

**INDEPENDENT NON-EXECUTIVE DIRECTORS, BOARD SIZE,  
REMUNERATION AND EARNINGS MANAGEMENT IN MALAYSIAN LISTED  
FIRMS**

**Chow-Siing, Sia\*, Poh-Ling, Ho**

**School of Business, Curtin University of Technology, Malaysia**

CDT 250, 98000 Miri, Sarawak, Malaysia

Tel: +6 085 443939; Fax: +6 085 443950; sia.chow.siing@curtin.edu.my

**Paper Submission**

20<sup>th</sup> Asian Pacific Conference on International Accounting Issues

November, 2008

Paris, France

**Abstract**

The paper attempts to highlight the extent of corporate governance practices in strengthening the quality of reporting earnings in Malaysia over a period ranging from 2000-2001 & 2005-2006. We propose three dimensions of earnings management, namely earnings aggressiveness, loss avoidance and earnings smoothing to examine the impact of corporate governance using a sample of public-listed firms on Bursa Malaysia, in particular the existence of majority independent non-executive directors, board size and the influence of remuneration committee structure to reflect their significant roles in constraining earnings management thus ensuring greater accountability and transparency in financial reporting process. The results indicate that the likelihood of earnings management still prevail among sample firms however the influence of the practices on corporate governance is sporadic as such that the results are mixed and not supported with those studies using developed countries. The possibilities of the outcomes are then being explored and discussed.

**Keywords:** earnings management, corporate governance, independent non-executive directors, board size, remuneration



## 1. Introduction

Following the events of Enron and WorldCom in late 2001 and early 2002, Malaysia recently witnessed at least two corporate failures involving Transmile Group Berhad & Megan Media Holding Berhad due to accounting fraudulence. These have gained much attention of regulators and practitioners if a good corporate governance environment helps to reduce corporate failures for the purpose of protecting not only shareholders' but stakeholders' interests. Since the introduction of Sarbane-Oxley Acts in 2002, considerable reforms and prospective measures have been taken to strengthen corporate governance, particularly on the protection of minority shareholders' interests, mechanisms and control on the effectiveness of the board of directors in monitoring managers and the degree of corporate disclosure to ensure greater transparency [46];[61]. In return, International organizations including Organization for Economic Cooperation and Development (OECD), International Monetary Fund (IMF) and World Bank have been pressing for effective implementation of corporate governance code and best practices at country and corporate levels [33]. Nonetheless, many have raised concerns if existing corporate governance practices are sufficient in preventing corporate failures. [51] argues that the recurrence of subsequent corporate failures ascertain the inadequacy of legislative responses and regulatory framework on corporate governance. While, some studies argue that managers may use their accounting discretions in influencing reported earnings as such less viable to reflect the firm's true performance thereby undermining public-investing confidence in capital markets. Evidently, [48] examine the occurrence of earnings management across 31 countries where a high incident of earnings management is reported in countries with weak investor protection and less stringent legal environment. [44] explore further using 14 emerging countries that there is a growing need to adopt a more discipline and organized corporate governance structure to instil investors' confidence where higher quality of corporate disclosure is ensured. It can be concluded that the aim to achieve a lower occurrence of earnings management and good corporate governance is equally important for both developed and emerging countries.

## 2. Background & Motivation of Study

Corporate governance is a serious and continuing process in emerging markets since the onset of 1997 Asian crisis. In response, the Malaysian Government realizes that enhancing corporate governance should be an essential agenda to strengthen transparency and accountability in the corporate sectors. Efforts to strengthen the aspects of good governance practices have commenced long before the Asian crisis with the introduction of new legislation or changes in the existing legislation, including Companies Act 1965 (revised in 1985) where a minimum disclosure requirement is prescribed, the Banking and Financial Institution Act (BAFIA) in 1989, the Securities Commission Act (SCA) and the Futures Industries Act (FIA), both in 1993 [54]. The Companies Commission of Malaysia (CCM)<sup>1</sup> had initiated the Code of Ethics for Directors in 1996 in its effort of enhancing a better board of directors. Through the introduction of Financial Reporting Act 1997, the Securities Commission (SC) initiates the disclosure-based regulatory framework to replace the merit-based framework in an attempt to enhance greater transparency under which the SC recommends the establishment of a Financial Reporting Foundation (FRF) and Malaysian Accounting Standard Board (MASB) [46].

