Debt

Karren Lee-Hwei Khaw (University of Malaya)
Rozaimah Zainuddin (University of Malaya)
Rasidah Mohd Rashid (Universiti Utara Malaysia)

Abstract

In this study, we extend the previous works on political connection and its relation to cost of debt and show that political connections can be both beneficial and costly to firms. We particularly emphasize the channels through which political ties are established. Specifically, we highlight the executive roles of politically connected (PCON) chairmen. Using a sample of Malaysian non-financial listed firms, we find that firms with PCON executive chairman have lower cost of debt. This finding is consistent with resource dependence theory, whereby firms seek rents from governments/politicians for the benefits of firms. However, firms connected through their PCON non-executive chairman are charged with higher cost of debt. We explain this finding from agency cost perspective. Overall, results indicate that firm outcomes are sensitive to the channel used to establish political connections.

Political Connections and Firm Performance: Evidence from Indonesia

Muhammad Rizky Prima Sakti (University College Bahrain)
Hassanudin Mohd Thas Thaker (Sunway University)
Ahmad Khaliq (International Islamic University Malaysia)

Abstract

We study the performance of Indonesian firms based on political and non-political connections for the period of 2007 to 2018. Using advanced econometrics approach, we provide a comparative empirical analysis of the linkages between performance, firm-specific characteristics, and macroeconomic variables for politically-connected (PC) and non-politically-connected (NPC) firms. The results show the performance (measured by ROA and ROE) of PC and NPC are significantly influenced by firm-specific characteristics (leverage, tangibility, firm size, and liquidity). Meanwhile, only one macroeconomic factor (economic growth) has significant effect to ROA, and two macroeconomic factors (economic growth and inflation) have significant effect to ROE of PC firms. Additionally, we find a variation of performance determinants (both firm-specific and macroeconomic factors) across different industry categories.

Mean Reversion Analysis in Stock Prices and Firm Performance: Evidence from Politically Connected Firms in ASEAN-4

Fildzah Imas Maulidina (University of Indonesia)
Viverita (University of Indonesia)

Abstract

Previous studies have investigated the random walk behaviour in stock prices related to the efficient market hypothesis and found that stock return moves to the direction of a reversion level as a reaction to a prior change in the market return. The purpose of this study is to investigate whether a mean reversion trend exists in the stock price of firms with political connections in ASEAN-4 countries (Indonesia, Malaysia, Singapore, and Thailand). In addition, it also examines the impact of political connections on firm performance in 337 non-financial firms. The results show a mean reversion trend exists. Also, only Singaporean firms have experienced a significant impact of political connections on firm performance.

Private Information in Executive Compensation and Firms' Internationalization: Evidence from an Emerging Market

Lian Yee Lee (Universiti Sains Malaysia)
Ei Yet Chu (Universiti Sains Malaysia)

Abstract

This study investigates the effects of private information in executive compensation on firms' internationalization in foreign sales (FS) and assets (FA). The degree of private information is however subjected to governance mechanisms from board members. The findings show that board characteristics are competence to influence private information in executive compensation. A bigger board size of directors could not contain private information and lead to higher foreign assets and foreign sales. However, independent directors ensure firms' international sales despite the existence of private information in this small emerging market. The CEO duality is not efficient as CEO cum chairman. Lastly, the remuneration committee does not appear as an effective governance mechanism, the presence of private information in executive compensation could lead firms to pursue the acquisition of foreign assets, but not pursuing international sales in this emerging market.

Session 3.2:
Corporate Governance III (Political Connections) — 3:00 pm to 4:30 pm
Chair: Sarkar Kabir (Coventry University)

1. **Political Connections and Cost of Debt**

   Karren Lee-Hwei Khaw (University of Malaya)*
   Rozaimah Zainuddin (University of Malaya)
   Rasidah Mohd Rashid (Universiti Utara Malaysia)

   Discussant: Lee Lian Yee (Universiti Sains Malaysia)

2. **Political Connections and Firm Performance: Evidence from Indonesia**

   Muhammad Rizky Prima Sakti (University College Bahrain)
   Hassanudin Mohd Thas Thaker (Sunway University)*
   Ahmad Khaliq (International Islamic University Malaysia)

   Discussant: Karren Lee-Hwei Khaw (University of Malaya)

3. **Mean Reversion Analysis in Stock Prices and Firm Performance: Evidence from Politically Connected Firms in ASEAN-4**

   Fildzah Imas Maulidina (University of Indonesia)*
   Viverita (University of Indonesia)

   Discussant: Hassanudin Mohd Thas Thaker (Sunway University)

4. **Private Information in Executive Compensation and Firms' Internationalization: Evidence from an Emerging Market**

   Lee Lian Yee (Universiti Sains Malaysia)*
   Ei Yet Chu (Universiti Sains Malaysia)

   Discussant: Fildzah Imas Maulidina (University of Indonesia)

*Presenter

Session 3.3: Governance in Islamic Finance

Principal-Agent Problem when Musharakah and Ijarah Financings are Used in Imperfect Market

Hechem Ajmi (International Islamic University Malaysia)
Hassanuddeen Abdul Aziz (International Islamic University Malaysia)
Salina Kassim (International Islamic University Malaysia)
Walid Mansour (Saudi Arabian Monetary Authority)

Abstract

This paper aims to determine the optimal contract for agents when musharakah and ijarah financings are used in imperfect market. The financial contracting enforceability approach and Monte-Carlo simulation are considered to identify the contract that maximizes the value of the firm subject to the enforcement constraint for the agent and the participation constraint for the principal, in imperfect market, and regarding the industrial shocks. Results show that musharakah entails more market frictions comparing to ijarah when moving from the low shock to the high shock. Furthermore, it is revealed that the agent is more likely to cheat for both contracts when the expected profit generated from the project is high. Comparing both contracts on the basis of the optimal value of the firm, we show that ijarah allows the principal and agent to generate the highest optimal value subject to their interests in the case of low and high shocks.

The Role of Ownership and Capital Structure on Compliance: The Case of Regulatory Changes for Shariah Screening Methodology

Muhammad Wajid Raza (Vrije University Brussels)
Dawood Ashraf (Shaheed Benazir Bhutto University)

Abstract

In this study, we examine the impact of regulatory changes in Shariah screening guidelines as introduced by the Financial Services Act 2013 in Malaysia. We investigate underlying of switching behavior including the capital structure and ownership structure. Our results after controlling for size and financial performance indicate that financial leverage, owners' equity play a key role in explaining the switching behavior of Shariah firms. We also found that ownership structure plays a vital role in a firm's decision to stay Shariah compliant. Specifically, shares held by institutional investors (unit trust, endowment funds) and individual/family play an essential role for firms to stay Sharia-compliant. The empirical findings suggest that demand for Shariah-compliant investment in Malaysia emerges from the smaller investors investing in mutual funds/unit trust and overall composition of the population.

Related Party Transactions and Corporate Cash Holdings: Sukuk vs Non-Sukuk Issuers

Akmalia M. Ariff (Universiti Malaysia Terengganu)
Norakma Abd Majid (Universiti Malaysia Terengganu)

Abstract

This study examines the relation between related party transactions and corporate cash holding for firms of different debt ownership comparing sukuk and non-sukuk issuers. Analyses use a dataset of 1,289 firm-year observations from 122 companies over the period 2004-2014. The sample consists of 45 sukuk issuers and 77 non-sukuk issuers. Corporate cash holding is categorical variable consisting of two categories; firms have low or high cash holding policy, while related party transactions are based on those on borrowing and lending. The results indicate that firms dealing with related parties lending and borrowings are associated with low cash holdings.

The Effect of Environmental, Social and Governance Practices on the Performance of Shariah-Compliant Companies: The Case of Malaysia

Lee Siew Peng (Universiti Tunku Abdul Rahman and University of Oxford)
Mansor Isa (University of Malaya)

Abstract

This study examines the impact of environmental, social and governance (ESG) factors on financial performance of Malaysian Shariah-compliant companies. Three financial performance measures are analysed: ROA, ROI and Tobin's Q. We find a positive relationship between ESG factors and financial performance, suggesting that ESG practices can enhance firm value. Further results indicate that social and governance dimensions have more impact than environmental dimension on firms' performance. Overall findings suggest that adopting ESG practices are beneficial to Shariah as well as non-Shariah-compliant companies. The univariate analysis shows that ESG-Shariah-compliant companies have better ESG scores and greater performance than ESG conventional companies. Hence, engaging in ESG policies is a worthwhile step towards contributing to sustainable development.

Session 3.3: Governance in Islamic Finance — 3:00 pm to 4:30 pm

Chair: Ari Kuncara Widagdo (Sebelas Maret)

1. **Principal-Agent Problem when Musharakah and Ijarah Financings Are Used in Imperfect Market**

   Hechem Ajmi (International Islamic University Malaysia)*
   Hassanuddeen Abdul Aziz (International Islamic University Malaysia)
   Salina Kassim (International Islamic University Malaysia)
   Walid Mansour (Saudi Arabian Monetary Authority)

   Discussant: Mansor Isa (University of Malaya)

2. **The Role of Ownership and Capital Structure on Compliance: The Case of Regulatory Changes for Shariah Screening Methodology**

   Muhammad Wajid Raza (Vrije University Brussels)*
   Dawood Ashraf (Shaheed Benazir Bhutto University)

   Discussant: Hechem Ajmi (International Islamic University Malaysia)

3. **Related Party Transactions and Corporate Cash Holdings: Sukuk vs Non-Sukuk Issuers**

   Akmalia M. Ariff (Universiti Malaysia Terengganu)*
   Norakma Abd Majid (Universiti Malaysia Terengganu)

   Discussant: Muhammad Wajid Raza (Vrije University Brussels)

4. **The Effect of Environmental, Social and Governance Practices on the Performance of Shariah-Compliant Companies: The Case of Malaysia**

   Lee Siew Peng (Universiti Tunku Abdul Rahman and University of Oxford)
   Mansor Isa (University of Malaya)*

   Discussant: Akmalia M. Ariff (Universiti Malaysia Terengganu)

*Presenter

Session 3.4: Banking

Banks Risk-Taking and State Ownership: Evidence from Asian Emerging Markets

Ai-Xin Lee (Universiti Sains Malaysia)
Chee-Wooi Hooy (Universiti Sains Malaysia)

Abstract

This paper examines the relationship between state ownership and banks' risk-taking in nine Asian emerging markets for the period 2009 to 2017. The finding shows that state-owned banks are associated with higher risk-taking in terms of credit risk and return volatility. In addition, we further investigate the effect of corporate governance mechanism with monitoring committee, gender diversity and board independence on state-owned banks' risk-taking. The findings strengthen the statement that state ownership is associated with higher risk-taking when there is gender diversity and board independence effect on board. They induced high risk-taking decisions when there is huge government ownership (more than 30%). Nonetheless, we find that the presence of CG committee on board has a reducing effect on state-owned banks' risk-taking. Board functions play a crucial role in monitoring and supervising banks' investment decision to prevent government from excessive risk-taking.

Macroeconomics and Bank-Specific Factors Affect Banks Performance in Brazil

Tan Kock Lim (Universiti Tunku Abdul Rahman)
Kong Yin Mei (Universiti Tunku Abdul Rahman)

Abstract

The purpose of this research is to identify the significance of macroeconomic and bank-specific variables that affect bank performance. We choose asset growth, liquidity, and leverage as bank-specific factors, and gross domestic product and inflation as macroeconomic factors to conduct this research. We analyse data from five banks converting a sample period of 1997 to 2017. We test the variables influencing banks' performance using E-views. REM is chosen as the model for this research in order to regress the data. We find that only GDP has an insignificant relationship, while other variables are significant related with bank's profitability. Besides, asset growth and leverage are negatively related with bank profitability while other variables are positively related.

Banking Performance: How do DEA and Accounting Measures Compare?

Ali Nasserinia (Universiti Putra Malaysia)
Mohamed Ariff (Sunway University)

Abstract

This paper presents new results on banking sector performance in Canada, the UK and the US using data over a recent 12-year period. A novelty in this research is to study bank performance using TFPCH from DEA technology along with an accounting variable; namely, the net interest margin as separate dependent variables with a complete set of theory-suggested criterion variables for bank performance. We hypothesized that a DEA-based variable would yield as good a result, at best, as the more popular and well-entrenched accounting measure chosen. Relying on Panel-GMM econometric methods, we identify a set of bank-specific and macroeconomic factors as having statistically significant impacts on bank performance with both dependent variables. The results would have us advance an idea that DEA-based measure could serve well as the alternative accounting ratios as performance tool for checking banking (as well as non-financial firm) performance.

Determinants of Bank Performance using EAGLES in Asia Pacific: An Exploratory Study

Duong Dang (RMIT University Vietnam)
John Vong (International Centre for ASEANA Management)

Abstract

In the past decades, the determinants of profitability have been assessed in both length and breadth by researchers with economic modelling of micro and macroeconomic factors. The objective of the exploratory study is unique in that it applies the EAGLES framework. The paper will focus on the key drivers of profitability and financial performance based on financial statement indicators of leading banks across Asia Pacific countries from 2012 to 2018. The statistical analysis was conducted applying OLS on a SAS platform. The results demonstrated the importance of EAGLES financial components of interest burden cover, net interest margin and cost of funds in determining profitability across Asia-Pacific region. In particular, the study will offer illumination to researchers on bank failures and financial crises.

Session 3.4: Banking — 3:00 pm to 4:30 pm

Chair: Othman Yong (Universiti Kebangsaan Malaysia)

1. **Banks Risk-Taking and State Ownership: Evidence from Asian Emerging Markets**

   Ai-Xin Lee (Universiti Sains Malaysia)*
   Chee-Wooi Hooy (Universiti Sains Malaysia)

   Discussant: John Vong (International Centre for ASEANA Management)

2. **Macroeconomics and Bank-Specific Factors Affect Banks Performance in Brazil**

   Tan Kock Lim (Universiti Tunku Abdul Rahman)*
   Kong Yin Mei (Universiti Tunku Abdul Rahman)

   Discussant: Ai-Xin Lee (Universiti Sains Malaysia)

3. **Banking Performance: How do DEA and Accounting Measures Compare?**

   Ali Nasserinia (Universiti Putra Malaysia)*
   Mohamed Ariff (Sunway University)

   Discussant: Tan Kock Lim (Universiti Tunku Abdul Rahman)

4. **Determinants of Bank Performance using EAGLES in Asia Pacific: An Exploratory Study**

   Duong Dang (RMIT University Vietnam)
   John Vong (International Centre for ASEANA Management)*

   Discussant: Ali Nasserinia (Universiti Putra Malaysia)

*Presenter

Session 3.5: Economic Growth

The Inverted U-Shape in the Relationship Between Financial Development and Economic Growth: Permanent or Transitory Effect?

Elya Nabila Abdul Bahri (Universiti Tunku Abdul Rahman)
Abu Hassan Shaari Md Nor (Universiti Kebangsaan Malaysia)
Tamat Sarmidi (Universiti Kebangsaan Malaysia)
Nor Hakimah Haji Mohd Nor (Kolej Universiti Islam Antarabangsa Selangor)

Abstract

This paper re-investigates the nonlinear relationship between financial development and economic growth for 65 developing countries from 1980-2015 by splitting the sample into two regimes: 1980-2008 and 2009-2015; before and after global economic crisis. The results from our study contrasted earlier findings for the 2009-2015 subsample. In the second regime, interestingly, the relationship of financial development and economic growth is nonlinear with a U-shape. Our results carry implications for policy literature on economic growth.

The Financial Development and Economic Growth: Evidence from state of Qatar

Fekri Ali Shawtari (Community College of Qatar)

Abstract

This research attempts to examine the relationship between financial development and economic growth in a high income country. The study utilizes data from 1970 to 2017 and adopts autoregressive distributed lag (ARDL) techniques to identify co-integration along with long and short runs dynamics between financial development and economic growth. The results of the study find evidence on the bidirectional relationship between economic development and financial development. However, such relationship is more apparent between the non-hydrocarbon sectors than hydrocarbon sector. The Granger causality test suggests that financial development and economic development are bidirectionally related.

Information Communication Technology (ICT) Infrastructures and Economic Growth: Evidence from Panel

Zhu Hong Cheng (University Utara Malaysia)
Sabri Nayan (University Utara Malaysia)
Sri Haifaa Shabares (University Utara Malaysia)
Adilah Md Rodzi (University Utara Malaysia)

Abstract

This paper examines the relationship between Information Communication Technology (ICT) infrastructures and economic growth. The main motivation of this paper is to identify whether ICT succeeds at promoting economic growth and improving productivity. We employ panel data method to detect the relationship between ICT infrastructures and economic growth using data spanning from 2007 to 2016. Among the ICT infrastructures proxies, the mobile cellular subscriptions and fixed broadband subscriptions negatively impact economic growth, which are aligned with Solow productivity paradox. The empirical result based on panel vector error correction model (VECM) reveals that the previous period deviation from long-run equilibrium is corrected in the current period by 0.66%.

Session 3.5: Economic Growth — 3:00 pm to 4:30 pm

Chair: Yeah Kim Leng (Sunway University)

1. **The Inverted U-Shape in the Relationship Between Financial Development and Economic Growth: Permanent or Transitory Effect?**

   Elya Nabila Abdul Bahri (Universiti Tunku Abdul Rahman)*
   Abu Hassan Shaari Md Nor (Universiti Kebangsaan Malaysia)
   Tamat Sarmidi (Universiti Kebangsaan Malaysia)
   Nor Hakimah Haji Mohd Nor (Kolej Universiti Islam Antarabangsa Selangor)

   Discussant: Zhu Hong Cheng (University Utara Malaysia)

2. **The Financial Development and Economic Growth: Evidence from state of Qatar**

   Fekri Ali Shawtari (Community College of Qatar)*

   Discussant: Elya Nabila Abdul Bahri (Universiti Tunku Abdul Rahman)

3. **Information Communication Technology (ICT) Infrastructures and Economic Growth: Evidence from Panel**

   Zhu Hong Cheng (University Utara Malaysia)*
   Sabri Nayan (University Utara Malaysia)
   Sri Haifaa Shabares (University Utara Malaysia)
   Adilah Md Rodzi (University Utara Malaysia)

   Discussant: Fekri Ali Shawtari (Community College of Qatar)

*Presenter

Session 3.6: Real Estate Finance

Housing Affordability among the Millennial Generation: Using a Lifetime Income Measure

Gary John Rangel (Universiti Sains Malaysia)
Jason Wei Jian Ng (Monash University Malaysia)
Thangarajah@M. Thiyagarajan (Monash University Malaysia)
Murugasuc (Monash University Malaysia)
Wai Ching Poon (Monash University Malaysia)

Abstract

We analyse the issue of housing affordability through the lens of millennial-led households in Malaysia. Using a long-term housing affordability measure that solves the measurement issue of house prices versus household income, we show that long-term housing affordability among millennial households in Malaysia has been declining over the sample period when measured regionally across the rural-urban spectrum. This outcome concludes that housing affordability stress hits urban millennial-led households just as hard as rural millennial-led households. The implications of these findings provide us with the impetus to recommend several policy measures specifically targeted at millennial-led households to improve their long-term housing affordability.

