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Boosting International Investment: The Role of Expert Assessments of Corporate Governance

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Pietro Bonetti
University of Navarra
Gaizka Ormazabal
University of Navarra, CEPR, and ECGI

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Abstract

Global investors often demand independent assessments of firms' governance mechanisms. However, the supply of such evaluations is subject to two important limitations: assessment error and lack of coverage in certain regions. This paper studies a recent initiative that addresses these limitations; the ASEAN Capital Markets Forum and its partners periodically publish a short list of companies based on a systematic, peer-reviewed assessment of corporate governance practices conducted by independent national experts. Using a regression discontinuity design, we document that being included in this "Top List" attracts significant foreign investment. Consistent with the notion that firms make governance changes to be included on the list, we observe substantial increases in governance scores among the firms around the cut-off point, increases that are particularly pronounced among firms more likely to benefit from new funding. The documented increase in foreign investment is associated with higher profitability and higher capital expenditures, but not with higher leverage and higher shareholder payouts. Overall, the evidence points to expert assessments of corporate governance practices as a powerful tool to boost international investment and induce governance changes.

Keywords: Reputational incentives, corporate governance, certification, expert assessments, foreign investment, index inclusion.

JEL Classifications: G18, G34, G35, L51

Pietro Bonetti
Assistant Professor of Accounting and Control
University of Navarra, IESE Business School
Avenida Pearson 21
Barcelona, 08034, Spain
e-mail: pbonetti@iese.edu

Gaizka Ormazabal*
Associate Professor of Accounting and Control
Grupo Santander Chair of Financial Institutions and Corporate Governance
University of Navarra, IESE Business School
Avenida Pearson 21
Barcelona, 08034, Spain
e-mail: gormazabal@iese.edu

*Corresponding Author

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Pietro Bonetti
IESE Business School

Gaizka Ormazabal*
IESE Business School, CEPR, and ECGI

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1. Introduction

The role of corporate governance on international investment is widely recognized (e.g., Leuz, Lins, Warnock, 2008). However, attracting foreign investment by establishing mechanisms to protect shareholders' interests faces an important challenge: gaining investors' confidence in the efficacy of these mechanisms.[1] The need to address this issue is particularly pressing; while there is a growing demand for international diversification, the volume of foreign investment in many countries is still modest (IMF, 2019).[2]

One way to overcome this difficulty is to conduct independent assessments of firms' governance practices. Several third-party private organizations publish governance ratings on individual companies using alphanumeric or numeric systems that rank companies according to a set of criteria that they believe measure governance effectiveness.[3] Nonetheless, these assessments have raised methodological concerns (e.g., Daines et al., 2010; Berg et al., 2020). Another important limitation of corporate governance ratings is that these assessments are rarely available for firms in certain parts of the world (see Figure 1).

This paper studies a novel mechanism that can address these shortcomings. The "Corporate Governance Initiative" was launched in 2011 by the ASEAN Capital Markets Forum and the Asian Development Bank with the objective of "raising corporate governance standards of publicly listed companies in ASEAN countries and increase their visibility to

[1] Some papers suggest that foreign institutional investors have imperfect knowledge about domestic firms' governance strengths because it is too costly for them to learn about those firms' governance practices (Brennan and Cao 1997; Kang and Stulz 1997; Choe et al. 2005). Other papers argue that domestic firms could not be able to credibly commit to not expropriate minority shareholders (Gelos and Wei, 2005; Ferreira and Matos, 2008; Leuz et al., 2008).

[2] For example, in 2018 the average foreign direct investment net inflows to our sample countries (excluding Singapore) was $13,226 million, namely 3.2% of the GDP.

[3] Examples of these organizations include Risk Metrics Group/Institutional Shareholder Services (ISS), GovernanceMetrics International, and The Corporate Library. Recently there has also been a surge in governance evaluations as part of the ESG (Environmental, Sustainability, Governance) scores. Leading vendors of such scores include MSCI, Sustainalytics (acquired by Morningstar), S&P Global (formerly RobecoSAM), Vigeo-Eiris (acquired by Moody's) or Thomson Reuters Refinitiv ESG (formerly ASSET4).

investors" (ADB, 2014).[4] Central to this initiative is the periodical publication of a list including the top 50 public firms based on corporate governance practices (the "Top 50 List"). The assessment of these practices is based on a scoring system called "ASEAN Corporate Governance Scorecard" (henceforth "ACGS"). The evaluation process is not managed by regulators but rather by private organizations referred to as "domestic ranking bodies" (e.g., national institutes of corporate directors). In contrast to other evaluators (e.g., proxy advisors, credit rating agencies, auditors), the ACGS experts are not paid by the issuers nor by investors.

The inclusion in the Top 50 List can play a "certification" role for foreign investors to the extent that the recognition increases the confidence in the efficacy of the corporate governance mechanisms of Southeast Asian firms. While the certification is unofficial (i.e., it is not issued by a regulatory body or government agency), the selection of firms is based on a rigorous and systematic methodological approach and is conducted through a coordinated peer-review process involving groups of independent corporate governance experts from each participating country. Moreover, the application of the same methodology across countries enhances comparability and relative performance evaluation.[5]

We pose that, through its certification role, the Top 50 List elicits significant reactions from foreign investors and from the firms subject to the ACGS assessment. Critically, the recognition could attract foreign investors facing uncertainty about the efficacy of the corporate governance mechanisms of Southeast Asian firms.[6] In turn, while there is no

[4] ASEAN stands for "Association of Southeast Asian Nations". The member countries of ASEAN are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. The ASEAN Capital Markets Forum is a high-level grouping of capital market regulators from all ASEAN jurisdictions.

[5] Consistent with this, Amando M. Tetangco, Jr, Governor of the Central Bank of the Philippines, stated that "Benchmarked against international best practice, the ACGS provides a standard rigorous methodology that can generate comparable information crucial to investors, fund managers, the private sector, the regulators, and governments ("Working on ASEAN governance standards" *ForeignAffairs.co.nz* 2 October 2014).

[6] The outcome of the list is often mentioned in the press, and, since 2015, there is a public awards ceremony. Along these lines, Bandid Nijathaworn, president and chief executive of the Thai Institute of Directors Association stated that "We hope that the ASEAN CG scorecard will help put companies with good corporate

explicit, monetary reward for being included in the list, the possibility of obtaining additional funds from foreign investors could induce firms to change their corporate governance practices in an attempt to be included on it.

The publication of the Top 50 List provides the features of a local quasi-experiment and thus offers a unique opportunity for empirical identification. To begin, the inclusion on the list is based on an arbitrary threshold (i.e., the 50th position in the ranking). Moreover, the scores and the ranking of firms are not publicly disclosed (the ASEAN Capital Markets Forum discloses exclusively the names of the top 50 firms for each country). To the extent that market participants only observe whether a firm has been included or not, and not the relative position of the firm in the ranking, the certification effect is likely to be limited to included firms. The final position of the firms around the 50th position in the ranking (i.e., the bottom of the list) is difficult to predict, as these firms have similar governance characteristics.[7] As such, the Top 50 List induces a sharp discontinuity in foreign investors' perception of firms' governance practices.

Our analyses exploit a comprehensive sample of Southeast Asian public firms from 2012 to 2017. While the ACGS are not publicly disclosed, we were granted access to proprietary data on the scores assigned to listed firms in six ASEAN countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.[8] Based on these data, we analyze the effect of the publication of the Top 50 List. To sharpen identification, we use a regression discontinuity design by focusing on the firms around the (lower) threshold of the list (i.e., 50th position in the ACGS ranking). In the vicinity of the 50th position the inclusion in the list is more likely to be driven by relatively exogenous factors. For example, it is

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governance on the global radar screen, as corporate governance can help improve liquidity and company values" ("*Thailand: Executive urges companies to follow ASEAN corporate governance scorecard practices strictly*" Thai News Service 16 July 2012).

[7] For example, the firm in the 50th (51th) position could have easily ended up in the 51th (50th) position if the score was computed using slightly different weights. The evaluation of the national corporate governance experts could also be difficult to predict among firms with similar governance characteristics.

[8] Our analysis excludes Vietnam due to lack of data on foreign ownership in the firms of this country.

possible that assigning slightly different weights to the sub-scores of the ACGS results in a different ranking (and thus in the inclusion/exclusion in the list) of a firm in the vicinity of the 50th position. Also, the peer review process may be subject to idiosyncrasies that induce variation unrelated to fundamentals.

Our first set of tests focuses on foreign investors' ex-post reaction to the Top 50 List. We find that being included in the list is associated with significant increases in foreign institutional ownership; on average, foreign investors increase by 0.3 percentage points their ownership in the firms included in the list. Based on the average market capitalization of the firms in the sample ($3.3 billion) our estimated magnitudes translate into an average capital injection of $9 million for each firm that appears on the Top 50 List relative to firms outside the list. This is a meaningful effect considering that the volume of foreign investment in these countries (except for Singapore) is still low. This pattern is robust to controlling for alternative functional forms and for potentially confounding country-year shocks.

In contrast, we do not find such pattern in placebo tests. First, we repeat the analysis using random dates for the publication of the Top 50 List. Second, we randomize the composition of the list. Third, we replace foreign investment with domestic investment. The lack of statistically significant results in these falsification tests suggests that our models properly capture the effect of the Top 50 List on foreign institutional ownership.

To understand the sources of our results, we break down foreign investment by investor type. We find that the documented patterns are driven by mutual funds and pension funds, but not by hedge funds and private equity funds. That is, the effect is concentrated among investors with longer investment horizons (Bena, Ferreira, Matos, Pires, 2017), which is consistent with investors expecting that the corporate governance changes made by the sample firms have long-term consequences.

Next, we analyze firms' ex-ante reaction to the Top 50 List. We find that firms in the vicinity of the lower threshold of the Top 50 List (i.e., the 50th position in the ranking based on the ACGS) exhibit significantly higher increases in the ACGS. To the extent that there is higher uncertainty about the inclusion of these firms in the list, this result suggests that the possibility of being within its top 50 generates incentives for firms to change their corporate governance practices in conformity with the guidelines upon which the ACGS is based.[9]

The governance changes preserve the majority shareholders' control over the firm; our sample firms do not increase shareholder rights and equitable treatment of shareholders (i.e., mechanisms to share the control of the firm with minority shareholders). Rather, we find that the documented changes in ACGS are concentrated along corporate governance dimensions related to the role of stakeholders, disclosure and transparency, and the responsibilities of the board (see Appendix A for details on the dimensions of corporate governance captured by the ACGS).

Second, we exploit variation in the potential benefits that firms could obtain from receiving additional funding from foreign investors. We find that firms with higher growth opportunities and higher financial constraints exhibit greater improvements in ACGS when they are closer to the 50th position in the ranking. This is consistent with the idea that the Top 50 List provides firms with incentives to change their governance practices, especially when the benefits of doing so outweigh the corresponding costs.

We further explore the economic consequences of the documented patterns. We find that the increase in foreign investment driven by the inclusion in the Top 50 List is associated with higher return on equity. The higher shareholder profitability is not the result of

[9] To validate our assumption that inclusion in the Top 50 List is not fully predictable among the firms in the vicinity of the 50th position in the ACGS ranking, we repeat the analysis replacing changes in ACGS with changes in ranking positions (see Table OB.1 in the online appendix). We find no significant association. This suggests that making corporate governance changes is no guarantee of being included in the list; the inclusion also depends on the corresponding changes by other firms. That is, ex-ante there is uncertainty about the inclusion in the Top 50, at least for the firms in the vicinity of the 50th position in the ranking.

increasing leverage. Rather, we find that the increase in investment translates into higher return on assets driven by higher margins (but not by higher asset turnover). Furthermore, we observe that the increase in foreign institutional investment driven by inclusion in the Top 50 List is associated with higher corporate investment (capital expenditures), but not with higher dividends. Taken together, this evidence suggests that the firms included in the list use the financing from foreign investors to invest in profitable projects rather than distributing those funds to investors.

Finally, we analyze the stock market reaction to the publication of the Top 50 List. Consistent with the notion that being included on it increases shareholder value, we find that the constituents exhibit higher abnormal returns on the announcement date. This evidence is in line with the idea that inclusion on the list attracts foreign investors, thereby enabling firms to finance positive NPV projects.[10]

Our results add to the burgeoning corporate governance literature on foreign investment.[11] In this regard, Ferreira and Matos (2008) and Leuz, Lins, and Warnock (2009) find that foreign investors have a strong preference for firms with a lower risk of shareholder expropriation. In addition to adjusting their holdings, foreign investors appear to actively induce governance reform at firms (Aggarwal, Erel, Ferreira, and Matos, 2012) and foster innovation (Bena, Ferreira, Matos, and Pires, 2017).

Our paper contributes to this literature in several ways. First, our finding that foreign investors rely on the evaluations of the country experts in charge of the Top 50 List suggests that these investors face significant difficulties when assessing the corporate governance

[10] This evidence also corroborates our assumption that, ex-ante, there is uncertainty about the composition of Top 50 List.

[11] As argued by Aggarwal, Erel, Ferreira, and Matos (2012), foreign institutional investors may be more independent and thus better positioned to monitor corporate insiders than domestic institutional investors. Because domestic institutions are more likely to have business ties with local companies, they may be more likely to accommodate corporate insiders and less effective as external monitors (Gillan and Starks, 2003; Ferreira and Matos, 2008). In addition, Ferreira and Matos (2012) and Ferreira, Matos, and Pires (2015) observe that domestic institutional investors are often affiliated with banks that have ties with the firm (banks that extend credit, underwrite, provide advice, and even hold board seats in many corporations).

practices of international firms (e.g., asymmetric information, information acquisition costs). This result calls for further research on mechanisms to mitigate these frictions (the expert assessment / certification behind ASEAN's Top 50 List is just one example of such mechanisms). Second, we provide direct evidence that the possibility of receiving additional funds from foreign investors generates incentives to change corporate governance practices.

Our evidence also sheds light on the effects of corporate governance reforms that exploit firms' reputational incentives. The ASEAN's Corporate Governance Initiative is a case in point, as the inclusion in the Top 50 Lists enhances firm reputation. In this regard, our study is related to previous papers on the consequences of the inclusion in a stock index (e.g., Shleifer, 1986; Harris and Gurel, 1986; Chen et al., 2004; Boone and White, 2015; Appel et al., 2016), and especially to Chattopadhyay, Shaffer, and Wang (2020), who examine the effect of the JPX-Nikkei Index 400, a Japanese stock index based on return on equity.

Similar to these papers, our study provides evidence that the incentives for inclusion (or to avoid exclusion) in a publicly-observable list can lead to changes in firm behavior. However, our setting differs from this prior literature in several ways. First, while the inclusion in an index mechanically affects the investment of the passive investors following that index, there is no such mechanical effect when a firm is included in the ASEAN's Top 50 List. Second, stock indexes are usually based on financial metrics such as market capitalization and/or profitability. In contrast, the constituency of the ASEAN's Top 50 List is based on assessments of corporate governance practices. Third, the ASEAN's Top 50 List is based on the evaluations of country experts and subject to a peer review process whereas the inclusion in stock indexes is mainly mechanical (i.e., it involves little specific assessment of firms' practices). Fourth, the available evidence on stock indexes is mainly focused on the U.S. and does not study the implications of the inclusion in the index on foreign investment.

Finally, we add to the literature on the role of certification in the capital markets. Previous literature has studied auditors, analysts, credit rating agencies, and more recently, the effect of certification in the crytocurrency market.[12] Focusing on the certification of corporate governance practices, recent literature examines the voting recommendations provided by proxy advisors (e.g., Malenko and Shen, 2016). More related to our paper, Daines, Gow, and Larcker (2010) study commercially available corporate governance rankings and document that these ratings exhibit little correlation with key firm outcomes as well as with voting recommendations and voting outcomes. The expert assessments we analyze and the ratings analyzed by Daines et al. (2010) are different in a number of dimensions; the ACGS follows a different process and methodology, is conducted by a different type of evaluator, and is supported by major regulators. These key differences probably explain how, in contrast to Daines et al. (2010), we find that expert assessments of corporate governance practices can be meaningful for investors.

