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Relationship of companies' characteristics to foreign ownership: Studies on emerging market stock exchange in seven countries from ASEAN and Middle East

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Abstract

This study explores the relationship between company's characteristics and foreign ownership within the emerging market stock exchanges from 7 countries in the ASEAN and Middle East. The objective is to provide an understanding of determinants that influence foreign investors to invest in companies in emerging markets. This study uses panel data of publicly traded companies from Philippines, Thailand, Indonesia, Vietnam, UAE, Saudi Arabia, and Qatar within Q3 2020 – Q4 2022 period with the econometric robust regression model approach. Employing a quantitative research approach, this study utilizes a robust regression analysis. Various company characteristics, such as size, profitability, liquidity, leverage, dividend yield, and book-to-market value, are examined as potential determinants of foreign ownership. Results show that size has strong significant positive relationship to foreign ownership, profitability has positive not significant relationship to foreign ownership, liquidity has positive not significant to foreign ownership, leverage has negative weak significant to foreign ownership, dividend yield has positive significant to foreign ownership, and book-to-market has positive moderate significant to foreign ownership. The findings contribute to a deeper understanding of foreign ownership dynamics within the emerging market stock exchanges in the ASEAN region and Middle East, providing a solid foundation for informed decision-making and strategic planning.

Keywords companies' characteristic; foreign ownership; foreign investor; stock exchange; emerging market

INTRODUCTION

Emerging markets, characterized by economies exhibiting traits of developed markets but not yet reaching their standards, offer appealing destinations for portfolio investment from advanced economies due to their favorable growth prospects. In this context, foreign portfolio investments have become crucial conduits for capital flows to developing countries in an evolving international financial landscape (D'arista & Jones, 2001). However, these investments are often associated with higher volatility and risk, prompting investors to seek greater returns.

Salomons and Grootveld (2003) highlight that emerging markets' capital markets, characterized by higher risk premiums and expected returns, have drawn foreign investors. The stock exchange in countries such as Indonesia, Thailand, Philippines, Vietnam, UAE, Saudi Arabia, and Qatar are considered as some of the biggest emerging capital markets, with evidence that stock ownership in emerging market still tends to be dominated by institutional investors compared to individual investors. The economic condition of these countries' further influences investment decisions, shaped by factors such as companies' characteristics, economic stability, and political conditions. Notably, institutional investors dominate stock ownership in emerging markets, particularly in regions like ASEAN and the Middle East.

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Understanding the motivations behind investors' choices in emerging markets involves exploring macroeconomic environments, diversification benefits, and specific investment preferences. This study focuses on the latter, identifying company characteristics that attract investors to important emerging stock markets within the ASEAN and Middle East regions.

The relationship between foreign ownership and companies' characteristics in emerging markets has garnered significant attention. Foreign investors' tendencies, influenced by information disparities between domestic and foreign investors, often lead to preferences for familiar stocks, resulting in home bias. Factors such as geographical proximity and market familiarity influence their choices.

To mitigate information asymmetry, foreign investors tend to select firms with specific attributes, such as size and low debt ratios. Portfolio diversification is also a strategy employed by foreign institutional investors to manage risks. This study enriches our understanding of foreign investors' motivations and holdings by analyzing detailed equity ownership data and examining determinants of foreign ownership in emerging market firms. Key firm attributes, including size, profitability, liquidity, leverage, dividend yield, and book-to-market value, are considered.

Foreign investors play a crucial role in emerging market stock exchanges, significantly impacting stock prices through demand and supply shocks. Hence, this research contributes to a deeper understanding of the link between company characteristics preferred by foreign investors and the movement of stock exchanges in emerging markets. Recognizing the pivotal role of foreign investors, it is imperative for stakeholders to grasp the fundamental knowledge of the factors that attract them, influencing market dynamics and returns.

The research gap lies in the inconsistent findings of prior studies on the relationship between companies' characteristics and foreign ownership, warranting a comprehensive investigation. This study addresses this gap by examining multiple emerging market stock exchanges in the ASEAN and Middle East regions. By analyzing size, profitability, liquidity, leverage, dividend yield, and book-to-market value, the research identifies the specific company characteristics most appealing to foreign investors.

