

Firm's Value: International Financial Reporting Standard Adoption, Concentrated Ownership and Investor Protection Issue: Data Asia

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Abstract - A study of the relationship between ownership structure and firm's value talks about the International Financial Reporting Standard (IFRS) adoption and Investor Protection. Some previous findings still had contradictory conclusion and mixed result. It indicates an opened question that need an empirical evidence. The objectives of this research were to examine the effect of concentrated ownership on International Financial Reporting Standard adoption and t the effect of concentrated ownership and investor protection on firm's value in five Asian companies.

The samples were taken from five Asian Countries: China, South Korea, Malaysia, Taiwan dan Thailand. The sample which is used in this research is consisting of 7.100 firm year observations. Asian countries were chosen because they have unique characteristics, such as emerging market, its ownership structure is more concentrated on family, and its board of governance is weak (Choi, 2003). Multiple Regression analysis was used for hypothesis testing.

The results showed that concentrated ownership had a positive effect on the firm's value. While concentrated ownership and International Financial Reporting Standard adoption had a positive effect on the firm's value. On the other hand, investor protection had a negative effect on the firm's value in a country with low investor protection.

Keywords: *IFRS adoption, concentrated ownership investor protection, and firm's value.*

I. INTRODUCTION

Some previous findings, which described the association between ownership structure and firm value, showed a contradictory conclusion. According to Shleifer and Vishney (1986) and Shah and Hussain (2012), concentrated ownership had a negative effect on firm's value. If ownership is concentrated on the managerial, (increasing share portion owned by the managerial party) it will have an insignificant and negative effect on the firm's value. This means that the block holders or the majority of shareholders have the power to supervise the managers in running the firms for the benefit of themselves. Fama and Jensen (1983) and Pedersen and Thomsen (1997, 1999) stated that concentrated ownership had a negative effect on the firm performance. Lemmon and Lins (2003) and La Porta (2000) described negative impact as a likelihood that the majority of shareholders are strongly motivated to make "unfair" transactions to divert company resources to increase their own prosperity. Both concentrated and dispersed ownership structure also can affect firm's value. Leuz et al. (2003) stated that the wider

the breakdown of share ownership, the greater the responsibility to the parties involved.

In contrast, when the ownership structure of a corporate more concentrated, the tendency intervention from the majority of shareholder will be higher, so is the firm's value. However, concentrated ownership structure increases the controlling function activity by shareholders to manager who is running out the firm, so is the firm's value (Coffee, 1991, Shleifer and Vishney, 1998). Demsetz and Lehn (1985) provided evidence that concentrated ownership had a positive relationship with potential supervision activities performed by the principal (capital owner). The bigger the share ownership, the higher the supervision of the majority of shareholders, resulting in the value of the company will increase (Smith, 1996).

Other issues that related to concentrated ownership and firm's value are International Financial Reporting Standard (adoption Previous study examined the correlation between IFRS adoption and investor protection with the earnings quality done by Houque et al. (2012). Highly concentrated ownership has a consequence of the existence of a minority shareholder, which means investor protection will be more needed (Boubaker and Labegorre, 2008). The application of IFRS will have an impact on the accounting method that can be used by companies. to minimize the fraud The influence of IFRS adoption on earnings quality depends on the level of investor protection in a country (Houque et al. 2012, as quoted in Utami, 2017). IFRS adoption and a strong investor protection will improve the quality of accounting information to improve firm's value. The interaction between IFRS adoption, and investor protection, and firm's value needs empirical evidence to fill out this research gap.

Overall, the relationship between investor protection and firm's value is very important for companies withinadequate internal governance committee and external governance such as a low investor protection environment. This research is motivated by Houque et al. (2012). This research is different from previous research because it used firm's value as dependent variable and concentrated ownership structure as a new variable is also added

The objective of this study was to examine the relationship between ownership structure, investor protection and firm's value in emerging capital markets in six Asian countries: South Korea, Philippines and Taiwan included in the French-legal origin group, and China, Malaysia and Thailand included in the English-legal origin group. The characteristics of capital markets in common law countries are different from those in code law countries such as the implementation of law and protection of investors. This research gap aimed to examine the influence of IFRS adoption, investor protection, and concentrated ownership structure on the firm's value in Asian companies.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Concentrated Ownership and Firms' value

Shleifer and Vishney (1986) argued that shareholdings ownership can enhance the ability of its shareholders to precisely monitor and influence the management in protecting its business activities. The bigger the share ownership, the higher the supervision of the majority of shareholder, so the value of the company will also increase (Smith, 1996). In addition, the difference in the results can also be caused by the manager's role who only consider the interests of shareholders and managers that can be aligned through the achievement of the organizational goals. If there is a difference of interest between the principal and the agent, the agent will uphold the value of togetherness to achieve the goals. This is suitable with the stewardship theory which views management as a trustworthy to act at its best to realize the corporate interests such as enhancing corporate value (Donaldson and Davis, 1989, as quoted in in Susilawati, 2018).

