Financial Hegemony, Diversification Strategies and the Firm Value of Top 30 FTSE Companies in Malaysia

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Abstract

This study investigates the relationships between financial hegemony groups, global diversification strategies and firm value of the Malaysia's 30 largest companies listed in FTSE Bursa Malaysia Index Series during 2009 to 2012 period. We chose Malaysia as an ideal setting because the findings contribute to the phenomenon of the diversification–performance relationship in the Southeast Asian countries. We apply hegemony stability theory to explain the importance of financial hegemony groups in deciding international locations for operations. By using panel data analysis, we find that financial hegemony groups are significantly important in international location decisions. Results reveal that the stability of financial hegemony in BRICS and G7 groups enhances the financial value of the Malaysia's 30 largest companies, whereas the stability of financial hegemony in ASEAN groups is able to enhance the non-financial value of the firms. Overall, this paper suggests that in order to diversify globally, it is necessarily for the manager in the guest country to evaluate and fully understand the host country's geopolitical situation and its financial stability.

Keywords: emerging markets, geopolitics, multinational firm, panel data

1. Introduction

Geographic diversification in the context of maximizing firm value is widely discussed among academic researchers and business managers. The ability to spread business risks and activities over a number of segments strongly suggests the value of market scope expansion across national boundaries; thus, multinational enterprises (MNEs) are vital drivers of the global economic development (Deligonul, 2009; Qian, Li, Li, & Qian, 2008). Moreover, the low production cost in some countries and the huge market potential in other countries continue to attract MNEs to diversify globally (Jory & Ngo, 2012). However, several studies cast doubt on the diversification discount, which asserts that diversification strategies are value destructive (Berger & Ofek, 1995; Hoechle, Schmid, Walter, & Yermack, 2012; Kim & Mathur, 2008). On the other hand, recent literature concludes that corporate diversification alone does not drive the discount or premium, and obviously the effect is heterogeneous across certain industry settings, economic conditions, and governance structures (Erdorf, Hartmann-Wendels, Heinrichs, & Matz, 2013).

Numerous studies examine the effects of the diversification–performance relationship, yet most of the literature focuses largely on the strategies and structures related to governance structure, diversification style, and organizational centralization as determinants to the value enhanced/destroyed. Literature related to global impact, such as geopolitical effects on the firm value of a globally diversified firm is relatively scarce and need further discussion. As stated by Jory and Ngo (2012), to understand the global scope and geographical locations, concerns with a global impact are vital in literature. Furthermore, in the 21st century, legal changes, resources, and social cultures also increase global competitiveness and conflicts among business and political actors, which could offer a different snapshot of the geographical diversification–performance relationship. Thus, this paper aims to fill the lacuna in the literature by extending geopolitical concept to the analysis of financial hegemony as a key factor for monetary geopolitical changes and the value of the globally diversified firm.

Generally, we attempt to examine the characteristics of financial hegemony groups as important determinants to the value of globally diversified firms. We use hegemony stability theory as our underlying hypothesis. The data

are based on the Malaysia's 30 largest companies listed in FTSE Bursa Malaysia (Note 1) Top 100 Index that were globally diversified from 2009 to 2012. More specifically, we seek to determine the importance of financial hegemony groups in international location decisions, ascertain which hegemony groups have relatively more impact on the value of globally diversified firms, and examine the influence (positive/negative) of financial hegemony groups to firm value.

To achieve our objectives, we choose Malaysia as an ideal setting because Malaysia offers unique market activities, which are relationship-based as opposed to rule-based in developed countries. This uniqueness may contribute to new methodologies and interesting results to business and financial literature. In addition, conclusion drawn from this Malaysian study may help explain the phenomena of the diversification-performance relationship in emerging market countries. The rest of this paper is structured as follows: Section 2 presents a review of literature and the hypotheses. Section 3 elaborates on the research method. Section 4 presents a discussion of the results and finally, Section 5 concludes this paper.