---

<sup>1</sup> Formerly known as the Registrar of Companies



Efforts to develop better guidelines are intensified when the high level Finance Committee on Corporate Governance was formed in 1999 with the introduction of the Malaysian Code on Corporate Governance (the Code). While the Code sets out principles and best practices on structures and processes that Malaysian listed companies may use in their operations towards achieving the optimal governance framework, it acknowledges that these rules relied on the managerial accountability and credibility of the board of directors [49]. These structures and processes include 13 board principles and 33 best practices, namely, board of directors, board composition, board size, procedures for recruiting new directors, directors' remuneration, the board committees, their mandates and activities<sup>2</sup> [61]. In addition, Bursa Malaysia<sup>3</sup>, hastens the effort of enhancing corporate governance by revamping its listing requirement<sup>4</sup> in 2001 where compliance with the prescription in the Code is voluntary while compliance with the disclosure provisions on the extent to which they have complied with the Code is mandatory [54]. One of the main highlights of the Code is the appointment of a minimum one-third of independent non-executive directors on the board membership for the purpose to strengthen the accountability and creditability of reported financial information. In this respect, it can be argued that the board of directors play a crucial role to ensure the compliance of their reported financial statements as closely as possible according to the accepted accounting treatments and guidelines set within the boundary. The board of directors may have the flexibility to abuse their discretions and propensities on reported earnings according to the needs of firms. This has suggested that the likelihood of earnings management practices do exist.

This paper attempts to find evidence if earnings are managed within these boundaries by identifying the effectiveness of board of directors in monitoring the intensity of such behaviour. Thus, it is expected that a lower extension of earnings management will lead to better corporate governance practices<sup>5</sup>. We explore this association in 5 aspects (1) if firms with good corporate governance practices reduce the degree of earnings management as measured by earnings aggressiveness, loss avoidance and earnings smoothing; (2) if the existence of majority independent non-executive board of directors<sup>6</sup> (3) the impact of board size (4) if the existence of remuneration committees chaired by independent non-executive directors and (5) the level of the board's remuneration disclosure in firms' annual reports reduce the managerial behaviour of earnings management. In addition, this paper intends to offer similar or different perspectives on the association between corporate governance and earnings management characteristics from an emerging country comparable to those studies that are mainly grounded in developed countries.

This paper is organized as such that literature search was conducted and reviewed to provide an insight of the academic scholars or practitioners arguments on different aspect of earnings management and corporate governance practices, followed by a description of hypotheses development, sample selection, methodology of the research framework as well as the empirical findings were then discussed and finally, a conclusion is drawn.

---

<sup>2</sup> Finance Committee on Corporate Governance (2000)

<sup>3</sup> Formally known as Kuala Lumpur Stock Exchange (KLSE)

<sup>4</sup> Chapter 15, Paragraphs 15.26 and 15.27 of Bursa Malaysia Listing Requirements

<sup>5</sup> [48] record an endogenous link between corporate governance and quality of reported earnings

<sup>6</sup> Under Company Acts 1965 (revised 1985), a board consists of executive and non-executive directors. In this setting, an independent board is separated from controlling shareholders and managers while performing a supervisor role for the purposes of protecting shareholders' interests and corporate governance generally [46]



### **3. Literature Review and Hypotheses Development**

The studies in many international literatures have investigated different aspects of earnings management practice with exclusive linkages to corporate governance issues. The following summarized some of the major arguments as presented by different scholars on their views.

#### **3.1 Earnings Management**

Earnings management described by [36] where ‘managers may use judgement in structuring transactions to alter financial reports to either mislead stakeholders about the underlying economic performance of the firm, or to influence contractual outcomes that depend on reported accounting numbers.’ Another definition is provided by [59] as a ‘purposeful intervention in the external financial process, with the intent of obtaining some private gain.’ As such, the motivation for managers in managing earnings is discussed. [11] provide evidence that managers attempt to manage earnings when information asymmetry exists between investors and managers while [29] examine that firm’s concentrated ownership structure have negative impacts on the quality of reported earnings in which may give rise to the conflict of interests between managers and controlling owners<sup>7</sup>. [10], using a sample of US firms, report that managers, however, tend to manage earnings when firms report losses or earnings decline. Similarly, in the studies of [67] and [38], using a sample of Malaysian firms, such tendency is evident where managers manage earnings to avoid reporting losses.

Some managers may manage earnings to increase or improve their compensation schemes or job security. Such evidence can be observed through [35],[31], [30] and [22] where managers smooth both current and expected future earnings upward or downward to achieve a desired earnings figure when a bonus agreement has been predetermined based on the future earnings of the firms or when their jobs are at state due to lower earnings is reported. Similarly, [7] and [16] provide strong evidence that CEOs attempt to manipulate reported earnings aggressively when their compensation is closely tied to firms’ share price performance. Managers may also attempt to overstate earnings by shifting earnings to the present at the expense of the future cash flows during period of Initial Public Offerings and Seasoned Public Offerings to meeting market expectations [68];[57]. Alternatively, managers may violate debt covenant by employing accounting discretions (1) to improve their debt constraints when a higher cost of future borrowing or new restrictive covenants are expected [21];[66]; (2) as a signalling property of expected increased in future cash flow performance [73]. A different observation is provided by [12], using a sample of listed firms across 46 countries, explore the possibility that corporate social responsibility may play a role in motivating managers to abuse their discretions in reporting earnings thus increase the level of earnings management. They concluded that firms with corporate social responsibilities in mind tend not to manage earnings. Whatever the motivation, it can be argued that earnings management reduces earnings quality, thus decreases the effectiveness of corporate governance practices in protecting shareholders’ interests.

