STUDY ON ASEAN LISTED COMPANIES: CORPORATE GOVERNANCE AND FIRM PERFORMANCE

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ABSTRACT

This study aims to examine the performance of listed company in ASEAN based on GCG Score Card and firm performance. It was assumed that there is relationship between GCG performance and firm performance. Public corporate governance in ASEAN was measured using the ASEAN Score Card consist of five corporate governance indicators, namely: right of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board. Firm performance was measured from two aspects, namely market performance and operational performance. The type of research methodology uses causal research methods and Cross-sectional survey is applied to collect data from companies listed on the ASEAN Star Financial Time Series (FTSE) in 2014-2017. The research framework is tested by analysing the data of 240 and The analytical method used is regression (confirmatory) with Partial Least Square (PLS) software. The results showed that the GCG Score Card had a significant positive effect on operational performance, while the GCG Score had no significant positive effect on market performance of the FTSE ASEAN Star companies. GCG has no direct effect on stock prices, but GCG can be a trigger for companies to be able to manage assets efficiently. Implementation of good governance will help management to achieve long-term performance and sustainable growth.

Keywords: ASEAN, Score Card, Corporate Governance, market performance, operational performance

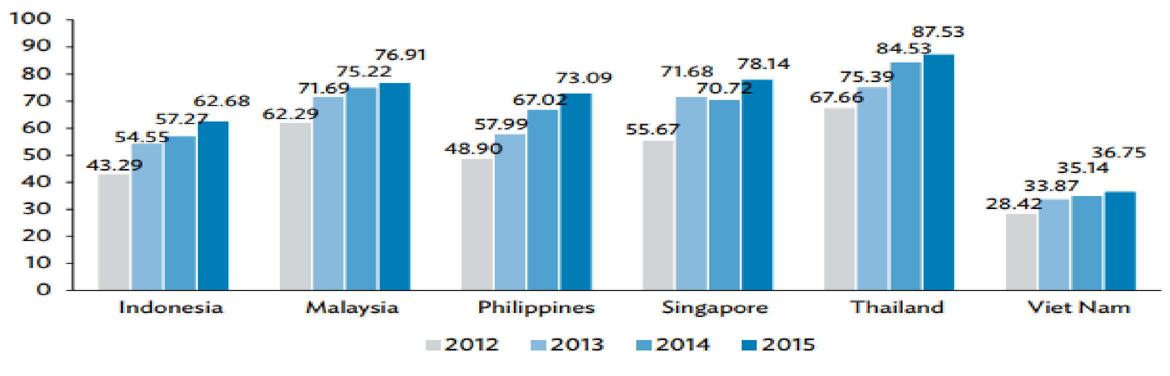
INTRODUCTION

The demand for good governance practices has become a necessity for all companies. Good governance makes management capable to formulate strategic planning. Strategic management is a systematic process that aims to maximize the utilization of resources in accordance with the demands of the company's goals, one of which is to look at the outside of long-term business operations (Selvam, et al, 2016). Competition becomes a trigger for management to manage company assets efficiently. Profit is a measure of performance used to see the efficiency of management in using its assets. Corporate profits will reflect and identify differences in managerial capabilities in creating dynamic relationships between products and the capital market (Kouser, et al 2012).

Company performance can be a mirror of the implementation of good corporate governance within the company. Corporate governance is important because it manage the relationship between management, directors, controlling shareholders, minority shareholders and other stakeholders. Empirical studies showed that the implementation of good corporate governance in a company is one of the factors that determine the quality of financial reporting, and the strong relationship between the quality of accounting information with investment decision (Kasim 2015; Zhai and Wang 2016; Ugbede, et al 2013).

The concepts and guidelines for corporate governance across countries may be almost the same, but the level of implementation for each country and company can be different. There are large differences between corporate governance practices in developed and under developed country. In South East Asia country capital markets, the difference can be measured using the ASEAN corporate governance score card. The standard method of measuring corporate governance for listed public companies in ASEAN initiated by the ASEAN Capital Market Forum (ACMF). ACMF has a goal for companies in ASEAN to realize the importance of corporate governance for each company.