2. Monetary Geopolitics & Diversification Strategies of Multinational Companies: A Theoretical Overview

Monetary geopolitics is the term most used by scholars to explain the currency battleground in the world economy (Cohen, 2003). More precisely, it focuses on the way an international market strengthens its financial hegemony to improve its economic and political situation and to place the country as a leader at a global level. Based on the hierarchy of monetary geopolitics, the U.S. dollar retains its top ranking in the currency pyramid (Salehi et al., 2014). As a global primary reserve currency, the United States enjoys considerable economic and political advantages. These benefits include the ability to generate non-interest-bearing liability, increase the flexibility of macroeconomic policy, enjoy market dominance, and gain geopolitical power (Cohen, 2003). In the 21st century, however, the domination of the U.S. dollar is being challenged by countries such as Japan and China, as well as by those in Europe and the Middle East. The rise of the oil crisis in 1973, the defects of the Bretton Woods System, the waves of privatization and diversification strategies, the rise of free-market capitalists, and the stability of geopolitical situation, among others, are the fundamental factors that led to severe currency competition in the global marketplace (Salehi et al., 2014).

As the main currency leader, the US realises the dangers of fragmentation, and thus cultivates ties with its major competitors to sustain its place. In ensuring mutually beneficial outcomes, arrays of multilateral organizations and forums from the IMF to the Group of Seven (G7) have been developed to institutionalise cooperative practices (Cohen, 2008). The cooperation of Canada, France, German, Italy, Japan, Europe, and the United States as the G7 group has demonstrated the ability to control the costs of unbridled competition. Based on hegemony stability theory, hegemony cooperation decreases transaction costs, reduces uncertainty, and builds consistent expectations for economic interactions. To achieve common interests with allies, the cooperation countries will adjust their own bargaining positions and invest some of their power resources in the building of institutions. These institutions, in turn, contribute to the smooth functioning of the international monetary system (Eichengreen, 1989). At the same time, they provide benefits to foreign companies who invest in the hegemony cooperation group countries.

Hegemony cooperation, however, is not easy to sustain because of the conflict of interest in monetary autonomy. Moreover, greater involvements of institutional group players in the global marketplace challenge the effectiveness of joint leadership in the G7. The emerging market powers of BRICS (Brazil, Russia, India, China, and South Africa) and ASEAN (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Myanmar, Philippines, Singapore, Thailand, Vietnam, and Malaysia), for example, challenge the dollar hegemony through the dynamic capabilities of its traditional hegemony, such as energy resources, low-wage labor, and military power. Thus, in the contacts of world economic systems, although the upper class of the G7 (the advanced capitalist countries) is the predominant economic supremacy, the shift of "soft powers" (from western to eastern countries) in a core-semi-periphery-periphery structure, such as the establishment of BRICS and ASEAN cooperation, may lead to possible rivals in the broader monetary system. Therefore, the international competition among great powers may directly or indirectly affect the global monetary system and foreign market competition, including MNE performance (Cohen, 2008).

Geopolitical changes such as changes in political and monetary policies may affect the activities of foreign companies and diminish the investment process. The stability or instability of the host country's political condition is of greatest importance to international companies (Niculescu, Niculescu, & Filip, 2010). Accordingly, for a realistic substantiation of geographical diversification, the company must analyse the host country's geopolitical condition, especially the stability of financial market development (such as institutional environment, business environment, financial stability, banks, capital markets, and overall capital availability

and access) as a key factor to monetary geopolitical change (World Economic Forum, 2012). If a conflict occurs between hegemony cooperation, companies are advised to look at other foreign markets where adequate or even preferential treatment will be given to them. As stated by Goldfajn and Rigobon (2000), financial development and hard currencies (Note 2) are highly correlated in explaining macroeconomic stability. Ye (2012) also proved that the instability of financial market development may affect the reserve status of a currency. A country needs to have a broad range of deep and liquid financial markets to provide "safe" assets that can be held by other countries' central banks. Thus, to create maximum firm value, MNEs should consider the impact of financial market development in the context of monetary geopolitics when analyzing geographical diversification strategies.

2.1 Hypothesis Development

Literature on the value of diversified firms is extended through a focus on the locations of foreign segments. Given the increasing globalization of Malaysian MNEs and the influence of geopolitical challenges in the global marketplace, it is vital that we assess the valuation effects of foreign locations. Each geographic region represents a unique set of financial hegemony characteristics that are important in the location choices of companies for their foreign segments. First, we analyse financial hegemonic characteristics to answer how monetary geopolitics affects the value of a globally diversified firm. Second, we study the relationship between hegemony groups and the firm value of a globally diversified firm to identify which groups are more important to the value of a globally diversified firm. Finally, we identify how monetary geopolitics can influence value enhancement.