#### **3.2 Independent Non-Executive Directors**

The Malaysian high level Finance Committee on Corporate Governance recognizes that a good corporate governance lies firmly on a board’s structure and its composition of which the board structures include nomination, remuneration and audit committees while the board

---

<sup>7</sup> Highlighted in [41];[28]



composition includes board size, directors' representation and leadership<sup>8</sup>. The role of a board of directors in ensuring the alignment between corporate goals and shareholders' interests can be extended to its ability in monitoring firm performance to avoid the likelihood of earnings management behaviour. With respect to this study, 2 aspects of board characteristics are examined in this paper particularly on the existence of majority independent non-executive directors on the board and board size. It can be argued that these 2 characteristics may prevail significant roles in influencing good corporate governance in a firm to protect shareholders' interests.

In an agency setting where the separation of control between managers and shareholders exists, managers may act opportunistically at the expense of shareholders' interests [41]. As such, [28] and [62] argued that the presence of an independent board is crucial in monitoring and reducing these opportunistic behaviours where high quality and reliability of financial report is ensured to improve firm performance. In tandem, [47] suggest the ability of the board to act as an effective monitoring mechanism is highly dependent on its distinction from controlling shareholders and independence from managers.

[19] provide a significant contribution where good corporation governance structure is realized in constraining management incentives to manage earnings in return improving quality of corporate disclosure. In relation, [9] selects a sample between 75 fraud and 75 non-fraud US listed firms, implies that the existence of independent non-executive directors may not be sufficient in reducing the probability of accounting frauds, however, the effectiveness of such can be extended by incurring a higher proportion of independent non-executive board members where quality of financial reporting is ensured. Similarly, [1] provide additional evidence where the existence of independent board of directors significantly reduced the likelihood of financial frauds while strong independence is expected to emphasize greater corporate disclosure. Consistent with [14], [45] and [70], a board with the existence of majority independent non-executive board of directors is likely to reduce the earnings management practices, where a lower degree of abnormal accruals is detained, hence, a better financial reporting process leading to good corporate governance practices can be achieved.

In addition, considerable studies across different countries also demonstrate similar results in defining the relation between earnings management and independence of board members. In particular, [60] study the earnings management in two dimensions, namely earnings smoothing and earnings aggressiveness across 25 emerging countries, conclude that firms with good corporate governance tend to conduct less earnings management thus increased of firm performance is expected through share price performance. Consistent with [26] where a reduction of discretionary accruals to avoid earnings losses and declines is observed with greater proportion of independent non-executive directors after corporate governance reformation in UK, hence, improve the quality of financial reports. The study further suggests that the effectiveness of the board in monitoring management is highly depending on the proportion of independent non-executive directors. Similarly, [53] and [18], use a sample of Canadian and Australian listed firms respectively to show the extent on the existence of majority independent non-executive directors in reducing earnings management where a better corporate governance structure is expected.

Contrary to the above, evidences on insignificant association on board independence and earnings management are also been documented. Such association is reported by [52] where

---

<sup>8</sup> Malaysian Code on Corporate Governance (1999)



the study uses a sample of younger and smaller UK firms that the existence of majority independent board of directors provides no evidence in reducing earnings management, thus the construction of such has no impact on financial reporting quality. Similarly, [55] investigate how the board composition may increase the board's ability to protect shareholders' interests by examining the level of abnormal accruals and find that the higher proportion of independent non-executive directors does not improve the board's effectiveness in monitoring earnings management activities. Likewise, [63] and [13], using Indonesia and Korean listed firms respectively, in post-crisis period, reveal that there is no association between the existence of majority independent non-executive directors and earnings management practices. Following on [19], [56], [45] and [60],  $H_1 = \text{Earnings management is negatively associated with the existence of majority independent non-executive directors in a board}$

### 3.3 Board Size

Board size is an important element in board characteristics and conceivably correlated with a board's independence [72]. Research has indicated that board size may prevail a board's governance ability in monitoring firm performance thus reduces the degree of earnings management in a firm. [50] recommend a board size should be an average of eight to nine members where additional members may constrain the board's ability to communicate effectively. [32] argue a smaller board size with four to six members might be more effective in making timely and crucial decisions to obscure firm changes strategically during periods of external shocks. They further claim that large and diverse board may lead to agency problems as verified by [42]. Likewise, [72] demonstrate a significant inverse association between board size and firm performance where a board's diversity is observed with larger board in US listed firms, hence, a smaller board with less than ten members is more effective in monitoring management. [25] also provide a similar result when using a sample of small and medium-sized Finnish firms. Therefore, it can be argued that as board size decreases, problems in communication and coordination is unlikely to occur thus the board's ability to monitor management increase thereby leading to a lower degree of earnings management.