Graph 1. Corporate governance scores of ASEAN countries in 2012 – 2015



Source: ACMF Working Group D Secretariat 2015.

The Graph 1 showed the difference in the score of corporate governance in ASEAN countries. The development of the GCG index during 2011-2015 between ASEAN countries was different. Thailand has the highest index beyond Singapore as the center of ASEAN business. ASEAN countries have relative difference in culture, social conditions, governance, and politics. The government has an important role to support the implementation of corporate governance (Sukmadilaga, et al 2015). Government able to provide guidelines and pressure for management to comply with regulations set by regulators. Generally, a government that is considered to have good governance will obtain trust from stakeholders and will produce a good business and corporate culture. The principles of good governance must not only be applied by companies but also the government to create the trust of all stakeholders (Zainudin & Setiyawati, 2019). In result (Nur'ainy, et al, 2013) found that the implementation of GCG can affects directly on corporate performance as measured by economic value added, so GCG in Indonesia which can be used by investors and potential investors as one consideration in making investment decisions, and reinforcing previous studies regarding the relationship between GCG implementation and corporate performance.

Jansen and Meckling (1976) Stated that contracts between shareholders and managers as an agency relationship, where shareholders are principals who give authority to managers as agents to manage the company on behalf of shareholders. External shareholders (outside equity) are aware of the possibility of a decline in the value of the company as a result of the nonproductive actions of managers. Therefore investors will only be willing to buy shares at a lower price, compared to if there is no nonproductive manager's action. Jensen and Meckling (1976) referred to as agency costs as a decrease in agency satisfaction arising from the agency manager's relationship with external shareholders. Agency costs are the sum of: (1) monitoring expenditures by the principal; (2) bonding expenditures by the agent; and (3) residual loss. Regarding the agency theory, the relationship between investors (principals) and managers in terms of financial accounting theory, accounting plays an important role as a monitoring tool for the company, so that contract costs can be minimized (Scott,2015)

GCG principles are often used as a reference to improve the performance of a particular government agency or company. For businesses and capital markets, this principle can be a guideline. In 2009, ASEAN Finance Ministers endorsed the ASEAN Capital Markets Forum (ACMF) Implementation Plan to promote the development of integrated capital markets. This initiative is carried out in line with efforts to achieve convergence in ASEAN countries in 2015 as an economic community.

In order to maintain objectivity and independence of the methodology, ACMF has requested several corporate governance experts to develop the Criteria / Indicator Criteria of Cards and governance assessments for ASEAN. The experts were chosen based on their experience in ranking corporate governance initiatives in their own country and their recognition as authorities in the field of corporate governance. The GCG elements according to the Organization for Economic Cooperation & Development (OECD) (2015) are; first The Rights of Shareholders and Key Ownership Functions. The CG Framework protects and facilitates "exercise" of the rights of the company's stakeholders. The rights of shareholders must be properly and appropriately informed about the company, the right to management and control of the company, in addition to that, the right to play a role in making decisions about all fundamental changes to the company, and also benefit the company. Second, The Equitable Treatment of Shareholders, the CG Framework must ensure equal treatment of all shareholders, including minority shareholders and foreign shareholders. Third, The Role of Stakeholders in Corporate Governance. CG Framework must recognize the rights of stakeholders based on the law or obtained through mutual agreement and encourage active co-operation between the company and stakeholders in creating wealth, employment and creating a healthy corporate financial sustainability. Fourth, Disclosure and Transparency. The CG Framework must ensure the accurate and timely disclosure of all material information on the company's financial condition, performance, ownership and corporate governance practices. Fifth, The Responsibilities of the Board. CG Framework is obliged to ensure strategic guidance, management performance monitoring as well as an explanation of board accountability (BOD and BOC) delivered to the company and shareholders.