Determinants of Housing Price: Evidence from Panel Data

Nur Hafizah Ismail (Universiti Utara Malaysia)
Sabri Nayan (Universiti Utara Malaysia)

Abstract

This paper investigates the determinants of housing prices in selected East-Asian countries: Malaysia, Singapore, Indonesia and Thailand by using pooled mean regression approach using quarterly data from 2000 to 2010. The key factors investigated were GDP, bank lending rate, unemployment rate and stock price index. All determinants were found to be significantly related to the cross-country House Price Index (HPI). We conclude that East-Asian countries should adapt relevant imperative action to control house prices from escalating and to avoid financial instability in order to prevent occurrence of a housing bubble.

Residential Property Market in Malaysia: An Analysis of Price Drivers

Hassanudin Mohd Thas Thaker (Sunway University)
Mohamed Ariff (Sunway University)

Abstract

This paper investigates the drivers of residential prices in Malaysia. Using an annual data set ranging from 2007 until 2018 with different residential categories, states in Malaysia and advanced econometric technique, we find that capital gain and loss, rental per square feet, disposable income, inflation, number of marriages, deposit rate, risk premium and loan-to-value ratio are statistically significant in explaining the residential price movement in Malaysia. This finding lends some support to the argument on the rise of residential prices and offers several policy implications from a practical point of view with regard to the residential market.

Government Intervention vs. Sentiments: Effects on the Malaysian Housing Market

Calvin W. H. Cheong (Swinburne University of Technology Sarawak Campus)
Lisa L. H. Ngui (Swinburne University of Technology Sarawak Campus)
Shella Georgina Beatrice (Swinburne University of Technology Sarawak Campus)

Abstract

This paper examines the factors that drive the recent exponential growth in Malaysian house prices. By constructing a housing market sentiment index, we find contemporaneous sentiment to have a strong influence on future housing market returns especially in the short-term. Government-introduced cooling measures were ineffective in dampening prices and market sentiment. We also find property developer behaviour to drive sentiments and prices. The study contributes to literature by providing an easily generalizable method of constructing a housing market sentiment index in other countries besides giving clear indication of the drivers of house prices and sentiment for more effective government intervention.

Session 3.6: Real Estate Finance — 3:00 pm to 4:30 pm

Chair: Young Kyung Ko (Sunway University)

1. **Housing Affordability among the Millennial Generation: Using a Lifetime Income Measure**

   Gary John Rangel (Universiti Sains Malaysia)*
   Jason Wei Jian Ng (Monash University Malaysia)
   Thangarajah@M. Thiyagarajan (Monash University Malaysia)
   Murugasuc (Monash University Malaysia)
   Wai Ching Poon (Monash University Malaysia)

   Discussant:
   Shella Georgina Beatrice (Swinburne University of Technology Sarawak Campus)

2. **Determinants of Housing Price: Evidence from Panel Data**

   Nur Hafizah Ismail (Universiti Utara Malaysia)*
   Sabri Nayan (Universiti Utara Malaysia)

   Discussant: Gary John Rangel (Universiti Sains Malaysia)

3. **Residential Property Market in Malaysia: An Analysis of Price Drivers**

   Hassanudin Mohd Thas Thaker (Sunway University)*
   M. Ariff (Sunway University)

   Discussant: Nur Hafizah Ismail (Universiti Utara Malaysia)

4. **Government Intervention vs. Sentiments: Effects on the Malaysian Housing Market**

   Calvin W. H. Cheong (Swinburne University of Technology Sarawak Campus)
   Lisa L. H. Ngui (Swinburne University of Technology Sarawak Campus)
   Shella Georgina Beatrice (Swinburne University of Technology Sarawak Campus)*

   Discussant: Hassanudin Mohd Thas Thaker (Sunway University)

*Presenter

Session 4.1: Corporate Finance IV (Valuation)

Stock Valuation Models and Banking Stocks: An Empirical Test of Four Common Models

Leong Ken Yien (Sunway University Malaysia)

Abstract

The aim of this paper is to provide a discussion of the research literature on banking valuation by proposing to test the validity of four commonly-used theoretical valuation models widely also used in the industry and taught in finance courses. The research gap identified from a review of relevant literature suggests that there is yet a comprehensive study of the validity of key valuation models as commonly used in banking practice. Among the vast literature on stock valuation, the focus has been on the much larger number of non-banking firms on the validity of some of more than 12 theoretical models. Hence, this paper provides a summary of the research objectives, the relevant evidence from literature on why this study may contribute new findings, and then also explain the methodology proposed to be applied in this study as a doctoral research.

Managerial Aversion, Capital Structure and Market Valuation

Yusuf Babatunde Adeneye (Universiti Sains Malaysia)
Ei Yet Chu (Universiti Sains Malaysia)

Abstract

This study examines the impact of managerial aversion on market valuation of firms in Bank and Market based countries among South East Asian Countries (Malaysia, Singapore, Philippines, Vietnam, Thailand, and Indonesia). The results show that managerial risk aversion increases market valuation while managerial regret aversion decreases a firm's valuation in a bank-based economy while the opposite holds true for a market-based economy. The findings show that the time-varying effects of the financial crisis can change or shift the impact of managerial aversion in a bank-based economy to a market-based economy. Our study implies that the time-varying effect of the financial crisis is market-based than bank-based.

Analysing the Relation of Operational and Economic Parameters to Total Shareholder Value of Listed Gold Mining Companies in Indonesia and Five other Countries

Antonius Siahaan (Swiss German University)
Yosman Bustaman (Swiss German University)
Herlambang Cipta Aji (Swiss German University)

Abstract

Despite the fame of Indonesia's gold industry, only few gold mining companies are listed in the Indonesia stock exchange. Meanwhile, there is a need to increase investment in the mining sector from stock market as reserve has been stagnant while production keeps going. This study is conducted to analyse the effect of published operational parameter: ore processed, gold production, mining grade, process recovery, as well as external factors such as gross-domestic product and gold price to the share return of public listed gold mining companies. From panel data regression of quarter reports of eighteen (18) world mining companies from 2012 to 2017, we find that process recovery and gold price are significant to the change of share price. Furthermore, when operational parameter of existing mines can be good and positively increase, mining companies still need to look at their reserve to ensure sustainability of the business in the long run.

Sustainable Growth Rate of Firm: Do Financial Constraints Matter?

Norfhadzilahwati Rahim (Universiti Sains Islam Malaysia)
Fauzias Mat Nor (Universiti Sains Islam Malaysia)
Nurainna Ramli (Universiti Sains Islam Malaysia)
Ainulashikin Marzuki (Universiti Sains Islam Malaysia)

Abstract

This study examines the effect of capital structure on Malaysian Shariah compliant and Shariah non-compliant firms' sustainable growth and the optimal level of debt at which a firm could maximize its growth. Employing panel threshold regression on a sample of 86 compliant and 28 non-compliant firms in Malaysia from 2007 to 2016, we find that debt is relevant to the sustainable growth rate depending on a threshold value. We also report that excessive level of debt could precede unsustainable growth, financial distress and insolvency. Moreover, results indicate that debt to total assets can be limited to 37 percent to facilitate sustainable growth. Since Shariah non-compliant firms are uninhibited by a debt threshold, identifying the optimal debt ratio could help managers to make financial planning in an efficient manner.

Session 4.1: Corporate Finance IV (Valuation) **5:00 pm to 6:30 pm**

Chair: Ray McNamara (James Cook University)

1. **Stock Valuation Models and Banking Stocks**

   Leong Ken Yien (Sunway University)*

   Discussant: Antonius Siahaan (Swiss German University)

2. **Managerial Aversion, Capital Structure and Market Valuation**

   Yusuf Babatunde Adeneye (Universiti Sains Malaysia)*
   Ei Yet Chu (Universiti Sains Malaysia)

   Discussant: Leong Ken Yien (Sunway University Malaysia)

3. **Analysing the Relation of Operational and Economic Parameters to Total Shareholder Value of Listed Gold Mining Companies in Indonesia and Five other Countries**

   Antonius Siahaan (Swiss German University)*
   Yosman Bustaman (Swiss German University)
   Herlambang Cipta Aji (Swiss German University)

   Discussant: Fauzias Mat Nor (Universiti Sains Islam Malaysia)

4. **Sustainable Growth Rate of Firm: Do Financial Constraints Matter?**

   Norfhadzilahwati Rahim (Universiti Sains Islam Malaysia)
   Fauzias Mat Nor (Universiti Sains Islam Malaysia)*
   Nurainna Ramli (Universiti Sains Islam Malaysia)
   Ainulashikin Marzuki (Universiti Sains Islam Malaysia)

   Discussant: Yusuf Babatunde Adeneye (Universiti Sains Malaysia)

*Presenter

Session 4.2: Corporate Governance IV (Ownership Structure)

Is RPT a concern? Related Party Transaction: Case of Malaysian Family Firms

Lynn, Ling Yew Hua (Curtin University)
John Evans (Curtin University)
Md Shibley Sadique (University of Rajshahi)

Abstract

In Malaysia, majority of public-listed companies that have concentrated shareholdings are family owned. This phenomenon motivates the interest to further explore possibility of entrenchment behavior of Malaysian family firms through an investigation done on related party corporate acquisitions. Corporate acquisitions provide a direct measure for possibility of minority shareholder expropriations. The results indicate significant findings that Malaysia family firms performed value decreasing related party corporate acquisitions. Furthermore, when family ownership is considered, it supports the notion of Agency Problem II that higher concentrated family ownership entrenched family owners performed value-decreasing related party corporate acquisitions. The literature in this area of study remain scarce and the findings shall shed further light in this area of research. Related party corporate acquisitions have been especially understudied and not monitored. The value destroying behavior of Malaysia family firms is especially significant when family ownership is close to a stake of 50%. The findings shall raise concern and red flag to policy maker that there is a need to relook into the policy of monitoring related party transactions that are performed by family firms in the case of Malaysia.

Ownership Structure, Dividend Payout and CEO Compensation: Evidence from Malaysia

Ravichandran Subramaniam (Monash University Malaysia)
Teh Chee Ghee (Monash University Malaysia)
Sakthi Mahenthiran (Monash University Malaysia)

Abstract

This study seeks to present and test a model on how ownership structure moderates the relationship between a company's dividend payout and CEO compensation. We examine a panel data on a sample of 300 of the largest Malaysian public listed companies (PLCs) on Bursa Malaysia for the years 2008 to 2014. Based on 2,009 firm-year observations, our results show consistent empirical positive evidence on the association between dividend payout and CEO compensation across all models and negates Bhattacharyya (2003) model of dividend payout. On the structure of ownership, this study finds evidence that government ownership is positively associated with dividend payout whereas institutional and family, are positively associated with dividend payout at 10 percent significance level, demonstrating a contrast in results between an emerging market as compared to developed markets' dividend payout puzzle. In addition, our results show that the positive relationship between CEO compensation and dividend payout is weaker for government-linked corporations (GLCs) and hence the moderation effect is prevalent in GLCs. The results have policy implications on the type of ownership that is prevalent in the emerging capital markets and more predominantly where GLCs play vital roles in the economy.

The Effect of Family Ownership and Control on Dividend Policy of Publicly Listed Firms in Indonesia and Malaysia

Laras Ayu (Universitas Indonesia)
Viverita (Universitas Indonesia)

Abstract

The purpose of this study is to determine the influence of family ownership and family control on a firm's dividend policy in publicly listed firms in Indonesia and Malaysia. This study applied the generalized least square panel data over 2003-2016 and considers the period of global financial crisis 2008-2010. The results show that a firm with a higher percentage of family ownership pays more dividend. The same effect applies to the percentage of family control. In contrast, we found that higher debt levels will reduce the dividend payment. These findings indicate that dividend distribution can be used as a policy to lessen agency problems of listed firms.

On the Interaction between Shareholder Perks, Ownership Structure and Earning Management

Liqian Chen (Yamaguchi University)
Yoshiyuki Matsuura (Yamaguchi University)
Mohammad Ali Tareq (Universiti Teknologi Malaysia)

Abstract

This paper provides new evidence on the association between ownership structure and earnings management by highlighting shareholder perk (SP). SP is a unique program for increasing retail ownership prevailing in Japan. SP enables to investigate the implication of purposeful retail ownership enhancement on the association between ownership structure and earnings management. We first document SP cross-sectionally helps to boost retail ownership while reducing institutional ownership. We also find SP mitigates accrual-based management while accentuating real activities management for meeting/beating earnings benchmark after controlling for other ownership structure. Our results suggest that SP may have a negative implication for long term cash flow.

Session 4.2:
Corporate Governance IV (Ownership Structure) **5:00 pm to 6:30 pm**
Chair: Maran Marimuthu (Universiti Teknologi Petronas)

1. **Is RPT a concern? Related Party Transaction: Case of Malaysian Family Firms**

   Lynn, Ling Yew Hua (Curtin University)*
   John Evans (Curtin University)
   Md Shibley Sadique (University of Rajshahi)

   Discussant: Liqian Chen (Yamaguchi University)

2. **Ownership Structure, Dividend Payout and CEO Compensation: Evidence from Malaysia**

   Ravichandran Subramaniam (Monash University Malaysia)*
   Teh Chee Ghee (Monash University Malaysia)
   Sakthi Mahenthiran (Monash University Malaysia)

   Discussant: Lynn, Ling Yew Hua (Curtin University)

3. **The Effect of Family Ownership and Control on Dividend Policy of Publicly Listed Firms in Indonesia and Malaysia**

   Laras Ayu (Universitas Indonesia)
   Viverita (Universitas Indonesia)*

   Discussant: Ravichandran Subramaniam (Monash University Malaysia)

4. **On the Interaction between Shareholder Perks, Ownership Structure and Earning Management**

   Liqian Chen (Yamaguchi University)*
   Yoshiyuki Matsuura (Yamaguchi University)
   Mohammad Ali Tareq (Universiti Teknologi Malaysia)

   Discussant: Viverita (Universitas Indonesia)

*Presenter

Session 4.3: Islamic Finance II

Wealth Effects of Sovereign Sukuk Issuances: A Multi-Country Study

Ziyaad Mahomed (INCEIF)
Alex Rafsanjani (INCEIF)
Shamsher Mohamad (INCEIF)

Abstract

Sovereign Islamic bonds (Sukuk) issued by governments and quasi-government agencies are in vogue as an alternate avenue for raising funds. The market perception of these issuances is measured through the wealth effects of announcements on specific market indices. Hitherto, there is no documented evidence on wealth effects of sovereign Sukuk issuance announcements, and this paper fills the gap by analysing a sample of 237 global sovereign issuances in 16 countries for the period 2000 to 2016. The differences in country's characteristics such as; economic and financial development, predominantly Muslim or non-Muslim population, regulatory environment, level of openness in the economy and political system were controlled in ascertaining the wealth effects. For findings based on different underlying structure of the Sukuk issued, some countries indicated pessimistic reaction to announcements of equity-based sovereign Sukuk in Indonesia and Saudi Arabia whereas there was no significant reaction for debt-based Sukuk in Indonesia and Malaysia

An Information Disclosure - Commitment Nexus: A Perspective from Waqf

Mohamad Isa Abd Jalil (University Malaysia Sabah)
Sofri Yahya (University Sains Malaysia)
Anwar Allah Pitchay (University Sains Malaysia)

Abstract

This study aims to fill the knowledge gap in the model of Waqif commitment, Waqif trust, and information disclosure from Waqf. Thus, we explore the nexus among the attitude of Waqf donor's commitment to donate more, the degree of trust among Waqif and information disclosure from Waqf institution. We found that Waqif commitment is affected by future information disclosure and trust. Basic background information disclosure, financial information disclosure, non-financial information disclosure, and governance information disclosure, on the other hand, don't have any significant relationship with Waqif commitment. Moreover, trust mediates between future information disclosure and governance information disclosure to Waqif's commitment.

Islamic Performance Measurement System: Driving firms towards virtuous wealth creation

Noor Leena Haniffah (Monash University Malaysia)
Mohammed Sharaf Shaiban (Monash University Malaysia)
Pervaiz K Ahmed (Monash University Malaysia)

Abstract

This study explores Islamic principles to develop a performance measurement system (PMS) that motivates the behaviour of firms. Against the backdrop of the finance and corporate sector riddled with controversies and crises over the past decades, the main motivation of this study is to drive businesses towards higher ethical standards. This study explores the role of PMS to drive ethical behaviour of firms internally from within, using a religious perspective. The purpose of this study is two-fold; the development and validation of a PMS based on Islamic principles, and an assessment of firms using this new IPMS framework. The findings of the quantitative study comparing the performance of Shariah compliant (SC) and non-Shariah compliant (NSC) companies report mixed results. This suggests that SC firms do not necessarily perform better than NSC firms according to Islamic principles, subsequently proposing a revisit of the current Shariah screening methodology implemented by regulators.