In contrast, La Porta (2000) stated that there is a negative influence between the concentrated ownership structure and the firm's value. This negative impact is due to the possibility that the majority of controlling shareholders are strongly motivated to make "unfair" transactions to divert the firm resources to increase their own prosperity. Jensen and Meckling (1976) stated that the perception of governance relationship is a contract between the principal and the director. Both relationships are assumed that both parties are utility maximizers, so it is reasonable to say that agents do not always act on the best interest principal. The result of testing the relationship between the concentrated ownership structure and firm's value is not yet conclusive in which there are two contradictory conclusions and therefore further empirical testing is required. Some researches show that there is no monotonous relationship between ownership structure and firm performance (Morck et al., 1988). Because the result is mixed, the relationship between ownership structure and firm's value is still an issue that requires empirical testing, so it is recommended to continue to test the relationship between concentrated ownership and firm's value the same sample. The researcher conducted the study based on the explained argument. The first hypothesis in this study is as follows:

H1: The concentrated ownership structure had a positive effect on the firm's value

IFRS Adoption, Concentrated Ownership and Firm' value

Leuz et al. (2003) conducted a study using a sample of 1,433 companies in 18 countries. The results showed that the relationship between concentrated ownership (block holders management) and firms' valuation is negative. This means that the higher the concentrated ownership, the lower the firm's value. Ownership concentrated at a certain level can lead to the takeover of the wealth of minority shareholders (Fama and Jensen, 1983; Morck et al., 1989; Shleifer and Vishny, 1997; and Demsetz and Lehn, 1985).

Other opposite opinions provide a positive influence because the majority of shareholders will easily manage and supervise the activities of the company. Coffee (1991) and Shleifer and Vishney (1998) stated that high ownership intending to be concentrated will improve the supervision function activities so it can increase firm's value and its quality. The correlation between IFRS Adoption and firm's value is influenced by the ownership structure. Leuz et al. (2003) said that the companies that have adopted IFRS and \ dispersed ownership structure will generate higher firm's value than those have concentrated ownership. Since that, there are many interventions from the majority of shareholder for special purpose, so the IFRS role will not work in the company with concentrated ownership structure.

Both adopted IFRS and concentrated ownership structure can affect to the increase of firm's value. In other words, the interaction between IFRS adoption and concentrated ownership had a positive effect on the firm's value. Based on this logical reason, the hypothesis two is

H2: IFRS adoption and concentrated ownership will increase the firm's value

Concentrated Ownership, Investor Protection and Firm' value

Hope (2002) stated that the measure of concentrated ownership at the state level is related to the level of company disclosure (firms' disclosure levels). Concentrated ownership tends to occur in countries with low investor protection. Hence, the negative relationship between concentrated ownership and firm's value will be stronger if the company is in a country with low investor protection (Lins, 2003). La Porta et al. (1998) explained that countries with low investor protection tend to have concentrated ownership, so that block holders have the ability to monitor agency activities and benefit from those controls to firm's value showing different results (Morck et al., 1988 and McConnell and Servaes, 1990). This phenomenon is said that the cost-efficiency of monitoring by block holders can increase the firm value. On the contrary, Claessens et al. (2002) reported that the firms in developing countries are dominated by concentrated ownership, so that conglomeration that incurred high agency cost of inefficient resources allocation (asset

allocation to sustain survival) will decline the firm's value (Mansii and Reeb,2002).

The following study will examine the relationship between concentrated ownership and firm's value, whether this relationship is influenced by the protection environment of the country or residence of investors. This test implies that the bigger the concentrated ownership, the higher the firm's value, and this relationship will be stronger if the company is domiciled in a country with low investor protection. Hence, the hypothesis is as follows:

H3: The firm's value will decrease in countries with low investor protection.

III. METHODOLOGY

This research used Bloomberg and Bvd Osiris database as a source of firm financial data. The type of data used in this research is secondary data. This database is chosen because it can meet the data requirements used for testing and limiting other database access. The sample are taken from manufacturing firms in China, Malaysia, South Korea, Taiwan, and Thailand. They were chosen because most Asian firms have a concentrated ownership and are potential for agency problems, more governance problems, and tend to be a country with low investor protection.

