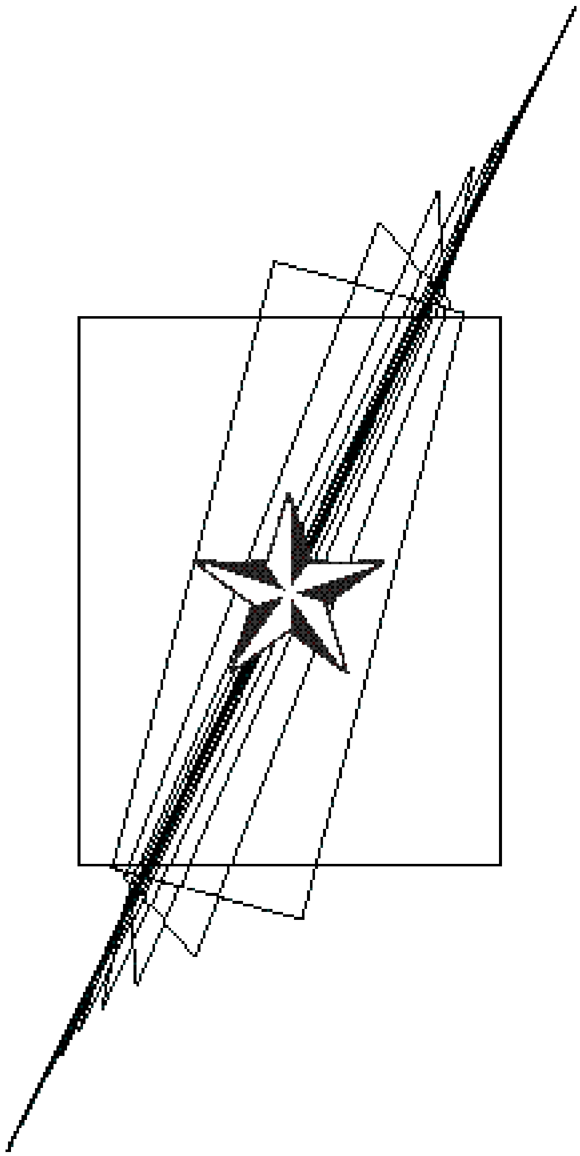

DLSU BUSINESS & ECONOMICS REVIEW

Volume 29 Number 1 • JULY 2019

The ***DLSU Business & Economics Review*** (DLSU B&ER) publishes high-quality theoretical, empirical, and methodological research in the fields of accounting, business management, commercial law, economics, finance, and marketing. The DLSU B&ER aims to reach an audience in these six fields and is published biannually (January and July) by De La Salle University, Manila, Philippines. Unless otherwise noted, the ideas, opinions, and conclusions expressed in the DLSU B&E Review are those of the authors and not necessarily those of the Editorial Board of the journal or the management and staff of De La Salle University. It is listed in SciVerse Scopus since 2011, abstracted and Indexed in EBSCO since 2009, and listed in the ASEAN Citation Index. It is also an awardee of the Journal Challenge Grant of the Philippine Commission of Higher Education (CHED).

Annual Subscription Rates: Foreign libraries and institutions: US$60 (airmail). Individuals: US$50 (airmail). Philippine domestic subscription rates for libraries and institutions: Php1,800, individuals: Php1,300. Please contact Ms. Joanne Castañares for subscription details: telefax: (632) 523-4281, e-mail: joanne.castanares@dlsu.edu.ph

ISSN 0116-7111

Published by De La Salle University Publishing House
2401 Taft Avenue, Manila, 0922 Philippines
Telephone: (63 2) 523-4281 / 524-2611 loc 271
Fax: (63 2) 523-4281
Email: dlsupublishinghouse@dlsu.edu.ph
Website: http://www.dlsu.edu.ph/offices/publishing-house/default.asp

The De La Salle University Publishing House is the publications office
of De La Salle University, Manila, Philippines.