Our results on the effect of ACGS should be of interest for national institutions in search of mechanisms to boost international investment; there is no obvious reason to suspect that similar initiatives in other parts of the world would not help attract foreign investors. The results also speak to the ongoing debate about how to carry out corporate governance reform. One way is to impose common corporate governance standards across the economy, but this approach suffers from important shortcomings (Holmstrom and Kaplan, 2003; Coates, 2007; Zingales, 2009).[13] Our results suggest that command-and-control regulation is not the only avenue for corporate governance reform; the recognition from the Top 50 List induces firms

[12] For an overview of these strands of the literature, see Mehran and Stulz (2007), Cornaggia and Cornaggia (2013) and DeFond and Zhang (2014). Recent literature on the role of certification in the crytocurrency market shows that the numerical ratings produced by experts affect ICO outcomes (e.g., Bourveau, De George, Ellahie, and Macciocchi, 2019; Lee, Li, and Shin, 2019).

[13] The rules-based approach to corporate governance reform has at least three important limitations. First, regulations introduce compliance costs, which could be excessively onerous for young firms in fast-changing business environments (Iliev, 2010). Second, regulations impose "one-size-fit-all" requirements. This is problematic because different firms might have different governance needs (Coles et al., 2008). Third, regulations require enforcement, which is costly (for example, consider the costs incurred by the government agencies supervising firms' compliance with regulatory mandates).

to change their corporate governance practices.

2. Institutional background

Over the last decade, the ASEAN Capital Markets Forum (ACMF), with the support of the Asian Development Bank (ADB), has launched several initiatives to promote capital market integration in Southeast Asia. One of them is the "Corporate Governance Initiative", which was launched in 2011 with the following objectives: (i) raise the corporate governance standards and practices of ASEAN publicly listed companies, (ii) give greater international visibility to well-governed ASEAN listed companies and showcase them as investable companies, and (iii) complement other ACMF initiatives and promote ASEAN as an asset class. Six ASEAN countries—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam—agreed to participate. The initiative benefits from the support of the ADB's "technical assistance" project called "Promoting an Interlinked ASEAN Capital Market".[14]

A key element of the "Corporate Governance Initiative" is the publication every year of a list containing the top 50 firms for each participating country based on corporate governance practices.[15] These practices are assessed based on a scoring system called "ASEAN Corporate Governance Scorecard" (ACGS). The evaluation is managed by institutions referred to as "Domestic Ranking Bodies" (DRBs). As shown in Appendix B, the DRB is often the institute of corporate directors of the country, but in some cases this role is played by associations of shareholders, consulting firms, or universities. The DRBs consult

[14] Since 2005, the ADB has supported ASEAN regional capital market integration through a series of regional "technical assistance" projects.

[15] The Top 50 List was published every year between 2012 and 2015. After 2015, the list is published every other year; the list has been published in 2017 and 2019 but not in 2016 or 2018 (which were "off" years). We do not include year 2019 in our sample due to data limitations. In 2016, the content of the ACGS Scorecard was reviewed and some changes were introduced, which were implemented starting in 2017. Our inferences also hold if year 2017 is excluded from the sample (see Table OB.2 in the Online Appendix).

and report the assessment of corporate governance practices of the listed firms to a group of experts (one from each participating country).[16]

The ASEAN Corporate Governance Scorecard covers the five areas of the Organization for Economic Co-operation and Development (OECD) principles of corporate governance: (i) rights of shareholders; (ii) equitable treatment of shareholders; (iii) role of stakeholders; (iv) disclosure and transparency; and (v) responsibilities of the board.[17] Appendix A presents details on the specific governance characteristics within each of these five areas covered by the ACGS. The governance assessments are based on publicly available information (i.e., disclosures published on the websites of firms, regulators, and stock exchanges).[18]

The governance assessment of each company is conducted in two stages: (i) the "Domestic Assessment", and (ii) the "Peer Review Assessment". In the first stage, the experts from the DRBs assess the top 100 companies (based on market capitalization) from each of the six participating countries. The resulting scores (referred to as "Domestic Assessment Scores") are submitted to a coordinating team (the "Working Group Secretariat"). In the second stage, the secretariat randomly assigns the top 35 companies from each country with the highest scores to the DRBs of other countries for peer review.[19] The resulting scores are referred to as "Peer Review Scores". If the difference between the Domestic Assessment Score and the Peer Review Score of the company is 3 points or less, the former prevails. If the difference is more than 3 points, the domestic expert and the peer reviewer discuss and

[16] The experts are selected based on their reputation, experience, and knowledge on corporate governance in their countries. These evaluators are recommended by national capital market regulators, but they do not have an employment relationship with those regulators. The experts' appointment requires approval by the ACMF to ensure quality and independence (i.e., the evaluators should not have a vested interest in the companies they assess).

[17] The weight allocated to each of the five areas is as follows: (i) rights of shareholders 10%, (ii) equitable treatment of shareholders 15%, (iii) role of stakeholders 10%, (iv) disclosure and transparency 25%, and (v) responsibilities of the board 40%.

[18] The assessment is based on publicly available information in English (i.e., information published in other languages is not considered for the ACGS evaluation).

[19] For example, the Malaysian DRB is assigned to review 35 firms, seven from each of the other five countries (i.e., Indonesia, Philippines, Singapore, Thailand, and Vietnam).

reconcile the difference by identifying the items in the scorecard that may need clarification or further justification. If no reconciliation is reached, the unreconciled ACGS items are elevated to the whole group of experts for a final decision. The list of the Top 50 companies for each country is based on the final outcome of the evaluation process (referred to as "Final Score").

A publication known as "Country Reports" includes the identity of the top 50 firms, but not the final scores (the ranking positions based on the final score are also not publicly disclosed).[20] In 2015 and 2018 the publication of the country reports was accompanied by an award ceremony.[21] Companies receive no information about the assessment process, the scores, or their relative position in the ranking. The content of the list remains confidential until the publication of the Country Reports.[22] Appendix A includes details on the structure and computation of the ACGS. Online Appendix OA provides further background information on the methodology, including information sources and historical development.[23]

3. Sample and measurement choices

We collect data from several sources. Information on corporate governance scores is provided by the ACMF and the DRBs of the six ASEAN countries. The database covers the top 100 largest listed firms in each country. The information includes the Domestic

[20] In 2015, the Top 50 ASEAN companies for each country were subject to a subsequent "validation" conducted by KPMG through the support of ADB. During the validation conducted by KPMG, the evaluated companies received a letter that KPMG would contact them, but the letter did not mention whether the firm was included in the Top 50 List.

[21] In 2015, the ACGS Awarding Ceremony was celebrated on November 14 in Manila (Philippines). In 2018, the ceremony took place on November 21 in Kuala Lumpur (Malaysia).

[22] These features strengthen the power of our setting because they reduce the risk that information about the list composition is leaked to market participants before the publication of the Top 50 List, and that firms change their behavior as a consequence of knowing they are under assessment.

[23] The 2019 list of recipients of the ASEAN Corporate Governance Scorecard (ACGS) Awards is based on the following categories: (i) Top 20 ASEAN publicly listed companies (PLCs); (ii) ASEAN Asset Class, i.e. ASEAN PLCs that scored 97.5 points and above or 75% of the maximum attainable score of 130; and (iii) Top 3 PLCs in each participating country. These recent changes in the award criteria respond to an attempt to further promote the ASEAN companies as an asset class.

Assessment, Peer Review Assessment, and Final Assessment of each evaluated company. We obtain data on the composition of the list of the top 50 companies from the Country Reports.

Data on foreign institutional ownership comes from the FactSet/LionShares database. FactSet/LionShares gathers institutional ownership for U.S. equities from mandatory filings with the SEC. For stocks traded outside the U.S., FactSet/LionShares gathers institutional ownership data from national regulatory agencies and stock exchange announcements, as well as direct disclosures of mutual funds, mutual fund industry directories, and company proxies and annual reports.[24] We collect accounting and stock price data from Datastream/WorldScope.

Table 1 outlines the sample selection procedure. We start from 2,800 firm-year observations from ASEAN countries (these observations correspond to the data initially provided by ACMF and DRBs). We exclude from the sample Vietnamese firms since FactSet/LionShares does not cover firms in this country. To be included in the final sample, we further require that the companies have non-missing data in DataStream. The resulting sample consists of 2,211 firm-year observations corresponding to 702 unique firms in five ASEAN countries between 2012 and 2017. Year 2016 is excluded because in that year the Top 50 List was not published (after 2015, the policy became to publish the list every other year and 2016 was an off year).

4. Foreign Investors' Ex-post Reaction

4.1. Regression discontinuity

We start our empirical analysis by examining whether inclusion in the Top 50 List induces an increase in foreign investors' institutional ownership. To measure changes in foreign investors' behavior, we define $\Delta_Foreign_Investment_{ict}$ as $Foreign_Investment_{ictq}$ –

[24] In consistency with prior literature, we assume that missing data from FactSet/LionShares means that the foreign institutional ownership of the firm is zero. For robustness, we exclude from the analyses firms not covered by FactSet/LionShares and obtain similar patterns.

$Foreign_Investment_{ictq-1}$. The first term, $Foreign_Investment_{ictq}$, is the average institutional ownership by foreign institutions in firm *i* in country *c* over the three quarters from quarter *q* of year *t* (*q* is the quarter of the publication of the Top 50 List). $Foreign_Investment_{ictq-1}$ is the same variable measured in the quarter prior to the quarter of the publication of the Top 50 List (quarter *q*-1). These metrics are expressed as a percentage of market capitalization.

Figure 2 shows that there is a sharp discontinuity in the changes in foreign institutional investors' ownership around the 50th position in the ACGS ranking (i.e., the threshold defining the inclusion in the Top 50 List). Remarkably, on both sides of the discontinuity the change in foreign institutional investors' ownership does not increase monotonically with the ACGS ranking positions. This lack of monotonicity could be indicative that investors face difficulties in replicating the ACGS and the corresponding ranking; while corporate governance practices are publicly observable, the ranking is proprietary and, as described in section 2, produced based on expert judgment and significant effort.

More formally, we estimate the following regression discontinuity model (see Imbens and Lemieux, 2008, for an overview):

$$\Delta_Foreign_Investment_{ict} = \alpha\, Top50_{ict} + \beta\, ACGS_Score_{ict} + \gamma\, ACGS_Score^2_{ict} + \lambda\, Controls + \mu_{ct} + \varepsilon_{ict} \quad (1)$$

The dependent variable, $\Delta_Foreign_Investment_{ict}$ is as previously defined. $Top50_{ict}$ is an indicator variable that equals one if firm *i* is included in the Top 50 List in year *t* and country *c*, zero otherwise. Thus, the coefficient α captures the effect of the publication of the Top 50 List on the changes in foreign institutional ownership.

To ensure that we capture investors' reaction to the inclusion in the list and not heterogeneity in firms' corporate governance practices, the specification includes the final

ACGS assigned to the company (see section 2 for details on the process to compute the score), $ACGS_Score_{ict}$ and the square of this variable $ACGS_Score^2_{ict}$ to allow for non-linearities in the relation between the foreign institutional ownership and corporate governance. The specification includes country-year fixed effects (μ_{ct}) that flexibly control for time trends in foreign institutional ownership and for differences in the institutional and capital market characteristics of the ASEAN countries. We estimate Equation (1) by pooling all the ACGS Top 50 editions together. Standard errors are clustered at the country-year level and, for robustness, at the firm-level and at the country-level (Lee and Card, 2008).

Controls is a vector of the following control variables. $Prior_Top50_{ict}$ is an indicator variable that equals one if firm *i* is included in the Top 50 List in the edition of the list prior to year *t*, zero otherwise. *Size* is the logarithm of the firm's total assets measured at the fiscal year *t*-1. *MB* is the firm's market-to-book ratio measured at the fiscal year *t*-1. *ROA* is the firm's net income divided by total assets measured at the fiscal year *t*-1. *Leverage* is the firm's total debt divided by total assets measured at the fiscal year *t*-1.

To sharpen identification, we restrict the analysis to the firms around the 50th position in the ranking based on the ACGS. The inclusion in the Top 50 List is more uncertain among firms on either side of the vicinity of the threshold than among firms that are farther away from the threshold. Moreover, firms around the threshold have similar corporate governance characteristics (they have similar ACGS scores) and their inclusion in the list is more likely to be driven by relatively exogenous factors such as differences among the weights assigned to the sub-scores and/or idiosyncracies in the peer review process. As such, this empirical approach reduces confounding variation in firm characteristics; within a narrow bandwidth, it is unclear why introducing an arbitrary threshold -the 50th ranking position- should result in groups of firms with different corporate governance, financial strength, economic performance, and/or growth opportunities.

Table 1, Panel B, shows the sample distribution of the variables used in the analyses. Table 1, Panel C, presents descriptive statistics based on whether the firm is on Top 50 List. The firms on the list exhibit greater changes in foreign institutional ownership and are marginally larger, more levered, less profitable, and with greater growth options than firms that are not on the list. However, in contrast to Figure 2, we do not observe a sharp discontinuity in these firm characteristics around the 50th position in the ACGS ranking (see Figure OB.1 in the online appendix). The fact that the sample firms around that threshold have similar characteristics (i.e., there is covariate balance) corroborates the validity of the assumptions underlying the regression discontinuity design.

Table 2 presents the results from the estimation of Equation (1) using different bandwidths around the threshold defined by the 50th position in the ACGS ranking. Specifically, a bandwidth of "*X*" means that we restrict the analysis to the X firms on both sides of the threshold (consequently, X=50 means that we include in the analysis all the sample firms). As shown in Table 2, the coefficient on *Top 50* is positive and statistically significant across all specifications. In particular, the magnitudes do not materially change when we move from the smallest bandwidth (20) to the largest (50) bandwidth, while the statistical significance levels do increase when we move from the smallest (20) to the largest (50) bandwidth with the corresponding increase in sample size. Overall, the patterns in Table 2 are consistent with the notion that foreign investors react to the inclusion in the Top 50 List by increasing their ownership in the firms included on the list.

The analysis in Equation (1) assumes that, conditioning on an explicit model for the determinants of foreign investors' ownership, there is no relationship between the running variable (in this case, the ACGS) and the outcome of interest (in this case, changes in foreign institutional ownership) on each side of the discontinuity. In the literature, this assumption is known as the "Conditional Independence Assumption" (Angrist and Rokkanem, 2014).

Online Appendix OB.3 explores the validity of this assumption. The evidence in Table OB.3 corroborates that the ACGS and the change in foreign institutional investors' ownership are conditionally independent on both sides of the discontinuity defined by the lower threshold of the Top 50 List. While the ACGS and the change in foreign institutional ownership are positively associated in univariate tests (columns 1 and 3), the association disappears once we include the vector of controls (columns 2 and 4).

4.2. Placebo tests

A potential concern about our previous inferences is that there is an unobserved source of variation correlated with both foreign investors' behavior and the probability of being included in the Top 50 List. If that were the case, the standard unconfoundedness assumption of the regression discontinuity design would be violated and our results would be biased (Blundell and Costa-Diaz, 2009).

To address this concern, we further check that our results are indeed attributable to the inclusion in the Top 50 List by conducting three placebo tests. First, we keep the top 50 constituents as is, but counterfactually anticipate the dates of publication of the Top 50 Lists. In particular, we re-estimate Equation (1) lagging by one quarter the dependent variable $\Delta_Foreign_Investment_{ict}$. That is, the "placebo" dependent variable, $Lag_\Delta_Foreign_Investment_{ict}$, is computed as the difference between $Foreign_Investment_{ictq-1}$ and $Foreign_Investment_{ictq-2}$, where q is the quarter of the publication of the Top 50 List in year t. In parallel to previous tests, $Foreign_Investment_{ictq-n}$, is defined as the average institutional ownership by foreign institutions in firm i in country c over the three quarters from quarter q-n of year t (q is the quarter of the publication of the Top 50 List).

Table 3, Panel A, presents the results of this first placebo test. As shown in the table, the coefficient on Top 50 is no longer significant when we lag one quarter the dependent

variable of equation (1). This suggests that foreign institutional investment does not increase in the quarter leading up to the publication of the Top 50 List.

Second, we keep the actual dates of the publication of the Top 50 List and randomize the composition of the list in each country-year. In particular, we re-estimate Equation (1) using a random ranking of our sample firms (instead of the ranking based on ACGS). In parallel to prior tests, we define *Top50* as an indicator variable that equals one if the firm is among the 50 firms with the highest position in the randomized ranking in each country-year, and zero otherwise. We conduct the randomization process 100 times and retain coefficient estimates and standard errors from each of the iterations.