Session 4.3: Islamic Finance II — 5:00 pm to 6:30 pm

Chair: Ziyaad Mahomed (INCEIF)

1. **Wealth Effects of Sovereign Sukuk Issuances: A Multi-Country Study**

   Ziyaad Mahomed (INCEIF)*
   Alex Rafsanjani (INCEIF)
   Shamsher Mohamad (INCEIF)

   Discussant: Noor Leena Haniffah (Monash University Malaysia)

2. **An Information Disclosure - Commitment Nexus: A Perspective from Waqf**

   Mohd Isa Abd Jalil (University Malaysia Sabah)*
   Sofri Yahya (University Sains Malaysia)
   Anwar Allah Pitchay (University Sains Malaysia)

   Discussant: Ziyaad Mahomed (INCEIF)

3. **Islamic Performance Measurement System: Driving Firms Towards Virtuous Wealth Creation**

   Noor Leena Haniffah (Monash University Malaysia)*
   Mohammed Sharaf Shaiban (Monash University Malaysia)
   Pervaiz K Ahmed (Monash University Malaysia)

   Discussant: Mohamad Isa Abd Jalil (University Malaysia Sabah)

*Presenter

Session 4.4: Initial Public Offering (IPO)

Opening-Day Price Spread in Malaysian IPOS: Evidence from post-2008 Sub-Prime Crisis

Othman Yong (Universiti Kebangsaan Malaysia)

Abstract

This paper examines the first-day price spread of Malaysian IPOs after the 2008 sub-prime crisis, using a sample of 131 fixed-price Malaysian IPOs from January 2010 to December 2018. Generally, the study finds the existence of size effect, where smaller firms have higher initial returns and higher price spread compared to bigger firms. Also, hot IPOs produce higher initial returns and higher level of price spread compared to cold IPOs. Furthermore, IPOs with the participation of informed investors resulted in higher initial return and higher price-spread compared to IPOs without the participation of informed investors. In explaining the price spread, the model formed consists of the over-subscription ratio as the independent variable, with ACE Market versus Main Market as the control variable. Regulatory bodies should pay special attention to IPOs with high over-subscription ratios and listed on the ACE Market due to speculative trading activities and volatilities listing day.

Does IPO Prospectus in Malaysia Disclose Relevant Risk?

Sin-Huei Ng (Xiamen University Malaysia Campus)
Chen-Suen Lee (Xiamen University Malaysia Campus)

Abstract

Using data obtained from 118 IPO prospectuses of Malaysian companies that issued shares on Bursa Malaysia between 2009 and 2016, we investigated whether the "risk factor" section in Initial Public Offering (IPO) prospectuses provides sufficient risk-relevant information to investors. A detailed content analysis of the risk sections was carried out to obtain an aggregate measure of risk disclosure. The results revealed that the aggregate measures of risk extracted from these texts did not successfully predict the following outcomes: the volatility of companies' future stock prices, the sensitivity of future stock prices to market-wide fluctuations and the severe declines in future stock prices. We therefore deduce that the IPO prospectuses of Malaysian companies do not provide sufficient risk-relevant information in the risk factor section. Overall, the management of Malaysian companies appear unable or reluctant to disclose risk related information relevant to the public via IPO prospectus.

IPO Valuation Using the Price-Multiples Methods: Evidence from Malaysia

Chui Zi Ong (Universiti Utara Malaysia)
Rasidah Mohd Rashid (Universiti Utara Malaysia)
Kamarun Nisham Taufil-Mohd (Universiti Utara Malaysia)

Abstract

This paper examines the usefulness of the price-multiples methods in valuing 467 Malaysian fixed-price and book-built IPOs between 2000 and 2017. The findings suggest that IPOs' price-to-earnings (P/E), price-to-book (P/B), and price-to-sales (P/S) are positively related to the median P/E, P/B and P/S multiples of five comparable firms matched by industry and revenues. Additionally, the P/S multiple approach is shown to be the most important valuation method, specifically in book-built IPOs. The findings of this study have implications for underwriters in reducing mis-valuations by incorporating book-building in IPOs, which will invariably result in greater accuracy of valuations. Furthermore, investors may consider the P/S multiple to estimate firms' true values before investment.

Impact of Oversubscription Ratio and Trading Volume on IPO First Three-day Initial Return

Hon-Wei Leow (University of Malaya)
Lau Wee Yeap (University of Malaya)

Abstract

This study examines the impact of the trading volume on Initial Public Offering (IPO) initial return in an emerging market from January 2006 to December 2016. Models consisting of hierarchical and multiple regressions show: firstly, IPO provides an average of 21.90% of initial return to investors on the first trading day, 9.08% of return on the second day of trading and 7.12% of return on the third day from listing. Secondly, there is a positive relationship between the oversubscription ratio and initial return and no relationship between trading volume and initial return on the first three trading day. Thirdly, the trading volume does not act as a moderator that worsens the relationship between the oversubscription ratio and initial return. Lastly, this study shows that investors should actively participate in the subsequent trading of an IPO.

Pricing Mechanism and IPO Initial Return: Evidence from Pakistan Stock Exchange

Waqas Mehmood (Universiti Utara Malaysia)
Rasidah Mohd-Rashid (Universiti Utara Malaysia)
Abd Halim Ahmad (Universiti Utara Malaysia)

Abstract

This study examines the impacts of pricing mechanism and premium offered on IPO initial return in Pakistan. Cross-sectional data were gathered on 90 listed IPOs from Pakistan stock exchange. Ordinary least squares, quantile regression, robustness regression, and stepwise regression were employed to assess the factors that influenced initial return. The outcomes showed that after the reform of book building pricing mechanism, the initial return of IPOs increased, when compared to the fixed price offerings in Pakistan. Underwriter discretionary allocation and information asymmetry are the possible reasons for high initial return. This study concludes that information from book building pricing mechanism and premium had influenced both issuer and investor in subscribing IPO.

Session 4.4: Initial Public Offering (IPO) — 5:00 pm to 6:30 pm

Chair: Samuel Jebaraj Benjamin (University of Otago)

1. **Opening-Day Price Spread in Malaysian IPOS: Evidence from post-2008 Sub-Prime Crisis**

   Othman Yong (Universiti Kebangsaan Malaysia)*

   Discussant: Waqas Mehmood (Universiti Utara Malaysia)

2. **Does IPO Prospectus in Malaysia Disclose Relevant Risk?**

   Sin-Huei Ng (Xiamen University Malaysia Campus)*
   Chen-Suen Lee (Xiamen University Malaysia Campus)

   Discussant: Othman Yong (Universiti Kebangsaan Malaysia)

3. **IPO Valuation Using the Price-Multiples Methods: Evidence from Malaysia**

   Chui Zi Ong (Universiti Utara Malaysia)*
   Rasidah Mohd Rashid (Universiti Utara Malaysia)
   Kamarun Nisham Taufil-Mohd (Universiti Utara Malaysia)

   Discussant: Sin-Huei Ng (Xiamen University Malaysia Campus)

4. **Impact of Oversubscription Ratio and Trading Volume on IPO First Three-day Initial Return**

   Hon-Wei Leow (University of Malaya)*
   Wee-Yeap Lau (University of Malaya)

   Discussant: Chui Zi Ong (Universiti Utara Malaysia)

5. **Pricing Mechanism and IPO Initial Return: Evidence from Pakistan Stock Exchange**

   Waqas Mehmood (Universiti Utara Malaysia)*
   Rasidah Mohd-Rashid (Universiti Utara Malaysia)
   Abd Halim Ahmad (Universiti Utara Malaysia)

   Discussant: Hon-Wei Leow (University of Malaya)

*Presenter

Session 4.5: Price Discovery

Price Discovery between Index Futures and Spot

Imtiaz Mohammad Sifat (Sunway University)
Azhar Mohamad (International Islamic University Malaysia)

Abstract

In this paper, we utilize high-frequency intraday data from September 2017 to August 2018 to investigate price leadership dynamics between futures and spot markets in Malaysia. We employ Maximal Overlap Discrete Wavelet Transform to evaluate interdependence between contemporaneous index futures and spot returns spaced at 15 seconds. We observe that price discovery between futures and spot markets at granular level is a scale-dependent phenomenon. Moreover, we record a counter-intuitive but not unprecedented evidence of futures market lagging the spot market in price formation, with the speed of adjustment approaching convergence in 1-8 minutes. Our findings constitute evidence against the efficient market hypothesis and hint at arbitrageable opportunities, especially by high-frequency robots. Robustness checks via BEKK-GARCH and DCC-GARCH estimations yield no contradiction.

Price Discovery in Agricultural Markets

Keshab Shrsetha (Monash University Malaysia)

Abstract

In this study, we empirically analyze the contribution of futures markets to the price discovery process for seven agricultural commodities using the generalized information share proposed by Lien and Shrestha (2014) and component share based on the permanent-temporary decomposition proposed by Gonzalo and Granger (1995). We find that most of the price discovery takes place in the futures markets except for cocoa. Our results show that futures markets play an important role in price discovery process. Finally, as a technical note, we present some limitations of the so-called information leadership share (ILS) proposed by Yan and Zivot (2010) and Putnins (2013).

Determinants of Malaysian Stock Index Prices: A Portfolio Perspective

Alireza Zarei (Sunway University)
Rachel Tan Kar Lynn (Sunway University)
Lee Zhen Hen (Sunway University)

Abstract

We approach an important research topic on Malaysian stock index behaviour by revisiting the test procedure in a different manner and applying an appropriate econometric methodology for testing if the stock index prices are influenced by the exchange rates and other fundamental factors. We use data over a 20-year period from 1998 to 2018 to examine the short and long-run dynamics of the stock index prices from the viewpoint of the foreign investors using a portfolio approach. We use an ARDL bounds testing framework and find evidence of significant long-run association between the fundamental factors and the stock index prices. In our view, these findings extend our knowledge on how the behaviour of stock index prices is consistent with theory-relevant factors and particularly in response to the recent devaluation and high volatility of the Malaysian ringgit.

Session 4.5: Price Discovery 5:00 pm to 6:30 pm

Chair: Keshab Shrestha (Monash University Malaysia)

1. **Price Discovery between Index Futures and Spot**

   Imtiaz Mohammad Sifat (Sunway University)
   Azhar Mohamad (International Islamic University Malaysia)*

   Discussant: Alireza Zarei (Sunway University)

2. **Price Discovery in Agricultural Markets**

   Keshab Shrsetha (Monash University Malaysia)*

   Discussant: Azhar Mohamad (International Islamic University Malaysia)

3. **Determinants of Malaysian Stock Index Prices: A Portfolio Perspective**

   Alireza Zarei (Sunway University)*
   Rachel Tan Kar Lynn (Sunway University)
   Lee Zhen Hen (Sunway University)

   Discussant: Keshab Shrsetha (Monash University Malaysia)

*Presenter

Session 4.6: Finance and Education

The Influence of Financial Socialization Agents on Financial Awareness and Money Attitudes of Malaysian Youths

Nga Koe Hwee, Joyce (Sunway University)
K. K. Yeoh (Sunway University)
Sook Yin Choo (Sunway University)

Abstract

This exploratory study investigates how socialization agents (parents and peers) interact with financial awareness to affect attitudes towards money. Attitude towards money is the foundation on which financial goals are centred. Underpinned by the Theory of Planned Behaviour, this paper studies the nature and degrees of influence of key socialization agents in nurturing positive and negative financial attitudes amongst Malaysian youths. Using PLS-SEM approach, there were mixed influences of key financial socialization agents such as parents and peers on youths' financial attitudes and behavioural tendencies. We find that Financial awareness positively influences materialistic and retention attitudes. However, financial awareness doesn't mediate the relationship between parental influence and power/materialistic attitudes. Based on these findings, the study recommends that financial awareness be cultivated at a much earlier age (e.g. primary school) so that these individuals internalize the distinction between needs and wants; unperturbed by consumerism and materialism.

Generating Research Dimensions from a Doctoral Course of Study: Implications for Emerging Economies

Ramana Lellapalli (Indian Institute of Management Indore)

Abstract

Generating an apt topic of study by a doctoral student is challenging. While most of them may finalise topics that could have relevance at the time of undertaking the study, it is important to provide a meaningful foundation for enabling the identification of a suitable proposition. Doctoral courses are meant to provide a direction in this endeavor. This paper, based on the experience of designing and delivering such a course, discusses the various aspects of the three modules of the course. The first relates to the domain, methods and ideology of finance while the second discusses aspects of non-expected utility theory. Some issues in the emerging markets and Asia-Pacific are discussed in the third module that could have linkages to the earlier modules. The paper concludes by generating topics that may be considered for further study and collating the topics suggested by students that have some theoretical underpinnings.

Factors Influencing Accounting Students' Career Path

Jefry Lay (Janabadra University)
Siti Rochmah Ika (Janabadra University)

Abstract

This study aims to examine factors influencing accounting students' career path. We conducted a survey using questionnaires through Google forms that were given to the students in private universities in Bali, Jakarta, Surabaya, and Yogyakarta. A total of 316 questionnaires were collected. The results indicate that, in all sample (local and international classes), all dependent variables have a significant relationship with career path. For the local class, only extrinsic motivation, influence by third parties, and opportunity cost have a significant relationship with the career path. However, other three independent variables such as intrinsic motivation, career exposure, and intention to work abroad have an insignificant relationship with a career path. Furthermore, for international class, intrinsic motivation, extrinsic motivation, career exposure, and intention to work abroad have a significant relationship with a career path. In contrast, influence by third parties and opportunity cost have an insignificant relationship with a career path.

National Culture and Herding Behaviour among Investors in Malaysian Stock Market

Kwang-Jing Yii (Swinburne University of Technology)
Zi-Han Soh (Universiti Tunku Abdul Rahman)
Lin-Hui Chia (Universiti Tunku Abdul Rahman)
Khoo Shiang-Lin Jaslyn (Universiti Tunku Abdul Rahman)
Lok-Yew Chong (Universiti Tunku Abdul Rahman)
Zi-Chong Fu (Universiti Tunku Abdul Rahman)

Abstract

This study examines the relationship between information, overconfidence, market sentiment, experience and national culture with herding behaviour of investors in Malaysian stock market. A total of 400 questionnaires are distributed to the investors from bank institution and populous regions in Kuala Lumpur, Penang and Johor. The survey design based on cross-sectional data is analysed by using Partial Least Square of Structural Equation Model. The findings show that information, market sentiment, experience and national culture are positively related to herding behaviour while there is no effect from overconfidence. For future study, other financial market participants such as money market investors are recommended to be considered to provide more comprehensive view of investment in stock market.

Session 4.6: Finance and Education	**5:00 pm to 6:30 pm**
Chair: David Ng Ching Yat (UTAR)	

1. **The Influence of Financial Socialization Agents on Financial Awareness and Money Attitudes of Malaysian Youths**

   Nga Koe Hwee, Joyce (Sunway University)
   K. K. Yeoh (Sunway University)
   Sook Yin Choo (Sunway University)*

   Discussant: Jefry Lay (Janabadra University)

2. **Generating Research Dimensions from a Doctoral Course of Study: Implications for Emerging Economies**

   Ramana Lellapalli (Indian Institute of Management Indore)*

   Discussant: Sook Yin Choo (Sunway University)

3. **Factors Influencing Accounting Students' Career Path**

   Jefry Lay (Janabadra University)*
   Siti Rochmah Ika (Janabadra University)

   Discussant: Kwang-Jing Yii (Swinburne University of Technology)

4. **National Culture and Herding Behaviour among Investors in Malaysian Stock Market**

   Kwang-Jing Yii (Swinburne University of Technology)*
   Zi-Han Soh (Universiti Tunku Abdul Rahman)
   Lin-Hui Chia (Universiti Tunku Abdul Rahman)
   Khoo Shiang-Lin Jaslyn (Universiti Tunku Abdul Rahman)
   Lok-Yew Chong (Universiti Tunku Abdul Rahman)
   Zi-Chong Fu (Universiti Tunku Abdul Rahman)

   Discussant: Ramana Lellapalli (Indian Institute of Management Indore)

*Presenter

Day 2: Thursday 1 August 2019

Session 5.1: Corporate Finance V (Dividend)

Dividend Payout Policy and Global Financial Crisis: A Study on Asian Non-Financial Listed Companies

Boo-Hooi Laing (Universiti Sains Malaysia)
Chan-Tze Haw (Universiti Sains Malaysia)
Ruhani binti Ali (Universiti Sains Malaysia)

Abstract

This study assesses the dividend payout option of non-financial firms listed on four Asian countries: Malaysia, Thailand, Singapore and Hong Kong, over the period of 2006-2016. Multinomial logistic regression was used to justify the determinants of four mutually exclusive payout choices (increase, cut, omit or maintain) in the context of catering, signalling and smoothing concerns. The study period is split into pre-, during- and post-crisis. Several dividend patterns were observed across nations and sub-periods. The empirical result generally reveals that firms do shift their dividend policy during the financial crisis. More specific, firms adopted a conservative strategy and appeared more concerned about preserving fund rather than distributing dividend during financial crisis period. The consequence is broadly consistent with the view that the dividend payer's characteristics is the most relevant in explaining dividend payout options, while dividend cut is one of the methods to maintain financial flexibility during financial crisis period.

Dividend Yields and Stock Returns under a Tax-Free Environment

Kienpin Tee (Zayed University)

Abstract

This study examines the relationship between dividend yield and stock returns for firms in the United Arab Emirates, where there are no taxes on dividend incomes and capital gains. Following methods of Black and Scholes (1974) and Litzenberger and Ramaswamy (1979), we find that yield coefficients using monthly data are insignificant under both BS and LR models, and yield coefficients using weekly data are significant under LR model. The results suggest that some other non-tax factor drives the yield effect and that return variation associated with dividends is caused by the time series variation. Our results are robust after we exclude periods with dividend omission and control for Fama-French factors.

The Impact of Corporate Dividend Decisions on Firm Value among Selected Listed Firms in Bursa Malaysia: A Panel Data Analysis

Chaleeda Som Sak (Universiti Malaysia Perlis)
Md. Aminul Islam (Universiti Malaysia Perlis)
Wan Ahmad Wan Omar (Universiti Malaysia Perlis)
Tunku Salha Tunku Ahmad (Universiti Malaysia Perlis)
Anas Najeeb Mosa Ghazalat (Arab Open University)

Abstract

This study examines the effect of corporate dividend decisions on the value of the firm. We employ panel data procedure for a sample of 256 Malaysian public listed firms for the period 2000-2015. Tobin's Q was used to represent firm value. Corporate dividend decisions were proxied by dividend pay-out, dividend yield and dividend-to-total assets. Based on regression results, we conclude that the dividend pay-out ratio, dividends-to-total assets, tangibility and firm size are important factors of firm value while dividend yield and liquidity are of less impact on the value of the firm.

The Influence of Shareholder Political Connections on Dividend Policy in Malaysia

Philip Sinnadurai (Macquarie University)
Ravichandran Subramaniam (Monash University)
Susela Devi (Sunway University)

Abstract

Using 1,182 observations from Malaysia from 2006-2013, we investigate the association between dividend policy and politically connected status. We hypothesise that companies with a shareholder political connection make larger dividend payouts. The methodology entails logistic regressions of dividend policy on a dummy flagging observations with a shareholder political connection. We control for other determinants of dividend policy, including incentive to use dividend policy as a mechanism to curb overinvestment. The results support our hypothesis. We adapt the research design to the Malaysian setting.