DLSU BUSINESS & ECONOMICS REVIEW

Table of Contents

From the Editor

Marites M. Tiongco vii
Associate Editor

Research Articles

Federalism and Inclusion in Developing Economies 1
Raul V. Fabella and Sarah Lynne S. Daway-Ducanes

Nowcasting Philippine Economic Growth Using MIDAS Regression 14
Cesar C. Rufino

Markov Switching Model of Philippine Stock Market Volatility 24
Ray Anthony L. Almonares

Relationship between Behavioral Biases and Investment Decisions: The Mediating Role of Risk Tolerance 31
Saloni Raheja and Babli Dhiman

Cash Holdings of Business Group-Affiliated Firms in Indonesia 40
Kim Sung Suk, Melinda Haryanto, John Tampil Purba

Ethical Orientation Versus Short-Term Ethics Training: Effects on Ethical Behavior in the Prisoner's Dilemma Game and Dictator Game Experiments 58
Yingyot Chiaravutthi

Anthropomorphic Green Advertising: How to Enhance Consumers' Environmental Concern 72
Dwinita Laksmidewi and Yasintha Soelasih

A Theoretical Framework for the Mediating Effect of Audit Quality on the Relationship between Audit Committee Attributes and Financial Reporting Quality 85
Hussaini Bala, Noor Afza Amran and Hasnah Shaari

Revaluation of Non-Current Assets under IAS-16: Possibility of any Managerial Inducement - Evidence from a South Asian Economy 93
Abdul Rafay, Farah Yasser and Zunera Khalid

Team Performance in Hierarchical versus Self-Managed Work Teams in Selected Electronics Manufacturing Company in Cebu 106
Marlon O. Poe, Liezl L. Zamora, and Khael T. Quinain

The Use of Balanced Scorecard by Manufacturing Firms: Dimensions, Benefits and Challenges 115
Babajide Michael Oyewo, Godwin Emmanuel Oyedokun and Akunna Ebere Azuh

Influence of Ownership Structure and Board Composition on Segment Disclosure in Thai Context 131
Muttanachai Suttipun and Lattawan Pratoomsri

Comparative Flood-Risk Assessment of Different Freight Transport Development Programs 146
Krister Ian Daniel Roquel, Alexis Fillone and Krista Danielle Yu

Does being old mean being poor? Evidence from Thailand 165
Isabel Pereira Rodrigues and Kittipong Rueanthip

The Contributors 179

Guidelines to Contributors 185

From the Editor

In this editor's note, we summarize and comment on the papers to raise the bar in public finance with emphasis on federalism and its effect on poverty reduction and income inequality, and behavioral finance and investment decisions. There are 14 scholarly outputs in this volume with different kinds of empirical and analytical approaches, and contributed by researchers and scholars from South and Southeast Asia and West Africa. We present papers related to accounting and financial reporting, and use of experimental data to test models of ethical and consumer behavior. We also highlight methods in risk management and asset pricing when stock markets are highly volatile, economic forecasting to predict macro-economic indicators and in transportation planning and policy.

The first paper, by **Academician and Professor Emeritus Raul V. Fabella and Sarah Lynne S. Daway-Ducanes**, on **"Federalism and Inclusion in Developing Economies"**, covered 30 years of five-year averages from 1987 to 2016. They presented an empirical strategy to evaluate the effects of federalism on income inequality and poverty incidence in developing countries like the Philippines. Their analysis relied on a two-stem system-GMM using an unbalanced panel data of 105 economies. Results showed that federalism did not predict reduced poverty incidence and severity on average; it did not reduce poverty incidence and may increase poverty severity in developing economies. For the Philippines, the effect of federalism on poverty incidence and income inequality could become worse, hence this study did not support the claim that shifting to federalism would reduce both income inequality and poverty.

The second paper on **"Nowcasting Philippine Economic Growth Using MIDAS Regression"** by **Cesar C. Rufino** demonstrated the viability of using MIDAS (<u>Mi</u>xed <u>Da</u>ta <u>S</u>ampling) Regression to solve the mixed frequency problem in implementing the "nowcasting" of the country's economic growth. Different variants of the MIDAS model were estimated and compared against each other and the traditional model to predict the present, the very near future and the very recent past economic growth. Results showed the relative superiority of the MIDAS framework in accurately predicting growth trajectory of the economy using information from high frequency (monthly, weekly, daily) macroeconomic indicators.