Statistics Testing and Variable Measurement

The concentrated ownership, investor protection, and firm's value used the

modified Multiple Regression statistics from Lang et al. (2004) that follows the Lang and Lundholm models, (1996) and Lang et al. (2003)

Information:

- OWNCON = the proportion of the number of shares owned by the three largest shareholders in a firm in a year (La Porta,1998).
- ANFOLL = the number of analysts who forecast annual earnings of firm in a year, listed in Bloomberg database.
- INVP = the number of five dimensions of investor protection measurement published by world economic forums.
- SIZE = = total natural logarithm of firm asset in a year
- XLIST = = dummy variable 1 if the company is listed in the U.S Market and performs a financial statement reconciliation pursuant to U.S. GAAP, otherwise, in a company in a year
- LEV = ratio of firm total to asset total of firm in a year.
- CAPEX = ratio of capital expenditures to total assets of firm in a year
- EASURP = the value of absolute, the difference in earnings per recent share with profit

per share of the previous year dividend to share price of company in a year.

- ϵ = standard error.
- Firm's value = The Firm's value that proxied with Tobin's Q, measured by: (Market Cap + Liabilities + Preferred Equity + Minority Interest) / Total Assets.
- Concentrated ownership = The concentrated ownership structure is measured using the proportion of the number of shares owned by the five largest shareholders in a company (Demsetz and Lehn, 1985). Nevertheless, not all shareholdings reach the five largest owners.
- IFRS adoption = will use the variable dummy, given the number 1 in the year following the IFRS adoption and given the number 0 for I
- Investor Protection = is measured by the index of protection against investors issued by the World Economic Forum covering five dimensions: board independence, enforcement of laws, protection of minority shareholders, accounting and auditing standards, and judicial independence.. The value of protection against investors is the sum of the five dimensions (Houque et al., 2008). The level of investor protection is divided into two: high and low level of investor protection. The determination of high and low investor protection level is based on median, a country with investor protection value higher than median is categorized as country with high investor protection and vice versa. This research used the median instead of the average value because it is not affected by investor protection values that are too high or too low, whereas the average value is usually affected if there is value of investor protection which is too extreme.
- Control Variables = variables used are: SIZE sign that is expected positive, XLIST sign that is expected positive, CAPEX had a negative effect on the firm's value. This research used a control variable according to the research of McConnell and Sarvaes (1995) stating that LEV has a negative effect on the firm's value. McConnell and Muscarella

(1985) stated that the increase in capital expenditure has been responded positively to investors and therefore it raises the value of shares. CAPEX has a positive effect on stock price volatility (Coles et al., 2004). The other control variables related to the analyst following model used according to Lang and Lundholm (1996) research are earning surprise. Lang and Lundholm (1996) state that the variable earnings surprise is a deviation of expected earnings per share substation.

IV. RESULTS AND DISCUSSION

Table 1 illustrates the sample used in this research, such as manufacturing firms from five Asian countries: China, South Korea, Malaysia, Thailand, and Taiwan. The number of observations from China was 2.997 or 42.2%, South Korea has 1.801 or 25.4%, Taiwan has 1.337 or 18.8%, Malaysia has 773 or 10.9%, and Thailand has 192 firms or 2.7% of the total observations data

Table 1. Sample selection by country

Country	Year of observation			Number of Observation (<i>firm year observation</i>)	%
	2015	2016	2017		
China	975	1.115	907		42.2
Korea Selatan	606	592	603	1.801	25.4
Taiwan	466	449	422	1.337	18.8
Malaysia	263	260	250	773	10.9
Thailand	68	59	65	192	2.7
Total	2.378	2.475	2.247	7.100	100

Descriptive statistics

Descriptive statistics can be used to see an overview of the spread of data to its central value (mean). One indicator of data distribution can be seen in the standard deviation value. The lower the standard deviation value, the closer the grade point average to the data.