2.2 Financial Hegemonic Characteristics

To address the issues of monetary geopolitics, we use the global acceptance index, namely, the Financial Development Index, prepared by the World Economic Forum as a proxy for financial hegemonic characteristics. The Financial Development Index measures the effectiveness of the global financial system based on the index of seven pillars, which are institutional environment, business environment, financial stability, banking financial services, non-banking financial services, financial markets, and financial access. The Index is used because it takes a holistic view in accessing the factors that contribute to the long-term development of a financial system. It also provides a score and rank for 60 of the world's leading financial systems and capital markets, in which the foreign segments of Malaysian globally diversified firm are located. However, to justify the geopolitics challenge, the countries are divided based on the three biggest hegemony groups that we describe in the next section. We then develop a construct based on hegemony stability theory.

To produce precise results, we justify firm value based on two research perspectives. First, we use Tobin's Q to measure the financial value of the firm, and second, we use Value Added Intellectual Coefficient (VAIC) to measure the non-financial value of the firm. Based on hegemony stability theory, a positive relationship is expected between financial hegemonic characteristics, in which the foreign segment is located, and the value of a globally diversified firm. To this end, we propose the two following hypotheses:

H_1. A positive relationship exists between financial hegemonic characteristics in which the foreign segment is located and the financial value of a globally diversified firm.

The stability of power relations among multilateral institutions such as G7, BRICS and ASIAN groups provide a foundation for the financial hegemony that characterizes as 'liberal hegemony' in finance and trade. In other words, the hegemonic power of multilateral institution has contributed to the smooth functioning of the international monetary system (Eichengreen, 1989) and acting as financial system leader that provides at least five key collective goods: maintaining a relatively open market for distress goods, providing a stable and countercyclical long-term lending, ensuring the coordination of macroeconomic policies, policing a relatively stable system of exchange rates and providing liquidity in financial crisis (Betz, 2014). Upon those advantages provided for the group members, the collective action within the institutional members will lead to higher investment opportunities to the company that operates in these countries and finally enhance the firm's financial value.

H_2. A positive relationship exists between financial hegemonic characteristics in which the foreign segment is located and the non-financial value of a globally diversified firm.

The soft power relation within institutional members, such as creating financial innovation, investment security and a conducive business environment; can add to the rising structural power of internationally mobile capital (Gill & Law, 1989; Salehi et al., 2014). At the same time, it creates labor and technology incentive, which in turn, enhance the non-financial value of globally diversified firm.

3. Sample and Methodology Considerations

Our research sample consists of Malaysia's 30 largest companies listed in FTSE Bursa Malaysia Top 100 Index that diversified globally and was active from 2009 to 2012. We chose this sample for several reasons. First, it is the headline index of the FTSE Bursa Malaysia Index Series by market capitalization, which is designed as a performance benchmark to the Bursa Malaysia main market series. Second, although within analyst expectation based on the earnings of the Malaysia's 30 largest companies, the financial results show a consistent decline in year-on-year (yoy) growth rates over the last three years, a decline that causes jitters among investors. Moreover, according to Immanuel (2014), global crises, such as the Argentinian debt crisis, Portugal's banking woes, Italy slipping into a recession and other global political uncertainties are all weighted heavily on socks. Thus, analysing the geopolitical challenge such as financial hegemony on the value of local globally diversified corporate giants is important to provide a better understanding to investors and corporate leaders in making good decisions regarding their geographical diversification strategies.

Besides that, the selected period corresponds to a drastic change in the Malaysian political map after the 12th General Elections in 2008. Companies from financial services industries are excluded because these industries are subject to different regulations comparable to those in other industries. We also excluded newly listed company at Bursa Malaysia, due to incomplete annual report data from 2009 to 2012. Thus, these procedures generate 17 companies with total pooled observations of 68 company years over a period of four years with complete data. Table 1 illustrates the sample distribution by industry and company name.