The third paper by **Ray Anthony L. Almonares** on **"Markov Switching Model of Philippine Stock Market Volatility"** estimated the regime-switching behavior of the equity market using stock exchange monthly data from 2000 to 2017. It identified the events when the Philippine stock market switched to a high-volatility state to understand the market movements for asset pricing and risk management. Results showed that the Philippine stock returns were volatile to domestic political issues that changed or challenged the country's leadership. Similarly, economic events such as the Asian Financial Crisis, the country's rapid currency depreciation, and the Global Financial Crisis also prompted the local bourse to switch to a high-volatility state.

The fourth paper titled "**Relationship between Behavioral Biases and Investment Decisions: The Mediating Role of Risk Tolerance**" by **Saloni Raheja and Babli Dhiman** argued that investment decisions depend on the risk and return of different investment avenues. The authors assessed the relation between the behavioral biases and risk tolerance of the investors and the relation between behavioral biases and the investment decisions of 500 investors. They found out that investment decisions are significantly influenced by risk tolerance and behavioral biases such as overconfidence bias and regret bias. Hence, changes in behavioral biases will affect risk tolerance of the investors, and thus affect their investment decisions.

In the fifth paper by **Kim Sung Suk, Melinda Haryanto, and John Tampil Purba** titled **“Cash Holdings of Business Group-Affiliated Firms in Indonesia”**, the behavior of business group-affiliated firms in Indonesia from 2004 to 2013 on cash holdings was analyzed. The authors found out that business group-affiliated firms hold more cash than that of stand-alone firms. The determinants of cash holdings, which have positive influence, were size of business group, cash holdings of other firms in the same business group, age of the business group, and the degree of diversification of business group. However, the correlation of growth opportunities among the same group-affiliated firms has limited effects on the cash holdings of the firm.

The next paper described a pedagogy of teaching ethical behavior based on game theoretic approach. **Yingyot Chiaravutthi** examined the effects of an individual’s ethical orientations, and the effectiveness of short-term ethics training, on prosocial behavior in the prisoner’s dilemma and the dictator economic games. His paper titled **“Ethical Orientation versus Short-Term Ethics Training: Effects on Ethical Behavior in the Prisoner’s Dilemma Game and Dictator Game Experiments”** showed the benefits of teaching business ethics through economic games. The game experiments resulted in prosocial behavior, which contradicts expected economic predictions based on the assumptions of rationality and self-interest. Although an individual’s ethical orientations are not a reliable determinant of ethical behavior, a short-term training module on ethics can be effective in helping to trigger a prosocial outcome.

Using experiments to understand the effect of anthropomorphic green advertisement on individual attitude toward nature was tackled in the paper titled **“Anthropomorphic Green Advertising: How to Enhance Consumers’ Environmental Concern”** by **Dwinita Laksmidewi and Yasintha Soelasih**. Anthropomorphic green ad in the form of text or images designed using human appearance and characteristics generate more positive response than the advertisements with no human element. Results of the study showed that anthropomorphism is able to create more positive attitudes toward brands and toward green cause-related marketing, and also on green behavior of consumers.

To continue the discourse on the relationships among audit committee effectiveness, audit quality, and financial reporting quality, a theoretical framework was presented in the fourth paper by **Hussaini Bala, Noor Afza Amran, and Hasnah Shaari** in their paper titled “**A Theoretical Framework for the Mediating Effect of Audit Quality on the Relationship between Audit Committee Attributes and Financial Reporting Quality”**. The findings of the study provided mixed results in terms of effective audit committee characteristics and audit quality. The study revealed that there was little evidence regarding the influence of legal experts and AC public accounting expertise in ACs. Further studies should explore the effects of internal audits and whistle-blowing policy on firms’ ACs and FRQ.

Abdul Rafay, Farah Yasser and Zunera Khalid, in their paper titled **“Revaluation of Non-Current Assets under IAS-16: Possibility of any Managerial Inducement - Evidence from a South Asian Economy”**, studied the essential management incentives that arose due to revaluation of Non-Current Assets of firms listed on Pakistan Stock Exchange between 2008 and 2017. The authors concluded that firms with larger size, more intensity ratio and less declaration of stock dividend have more chances of doing a continual revaluation of Non-Current Assets under IAS-16. They suggested that accounting regularity bodies must define some pre-conditions for revaluation policy to stop the usage of creative and abusive reporting. Policy makers should encourage researchers to investigate the impact of revaluation policy on financial performance of the companies.