Table 3, Panel B, reports the average of the coefficients and standard errors (computed as the standard deviation of the 100 coefficients) obtained from the 100 iterations. The results reveal that, when using randomized rankings, we find no significant association between *Top50* and $\Delta_Foreign_Investment_{ict}$. The placebo coefficients obtained through the randomization exercise are substantially smaller (p-value < 0.001) than the coefficients on the *Top50* reported in Table 2. This suggests that the association between *Top50* and $\Delta_Foreign_Investment_{ict}$ is unique to ranking firms based on ACGS.

Third, we repeat the analysis in Table 2 replacing $\Delta_Foreign_Investment_{ict}$ with $\Delta_Domestic_Investment_{ict}$, which measures the change in investment by domestic (rather than foreign) institutions around the dates of the publication of the Top 50 List.[25] In contrast to foreign investors, domestic investors face a less severe adverse selection problem when investing in local stocks, as they are better informed about local firms (Choe, Kho, and Stulz, 2005), and in particular about the value implications of firms' corporate governance practices.

[25] In parallel to $\Delta_Foreign_Investment_{ict}$, $\Delta\ _Local_Investment_{ict}$, is computed as $Local_Investment_{ictq} - Local_Investment_{ictq-1}$ where $Local\ _Investment_{ict}$ is the average institutional ownership by local institutions in firm *i* in country *c* over the three quarters from the quarter of the publication of the Top 50 List (quarter *q*) in year *t* expressed as a percentage of market capitalization, and $Foreign_Investment_{ictq-1}$ is the same variable measured in the quarter prior to the quarter of the publication of the Top 50 List (quarter *q*-1).

As such, we expect the Top 50 List to elicit a relatively more modest reaction among domestic investors. As shown in Table 3, Panel C, the coefficient on *Top 50* is not statistically significant in this alternative test, suggesting that the Top 50 List provides little information to domestic investors about the value implications of local firms' corporate governance practices.

Taken together, the results in Table 3 suggest that the pattern in Table 2 appears to be unique to the specific firms included in the Top 50 List at the specific points in time in which these firms are included in the list. Moreover, the effect is concentrated among foreign investors. As such, Table 3 corroborates that the results in Table 2 are indeed related to the inclusion in the Top 50 List rather than reflecting a general trend in investment patterns and/or the effect of a confounding economic factor. Put differently, these results suggest that, to affect our inferences, a potential confounding source of variation should not only correlate with foreign investment, but also with the timing of the publication of the Top 50 List and with the specific composition of the list in each year. What's more, given our focus on the vicinity of the lower threshold of the list, the confounding factor should correlate with the sources of small variation in the composition of the list (e.g., weights of the sub-scores, idiosyncratic differences in the evaluation among the national experts, random variation in the peer review process).[26]

In Online Appendix OB.4 we conduct an additional placebo test: we repeat the analysis in Table 2 ranking firms based on variables other than the ACGS (variables that are positively and serially correlated with foreign institutional investors' ownership). If our results are confounded by a firm characteristic that Equation (1) does not properly control for,

[26] Another potential concern is that the composition of the Top 50 List is subject to manipulation. Yet, this would imply that either foreign investors or the national experts are fooled, an equilibrium that would be difficult to sustain in a repeated game. In any case, while the manipulation of the list would qualify the interpretation of our results from a welfare perspective, it is still consistent with the notion that the Top 50 List affects foreign investor behavior, which is our main hypothesis. The results in section 6 (which studies the economic consequences of the inclusion in the Top 50 List) are also difficult to reconcile with the notion that the composition of the list reflects opportunism.

we should observe a pattern similar to that in Table 2 using these other ranking variables. We thus rank firms based on foreign institutional ownership in the quarter before the publication of the Top 50 List, and define an indicator variable, *Top50_Foreign*, that equals to one if a firm is among the 50 firms with the highest values of this metric, and zero otherwise.[27] Table OB.4 reports the results from this additional falsification exercise. Across the model specifications, the coefficients on the variables of interests, *Top50_Foreign* are negative and well above the conventional level of significance.

4.3. Analysis by investor type

We next explore the sources of the pattern documented in Table 2. In particular, we analyze which types of foreign institutional investors are more likely to respond to the inclusion of a firm in the Top 50 List. To this end, we re-estimate Equation (1) breaking down foreign institutional ownership in four investor types. (i) We first measure separately the holdings of U.S.-based institutional investors (including all types of institutional investors such as banks, mutual funds, pension funds, hedge funds, and private funds). Next, we measure separately the holdings of (ii) foreign banks and financial institutions, (iii) foreign mutual and pension funds, and (iv) foreign hedge funds and private equity funds. The latter three measures include both U.S. and non-U.S. foreign investors. We compute the four corresponding dependent variables in parallel to $\Delta_Foreign_Investment_{ict}$ but including only the ownership in the firm of these four types of institutional investors.

Table 4, Panel A, presents descriptive statistics of these four variants of $\Delta_Foreign_Investment_{ict}$. As shown in Table 4, Panel A, foreign mutual and pension funds are the institutions that, on average, increase their holdings in Southeast Asian companies to the largest extent. Table 4, Panel B, presents the results of breaking down Equation (1) by foreign investor type. The results reveal that the pattern in Table 2 is attributable to three out

[27] Consistently, in the set of control variables we replace *ACGS_Score* with *Rank_Foreign*, which is the ranking position of the firm based on foreign ownership.

of the four types of foreign institutional investors. Based on the magnitude of the coefficients, U.S. institutional investors appear to be most sensitive to the inclusion in the Top 50 List, followed by foreign funds (mutual funds and pension funds) and foreign banks. In contrast, hedge funds and private equity funds are less sensitive to the inclusion of a firm on the list than other investor types. One possible interpretation of these patterns is that investors with a longer investor horizon are more likely to react to the inclusion of a firm on the Top 50 List. That is, investors expect that the beneficial effect of the changes in corporate governance practices induced by the Top 50 List will require some time to materialize.

5. Firms' Ex-ante Reaction

5.1. Changes in ACGSs

The results from the previous section suggest that inclusion in the Top 50 List attracts foreign investment. We next test whether firms change their corporate governance practices to be included on the list. We expect that such changes are more pronounced among the firms around the 50th position in the ACGS-based ranking. Firms in the vicinity of the threshold have stronger incentives to improve their governance than firms that are far away from the threshold, as there is higher uncertainty about whether these firms will be included on the list in the future. Based on this reasoning, we estimate the following equation:

$$\Delta_ACGS_Score_{ict+1} = \alpha\, Ranking[50–X;50+X]_{ict} + \beta\, Controls + \mu_{ct} + \varepsilon_{ict} \qquad (2)$$

$\Delta_ACGS_Score_{ict+1}$ is computed as $ACGS_Score_{ict+1}$ – $ACGS_Score_{ict}$, where $ACGS_Score_{ict+1}$ is the ACGS assigned to the firm in year $t+1$ and $ACGS_Score_{ict}$ the ACGS assigned to the firm in the edition of the Top 50 List of year t. On the left-hand side, $Ranking[50–X;50+X]$ is an indicator variable that equals one if the position of firm i in the ACGS-based ranking in country c and year t is $50–X$ *and* $50+X$, and zero otherwise. To assess the stability of the results, we estimate four specifications where X takes the value of

10, 15, 20, and 25, respectively. *Controls* is a vector of control variables defined as in equation (1). As in previous tests, the specification includes country-year fixed effects (μ_{ct}). Standard errors are clustered at the country-year level.

Table 5 presents the results of this analysis (Columns (1)-(4)). The coefficient on *Ranking[50–X;50+X]* is positive and statistically significant, suggesting that firms in the vicinity of the threshold for inclusion in the Top 50 List exhibit higher increases in the ACGS than firms further away from the threshold. The magnitude of the increase is 2.9 points in the more stringent specification. This is a meaningful increase considering that the mean (median) value of *ACGS_Score* for our sample firms is 69.2 (68.5), and the standard deviation is 18.0. We also note that the increase in 2.9 points is relative to firms farther away from the threshold (the total effect of the Top 50 List is likely to be higher).

5.2. Breakdown of the ACGS

As previously explained (see Section 2), the ACGS is structured into five parts: (i) rights of shareholders; (ii) equitable treatment of shareholders; (iii) role of stakeholders; (iv) disclosure and transparency; and (v) responsibilities of the board. Each of these parts is assessed separately and measured using a sub-score. Thus, to shed further light on the sources of the increase in governance scores documented in Table 5, we re-estimate Equation (2) by breaking down the ACGS and using the resulting five sub-scores as separated dependent variables.

Table 6 presents the results. The table shows that the firms in the vicinity of the lower threshold of the Top 50 List (i.e., the 50th position in the ranking based on the ACGS) exhibit significant increases in three sub-scores; “Role of stakeholders”, “Disclosure and transparency”, and “Responsibilities of the board”. In contrast, the coefficient on *Ranking[50–X;50+X]* is not statistically significant for “Rights of shareholders” and for “Equitable treatment of shareholders”. One possible interpretation of these results is that

firms focus on the sub-scores with the greatest weight in the total ACGS (the weights of "disclosure and transparency" and "responsibilities of the board" are, respectively, 25% and 40%). Another potential explanation is that our sample firms avoid governance changes that would reduce the control rights of majority shareholders (control rights are more closely related to "Rights of shareholders" and "Equitable treatment of shareholders" than to the other three dimensions of corporate governance captured by the ACGS score).

5.3. Cross-sectional variation

We next analyze cross-sectional variation in the patterns of Table 5. We consider variation in the benefits that firms could obtain from receiving extra funding from foreign investors. To the extent that governance practices protecting minority shareholders are costly for incumbent shareholders and managers (i.e., these practices limit the ability to extract private benefits), incumbents will make such changes if the benefits from doing so are greater than the costs. We explore two sources of variation in the benefits of changing corporate governance practices to attract foreign investment. First, firms with higher growth opportunities are more likely to benefit from additional funding, as these firms need finance to pursue their positive NPV projects. As such, we define *High_Growth* as an indicator variable that equals one if, in the year of the publication of the Top 50 List, the firm exhibits a percentage increase in net sales greater than the sample median in each country-year, and zero otherwise.

Second, firms with higher financial constraints are also more likely to benefit from additional funding, as the investment opportunities of these firms can be restricted due to financial frictions. Thus, we define *High_Constraints* as an indicator variable that equals one if the firm exhibits values of Whited and Wu (2006)'s measure financial constraints greater than the sample median in each country-year, and zero otherwise. Whited and Wu (2006)'s measure of financial constraints is based on a linear combination of data extracted from

financial statements: cash flow from operating activities, size, financial leverage, an indicator variable for whether the firm pays cash dividends, and sales growth (see Appendix C for more details on the computation of this measure).

Table 7 presents the results of re-estimating Equation (2) including the interaction of $Ranking[50–X;50+X]_{ict}$ with *High_Growth* (Panel A), and the interaction of $Ranking[50–X;50+X]_{ict}$ with *High_Constraints* (Panel B). The coefficients on these two interaction variables is positive and significant, suggesting that the changes in corporate governance practices documented in Table 5 are concentrated in firms that would benefit to a greater extent from an additional investment by foreign investors.

6. Economic Consequences

In this section, we conduct additional analyses to shed light on the value implications of the previous results. In particular, we attempt to understand how firms use the additional foreign investment induced their inclusion on the Top 50 List. One possibility is that firms use the funds for pursuing positive NPV projects. However, a major concern in countries where concentrated ownership is prevalent is that majority shareholders expropriate minority shareholders. In our setting, a form of expropriation would be to use the additional foreign investment for shareholder payouts that respond to majority shareholders' private interests (e.g., liquidity needs) rather than for value-maximization.

To explore the empirical validity of these competing interpretations of our previous results, we conduct three tests. First, we analyze whether the change in foreign investment induced by inclusion on the Top 50 List is associated with changes in firm profitability. Second, we conduct a parallel analysis for changes in investment and dividends. Third, we analyze the stock market reaction to the announcement of the composition of the Top 50 List.

6.1. Firm Profitability

We first examine whether the increase in foreign institutional investors' ownership driven by inclusion on the Top 50 List is associated with higher shareholder profitability. This analysis aims to understand how firms use the additional funds obtained from foreign investors after their inclusion on the list. Understanding this is important to assess the effect of the Top 50 List, as controlling shareholders could simply appropriate these additional resources rather than invest them in positive NPV projects. In particular, we estimate the following model:

$$\Delta_ROE_{ict} = \alpha\, \Delta_\widehat{Foreign_Investment}_{ict} + \beta\, Controls + \mu_{ct} + \varepsilon_{ict} \qquad (3)$$

Δ_ROE is the change in return on equity (ROE) for firm *i* in country *c* between year *t+1* and year *t*. ROE is computed as net income scaled by the book value of equity of the firm. $\Delta_\widehat{Foreign_Investment}_{ict}$ is the fitted value of $\Delta_Foreign_Investment_{ict}$ from Equation (1). In other words, we first instrument the change in the foreign institutional ownership using the variation provided by inclusion in the Top 50 List and then use the instrumented change in foreign institutional ownership to explain changes in firms' profitability. *Controls* is a vector of control variables defined as in previous models. As before, the specification includes country-year fixed effects (μ_{ct}).

Table 8, Panel A, presents the results of estimating Equation (3). The coefficient on $\Delta_\widehat{Foreign_Investment}_{ict}$ is positive and significant, suggesting that the increase in foreign investment driven by inclusion in the Top 50 List is associated with higher shareholder profitability. Based on the coefficient estimates from Column (1), the results suggest that a 1 percent increase in foreign institutional investment driven by inclusion on the Top 50 List leads to a 4.6 percent increase in ROE.

To understand the sources of the profitability pattern documented in Table 8, Panel A, we conduct a DuPont decomposition. *Δ_ROA* is defined as change in return on assets (ROA), measured as net income scaled by total assets. *Δ_Net_Margin* is defined as change in net income scaled by total revenues. *Δ_Asset_Turnover* is defined as change in total revenues scaled by total assets. *Δ_Leverage* is defined as total debt scaled by the book value of equity. As shown in Table 8, Panel B, the higher *Δ_ROE* documented in Panel A is not the result of increasing leverage; the coefficient on $\Delta_Foreign_\widehat{Investment}_{ict}$ is not statistically significant when Δ_*Leverage* is the dependent variable (see model 4). Rather, the higher shareholder profitability is driven by an increase in ROA (see model 1). Moreover, $\Delta_Foreign_\widehat{Investment}_{ict}$ is positively associated with *Δ_Net_Margin*, but not with *Δ_Asset_Turnover* (see models 2 and 3). This evidence is not consistent with the notion that the extra funds obtained from foreign investors are invested in negative NPV projects. Rather, the additional funding appears to be associated with better operational performance (higher sales margins).

6.2. Corporate policies

Next, we explore the association between $\Delta_Foreign_\widehat{Investment}_{ict}$ and corporate policies. We first focus on investment. We re-estimate equation (3) replacing Δ_*ROE* with Δ_*CAPEX* (defined as the change in capital expenditures of firm *i* in country *c* between year *t+1* and year *t* scaled by total assets in year *t*).

Next, we examine dividend payments. We re-estimate equation (3) replacing Δ_*ROE* with three common measures of dividend payouts used by prior literature. Δ_*Dividend_Payout* is defined as the change in dividends scaled by net income of firm *i* in country *c* in *t* between year *t+1* and year *t*. Δ_*Dividend_Share*, is the change between year *t*

and year $t + 1$ in the firm's dividend per share, Δ_*Dividend_Yield*, is the change between year t and year $t + 1$ in the firm's dividend scaled by the firm's stock price.

Table 9 presents the results. The increase in foreign investment driven by inclusion in the Top 50 List is associated with increases in capital expenditures (see Table 9, Panel A). In contrast, there is no such association with changes in dividend payouts, regardless of the metric used (see Table 9, Panel B). Jointly with Table 8, this evidence in Table 9 is consistent with the idea that, rather than distributing those additional funds to investors, the firms included on the list use the increase in financing from foreign investors to invest in profitable projects.

6.3. Announcement returns

To provide more direct evidence on whether the previous patterns have a material effect on shareholder wealth, we next analyze the stock market reaction to the publication of the Top 50 List. We collect the dates on which the Top 50 List was made public and estimate the following equation:

$$CAR[0;1]_{icd} = \alpha_0 + \alpha_1 \, Top50_{ict} + \beta \, Controls + \varepsilon \qquad (4)$$

where $CAR[0;1]_{icd}$ is the cumulative market-adjusted returns of firm i of country c around the day of the public announcement of the Top 50 List (day d). The market return is computed as the equally-weighted average of the stock returns of the firms in the country. We compound daily returns over the (0, +1) day window around that date. *Top50* is as in previous models. *Controls* is a vector of control variables defined as in previous models.