Table 1. Malaysia's 30 largest companies from 2009 to 2012

No	Stock Code	Company Name	Industry
1	1015	AMMB HOLDINGS BHD	Finance
2	6399	ASTRO MALAYSIA HOLDINGS BERHAD*	Trading and Services
3	6888	AXIATA GROUP BERHAD	Trading and Services
4	4162	BRITISH AMERICAN TOBACCO (M)	Consumer Product
5	1023	CIMB GROUP HOLDINGS BERHAD	Finance
6	6947	DIGI.COM BHD	IPC
7	3182	GENTING BHD	Trading and Services
8	4715	GENTING MALAYSIA BERHAD	Trading and Services
9	5819	HONG LEONG BANK BHD	Finance
10	1082	HONG LEONG FINANCIAL GROUP BHD	Finance
11	5225	IHH HEALTHCARE BERHAD*	Trading and Services
12	1961	IOI CORPORATION BHD	Plantation
13	5235SS	KLCC PROP&REITS-STAPLED SEC*	REITS
14	2445	KUALA LUMPUR KEPONG BHD	Plantation
15	1155	MALAYAN BANKING BHD	Finance
16	6012	MAXIS BERHAD	Trading and Services
17	3816	MISC BHD	Trading and Services
18	5183	PETRONAS CHEMICALS GROUP BHD*	Industrial Product
19	5681	PETRONAS DAGANGAN BHD	Trading and Services
20	6033	PETRONAS GAS BHD	Industrial Product
21	4065	PPB GROUP BHD	Consumer Product
22	1295	PUBLIC BANK BHD	Finance
23	1066	RHB CAPITAL BHD	Finance
24	5218	SAPURAKENCANA PETROLEUM BHD*	Trading and Services
25	4197	SIME DARBY BHD	Trading and Services
26	4863	TELEKOM MALAYSIA BHD	Trading and Services
27	5347	TENAGA NASIONAL BHD	Trading and Services
28	4588	UMW HOLDINGS BHD	Consumer Product
29	5246	WESTPORTS HOLDINGS BERHAD*	Trading and Services
30	4677	YTL CORPORATION BHD	Trading and Services

Note: * Newly listed in Bursa Malaysia. Note: The constituents list was last updated on 22 June 2015.
Source: FTSE Bursa Malaysia KLCI Index

3.1 Measures of Financial Hegemony

To measure financial hegemony groups, first, we use the country score from the Financial Development Index as a proxy for financial hegemonic characteristics. To provide general results, we examine all three difference sub-indices and the total country ranking index, which are characterized as follows:

i. POLICIES AND INSTITUTIONAL STABILITY – consists of institutional environment, business environment, and financial stability.

ii. FINANCIAL INTERMEDIATION – consists of banking financial services, non-banking financial services, and financial markets

iii. FINANCIAL ACCESS – refers to easy access to finance

iv. OVERALL SCORE

In line with Armijo et al. (2014), Drezner (2010), and Kearney (2012), we then group the country scores of the Financial Development Index based on the three biggest hegemony groups, namely, G7, BRICS, and ASEAN. To measure the financial hegemony groups, we calculate the average score of the Financial Development sub-indices and the total country ranking index based on the weighted average of the country score for each hegemony corporation.

3.2 Measures of Geographical Diversification Strategies

To analyze the impact of financial hegemony on firm segmentation location, this study classifies firm segmentation location based on the three biggest hegemony groups, which are G7, BRICS, and ASEAN. For each group, a dummy variable of 1 is used if the firm locates their segment in that country, and 0 otherwise. This segmentation classification will be matched with the country score of each hegemony corporation previously calculated.

3.3 Measures of Dependence Variables

This study uses two proxies for financial and non-financial values of the firm. The first proxy, Tobin's Q, is used to measure the financial value of the firm. The second proxy, VAIC, is used to measure the non-financial value of the firm.

Following Chung and Pruitt (1994), Tobin's Q is calculated as follows:

$$\text{Tobin's Q} = \frac{\text{MVE} + \text{PS} + \text{DEBT}}{\text{TA}} \qquad (1)$$

Where;

MVE   = the market value of equity computed as price per share multiplied by the number of common shares outstanding;

PS   = the liquidating value of preferred stock;

DEBT   = the value of short-term liabilities net of short-term assets plus the book value of long-term debt; and

TA   = the book value of total assets.

To control firm characteristics, we follow several variables widely used by earlier studies (e.g., Berger and Ofek, 1995; Brick and Chidambaran, 2010, Abidin, Kamal, & Jusoff, 2009, etc.). The control variables are as follows:

   Firm size   = logarithm of total assets

   Profitability   = EBIT/total assets

   Leverage   = total debt/total assets

For VAIC, the second proxy, we use the methodology developed by an Austrian, Pulic (1998). Formally, VAIC is a composite sum of three indicators formally termed as follows:

   i.   Capital Employed Efficiency (CEE) = Value Added Efficiency of Capital Employed

   ii. Human Capital Efficiency (HCE) = Value Added Efficiency of Human Capital

   iii. Structural Capital Efficiency (SCE) = Value Added Efficiency of Structural Capital

The composite sum is represented by Formula 2:

$$\text{VAIC} = \text{CEE} + \text{HCE} + \text{SCE} \qquad (2)$$

Where,

VAIC	= Value added intellectual coefficient;
CEE	= Capital employed efficiency coefficient;
HCE	= Human capital efficiency coefficient; and
SCE	= Structural capital efficiency coefficient.