In contrast, different perspectives on board size significance have also been investigated if larger boards are associated with greater firm performance where corporate governance practices are strengthened in ensuring higher quality of reported earnings. [17] suggest that an ideal board should consist of reasonable proportional mix of independent/interdependent and executive/non-executive with corporate and financial expertise to prescribe for a better capital governance structure. Their studies indicate a significant positive association between larger board size and firm performance. Consequently, [70] indicated that a larger board with higher proportion of independent non-executive directors are better at constraining earnings management with a lower degree of discretionary accruals. [14] also find similar evidence to which a larger board has a tendency to reduce the likelihood of earnings management particularly if the board consists of majority independent non-executive directors. In accordance with [17], [14] and [70],  $H_2 = \text{Earnings management is negatively associated with larger board size}$

### 3.4 Executive Remuneration

The opportunity to manage reported earnings arises when executive directors are rewarded for their efforts in aligning the shareholders' interests with firm financial performance [6];



[72]. As suggested by [70] and [7], executive remuneration schemes may compromise a board's independence in performing its monitoring role where poor remuneration packages may encourage managers to manage earnings. To date, limited studies have been explored to provide conclusive evidences in explaining the impact of corporate governance structure particularly the role of remuneration committee as an effective governance mechanism in constraining earnings management practices. In line with the corporate governance code and best practices, a remuneration committee has the responsibility to make necessary recommendations in designing the right incentives and remuneration packages to attract and retain capable executive directors in enhancing firm profitability [4]. As such, the remuneration committee is expected to align directors' compensation on firm financial performance. Evidently, [16] report that incentive-based remuneration may influence corporate governance structure when earnings are adjusted to reflect better firm performance. Following the suggestions by [45] and [4] where greater remuneration committee independence with lower occurrence of earnings management may be achieved by appointing an independent non-executive directors as the chair,  $H_3 = \text{Earnings management reduces with the existence of a remuneration committee chaired by an independent non-executive director}$

It can be argued that good corporate governance structure should be able to constrain excessive remuneration paid to executive directors thus improve the credibility and transparency in remuneration disclosure on reported financial statements. [39] highlight the importance of such disclosure to reduce excessive remuneration, increase shareholders' control over the mechanism of executive pay structure in strengthening shareholders' interests. Supported by [53] where the extent of remuneration disclosure may reduce information asymmetry between management and shareholders and enable the board to effectively monitor management decisions, hence,  $H_4 = \text{Earnings management reduces with greater disclosure of the boards' remuneration details in the firms' annual reports}$

## **4. Research Methodology**

### **4.1 Database**

A full dataset of 40 public-listed firms in Main Board of Bursa Malaysia was selected excluding firms classified under the finance sector because of their unique features and differences in the reporting requirement in compliance with regulations of Bank Negara Malaysia, while, the sample included non-financial firms represented by construction and properties, industrial products, trading and services, plantation and consumer products. The sample period is ranging from 2000-2001 & 2005-2006 to examine to what extent corporate governance practices has influenced the degree of earnings management as measured by earnings aggressiveness, loss avoidance and earnings smoothing respectively. The rationale of selecting the period of 2000-2001 is when corporate governance best practices are just being promoted while period of 2005-2005 is employed to examine the impact of corporate governance after 5 years of corporate regulatory reformation and changes in influencing the quality of reporting in Malaysia. Information on the research variables were then extracted from the annual reports and sorted using a dataset by listing each firm's board characteristics, structures and relevant financial data.

### **4.2 Earnings Measurement**



The literature has identified various methodologies for the measurement of earnings management. The most commonly used models which focus on earnings manipulations on accruals as an approximation for earnings management includes [43] and Modified Jones Model [19]. In accordance with [8], [48] and [38] we use earnings aggressiveness, loss avoidance and earnings smoothing to capture the ways in which firms may manage earnings.

#### 4.2.1 Earnings Aggressiveness

According to [8], earnings aggressiveness is observed when managers tend to delay the recognition of losses while expedite the recognition of gains which is a direct opposite of accounting conservatism practices when managers tend to incorporate losses quickly while incorporate gains slowly in a firm's financial statement. Consistent with [35], [43], [19] and [48], earnings aggressiveness is measured at a point in time as the median for firm k, year t, where accruals are divided by lagged total assets. We calculate scaled accruals, drawing from the balance sheet and income statement, where:

$$SACC_{kt} = (\Delta CA_{kt} - \Delta CL_{kt} - \Delta CASH_{kt} + \Delta LTD_{kt}) / TA_{kt-1} \dots\dots\dots(1)$$

SACC<sub>kt</sub> is scaled accruals for firm k, year t that excludes depreciation and amortisation, this is because, practitioners focus on earnings before depreciation and amortisation; ΔCA<sub>kt</sub> is change in total current assets for firm k, year t; ΔCL<sub>kt</sub> is change in total current liabilities for firm k, year t; ΔCASH<sub>kt</sub> is change in cash for firm k, year t; ΔLTD<sub>kt</sub> is change in current portion of long-term debt for firm k, year t; and TA<sub>kt-1</sub> is total assets for firm k, year t-1. Median observation of scaled accruals is observed in order to minimize the influence of extreme observations. This follows the notation that the higher the median of scaled accruals of firm k in year t, the higher is the earnings aggressiveness in firm k, year t.