Based on the phenomenon of differences in corporate governance scores and allowing differences in the quality of company performance reports becomes the rationale so that problems arise and the goal is to empirically test five indicators of corporate governance measured by using the ASEAN Score Card on corporate performance as measured by two aspects namely market performance and operational performance. Market performance is proxyed by 2 indicators namely stock returns and Price Earning Ratio, while operational performance indicators are proxy by 2 indicators namely Return on Assets and Leverage.
The results of this study are expected to be used as a material consideration in making decisions in investing, as well as input on the importance of the elements of the ASEAN Score Card corporate governance indicators as consideration of decisions to be used for the ASEAN Capital Market Forum (ACMF).

LITERATURE AND HYPOTHESIS DEVELOPMENT

1. GCG and Market Performance

Company performance is the result of management or team activities, these results are or the overall level of success during a certain period in carrying out the task. The company's performance is also a formal effort that has been done by a company that can measure the company's success in generating profits, so that it can see the prospects, growth, and the potential for good development of the company by relying on existing resources. A company can be said to be successful if it has achieved the standards and objectives (Subramanyam: 2014).

Market performance can be interpreted as the extent to which companies increase the value of shares of companies that have been traded in the capital market. Market performance is measured using the stock return indicator (stock return) and Price Earning Ratio. (Ghaeli, 2017) found that usually a high P / E ratio implies that investors anticipate higher revenue growth in the following years, but the fact that companies that have a low P / E ratio indicate that the company is performing relatively well compared to its past trends .

Wardhana, et al (2017) Corporate governance will provide effective protection for shareholders and creditors to get their investment back as fair, appropriate, and as efficient as possible, and ensure that management does the best way for the benefit of the company. (Rostami, et al, 2016) showed a positive relationship between the components of good corporate governance on stock returns. Abnormal returns around the date of announcement of corporate governance information in developing market countries that have capital market efficiencies similar to Indonesia where the results show a significant impact of corporate governance on stock returns. However (Toudas & Bellas 2014) found that good corporate governance has no effect on stock returns in Asia.

2. GCG and Operational Performance
Financial statements are the end of the accounting process with the aim of providing financial information that can explain the condition of the company in a certain period. Measurement of financial performance is one indicator used by investors to assess a company from the market price of these shares on the stock market. (Biancone, et al 2019) found that the better the performance of the company, the higher the return that would be obtained by investors. Generally investors will look for companies that have the best performance and invest their capital in these companies. Factors supporting the implementation of GCG as previously described will provide results and impacts for the company both in terms of internal and market finance, and these impacts can be assessed using a ratio.

The company's financial statements are expected to have qualitative attribute requirements as stated by the International Financial Reporting Standards which include relevance, comparability, timeliness, understandability, faithful and verifiable representation (Aifuwa & Embele, 2019). The financial statements must always describe detailed information about the company's economic performance (as highlighted in the income statement), statement of financial position, statement of cash flows and statement of changes in equity.

Operational performance indicators can be seen through Return on Assets and Leverage. ROA is a measure of a company's ability to generate profits with all assets owned by the company. These assets are all of the company's assets starting from its own capital or foreign capital that has been converted into company assets for the survival of the company. Stephan (2012) revealed that the higher ROA the higher the company's ability to generate profits. The higher profits generated by the company will make investors interested in the value of shares.

The leverage ratio describes the source of operating funds used by the company. The leverage ratio also shows the risks faced by the company. The greater the risk faced by the company, the uncertainty to generate profits in the future will also increase. (Sivathaasan, *et al* 2016) explained that corporate governance as a mechanism for controlling corporate problems, especially in terms of external finance. Therefore, companies with good corporate governance must be careful to make external financing. The decision in issuing debt based on the benefits / return on asset are greater than the cost of the debt, conversely if the return on assets is smaller than the cost of debt, then leverage will reduce the rate of return on capital