Note that even though VAIC stands for value added intellectual coefficient, it actually represents the value-added efficiency of the firm's total resources, not just the intellectual resources. In this study we use it as an alternate measure of firm value.

To produce precise results, various control variables are included to control the relationship between financial hegemony and VAIC. The variables are as follows:

Firm size	= logarithm of total assets
profitability	= EBIT/total assets
Leverage	= total debt/total assets
dividend yield	= cash dividends paid/total shareholder equity
R&D sensitivity	= dummy variables with the firm determined to be R&D intensive coded as one (1); otherwise coded as zero (0)

4. Empirical Results

4.1 Summary of Descriptive Statistics: Financial Hegemony and Firm Value

Table 2 provides summary statistics for the sample firms of the Malaysia's 30 largest companies which diversified globally from 2009 to 2012. This summary illustrates the breakdown of financial hegemonic characteristics in which the foreign segment is located and the value of the firm. As expected, the table shows that the Policies and Institutional Stability in G7 are slightly higher than in BRICS (0.5913 vs. 0.5218) and considerably higher than in ASEAN (0.5913 vs. 0.1679). Similarly, the average mean scores of Financial Intermediation, Financial Access, and Overall Score present the same trend as that of Policies and Institutional Stability, where G7 shows the highest mean scores of 0.6505, 0.6406, and 0.6407, respectively, followed by BRICS with 0.5647, 0.5284, and 0.5388, respectively. ASEAN shows the lowest scores with 0.1713, 0.1609, and 0.1681, respectively. Taken together, these results suggest that companies who diversified their segment in G7 enjoy the highest mean score of financial hegemony compared to companies who diversified their segment in the BRICS and ASEAN groups.

In terms of firm value results, non-financial value provides the higher mean score of 7.1863 for VAIC compared to financial value (Tobin's Q) with the mean score of 0.5403. This result raises questions about which financial hegemony groups provide more impact on the value of a globally diversified firm and what its influences (positive/negative) are on firm value. These concerns are discussed in the next analysis.

Table 2. Summary statistics for sample firms of the Malaysia's 30 largest companies which diversified globally during 2009 to 2012 period

Independence Variable		Mean	Dependence Variable	Mean
POLICIES AND INSTITUTIONAL STABILITY	G7	0.5913	Tobins Q	0.5403
(Institutional environment, Business environment, and Financial	BRICS	0.5218	VAIC	7.1863
stability)	ASEAN	0.1679		
FINANCIAL INTERMEDIATION	G7	0.6505		
(Banking financial services, Non-banking financial services, and	BRICS	0.5647		
Financial markets)	ASEN	0.1713	Control Variables	Mean
FINANCIAL ACCESS	G7	0.6406	TOA	10.2416
	BRICS	0.5284	ROA	0.1462
	ASEN	0.1609	Dividend Yield	0.2937
OVERALL	G7	0.6407	R&D Sensitivity	0.7059
	BRICS	0.5388	Leverage	1.6164
	ASEN	0.1681		

4.2 Financial Hegemony Groups and Financial Value of the Firm

In this section, we examine the influence of financial hegemony characteristics on firm value and use Tobin's Q as our dependent variables. To capture the effects of heteroskedasticity, we estimate the data using a fixed-effects regression model. The Hausman test is used to verify the presence of correlations between the unobservable heterogeneity and the explanatory variables. The test compares the coefficients of the estimates for fixed effects and the estimates for random effects.

To achieve our objectives, we use four models to analyse the impact of the four financial hegemony characteristics on the financial value of the firm. The equation model is as follows:

$$Q_{(i,t)} = \beta_0 + \beta_{1\text{-}3} V_{it} + \sum_{}^{n} CONTROL^{jit} + \Psi_t + n_i + \varepsilon_{it},$$ (3)

Where; Q refers to the financial value of the firm. V alternatively considers the variables of policies and institutional stabilities (PG7, PBRICS, and PASEAN), financial intermediation (FIG7, FIBRICS, and FIASEAN), financial access (FAG7, FABRICS, and FAASEAN), and overall score (OG7, OBRICS, and OASEAN). CONTROL refers to the control variables. Ψ_t, n_i, and ε_{it} are the time effects, unobserved heterogeneity, and error term, respectively.