This research conducted to analyzing the relationship of size, profitability, liquidity, leverage, dividend yield, and book to market value to foreign ownership in several emerging market stock exchanges and identify which specific companies' characteristic(s) that attracts the foreign investors the most in emerging market stock exchanges. By delving into the complexities of investor preferences and company attributes, the research sheds light to a deeper understanding of foreign ownership dynamics within the largest emerging market stock exchanges in the ASEAN region and the Middle East, providing a solid foundation for informed decision-making and strategic planning.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Several variables including size, profitability, liquidity, leverage, dividend yield and book to market value has been selected as determinants to measure the relationship of companies' characteristics to foreign ownership. Company size in general can be interpreted as a scale of the company that can be classified according to various aspects, including total assets, average total assets, stock market value, market capitalization, total sales/income, average sales, total profits, number of employees, and others (Dang et al., 2018). This research will use companies' size variable based on its market capitalization.

Return on equity (ROE) is one of the profitability ratios. The Return on Equity is the ratio of net income to common equity measures the rate of return on common stockholders' investment. This figure demonstrates how effectively management makes use of shareholder capital (Brigham & Houston, 2007), which is net profit to shareholders divided by total shareholder equity. Shareholders certainly want to get a high rate of return on the capital they invest, and ROE shows the rate they get (Brigham & Houston ,2010). This research employs the ratio of return on equity (ROE) as a measure to control for the company's profitability.

The current ratio is one of the liquidity proxies used to measure the company's ability to pay off current liabilities using current assets. Krishnankutty and Chakraborty (2011) stated that current ratio which provides the best single indicator which the claims of short-term creditors are covered by assets that are expected to be converted to cash in a period roughly corresponding to the maturity of the claims.

Leverage used as a measure of long-term financial distress. The financial leverage is estimated by the debt ratio. It is defined as the ratio of total liabilities to total asset at year-end. This variable is also a proxy for the type of financial management practice, a lower level of leverage indicates that a firm follows a conservative financial management approach, whereas the reverse is the case for a high level of leverage (Batten & Vinh Vo, 2015).

The definition of dividend yield is the amount of dividends paid by the company divided by the company's stock price (Jones, 2004). The dividend yield is the value of all dividends paid during the year divided by the market value of the firm at year-end. This indicator measures the yield earned by investors and can be used to analyze the investment style of foreign investors, which is a preference for dividend income, or capital gain.

The book to market ratio is one indicator of a company's value. Book to market ratio is the comparison between the book value per share and the market value of the stock (Fama and French, 1995). A high ratio is preferred by value managers who interpret it to mean that the company is a value stock, it is trading cheaply in the market compared to its book value.

Foreign ownership is a source of external funds from foreign capital that can be utilized by developing countries to accelerate investment and the country's economic growth (Anayochukwu, 2012). Foreign investors are usually financial institutions that have large capital and invest in large amounts. Unlike individual market participants, institutional investors manage the funds of others to make targeted and, mostly, diversified investments on their behalf. These entities, including mutual funds, hedge funds, insurance companies, sovereign wealth funds, etc. control a significantly large portion of the financial markets in which they participate (Ordu-Akkaya & Soytas, 2019). Foreign ownership in this research measured as the monthly average of foreign investor holding in a firm at year end.

There are many large and growing literatures examining the relationship between foreign ownership and companies' characteristics, and more specifically whether foreign investors have information disadvantages over domestic traders in developing markets (e.g., Coval and Moskowitz, 1999; Portes and Rey, 2005; Garg and Dami, 2014). Foreign investors' domestic portfolio disposition connects to home bias in international diversified investments. Their decision making should be understood in terms of information asymmetry between domestic and foreign investors. Foreign investors have tendency (home bias) to choose stocks they are more familiar with, such as ones from their home countries.