The results of estimating Equation (4) are presented in Table 10. The coefficient on *Top50* is positive and significant across specifications. This evidence suggests that being included in the Top 50 List is beneficial for shareholders. The result is consistent with the empirical patterns in previous tables; the inclusion in the list attracts foreign investors,

thereby enabling firms to pursue value-increasing investments. Moreover, this evidence corroborates that the composition of the Top 50 List is not fully predictable by market participants (if it were, we would observe no stock price reaction). The magnitude of the coefficient on *Top50* ranges from 0.0024 to 0.0035, suggesting an effect on firm value in the order of 2-3.5 basis points.

7. Further Corroborating Evidence

7.1. The need for certification of corporate governance changes

The effect of the Top 50 List documented in prior sections suggests that foreign investors face information frictions (e.g., asymmetric information, information acquisition costs) when assessing the corporate governance practices of Southeast Asian firms, frictions that are substantial enough to generate a need for certification.

To further corroborate this interpretation, we analyze whether foreign investment decisions are associated with the corporate governance practices of the sample firms. Finding that there is no such association would be consistent with the idea that investors need an independent party that certifies the effectiveness of these practices. To illustrate, consider the case of a firm that increases the percentage of independent directors. If foreign investors are not sure about whether the appointed directors are truly independent, the change in itself (i.e., without external certification) might not induce investors to increase their holdings in the firm.

Given that there is no readily available data on our sample firms' specific corporate governance practices, we use the ACGS as a proxy for how closely a firm follows international guidelines on corporate governance. To the extent that the DRBs base their assessment on public information, a firm's ACGS should be highly correlated with whether the firm has established observable corporate governance structures in line with international guidelines.

Table OB.5 in the Online Appendix presents the results of analyzing the association between foreign investment and ACGSs, both in levels and in changes. We find no association between foreign institutional investors' ownership and ACGSs. This evidence indicates that, on average, investors do not react to observable corporate governance practices. The results are thus consistent with the notion that there is need for certification of these practices.

7.2. Unpredictability of the Top 50 List

A related concern about our interpretation of the results in prior sections is that the outcome of the Top 50 List could be predictable. In this case, the publication of the list would be irrelevant; it would convey no new information to investors. Such predictability could also violate the local randomization requirement in our regression discontinuity design (McCrary, 2008).

While the Top 50 List could be predictable in the case of firms in the top positions of the ranking, there is substantial uncertainty about whether the firms in the vicinity of the threshold defined by the 50th position in the ranking will end up on the list. To assess the validity of this reasoning, Table OB.1 of the Online Appendix repeats the analysis in Table 5 replacing $\Delta_ACGS_Score_{ict}$ with $\Delta_ACGS_Ranking_{ict}$, which –in parallel to $\Delta_ACGS_Score_{ict}$ in Table 5– is computed as $ACGS_Ranking_{ict+1}$ – $ACGS_Ranking_{ict}$, where $ACGS_Ranking_{ict+1}$ is the ranking of the firm in year $t+1$ based on the ACGSs assigned to the firm and $ACGS_Ranking_{ict}$ is the corresponding ranking of the firm based on the scores assigned in the edition of the Top 50 List for year t.

In contrast to the corresponding result in Table 5, the coefficient on *Ranking[50–X;50+X]* in Table OB.1 is not statistically significant. This lack of association –together with the evidence in Table 5– suggests that changing corporate governance practices helps improve corporate governance scores (Table 5) but does not guarantee a higher position in

the ranking (Table OB.1). This is because the final position in the ranking depends not only on a firm's corporate governance changes, but also on similar changes made by other firms. As such, these results confirm that inclusion in the Top 50 List for the firms close to the 50th position is difficult to predict (changing corporate governance practices in line with the score does not necessary lead to inclusion on the list).

8. Conclusions

This paper studies whether the certification of corporate practices helps attract foreign investment. For identification, we exploit the "Corporate Governance Initiative" launched by the ASEAN Capital Markets Forum with the support of the Asian Development Bank. A key element of this initiative is the publication every year of a list containing the top 50 firms for each participating Southeast Asian country based on corporate governance practices.

Using proprietary data on the ASEAN Corporate Governance Scores (ACGSs) assigned to the listed firms in the participating countries, we find that being included on the list is associated with significant increases in foreign institutional ownership. This pattern holds controlling for the ACGSs and for potentially confounding country-year variation. We confirm this result using a regression discontinuity design by focusing on the firms around the 50th position in the ranking based on the ACGS. However, we do not find such pattern in placebo tests when we repeat the analysis using pseudo dates for the publication of the Top 50 Lists, when we randomize the Top 50 List composition, or when we conduct parallel tests on domestic investment. To understand the sources of these results, we break down foreign investment by investor type. We find that the effect is stronger among investors with longer term investment horizons (mutual funds and pension funds), a result consistent with corporate governance practices having long-term consequences in the sample firms.

We also analyze firms' ex-ante reaction to the Top 50 List. We find that firms in the vicinity of the lower threshold of the Top 50 List (i.e., the 50th position in the ACGS-based

ranking) exhibit significant increases in the ACGS. To the extent that these firms face higher uncertainty about being included in the list, they are more likely to adjust their governance practices. As such, this result suggests that the Top 50 List induces corporate governance changes. Tellingly, we also find that the governance changes relate to the role of stakeholders, transparency, and board responsibilities, but not to majority shareholders' rights.

In additional cross-sectional analyses we find that the previous patterns are more pronounced among firms benefitting more from receiving extra funding from foreign investors; firms with higher growth opportunities and firms with higher financial constraints exhibit higher changes in ACGSs when they are closer to the 50th position in the ranking based on these scores. This evidence corroborates that the potential inclusion in the list generates incentives for firms to change their corporate governance practices.

We further explore the potential economic consequences of the documented patterns. We find that the increase in foreign investment driven by the inclusion in the Top 50 List is associated with higher return on equity, which stems from higher sales margins. We also observe that the increase in foreign investment driven by the inclusion in the Top 50 List is associated with higher CAPEX, but not with higher dividends. Finally, we analyze the stock market reaction to the publication of the Top 50 List and find that the firms in the list exhibit higher abnormal returns on the announcement date.

Overall, our evidence is consistent with the notion that the inclusion in the list attracts foreign investment. Moreover, our evidence suggests that controlling shareholders do not appropriate the resources provided by foreign institutions. Rather, firms appear to use the additional funding to pursue value-increasing investments. These results should be of interest for national institutions in search of mechanisms to boost international investment. Our evidence also informs the ongoing debate about how to carry out corporate governance reform; the evidence that the Top 50 List induces firms to change their governance practices

suggests that command-and-control regulation is not the only avenue for corporate governance reform).

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Appendix A. Detailed Description of the ASEAN Corporate Governance Score in 2017

The score is structured in two levels. **Level 1** comprises descriptors or items that are, in essence, indicative of the laws, rules, regulations, and requirements of each ASEAN member state and the basic expectations of the OECD principles. **Level 2** consists of bonus items reflecting other emerging good practices and penalty items reflecting actions and events that are indicative of poor governance. The objective of adding this second level is to better capture the actual implementation of the substance of "good corporate governance" (that is, to assess the extent to which companies apply the spirit of "good corporate governance" in practice).

Level 1

As shown in Table A1, Level 1 includes 184 items corresponding to five areas of the OECD principles. Each of these five parts carries a different weight based on the relative importance of the area. The sub-score corresponding to each part is obtained using the following formula:

Sub-score (part i) = [No. of items scored by firm / Total no. of items] x Maximum attainable score

As an example, if a firm scores a 20 out of the 21 items in part A, then:

Sub-score (part A) = 20/21 x 10 points = 9.5 points

If the firm obtains a perfect score in the remaining parts (i.e., it scores in all items in parts B–E), the total level 1 score is:

Score (Level 1) = 9.5 + 10 + 15 + 25 + 40 = 99.5 points

Table A1: Composition and Structure of Level 1

	Number of Items	Weight	Maximum
Part A: Rights of Shareholders	21	10	10 points
Part B: Equitable Treatment of Shareholders	15	10	10 points
Part C: Role of Stakeholders	13	15	15 points
Part D: Disclosure and Transparency	32	25	25 points
Part E: Responsibilities of the Board	65	40	40 points

Source: ACMF Working Group D Secretariat 2017.

Level 2

As shown in Table A2, Level 2 includes 38 items corresponding to two parts: "bonus" and "penalty". The items in the "bonus" part are aimed at identifying companies that go beyond the basic expectation in Level 1 by adopting other corporate governance practices considered desirable. The "penalty" items are designed to downgrade companies with poor corporate governance practices that are not reflected in their scores for Level 1, such as being sanctioned by regulators for breaches of listing rules. For example, if the previous firm scores in all bonus items but the assessment identifies three issues covered by the penalty items, then the level 2 score of the firm is *30 + (–3) = 27 points*

Table A2: Composition and Structure of Level 2

Level 2	Number of Questions	Maximum Score
Bonus	13	30 points
Penalty	25	(67) points

( ) = negative. *Source:* ACMF Working Group D Secretariat 2017.

Total Score

The total score is obtained adding the scores corresponding to Level 1 and Level 2. In the previous example the total score is 99.5 + 27 = 126.5 points. The maximum attainable score is 130 points (100 points from Level 1 and 30 points from Level 2).

Appendix B. Domestic Ranking Bodies

Country	Institution	Link
Philippines	Institute of Corporate Directors	https://www.icd.ph/
Malaysia	Minority Shareholders Watch Group	https://mswg.org.my/
Singapore	Singapore Institute of Directors	https://www.sid.org.sg/
Thailand	Thai Institute of Directors	https://www.thai-iod.com/en/index.asp
Vietnam	Vietnam Institute of Directors	https://viod.vn/
Indonesia	RSM Indonesia	https://www.rsm.global/indonesia/en

Note: Since 2019, the domestic ranking body of Vietnam is the Ho Chi Minh City University of Technology's corporate governance research team, followed by VIOD.

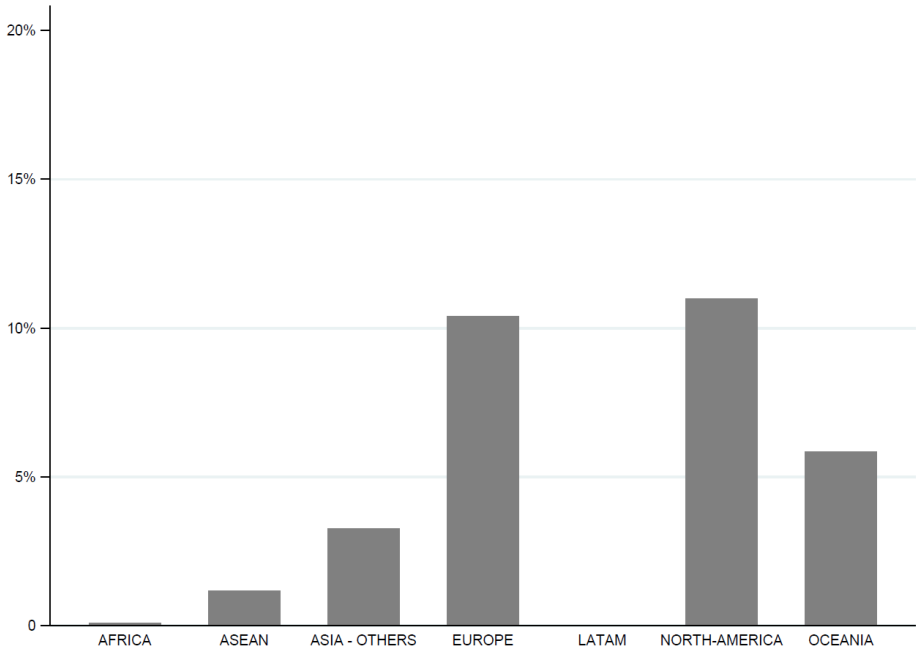
Appendix C. Variable Definitions

Δ_Foreign_Investment	$Foreign_Investment_{ictq}$ – $Foreign_Investment_{ictq-1}$. The first term, $Foreign_Investment_{ictq}$, is the average institutional ownership by foreign institutions in firm *i* in country *c* over the three quarters from quarter *q* of year *t* (*q* is the quarter of the publication of the Top 50 List). $Foreign_Investment_{ictq-1}$ is the same variable measured in the quarter prior to the quarter of the publication of the Top 50 List (quarter *q*-1). These metrics are expressed as a percentage of market capitalization.
Δ_Domestic_Investment	$Domestic_Investment_{ictq}$ – $Domestic_Investment_{ictq-1}$. The first term, $Domestic_Investment_{ictq}$, is the average institutional ownership by domestic institutions in firm *i* in country *c* over the three quarters from quarter *q* of year *t* (*q* is the quarter of the publication of the Top 50 List). $Domestic_Investment_{ictq-1}$ is the same variable measured in the quarter prior to the quarter of the publication of the Top 50 List (quarter *q*-1). These metrics are expressed as a percentage of market capitalization.
ACGS_Score	ASEAN Corporate Governance Score (final).
Top50	Indicator variable that equals one if the firm is included in the Top 50 List in that year, and zero otherwise.
Prior_Top50	Indicator variable that equals one if firm *i* is included in the Top 50 List in the edition of the list prior to year *t*, zero otherwise.
Size	Logarithm of a firm's Total Assets measured in the fiscal year before the publication of the Top 50 List.
ROA	Ratio between a firm Net Income and Total Assets measured in the fiscal year before the publication of the Top 50 List.
Leverage	Ratio between a firm's Total Debt and Total Assets measured in the fiscal year before the publication of the Top 50 List.
MB	Ratio between a firm's Market Capitalization and Common Stock measured in the fiscal year before the publication of the Top 50 List.
Ranking[50–X;50+X]	Indicator variable that equals one if the position of firm *i* in the ranking based on the ACGS in country *c* and year *t* is *50–X and 50+X*, and zero otherwise
Δ_ACGS_Score	The difference between $ACGS_Score_{ict+1}$ and $ACGS_Score_{ict}$, where $ACGS_Score_{ict+1}$ is the ACGS assigned to the firm in year *t*+1 and $ACGS_Score_{ict}$ the ACGS assigned to the firm in the edition of the Top 50 List of year *t*.
Higher_Growth	Indicator variable that equals one if the firm exhibits a percentage increase in net sales greater than the sample median in each country-year, zero otherwise.
Higher_Constraints	Indicator variable that equals one if the firm exhibits values of Whited and Wu (2006)'s measure financial constraints greater than the sample median in each country-year, zero otherwise. Whited and Wu (2006) estimate the Euler equation and model the shadow price of relaxing the financing constraint as a function of firm characteristics. Their financial constraint index is as follows: $F\text{-}Constraint\text{-}WN_{it} = -0.091 \times CF_{it} - 0.062 \times DIVPOS_{it} + 0.021 \times TLTD - 0.044 \times LNTA_{it} + 0.102 \times ISG_{it} + 0.035 \times SG_{it}$ where CF is the ratio of cash flow to total assets, DIVPOS is an indicator that takes the value of one if the firm pays cash dividends, TLTD is the ratio of the long-term debt to total assets, LNTA is the natural log of total assets, ISG is the firm's three-digit industry sales growth, and SG is firm sales growth. See Whited and Wu (2006) for additional details.

Lower_Concentration	Indicator variable that equals one if the largest shareholder of the firm holds less than 30 percent of the shares, zero otherwise
Δ_ROE	Change in firms' Return on Equity (Net Income / Book Value of Equity) between year *t* and year *t* + 1.
Δ_ROA	Change in firms' Return on Assets (Net Income / Total Assets) between year *t* and year *t* + 1.
Δ_Net_Margin	Change in firms' Net Margin (Net Income / Net Sales) between year *t* and year *t* + 1.
Δ_Asset_Turnover	Change in firms' Asset Turnover (Net Sales / Total Asset) between year *t* and year *t* + 1.
Δ_Capex	Change in firms' Capital Expenditures between year *t* and year *t* + 1 scaled by total assets at *t*.
Δ_Leverage	Change in firms' Leverage (Total Debt / Total Assets) between year *t* and year *t* + 1.
Δ_Dividend_Payout	Change in firms' Payout Ratio (Dividend / Net Income) between year *t* and year *t* + 1.
Δ_Dividend_Share	Change in firms' Dividend per Share between year *t* and year *t* + 1.
Δ_Dividends_Yield	Change in firms' Dividend Yield (dividend per share scaled by the firm's stock price) between year *t* and year *t* + 1.
CAR[0;1]	Firm cumulative abnormal returns on the 2-trading day window after the publication of the Top 50 List.