The within-group panel data estimation results are presented in Table 3. Model 1 shows a positive influence of Policies and Institutional Stability in G7 and BRICS on Q. This result is significant at the 1% level. In contrast, a significant and negative correlation is observed at p=0.5 between PASEAN and Q. Thus, H1 is accepted for the PG7 and PBRICS groups and rejected for the PASEAN group. With regard to financial intermediation (model 2) and financial access (model 3), the same results are obtained. However, FIG7 is significant at the 5% level. The most surprising aspect of the data is in the overall financial hegemony relationship on the financial value of the firm (model 4). Although both OG7 and OBRICS have positive coefficient values, OG7 is not statistically significant. Meanwhile, OASEAN still presents a negative and significant result at the 5% level. Thus, H1 is rejected for OG7 and OASEAN.

Table 3. Fixed effect analyses of financial value and financial hegemony groups

	Model 1			Model 2			Model 3			Model 4		
		(t-statistics)			*(t-statistics)*			*(t-statistics)*			*(t-statistics)*	
Intercept	1.44	*3.24*	***	1.713	*3.82*	***	1.564	*3.58*	***	1.115	*2.8*	***
PG7	0.08	*2.96*	***									
PBRICS	0.093	*3.37*	***									
PASEAN	-0.377	*-2.64*	**									
FIG7				0.052	*2.51*	**						
FIBRICS				0.073	*2.93*	***						
FIASEAN				-0.285	*-2.17*	**						
FAG7							0.061	*2.68*	***			
FABRICS							0.08	*3.06*	***			
FAASEAN							-0.293	*-2.25*	**			
OG7										0.013	*0.78*	
OBRICS										0.056	*2.74*	***
OASEAN										-0.199	*-1.92*	*
TOA	-0.142	*-3.34*	***	-0.164	*-3.78*	***	-0.152	*-3.63*	***	-0.102	*-2.66*	***
ROA	-0.016	*-0.08*		-0.16	*-0.88*		-0.104	*-0.56*		-0.3	*-2.44*	**
LOA	1.154	*19.82*	***	1.116	*20.16*	***	1.141	*19.82*	***	1.113	*21.52*	***
R-sq:		0.85			0.848			0.849			0.843	
F statistics		0			0			0			0	
Hausman test		13.51	**		11.95	*		12.71	**		13.6	***

Number of observations = 68

Number of groups (Total no. of firms) = 17

Taken together, the results support the idea that financial hegemony groups contribute to the smooth functioning of the international monetary system and offer benefits to foreign companies because they can help companies

decrease transaction costs, reduce uncertainty, and build consistent expectations for economic interactions (Eichengreen, 1989). These results also suggest that BRICS countries are the most important determinant in location choices for the 30 FTSE companies in Malaysia because the positive change in the financial hegemony of BRICS highly enhances the financial value of the firm. These choices are followed by ASEAN and G7 countries. However, the financial hegemony of ASEAN is influenced negatively by the financial value of the firm.

The evidence is consistent with that of Radulescu, Panait, & Voica (2014), who state that BRICS has a much better economic performance compared with that of developed countries. Financial crisis is not a vital problem to BRICS because the economic expansion of the group is influenced by input factors and enormous scales of population and resources. The finding is thus contrary to Immanuel's (2014) argument that the Italy recession weighted down 30's FTSE stock market performance. With regard to the negative influence of ASEAN financial hegemony to the financial value of the firm, the possible reasons is that most ASEAN countries are categorised as periphery countries, and the policies and preferences in maintaining ASEAN as an important economic zone are somewhat ruled by dominant major powers. As stated by Saravanamuttu (2012), Malaysia is certainly committed to the three pillars of regional community building, namely, a political-security community, an economic community, and a sociocultural community, but most of these goals remain amorphous and will most certainly not be achieved in the short or medium term. This is the main reason ASEAN remains the bedrock for regional relationships with outside actors and powers.