Session 5.1: Corporate Finance V (Dividend) **11:30 am to 1:00 pm**

Chair: Chair: Karren Lee-Hwei Khaw (University of Malaya)

1. **Dividend Payout Policy and Global Financial Crisis: A Study on Asian Non-Financial Listed Companies**

   Boo-Hooi Laing (Universiti Sains Malaysia)*
   Chan-Tze Haw (Universiti Sains Malaysia)
   Ruhani binti Ali (Universiti Sains Malaysia)

   Discussant: Philip Sinnadurai (Macquarie University)

2. **Dividend Yields and Stock Returns under a Tax-Free Environment**

   Kienpin Tee (Zayed University)*

   Discussant: Boo-Hooi Laing (Universiti Sains Malaysia)

3. **The Impact of Corporate Dividend Decisions on Firm Value among Selected Listed Firms in Bursa Malaysia: A Panel Data Analysis**

   Chaleeda Som Sak (Universiti Malaysia Perlis)*
   Md. Aminul Islam (Universiti Malaysia Perlis)
   Wan Ahmad Wan Omar (Universiti Malaysia Perlis)
   Tunku Salha Tunku Ahmad (Universiti Malaysia Perlis)
   Anas Najeeb Mosa Ghazalat (Arab Open University)

   Discussant: Kienpin Tee (Zayed University)

4. **The Influence of Shareholder Political Connections on Dividend Policy in Malaysia**

   Philip Sinnadurai (Macquarie University)*

   Discussant: Chaleeda Som Sak (Universiti Malaysia Perlis)

*Presenter

Session 5.2: Corporate Governance V (CEO & Board)

Effect of Planned and Unplanned CEO Turnover Announcement in Malaysia

Shubasini Sivapregasam (Universiti Putra Malaysia)
Aslam Izah Selamat (Universiti Putra Malaysia)
Norhuda Abdul Rahim (Universiti Putra Malaysia)
Junaina Muhammad (Universiti Putra Malaysia)

Abstract

This paper presents a fresh perspective of CEO turnover, where the impact of CEO turnover on firm value is analysed based on whether the removal is planned and unplanned. Using an event study method, a total of 124 announcements over a period of 10 years in Malaysia is examined. The results find that, in general, the CEO turnover announcements cause a significant reaction, due to the change in the investment decision on the firm. Specifically, there is a positive significant impact when the CEO turnover is planned. In planned turnover, the negative news on the removal of CEO is immediately minimised with the positive news on the announcement of CEO appointment, indicating the positive impact of establishing CEO Succession Plan on firm value. Further test using cross-sectional regression analysis CEO's education background, stock ownership and origin (outside) also play a role.

Why CEOs Invest in Environmental, Social and Governance Activities: Evidence on Shariah Compliant Firms

Zaheer Answer (University of Lahore)
Wajahat Azmi (INCEIF)
Shamsher Mohamad (INCEIF)
Andrea Paltrinieri (University of Udine)

Abstract

Existing literature argues that CEOs invest in Environmental, Social and Governance (ESG) either to gain profit or to resolve conflicts between stakeholders and these decisions are influenced by CEO's managerial style and firm's capital structure. We perform analysis, on a sample of Shariah Compliant (SC) and conventional firms, for the period 2006-2015, to investigate why CEOs of both types of firms invest in ESG initiatives. This comparison is important due to the differences in managerial styles and capital structures. The results across both types of firms do not support the agency view of ESG activities but, by inference, support the notion that CEOs invest in ESG activities to resolve potential conflicts between stakeholders.

Impact of Board Gender Diversity and Structural Diversity on Firm Performance: An Empirical Investigation on Large Companies in Malaysia

Maran Marimuthu (Universiti Teknologi Petronas)
Rohail Hassan (Universiti Teknologi Petronas)

Abstract

The paper examines demographic and structural diversity at top-level management and its impact on the performance of Malaysian-listed companies. This study specifies the whole distinct mechanism and measures it independently; bridging as the demographic and structural diversity among the board of directors (BODs) and bonding as the firm's financial performance. To maintain the homogeneity factor, empirical analysis is confined to two sectors and 330 Malaysian listed firms out of 959 firms selected on the basis of judgmental sampling during the period of 2009 to 2013. The paper applies panel data analysis and the correlation matrix to justify this phenomenon. The empirical findings suggest that both demographic and structural diversity are significant predictors of a firm's financial performance. Hence, the large listed companies specifically are more responsible for promoting diversity among top-level management.

For Better, For Worse: The Value of Political Connections during Regime Change

Yessy Peranginangin (Monash University Malaysia)
Chwee Ming Tee (Tunku Abdul Rahman University College)
Mei Yee Lee (Monash University Malaysia)

Abstract

Using a rare and unexpected political event, where the unexpected loss of the incumbent political regime takes place, we examine the value of political connection. We find that the market reacts negatively to firms that are connected to the old regime. We also find that market reaction takes into account the length of connection and the internal as well as external governance mechanisms in connected firms. The role of independent director within the board of directors and audit committee could not alleviate the negative market reaction for firms that are connected to the old regime. We document institutional ownership can explain the negative market reaction towards connected firms. The negative market reaction towards firms connected to the old regime is exacerbated with the ownership of the foreign institutional investors.

Session 5.2: Corporate Governance V (CEO & Board) **11:30 am to 1:00 pm**

Chair: Noor Afza Amran (Universiti Utara Malaysia)

1. **Effect of Planned and Unplanned CEO Turnover Announcement in Malaysia**

   Shubasini Sivapregasam (Universiti Putra Malaysia)*
   Aslam Izah Selamat (Universiti Putra Malaysia)
   Norhuda Abdul Rahim (Universiti Putra Malaysia)
   Junaina Muhammad (Universiti Putra Malaysia)

   Discussant: Yessy Peranginangin (Monash University Malaysia)

2. **Why CEOs Invest in Environmental, Social and Governance Activities: Evidence on *Shariah* Compliant Firms**

   Zaheer Answer (University of Lahore)
   Wajahat Azmi (INCEIF)
   Shamsher Mohamad (INCEIF)*
   Andrea Paltrinieri (University of Udine)

   Discussant: Shubasini Sivapregasam (Universiti Putra Malaysia)

3. **Impact of Board Gender Diversity and Structural Diversity on Firm Performance: An Empirical Investigation on Large Companies in Malaysia**

   Maran Marimuthu (Universiti Teknologi Petronas)*
   Rohail Hassan (Universiti Teknologi Petronas)

   Discussant: Shamsher Mohamad (INCEIF)

4. **For Better, For Worse: The Value of Political Connections during Regime Change**

   Yessy Peranginangin (Monash University Malaysia)*
   Chwee Ming, Tee (Tunku Abdul Rahman University College)
   Mei Yee, Lee (Monash University Malaysia)

   Discussant: Maran Marimuthu (Universiti Teknologi Petronas)

*Presenter

Session 5.3: Islamic Finance III

Re-Assessing the Potential of Islamic Home Finance Market in the UK

Tanveer Ahmed (Coventry University)
Sarkar Kabir (Coventry University)
Aqsa Aziz (Coventry University)

Abstract

This study aims to evaluate the market potential of Islamic mortgages in light of the current state of Muslim demographics and the recent developments in the home finance market. The latest data has revealed that, over the last decade, the Muslim population in the UK has increased to a record level of 4,130,000. Furthermore, the young profile of the Muslim population has a median age of 25 compared to the overall population's median age of 40, thereby increasing the prospects for Islamic home finance in the UK. Analyses of the overall mortgage market data collected from the Bank of England and the UK Council of Mortgage Lenders reveal that the estimated share of the Muslim segment is potentially around £16.85 billion, more than double the figure recorded in previous studies.

The Effect of Income Smoothing on Loan Loss Provisions with Audit Quality as a Moderating Variable: Indonesian Evidence

Oryza Sativa Heningtyas (Sebelas Maret University Indonesia)
Ari Kuncara Widagdo (Sebelas Maret University Indonesia)
Siti Rochmah Ika (Janabadra University)

Abstract

This paper examines whether there is an effect of income smoothing on loan loss provisions in Islamic banks in Indonesia from 2013 to 2017. We also test whether audit quality in Islamic banks in Indonesia can strengthen or weaken the impact of income smoothing on LLP. The dependent variable in this research divided into three: (i) LLP of Islamic Banks, (ii) LLP of sale and purchase agreements, and (iii) LLP of partnership contract agreements. Using panel data regression analysis and Moderate Regression Analysis (MRA), we find that income smoothing has a significant positive relationship with the dependent variable LLP of Islamic banks. Second, income smoothing has a significant relationship with the dependent variable LLP sale and purchase agreement, and LLP in the partnership contract agreement. Third, Audit quality undermines the relationship between Islamic bank income smoothing and LLP, LLP sales and purchase agreements, and LLP partnership contract agreements.

Revenue Recognition of Islamic Banks Using Effective Profit Method: Risk Sharing or Risk Transfer?

Zulkarnain Muhamad Sori (INCEIF)

Abstract

This paper examines the impact of using the 'Effective Profit Rate Method' (EPRM) in estimating revenue from the financing activities of Islamic Banks (IBs). Data for the study was sourced from audited financial statements of Malaysia Islamic Banks', Islamic leasing contracts (i.e. Al Ijarah Thumma Al Bai) and interviews with three Islamic finance experts. The data analysis reveals that EPRM is widely used by Malaysia Islamic banks and the sale-based contract was found to be the single major (>75%) financing mode. Simulation of the repayment schedule for the Al-Ijarah Thumma Al-Bai (AITAB) financing arrangement indicates that IBs collected a large proportion of the profits in the early years of the financing period and payments of principal by customers are proportionately low at the beginning of the financing period. The findings were subsequently benchmarked against the 'Straight Line Method' (SLM) and an equal distribution of profits and payment of principal was observed throughout the financing period. The above results raised a concern regarding the nature of the customer-financier relationship. This concern stems from the fact that Islamic finance is built on the concept of 'Risk Sharing' instead of 'Risk Transfer'. Islamic finance experts provide mixed views on the above observation. The interviewees acknowledged the importance of this issue to the industry and to the public. Regulators, bankers and other stakeholders should critically look into this matter and provide clear guidance to the market players.

Credit Risk in Dual Banking System: Does Size and Competition Matter? Empirical Evidence

Mohsin Ali (Taylor's University)
Mudeer Ahmed Khattak (Universiti Kuala Lumpur)
Nafis Alam (University of Reading Malaysia)

Abstract

The study of credit risk has been of the utmost importance when it comes to measuring the soundness and stability of the banking system. Due to the growing importance of Islamic banking system, a fierce competition between Islamic and conventional banks have started to emerge which in turn is impacting credit riskiness of both banking system. Using the system GMM technique on 283 conventional banks and Islamic banks for the period of 2006-2017, this paper explores the important impact of size and competition on the credit risk in 15 dual banking economies. We found that as bank competition increases credit risk seems to be reduced. On the size effect, we found that big Islamic banks are less risky than big conventional banks whereas small Islamic banks are riskier than small conventional banks. Our results are robust for different panel data estimation models and sub-samples of different size groups. The findings of this paper provide important insights into the competition-credit risk nexus in dual banking systems.

The Inter-temporal Relationship between Risk, Capital and Efficiency: The Case of Islamic and Conventional Banks

Momna Saeed (Lancaster University)
Marwan Izzeldin (Lancaster University)
M. Kabir Hassan (University of New Orleands)
Vasileios Pappas (University of Kent)

Abstract

The paper investigates the relationship between risk, capital and efficiency for Islamic and conventional banks using a dataset spanning 14 countries over the 2000-2012 period. We use the z-score as a proxy for insolvency risk; cost efficiency is estimated via a stochastic frontier approach and capitalisation is reflected on the equity to assets ratio. An array of bank-specific, macroeconomic and market structure variables are used in a system of three equations, estimated using the seemingly unrelated regression (SUR) technique. We find that the capitalisation response to increases in insolvency risk is more pronounced for Islamic banks but has an approximately five-times smaller effect on risk mitigation compared to conventional banks. Higher cost efficiency is related to lower risk for conventional banks, but the opposite is true for Islamic banks. The link between cost efficiency and capitalisation attests to a substitutional effect for the case of conventional banks, but a complementary effect for Islamic banks.

Session 5.3: Islamic Finance III — 11:30 am to 1:00 pm

Chair: M. Kabir Hassan (University of New Orleands)

1. **Re-Assessing the Potential of Islamic Home Finance Market in the UK**

   Tanveer Ahmed (Coventry University)*
   Sarkar Kabir (Coventry University)
   Aqsa Aziz (Coventry University)

   Discussant: Zulkarnain Muhamad Sori (INCEIF)

2. **The Effect of Income Smoothing on Loan Loss Provisions with Audit Quality as a Moderating Variable: Indonesian Evidence**

   Oryza Sativa Heningtyas (Sebelas Maret University Indonesia)
   Ari Kuncara Widagdo (Sebelas Maret University Indonesia)*
   Siti Rochmah Ika (Janabadra University)

   Discussant: Tanveer Ahmed (Coventry University)

3. **Revenue Recognition of Islamic Banks Using Effective Profit Method: Risk Sharing or Risk Transfer?**

   Zulkarnain Muhamad Sori (INCEIF)*

   Discussant: Mohsin Ali (Taylor's University)

4. **Credit Risk in Dual Banking System: Does Size and Competition Matter? Empirical Evidence**

   Mohsin Ali (Taylor's University)*
   Mudeer Ahmed Khattak (Universiti Kuala Lumpur)
   Nafis Alam (University of Reading Malaysia)

   Discussant: M. Kabir Hassan (University of New Orleans)

5. **The Inter-temporal Relationship between Risk, Capital and Efficiency: The Case of Islamic and Conventional Banks**

   Momna Saeed (Lancaster University)
   Marwan Izzeldin (Lancaster University)
   M. Kabir Hassan (University of New Orleans)*
   Vasileios Pappas (University of Kent)

   Discussant: Ari Kuncara Widagdo (Sebelas Maret University Indonesia)

*Presenter

Session 5.4: Micro Finance & Others

Does Bank Regulation and Supervision Impede the Role of Microfinance Institutions to Eradicate Poverty?

Nurazilah Zainal (Universiti Teknologi MARA)
Annuar Md Nassir (Xiamen University Malaysia)
Fakarudin Kamarudin (Universiti Putra Malaysia)
Law Siong Hook (Universiti Putra Malaysia)

Abstract

Main objective of this study is to examine how banking regulation and supervision impact social and financial efficiency of Microfinance Institutions (MFIs). Data consists of 168 MFIs in ASEAN-5 countries from 2011 to 2017. First stage analysis is to identify level of social and financial efficiency by using Data Envelopment Analysis. Second stage is to examine impact of bank regulation and supervision to social and financial efficiency using Panel Regression Analysis and Generalized Method of Moments. The finding shows MFIs own lower social efficiency while higher score in financial efficiency indicates in pursuing financial sustainability, the MFIs losing their focus of poverty reduction. The result also presents significant impact of bank regulation and supervision to social and financial efficiency. However, more negative effects associated with social efficiency.

Analysis of System Considerations Granting Micro Credit in Rural Bank in Jakarta and Surroundings Areas

Teddy Oswari (Universitas Gunadarma)
Sri Wahyuni Handayani (Universitas Gunadarma)
Erni Hastuti (Universitas Gunadarma)

Abstract

The purpose of this study is to find out the main factors that influence Rural Banks in Jakarta and its surrounding areas in assessing the feasibility of providing micro-business loans and the role of information technology based micro-credit lending systems to benefit Rural Banks in analysing the risks of micro-credit. Descriptive statistics are used to describe data and summarize observed data. The results obtained are Rural Banks must be able to provide great benefits for the community and the regional economy. Compared to non-bank Microfinance Institutions (MFIs), Rural Banks have the advantage of regulation, supervision and guidance by Bank Indonesia. Therefore, it is hoped that Rural Banks will have good and professional quality of governance, management and operations.

Effect of IT Enabled External Stakeholder Relationship Management Programmes on Drivers of Value Maximization in the Context of Financial Services

Aditi Mitra (Sunway University)
Sanjaya Singh Gaur (Sunway University)
Mohit Wadhawan (Mondelez International)

Abstract

It is believed that long-term value maximization goals can be achieved when firms invest in their external stakeholders. This belief is supported by large capital investments made by firms towards the development, implementation and adoption of external-stakeholder relationship management programmes; aided by all pervasive information technology. However, it has often been seen that the costs of these programs outweigh the benefits. Therefore, the purpose of this study is to investigate the effectiveness of external stakeholder relationship management programmes, and investments in technology in the context of financial services, specifically banks. Particularly, this study investigates the impact of external stakeholder relationship management practices on the value-maximization goals measured by the levels of satisfaction and external stakeholder loyalty. The study also takes into account the moderating effect of technology-enabled self-service alternate channels and key demographic characteristics of chosen stakeholders.

Evaluating Zakah Institution for Poverty Alleviation in Kano State, Nigeria: A Quantitative Economic Approach

Daud Mustafa (Federal University Dutsinma)
Abubakar Jamilu Baita (Yusuf Maitama Sule University)
Hussaina Adhama (Yusuf Maitama Sule University)

Abstract

This study empirically evaluates the revenue base and impact of Zakah institutions (ZI) on poverty alleviation in Kano state. Hence, 1,230 copies of questionnaire were administered and seven high profile Zakah payers were interviewed. The data analysis was accomplished using descriptive statistics, correlation and regression techniques, among others. The major findings indicate that enormous revenue base of ZI for poverty alleviation exists. Similarly, ZI positively impacts poverty alleviation. All in all, the findings lend credence to Zakah-effectiveness hypothesis. Hence, this study recommends that Kano state government should exemplify more of accountability and transparency in Zakah management. Moreover, a Ministry of Zakah and Hubusi Affairs should be established with the mandates of poverty alleviation and economic empowerment in the state.