Figure 1. Coverage of Corporate Governance Ratings

The figure plots the percentage of public firms covered by Thomson Reuters Refinitiv ESG scores (formerly known as Asset4) over the period 2005-2018. ASEAN stands for "Association of Southeast Asian Nations".



Note: The coverage is 0% for all the ASEAN countries in our sample except for Singapore, whose coverage is 4.5%.

Figure 2. Inclusion in the Top 50 List and Foreign Institutional Ownership

The figure plots changes in foreign institutional investors' ownership in our sample firms at the publication of the Top 50 List. The vertical axis is $\Delta_Foreign_Investment_{ict}$, computed as $Foreign_Investment_{ictq} - Foreign_Investment_{ictq-1}$. The first term, $Foreign_Investment_{ictq}$, is the average institutional ownership by foreign institutions in firm *i* in country *c* over the three quarters from quarter *q* of year *t* (*q* is the quarter of the publication of the Top 50 List). $Foreign_Investment_{ictq-1}$ is the same variable measured in the quarter prior to the quarter of the publication of the Top 50 List (quarter *q*-1). These metrics are expressed as a percentage of market capitalization. The horizontal axis is the position of the firm in the ranking based on ACGS. The gray dots display the observations. The blue and dark gray lines display estimates from a non-linear regression (*Locally Weighted Scatterplot Smoothing*) and the corresponding confidence intervals, respectively. The dotted vertical red line marks the threshold for being part of the Top 50 List.

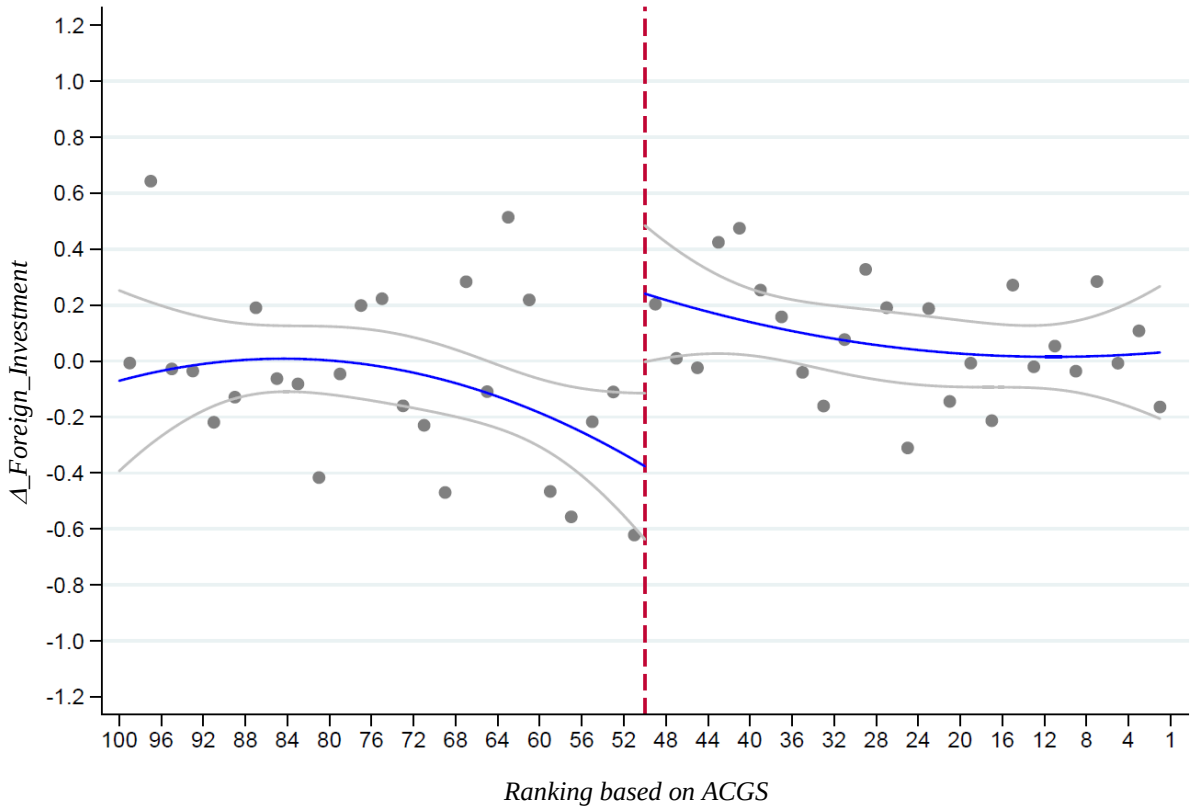


Table 1. Sample Selection and Descriptive Statistics

Panel A presents information on the sample selection procedure. Panel B presents descriptive statistics of the variables used in the analyses. Panel C presents descriptive statistics separately for firms included in the Top 50 List (*Top 50*), and firms not included in the Top 50 List (*Not Top 50*). See Appendix C for variable definitions.

Panel A. Sample Selection

Starting Sample	2,800
Minus Vietnamese firms	*-300*
Minus firms with missing identifiers (isin/cusip)	*-209*
Minus firms with missing accounting / market data	*-81*
Final Sample	2,211

Panel B. Pooled observations

Variables	*N*	*Mean*	*p25*	*p50*	*p75*	*SD*
Δ_Foreign_Investment	2,211	0.054	-0.407	0.000	0.409	1.466
ACGS_Score	2,211	69.809	57.752	68.535	82.799	18.031
Size	2,211	14.817	13.596	14.632	15.790	1.586
Leverage	2,211	0.537	0.385	0.523	0.697	0.211
ROA	2,211	0.072	0.032	0.061	0.099	0.055
MB	2,211	4.796	0.966	1.827	3.773	8.594

Panel C. By inclusion in the Top 50 List

	Top 50		*Not Top 50*	
Variables	*Mean*	*Median*	*Mean*	*Median*
Δ_Foreign_Investment	0.072	0.004	0.033	0.000
ACGS_Score	79.194	79.560	58.402	59.372
Size	15.233	15.268	14.344	14.172
Leverage	0.581	0.579	0.487	0.481
ROA	0.069	0.057	0.075	0.065
MB	5.039	1.796	4.499	1.863

Table 2. Foreign Institutional Investors' Ex-post Reaction

This table presents an analysis of the effect of the publication of the Top 50 List on foreign institutional investors' ownership. The dependent variable, $\Delta_Foreign_Investment_{ict}$, is computed as $Foreign_Investment_{ictq} - Foreign_Investment_{ictq-1}$. The first term, $Foreign_Investment_{ictq}$, is the average institutional ownership by foreign institutions in firm *i* in country *c* over the three quarters from quarter *q* of year *t* (*q* is the quarter of the publication of the Top 50 List). $Foreign_Investment_{ictq-1}$ is the same variable measured in the quarter prior to the quarter of the publication of the Top 50 List (quarter *q*-1). These metrics are expressed as a percentage of market capitalization. *Top50* is an indicator variable that equals one if the firm is included in the Top 50 List in that year, and zero otherwise. "Bandwidth (*X*)" refers to the bandwidth around the 50th position, namely the *X* firms with positions in the ACGS ranking (in year t) within the interval *[50–X;50+X]*, *X* = {20, 30, 40, 50}. See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

	Dependent variable: *Δ_Foreign_Investment*							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Top50	**0.32150****	**0.33309****	**0.43310*****	**0.42218*****	**0.35349*****	**0.33678*****	**0.30516*****	**0.30215*****
	[0.14526]	**[0.14331]**	**[0.12022]**	**[0.11360]**	**[0.10097]**	**[0.09669]**	**[0.08573]**	**[0.08589]**
Controls:								
Prior_Top50	-0.02641	-0.00482	-0.14313	-0.10923	-0.14438	-0.11798	-0.16651*	-0.16411*
	[0.12595]	[0.12156]	[0.11333]	[0.10686]	[0.09708]	[0.09820]	[0.09014]	[0.09418]
Size	-0.03064	-0.03100	-0.04749*	-0.04796*	-0.02567	-0.02563	-0.03060	-0.03052
	[0.02939]	[0.02939]	[0.02579]	[0.02537]	[0.02294]	[0.02268]	[0.02197]	[0.02192]
Leverage	-0.04075	-0.04385	0.07776	0.07012	-0.04189	-0.05557	0.11005	0.10838
	[0.23122]	[0.23212]	[0.18550]	[0.18413]	[0.16683]	[0.16622]	[0.16292]	[0.16399]
ROA	-0.42791	-0.43768	0.40788	0.43407	-0.09191	-0.12989	0.26178	0.25672
	[0.79534]	[0.80304]	[0.64991]	[0.65014]	[0.48036]	[0.48012]	[0.56494]	[0.57280]
MB	0.00656	0.00583	0.00462	0.00432	0.00456	0.00440	0.00137	0.00138
	[0.00512]	[0.00503]	[0.00464]	[0.00464]	[0.00427]	[0.00424]	[0.00378]	[0.00377]
ACGS_Score	-0.00863	0.05693	-0.01954**	0.03261	-0.01162**	0.01241	-0.00879**	-0.00694
	[0.01443]	[0.04003]	[0.00755]	[0.02525]	[0.00480]	[0.01097]	[0.00330]	[0.00963]
ACGS_Score²		-0.00051*		-0.00039**		-0.00017**		-0.00001
		[0.00028]		[0.00018]		[0.00008]		[0.00007]
Bandwidth (*X*)	20	20	30	30	40	40	50	50
Country-Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Observations	944	944	1,403	1,403	1,855	1,855	2,210	2,210
R-squared	0.051	0.053	0.036	0.039	0.037	0.038	0.035	0.035

Table 3. Placebo Tests

This table presents placebo tests of the analysis in Table 2. Panel A repeats the analysis in Table 2 lagging one quarter the dependent variable (that is, the dependent variable $Lag_\Delta_Foreign_Investment_{ict}$, is computed as *the* difference between $Foreign_Investment_{ictq-1}$ and $Foreign_Investment_{ictq-2}$, where q is the quarter of the publication of the Top 50 List in year t. In parallel to previous tests, $Foreign_Investment_{ictq-n}$, is defined as the average institutional ownership by foreign institutions in firm i in country c over the three quarters from quarter q-n of year t (q is the quarter of the publication of the Top 50 List). *Top50* is an indicator variable that equals one if the firm is included in the Top 50 List in that year, and zero otherwise. Panel B repeats the analysis in Table 2 randomizing firms' position in the ranking based on ACGS. The table presents the average of the coefficients and standard errors obtained from 100 randomizations. Panel C repeats the analysis in Table 2 for changes in ownership of local institutional investors. $\Delta_Foreign_Investment_{ict}$ is replaced with $\Delta_Domestic_Investment_{ict}$, which measures the corresponding change in investment by domestic institutions. "Bandwidth (X)" refers to the bandwidth around the 50th position, namely the X companies with positions in the ACGS ranking (in year t) within the interval $[50–X;50+X]$, X = {20, 30, 40, 50}. See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

Panel A. One quarter before the disclosure of the Top 50 List

	Dependent variable: *Lag_Δ_Foreign_Investment*							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Top50	0.07791	0.04709	-0.04512	-0.03614	-0.04946	-0.04969	-0.05328	-0.05715
	[0.19013]	[0.18440]	[0.17571]	[0.17161]	[0.17282]	[0.17241]	[0.14784]	[0.15403]
Controls:								
Prior_Top50	-0.32862***	-0.38606***	-0.23867**	-0.26652**	-0.18767	-0.18731	-0.17353	-0.17044
	[0.11002]	[0.10766]	[0.10448]	[0.10073]	[0.10979]	[0.11253]	[0.10545]	[0.10417]
Size	-0.02583	-0.02487	-0.02171	-0.02133	-0.04890**	-0.04890**	-0.04235*	-0.04224*
	[0.04029]	[0.03855]	[0.03155]	[0.03163]	[0.02366]	[0.02366]	[0.02109]	[0.02092]
Leverage	0.00192	0.01016	-0.09424	-0.08796	0.11988	0.11970	0.18277	0.18062
	[0.25564]	[0.25983]	[0.19932]	[0.20144]	[0.15915]	[0.15985]	[0.13369]	[0.13253]
ROA	3.07978***	3.10578***	2.61491***	2.59340***	2.03859***	2.03808***	2.07467***	2.06816***
	[0.91307]	[0.92470]	[0.77919]	[0.77690]	[0.71042]	[0.71791]	[0.63986]	[0.64673]
MB	-0.00776	-0.00583	-0.00151	-0.00126	-0.00421	-0.00421	-0.00475	-0.00473
	[0.00948]	[0.00880]	[0.00686]	[0.00678]	[0.00507]	[0.00503]	[0.00383]	[0.00385]
ACGS_Score	-0.01703	-0.19145***	0.00169	-0.04117	0.00172	0.00204	0.00110	0.00348
	[0.01649]	[0.06146]	[0.00846]	[0.02769]	[0.00706]	[0.01810]	[0.00473]	[0.01636]
$ACGS_Score^2$		0.00137***		0.00032*		-0.00000		-0.00002
		[0.00043]		[0.00018]		[0.00012]		[0.00010]
Bandwidth (X)	20	20	30	30	40	40	50	50
Country-Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Observations	944	944	1,403	1,403	1,855	1,855	2,210	2,210
R-squared	0.075	0.085	0.065	0.066	0.046	0.046	0.047	0.047

Table 3. Placebo Tests (cont'ed)

Panel B. Randomizing the inclusion in the Top 50 List

	Dependent variable: *Δ_Foreign_Investment*							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Top50	0.00035	0.00035	0.00026	0.00026	0.00024	0.00024	0.00001	0.00001
	[0.00140]	[0.00140]	[0.00128]	[0.00128]	[0.00106]	[0.00106]	[0.00017]	[0.00017]
Controls	Y	Y	Y	Y	Y	Y	Y	Y
Bandwidth (*X*)	20	20	30	30	40	40	50	50
ACGS_Score	Linear	Quadratic	Linear	Quadratic	Linear	Quadratic	Linear	Quadratic
Country-Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Observations	944	944	1,403	1,403	1,855	1,855	2,210	2,210

Panel C. Domestic Institutional Ownership

	Dependent variable: *Δ_Domestic_Investment*							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Top50	-0.00051	0.00224	-0.00092	0.00123	-0.00633	-0.00193	0.00697	0.01755
	[0.04287]	[0.04222]	[0.04626]	[0.04674]	[0.04217]	[0.04287]	[0.03890]	[0.03937]
Controls:								
Prior_Top50	-0.05877	-0.05364	-0.07568**	-0.08236**	-0.05890**	-0.06586**	-0.05554**	-0.06399**
	[0.04526]	[0.04487]	[0.03459]	[0.03616]	[0.02763]	[0.02868]	[0.02607]	[0.02685]
Size	0.06678	0.06605	-0.02233	-0.02082	-0.02833	-0.02472	-0.01692	-0.01104
	[0.11253]	[0.11328]	[0.07542]	[0.07452]	[0.05996]	[0.05970]	[0.05374]	[0.05376]
Leverage	-0.00184	-0.00193	0.00045	0.00054	0.00008	0.00007	-0.00218	-0.00248
	[0.00974]	[0.00972]	[0.00895]	[0.00892]	[0.00738]	[0.00731]	[0.00648]	[0.00637]
ROA	0.08816	0.08584	0.21367	0.20851	0.18848	0.19848	0.22100	0.23881
	[0.15872]	[0.15883]	[0.14219]	[0.14041]	[0.17267]	[0.17359]	[0.16914]	[0.16810]
MB	0.00042	0.00025	0.00002	0.00008	0.00009	0.00013	-0.00018	-0.00021
	[0.00184]	[0.00178]	[0.00154]	[0.00153]	[0.00118]	[0.00117]	[0.00107]	[0.00105]
ACGS_Score	-0.00094	0.01461	0.00211	-0.00816	0.00187	-0.00446	0.00114	-0.00536*
	[0.00422]	[0.01788]	[0.00188]	[0.00590]	[0.00145]	[0.00337]	[0.00102]	[0.00278]
ACGS_Score^2		-0.00012		0.00008		0.00005**		0.00004**
		[0.00014]		[0.00005]		[0.00002]		[0.00002]
Bandwidth (*X*)	20	20	30	30	40	40	50	50
Country-Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Observations	944	944	1,403	1,403	1,855	1,855	2,210	2,210
R-squared	0.035	0.036	0.035	0.036	0.031	0.032	0.038	0.039