Table 2 shows the value of descriptive statistics of all the variables used. Concentrated ownership variables have a high standard deviation by 19.885. This indicates that ownership data is concentrated spread over a wider area than other data. All descriptive statistics of each variable can be seen in table 2:

Table 2. Descriptive statistics

Variable	Min	Max	Mean	Median	StdDev
Tobin'Q	0.2625	3.7106	1.2019	1.1323	0.4140
OWNCON	0.16	99.63	46.2476	46.5100	19.855
IFRS	0	1	0.29	0.00	0.45
INVP	19	26.30	22.2559	21.300	2.3494
SIZE LN	1.8573	12.8311	6.5653	6.5869	1.9049
LEV	0.0075	1.5613	0.4317	0.4360	0.198
CAPEX	-1.977	-0.000	-0.073	-0.031	1.672
EASURP	0.0001	32.955	0.5621	0.1557	1.8843
XLST	0	1	0.000	0.000	0.52
Observation			7.100		

The Result of Hypothesis Testing

The Effect of Ownership Concentration on Firm's Values

The first hypothesis (H1) states that ownership concentration structure had a positive effect on firm's value. This hypothesis indicates that companies with more concentrated ownership structure will increase the value of the company. The first hypothesis is accepted if the coefficient of the concentrated ownership variable is significantly positive. This positive and significant coefficient indicates that if the company has an ownership structure, the value of the company will be higher. Table 3 shows the results of the hypothesis 1.

Table 3. The Results of Hypothesis 1, 2, and 3

Independent Variable	Expected Sign	Coeffisien (P-value)
Constant		0,613
OWNCON	+	0,001 (0,000)*
IFRS	+	0,03 (0,000)*
OWNCON *IFRS	+	0,001 (0,000)*
INVP	-	-0,016 (0,000)*
SIZE_LN	+	0.107 (0,000)*
LEV	-	-0.618 (0,000)*
CAPEX ¹	-	-0.760 (0,000)*
EASURP	-	-0.023 (0,000)*
XLIST ²	+	-0.515 (0,000)*
R ²		0.400
Adjusted R ²		0.3995
Total Observation		7.100

$$\text{Tobin's } Q_{it} = \beta_0 + \beta_1 \text{OWNCON}_{it} + \beta_2 \text{IFRS}_{it} + \beta_3 \text{OWNCON} * \text{IFRS}_{it} + \beta_4 \text{INVP}_{it} + \beta_5 \text{SIZE}_{it} + \beta_6 \text{XLIST}_{it} + \beta_7 \text{LEVERAGE}_{it} + \beta_8 \text{CAPEX}_{it} + \beta_9 \text{EASURP}_{it} + \epsilon$$

* Significant at level 1% ** significant at level 5%

Before doing the regression for testing the two hypotheses, the researcher conducted the

¹McConnell and Muscarella (1985) stated that the increase in capital expenditure was responded positively by investors because the increasing of shares value. However, La Porta, et al. (2002) and Shleifer and Vishney (1997) stated that governance environment in developing countries is different from that of in developed countries. Claessens, Djankov, and Lang also report that companies, in developing countries, are dominated by concentrated ownership/concentrated assets so that conglomerates emerge which give rise to high agency costs (Berger and Ofek 1995). Inefficient resource allocation (asset allocation to maintain survival) had an impact on decreasing firm's value (Jensen and Meckling, 1976) and Mansi and Reeb, 2002).

²Normality test was performed with a Kolmogorov Smirnov test and normal probability plot of standardized residual Asymp. Sig. of 0.086. Multicollinearity testing was aimed to test the correlation between independent variables measured by Variance Inflation Factor (VIF) and VIF value for all variables no more than 10. Heteroscedasticity test was done using Glejser test with Prob value. Chi-Square of 1,000. Autocorrelation test to ensure no correlation between variables by using Durbin-Watson with Durbin-Watson (DW) is 1.976.

classical assumptions ^{test2}. The results of the classical assumption test showed that all requirements have been fulfilled. The testing results of each classical assumption showed that the regression model did not experience multicollinearity, heteroscedasticity, autocorrelation, and normal distributing of standard error.

Hypothesis 1 (H1) states that the concentrated ownership structure had a positive effect on the firm's value. This means the higher the concentrated ownership structure, the higher the firm's value. Table 3 shows that the concentrated ownership structure had a significant and positive effect on the firm's value, with p-value 0.00 (<0.01). Based on the results, it can be concluded that H1 is accepted. These results support the opinion of Shleifer and Vishney (1986) who argued that an increasing shareholding can improve the ability of its shareholders to precisely monitor and influence the management in protecting its business activities. The higher the share ownership, the higher the supervision of the majority shareholder, resulting in the increase in the company's value (Smith, 1996).