Session 5.4: Micro Finance & Others — 11:30 am to 1:00 pm

Chair: Chu Ei Yet (Universiti Sains Malaysia)

1. **Does Bank Regulation and Supervision Impede the Role of Microfinance Institutions to Eradicate Poverty?**

   Nurazilah Zainal (Universiti Teknologi MARA)*
   Annuar Md Nassir (Xiamen University Malaysia)
   Fakarudin Kamarudin (Universiti Putra Malaysia)
   Law Siong Hook (Universiti Putra Malaysia)

   Discussant: Daud Mustafa (Federal University Dutsinma)

2. **Analysis of System Considerations Granting Micro Credit in Rural Bank in Jakarta and Surroundings Areas**

   Teddy Oswari (Universitas Gunadarma)*
   Sri Wahyuni Handayani (Universitas Gunadarma)
   Erni Hastuti (Universitas Gunadarma)

   Discussant: Nurazilah Zainal (Universiti Teknologi MARA)

3. **Effect of IT Enabled External Stakeholder Relationship Management Programmes on Drivers of Value Maximization in the Context of Financial Services**

   Aditi Mitra (Sunway University)*
   Sanjaya Singh Gaur (Sunway University)
   Mohit Wadhawan (Mondelez International)

   Discussant: Teddy Oswari (Universitas Gunadarma)

4. **Evaluating Zakah Institution for Poverty Alleviation in Kano State, Nigeria: A Quantitative Economic Approach**

   Daud Mustafa (Federal University Dutsinma)*
   Abubakar Jamilu Baita and Hussaina Adhama (Yusuf Maitama Sule University)

   Discussant: Aditi Mitra (Sunway University)

*Presenter

Session 5.5: International Trade

Foreign Inputs and Export Expansion of Malaysian Manufacturing Industries

Pai Wei Choong (Sunway University)
Manjeet Kaur (Sunway University)

Abstract

A rapid export expansion of Malaysian manufacturing industry relative to its income growth implies Malaysia's participation in international production sharing over the past decades. In addition, two-third of the Malaysian manufactured trade are in the form of intermediate goods. Machinery and equipment are the leading Malaysian manufactured exports, while chemical and pharmaceutical products as well as food, beverage and tobacco both have expanded their manufactured exports over the past decades. This study aims to examine the impact of foreign inputs on the bilateral exports of selected manufacturing industries based on production sharing linked gravity equation model using dynamic panel system GMM technique. The finding shows that machinery and equipment industry involves in the assembly stage of a production sharing network supported by the positive impact of foreign inputs. Meanwhile, exports of chemical and pharmaceutical product as well as food product, beverages and tobacco depend on larger difference in relative factor endowments, which is in line with the Heckscher-Ohlin model.

Estimating Demand Functions in The Presence of Trade Barriers: Malaysian Car Industry

Wai Kun Callie Lau (Swinburne University of Technology)
Omar Khaled Bashar (Swinburne University of Technology)

Abstract

This paper applies Discrete Choice modelling to estimate demand function for Malaysian car makers, Proton and Perodua, taking into account car characteristics that were previously not accounted for in other studies. An advantage of the methodology applied in this research is the specification of demand function in probabilistic form; hence, estimation is not influenced by distorted prices. Results show that the demand for Proton cars is mainly influenced by price while the demand for Perodua is influenced by price and characteristics such as car size, horsepower, and fuel consumption. This study contributes to microeconomic theory in that the demand for differentiated products is influenced by product characteristics. Relative importance of product characteristics and price elasticity estimated highlight the areas which car makers may consider for marketing strategies to adopt.

Cointegration Between Global and Local Commodity Prices: A Study of Indonesian Agricultural Commodity, 2005-2017

Pradita Nareswari (Universitas Indonesia)
Sigit Sulistiyo Wibowo (Universitas Indonesia)

Abstract

The purpose of this study is to determine whether global future commodity prices can be used to enrich the prediction of Indonesia local spot commodity prices in the absence of local future commodity prices information. This paper tests the cointegration and causality between local spot commodity prices and global future commodity prices by using the Johansen test and Vector Error Correction model (VECM). This research uses daily spot price data for CPO, TSR rubber, and cacao obtained from Indonesia Commodity Futures Trading Regulatory Agency (BAPPEBTI) from 2005 to 2017. The results showed that local spot commodity prices and global futures commodity prices are cointegrated and have bi-directional causality. Moreover, global future commodity prices can be used as supplement when local future commodity price information is not available.

Session 5.5: International Trade **11:30 am to 1:00 pm**

Chair: Lau Wee Yeap (University of Malaya)

1. **Foreign Inputs and Export Expansion of Malaysian Manufacturing Industries**

   Pai Wei Choong (Sunway University)*
   Manjeet Kaur (Sunway University)

   Discussant: Pradita Nareswari (Universitas Indonesia)

2. **Estimating Demand Functions in The Presence of Trade Barriers: Malaysian Car Industry**

   Wai Kun Callie Lau (Swinburne University of Technology)*
   Omar Khaled Bashar (Swinburne University of Technology)

   Discussant: Pai Wei Choong (Sunway University)

3. **Cointegration Between Global and Local Commodity Prices: A Study of Indonesian Agricultural Commodity, 2005-2017**

   Pradita Nareswari (Universitas Indonesia)*
   Sigit Sulistiyo Wibowo (Universitas Indonesia)

   Discussant: Wai Kun Callie Lau (Swinburne University of Technology)

*Presenter

Session 5.6: FinTech

Money Without Institutions, How Can Cryptocurrencies be Trusted?

John Vaz (Monash Business School)
Kym Brown (Monash Business School)

Abstract

Widespread use of cryptocurrency is hindered by two issues: the technical ability to fulfil the triad functions of money and low acceptance due to a lack of trust without institutional support. Cryptocurrency advocates claim a consensus based trustless environment enables operation without needing traditional institutional arrangements, which we describe as the "institutional stack". We analyse the institutional settings for fiat and cryptocurrency using the stack to demonstrate its usefulness in highlighting the 'trust gaps' in the absence of institutions. We suggest an augmented financial architecture mindful of the necessary trust for the successful adoption of cryptocurrency alongside fiat money.

Bank Stability and Cyber Technology Spending: An Analysis and Empirical Evidence from Global Data

Md Hamid Uddin (Taylor's University)
Sabur Mollah (Sheffield University)
Md Hakim Ali (Taylor's University)

Abstract

This paper aims to investigate how digital transformation affects bank stability. Banks improve operational speed and service quality by relying on cyber technology but expose themselves to formidable operational risks from cybersecurity hazards and systems breakdowns. However, they have no better alternative but to spend more on new technical solutions to combat technological hazards. Therefore, we examine if the law of diminishing return due to overspending on cyber technology would affect bank stability. Based on a global sample from 43 countries, we find that a marginal increase in cyber technology spending would adversely affect the stability of a bank. It is because banks take more than the proportional risk for every dollar they spend on disruptive cyber technology. While results persist across subsamples, we find two technological regimes, especially diminishing return regime can improve stability by further spending on technology aggressively.

Adoption of Electronic Payment Systems: A Systematic Review and Research Agenda

Min-Yee Leong (Multimedia University)
Jing-Hui Kwan (Multimedia University)
Ming-Ming Lai (Multimedia University)

Abstract

FinTech is revolutionizing the way people and businesses manage their finances. Electronic payment systems such as mobile banking and digital wallet have garnered growing attention from both academics and practitioners globally. This article assesses the progress of electronic payment research from 2010 to 2019. We provide a comprehensive review of electronic payment empirical studies from 52 peer reviewed publications. Although various researches had been done in the last decade, we find that majority of studies focused narrowly on limited aspects. The research stream still lacks clear research agenda. We synthesize existing studies of electronic payment adoption and review from the theoretical perspectives, adoption models and determinants which helps to predict user intention to adopt. Thus, we provide details on the trends of electronic payment adoption and suggest areas for future research.

Towards an AI-Driven and Blockchain-Based Islamic Capital Market

Hazik Mohamed (Stellar Consulting Group)
Norhanim Mat Sari (Putra Business School)

Abstract

This research discusses the crucial innovation, structural and institutional development for financial technologies (fintech) in Islamic Finance. The blockchain proposes a new operational design, where all actors within the capital market sector can work from common ledgers, with collective data-sets in almost real-time, and supporting operations which are more streamlined. The system will also incorporate fraud-detection and compliance enhancements, where applicable. This conceptual paper assesses the key features of the AI and blockchain architecture and protocol developments. It identifies areas where AI and blockchain can bring substantial transformational change, while at the same time, identify some of the major barriers to adoption within the capital markets. The AI+Blockchain model is envisioned execute to scale the complex levels of human activity, possibly even those that have yet to be imagined, which could further establish a truly risk-sharing and just economy.

Factors Influencing Mobile Banking Adoption and Usage among Malaysian Consumers of Generation Y

Mo'men Awad Al Tarawneh (Multimedia University)
Nguyen Thi Lan (Multimedia University)
David Yong (Multimedia University)

Abstract

Mobile banking is a sub-category of online banking. However, while mobile banking has the same feature of using the bank services over web services anywhere and anytime, mobile banking is different because it uses smart device applications as a user interface. Therefore, developers and practitioners have developed multiple new alternatives of banking solutions, which are more useful, flexible, and easy to use than old-style of banking services. This research will explore the question of "what are the key factors that may influence the usage and intention of consumers of generation Y in the Malaysian mobile banking industry?" Two main theories contribute to the construction of the proposed model, the variables, and relations. Those two theories are the unified theory of acceptance and use of technology – extended version (UTAUT2) and the model of perceived risk. The research uses well-defined questionnaire to collect data from a sample of 504 respondents who are belongs to Generation Y group in Malaysia. Statistical Analysis use SPSS and PLS-SEM to acquire the findings. The model can explain 55.3% of the variance of MBU and 60.3% of the variance of IU. All the relations are in significant level except price value (PV). Interface Design Quality (IDQ) has the highest impact in the model for both intention and actual use. While Perceived Risk (PDR) has a significant impact but it has the lowest value in the model for both intention and actual use.

Session 5.6: FinTech	11:30 am to 1:00 pm
Chair: Hooy Chee Wooi (Universiti Sains Malaysia)	

1. **Money without Institutions, How Can Cryptocurrencies Be Trusted?**

   John Vaz (Monash Business School)
   Kym Brown (Monash Business School)*

   Discussant: Hazik Mohamed (Stellar Consulting Group)

2. **Bank Stability and Cyber Technology Spending: An Analysis and Empirical Evidence from Global Data**

   Md Hamid Uddin (Taylor's University)*
   Sabur Mollah (Sheffield University)
   Md Hakim Ali (Taylor's University)

   Discussant: Kym Brown (Monash Business School)

3. **Adoption of Electronic Payment Systems: A Systematic Review and Research Agenda**

   Min-Yee Leong (Multimedia University)*
   Jing-Hui Kwan (Multimedia University)
   Ming-Ming Lai (Multimedia University)

   Discussant: Mo'men Awad Al Tarawneh (Multimedia University)

4. **Towards an AI-Driven and Blockchain-Based Islamic Capital Market**

   Hazik Mohamed (Stellar Consulting Group)*
   Norhanim Mat Sari (Putra Business School)

   Discussant: Md Hamid Uddin (Taylor's University)

5. **Factors Influencing Mobile Banking Adoption and Usage among Malaysian Consumers of Generation Y**

   Mo'men Awad Al Tarawneh (Multimedia University)*
   Nguyen Thi Lan (Multimedia University)
   David Yong (Multimedia University)

   Discussant: Min-Yee Leong (Multimedia University)

*Presenter

Session 6.1: Investment and Funds

Mutual Fund Performance in Malaysia

Susela Devi Suppiah (Sunway University)
Ravichandran Subramaniam (Monash University Malaysia)
Young Kyung Ko (Sunway University)

Abstract

This study investigates performance of mutual funds from 2007 to 2016 in Malaysia. Malaysia is one of growing fund markets among emerging markets which also deals with conventional and Islamic finance. This study examines all type of unit trust funds launched in Malaysia, and whether there is any significant difference among types of funds and between conventional and Shariah-compliant funds. The results show Malaysia funds have positive 1 year buy & hold returns and outperform benchmarks using CAPM. The conventional funds outperformed significantly Shariah-compliant funds in 2009 and 2016. The better performance of conventional funds is driven by equity and money market funds. Conventional as well as Shariah-compliant equity funds have performance persistence in Jensen’s alpha over six years.

A Comparative Analysis on the Performance and Risk Diversification Benefits of Real Estate Investment Trusts (REITs) between Malaysia and Japan

David, Ching Yat, Ng (Universiti Tunku Abdul Rahman)
Teck Chai, Lau (Universiti Tunku Abdul Rahman)
Jun Yuan, Tan (Universiti Tunku Abdul Rahman)
Kuen Cheng, Choo (Universiti Tunku Abdul Rahman)

Abstract

This study analyses the effectiveness of risk diversification and investment performance between M-REITs and J-REITs by comparing the diversification measures from 2002 to 2016. Results indicate that M-REITs performed better than J-REITs in terms of Sharpe ratio, Treynor ratio, and Jensen’s Alpha. Total risk of J-REITs are higher than M-REITs. The Beta values for both M-REITs and J-REITs are less than one, implying that both categories of REITs are less risky than the market index. Also, M-REITs are poorly diversified than J-REITs. The diversification measures computed for M-REITs are higher than J-REITs and would imply that M-REITs have better rate of returns if M-REITs diversify their risk (higher risk diversification benefits).

Diamond’s Hedging and Safe Haven Values against Behavioural Risks

Jasman Tuyon (University Teknologi MARA)
Zamri Ahmad (Universiti Sains Malaysia)
Paul Zimnisky (Paul Zimnisky Diamond Analytics)

Abstract

Can diamond provide hedging and safe-haven values? Little has been discovered to theoretically and practically prove such possibility. This research empirically examines global diamond index hedging and safe-haven values according to behavioural finance theoretical lenses. The research uses global indices data (diamond, gem, gold, bond, and equity) with monthly frequency spanning from 2004-2018. Both OLS and quantile-based regressions are used in the analysis. The analysis compares these assets hedging and safe-haven values among asset classes and against behavioural risks. The results revealed that diamond, gem, and bond are negatively correlated to each other (weak hedging) and positive exposure to behavioural risks. Findings from this research indicated that, diamond, gem, gold, and bond offers a weak safe-haven values during high financial stress, financial crises, and in extreme loss and gains. This research offers insights on alternative asset classes’ portfolio enhancement values through negative asset correlations and lower impacts of behavioural risks.

Session 6.1: Investment and Funds — 4:00 pm to 5:30 pm

Chair: Chaiporn Vithessonthi (Sunway University)

1. **Mutual Fund Performance in Malaysia**

   Susela Devi Suppiah (Sunway University)
   Ravichandran Subramaniam (Monash University Malaysia)
   Young Kyung Ko (Sunway University)*

   Discussant: Jasman Tuyon (University Teknologi MARA)

2. **A Comparative Analysis on the Performance and Risk Diversification Benefits of Real Estate Investment Trusts (REITs) between Malaysia and Japan**

   David, Ching Yat, Ng (Universiti Tunku Abdul Rahman)*
   Teck Chai, Lau (Universiti Tunku Abdul Rahman)
   Jun Yuan, Tan (Universiti Tunku Abdul Rahman)
   Kuen Cheng, Choo (Universiti Tunku Abdul Rahman)

   Discussant: Young Kyung Ko (Sunway University)

3. **Diamond's Hedging and Safe Haven Values against Behavioural Risks**

   Jasman Tuyon (University Teknologi MARA)*
   Zamri Ahmad (Universiti Sains Malaysia)
   Paul Zimnisky (Paul Zimnisky Diamond Analytics)

   Discussant: David, Ching Yat, Ng (Universiti Tunku Abdul Rahman)

*Presenter

Session 6.2: Auditing

Female Audit Committee and Creative Accounting: A Study of Listed Companies in Nigeria

Noor Afza Amran (Universiti Utara Malaysia)
Hussaini Bala (Kaduna State University)

Abstract

The aim of this paper is to examine the influence of female audit committee (AC) attributes on creative accounting (CRA) in Nigeria. The study utilized a sample of 88 listed companies in Nigeria for the period of 2012 to 2016. The data for the study were generated from financial statements through Thomson Reuters DataStream and the annual reports of the listed firms. Generalized Methods of Moment (GMM) has been employed in this study to control for the endogeneity and heteroscedasticity problems. Results from the study revealed that the presence of at least one female director in AC decreases the likelihood of CRA practice. The study also found that the presence of female independent directors and legal directors in the AC reduce the likelihood of CRA practice.

Audit Fees and Financial Constraints

Samuel Jebaraj Benjamin (University of Otago)

Abstract

This paper investigates whether financial constraints effect audit fees. Using a large sample of U.S. listed firms from 2010 to 2016, this paper documents a positive and significant effect of financial constraints on audit fees. The finding is robust to alternative proxies of financial constraints and regression specifications. Moreover, the effects of financial constraints on audit fees are mediated positively by corporate cash holdings, discretionary accruals and corporate tax avoidance. This study contributes to capital market research that examines audit fees and financial constraints as well as to other studies that consider the implications of corporate cash holdings, financial reporting quality and corporate tax avoidance.

The Effect of Fixed Asset Revaluations on Future Performance with Operating Income as Moderating Variable

Sri Hastuti (Universitas Pembangunan Nasional "Veteran" Yogyakarta)
Bambang Sutopo (Universitas Sebelas Maret)
Ari Kuncara Widagdo (Universitas Sebelas Maret)
Doddy Setiawan (Universitas Sebelas Maret)

Abstract

This study examines the effect of fixed asset revaluations on future performance measured by ex-post realizations of operating income. Using a sample of 169 firm-year observations listed on the Indonesia Stock Exchange for the period 2012-2017, regression results show that fixed asset revaluations have a positive association with operating income. Three different fixed asset revaluation measures show consistent results. Besides, the association of fixed asset revaluations and future performance is affected by the current operating income. The revaluation of fixed assets has a positive association with future performance when the operating income is high and vice versa. The higher the operating income, the stronger the positive relationship between fixed asset revaluations and future performance.

Key Audit Matters Disclosure and Consequences

Ray McNamara (James Cook University)
Simone Kelly (James Cook University)
Ishmail Waheed (James Cook University)

This paper examines the events that follow from a critical audit matter (now called a Key Audit Matter, KAM) and their economic consequences. The KAM and the appointment of a new CEO precipitated a write down of revenue and a series of events by the company and regulators. We assess whether these events constitute a response to the firm's earnings management or other explanations such as a "big bath' by an incoming CEO or a corporate response to a whistle-blowing event related to the KAM. A single-firm event study with key-competitors comparison assesses the economic consequences of twelve events (including write downs and fines) and an earnings management study assesses the motivation for the events. The methodology combines the insight of a case study analysis with the statistical benchmarking of large-sample studies. The results show the events had a significant economic impact while the earnings management analysis places the company's abnormal accruals in lower five percent of the companies making up the FTSE350 and the lowest seven percent of the industry sector. The study provides a single case analysis of a KAM that is now a compulsory audit disclosure. The wealth effect of the incoming CEO's decisions on the investing public exceeded £1.27 billion plus significant investigatory costs and subsequent fines to the company.