Foreign investors navigate the complexities of emerging markets using a multifaceted approach that draws from various financial theories. Modern Portfolio Theory (MPT) is a cornerstone, guiding them to build diversified portfolios to optimize returns while managing risk. International diversification is integral, as it allows investors to spread their investments across different countries, mitigating the impact of localized risks. Leveraging this diversification, investors capitalize on opportunities presented by international arbitrage, exploiting price discrepancies between identical assets in different markets. Additionally, the Asymmetric Information Theory that has been developed by Brennan and Cao (1997) comes into play, acknowledging that foreign investors might possess differential access to information compared to local investors. To address this, foreign investors often lean on their global expertise and technology, enabling them to better evaluate companies' long-term prospects and make informed investment decisions. By skillfully blending these strategies, foreign investors position themselves to gain profit in emerging markets, facilitating growth, liquidity, and stability in these dynamic economies.

The companies' that are selected by foreign investors may also be compromised by investment barriers and the presence of asymmetric information between local and foreign investors. To avoid informational asymmetry, foreign investors will therefore tend to select firms with certain characteristics, such as large size and a low debt ratio (Dahlquist and Robertsson, 2001; Kang and Stulz, 1997; Lin and Shiu, 2003). Certain hypothesis has been developed based on previous research and theories approach to conduct this research.

The relationship between size with foreign ownership

The research by Batten & Vinh Vo (2015) resulted that size of the firm measured by its market capitalization is related significantly positive to foreign ownership. Moreover, Kang and Stulz (1997), Dahlquist and Robertsson (2001), and Lin and Shiu (2003), whereby the authors also provide evidence on the positive relation between size and foreign ownership.

The positive relationship between size and foreign ownership is related to the asymmetric information theory model that has been developed by Brennan and Cao (1997). The firms that are selected by foreign investors may also be compromised by investment barriers and the presence of asymmetric information between local and foreign investors. To avoid informational asymmetry in order to minimizing the risk of international portfolio diversification, foreign investors will therefore tend to select firms with certain characteristics, such as large size and a low debt ratio (Dahlquist and Robertsson, 2001; Kang and Stulz, 1997; Lin and Shiu, 2003).

H1: Size has a positive relationship to foreign ownership

The relationship between profitability with foreign ownership

The research by Bolak, Diyarbakirlioglu, Su¨er (2013), Batten & Vinh Vo (2015), and Gong & Kim (2011) resulted that the relationship between companies' profitability and foreign ownership is significantly positive. Those results suggests that foreign investors prefer to hold more shares in firms with higher growth potential.

The tendency of foreign investors prefers to invest in high growth profitable firms is related with the asymmetric information theory by Brennan and Cao (1997). Foreign investors are choosing large profitable firms due to its familiarity to avoid information asymmetry.

H2: Profitability has a positive relationship to foreign ownership

The relationship between liquidity with foreign ownership

Batten & Vo (2015), in their research entitled "Foreign ownership in emerging stock markets", indicate that foreign investors allocate a disproportionately high share of their funds to conservative financial management approach (low leverage and high current ratio). As the result of that research stated the relationship between current ratio and foreign ownership is significantly positive.

Brennan and Cao (1997) in asymmetric information theory stated that foreign investors would choose to invest in the firm that have low risks, high transparency, and liquidity to overcome informational disadvantages. Current ratio indicates that the company is getting better at managing its current assets so that it can fulfill the company's ability to fulfill its obligations. The more the company's ability to pay its current liabilities increases, the more investors are likely to be interested in allocating their funds to the company's shares.

H3: Liquidity has a positive relationship to foreign ownership

The relationship between leverage with foreign ownership

Many researches such as that conducted by Bolak, Diyarbakirlioglu, Su¨er (2013), Batten & Vinh Vo (2015), and Gong & Kim (2011) resulted that the relationship between companies' leverage and foreign ownership is significantly negative. Those results suggests that foreign investors prefer to hold more shares in firms with less financial risk.

In line with the asymmetric information theory by Brennan & Cao (1997), it is shown that foreign investors tend to hold more shares in large firms with better accounting performance and low leverage.