An emerging paradigm shift from hierarchical work teams to self-managed work teams or SMWTs. In the paper titled **“Team Performance in Hierarchical versus Self-Managed Work Teams in Selected Electronics Manufacturing Company in Cebu”**, the team of **Marlon O. Poe, Liezl L. Zamora, and Khael T. Quinain** investigated the team-based performance of newly implemented self-managed work teams versus the existing hierarchical work teams that performed the same type of work in an electronics manufacturing company in Cebu, Philippines. The findings revealed that team performance is significantly greater among process engineers in SMWTs than those in hierarchical work teams. Nonetheless, causal inferences cannot be drawn due to the cross-sectional nature of the study design. Refinement of the study should examine the approaches of team decision-making (e.g., rational, political, administrative, etc.), and should also consider the effectiveness of SMWTs in a service-oriented organization to elucidate the benefits entailed in the organizational transition from hierarchical work teams to SMWTs in enhancing team performance.

The next paper related to governance regulations using multi-perspective performance indicators is on **"The Use of Balanced Scorecards by Manufacturing Firms: Dimensions, Benefits and Challenges"** by **Babajide Michael Oyewo, Godwin Emmanuel Oyedokun, and Akunna Ebere Azuh**. Results from the analysis suggested that although manufacturing firms regarded the BSC perspectives as important, the utilization rate of BSC was found to be low. It was found that organizational factors such as organizational lifecycle, size, market orientation, affiliation to foreign entity, availability of specialist skills, and business strategy explained the difference in the usage level of BSC observed among the manufacturing companies. These findings validated the contingency theory and studies on contextual factors affecting the use of management accounting innovations. Furthermore, contingent factors such as affiliation to foreign entity, availability of specialist skills, and business strategy predicted the intense application of BSC. is The strongest predictor of the intense use of BSC was the availability of specialist skills, thus the practice of entangling the functions of management accounting with the general accounting/finance should be discouraged.

The next paper on **"Influence of Ownership Structure and Board Composition on Segment Disclosure in Thai Context"** is a novel research work by **Muttanachai Suttipun and Lattawan Pratoomsri**. The authors investigated the influence of ownership structure and board composition on segment influence disclosure of listed companies in the Stock Exchange of Thailand (SET) during 2012–2013. The regression results showed that foreign ownership, government ownership, size of committee and committee's accounting background were associated with the segment information disclosure index. It was also found that firm size and auditor type mattered in segment disclosure.

The paper titled **"Comparative Flood-Risk Assessment of Different Freight Transport Development Programs"** used the dynamic inoperability input output model (DIIM) to assess the overall economic losses resulting from a disruption in the road freight sector (e.g., flooding). The authors, **Krister Ian Daniel Roquel, Alexis Fillone, and Krista Danielle Yu**, incorporated the resilience performance of various freight transport programs against flood risk, and presented how resilience can be quantified, disaggregated, and used to assess long-term potential benefits as well as identify short-term, immediate, and critical needs in the road freight transport operations.

The paper by **Isabel Pereira Rodrigues and Kittipong Rueanthip**, titled **"Does being old mean being poor?: Evidence from Thailand"**, contributed to the policy debate on poverty and aging population. The authors examined the relationship between poverty and being old. They used a nationally representative household data to explain the role of different age cohorts on the probability of being poor. The results showed that old age is not among the significant determinants of poverty, but other socioeconomic characteristics such as education, economic and work opportunities, family relations, and community services and facilities.

In closing, I would like to express my sincerest gratitude to all the contributors of this issue for raising the level of academic discourse in the field of public finance, models in behavioral finance, investment decisions under risk and uncertainty, and economic forecasting in our journal. I am grateful as well to our growing pool of reviewers for their service and dedication in critically evaluating papers worthy of being published.

Marites M. Tiongco
Associate Editor