Session 6.2: Auditing 4:00 pm to 5:30 pm

Chair: Sin-Huei Ng (Xiamen University Malaysia Campus)

1. **Female Audit Committee and Creative Accounting: A Study of Listed Companies in Nigeria**

   Noor Afza Amran (Universiti Utara Malaysia)*
   Hussaini Bala (Kaduna State University)

   Discussant: Ray McNamara (James Cook University)

2. **Audit Fees and Financial Constraints**

   Samuel Jebaraj Benjamin (University of Otago)*

   Discussant: Noor Afza Amran (Universiti Utara Malaysia)

3. **The Effect of Fixed Asset Revaluations on Future Performance with Operating Income as Moderating Variable**

   Sri Hastuti (Universitas Pembangunan Nasional “Veteran” Yogyakarta)*
   Bambang Sutopo (Universitas Sebelas Maret)
   Ari Kuncara Widagdo (Universitas Sebelas Maret)
   Doddy Setiawan (Universitas Sebelas Maret)

   Discussant: Samuel Jebaraj Benjamin (University of Otago)

4. **Key Audit Matters Disclosure and Consequences**

   Ray McNamara (James Cook University)*
   Simone Kelly (James Cook University)
   Ishmail Waheed (James Cook University)

   Discussant: Sri Hastuti (Universitas Pembangunan Nasional “Veteran” Yogyakarta)

*Presenter

Session 6.3: Islamic Finance IV

Market Competition and Liquidity Risk of Islamic Banks

Aisyah Abdul-Rahman (Universiti Kebangsaan Malaysia)
Syajarul Imna Mohd Amin (Universiti Kebangsaan Malaysia)

Abstract

This study examines the effect of market competition on liquidity risk of Islamic banks worldwide. We employed unbalanced panel data of 186 Islamic banks in 36 countries from 1992 until 2015 using the Generalized Method of Moments (GMM) technique. The market competition measures the structural market competition (i.e. Herfindahl-Hirschman index (HHI), concentration ratio (CR), and entropy index (EI)). Meanwhile, liquidity risk is measured via traditional liquidity risk (current ratio (CR)) and BASEL III liquidity risk (Net Stable Funding Ratio (NSFR). The results indicate that market competition has a significant relationship with liquidity risk. Other findings suggest size, profitability, credit risk, and GDP are significant determinants of CR, while size and inflation have significant impact on NSFR.

Does Deposit Insurance System Promote Banking Stability or Moral Hazard? Evidence from Malaysia

Lau Wee Yeap (University of Malaya)
Gha-May Ng (University of Malaya)
Tien-Ming Yip (University of Malaya)

Abstract

In the aftermath of financial crises, a deposit insurance system was established by Malaysian government since 1st of September 2005 to protect depositors against the loss of deposits in banks as well as to secure the soundness of financial system. This study examines the influence of deposit insurance on the stability of commercial banking and Islamic banking. The banking stability is indicated by deposits-to-assets ratio and loans-to-assets ratio to cover the positive and negative effect of deposit insurance respectively. The study employs secondary data of 20 commercial banks and 16 Islamic banks from 2002 to 2017 in Malaysia. The selected banks are the member institutions of Perbadanan Insurans Deposit Malaysia (PIDM). Using unbalanced panel data analysis, the empirical results show: Firstly, deposit insurance is found to be stability-enhancing in commercial banking as shown by the increase in the deposits-to-assets ratio but stability-deteriorating in Islamic banks as shown by the decrease in the deposits-to-assets ratio; Secondly, moral hazard is present in both banking industries as supported by the increase in the loans-to-assets ratio. As a policy suggestion, further improvement on the deposit insurance system by the policymakers and bank regulators are needed to strengthen the resilience of Malaysian banking industry.

Behavioural Study on the Acceptance of Islamic Entrepreneurship and Innovation Management among Non-Muslims in Malaysia: Realizing Innovation in Cultivating Humanity (RICH)

Salizatul Aizah Ibrahim (Universiti Tunku Abdul Rahman)

Abstract

The target of this paper is to examine the degree of acceptance of non-Muslims towards Islamic entrepreneurship. A set of questionnaires consists of 5 sections was created and distributed online, targeting on 50 non-Muslim respondents scattered around Klang Valley area, Malaysia. The objective of this survey is to investigate their level of consciousness, understanding, perception, anticipation and confidence on Islamic entrepreneurship in the country. Their feedback was then analysed for a conclusion in measuring the level of acceptance of non-Muslims towards Islamic entrepreneurship and innovation management to cultivate humanity.

Environmental, Social and Governance Practices in Shariah-Compliant Firms: Agency or Stakeholder theory

Lee Siew Peng (Universiti Tunku Abdul Rahman and Oxford University)
Mansor Isa (Universiti Malaya)

Abstract

This study examines the impact of firms' involvement in environmental, social and governance (ESG) activities on performance for a sample of MSCI Islamic World Index firms. We also test whether ESG engagement should be regarded as an agency or stakeholder. The results reveal that ESG aggregate and individual dimensions are positively affecting the firm performance, hence are supporting the good management hypothesis. However, no moderating effects of financial slack on the relationship between ESG and firm performance are found. These results are consistent with stakeholder theory. Our estimates for the agency cost indicators do not support that ESG conduct is a function of firm agency problems. The findings suggest that combined ESG and Shariah-compliant screenings can enhance more ethical, responsible and transparent practices thus create new markets for potential investors.

Accounting Conceptual Framework: An Examination of MASB and AAOIFIs Approaches in Financial Reporting of Islamic Financial Institutions

Zulkarnain Muhamad Sori (INCEIF)

Abstract

Motivated by the need to fulfil the financial reporting needs of the Islamic Finance industry, this paper compares the conceptual frameworks issued by MASB and AAOIFI. Scholars have long argued that due to the heterogeneity in nature and objectives of Islamic and conventional firms, accounting standards need realignment to meet the needs of Islamic Finance industry's users. While this realization led to the formation of AAOIFI, its adoption rate lags far behind IFRS, which enjoys patronage of 120 countries. Consistent with Shariah requirements, the AAOIFI's objective of financial reporting focuses on determining of rights and obligations of all interested parties, to ensure all activities are in compliance with Shariah principles and to provide useful financial information to all stakeholders of Islamic financial institutions. Further analysis reveals that most of accounting principles outlined in the conceptual framework of the MASB are replicated in the AAOIFI's conceptual framework.

Session 6.3: Islamic Finance IV **4:00 pm to 5:30 pm**

Chair: Zulkarnain Muhamad Sori (INCEIF)

1. **Market Competition and Liquidity Risk of Islamic Banks**

   Aisyah Abdul-Rahman (Universiti Kebangsaan Malaysia)*
   Syajarul Imna Mohd Amin (Universiti Kebangsaan Malaysia)

   Discussant: Lee Siew Peng (Universiti Tunku Abdul Rahman and Oxford University)

2. **Does Deposit Insurance System Promote Banking Stability or Moral Hazard? Evidence from Malaysia**

   Lau Wee Yeap (University of Malaya)
   Gha-May Ng (University of Malaya)
   Tien-Ming Yip (University of Malaya)*

   Discussant: Aisyah Abdul-Rahman (Universiti Kebangsaan Malaysia)

3. **Behavioural Study on the Acceptance of Islamic Entrepreneurship and Innovation Management among Non-Muslims in Malaysia: Realizing Innovation in Cultivating Humanity (RICH)**

   Salizatul Aizah Ibrahim (Universiti Tunku Abdul Rahman)*

   Discussant: Tien-Ming Yip (University of Malaya)

4. **Environmental, Social and Governance Practices in Shariah-Compliant Firms: Agency or Stakeholder Theory**

   Lee Siew Peng (Universiti Tunku Abdul Rahman and Oxford University)*
   Mansor Isa (Universiti Malaya)

   Discussant: Zulkarnain Muhamad Sori (INCEIF)

5. **Accounting Conceptual Framework: An Examination of MASB and AAOIFIs Approaches in Financial Reporting of Islamic Financial Institutions**

   Zulkarnain Muhamad Sori (INCEIF)*

   Discussant: Salizatul Aizah Ibrahim (Universiti Tunku Abdul Rahman)

*Presenter

Session 6.4: Behavioural Finance

Herding behaviour and Market Conditions in Malaysian Stock Market

Abdollah Ah Mand (Sunway University)
Hawati Janor (Universiti Kebangsaan Malaysia)
Ruzita Abdul Rahim (Universiti Kebangsaan Malaysia)
Tamat Sarmidi (Universiti Kebangsaan Malaysia)

Abstract

This study examines herd behaviour of investors in Malaysian stock market with regard to market conditions from 1995 to 2016 using daily data. We consider the unique duality system of Malaysian financial market by examining herd behaviour of Shariah-compliant, conventional stocks and whole market of Malaysia. Findings reveal that herding behaviour of investors among Shariah-compliant stocks exists when market is up with the second degree of absolute market return which shows a non-linear relationship between herding behaviour and market return. On the other hand, for conventional stocks, herding behaviour exists with linear relationship during down market only. For the whole market, non-linear herding behaviour only exists during down-market and for upmarket, herding behaviour has a linear relationship with market return. Results for up and down market condition and non-linear relationship analysis of herding behaviour help investors to identify which market conditions are associated with potentially rational and irrational behaviour of investors.

An Empirical Study of Herding Behaviour in China's A-Share and B-Share Markets: Evidence of Bidirectional Herding Activities

Oiping Chong (Universiti Putra Malaysia)
A.N. Bany-Ariffin (Universiti Putra Malaysia)
Annuar Md Nassir (Universiti Putra Malaysia)
Junaina Muhammad (Universiti Putra Malaysia)

Abstract

This study investigates whether investors in the A-share markets in Shanghai and Shenzhen, who are mainly unsophisticated local investors, herded around investors in the B-share markets in Shanghai and Shenzhen, who are mainly foreign institutional investors who have an advantage of better information than local investors. The study covered the period from 2010 to 2016 and adopted the cross-sectional absolute deviation method. We discovered that the A-share markets were herding around the B-share markets, and vice versa. We also found that there was cross-herding between the Shanghai Stock Exchange and Shenzhen Stock Exchange due to information transmission between the A-share and B-share holders in both markets.

Political Connections and Herding Behavior

Johnny Sim Zhi Hao (Monash University Malaysia)
Yessy Peranginangin (Monash University Malaysia)
Tee Chwee Ming (Tunku Abdul Rahman University College)

Abstract

This study aims to examine investors' behaviour when investing in politically connected firms. Using more than 800 firms traded in the KLSE this study finds find that the politically connected firms do not exhibit herding behaviour across all periods. The result is robust after controlling for the firm size. In contrast, the non-politically connected firms and small firms are the groups that display a greater tendency to herd. We also find herding of these groups during the periods of negative market returns, high volume, high volatility as well as market crisis. When it comes to political regimes, we find that herding is more prevalent in Najib's era compare to Badawi's.

Impact of Behavioural Factors on Investor's Stock Market Participation and Investment Experience: A Conceptual Framework

Nazreen Tabassum Chowdhury (University Malaya)
Nurul Shahnaz Binti Ahmad Mahdzan (University Malaya)
Md Mahfuzur Rahman (University Malaya)

Abstract

Behavioural factors play a key role in influencing an individual investor's stock market participation and investment experience. This study makes an attempt in investigating the influence of such factors in the context of Bangladesh stock market. In doing so, it will also reveal the moderating effect of financial literacy on stock market participation between its antecedents (behavioural factors) and its consequence (investment experience of individual investors). This paper develops a research model based on the feedback of experts from Bangladeshi stock market regarding behavioural factors. In the proposed model, the theoretical underpinnings are anchored from behavioural theories and considered eleven behavioural factors. Various sources of secondary data were utilized to assist the discussion on the level of an individual's behavioural factors and financial knowledge. The study has important theoretical contributions and vast practical implications for regulators, business organizations, and most importantly, for stock market investors from developing countries.

Session 6.4: Behavioural Finance — **4:00 pm to 5:30 pm**

Chair: Kian Tek Jason Lee (Sunway University)

1. **Herding behaviour and Market Conditions in Malaysian Stock Market**

   Abdollah Ah Mand (Sunway University)*
   Hawati Janor (Universiti Kebangsaan Malaysia)
   Ruzita Abdul Rahim (Universiti Kebangsaan Malaysia)
   Tamat Sarmidi (Universiti Kebangsaan Malaysia)

   Discussant: Yessy Peranginangin (Monash University Malaysia)

2. **An Empirical Study of Herding Behaviour in China's A-Share and B-Share Markets: Evidence of Bidirectional Herding Activities**

   Oiping Chong (Universiti Putra Malaysia)*
   A.N. Bany-Ariffin (Universiti Putra Malaysia)
   Annuar Md Nassir (Universiti Putra Malaysia)
   Junaina Muhammad (Universiti Putra Malaysia)

   Discussant: Abdollah Ah Mand (Sunway University)

3. **Political Connections and Herding Behaviour**

   Johnny Sim Zhi Hao (Monash University Malaysia)
   Yessy Peranginangin (Monash University Malaysia)*
   Tee Chwee Ming (Tunku Abdul Rahman University College)

   Discussant: Nazreen Tabassum Chowdhury (University Malaya)

4. **Impact of Behavioural Factors on Investor's Stock Market Participation and Investment Experience: A Conceptual Framework**

   Nazreen Tabassum Chowdhury (University Malaya)*
   Nurul Shahnaz Binti Ahmad Mahdzan (University Malaya)
   Md Mahfuzur Rahman (University Malaya)

   Discussant: Oiping Chong (Universiti Putra Malaysia)

*Presenter

Session 6.5: Exchange Rate and Environmental Issue

Time-Varying Persistence Risk in Exchange Rate and Stock Market Performances of Four Emerging Economies

Imtiaz M. Sifat (Sunway University)

Abstract

This paper reports findings on an underexplored phenomenon in empirical finance literature: the evolution of persistence risk in stock and foreign exchange markets. Utilizing monthly data from 1994 to 2019 on four ASEAN countries, I examine time-varying persistence in returns and stochastic volatility of real effective exchange rate and selected benchmark equity indices of Indonesia, Malaysia, the Philippines, and Thailand. I quantify persistence via wavelet-lifting long-range dependence Hurst measure developed by Knight et al. (2016). The results reveal large market inefficiencies in all markets and non-normality of Hurst measures. Moreover, volatility is not consistently more persistent than returns as prior studies from developed market had suggested.

Tracking Exchange Rate Instability in Highly Volatile Countries Exchange Rate

Mohamed Ariff (Sunway University)
Alireza Zarei (Sunway University)

Abstract

Exchange rate instability has become a key concern within economic policy circles ever since the 1973 breakdown of Bretton Woods agreement, so this paper is about tracking the instability. The aim of this paper is to report also the findings on a proposed measure of currency instability, namely the relative volatility. Using models lined up with exchange rate theories, we tested currency instability on how to measure over 26 years so as to track instability in 12 developing economies. We find that relative volatility is an effective measure for tracking currency instability that could be extended by including policy bands as well as formulating recommended actions for each band around the monitoring variable. Further, relative volatility is significantly correlated with monetary factors that drive the exchange rate equilibrium, thus making it monetary-theory-compliant.

A Study on Setting of Guidance of Financial Charges for Loss and Damage by Environmental Pollution on the Segment of Meghna River in Bangladesh

Aminur Rahman (School of Business Independent University)

Abstract

Water supply at Dhaka city has become an increasingly difficult task. For decades the water supplying authority depended on ground water as a source of piped water supply to millions of households. Unfortunately, the ground water level has depleted so much that soon it will not be available to pump out any more. Presently surface water is being treated as an alternative source of way out. But the rivers surrounding Dhaka city are polluted and as a way out Meghna River has been chosen to be a source of water supply. There is no guarantee that water quality at the Meghna River will remain as clean as today. So it needs protection from polluters. At the moment there is hardly any strong rule to control pollution and existing rules need to be reframed. The present study gives some concrete ideas about the charging mechanism based on most recent data.

Session 6.5: Exchange Rate and Environmental Issue — 4:00 pm to 5:30 pm

Chair: Catherine S. F. Ho (Universiti Teknologi MARA)

5. **Time-Varying Persistence Risk in Exchange Rate and Stock Market Performances of Four Emerging Economies**

   Imtiaz M. Sifat (Sunway University)*

   Discussant: Aminur Rahman (School of Business Independent University)

6. **Tracking Exchange Rate Instability in Highly Volatile Countries**

   Mohamed Ariff (Sunway University)*
   Alireza Zarei (Sunway University)

   Discussant: Imtiaz M. Sifat (Sunway University)

7. **A Study on Setting of Guidance of Financial Charges for Loss and Damage by Environmental Pollution on the Segment of Meghna River in Bangladesh**

   Aminur Rahman (School of Business Independent University)*

   Discussant: Mohamed Ariff (Sunway University)

*Presenter

Session 6.6: Crowdfunding and Lending

Gender Differences in Equity Crowdfunding Investment in Malaysia

Hemalatha A/P Pannir Chelvam (Multimedia University)
Shaista Wasiuzzaman (Multimedia University)
Chong Lee Lee (Multimedia University)

Abstract

The objective of this study is to examine the gender differences in cognitive values (financial, functional and informational) and affective values (emotional, social, aesthetic and novelty) on investor's decision to participate in equity crowdfunding investment. A simple descriptive and mean differences between male and female on factors influencing investors' decision in equity crowdfunding are analysed. The study finds that male investors abound compared to female counterparts, although their mean score is less. Moreover, males appear more interested in equity crowdfunding and that females factor in cognitive and affective values more than males. Additionally, informational and aesthetic values affect investors' decision relative to other values.

Does Perceived Usefulness and Perceived Ease of Use Affect Intention to Use Crowdfunding Platforms?

Maizaitulaidawati Md Husin (Universiti Teknologi Malaysia)
Razali Haron (International Islamic University Malaysia)
Shahab Aziz (Universiti Teknologi Malaysia)

Abstract

This paper aims to address the influence of perceived usefulness (PU) and perceived ease of use (PEOU) on the intention (INT) to use crowdfunding platforms among small-to-medium enterprises (SMEs). We collected data from 163 SMEs in Selangor, Malaysia, using a purposive sampling approach. The hypotheses were tested by applying structural equation modelling. The results revealed that perceived usefulness and perceived ease of use were able to influence intentions to use crowdfunding platforms. By examining PU and PEOU, this paper validated the importance of both constructs in affecting the intention of SMEs in using crowdfunding. The result of this paper will help in guiding efforts of crowdfunding platform providers to formulate strategies that will enhance SMEs' intention to use their platforms.