H4: Leverage has a negative relationship to foreign ownership

The relationship between dividend yield with foreign ownership

The research by Gong and Kim (2011), "The characteristics of foreign portfolio investment", resulted that dividend yield having a significant and positive relationship with foreign ownership. The research suggesting that foreign investors in emerging market prefer high dividend paying firms, meaning foreign investors prefer value stocks.

By applying an effective modern portfolio theory that allows investors to assemble an asset portfolio that maximizes expected return for a given level of risk, foreign investors are also have to gain a fixed profit that could be generated by dividend income of value stocks. That issue could be solved by selecting a growing high-dividend yield company.

H5: Ddividend yield has a positive relationship to foreign ownership

The relationship between book to market value with foreign ownership

Foreign investors tend to invest in undervalued stocks, there are several researches which has proven this statement. The research by Gong & Kim (2011) and Batten & Vinh Vo (2015) resulted that the relationship of market value that indicated by book to market ratio with foreign ownership is positive and significant. According to Gong and Kim (2011), foreign investors choose value firms with high book to market value ratio, while shunning away from firms with high debt ratio and high ownership ratio of the largest shareholders. Moreover, Batten and Vinh Vo (2015) confirmed the value investment

preference style of foreign investors in emerging market, foreign investors do not like to invest in firms where stock price are high relative to accounting book value. This fact might relate to the fact that emerging market stock prices tend to depart from true value in the early stage of development.

H6: Book to market value has a positive relationship to foreign ownership

METHODS

Variables

In accordance with the title of the study that author chose, which is " Relationship of Companies Characteristics to Foreign Ownership (Studies on Emerging Market Stock Exchange in 7 Countries from ASEAN and Middle East) ", there are two types of variables that will be examined, which are companies' characteristics as independent variables and foreign ownership as dependent variables.

The concept of Size as the first independent variable is measured by the company's market capitalization, which mean the ratio to the total dollar market value of a company's outstanding shares of stock.

Profitability as second independent variable is measured by ROE, which is the ratio of net income by shareholders' equity.

The third independent variable is Liquidity that measured by current ratio, a measure of company's ability to pay short-term obligations or those due within one year calculated by dividing current assets by current liabilities.

Leverage as fourth independent variable is measured by debt ratio, a ratio that measures the extent of a company's leverage calculated by dividing total liabilities by total assets.

Fifth independent variable is Dividend Yield. Due to this research using quarterly data, Dividend Indicated Yield used as the proxy to fulfil the quarterly data requirement.

Book to Market Value, ratio used to determine the value of a company by comparing its book value to its market value, used as the last or sixth independent.

The concept of Foreign Ownership as the dependent variable in this research is the total percentage of shares held by foreign shareholders at quarter end.

Sample

Samples represents the population's size and characteristics. Purposive sampling method is used in this research, which is that the research's chosen criteria are used to be base of the sample's selection. The final criteria samples are:

a) Top 15 by market capitalization excluding banking and finance companies listed in emerging market stock exchange from the 7 countries that are located in ASEAN and Middle East in Q3 2020 – Q4 2022 period. The countries selected are Philippines, Thailand, Indonesia, Vietnam, UAE, Saudi Arabia, and Qatar.

b) The sample taking the criteria of top 15 companies by market capitalization to representing presence of foreign investors' dominance in these companies. The total of 97 companies are observed, STATA automatically eliminating the company that does not providing a full data due to the data limitation.

c) Those companies by the previous criteria have historical data that match the observed variables and actively listed in the stock exchange.

d) The data was retrieved from Bloomberg database with Equity Screening function (EQS). For each country, the data is collected the top 15 companies based on its market capitalization. Banking and finance industry are being excluded due to banking and finance industry companies are using different proxy measurement for several variables.

Table 1.
Descriptive statistics data analysis for general model

Variable	Obs	Min	Max	Mean	Std. dev.
FOR	971	0.06	71.596	16.857	14.4555
SIZE	980	17.5132	25.37495	22.1726	1.29882
PROF	980	-15.755	143.1778	14.8457	15.762
LIQ	980	0.2114	9.25	1.69292	1.0711
LEV	980	0.0688	64.5126	26.0672	15.632
DY	967	0.0681	13.2653	3.15994	2.00651
BM	980	0.01775	3.379038	0.64971	0.55356

Data analysis

The influence or relationship between the independent variable and the dependent variable was analyzed using multiple regression analysis. Multiple regression is a statistical technique that can be used to analyze the relationship between a single dependent variable and several independent variables. The objective of multiple regression analysis is to use the independent variables whose values are known to predict the value of the single dependent value. Each predictor value is weighed, the weights denoting their relative contribution to the overall prediction.

