

Reporting for 2020 AFAANZ Grant Outcomes

(1) Name, Position, Contact Details for each applicant

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(2) Project Title

Learning from Investing: Evidence from Foreign Institutional Investors from Emerging Countries

(3) Updated Project Summary (500 words) including any variations between the project undertaken and the original application

A research assistant helped to collect the firm-level corporate governance index from Bloomberg's ESG database. This index is based on 16 data items. Given there is a download quota in Bloomberg every month, it took quite a long time for the data collection. After the data collection, I constructed the corporate governance index. Then, I merged it with financial data and obtained a sample of 18,821 firms from 18 emerging economies, in which 14,102 firms have at least one domestic institutional investor invests in the developed market. The results (i.e., discuss in the outcome section) show that institutional investors from emerging economies learn from their investment experiences in the developed market and influence the corporate governance of their domestic investee firms, supporting my conjecture as discussed in the proposal.

(4) Funds Granted

A\$5500

(5) Detailed Report on Expenditure of Funds against Budget Items, with variations explained.

The fund is used for hiring a research assistant to collect the firm-level corporate governance index from Bloomberg's ESG database (i.e., without relevant doctoral qualification, approx. 100hours @ \$47.97/hour + on-costs rate of 15.91%).

(6) Outcomes, for example, working papers, presentations and publications (give full details, including abstracts)

The preliminary results are shown in the following table. The dependent variable, *GOV_E*, is the corporate governance index of firms in the emerging market. The key independent variable, *A_GOV_D_EFII*, measures the investment experience of institutional investors from emerging economies. There is a positive association between *GOV_E* and *A_GOV_D_EFII*, suggesting that institutional investors from emerging economies learn from their investment experiences in the developed market and influence the corporate governance of their domestic investee firms. The results remain by controlling firm and year fixed effects, using the sample that excludes firms without an institutional investor who has investment experience in the developed market, only considering the most influential institutional investor, and using the change-in-change regression.

	<i>GOV_E</i>							
	Full Sample				Sub-sample: IS_INV_DEV=1			
<i>A_GOV_D_EFII</i> _{t-1}	0.074*** (0.002)	0.087*** (0.002)			0.084*** (0.001)	0.096*** (0.001)		
<i>A_GOV_D_EFII</i> _{t-2}		0.095*** (0.000)				0.100*** (0.000)		
<i>A_GOV_D_EFII</i> _{First} _{t-1}			0.014 (0.315)	0.037** (0.044)			0.009 (0.509)	0.034* (0.075)
<i>A_GOV_D_EFII</i> _{First} _{t-2}				0.041** (0.018)				0.032* (0.074)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year&Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R ²	0.132	0.141	0.134	0.132	0.143	0.152	0.143	0.144
N	12513	10806	8269	5481	11827	10288	7834	5227

Currently, I am still working on the empirical tests and exploring the reason behind these interesting findings. In particular, I would like to see if the results are held for different subsamples (i.e., countries with stronger and weaker country-level governance), different periods (i.e., before and after GFC), different model specifications, and endogeneity tests.

In addition, I expect to use the shareholder proposal data to investigate this research question further. In particular, I examine whether a marginal win (e.g., 51%) in corporate governance proposals in the U.S. firms affects the connected firms in the emerging market (i.e., through an institutional investor from the emerging market). This RDD test is aimed to address the potential endogeneity concern related to this research question.

These additional tests would make this paper more convincing and complete. However, it will require a significant amount of work. I expect to complete a draft working paper in the middle of 2022.

(7) Future Intentions for this Project (give full details)

a. Conference submissions

FMA, WFA, SFS Cavalcade, CICF in 2022

b. Journal submissions

I aim to publish in top-tier finance journals, including *JFE*, *RFS*, *JFQA*, *MS*, and *RoF*.

c. Grant applications

At this stage, I do not intend to apply for another grant unless there is a significant variation in the project.

d. Projects

NA

(8) Summary of Outcomes and Benefits

This project aims to make several contributions to the current literature. First, recent literature suggests that governance travels from developed to developing markets. This study expects to contribute to the concept of “governance travel” in international corporate finance literature by suggesting that institutional investors from the emerging market can also facilitate governance travel by learning from their foreign investment experiences in developed countries. Thus, this study identifies a new channel of governance travel across the countries. Second, prior literature pays little attention to the role of institutional investors from less-developed countries. This study aims to fill this gap in the literature by focusing on their learning role across countries. Thus, provide a better understanding of the role of investment from the emerging market.