#### 4.2.2 Loss Avoidance

As suggested by [10], managers may avoid reporting of earnings losses and decreases. In line with [8], to detect if earnings management take place as a result of avoiding earnings losses, firms with small positive earnings (small negative earnings), using zero earnings as the threshold, firms net operating incomes are scaled by lagged total assets, which then between 0 and 1% (between 0 and -1%, respectively). A ratio of number of firms with small positive earnings minus number of firms with small negative earnings divided by their sum is then determined. The higher this ratio for a firm in year t, the higher is the loss avoidance in that firm for the year in terms of avoidance of reporting earnings losses. This measure is based on [10], a variant of this measure is employed in [48]. The premise of this measure is that many small positive earnings numbers and few small negative earnings numbers is indicative of managers trying to avoid losses, which according to [23] is the most salient benchmark for earnings.

#### 4.2.3 Earnings Smoothing

Earnings smoothing is expected when managers use their discretions to smooth earnings upward or downward depending on the circumstances of a firm to conceal the true economic performance of the firm [48]. Following [8] and [60], cross-sectional correlation between the change in accruals and the change in operating cash flows are estimated, both scaled by





lagged total assets for each firm  $k$ , for each year  $t$ . Accruals are obtained from (1) above, whilst operating cash flows are obtained by subtracting accruals from operating earnings.

$$EarningsSmoothing = Spearman\rho\left(\frac{\Delta Accruals_{kt}}{TA_{kt-1}}, \frac{\Delta OCF_{kt}}{TA_{kt-1}}\right) \dots \dots \dots (2)$$

This measure on average is expected to be negative because some degree of natural smoothing is expected in accounting numbers. The higher the degree of negative correlation, the more likely that earnings are smoothed. This inverse relationship is to obscure the variability in underlying economic shocks.

### 4.3 Regression Model

All hypotheses are tested through a multivariate regression model where the independent variables consist of four corporate governance variables and two control variables, namely firm size and leverage ratio are taken into account. The model suggests that good corporate governance may reduce the degree of earnings management as proxied by earnings aggressiveness, earnings smoothing and loss avoidance. Table 1 provides a summary of the operationalization of the variables.

$$EM_i = \beta_0 + \beta_1 INEDs + \beta_2 BoardSize + \beta_3 Disclosure + \beta_4 Committee + \beta_5 FirmSize + \beta_5 Leverage + e_i$$

**TABLE 1: REGRESSION VARIABLES AND DEFINITIONS**

Variable	Definition <sup>9</sup>	Expected Association with Earnings Management
INEDs	The existence of majority independent non-executive directors	Negative
Board Size	Number of total directors on the board	Negative
Disclosure	Disclosure requirement in the annual report of the details of remuneration to each director, dummy variable being 1 for firms with remuneration disclosure and 0 otherwise	Negative
Committee	Remuneration Committee chaired by an independent non-executive director, dummy variable being 1 for firms with remuneration committee chaired by an independent non-executive director and 0 otherwise	Negative
Firm Size	Total Assets	Positive
Leverage Ratio	Total Debt/Total Assets	Positive

As suggested by previous studies, control variables on firm size and leverage ratio are imposed to reduce sample selection bias. [58] find an insignificant association between firm size and the level of discretionary accruals. While, [17] indicates that smaller firms with fewer board members tend to perform better. Nonetheless, [13] show that firm size and leverage ratio is positively associated with the existence of majority independent non-executive directors on the board. [21] and [66] report that managers tend to manage earnings aggressively when higher cost of debt may occur due to excessive future borrowing, thus the level of discretionary accruals is high when firms are closed to debt covenant violation. Similarly, [73] provides a positive association between the level of discretionary accruals and leverage ratio. In response, firm size and leverage effects are captured to impact the deviation which may affect general outcomes of the regression model, thus the natural log firm size is proposed to provide better estimation and more meaningful interpretations. Assumptions of

<sup>9</sup> In line with the Malaysian Code of Corporate Governance and KLSE revamp listing requirements



multi-collinearity and normality using Pearson Correlation Coefficient<sup>10</sup> and standard statistical tests on skewness and kurtosis<sup>11</sup> are also analysed.