Ordinary Least Squares (OLS) regression is a widely used statistical method for estimating the relationship between a dependent variable and one or more independent variables. It aims to find the line of best fit that minimizes the sum of squared differences between the observed data points and the predicted values. OLS regression assumes linearity, independence of errors, homoscedasticity, and normally distributed errors (Gujarati, 2003). In OLS regression, the data are assumed to meet certain assumptions for the estimates to be valid. However, violations of these assumptions can lead to biased or inefficient results. Therefore, Robust OLS regression methods have been developed in this research to address such violations and provide more reliable estimates.

RESULTS AND DISCUSSION

The research object in this study is foreign ownership holding proportion in the emerging market stock exchange from the ASEAN and Middle East countries which are Philippines, Thailand, Indonesia, Vietnam, UAE, Saudi Arabia, and Qatar. This research conducted the analysis with the total of 98 companies based on the largest market capitalization that listed in those countries stock exchange in Q3 2020 – Q4 2022. Largest market capitalization companies are becoming a consideration due to the large representation of foreign investor holding in that companies are having a big role in emerging market stock exchange.

This research will analyse the company's characteristics, such as its size, profitability, liquidity, leverage, dividend yield, and book to market value as determinants to foreign ownership in those countries. By analysing at those determinants' relationship to foreign ownership, it can be an indication of which company's characteristics are attracting the foreign investors. Descriptive Statistics analysis and several Classical Assumptions Analysis are conducted to support the regression model analysis for this research.

The table above showing the result of Descriptive Statistics Data Analysis for the general model that all countries being included, providing how many observations are conducted and minimum, maximum, mean, and standard deviation value of each variable.

Table 2.
General result of normality test

Variable	Obs	W'	V'	z	Prob>z
res	959	0.8916	69.91	9.711	0.00001

Table 3.
General result of multicollinearity test

	FOR	BM	DY	LEV	LIQ	PROF	SIZE
FOR	1						
BM	-0.1935	1					
DY	-0.1629	0.1859	1				
LEV	0.1709	0.0143	-0.2734	1			
LIQ	0.0657	0.0487	0.1074	-0.4234	1		
PROF	0.0628	-0.4453	0.0551	-0.1621	-0.0121	1	
SIZE	0.1332	-0.3454	-0.1756	0.1753	-0.1301	0.1697	1

Table 4.
General result of autocorrelation test

H0: no first-order autocorrelation	
F (1, 96) =	9.968
Prob > F =	0.0021

The table above provides a description of each research variable for general samples countries included the total number of observations is 959. The result shows the value of prob>z is 0.00001 that exhibit the p-value associated with the test statistic is less than 0.05 significance level, meaning the data is not normally distributed. Problem of normality could be solved by using robust command in data regression available in STATA.

The table above shows the result of multicollinearity test for general. The result indicated that none of all variables have correlation value more than 0.8 or less than -0.8, which interpreted to all of those independent variables do not have correlation between each other and stated as mutually independent variables.

The result in table above rejects the null hypothesis for the general observation, so there is the problem of autocorrelation in data. This problem is solved by using special command (VCE Robust) available in STATA.

The table above shows the general result of Breusch–Pagan/Cook–Weisberg test for heteroscedasticity. The result shows that p-value is 0.0000 which is less than 5% or 0.05 which rejects the null hypothesis. So heteroskedasticity is present in data. Problem of heteroskedasticity is solved by using special command (VCE Robust) available in STATA.