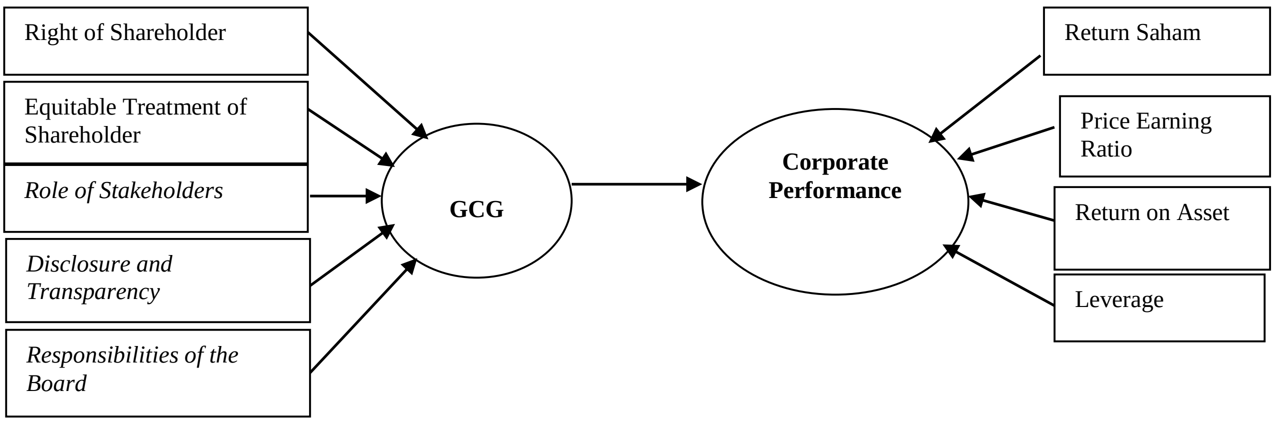
RESEARCH METHODS

The type of research uses causal research methods, because to find empirical evidence related to the direction of the relationship of independent variables (corporate governance) with dependent variables (firm performance). The population are listed company in ASEAN. Sample was selected based on companies listed in the ASEAN Star Financial Time Series Exchange (FTSE). There are 30 companies from each ASEAN exchange with the exception of Vietnam where 15 companies are selected from the Ho Chi Minh City Exchange and Hanoi Stock, period 2014 - 2017.

Table 1. Measurement Variables

Variabel	Measurement
Return Saham Source: Ross et al.,(2003)	$\frac{Pt - Pt{-}1}{Pt{-}1}$
Price Earning Ratio (PER) Source: Ghaeli (2017)	PER = $\frac{Price}{EPS}$
Return on Asset Source: Kouser (2012)	ROA = $\frac{\textit{Net income}}{\textit{Total assets}}$
Leverage. Source: Kouser (2012)	DER = $\frac{\text{Total Debt}}{\text{Ekuitas}}$
Right of Shareholder Source : ASEAN Corporate Scorecard (2015)	**RoSh = (10/25 x ∑Q)**, Rosh = *Right of Shareholder* ∑Q = Number of questions
Equitable Treatment of Shareholder Source : ASEAN Corporate Scorecard (2015)	**ETS = (15/17 x ∑Q)**, ETS = *Equitable Treatment of Shareholder* ∑Q = Number of questions

Role of Stakeholders Source : ASEAN Corporate Scorecard (2015)	**RoSt = (10/21 x ∑Q),** RoSt = *Role of Stakeholders* ∑Q = Number of questions
Disclosure & Transparency Source : ASEAN Corporate Scorecard (2015)	**DT = (25/41 x ∑Q),** DT = *Disclosure &Transparency* ∑Q = Number of questions
Responsibilities of the Board Source : ASEAN Corporate Scorecard (2015)	**RtB = (40/75 x ∑Q),** RtB = *Responsibilities of the Board* ∑Q = Number of questions



Picture 1: conceptual framework

RESULT AND DISCUSSION

Table 2. Descriptive of GCG Score

Countries	**GCG Score**	**Score A (Right of Shareholder)**	**Score B (Equitable Treatment)**	**Score C (Role of Stakeholder)**	**Score D (Disclosure & Transparency)**	**Score E (Responsibility of the Board)**
	Mean	Mean	Mean	Mean	Mean	Mean
Singapore	94.9926	10.1595	13.4712	8.6152	21.1964	41.5586
Thailand	97.4309	8.6303	14.0203	11.0682	23.4473	40.2648
Philipines	93.3285	8.6455	13.6482	8.9155	20.9994	41.2694
Indonesia	64.5589	5.5667	8.7817	9.1042	13.0589	28.0492
Malaysia	88.2447	7.6231	13.1242	8.5058	21.8717	37.2567