Does Trust in an Online Marketplace Means Trust in Online Investing?

Metta (Universitas Indonesia)
Zuliani Dalimunthe (Universitas Indonesia)
Hendro Prabowo (Universitas Indonesia)

Abstract

This study aims to analyse factors that influence the intention to invest in mutual funds through e-commerce or online marketplace. We built the model based on the trust transfer theory to examine whether perceived similarity with other digital products—such as mobile payment product—effect in investor's trust and then investor's intention to invest in mutual funds offered through an online marketplace with financial literacy as mediating variable. We observed 195 Indonesian respondents who are familiar and often purchase in online marketplace using Likert' scale and analyse the data using regression method. We found that similarity with other digital product and the inventors' trust in conventional mutual fund systems influence on trust in mutual fund products in e-commerce and impact investor's intention to invest in mutual fund through an online marketplace.

Factors That Affect the Intention to Borrow in Peer to Peer Lending: Indonesian Case

Rita Susanti (Universitas Indonesia)
Zuliani Dalimunthe (Universitas Indonesia)
Rachmadi Agus Triono (Universitas Indonesia)

Abstract

Literature shows that factors such as trust, perceived risk, utilitarian value, ease of use, and perceived cost can influence consumer intentions towards peer to peer lending. The author uses a survey by distributing online questionnaires to collect sample data and only 183 respondents with status have used peer to peer lending for which data used for statistical analysis. The linear regression shows that trust, perceived risk, utilitarian value, and perceived cost have a significant effect on intention to borrow through peer to peer lending, whereas ease of use shows insignificant results. Also, this study consisted of five factors measured against intention to borrow through peer to peer lending. Factors identified as having significant influence can be used for peer to peer lending platform providers, policy-making institutions, and even banking institutions as considerations in developing future strategies.

Discretionary Loan Loss Provision Behavior and Bank Liquidity Creation

Dung Viet Tran (Banking University Ho Chi Minh city)
Sanzid Haq (University of New Orleans)
M. Kabir Hassan (University of New Orleans)

Abstract

Over the last thirty years, liquidity creation has become a $12.3 trillion business and large banks seem to have all but secured their indelible footprint in the banking industry. Moreover, from 1984 through 2008, big banks have managed to turn their 76% dominance to a prodigious 86% foot-print, while the medium and small banks lost ground. So, looking for ways to create liquidity has become an existential crisis for non-large banks and also an avenue for larger banks to maintain their leads. In an effort to find an innovative way to create liquidity, banks have turned to tools that lend themselves to be manipulated at discretion without material consequence to the rest of the business. Discretionary loan loss provision (DLLP) has become such a tool. Using a large sample of US bank holding companies from 2000:Q1-2015:Q4, we explore the relationship between discretionary loan loss provision and liquidity creation and find that, perhaps much to the dismay of some banks, earning manipulation through a tool like DLLP has a negative impact on liquidity creation. Our findings stand the test of various sensitivity tests to demonstrate their robustness and are consistent with prior findings.

Session 6.6: Crowdfunding and Lending **4:00 pm to 5:30 pm**

Chair: Leong Choon Heng (Sunway)

1. **Gender Differences in Equity Crowdfunding Investment in Malaysia**

   Hemalatha A/P Pannir Chelvam (Multimedia University)*
   Shaista Wasiuzzaman (Multimedia University)
   Chong Lee Lee (Multimedia University)

   Discussant: Rita Susanti (Universitas Indonesia)

2. **Does Trust in an Online Marketplace Mean Trust in Online Investing?**

   Metta (Universitas Indonesia)
   Zuliani Dalimunthe (Universitas Indonesia)*
   Hendro Prabowo (Universitas Indonesia)

   Discussant: Hemalatha A/P Pannir Chelvam (Multimedia University)

3. **Does Perceived Usefulness and Perceived Ease of Use Affect Intention to Use Crowdfunding Platforms?**

   Maizaitulaidawati Md Husin (Universiti Teknologi Malaysia)*
   Razali Haron (International Islamic University Malaysia)
   Shahab Aziz (Universiti Teknologi Malaysia)

   Discussant: M. Kabir Hassan (University of New Orleans)

4. **Factors that Affect the Intention to Borrow in Peer to Peer Lending: Indonesian Case**

   Rita Susanti (Universitas Indonesia)*
   Zuliani Dalimunthe (Universitas Indonesia)
   Rachmadi Agus Triono (Universitas Indonesia)

   Discussant: Maizaitulaidawati Md Husin (Universiti Teknologi Malaysia)

5. **Discretionary Loan Loss Provision Behavior and Bank Liquidity Creation**

   Dung Viet Tran (Banking University Ho Chi Minh city)
   Sanzid Haq (University of New Orleans)
   M. Kabir Hassan (University of New Orleans)*

   Discussant: Zuliani Dalimunthe (Universitas Indonesia)

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ARE FOREIGN DIRECT INVESTMENT IN INDONESIA INFLUENCED BY POLITICAL RISK? A PANEL REGRESSION APPROACH[1]

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Abstract

Foreign direct investment was needed to encourage a country's economic growth. Foreign direct investment did not only function as an engine of development, but also became a picture of economic openness. Theoretical developments showed that foreign direct investment was not only influenced by macroeconomic variables, but also institutional and political. By using six political risk indicators from the World Bank, this study aimed to look at the influence of political risk and macroeconomic variables on investment in Indonesia. The data used were secondary data from 2004 to 2017 and used the panel data regression model. Political risk indicator data showed that Indonesia's political indicators were getting better from year to year. While the panel data regression results showed that overall political risk did not have a significant effect, the effectiveness of bureaucracy had a significant influence on foreign direct investment in Indonesia.

Keywords: Foreign Direct Investment, Political Risk, Panel Regression, Indonesia

1. Introduction

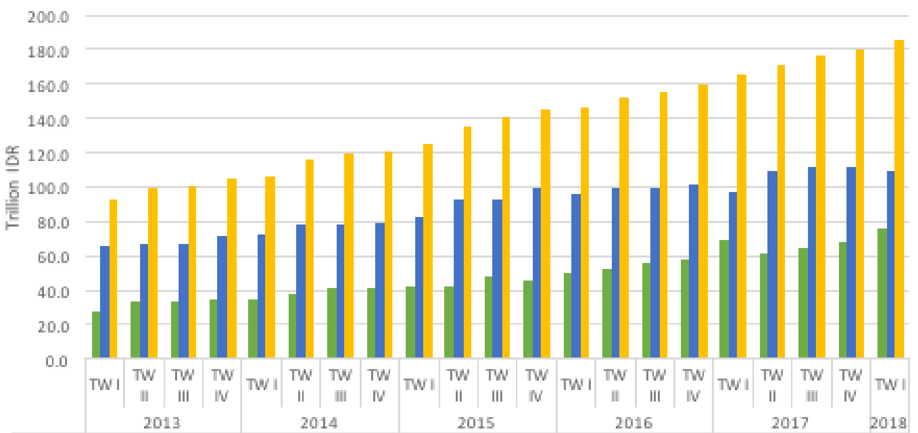
Foreign Direct Investment (FDI) for developing countries is an economic activity that is very much needed to accelerate economic growth. Domestic investment is considered not enough to encourage economic growth. With the presence of FDI, a country can get the opportunity to accelerate development and will encourage economic growth by itself. Some previous studies show that FDI, which is a direct investment, is far more resistant to crises compared to portfolio investment. FDI plays an important role in the process of forming working capital for developing countries, especially through the exchange of technology and managerial knowledge. By bringing in capital, especially in the form of foreign currency, FDI helps generating more investment in the targeted country and improves its trade balance, that the growth cycle increases more.

The growth of direct investment in Indonesia from year to year shows a positive progress. The highest FDI occurred in 2017 with a growth of 24.9%. This increase in FDI was prompted by the acquisition and issuance of global bonds through overseas affiliated companies (Bank Indonesia, 2017). The increase in FDI mainly occurred in the non-oil and gas sector. In 2017 there were four domestic e-Commerce companies acquired by foreign investors from China, the United States and Singapore. On the different side, oil and gas investment were tend to be stagnant and decline due to the lack interest of foreign investors to invest in the oil and gas sector in Indonesia.

Through the following figure, the development of investment realization in the form of domestic investment and FDI in Indonesia can be seen. In terms of value, the realization of FDI is far greater than the realization of domestic investment. The highest realization of FDI occurred in the third and fourth quarter of 2017, which was 111.7 trillion rupiahs and 122.1 trillion rupiahs. Graph 1 also shows that from 2015 to the first quarter of 2018, Indonesia's FDI experienced a significant increase. In more detail, investment in new projects in Indonesia is more than the expansion of investment. In 2017, the proportion of investment increased by 18.7 percent in the form of investment expansion, while 81.3 percent was in the form of new investments.

[1] This study is part of the research entitled Foreign Investment in Indonesia 2004-2017: Macroeconomic Approach and Political Risk, funded by the P3M Faculty of Economics and Business, Soegijapranata Catholic University.

Figure 1. Development of Investment Realization 2013-March 2018



	2013				2014				2015				2016				2017				2018
	TW I	TW II	TW III	TW IV	TW I	TW II	TW III	TW IV	TW I	TW II	TW III	TW IV	TW I	TW II	TW III	TW IV	TW I	TW II	TW III	TW IV	TW I
DDI	27.5	33.1	33.5	34.1	34.6	38.2	41.6	41.7	42.5	42.9	47.8	46.2	50.4	52.2	55.6	58.1	68.8	61.0	64.9	67.6	76.4
FDI	65.5	66.7	67.0	71.2	72.0	78.0	78.3	78.7	82.1	92.2	92.5	99.2	96.1	99.4	99.7	101.	97.0	109.	111.	112.	108.
TOTAL	93.0	99.8	100.	105.	106.	116.	119.	120.	124.	135.	140.	145.	146.	151.	155.	159.	165.	170.	176.	179.	185.

Source: Indonesia Investment Coordinating Board

Based on historical data, there are 10 countries which have the biggest investments in Indonesia. The value reached US$ 13.33 billion or 86% of the total investment of US$ 15.55 billion. It is equivalent to IDR 206.9 trillion. The FDI to Indonesia in throughout the first half of 2018 has grown into 5.8% compared to the first half of 2017. The total investment in Indonesia in the first six months of 2017 reached IDR 678.8 trillion or about 49.6% of the target. The China, Hong Kong, Japan, South Korea and Singapore are the 5 countries that have the most investment in Indonesia during the past five years. In Indonesia, Singapore still became the biggest investor for Indonesia until the beginning of semester 1 in 2017. Based on the data of Indonesia Investment Coordinating Board, it is noted that FDI from Singapore in semester 1 2017 reached US$ 3.66 billion or IDR 48.69 trillion. This number is equivalent with 24% of the total FDI in Indonesia and it became the biggest one compared to other countries. Japan was on the second place with the investment value of US$ 2.85 billion. China was on the third place with US$ 1.95 billion. Almost all countries have a pattern that is not so stable in their investment. The investment patterns of China, South Korea and Hong Kong are relatively stable, but are still lower compared to Japan and Singapore.

The increase in FDI in Indonesia is related to the increasing ease of doing business in Indonesia. Based on the World Bank's report on ease of business (EODN, 2018), business ease in Indonesia has increased by 19 ranks to rank 72. The Indonesian government targets that by 2020, Indonesia will be ranked 40th in ease of business.

One of important variables in maintaining stability of economic condition and increasing the rank of doing business is the Central Bank policy interest rates. Central Bank policy interest rates plays an important role, because these interest rates will be derived to deposit rates, savings rates and loan interest rates. During the third quarter of 2017, Bank Indonesia reduced interest rates from 4.75% in July to 4.50% in August 2017, and then fell again in September 2017 to 4.25%. This reduction in policy rates was carried out to encourage credit growth, and because of relatively low and well-controlled inflation. On the other hand, almost all Central Banks in various groups of countries seemed not to change interest rate policies during the third quarter of 2017. The Fed still maintains the interest rate at 1-1.25%. The inflation rate that has not met the 2% target is a measure of holding the Fed's interest rate. The Central Bank of China was also seen maintaining interest rates of 4.35%.

In addition to macroeconomic variables that affect investment, the development of FDI theory moves rapidly. In recent times, institutional problems and also the condition of democracy have become one of the highlights in determining the flow of FDI into a country. Several previous studies have analyzed the relationship between fundamental democratic rights and FDI. Using different econometric techniques and periods, Harms and Ursprung (2002)) found that multinational companies are more interested in democratic countries. They found that democratic rights, especially leading to better protection of property rights, would increase foreign investment. On the other hand, there are also findings that increasing democracy can reduce FDI.

The financial crisis that attacked the world economy, including Indonesia in 1998 and 2005, brought new awareness of the importance of FDI compared to portfolio investment. Countries that have a larger portfolio investment than FDI will experience a more severe impact. In fact, FDI is not only influenced by macroeconomic variables, but also political and institutional variables. Based on this background, this study aims to analyze the determinants of FDI inflows to Indonesia both from the macroeconomic side as well as from the institutional political aspects. The importance of this study is a two-dimensional approach, namely a macroeconomic approach and a political risk approach as a determinant of investment in Indonesia.

2. Literature Review

The main theoretical studies of the determinants of FDI stated that foreign direct investment was motivated mainly by the possibility of high profitability in growing markets, along with the possibility of financing these investments at relatively low rates of interest in the host country. Other determinants were the necessity to overcome trade barriers and to secure sources of raw materials. Other empirical studies that attempted to estimate the importance of the different determinants of FDI concentrated more on attraction factors, i.e., locational factors.

Some of the previous studies related to macroeconomic concepts were Akinkugbe (2003), Benacek et. al (2000) and Lim (2004). Akinkugbe (2003) showed that high per capita income, orientation to international trade, high levels of infrastructure development, and high returns on investment are significant factors for FDI. Benacek et al (2000) also found that the main motive of investors is market search. The number of people and national income was the best indicator of the market. This finding was corrected by Lim (2004) who argued that market size, infrastructure quality, economic stability and free trade zones were important for FDI. Other factors that influenced investment decisions were fiscal incentives, business climate or investment, labor costs and trade openness (Lim, 2004).

The relatively new theory of FDI used market and institutional variables as factors that influence investment decisions. Market-oriented factors confirmed the theory of basic investment such as gross domestic product, inflation, interest rates, exchange rates, trade openness, labor costs, and resources and so on. Institutional oriented factors used institutional, social and political indicators to determine investment behavior. Bevan et al (2001) said that institutions were very important for market economy operations and facilitate business operations.

Bevan et al. (2001) found that institutional indicators positively influenced FDI such as private sector development, banking sector reform, and legal development. Efficient legal infrastructure reduced institutional uncertainty for foreign investors, facilitated the establishment and enforcement of contracts. Research conducted by Alfaro et.al (2008) showed that political risk reduction would increase investment. Kurul and Yalta (2017) also found that some institutional factors have an important impact than others in attracting FDI. Kurul and Yalta (2017) considered that various dimensions of institutions like political regime, security of property rights, enforcement of law and order affected FDI flows. This happens because foreign investors were sensitive to political risks. The main reason was that foreign investors were sensitive to political risks, fearing direct takeovers, such as nationalization of foreign investment projects. There was also the possibility of other indirect effects of increased political risk.

The findings were supported by Coeurdacier, Santis and Aviat (2009) who stated that the impact of political turmoil on formal law such as investor protection became a significant variable in foreign investment. Dumludag et al (2007), Busse and Hefeker (2007), Chen and Funke (2008) and Carril-Caccia, Milgram-Baleix, and Paniagua (2019) also found that an unstable political environment could be a significant investment barrier. Unstable political environment such as government stability, internal and external conflicts, law and order, security of ownership rights, prudence standards, corruption, ethnic tension and the quality of bureaucracy reflected political risks. Another study conducted by Trevino and Mixon (2004) in Latin America found that political risk is a significant indicator of direct investment. Likewise, Hefeker (2007) saw that government stability, internal and external conflicts, ethnic tensions, corruption, law, democratic accountability and the quality of bureaucracy determined foreign investment. On the other side, Asiedu (2013) found that FDI risk variable does not a significant effect on FDI flows. Similar with Asiedu, Okada (2013) showed that political risk and institution have indirect effect on FDI flows. Shah (2017) used the data in five developing economies from South Asia – found that the changes in institutional variables did not make a significant positive impact on FDI. But when he used disaggregated factors, the significance effect on FDI inflows increased.

If market-oriented or macroeconomic variables were easily measured, institutional variables did not. Institutional variables required qualitative measurements. The Political Risk Services Group (PRS) provided the International Country Risk Guide (ICRG), namely (i) Political risk index of voice and accountability (PRSVA), (ii) Political risk index of political stability and absence of violations (PRSVP), (iii) Political risk index of government effectiveness (PRGE), (iv) Political risk index of regulatory quality (PRSRQ), (v) Political risk index of rule of law (PRSRL), (vi) Political risk index of control of corruption (PRSCC).