Table 4. By Investor Type

This table repeats the analysis in Table 2 breaking down the dependent variable, *Δ_Foreign_Investment*, by distinguishing among the ownership of four types of foreign institutional investors: (i) U.S. Institutional investors; (ii) banks; (iii) mutual and pension funds; (iv) hedge funds and private equity funds. The dependent variable, *Δ_Foreign_Investment_Type*, is computed as in Table 2 for each of the four types of foreign investors. Panel A presents descriptive statistics of *Δ_Foreign_Investment_Type*. Panel B presents regression results. "Bandwidth (*X*)" refers to the bandwidth around the 50th position, namely the *X* companies with positions in the ACGS ranking (in year t) within the interval *[50–X; 50+X]*. See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

Panel A. Descriptive statistics

Δ_Foreign_Investment_Type	*N*	*Mean*	*p25*	*p50*	*p75*	*SD*
US Institutional Investors	2,211	0.017	-0.174	0.000	0.218	0.771
Foreign Banks	2,211	0.010	0.000	0.000	0.000	0.062
Mutual and Pension Funds	2,211	0.012	-0.132	0.000	0.172	0.600
Hedge Funds and Private Equity	2,211	0.008	-0.001	0.000	0.004	0.435

Panel B. Regression results

	Dependent variable: *Δ_Foreign_Investment_Type*			
	U.S. Institutional Investors (1)	*Banks* (2)	*Mutual and Pension Funds* (3)	*Hedge Funds and Private Equity* (4)
Top50	**0.17436****	**0.03484*****	**0.08537***	0.01099
	[0.06271]	**[0.00467]**	**[0.04710]**	[0.01831]
Controls:				
Prior_Top50	-0.07683	-0.01344***	-0.04048	0.00494
	[0.05092]	[0.00402]	[0.03095]	[0.03999]
Size	0.00100	0.00158	-0.00015	-0.01724*
	[0.01170]	[0.00158]	[0.01427]	[0.00847]
Leverage	0.06686	-0.00552	-0.06183	0.04390
	[0.09138]	[0.00887]	[0.06175]	[0.05557]
ROA	0.11837	-0.07546***	-0.03755	0.15351
	[0.33592]	[0.01951]	[0.25454]	[0.26371]
MB	0.00084	0.00044**	0.00049	-0.00029
	[0.00211]	[0.00021]	[0.00181]	[0.00116]
ACGS_Score	-0.01078**	0.00050	0.00465	-0.00226
	[0.00519]	[0.00048]	[0.00446]	[0.00422]
ACGS_Score^2	0.00005	-0.00001**	-0.00004	0.00000
	[0.00003]	[0.00000]	[0.00003]	[0.00003]
Bandwidth (*X*)	50	50	50	50
Country-Year FE	Y	Y	Y	Y
Observations	1,819	1,819	1,819	1,819
R-squared	0.035	0.053	0.036	0.027

Table 5. Firms' Ex-ante Reactions

This table presents an analysis of firms' ex-ante reactions to the publication of the Top 50 List. The dependent variable, *Δ_ACGS_Score*, is the change in the ACGS from year t to year t+1. *Ranking[50–X;50+X]* is an indicator variable that equals one if the position of firm *i* in the ACGS ranking in country *c* and year *t* is *50–X and 50+X*, and zero otherwise. *X* = {10, 15, 20, 25}. See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

	Dependent variable: *Δ_ACGS_Score*			
	(1)	(2)	(3)	(4)
Ranking[50–X;50+X]	**2.95979*** **	**2.74546*** **	**3.01839*** **	**3.40382*** **
	[0.97887]	**[0.87004]**	**[0.85355]**	**[0.80180]**
Controls:				
Prior_Top50	-16.45169***	-16.37381***	-16.30490***	-16.23926***
	[0.83156]	[0.82842]	[0.81644]	[0.81986]
Size	-1.51560***	-1.48331***	-1.46962***	-1.46586***
	[0.38212]	[0.38407]	[0.37696]	[0.37431]
Leverage	-5.09871***	-5.09066***	-5.08875***	-4.92096**
	[1.78838]	[1.80204]	[1.77499]	[1.76426]
ROA	-14.31108**	-13.55238**	-13.90363**	-13.68306**
	[5.99575]	[6.00243]	[5.94934]	[5.90471]
MB	-0.09569**	-0.09077**	-0.09238**	-0.09061**
	[0.03629]	[0.03743]	[0.03669]	[0.03697]
X	10	15	20	25
Country-Year FE	Y	Y	Y	Y
Observations	2,211	2,211	2,211	2,211
R-squared	0.626	0.627	0.628	0.630

Table 6. Firms' Ex-ante Reactions: Breaking down the ACGS

This table repeats the analysis in Table 5 breaking down *Δ_ACGS_Score*, into five sub-scores: (a) rights of shareholders; (b) equitable treatment of shareholders, (c) role of stakeholders, (d) disclosure and transparency, and (e) responsibilities of the board. The dependent variable *Δ_ACGS_Subscore* is computed as in Table 5 for each of the 5 sub-scores. *Ranking[50–X;50+X]* is an indicator variable that equals one if the position of firm *i* in the ACGS ranking is based on the ACGS in country *c* and year *t* is *50–X and 50+X*, and zero otherwise. See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

	Dependent Variable: *Δ_ACGS_Subscore*				
Dependent variable:	*Shareholder rights* (1)	*Equitable treatment of shareholders* (2)	*Role of stakeholders* (3)	*Disclosure and transparency* (4)	*Responsibilities of the board* (5)
Ranking[50–X;50+X]	0.00856	-0.00959	**0.29205****	**0.20468****	**0.85532****
	[0.09097]	[0.09923]	**[0.13473]**	**[0.11305]**	**[0.34752]**
Controls:					
Prior_Top50	-0.62556***	-0.41645**	-1.85320***	-2.34990***	-4.73608***
	[0.15297]	[0.16485]	[0.32409]	[0.33917]	[0.70615]
Size	-0.05422	-0.05629	-0.17269**	-0.25916***	-0.44210***
	[0.03438]	[0.05073]	[0.06631]	[0.08516]	[0.15416]
Leverage	-0.23086	-0.30764	-0.76848**	-0.98501***	-2.58430***
	[0.16986]	[0.21658]	[0.35396]	[0.33609]	[0.74500]
ROA	-0.22806	-1.29279	-2.87164*	-1.91881	1.05311
	[0.75055]	[0.90223]	[1.52745]	[1.53702]	[2.61872]
MB	-0.00770*	-0.00175	-0.02031**	-0.01050	-0.02564
	[0.00440]	[0.00553]	[0.00768]	[0.00629]	[0.01604]
X	25	25	25	25	25
Country-Year FE	Y	Y	Y	Y	Y
Observations	2,211	2,211	2,211	2,211	2,211
R-squared	0.554	0.656	0.552	0.492	0.590

Table 7. Firms' Ex-ante Reactions: Cross-sectional Variation

This table analyzes cross-sectional variation in the analysis in Table 5. In Panel A, *High Growth* is an indicator variable that equals one if the firm exhibits a percentage increase in net sales above the country-year median, and zero otherwise. In Panel B, *High_Constraints* is an indicator variable that equals one if the firm exhibits values of the Whited and Wu (2006)'s measure of financial constraints above the country-year median, and zero otherwise. *Controls* is as in Table 5. See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively

Panel A. Growth Opportunities

	Dependent variable: *Δ_ACGS_Score*			
	(1)	(2)	(3)	(4)
Ranking[50–X, 50+X]×High_Growth	1.35326	1.94283	**3.26947****	**3.11281****
	[1.26954]	[1.36637]	**[1.32401]**	**[1.34167]**
Ranking[50–X, 50+X]	**2.72327****	2.26686	0.98416	2.02297
	[1.29852]	[1.38500]	[1.20661]	[1.34582]
High_Growth	1.57735	1.12192	1.36987	0.01394
	[0.98083]	[1.13501]	[1.17419]	[1.35459]
Controls	Y	Y	Y	Y
X	10	15	20	25
Country-Year Fixed Effects	Y	Y	Y	Y
Observations	2,211	2,211	2,211	2,211
R-squared	0.505	0.508	0.510	0.514

Panel B. Financial Constraints

	Dependent variable: *ΔACGS_Score*			
	(1)	(2)	(3)	(4)
Ranking[50–X, 50+X]×High_Constraints	**5.91507*****	**6.87845*****	**6.29327*****	**8.02454*****
	[0.87450]	**[1.09826]**	**[1.14225]**	**[1.25323]**
Ranking[50–X, 50+X]	1.02768	0.51774	0.96153	0.53522
	[1.13517]	[1.08764]	[1.16008]	[1.19951]
High_Constraints	**-5.89090*****	**-6.81324*****	**-7.21909*****	**-8.81499*****
	[0.73837]	**[0.84984]**	**[0.93103]**	**[1.11775]**
Controls	Y	Y	Y	Y
X	10	15	20	25
Country-Year Fixed Effects	Y	Y	Y	Y
Observations	2,211	2,211	2,211	2,211
R-squared	0.525	0.530	0.531	0.539

Table 8. Firm Profitability

This table presents an analysis of firm profitability around the increase in foreign ownership induced by the inclusion in the Top 50 List. In Panel A, the dependent variable, *Δ_ROE*, is the change in the firm's return on equity (computed as net income divided by the book value of equity) between year *t* and year *t* + 1. $\Delta_\widehat{Foreign_Investment}$ is the fitted value from the models in Table 2. In Panel B, *Δ_ROA* is the corresponding change in return on assets (computed as net income scaled by total assets), *Δ_Net_Margin* is the corresponding change in margin (computed as operating income scaled by total sales), *Δ_Asset_Turnover* is the corresponding change asset turnover (computed as total sales scaled by total sales), and *Δ_Leverage* is the corresponding change financial leverage (computed as total debt scaled by total sales). "Bandwidth (*X*)" refers to the bandwidth around the 50th position, namely the *X* companies with positions in the ACGS ranking (in year t) within the interval *[50–X;50+X]*, *X* = {20, 30, 40, 50}. See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

Panel A. Return on Equity

	Dependent Variable: *Δ_ROE*							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$\Delta_\widehat{Foreign_Investment}$	**0.0456****	**0.0440****	**0.0340****	**0.0350****	**0.0391****	**0.0401****	**0.0355****	**0.0277****
	[0.0221]	**[0.0215]**	**[0.0142]**	**[0.0146]**	**[0.0141]**	**[0.0152]**	**[0.0133]**	**[0.0129]**
Controls:								
Top50_Pre	-0.0021	-0.0031	0.0037	0.0025	0.0037	0.0032	0.0032	0.0042
	[0.0060]	[0.0064]	[0.0047]	[0.0050]	[0.0037]	[0.0041]	[0.0040]	[0.0043]
Size	0.0005	0.0004	0.0009	0.0011	0.0015	0.0016	0.0023	0.0017
	[0.0033]	[0.0033]	[0.0023]	[0.0023]	[0.0020]	[0.0020]	[0.0019]	[0.0019]
Leverage	-0.0097	-0.0093	-0.0113	-0.0114	-0.0018	-0.0017	-0.0031	-0.0021
	[0.0160]	[0.0159]	[0.0105]	[0.0105]	[0.0079]	[0.0080]	[0.0082]	[0.0084]
ROA	-0.0057	-0.0057	0.0014	0.0002	0.0196	0.0200	-0.0317	-0.0327
	[0.0667]	[0.0667]	[0.0466]	[0.0467]	[0.0369]	[0.0371]	[0.0360]	[0.0366]
MB	0.0002	0.0001	0.0013	0.0013	-0.0006	-0.0007	0.0023	0.0027
	[0.0057]	[0.0057]	[0.0047]	[0.0047]	[0.0042]	[0.0043]	[0.0043]	[0.0042]
ACGS_Score	0.0001	-0.0029	0.0002	-0.0019	0.0001	-0.0004	0.0002	0.0015**
	[0.0004]	[0.0020]	[0.0002]	[0.0013]	[0.0001]	[0.0008]	[0.0001]	[0.0007]
ACGS_Score^2		0.0000		0.0000		0.0000		-0.0000
		[0.0000]		[0.0000]		[0.0000]		[0.0000]
First-Stage	0.3054***	0.3180***	0.4158***	0.4036***	0.3456***	0.3265***	0.2903***	0.2850***
.	[0.1422]	[0.1402]	[0.1152]	[0.1081]	[0.1002]	[0.0955]	[0.0873]	[0.0865]
Bandwidth (*X*)	20	20	30	30	40	40	50	50
Country-Year Fixed Effects	Y	Y	Y	Y	Y	Y	Y	Y
Observations	944	944	1,403	1,403	1,855	1,855	2,210	2,210
R-squared	0.056	0.056	0.048	0.048	0.045	0.045	0.029	0.033

Table 8. Firm Profitability (cont'ed)

Panel B – Drivers of Profitability

	Dependent variable:			
	Δ_ROA (1)	*Δ_Net_Margin* (2)	*Δ_Asset_Turnover* (3)	*Δ_Leverage* (5)
$\Delta_\widehat{Foreign_Investment}$	**0.0785****	**0.0597****	0.0324	0.0029
	[0.0355]	**[0.0269]**	[0.0369]	[0.0131]
Controls:				
Top50_Pre	-0.0063	0.0077	0.0290**	0.0034
	[0.0073]	[0.0080]	[0.0121]	[0.0027]
Size	0.0129***	-0.0000	0.0042	-0.0014
	[0.0040]	[0.0024]	[0.0040]	[0.0011]
Leverage	-0.0678***	-0.0200	0.0052	-0.0013
	[0.0161]	[0.0121]	[0.0255]	[0.0084]
ROA	-0.5628***	-0.1626**	0.1702	-0.0459
	[0.0642]	[0.0626]	[0.1078]	[0.0276]
MB	0.0100**	-0.0031	-0.0015	-0.0004
	[0.0047]	[0.0063]	[0.0113]	[0.0029]
ACGS_Score	0.0020*	-0.0010	0.0004	0.0000
	[0.0011]	[0.0010]	[0.0013]	[0.0006]
ACGS_Score^2	-0.0000	0.0000	-0.0000	-0.0000
	[0.0000]	[0.0000]	[0.0000]	[0.0000]
Bandwidth (*X*)	50	50	50	50
Country-Year FE	Y	Y	Y	Y
Observations	2,210	2,210	2,210	2,210
R-squared	0.111	0.021	0.118	0.035

Table 9. Corporate Policies

This table presents an analysis of corporate policies around the increase in foreign ownership induced by the inclusion in the Top 50 List. In Panel A, the dependent variable, *Δ_Capex*, is the change between year *t* and year *t* + 1 in the firm's capital expenditures divided by total assets, $\Delta_\widehat{Foreign_Investment}$ is the fitted value from the models in Table 2. In Panel B, the dependent variables are as follows: *Δ_Dividend_Payout*, is the change between year *t* and year *t* + 1 in the firm's dividend scaled by net income; *Δ_Dividend_Share*, is the change between year *t* and year *t* + 1 in the firm's dividend per share; *Δ_Dividend_Yield*, is the change between year *t* and year *t* + 1 in the firm's dividend per share scaled by the firm's stock price. $\Delta_\widehat{Foreign_Investment}$ is the fitted value from the models in Table 2. See Appendix C for other variable definitions. "Bandwidth (*X*)" refers to the bandwidth around the 50th position, namely the *X* companies with positions in the ACGS ranking (in year t) within the interval *[50–X;50+X]*. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

Panel A. Capital Expenditures

	Dependent variable: *Δ_Capex*	
	(1)	(2)
$\Delta_\widehat{Foreign_Investment}$	**0.0350***	**0.0357***
	[0.0187]	**[0.0206]**
Controls:		
Top50_Pre	0.0055*	0.0073*
	[0.0030]	[0.0036]
Size	0.0005	0.0008
	[0.0013]	[0.0013]
Leverage	-0.0016	-0.0020
	[0.0047]	[0.0072]
ROA	-0.0509**	-0.0662***
	[0.0187]	[0.0180]
MB	-0.0019	-0.0041
	[0.0031]	[0.0044]
ACGS_Score	0.0002	0.0001
	[0.0003]	[0.0003]
ACGS_Score^2		0.0000
		[0.0000]
Bandwidth (*X*)	50	50
Country-Year FE	Y	Y
Observations	2,210	2,210
R-squared	0.044	0.048