4.3 Financial Hegemony Characteristics and Non-Financial Value of the Firm

Table 4 provides details of the relationship between financial hegemony and non-financial value. The table reveals that G7 and BRICS experience a negative and significant value with non-financial value of the firm in all financial hegemony characteristics, while ASEAN shows a positive and statistically significant value at the 1% level. Clearly, H2 is accepted for ASEAN, but rejected for G7 and BRICS. One possible reason for this result is that the low-cost of human capital in periphery countries and the benefit of economic negotiation and policies among ASEAN countries have positively influence on the relationship between ASEAN financial hegemony and the non-financial value of the Malaysia's 30 largest companies, listed in FTSE Bursa Malaysia Index Series.

Table 4. Fixed effect analyses of non-financial value and financial hegemony groups

	Model 1			Model 2			Model 3			Model 4		
	(t-statistics)			*(t-statistics)*			*(t-statistics)*			*(t-statistics)*		
Intercept	69.557	*3.66*	***	54.391	*2.79*	***	60.033	*3.12*	***	68.34	*3.67*	***
PG7	-4.303	*-3.76*	***									
PBRICS	-3.766	*-2.42*	**									
PASEAN	28.582	*4.08*	***									
FIG7				-2.858	*-3*	***						
FIBRICS				-3.038	*-1.92*	*						
FIASEAN				24.408	*3.34*	***						
FAG7							-3.195	*-3.27*	***			
FABRICS							-2.948	*-1.9*	*			
FAASEAN							23.197	*3.44*	***			
OG7										-4.158	*-3.95*	***
OBRICS										-4.127	*-2.63*	**
OASEAN										30.485	*4.21*	***
TOA	-5.95	*-3.21*	***	-4.687	*-2.43*	**	-5.107	*-2.7*	***	-5.818	*-3.2*	***
ROA	19.443	*2.55*	**	27.091	*3.75*	***	24.005	*3.22*	***	19.363	*2.59*	**
LOA	-13.599	*-5.56*	***	-11.148	*-4.55*	***	-12.691	*-5.07*	***	-13.377	*-5.57*	***
Dividend Yield	-0.534	*-0.77*		-0.724	*-0.94*		-0.465	*-0.64*		-0.745	*-1.06*	
R&D Sensitivity	2.52	*2.03*		2.144	*1.63*		2.453	*1.91*	*	2.355	*1.91*	*
R-sq:		0.74			0.715			0.718			0.746	
F statistics		0			0			0			0	
Hausman test		15.94	**		13.78	*		14.05	*		15.51	**

Number of observations = 68

Number of groups (Total no. of firms) = 17

5. Conclusions

The issue of geopolitical challenges has been of great global interest of late (Cohen, 2003; Flint, 2006; Salehi et al., 2014; Teixeira & Dias, 2013). The emergence of hegemony cooperation groups and the rise of foreign market competition in the 21st century have increased the awareness on geopolitical challenges in the global marketplace. With regard to MNE strategies to diversify globally, it is necessary for the manager of a guest country to evaluate and understand the geopolitical situation and financial stability of its host country in order to decide the suitable foreign location choice. A good judgment of which location is the best for geopolitical stability may help companies to decrease their transaction costs, reduce uncertainty, build consistent expectations for economic interactions, and thus, increase the financial and non-financial value of the firm. In academia, this issue has come under careful scrutiny as indicated by several recent studies (e.g., Saravanamuttu, 2012; Radulescu et al., 2014; Immanuel, 2014).

In this study, we extend our knowledge on financial hegemony and firm value relationship. The current findings contribute to financial literature in a number of ways. First, the evidence from this study suggests that financial hegemony groups are significantly important in international location decisions. Second, this study shows that the stability of financial hegemony in BRICS and G7 can enhance the financial value of Malaysia's 30 largest companies, whereas the stability of financial hegemony in ASEAN can enhance the non-financial value of the firm. Third, this study provides additional evidence with respect to the currency battleground. To diversify globally, the shift of "soft powers" in the core-semi-periphery-periphery structure, such as the establishment of BRICS and ASEAN cooperation, slightly moves the importance of currency hegemony to the importance of resource hegemony. However, further work needs to be done to prove whether traditional geopolitics such as military power, resource hegemony, and population can enhance or destroy firm value.

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Notes

Note 1. Bursa Malaysia is the Malaysian stock exchange.

Note 2. The "hardness" of a currency can be defined as the willingness of international agents to hold the currency, as measured by its actual use in cross-border financial positions (Goldfajn & Rigobon, 2000).

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