The results showed that the direction was appropriate except Xlist variable. The Xlist variable shows unsuitable direction because of the average of firms listed in the New York Stock Exchange and reconciling financial statements following the US. GAAP is less than those that are listed on the New York Stock Exchange but not reconcile with US. GAAP

The Results of Hypothesis Two: The Interaction between Concentrated Ownership and IFRS adoption to Firm's value

Hypothesis two states that the relationship between the concentrated ownership structure and the firm's value gets stronger if the company adopt IFRS. This means that if the company has a highly concentrated ownership structure and IFRS adoption for preparing Financial Reporting, the firm's value will be higher. Hence, the coefficient of regression result for the interaction variable (OWNCON * IFRS) is expected to be positive. Table 4 above shows that the interaction between IFRS Adoption variable and Concentrated Ownership (IFRS * OWNCON) had a positive and significant effect on the firm's value with a p-value of 0.001 <0.05. Therefore, the results of this test are in accordance with the proposed hypothesis, so hypothesis (H2) is accepted.

It can be explained concentrated ownership can increase supervision by the majority. The majority of shareholders will easily manage and supervise the activities of the company. Coffee (1991) and Shleifer and Vishney (1998) stated that increasingly concentrated share ownership or ownership structure that tend to improve the supervisory function to be. It can create a monitoring function to increase managerial accountability. The increasing monitoring function can force the investor to act more careful in each business activity and decision-making.

Adoption accounting standards such as IFRS can improve the firm's value because management is under pressure to provide financial report that "true and fair view", and the company involvement in earnings management activities also will be less. The application of IFRS will have an impact on accounting method to minimize the fraud. The research evidence showed that financial statement is supported by IFRS adoption to reduce earnings management or improve the earning. The application of tight accounting standards can improve the earnings quality (Ewert and Wagenhofer, 2005). The improvement of earning quality can improve share value for investor.

The Result of Hypotheses three: Investor Protection to Firm's value

The result of H3 showed the effect of investor protection environment on the firm's value. H3 will be accepted if the coefficient of the Investor protection (INVP) variable had a negative and significant influence. Table 4 shows that the Investor Protection (INVP) variable coefficient is significantly negative at p-value 0,000 (<0.01). The results of this testing support the acceptance of hypothesis. Highly concentrated ownership has consequences of minority shareholders. The need for investor protection will be higher if there is a minority shareholder (Boubaker and Labégorre, 2008). The protection of minority investors is weakened if the investor's ability to supervise the management is weak. Claessens et al (2002) reported that firms in developing countries dominated by concentrated ownership, so that conglomeration that incurred high agency cost Inefficient resources allocation (asset allocation to sustain survival) has an impact on declining firm's value (Mansii and Reeb (2002).

La Porta et al. (1998) explained that countries with low investor protection tends to have concentrated ownership, so that block holders have the ability to monitor agency activities and benefit from those controls (Morck et al.,1988 and McConnell and Servaes,1990). This phenomenon is said that the cost-efficiency of monitoring by block holders can increase the firm value. Although this research does not test cost-monitoring, it may be possible to establish monitoring by an efficient block holder called cost efficiency of monitoring and therefore it can increase the value of the firm (Porta et al.,1998).

V. CONCLUSION

The result of empirical test showed that the concentrated ownership structure had a positive effect on the firm's value, meaning if the ownership structure is more concentrated, the value of the firm is higher. The second objective of the research is to examine whether the interaction between concentrated and IFRS adoption had a positive effect on the firm's value. Although a firm has concentrated ownership but IFRS adoption has tight standards to minimize fraud which will have a positive impact on the value of the firm because it gives more confidence to the investors in the decision-making. The results of empirical test showed that the the concentrated

ownership and IFRS adoption affects the firm's value. The third objective of this research is to find out whether the investor protection affects the firm's value. The results revealed that the firms in countries with low investor protection tend to have a concentrated ownership structure. Although this research does not test cost-monitoring, it may be possible to establish monitoring by an efficient block holder called cost efficiency of monitoring and therefore it can increase the value of the firm (LaPorta et al.,1998). The third objective is to find out whether the investor protection in the origin country will affect the firm's value. The results showed that the empirical evidence in countries with low investor protection have negative effect on firm's value.

LIMITATION

The limitation of this research is the measurement of corporate governance variables that are only proxied with the variable of concentrated ownership structure. Further research can use other corporate governance dimensions such as the Corporate Governance Index based on Credit Lyonnais Securities Asia (CSLA) (Klapper and Love, 2004). Another limitation is related to the measurement of IFRS adoption, namely "adoption" and "no adoption." Further research should develop a more detailed measurement of IFRS adoption at the country level through the provision of different scores that are not fully carried, years of adoption are delayed, and adoption has different texts.

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