Table 9. Corporate Policies (cont'ed)

Panel B. Dividend Policy

	Dependent variable:		
	Δ_Dividend_Payout	*Δ_Dividend_Share*	*Δ_Dividend_Yield*
	(1)	(2)	(3)
$\Delta_\widehat{Foreign_Investment}$	0.0430	0.0547	-0.0027
	[0.0457]	[0.0365]	[0.0025]
Controls:			
Top50_Pre	0.0043	0.0023	0.0001
	[0.0166]	[0.0096]	[0.0003]
Size	0.0085**	-0.0009	-0.0001
	[0.0036]	[0.0044]	[0.0002]
Leverage	-0.0035	0.0688	0.0001
	[0.0282]	[0.0753]	[0.0007]
ROA	-0.0194	0.1909	-0.0007
	[0.1052]	[0.2513]	[0.0007]
MB	-0.0033	-0.0330**	0.0006
	[0.0123]	[0.0150]	[0.0005]
ACGS_Score	-0.0014	0.0009	0.0000
	[0.0016]	[0.0012]	[0.0000]
$ACGS_Score^2$	0.0000	0.0000	0.0000
	[0.0000]	[0.0000]	[0.0000]
Bandwidth (*X*)	50	50	50
Country-Year FE	Y	Y	Y
Observations	2,210	2,210	2,210
R-squared	0.010	0.022	0.020

Table 10. Stock Market Reaction to the Inclusion on the List

This table presents an analysis of the stock market reaction to the publication of the Top 50 List. *CAR[0; 1]* is the cumulative market-adjusted return of firm *i* around the day of the public announcement of the Top 50 List (day *d*). Daily returns are compounded over the (0, +1) day window around day *d*. *Top50* is an indicator variable that equals one if the firm is included in the Top 50 List in that year, and zero otherwise. See Appendix C for other variable definitions. "Bandwidth (*X*)" refers to the bandwidth around the 50th position, namely the *X* companies with positions in the ACGS ranking (in year t) within the interval *[50–X;50+X]*. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

	Dependent variable: *CAR[0;1]*			
	(1)	(2)	(3)	(4)
Top50	**0.00247****	**0.00311****	**0.00335****	**0.00349****
	[0.00110]	**[0.00115]**	**[0.00175]**	**[0.00176]**
Controls:				
Top50_Pre		-0.00183	-0.00173	-0.00184
		[0.00138]	[0.00143]	[0.00124]
Size		-0.00052	-0.00051	-0.00052
		[0.00045]	[0.00041]	[0.00041]
Leverage		0.00835***	0.00838***	0.00846***
		[0.00269]	[0.00274]	[0.00278]
ROA		0.02017**	0.02037**	0.02061**
		[0.00891]	[0.00923]	[0.00942]
MB		-0.00001	-0.00001	-0.00001
		[0.00007]	[0.00007]	[0.00007]
ACGS_Score			-0.00001	-0.00010
			[0.00009]	[0.00036]
ACGS_Score^2				0.00000
				[0.00000]
Bandwidth (*X*)	50	50	50	50
Country-Year Fixed Effects	Y	Y	Y	Y
Observations	2,210	2,210	2,210	2,210
R-squared	0.154	0.159	0.159	0.160

Boosting International Investment:
The Role of Expert Assessments of Corporate Governance

Online Appendices

Pietro Bonetti
IESE Business School

Gaizka Ormazabal*
IESE Business School, CEPR, and ECGI

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Appendix OA. Additional Background on the ACGS

OA.1. Information used in the methodology

The assessments of corporate governance practices of PLCs are primarily based on publicly available information contained in annual reports and on company, state securities commission, and stock exchange websites. Other sources of information considered are company announcements, news and periodicals, articles of association, minutes of shareholders' meetings, corporate governance policies, codes of conduct, and sustainability reports. As the assessments are based primarily on disclosures, these may not necessarily reflect the full extent of a participating country's actual corporate governance ecosystem. For a company to be assessed and ranked, most of the available documents must be in English. Furthermore, to be given points on the scorecard, all disclosures must be unambiguous and sufficiently complete.

OA.2. Historical developments in the methodology

The methodology to produce the ACGS has experienced certain changes since its inception. For example, the review of the scorecard prior to its fifth-year assessment resulted in several changes, including the rewording of some items, the removal or addition of items, and enhancements to the assessment guidance. Following the review, parts B and E of Level 1 were revised while other parts remained the same. The score allocations for the bonus and penalty sections were recalibrated such that bonus and penalty scores would be more proportionate. As a result of the review, the maximum attainable score decreased from 128 points in 2014 to 126 points in 2015. There was a similar adjustment in 2017. Table OA.1. presents the evolution of the scoring in terms of number of questions and maximum scores.

Table OA.1: Number of questions and maximum scores

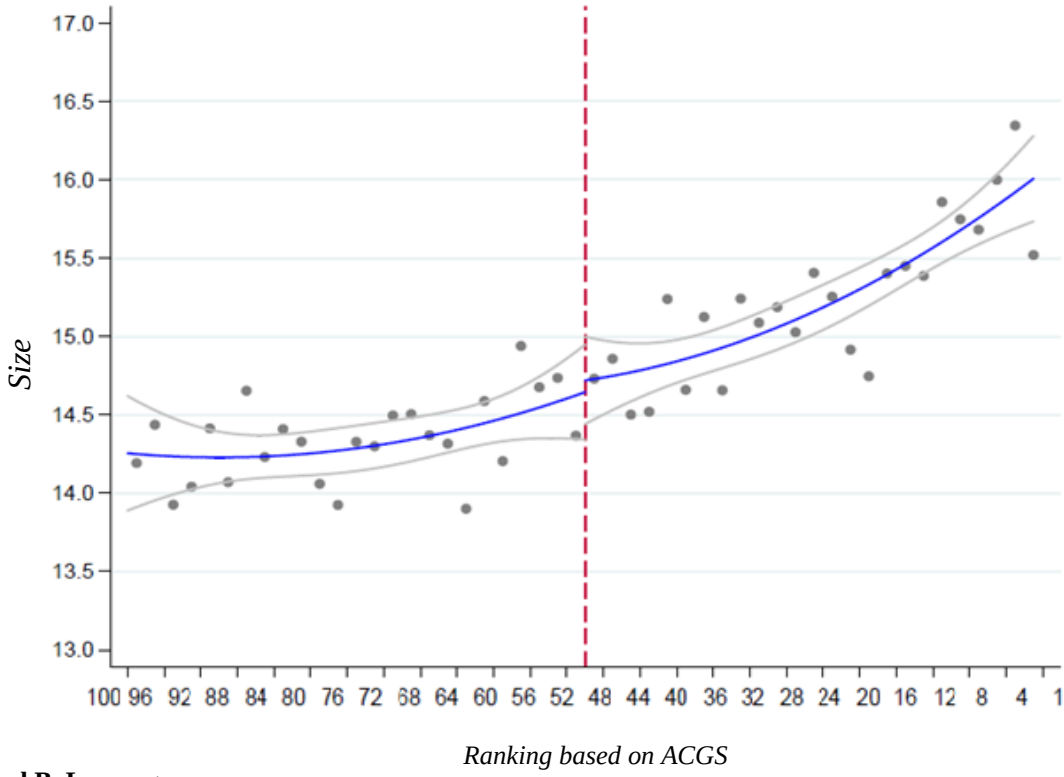
		Number of Questions				
		2012	2013	2014	2015	2017
Level 1	Part A	26 [10]	25 [10]	25 [10]	25 [10]	21 [10]
	Part B	17 [15]	17 [15]	17 [15]	18 [15]	15 [10]
	Part C	21 [10]	21 [10]	21 [10]	21 [10]	13 [15]
	Part D	42 [25]	40 [25]	41 [25]	41 [25]	32 [25]
	Part E	79 [40]	76 [40]	75 [40]	74 [40]	65 [40]
Level 2	Bonus	11 [17]	9 [42]	11 [28]	11 [26]	13 [30]
	Penalty	23 [(90)]	21 [(53)]	21 [(50)]	22 [(52)]	25 (67)]

( ) = negative.
Note: Numbers in brackets denote maximum attainable scores for each part. However, for the penalty section, numbers in brackets denote maximum deductible scores.
Source: ACMF Working Group D Secretariat 2015.

Figure OB.1. Covariate Balance

The figure plots distributions of the control variables in our sample firms at the publication of the Top 50 List. The vertical axis is either: A: Size, B: Leverage, C: ROA, D: MB. The horizontal axis is the position of the firm in the ranking based on ACGS. The gray dots display the observations. The blue and light gray lines display estimates from a non-linear regression (*Locally Weighted Scatterplot Smoothing*) and the corresponding confidence intervals, respectively. The dotted vertical red line marks the threshold for being part of the Top 50 List.

Panel A. Size



Panel B. Leverage

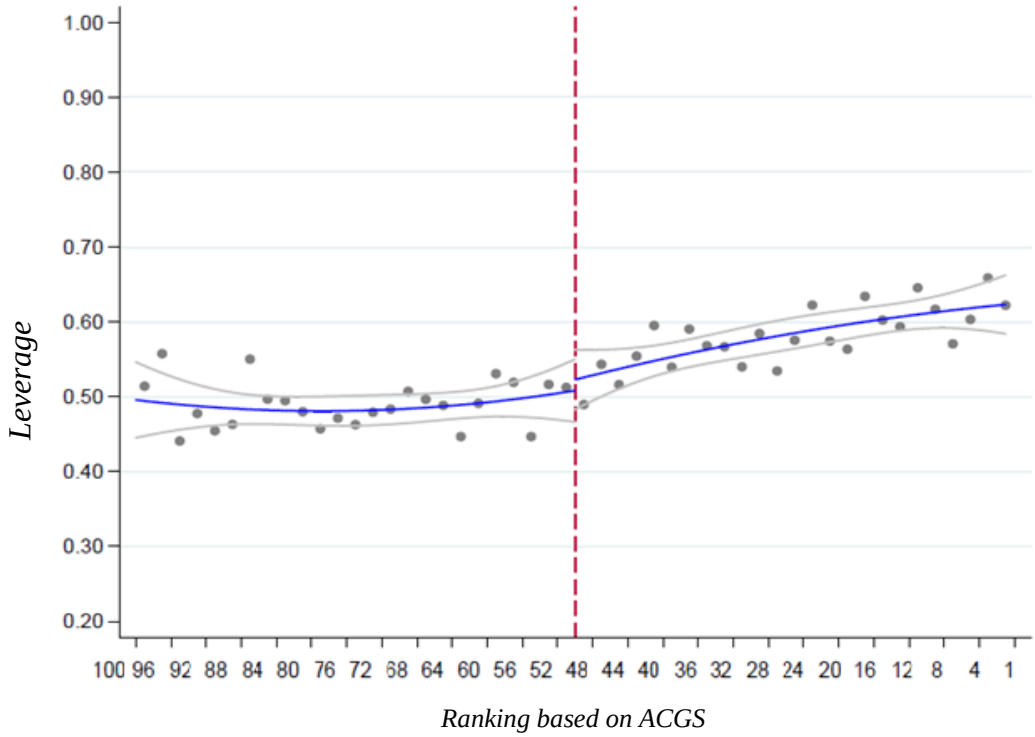
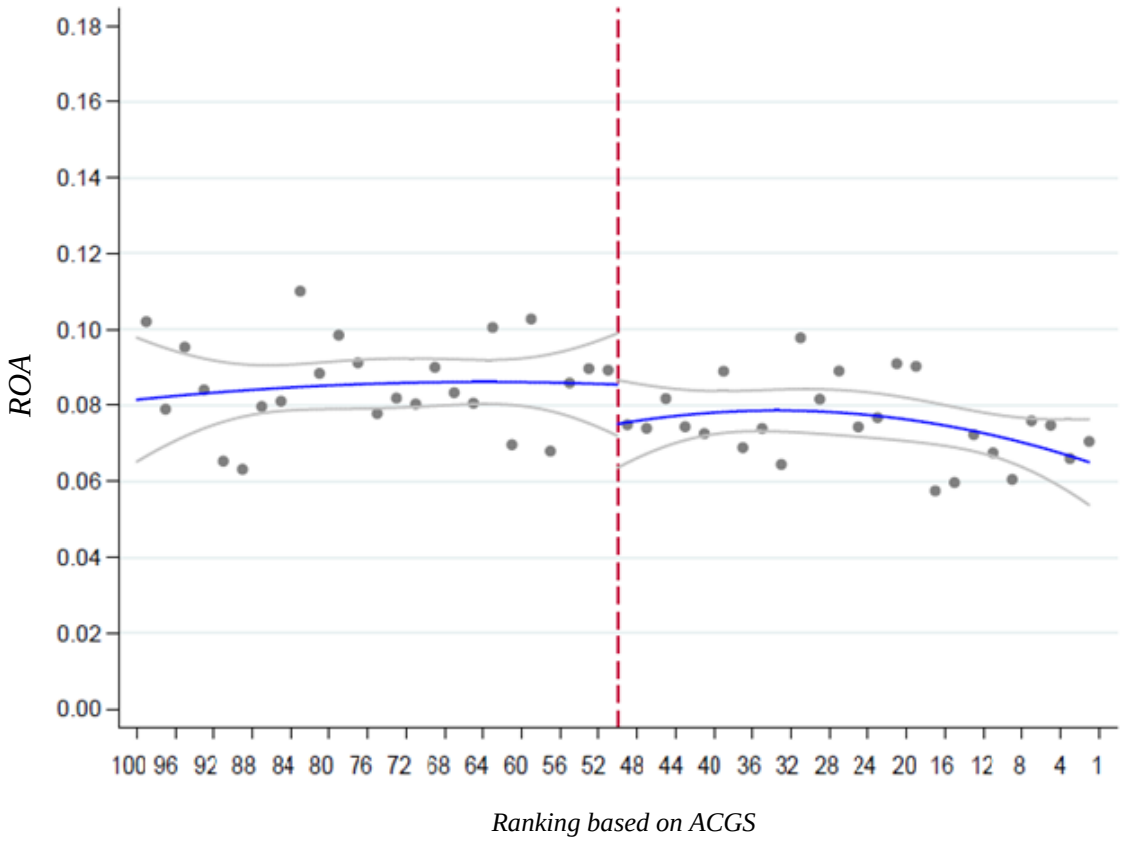


Figure OB.1. Covariate Balance (cont'ed)