Source: Data Analysis

Based on Table 2, the number of ASEAN Star FTSE countries in the study are 5 countries. In determining the score of corporate governance there are 2 levels of assessment contained in the ASEAN CG Scorecard. Level 1 consists of 5 main parts in accordance with OECD governance principles, including right of shareholder, equitable treatment, role of stakeholders, disclosure and transparency, and responsibility of the board. While level 2 consists of 2 additional sections, namely bonuses and penalties. Bonuses are given if the company does things that exceed the standard limit and penalties are given if the company carries out corporate governance that is inappropriate or lacking in standards. Overall, on the period 2015-2017 revealed that Thailand got the highest average score GCG 97.43, and the lowest score GCG is Indonesia 64.55. It is interesting that Thailand better than Singapore in implemented GCG, as we know that Singapore as a central business in South Asia. Philipines is better than Malaysia and Indonesia.

Score A (Right of Shareholder), right-of-share holder has 26 question items, consisting of 21 item questions (main question) with a score of 10%, 1 question for level 2 bonuses and 4 questions for level 2 penalties. The highest value of 10.15 achieved by Singapore and Indonesia has the lowest mean value of 5.5.

Score B (Equitable Treatment), the principle related to fair treatment for all shareholders, namely having the opportunity to obtain effective compensation for violating their rights. This equitable treatment of shareholder item has 17 question items, consisting of 13 level 1 questions (main question) with a value of 15%, 1 question for level 2 bonuses and 3 questions for level 2 penalties. The highest mean value of 14.02 achieved by Singapore and Indonesia has the lowest mean value of 8.78.

Score C (Role of Stakeholders), the principle of stakeholder actively encouraged cooperation between companies and stakeholders in creating wealth, work, and the sustainability of financially sound companies. The item role of stakeholders has 16 items of questions, consisting of 13 level 1 questions (main question) with a value weight of 10%, 1 question for level 2 bonuses and 2 questions for level 2 penalties. The highest mean value 11.08 achieved by Thailand and the lowest value 8.50 from Malaysia. Companies that have a value more 4.76 tend to achieved 50% in implementing the criteria of role of stakeholders
Score D (Disclosure & Transparency), the highest mean value 23.44 achieved by Thailand and has the lowest mean value of 13.05 which is come from Indonesia. In this question item there are 4 companies in Indonesia that have values below 10, namely Bumi Serpong Dame Tbk, Indofood Tbk, London Sumatra Tbk, and Unilever Tbk. Even so, on average, FTSE companies, both directly and indirectly, have implemented the OECD principle well where timely and accurate disclosures are made on all material matters regarding the company, including financial situation, performance, ownership and corporate governance. The item role of stakeholders has 38 question items, consisting of 32 level 1 questions (main question) with a value of 25%, 2 questions for level 2 (bonus) and 4 questions for level 2 penalties.

Score E (Responsibility of the Board), the highest mean value 41.55 achieved by Thailand and the lowest mean value 28.04 is Indonesia. In this question item, there are 2 companies in Indonesia that have values below 20, namely Vale Indonesia Tbk and Pt Indofood Tbk, although the FSTE company as a whole has implemented the OECD principle well where effective board monitoring and board accountability to companies and shareholders is effective. The item role of stakeholders has 81 question items, consisting of 65 level 1 questions (main question) with a value weight of 40%, 8 questions for level 2 (bonus) and 8 questions for level 2 penalties

Table 3. Mean and standard deviation

	N	Mean	Std. Deviation
Score of GCG	240	86.2601	15.3747
Price earnings ratio (PER)	240	-0.2129	4.3472
Return on Asset (ROA)	240	0.1345	0.3977
Debt to equity ratio (DER)	240	1.6538	1.8386
Stock Return	240	-0.0074	0.1393
Size	240	14.9602	3.7868
Valid N	240		

Source: Data analysis

Table 3 presented the overall score of GCG of public companies listed in the Financial Time Series Exchange (FTSE) of ASEAN Star has a mean score value of 86.2601 (maximum score 100) with a standard deviation of 15.3747. This means that majority the FTSE company has applied the principles of good corporate governance, where the corporate governance framework has protected the rights of shareholders including minority and foreign legal holders, encouraging active collaboration between the company and stakeholders, disclosing with timely for all material information starting from the financial situation, performance, ownership and corporate governance, as well as effective management monitoring by the board.