3. Methodology

This study used secondary data obtained from the Central Bureau of Statistics, Ministry of Finance, Investment Board, UNTAC Bank Indonesia, and PRS from the World Bank Group (https://info.worldbank.org/governance/wgi/pdf/prs.xlsx). The period of data taken for this study is 2004-2017. Data analysis used panel data regression equation (between Indonesia and the top ranking of FDI realization, namely China, Japan, Hong Kong, South Korea, Japan and Singapore) for the years 2004-2017. The Investment Equation was developed from the model used by Chantasasawat, et al (2004), Gast (2005), Dumbludag (2007), Busse and Hefeker (2007), and Chen and Funke (2008).

$$FDI_{ijt} = f\,(GDP_{jt} \;/\; GDP_{it}\,,\; OPENNESS_{ijt},\; ER,\; R_{jt}\,/R_{it}\,,\; Riskpol_{it}\,) \qquad ....1)$$

$$fdi_{ijt} = \alpha_0 + \alpha_1\,(\,gdd_{jt} - gdp_{it}\,) + \alpha_2 OPENESS_{ijt} + \alpha_3 ER + \alpha_4\,(R_{jt} - R_{it}) + \alpha_5 Riskpol_{it} + \varepsilon_t \qquad ...2)$$

Where

- FDI_{ijt} is FDI to Indonesia (i) from 5 countries (j) in year (t)
- GDP_{jt} is GDP Nominal of 5 countries (j) in year (t);
- GDP_{it} *is* GDP Nominal of Indonesia (i) in year (t);
- $OPENNESS_{ijt}$ = level of trade openness.
- ER is Indonesia's exchange rate compared to partner (another country)
- R_{jt} *is* the interest rate of 5 countries (j) in year (t);
- R_{it} *is* Indonesia's interest rate (i) in year (t);
- ε is disturbing factor.
- Σ*Riskpol* = Composite political risk factors derived from PRS

4. Description of FDI in Indonesia and influencing variables

Foreign investment was influenced by gross domestic product of country partners. Theoretically, if a country had high Gross Domestic Product, it would expand its investment to other countries. Viewed through economic growth from 2004 to 2017, it was seen that China was a country with the highest average economic growth, which is 15.09%. Indonesia also had a high average economic growth which is 10.34%. Whereas Hong Kong, Japan, South Korea, and Singapore, in the period 2004-2017 had growth rates of 5.6%, 1%, 5.92% and 8.53% respectively. In 2010 and 2011, almost all countries experienced high economic growth.

Figure 2. Relationship between FDI and GDP (Million USD)

Source: International Financial Statistics, IMF, data processed

Based on the data, we should see the relationship between Gross Domestic Product and Foreign Investment in Indonesia. It is clearly seen that trend of foreign investment is in line with trend of gross domestic product. The higher the gross domestic product, the higher the foreign investment. The graph showed that Japan described clearly about this theory. When Japan's Gross Domestic Product increased, its foreign investment is also increased. On the contrary, if Japan's Gross Domestic Product decreased, its foreign investment also decreased. High economic growth has pushed the growth of Chinese FDI to Indonesia also experienced a high increase. This phenomenon still needed to be proven in a regression model to find out whether the GDP of each country had a significant influence on FDI entering Indonesia.

The next variable that is interesting to be observed was the openness index. The Openness Index of a country the total number of export and import divided by Gross Domestic Product. If the Openness Index was high, the influence of international trade on domestic activities was also higher. It showed that the country's economy was stronger. The correlation of the Openness Index and FDI was when a country was more open to trade flow of other countries, it would be the next destination of foreign investment since it was more interesting than other countries that are closed. The openness of a country showed that domestic economy was not only dominated by domestic products but also foreign products.

The linkage of the openness index with FDI was that when a country was more open to the flow of trade in other countries, the country would become a more attractive FDI destination compared to a closed country. In the period of 2004-2011, the highest index of openness was between Indonesia and Japan. Indonesia-Japan openness index 1.786. If the value of the openness index was carried out in absolute terms, the next high openness index was between Indonesia and Singapore (0.654) and Indonesia and China (0.603).

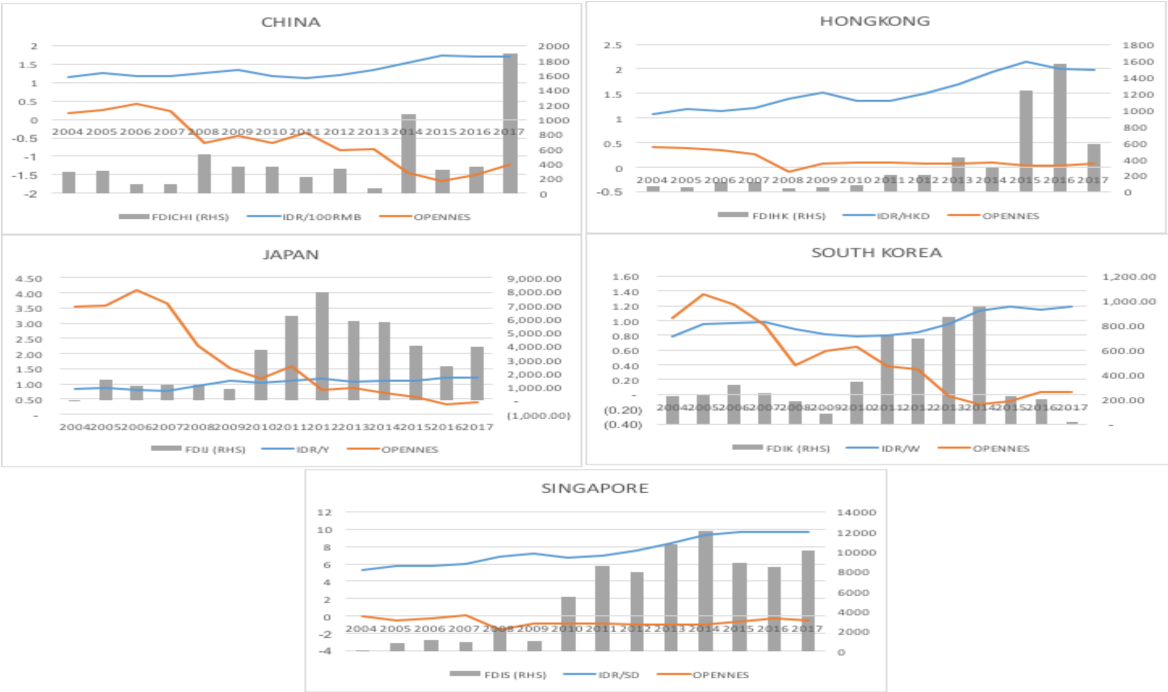
Table 1. Indonesia's Level of Openness to Main Partner Countries 2004-2017

Year	China	Hong Kong	Japan	South Korea	Singapore
2004	0.180	0.401	3.537	1.034	-0.029
2005	0.264	0.386	3.584	1.356	-0.526
2006	0.430	0.342	4.090	1.215	-0.279
2007	0.238	0.265	3.639	0.933	0.141
2008	-0.647	-0.100	2.260	0.392	-1.599
2009	-0.433	0.072	1.509	0.588	-0.914
2010	-0.627	0.085	1.168	0.645	-0.863
2011	-0.366	0.084	1.599	0.380	-0.842
2012	-0.842	0.077	0.803	0.336	-0.975
2013	-0.794	0.066	0.855	-0.019	-0.975
2014	-1.461	0.104	0.691	-0.138	-0.941
2015	-1.668	0.028	0.552	-0.090	-0.624
2016	-1.503	0.040	0.334	0.036	-0.288
2017	-1.218	0.074	0.388	0.033	-0.448

Source: International Financial Statistics, IMF, data processed

The exchange rate, theoretically, also influenced foreign investment. The exchange rate could be functioned as a stimulation of investment entry to the destined countries. It is because currency strengthening of destined countries improved the investment results of investors and vice versa (Benassy-Quere, et al, 2001). The following graph showed the relationship between economic FDI, openness and exchange rates. Based on the data it appeared that IDR tended to depreciate from year to year. The biggest average depreciation was against the Hong Kong Dollar, which was 5.12%. Whereas against the Singapore dollar, IDR depreciated around 4.92%. From the graph, depreciation was correlated with FDI.

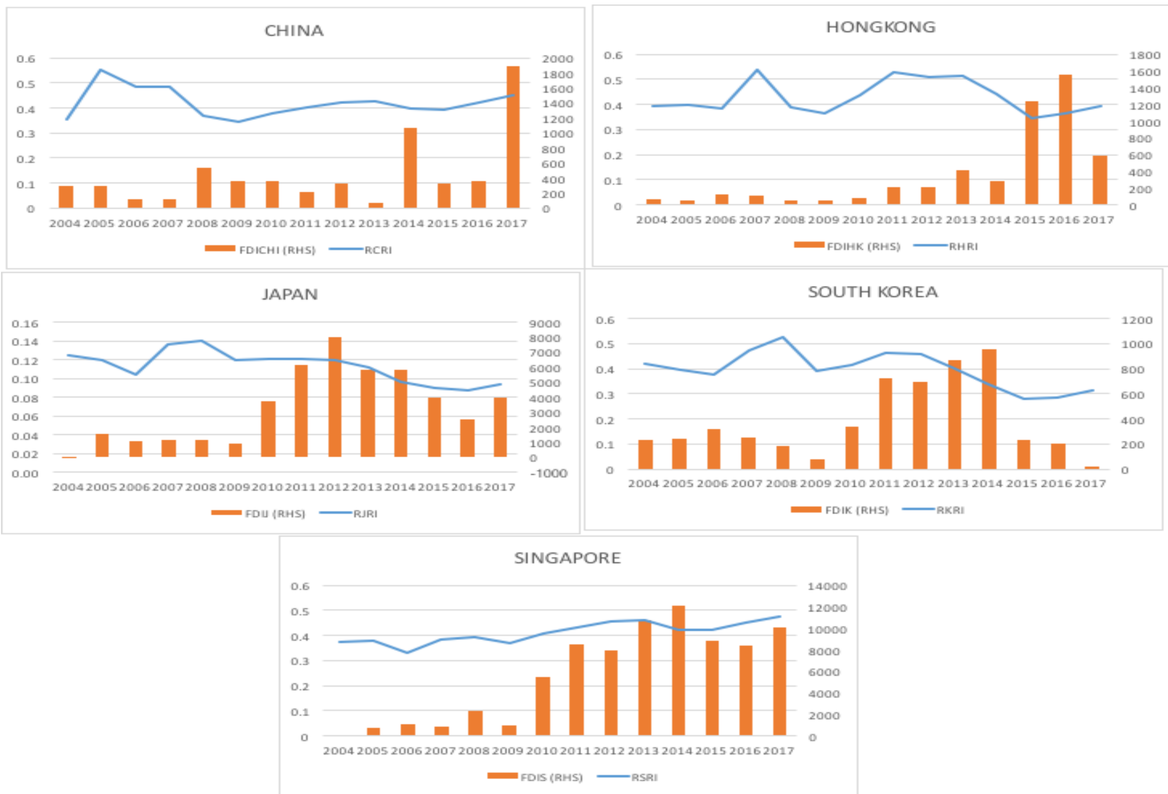
Figure 3. Relationship between FDI, Exchange Rate and Openness Index 2004-2017



Source: International Financial Statistics, IMF, data processed

The interest rate was a cost that needs to be paid by capital borrowers because of the loaning or the use of some fund to capital lenders. There was a negative relationship between interest rate and investment rate. If the interest rate was high, the total of investment was low. On the contrary, if the interest rate was low, the total of investment was high. When compared with other countries, Indonesia's loan interest rates were relatively higher compared to interest rates in other countries. On average from 2004 to 2017, Indonesia's interest rates were 13.10%. China, Hong Kong, South Korean and Singapore tribes were almost the same, which is at 5%. The lowest average interest rate was Japan's loan interest rate of 1.49%. Of the five countries, in the last 5 years it has been seen that interest rates show more and more declining.

Figure 4. Relationship between FDI and Loan Interest Rates 2004-2017



Source: International Financial Statistics, IMF, data processed

One of the non-economic aspects used in this study is Political Risk. Political risk had an influence on investment decisions to a country. The lower the political risk of a country, the country would become increasingly attractive to foreign investors. This was because investment must depend on the security of a country. The political risk indicators issued by the World Bank in the form of Political risk index has indicators (i) Political risk index of voice and accountability (PRSVA) which contains the indicator of military in politics and democratic accountability, (ii) Political risk index of political stability and absence of violations (PRSVP) which contains the indicator of government stability, internal conflict, external conflict and ethnic tensions, (iii) Political risk index of government effectiveness (PRGE) which contains the indicator of quality of bureaucracy, (iv) Political risk index of regulatory quality (PRSRQ) which contains indicator of investment profile, (v) Political risk index of rule of law (PRSRL) which contains indicator of law and order, and (vi) Political risk index of control of corruption (PRSCC) which contains indicator of corruption condition. Overall, the political risk rating can be divided into several categories (www.prsgroup.com):

1. 0.0% - 49.9% indicates a very high risk
2. 50.0% - 59.9% indicate high risk
3. 60.0% - 69.9% indicates moderate risk
4. 70.0% - 79.9% indicate low risk
5.> 80.0% indicates a very low risk

Table 2 showed the conditions of Indonesia's political risk. From all indicators, from year to year, it could be seen that Indonesia's political risks are getting smaller. This showed that Indonesia's political conditions were getting better, even though the Indonesian index still showed relatively high-risk conditions because there was only one risk indicator that had a low index. In 2017, very high risks were found in law enforcement indicators. An index that showed high risk is found in PRSVA, PRGE and PRSCC. This showed that the effectiveness of government was not optimal, the level of corruption is still high, and the accountability of democracy was still relatively low. Whereas internal and external conflicts and pressures between ethnic groups contained moderate risks. While investment profile indicators were stated as low risk, this showed that Indonesia was a relatively attractive investment destination.

Table 2. Indonesian Political Risk Index 2004-2017

Year	PRSVA	PRSVP	PRSGE	PRSRQ	PRSRL	PRSCC
2004	0.63	0.61	0.50	0.50	0.50	0.17
2005	0.63	0.61	0.50	0.73	0.50	0.17
2006	0.63	0.63	0.50	0.73	0.50	0.42
2007	0.63	0.63	0.50	0.73	0.50	0.58
2008	0.63	0.62	0.50	0.73	0.50	0.67
2009	0.63	0.64	0.50	0.73	0.50	0.50
2010	0.63	0.62	0.50	0.64	0.50	0.50
2011	0.63	0.61	0.50	0.64	0.50	0.50
2012	0.63	0.55	0.50	0.55	0.50	0.50
2013	0.63	0.57	0.50	0.68	0.50	0.50
2014	0.54	0.59	0.50	0.68	0.50	0.50
2015	0.54	0.56	0.50	0.50	0.42	0.50
2016	0.54	0.62	0.50	0.73	0.42	0.50
2017	0.54	0.62	0.50	0.73	0.42	0.50

Source: World Bank

5. Regression Analysis and Discussion

Based on the econometric completeness check, the models used in this study are two, namely the common model and fixed effect model. The model also be divided into two models, namely (i) models with political risk separated from one another and (ii) models that use the composite index of political risk. In the second model, there were 6 types of political risk, namely (i) political risk index of voice and accountability (ii) political risk index of political stability and absence of violations, (iii) political risk index of government effectiveness, (iv) political risk index of regulatory quality, (v) political risk index of rule of law, and (vi) political risk index of control of corruption.

Another variable used in regression is the ratio of partner country GDP to Indonesian GDP (in the form of logs), the level of openness of a country's trade (openness) seen from the ratio of trade to GDP, Indonesia's exchange rate to partner countries (in the form of logs), rate ratio partner country interest with Indonesian interest rates (in log form).

Table 3. Resume Econometric Model

Variables	Common model 1		Common model 2		Fixed Effect model	
	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
LN GDP	-0.20325	-1.489163	-0.244516	-1.74634	-1.127481	-2.160069
OPENNESS	-0.211355	-0.88137	-0.524391**	-2.599171	-0.175363	-0.815522
LN EXCHANGE RATE	0.182837**	2.126927	0.13255	1.532191	3.260609*	4.286599
LN INTEREST RATE	-1.833044	-4.021051	-2.222008	-5.259344	1.888864	2.200404
POLITICAL RISK INDEX			3.3313	0.644861	-0.777084	-0.20892
PRSVA	-6.703092	-0.837248				
PRSVP	-21.55591*	-2.406253				
PRSGE	29.63232*	2.816844				
PRSRQ	3.79513	1.361072				
PRSRL	4.847753	0.577344				
PRSCC	1.650421	1.196054				
FIXED EFFECTS (CROSS)						
CHINA					-3.19864	
HONGKONG					-7.60516	
JAPAN					9.76835	
SOUTH KOREA					11.22172	
SINGAPORE					-10.18627	
R-SQUARED	0.428127		0.341224		0.715697	
ADJUSTED R-SQUARED	0.342346		0.289758		0.673051	
DURBIN-WATSON STAT	0.585474		0.574701			

Source: Data processed

Remarks: ** significant at α = 5%, * significant at α = 1%

The regression results using the common model showed that there were two variables that had a significant influence on FDI in Indonesia, namely the exchange rate and political risk index for government effectiveness. The exchange rate variable showed a significant positive effect on FDI. If there was a depreciation of 1%, the FDI would increase by 0.18%. This showed that FDI entering Indonesia was still an investment that seek the difference in exchange rate differences and considered that cheap Indonesian currencies would benefit them. This condition on the one hand was not favorable for Indonesia, because the exchange rate depreciation did not always have a positive impact on the economy even though it would encourage the entry of investment into Indonesia.

Based on the political index, it could be seen that the more effective the government will be to encourage FDI to enter Indonesia. If the government effectiveness index rose by 1%, investment entering Indonesia would increase by 29.63%. The effectiveness of the bureaucracy contributed greatly to the significance of this variable. Changes in the bureaucratic system and the spirit of clean bureaucracy in Indonesia in recent years contributed to foreign trust in investing in Indonesia.

Another interesting thing that could be discussed was the interest rate. In general, interest rates in Indonesia were relatively higher than the 5 investment partner countries. In theory, if external interest rates rose while fixed interest rates remained, or fixed interest rates remained but domestic interest rates fell, investment in Indonesia should increase. But the results obtained were the opposite, if the interest rate ratio rose, the investment would decrease. This means that the decline in domestic interest rates had not been able to encourage the increase in investment entering Indonesia.

In the second model regression was done with the composite index of the political risk index. When all political risks were combined, it turns out that the political risk index did not have a significant effect on foreign investment entering Indonesia. This finding was actually in line with the first model. In the first significant model only bureaucratic effectiveness. This gave a signal that the political risk index was not a key and main variable for investors to invest in Indonesia.

Because each country had different characteristics, the fixed effect model was used to see the heterogeneity of each country. The results obtained were almost the same as the common model. The variable that gave a significant impact was the exchange rate variable, while other variables including political risk did not have a significant impact. This showed that politics had not become a variable that was considered strongly by trading partner countries, while a strong economic variable was the exchange rate variable.

6. Conclusion

Foreign direct investment had an important place in the development of the countries. When the investors decided to make an investment, they took various factors into consideration. One of them was the political risk. Political risk factors were difficult to quantify, so we used six indicators from PRC as a proxy. The study result showed in Indonesian case only government effectiveness index that affect the FDI in Indonesia. The effectiveness of the bureaucracy contributed greatly to the significance of this variable. Changes in the bureaucratic system and the spirit of clean bureaucracy in Indonesia in recent years contributed to foreign trust in investing in Indonesia.

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