Based on the estimation results in table above the econometric model for each region that used in research can be formulated as:

$$FOR = -36.068 + 2.347SIZE + 0.006PROF + 0.113LIQ - 0.040\,LEV + 0.248DY + 1.252\,BM + e$$

The F-statistics shows that probability value (Prob > F) from general and all countries separately is 0.00001, which is smaller than 0.05. Therefore, it could be interpreted that the regression model of all model can be used to predict the value of dependent variable, or which means size, profitability, liquidity, leverage, dividend yield, and book to market value are able to relate to foreign ownership.

Table 5.
General result of heteroscedasticity test

Assumption: Normal error terms Variable: Fitted values of FOR H0: Constant variance chi2(1) =16.83
Prob > chi2 = 0.0000

Table 6.
General result of robust multiple regression analysis

```
R-squared:                                        Obs per group:
     Within  = 0.0478                                          min =          8
     Between = 0.0011                                          avg =        9.9
     Overall = 0.0012                                          max =         10

                                                  F(6,856)          =      7.16
corr(u_i, Xb) = -0.1621                           Prob > F          =    0.0000
```

FOR	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
ln_size	2.34686	.4975325	4.72	0.000	1.370333	3.323386
PROF	.006231	.0138664	0.45	0.653	-.0209852	.0334472
LIQ	.11349	.1609182	0.71	0.481	-.2023504	.4293304
LEV	-.0401826	.023441	-1.71	0.087	-.0861911	.0058259
DY	.2482001	.0815846	3.04	0.002	.0880709	.4083293
BM	1.25197	.5661687	2.21	0.027	.1407288	2.363212
_cons	-36.06758	11.25787	-3.20	0.001	-58.16385	-13.97131
sigma_u	14.561046					
sigma_e	2.3260645					
rho	.97511631	(fraction of variance due to u_i)				

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F test that all u_i=0: F(96, 856) = 338.95                Prob > F = 0.0000
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The t-test is conducted to see the effect of each independent variable (individually) on the dependent variable, assuming the other independent variables are considered constant. The effect of independent variable partially to the dependent variable is indicated by the value of t. Furthermore, the significance level of independent variable to dependent variable is showed by the value of the p-value (P>|t|), where the description if the p-value is less than 0.01 is described as strong significant, if the p-value is between 0.01 and 0.05 is described as moderate significant, if the p-value is between 0.05 and 0.1 is described as weak significant, and if the p-value is over 0.1 is described as not significant.

The regression result shows that Size has a positive strong significant relationship to Foreign Ownership, Profitability has a positive not significant relationship to Foreign Ownership, Liquidity has a positive significant relationship to Foreign Ownership, Leverage has a negative weak significant relationship to Foreign Ownership, Dividend Yield has a positive strong significant relationship to Foreign Ownership, and Book to Market Vale has a positive strong significant to Foreign Ownership.

Discussion

Based on the estimation results that have been found, several research decisions have been taken.

The relationship between size and foreign ownership

This research takes the first hypothesis that there is a positive relationship between Size and Foreign Ownership. Based on the result of analysis, The general model accepted the first hypothesis indicating a strongly significant result with the probability value less than 0.01 which is 0.000.

The result also founded in many previous researches that has been conducted by Batten & Vinh Vo (2015), Gong and Kim (2011), Bolak, Diyarbakirlioglu, Su¨er (2013), Kang and Stulz (1997), Dahlquist and Robertsson (2001), and Lin and Shiu (2003). Those researches are resulted that size of the firm measured is related significantly positive to foreign ownership.

The correlation between size and foreign ownership can be attributed to the theory model developed by Brennan and Cao (1997), which focuses on asymmetric information. Firms chosen by foreign investors may encounter investment barriers and information imbalances between local and foreign investors. To mitigate the risk of international portfolio diversification caused by information asymmetry, foreign investors typically opt for firms that possess specific traits like considerable big size company (Dahlquist and Robertsson, 2001; Kang and Stulz, 1997; Lin and Shiu, 2003).

The relationship between profitability and foreign ownership

This research takes the second hypothesis that there is a positive relationship between Profitability and Foreign Ownership. The general model shows that there is a positive relationship between profitability to foreign ownership but it is not significant, the probability value is more than 0.1. This suggests that profitability could be a factor of interest, although less decisive compared to other attributes.