Market performance represented by stock returns has a mean value of -0.7% with a standard deviation of 13.93%. Negative return figures and high standard deviations reflect that stock performance is very volatile. Market performance represented by price earnings ratio has a mean value of -0.2129 with a standard deviation of 4.3472, this is in accordance with the results of the average stock return which has an average negative value which will affect the PER value which is also negative. The lowest stock return value is owned by Ratchburi company from Thailand and the lowest minimum PER value is owned by Vale Indonesia from Indonesia.

Operational performance represented by ROA has a mean 13.45% with a standard deviation of 39.77%. Average ROA is relatively low, and high standard deviations indicate that firm operational performance varies in ASEAN. The lowest ROA value is owned by Noble Group from Singapore. Operational performance represented by DER has a mean value of 1.6538 with a standard deviation of 1.8386. Debt to Equity ratio greater than one reflects that companies are more funded with debt. High debt has a high risk of bankruptcy. On the other hand high debt can also reflect that the company is investing in corporate development. Companies that have good governance get the trust of creditors so that it is easy to obtain funding. The lowest DER value is owned by Noble Group from Singapore.

Table 4: Result of t testing statistic

	t	P Value	Sample Mean	Std. Deviation
GCG Score -> DER	1.746	**0.041**	0.080	0.044
GCG Score -> PER	0.463	**0.322**	0.092	0.145
GCG Score -> ROA	1.687	**0.046**	0.049	0.029
GCG Score -> Stock Return	1.526	**0.064**	0.112	0.069
Score A -> GCG Score	17.097	**0.000**	0.117	0.007
Score B -> GCG Score	25.137	**0.000**	0.164	0.007
Score C -> GCG Score	15.850	**0.000**	0.139	0.009
Score D -> GCG Score	30.401	**0.000**	0.275	0.009
Score E -> GCG Score	46.200	**0.000**	0.446	0.010

Source: Partial Least Square Analysis

Hypothesis testing uses a 95% confidence level or t statistics 1.96. Based on able 3 showed that OECD governance principles; right of shareholders, equitable treatment, role of stakeholders, disclosure and transparency, and responsibility of the board were good indicators to form a positive CG Score, which has a t statistic value more than 1.96. CG Score results showed a significant positive effect on operational performance represented by ROA and DER because it has a t statistic value more than 1.96. Unfortunately the CG Score has positive effect but not significant on market performance represented by Stock Return and PER because it has a statistical t value less than 1.96. This study provides empirical evidence that investors are less appreciative of GCG performance. This can be understood because stock prices are influenced by many factors.

DISCUSSION

Effect of GCG on Stock Return

GCG Score have positive effect but not significance on market performance which was proxied by stock returns on public companies listed on the ASEAN Star Financial Time Series (FTSE). It was revealed that the principles of GCG through the ASEAN Score Card detailed in five indicators of corporate governance, namely: right of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board have influenced stock return but are not significant. Explanation that GCG scores have no effect on stock returns can be caused by investors using GCG scores as a guide in choosing trustworthy companies. The next choice after establishing a good company is to choose the best business prospects with the smallest risk.