## 5. Discussion of Results

### 5.1 Extent of Earnings Management

**TABLE 2: EARNINGS MEASUREMENT FOR YEARS 2001 AND 2006**

	Median		Ratio		Spearman Correlation	
	2001	2006	2001	2006	2001	2006
1. Earnings Aggressiveness	0.0015	0.0021				
2. Loss Avoidance			0.4872	0.7692		
3. Earnings Smoothing					-0.564***	- 0.760***

\*\*\*Correlation is significant at the 0.01 level (2-tailed)

1. The higher median of scaled accruals implies firms are more prone to conduct earnings aggressiveness
2. The higher ratio implies firms are more prone to reporting earnings losses
3. The higher degree of negative correlation implies firms are more prone to smooth earnings

Table 2 presents the results in all three dimensions of earnings management measurement among Malaysian listed firms. The sample firms are generally not aggressive in reporting earnings with small positive median scaled accruals observed for 2001 and 2006. Consistent with [38] and [60] suggesting that the sample firms adopt a more conservative accounting approach in reporting earnings. On contrary, firms are actively avoid reporting earnings losses and declines particularly in 2006 where firms have stronger incentives to shift earnings upward to gain a positive earnings figure. These results are supported by [10], [67], [55] and [38] where firms adopt loss avoidance behaviour. Similarly, a greater degree of negative correlation between the changes in operating cash flows with the changes in accruals is observed in 2001 and 2006, suggesting that firms are very likely to smooth earnings to obscure the variability of underlying economic performance to reflect higher expected future profitability. Consistent with [19], [73] and [60], earnings are significantly smoothen in the countries of their studies including US, UK, China and emerging countries respectively. In summary, it can be concluded that the practice of earnings management in Malaysia still exist to a certain extent despite of greater mechanisms imposed in promoting good corporate governance environment to ensure higher quality on corporate disclosure.

### 5.2 Data Description and Basic Statistics

**TABLE 3: CORPORATE GOVERNANCE CHARACTERISTICS**

	2001	2006
Percentage of firms with the existence of majority INEDs	62.5%	90.0%
Percentage of firms with remuneration committee chaired by INEDs	32.5%	65.0%
Percentage of firms with remuneration disclosure	7.5%	17.5%

Table 3 identifies the extent of corporate disclosure to which firms have complied with the Code over a 5-year period. It can be suggested that there is an improvement to which firms recognize the roles and responsibilities of board of directors in monitoring management behaviour in ensuring the integrity and accountability of financial reporting disclosure. This is evident where an increased number of firms to include majority independent non-executive directors over the 5-year period grow from 62.5% to 90% while the importance of independent non-executive directors is also realized in the remuneration committee by appointing an independent non-executive director as the Chair, (an increased of 32.5% to

<sup>10</sup> [54] and [2] suggest that multi-collinearity among variables must not correlate above 0.8

<sup>11</sup> [2] and [34] suggest that data is said to be normal if the skewness is within  $\pm 2$  and kurtosis  $\pm 3$



65%). It can be argued that firms tend to increase the independence of board of directors to provide signals to public revealing their intention for corporate governance reformation [13]. However, the extent to which number of firms to disclose information on executive remuneration schemes is minimal even though there is a slight increase of firms participated (from 7.5% to 17.5%) over the 5-year period.

**TABLE 4: DESCRIPTIVE STATISTICS ON A SAMPLE OF 40 FIRMS FOR YEARS 2001 & 2006**

Variable	Minimum		Maximum		Mean		Standard Deviation		Skewness		Kurtosis	
	2001	2006	2001	2006	2001	2006	2001	2006	2001	2006	2001	2006
Earnings Aggressiveness	-0.399	-0.307	0.313	0.608	0.032	0.008	0.084	0.137	1.769	1.587	3.168	9.587
Loss Avoidance	-0.092	-0.375	0.319	0.258	0.051	0.051	0.077	0.096	1.327	-1.886	2.909	9.740
Earnings Smoothing	-0.999	-0.999	0.977	0.989	-0.593	-0.618	0.650	0.626	1.524	1.474	0.886	0.765
Board Size	4	4	13	14	8.2	8.3	2.090	1.937	0.253	0.509	-0.290	1.063
INEDs	0.111	0.222	0.666	0.666	0.351	0.403	0.125	0.092	0.456	0.540	0.409	0.760
Remuneration Committee chaired by INEDs	0	0	1	1	0.33	0.65	0.474	0.483	0.777	-0.654	-1.473	-1.658
Remuneration Disclosure	0	0	1	1	0.08	0.18	0.267	0.385	3.354	1.778	9.736	1.220
Log Firm Size	4.851	4.261	7.142	7.415	5.983	6.099	0.531	0.631	0.219	-0.036	0.011	0.758
Leverage Ratio	0.0002	0.009	1.031	1.611	0.337	0.402	0.246	0.325	0.873	1.626	0.998	3.967