Panel C. ROA



Panel D. MB

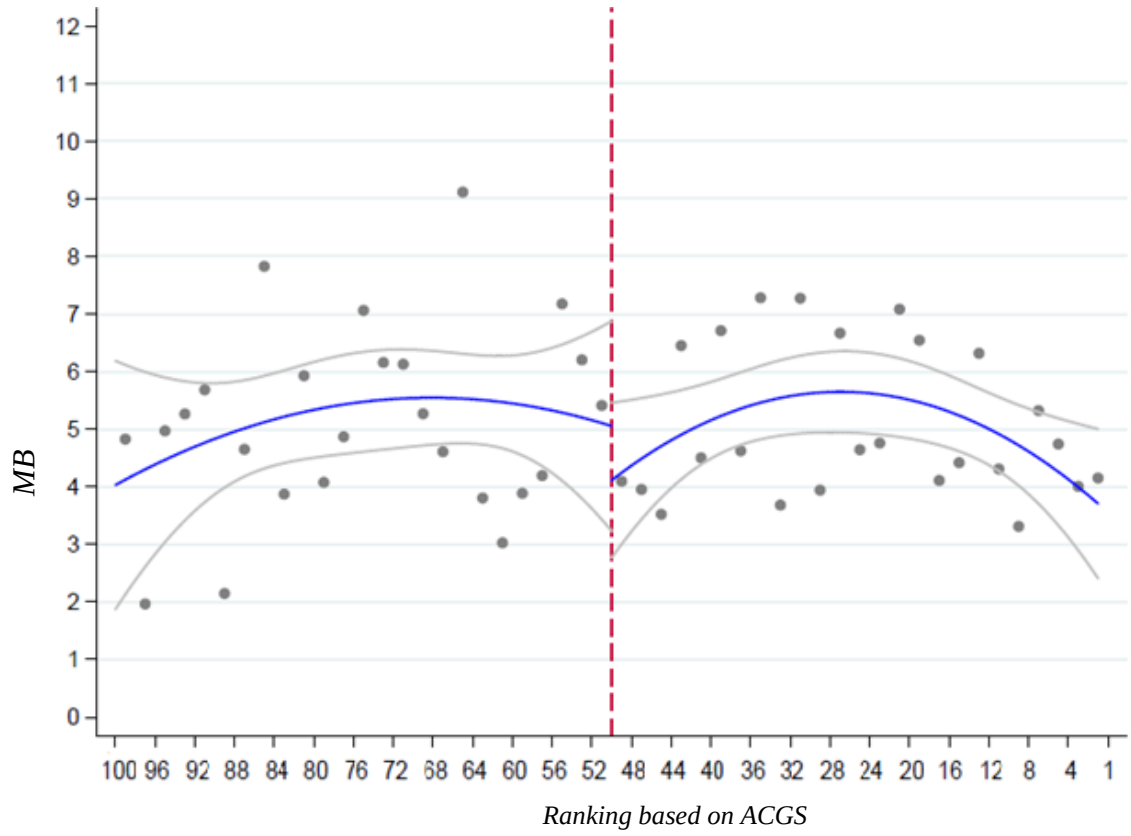


Table OB.1. Changes in the ACGS Ranking

This table presents an analysis of whether firms in the vicinity of the lower threshold of the Top 50 List increase their subsequent ranking position. The dependent variable, *Δ_ACGS_Ranking*, is the change in the ACGS ranking position from year t to year t+1. *Ranking[50–X;50+X]* is an indicator variable that equals one if the position of firm *i* in the ACGS ranking based on the ACGS in country *c* and year *t* is *50–X and 50+X*, and zero otherwise. *X* = {10, 15, 20, 25}. See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

	Dependent variable: Δ*_ACGS_Ranking*			
	(1)	(2)	(3)	(4)
Ranking[50–X;50+X]	0.10186	-0.95816	-0.51935	-0.00299
	[1.21092]	[1.10150]	[0.93643]	[0.93200]
Controls:				
Prior_Top50	-31.84345***	-31.94859***	-31.91069***	-31.85081***
	[1.87929]	[1.88349]	[1.89534]	[1.90337]
Size	-2.91580***	-2.93660***	-2.92885***	-2.91673***
	[0.75985]	[0.76204]	[0.76162]	[0.76089]
Leverage	-8.67134**	-8.71508**	-8.69510**	-8.67527**
	[3.65729]	[3.66616]	[3.66373]	[3.63617]
ROA	-21.55520*	-21.92432*	-21.68149*	-21.56535*
	[10.71290]	[10.73009]	[10.70373]	[10.71028]
MB	-0.24318***	-0.24514***	-0.24388***	-0.24321***
	[0.07916]	[0.07954]	[0.07939]	[0.07946]
Treatment [–X;+X]	+/- 10	+/- 15	+/- 20	+/- 25
Country-Year Fixed Effects	Y	Y	Y	Y
Observations	2,211	2,211	2,211	2,211
R-squared	0.387	0.387	0.387	0.387

Table OB.2. Foreign Institutional Investors' Ex-post Reaction Excluding Year 2017

This table presents an analysis of the effect of the publication of the Top 50 List on foreign institutional investors' ownership. The dependent variable, $\Delta_Foreign_Investment_{ict}$, is computed as $Foreign_Investment_{ictq} - Foreign_Investment_{ictq-1}$ where $Foreign_Investment_{ict}$ is the average institutional ownership by foreign institutions in firm *i* in country *c* over the three quarters from the quarter of the publication of the Top 50 List (quarter *q*) in year *t* expressed as a percentage of market capitalization, and $Foreign_Investment_{ictq-1}$ is the same variable measured in the quarter prior to the quarter of the publication of the Top 50 List (quarter *q*-1). *Top50* is an indicator variable that equals one if the firm is included in the Top 50 List in that year, and zero otherwise. "Bandwidth (*X*)" refers to the bandwidth around the 50th position, namely the *X* firms with positions in the ACGS ranking (in year t) within the interval *[50–X;50+X]*, *X* = {20, 30, 40, 50}. See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

	Dependent variable: *Δ_Foreign_Investment*							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Top50	**0.29423***	**0.30323***	**0.32801****	**0.34043****	**0.28923****	**0.28843****	**0.30689*****	**0.29632*****
	[0.16012]	**[0.16023]**	**[0.12023]**	**[0.11901]**	**[0.11034]**	**[0.10832]**	**[0.10123]**	**[0.10084]**
Controls:								
Prior_Top50	0.00027	0.00040	-0.00125	-0.00089	-0.00104	-0.00080	-0.00117	-0.00104
	[0.00143]	[0.00137]	[0.00140]	[0.00133]	[0.00111]	[0.00116]	[0.00101]	[0.00107]
Size	-0.00107*	-0.00108**	-0.00107***	-0.00109***	-0.00084***	-0.00084***	-0.00095***	-0.00095***
	[0.00040]	[0.00039]	[0.00033]	[0.00033]	[0.00029]	[0.00028]	[0.00022]	[0.00022]
Leverage	0.00238	0.00246	0.00286	0.00291	0.00093	0.00086	0.00290*	0.00285*
	[0.00257]	[0.00256]	[0.00220]	[0.00218]	[0.00163]	[0.00161]	[0.00164]	[0.00163]
ROA	-0.00322	-0.00351	-0.00004	0.00004	-0.00338	-0.00360	-0.00037	-0.00049
	[0.00872]	[0.00881]	[0.00745]	[0.00738]	[0.00662]	[0.00658]	[0.00634]	[0.00637]
MB	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00002**	0.00002**
	[0.00001]	[0.00001]	[0.00001]	[0.00001]	[0.00001]	[0.00001]	[0.00001]	[0.00001]
ACGS_Score	-0.00004	0.00038	-0.00009	0.00038	-0.00005	0.00013	-0.00007*	0.00002
	[0.00015]	[0.00039]	[0.00009]	[0.00026]	[0.00005]	[0.00013]	[0.00004]	[0.00011]
ACGS_Score²		0.00000		0.00000		0.00000		0.00000
		[0.00000]		[0.00000]		[0.00000]		[0.00000]
Bandwith (*X*)	20	20	30	30	40	40	50	50
Country-Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Observations	776	776	1,155	1,155	1,527	1,527	1,819	1,819
R-squared	0.056	0.057	0.037	0.040	0.041	0.042	0.045	0.046

Table OB.3. Conditional Independence

This table presents the results from testing the validity of the "conditional independence" assumption. The dependent variable, $\Delta_Foreign_Investment_{ict}$, is computed as $Foreign_Investment_{ictq} - Foreign_Investment_{ictq-1}$ where $Foreign_Investment_{ict}$ is the average institutional ownership by foreign institutions in firm *i* in country *c* over the three quarters from the quarter of the publication of the Top 50 List (quarter *q*) in year *t* expressed as a percentage of market capitalization, and $Foreign_Investment_{ictq-1}$ is the same variable measured in the quarter prior to the quarter of the publication of the Top 50 List (quarter *q*-1). *ACGS_Score* is the ASEAN Corporate Governance Score (final). See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

	Dependent variable: *Δ_Foreign_Investment*			
	(1)	(2)	(3)	(4)
ACGS_Score	**0.00015****	-0.00019	**0.00012*****	-0.00006
	[0.00006]	[0.00237]	**[0.00004]**	[0.00004]
Controls:				
Prior_Top50		0.00343***		-0.00329*
		[0.00117]		[0.00169]
Size		-0.00047		-0.00023
		[0.00039]		[0.00044]
Leverage		0.00086		0.00081
		[0.00266]		[0.00300]
ROA		0.01126		-0.00664
		[0.00719]		[0.00919]
MB		-0.00001		0.00005
		[0.00006]		[0.00007]
Bandwidth (*X*)	50	50	50	50
Country-Year FE	Y	Y	Y	Y
Observations	997	997	1,149	1,149
R-squared	0.044	0.052	0.039	0.045

Table OB.4. Additional Placebo Test: Ranking Based on Ex-ante Foreign Ownership

This table presents the results of repeating the analysis in Table 2 using a placebo top 50 list defined based on ex-ante foreign ownership. The dependent variable, $\Delta_Foreign_Investment_{ict}$, is computed as $Foreign_Investment_{ictq} - Foreign_Investment_{ictq-1}$ where $Foreign_Investment_{ict}$ is the average institutional ownership by foreign institutions in firm *i* in country *c* over the three quarters from the quarter of the publication of the Top 50 List (quarter *q*) in year *t* expressed as a percentage of market capitalization, and $Foreign_Investment_{ictq-1}$ is the same variable measured in the quarter prior to the quarter of the publication of the Top 50 List (quarter *q*-1). *Top50_Foreign* is an indicator variable that equals one if a firm is among the 50 firms with the highest foreign institutional investors' ownership in the quarter before the publication of the Top 50 list in that year, zero otherwise. *Ranking_Foreign* is the ranking position of the firm based on foreign ownership. "Bandwidth (*X*)" refers to the bandwidth around the 50th position, namely the *X* firms with positions in distribution of the foreign institutional investors' ownership in the quarter before the publication of the Top 50 list in year t, *Ranking_Foreign*, within the interval *[50–X;50+X]*, *X* = {20, 30, 40, 50}. See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

	Dependent variable: *Δ_Foreign_Investment*							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Top50_Foreign	-0.21453	-0.19267	-0.00954	-0.00926	0.01823	0.09284	0.05652	0.16063
	[0.16889]	[0.21128]	[0.14174]	[0.15606]	[0.12276]	[0.14099]	[0.10852]	[0.11579]
Controls:								
Prior_Top50	0.05618	0.05647	-0.04294	-0.04293	-0.00684	-0.00829	-0.01942	-0.02114
	[0.10024]	[0.10063]	[0.08097]	[0.08104]	[0.07147]	[0.07190]	[0.05797]	[0.05894]
Size	-0.08782**	-0.08815**	-0.07069**	-0.07069*	-0.03525	-0.03528	-0.02755	-0.02730
	[0.04391]	[0.04405]	[0.03417]	[0.03419]	[0.02945]	[0.02969]	[0.02325]	[0.02355]
Leverage	0.02182	0.02214	-0.04632	-0.04631	-0.07339	-0.07066	0.07714	0.08753
	[0.22099]	[0.22097]	[0.21241]	[0.21242]	[0.16491]	[0.16469]	[0.15433]	[0.15433]
ROA	1.15011	1.14713	1.88765**	1.88758**	1.31721**	1.30866**	1.67202***	1.66712***
	[0.84027]	[0.84245]	[0.68890]	[0.69684]	[0.48569]	[0.49146]	[0.52545]	[0.53400]
MB	-0.00887	-0.00893	-0.00557	-0.00557	-0.00211	-0.00181	-0.00386	-0.00350
	[0.00538]	[0.00540]	[0.00451]	[0.00450]	[0.00406]	[0.00409]	[0.00359]	[0.00369]
Ranking_Foreign	-0.00453	-0.00471	-0.00659**	-0.00659**	-0.00776**	-0.00829**	-0.00818***	-0.00886***
	[0.00300]	[0.00336]	[0.00256]	[0.00265]	[0.00292]	[0.00306]	[0.00243]	[0.00249]
Ranking_Foreign^2		-0.00002		-0.00000		-0.00007		-0.00010**
		[0.00009]		[0.00006]		[0.00005]		[0.00004]
Bandwidth (*X*)	20	20	30	30	40	40	50	50
Country-Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Observations	867	867	1,296	1,296	1,714	1,714	2,054	2,054
R-squared	0.074	0.074	0.053	0.053	0.057	0.058	0.054	0.056

Table OB.5. Foreign Investment and ACGSs

This table presents the results from estimating the association between foreign investment and ACGSs. In Panel A the analysis is conducted in levels. The dependent variable is $Foreign_Investment_{ict}$, defined as the average institutional ownership by foreign institutions in firm *i* in country *c* over the three quarters from the quarter of the publication of the Top 50 List (quarter *q*) in year *t* expressed as a percentage of market capitalization. In Panel B the analysis is conducted in changes. The dependent variable, $\Delta_Foreign_Investment_{ict}$, computed as $Foreign_Investment_{ictq} - Foreign_Investment_{ictq-1}$ where $Foreign_Investment_{ict}$ is as previously defined and $Foreign_Investment_{ictq-1}$ is the same variable measured in the quarter prior to the quarter of the publication of the Top 50 List (quarter *q*-1). *ACGS_Score* is the ASEAN Corporate Governance Score (final). See Appendix C for other variable definitions. Standard errors (in brackets) are clustered by country-year. *, ** and *** denote statistical significance at the 10%, 5%, and 1% (two-tail) levels, respectively.

Panel A. Levels

	Dependent variable: *Foreign_Investment*					
	Top 50	*Not Top 50*	*Pooled*	*Top 50*	*Not Top 50*	*Pooled*
	(1)	(2)	(3)	(5)	(6)	(7)
ACG_Score	-0.06425	-0.04675	0.03485	-0.00495	0.09638*	0.07216***
	[0.10231]	[0.33563]	[0.06459]	[0.05135]	[0.04984]	[0.02197]
Controls:						
ACG_Ranking	0.04013	-0.01960	-0.00235	0.08467**	0.00778	0.01946
	[0.06706]	[0.12245]	[0.03773]	[0.04063]	[0.02425]	[0.01181]
Size	0.26859	1.18298	0.52166	0.80042	1.07866*	0.67748
	[0.63261]	[0.72000]	[0.51212]	[0.54072]	[0.61234]	[0.41792]
Leverage	0.53233*	0.31214	0.39111	1.11190***	0.31185	0.77266***
	[0.25878]	[0.39802]	[0.27006]	[0.22491]	[0.23776]	[0.20944]
ROA	-2.31009*	-2.20485	-2.13969**	-2.16470**	-1.83754*	-2.06144***
	[1.12642]	[1.72097]	[0.83492]	[0.98941]	[1.06194]	[0.72211]
BM	19.22559***	11.91212**	15.38074***	22.20696***	16.94844***	20.13852***
	[3.65537]	[4.41105]	[2.87336]	[3.27573]	[2.17646]	[2.39196]
Bandwidth (*X*)	20	20	20	50	50	50
Country-Year FE	Y	Y	Y	Y	Y	Y
Observations	498	446	944	1,213	997	2,210
R-squared	0.120	0.105	0.087	0.168	0.083	0.155

Panel B. Changes

	Dependent variable: Δ*_Foreign_Investment*					
	Top 50	*Not Top 50*	*Pooled*	*Top 50*	*Not Top 50*	*Pooled*
	(1)	(2)	(3)	(5)	(6)	(7)
Δ*_ACG_Score*	-0.00059	0.00067	0.00015	-0.00010	0.00004	-0.00004
	[0.00041]	[0.00045]	[0.00020]	[0.00007]	[0.00014]	[0.00005]
Controls:						
Δ*_ACG_Ranking*	0.00025	-0.00044**	0.00000	0.00003	-0.00012	0.00002
	[0.00023]	[0.00019]	[0.00009]	[0.00007]	[0.00007]	[0.00003]
Size	-0.00143	0.00206	-0.00025	-0.00364**	0.00255***	-0.00143
	[0.00181]	[0.00134]	[0.00132]	[0.00150]	[0.00082]	[0.00096]
Leverage	0.00063	-0.00120*	-0.00032	-0.00013	-0.00041	-0.00033
	[0.00072]	[0.00064]	[0.00029]	[0.00045]	[0.00030]	[0.00021]
ROA	-0.00192	0.00243	-0.00018	0.00030	0.00149	0.00122
	[0.00392]	[0.00342]	[0.00233]	[0.00283]	[0.00249]	[0.00160]
BM	-0.02148**	0.01297	-0.00577	-0.00770	0.01362**	0.00158
	[0.01001]	[0.01185]	[0.00789]	[0.00721]	[0.00645]	[0.00581]
Bandwidth (*X*)	20	20	20	50	50	50
Country-Year FE	Y	Y	Y	Y	Y	Y
Observations	498	446	944	1,213	997	2,210
R-squared	0.078	0.087	0.046	0.047	0.053	0.031

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