Short-term investors who aim to obtain capital gains generally do not consider the quality of governance. Long-term oriented investors are very concerned about governance performance. Investors assume that only companies who have good governance can be sustainable. (Hashima & Devi 2012) found that institutional investors tend to actively monitor their investments because of the large amount of wealth they invest. Good governance have a positive effect on the quality of financial reporting. (Kasim, 2015) in his research examining the quality of financial reporting by taking into account the implementation of corporate governance and the implementation of good corporate audits, which are factors that determine the quality of financial reporting. The results showed that the implementation of good corporate governance affects the quality of financial reporting, internal audit also affects the implementation of GCG, and the quality of financial reporting affects stock returns. (Harnovinsah & Alamsyah, 2017) showed that accounting information is very important in the process of considering investment decisions. The faster and more actual investors get information, the market will be more active, as reflected in stock trading activities

The Effect of GCG on Price Earning Ratio

GCG Score have no significant positive effect on market performance which is proxied by price earning ratios (PER). PER can be used by investors to review whether stock prices are over priced or under priced. GCG does not directly affect stock prices, but GCG can improve the quality of accounting information and enlarge a company's opportunities to achieve targeted profits. (Zhai & Wang 2016) revealed that the higher the quality of a company's accounting information, the higher the correlation and synchronization of business revenue growth between the listed company and its industry if supported by a good corporate governance environment. (Haliwono, 2010) who examined the magnitude of the influence of GCG on company performance, the results showed that corporate governance affects the value of the company's market performance by using a PER variable where PER influences growth opportunities.

The effect of GCG on Debt of Equity Ratio (DER).

GCG Score have significant positive effect on operational performance which is proxy by Debt of Equity Ratio (DER). High score GCG give a positive signal to creditor. In the period 2015-2017 the average DER value was 1.65 showed that the company's main funding source is debt. High debt can reduce profitability and increase bankruptcy risk. It is very surprising that a companies listed on the ASEAN Star Financial Time Series (FTSE) had high funding from creditor. The higher the GCG score the more trusted and the company gets debt funds to finance their operations and development. In other perspective higher DER is a positive signal for investors, if supervision in the company is good in managing debt, the return on capital using leverage also increases, conversely if the return on assets is smaller than the cost of debt, then leverage will reduce the rate of return on capital (Weston & Copeland, 1997). As (Juliana & Thayogo 2019) result That corporate governance and stock liquidity able to decrease the agency cost and the usage of debt. The interaction between stock liquidity and corporate governance shows that corporate governance significantly affects leverage only when the firm is liquid.

The Effect of GCG on Return on Assets (ROA).

GCGScore have a significant positive effect on operational performance which is proxy by Return on Assets (ROA). Good governance makes management capable to formulate strategic planning that aims to maximize the utilization of resources in accordance with the company's goals. In the period 2015-2017 the average ROA value was 6.44% and standard deviation 11.22%. Those numbers showed that the profitability is relative low and volatile. If it is associated with a high level of debt ratio, it can be concluded that the companies listed on the ASEAN Star Financial Time Series (FTSE) were in a cycle of growth and business expansion. As published by (Harnovinsah & Alamsyah, 2017) in their research, one of the sources of internal funding for investment is profit generated from operating activities. While the value of governance is a major factor for companies to achieve long-term improvement and superior and sustainable growth. The application of good governance can increase investor confidence in the company and the economy as a whole, thus ultimately increasing company profits.

CONCLUSION AND IMPLICATION

Conclusion

GCG has not a significant positive effect on market performance but has a significant positive effect on operational performance. Companies that implement good governance will increase investor confidence in deciding to invest because good governance will affect the quality of financial reporting. The higher the quality of a company's accounting information, the higher the correlation and synchronization of the company's revenue growth. This will be even better if supported by a good corporate governance environment. The results showed investors appreciated the company's expansion by providing credit or debt as a market expansion because the company had implemented good governance.

Implication

1) This study provides empirical evidence that GCG scores in ASEAN are relatively high and GCG implementation has provided opportunities for companies to easily obtain funding from creditors. A large amount of debt can still be managed well so that it can produce a positive and growing return on assets.

2) Investors should not hesitate to invest in ASEAN country because companies in ASEAN are in a growing business cycle that will provide attractive returns. Investments in companies that have good governance have a positive prospect of stock returns, therefore investors are encouraged to choose stocks that fall into the category of the company. Companies in developing countries, including capital gains that continue to grow (capital growth) so that investors can make Asian priorities, especially for countries that have presented the GCG index.

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