Table 4 provides the descriptive statistics of explanatory variables used in this study where means are observed. The results indicated that the mean ratios on loss avoidance for the years 2001 and 2006 are fairly constant with an average of 0.051 while the mean correlations on earnings smoothing are negative with -0.593 in 2001 and -0.618 in 2006. The mean medians on earnings aggressive show a significant deviation between 2001 and 2006 with 0.032 and 0.008 respectively (closer to zero), suggesting that earnings aggressiveness has reduced to a lesser extent. The mean percentages of majority independent non-executive directors on the board have increased from 35.1% to 40.3%. As suggested by [9] and [45], the most appropriate mean percentages on independent non-executive directors for a board's independence should be more than 50%. Thus, it can be argued that the board independence may insignificantly influence the degree of earnings management in Malaysia. On average, Malaysian companies have about eight board members, which is within the board size recommended by [50] and [56] for a board to effectively monitoring managerial behaviours. The means for log firm size remain an average of 6 for both years indicating no major structural changes in the sample firms whereas the mean ratios on leverage are relatively high with an average of 0.34 and 0.4 for both 2001 and 2006. This implies that Malaysian firms often maintain close relationship with major financial providers. Generally, the tests on independent variables' standard skewness and kurtosis suggest that the data set collected are fairly normalized and remained representative apart from the remuneration disclosure in 2001 with skewness of more than +2.

**TABLE 5: PEARSON CORRELATIONS FOR YEARS 2001 & 2006**

2001	Earnings Aggressiveness	Loss Avoidance	Earnings Smoothing	Board Size	INEDs	Remuneration Committee Chaired by INEDs	Remuneration Disclosure	Leverage Ratio	Log Firm Size
Earnings Aggressiveness	1								
Loss Avoidance	0.201	1							
Earnings Smoothing	-0.146	-0.18	1						
Board Size	0.327**	0.154	-0.341**	1					
INEDs	0.14	-0.01	0.335**	-0.159	1				



Remuneration Committee chaired by INEDs	-0.036	-0.119	-0.189	0.398**	0.002	1				
Remuneration Disclosure	-0.055	-0.121	-0.051	0.156	0.045	0.208	1			
Leverage Ratio	0.023	-0.108	-0.112	-0.275	-0.214	-0.122	-0.179	1		
Log Firm Size	0.319**	0.008	0.041	0.139	0.083	-0.013	0.085	0.229	1	

  

2006	Earnings Aggressiveness	Loss Avoidance	Earnings Smoothing	Board Size	INEDs	Remuneration Committee Chaired by INEDs	Remuneration Disclosure	Leverage Ratio	Log Firm Size
Earnings Aggressiveness	1								
Loss Avoidance	0.377**	1							
Earnings Smoothing	-0.129	-0.243	1						
Board Size	0.027	0.223	-0.018	1					
INEDs	0.069	-0.263	0.053	-0.414***	1				
Remuneration Committee chaired by INEDs	0.307	0.114	-0.111	0.033	0.263	1			
Remuneration Disclosure	-0.278	0.003	-0.293	0.065	-0.017	-0.352**	1		
Leverage Ratio	-0.4***	-0.566***	-0.109	-0.121	0.04	-0.025	0.039	1	
Log Firm Size	0.106	0.008	0.041	0.269	0.031	-0.006	0.101	0.104	1

\*\*\*Correlation is significant at the 0.01 level (2-tailed)

\*\*Correlation is significant at the 0.05 level (2-tailed)

\*Correlation is significant at the 0.1 level (2-tailed)

Table 5 describes the correlation coefficients of all variables studied in this paper. The correlation matrix confirms that there is no multi-collinearity exists among variables since none of the variables correlate above  $\pm 0.8$ . A positive correlation is observed between board size and remuneration committee chaired by independent non-executive directors with  $0.398(\rho < 0.05)$  in 2001, suggesting that as the number of board members increases, the remuneration committee is likely to be chaired by independent non-executive directors. In 2006, however, the association between these 2 variables is insignificant, While a negative association is observed between remuneration disclosure with remuneration committee chaired by independent board of directors at  $-0.352(\rho < 0.05)$ , the coefficient for percentages of independent board of directors and board size is also negatively correlated at  $-0.414(\rho < 0.01)$ .

### 5.3 Regression Results

**TABLE 6: MULTIVARIATE REGRESSION ESTIMATES FOR YEARS 2001 & 2006, N = 40**

Variable	Predicted Signs	Earnings Aggressiveness		t-test		Significance	
		2001	2006	2001	2006	2001	2006
Constant				-2.520	-0.666	0.017**	0.510
Board Size	-			2.471	-0.449	0.019**	0.656
INEDs	-			1.359	-0.108	0.183	0.915
Remuneration Committee chaired by INEDs	-			-1.069	1.449	0.293	0.157
Remuneration Disclosure	-			-0.626	-1.228	0.536	0.228



Leverage Ratio	+			0.591	-2.819	0.559	0.008***
Log Firm Size	+			1.362	1.238	0.183	0.225
R <sup>2</sup>		0.261	0.310				
Adjusted R <sup>2</sup>		0.127	0.184				
Significance		0.103	0.044*				