The tendency of foreign investors to invest in high-growth and profitable companies can be linked to the asymmetric information theory proposed by Brennan and Cao (1997). Foreign investors choose to invest in large and profitable firms due to their familiarity, which helps mitigate the presence of information asymmetry.

The relationship between liquidity and foreign ownership

This research takes the third hypothesis that there is a positive relationship between Liquidity and Foreign Ownership. The general model showing a not significantly positive relationship between liquidity and foreign ownership, its P>|t| value is greater than 0.1 which considered as not significant.

The findings align with the research conducted by Batten & Vinh Vo (2015) titled "Foreign ownership in emerging stock markets." Their study reveals that foreign investors allocate a disproportionately large portion of their funds to a conservative financial management strategy, characterized by low leverage and a high liquidity measured by current ratio. Consequently, the research concludes that there is a significant positive correlation between the liquidity and foreign ownerships.

According to Brennan and Cao's (1997) asymmetric information theory, foreign investors tend to select companies that possess sufficient liquidity to mitigate informational disadvantages. The current ratio serves as an indicator of a company's improved management of current assets, enabling it to meet its obligations effectively. As the company's ability to meet its current liabilities increases, investors are more likely to show interest in allocating their funds to the company's shares.

The relationship between leverage and foreign ownership

This research takes the fourth hypothesis that there is a negative relationship between Leverage and Foreign Ownership. The general model showing a negative relationship with weak significance level, indicating that foreign investors in emerging market tend to avoid in investing in the company that has high debt.

The findings are consistent with several prior studies, including those conducted by Bolak, Diyarbakirlioglu, and Su¨er (2013), Batten & Vinh Vo (2015), and Gong & Kim (2011). These studies reveal a significant negative relationship between companies' leverage and foreign ownership. These results imply that foreign investors have a preference for investing in companies with lower financial risk. The result also aligns with the asymmetric information theory proposed by Brennan and Cao (1997), which suggests that foreign investors tend to hold larger funds in larger firms that demonstrate better accounting performance and maintain lower levels of leverage.

The relationship between dividend yield and foreign ownership

This research takes the fifth hypothesis that there is a positive relationship between Dividend Yield to Foreign Ownership. The general model accepted this hypothesis by showing a strong significant positive result, with its P>|t| value is 0.002 which considered as strong significant due to its probability value is less than 0.01. proving that foreign investors still generally looking for companies that pay high dividend in order to gain more profit from dividend distribution.

The result is supported by the research of Gong and Kim (2011), “The characteristics of foreign portfolio investment”, resulted that dividend yield having a significant and positive relationship with foreign ownership. The research suggesting that foreign investors in emerging market prefer high dividend paying firms, meaning foreign investors prefer value stocks.

By applying an effective Modern Portfolio Theory by Markowitz (1952), it allows investors to assemble an asset portfolio that maximizes expected return for a given level of risk, foreign investors are also have to gain a fixed profit that could be generated by dividend income of value stocks. That issue could be solved by selecting a growing high-dividend yield company.

The relationship between book to market value to foreign ownership

This research takes the sixth hypothesis that there is a positive relationship between Book to Market Value to Foreign Ownership. The general model analysis accepted the sixth hypothesis, indicating a positive relationship with probability value of 0.027 that considered as moderate significance level.

Foreign investors tend to invest in undervalued stocks, there are several researches which has proven this statement. The research by Gong & Kim (2011) and Batten & Vinh Vo (2015) resulted that the relationship of market value that indicated by book to market ratio with foreign ownership is positive and significant. According to Gong and Kim (2011), foreign investors choose value firms with high book to market value ratio, while shunning away from firms with high debt ratio and high ownership ratio of the largest shareholders.

Moreover, Batten and Vinh Vo (2015) confirmed the value investment preference style of foreign investors, foreign investors do not like to invest in firms where stock price are high relative to accounting book value. This fact might relate to the fact that emerging market tend to depart from true value in the early stage of development.

CONCLUSION

The strong and significant positive relationship between company size and foreign ownership suggests that larger firms tend to be more appealing to foreign investors. By investing in big size companies, foreign investors can have access to more reliable and extensive information about the company. These companies typically have greater transparency in their financial reporting, corporate governance practices, and investor relations, making them attractive prospects for international investment. Foreign investors reducing the potential negative impact of information asymmetry.

While the positive relationship between profitability and foreign ownership is not statistically significant, it implies that foreign investors may be influenced by a company's ability to generate profits. This suggests that profitability could be a factor of interest, although less decisive compared to other attributes. Companies that are profitable are generally better positioned to withstand economic downturns and market volatility, reducing the overall investment risk.

The positive relationship between liquidity and foreign ownership, while not statistically significant, implies that companies with higher liquidity might have an advantage in attracting foreign investment. This may be due to the ease with which foreign investors can enter and exit positions in liquid assets.

The weak but significant negative relationship between leverage and foreign ownership suggests that foreign investors might prefer companies with lower levels of debt. In line with the asymmetric information theory by Brennan & Cao (1997), it is shown that foreign investors tend to hold more shares in large firms with better accounting performance and low leverage. This preference could be driven by risk aversion and a desire for stable, financially sound investments.

Foreign investors in emerging markets often choose low leverage companies based on Modern Portfolio Theory (MPT) principles due to risk and return considerations. Modern Portfolio Theory emphasizes diversification as a means to optimize risk-return trade-offs in investment portfolios. When applied to foreign investment decisions in emerging markets, this theory offers insights into why low leverage companies may be preferred. Low leverage companies typically have lower financial risk. In emerging markets, the risk environment can be more volatile and uncertain, with potential exposure to currency fluctuations, political instability, and economic shocks. Foreign investors seeking to manage these risks may prefer companies with lower leverage, as they are perceived to be more resilient in adverse conditions.

The significant positive relationship between dividend yield and foreign ownership underscores the importance of income generation for foreign investors. Foreign investors in emerging markets may choose high dividend-paying companies based on Modern Portfolio Theory (MPT) principles for several reasons that align with risk and return considerations. Companies with attractive dividend yields might be seen as providing a consistent return on investment, appealing to those seeking income. Dividend yield contributes to a stock's total return. For foreign investors, seeking a combination of capital appreciation and income, high dividend companies provide the potential for competitive total returns, aligning with MPT's aim of optimizing overall portfolio performance. Moreover, incorporating high dividend-paying stocks from emerging markets can enhance portfolio diversification. The moderate and significant positive relationship between the book-to-market ratio and foreign ownership indicates that foreign investors prefer to invest in companies with high book value in comparison with market value. This again confirms the value investment preference style of foreign investors in emerging markets. Foreign investors do not like to invest in firms where stock price is high relative to accounting book value. This fact might relate to the fact that as an emerging market, emerging market stock prices tend to depart from true value in the early stage of development. Unlike local investors, foreign investors do not follow the herd to invest in firms where stock price may become overvalued.

Companies with higher book-to-market ratios are more likely to attract foreign investment. This could be linked to perceptions of undervaluation and growth potential. Emerging markets may exhibit higher levels of information asymmetry and inefficiencies compared to developed markets. This can lead to mispricing of stocks, where some high book to market value companies are undervalued due to market participants overlooking their true worth. Moreover, incorporating high book to market value companies can enhance portfolio diversification. Value investing allows foreign investors to hold a mix of assets that may behave differently from growth-focused investments, contributing to a balanced portfolio.

In summary, the findings indicate that foreign investors allocate a disproportionately high share of their funds to large companies, companies with a stable financial management approach (low leverage), companies with a consistent return on investment (high dividend yield), and valued firms (high book-to-market ratio). Meanwhile, the characteristics of high profitability and liquidity could still be factor of interest, although less decisive compared to other attributes.

This study contributes valuable insights into the intricate dynamics that influence foreign ownership decisions. The varying degrees of significance across different company characteristics highlight the multifaceted nature of foreign investment determinants. These findings have implications for companies seeking to attract foreign capital, policymakers crafting investment policies, and investors aiming to diversify their portfolios internationally.

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