Variable	Predicted Signs	Loss Avoidance		t-test		Significance	
		2001	2006	2001	2006	2001	2006
Constant				-0.066	-0.591	0.948	0.558
Board Size	-			1.115	-0.817	0.273	0.420
INEDs	-			0.057	-2.576	0.955	0.015**
Remuneration Committee chaired by INEDs	-			-1.031	1.678	0.310	0.103
Remuneration Disclosure	-			-0.780	0.526	0.441	0.603
Leverage Ratio	+			-0.498	-5.064	0.622	0.000***
Log Firm Size	+			0.094	3.127	0.926	0.004***
R <sup>2</sup>		0.084	0.549				
Adjusted R <sup>2</sup>		-0.082	0.467				
Significance		0.800	0.000***				

Variable	Predicted Signs	Earnings Smoothing		t-test		Significance	
		2001	2006	2001	2006	2001	2006
Constant				-0.183	-0.827	0.856	0.414
Board Size	-			-1.696	0.568	0.099*	0.574
INEDs	-			1.510	0.880	0.140	0.385
Remuneration Committee chaired by INEDs	-			-0.461	-1.650	0.648	0.108
Remuneration Disclosure	-			-0.176	-2.352	0.861	0.025**
Leverage Ratio	+			-0.923	0.780	0.363	0.441
Log Firm Size	+			0.128	-0.122	0.899	0.904
R <sup>2</sup>		0.224	0.172				
Adjusted R <sup>2</sup>		0.083	0.021**				
Significance		0.182	0.360				

\*\*\*Correlation is significant at the 0.01 level (2-tailed)

\*\*Correlation is significant at the 0.05 level (2-tailed)

\*Correlation is significant at the 0.1 level (2-tailed)

Table 6 reports multivariate regression results for all three earnings measurement in both 2001 and 2006 respectively. Low values of adjusted R<sup>2</sup> for all 3 earnings measures are observed in the year 2001 indicate that there are other factors that may strongly explain the variability in the level of earnings measurement. However, an improved adjusted R<sup>2</sup> are observed for all 3 measures in 2006 which suggest a stronger explanatory power in detecting the variation in earnings management activities. Contrary to our expectations, there is no meaningful relation between the proportion of independent non-executive director with all 3 earnings measures, thus it can be concluded that H<sub>1</sub> is not supported. This result is consistent with [63], [13] and [55] that the existence of majority independent non-executive directors has no significant economy ties to the firms beyond their jobs as directors. Likewise, [34] raise serious doubt on the ability of one-third of independent non-executive directors for Malaysian firms in monitoring managerial behaviours independently to reduce earnings management activities due to the fact that most independent non-executive directors are



selected not for their expertise and experience but more often for political reasons and legitimate requirements.

Conversely, the size of board exhibits significant negative association between earnings aggressiveness at 0.019 ( $\rho < 0.05$ ), and loss avoidance behaviour at 0.099 ( $\rho < 0.1$ ), in 2006, suggesting that larger board size constrains earnings management activities. Consistent with [70] and [14] where a larger board is expected to improve the quality of monitoring management behaviour, thus enhance in the reliability of financial disclosure. This result is contrary to [42], [9] and [25] where smaller boards provide more controlling effects than larger boards. Given  $H_2$  results are not consistent for both periods of study, particular in 2001 where no significant association is detected, it can be argued that little support is found between the association of board size and earnings measurement in 2001.

As highlighted in Table 2, the extent to which firms disclose their remuneration scheme is minimal thus its impact on the degree of earnings management practices is insignificant for both period of study, apart from earnings smoothing in 2006 with 0.025 ( $\rho < 0.05$ ), in explaining the quality of remuneration disclosure in mitigating earnings management activities, which lead to insignificant evidence to accept  $H_4$ . As suggested by [53], managers wish to retain the flexibility to engage in earnings management may have incentives to limit the remuneration disclosure. Contrary to [45] and [5], an insignificant association is observed between the existence of remuneration committee chaired by independent non-executive directors with all 3 earnings measures, thus indicating that  $H_3$  is not supported.

Among the control variables, the significance of leverage effects is detected in 2006 with earnings aggressiveness at 0.008 ( $\rho < 0.01$ ) and loss avoidance at 0 ( $\rho < 0.01$ ) while limited evidence is presented between earnings smoothing and leverage ratio. This result is supported by [22], [73] and [66] where firms with high leverage ratios are more inclined to engage in earnings management activities. In contrast to [58], firm size does provide a strong correlation with loss avoidance in 2006 where larger firms are more prone to manage earnings when negative earnings are reported.

## **6. Limitations and Conclusion**

This paper attempts to examine the extent of corporate governance practices in enhancing the quality of reporting earnings with particular attention to the board of directors' characteristics including the independence of board of directors, board size and directors' remuneration disclosure. Overall, the results above show the sporadic extent of earnings management in influencing corporate governance in Malaysia. The results also show that the existence of majority independent non-executive directors provide an insignificant role in constraining earnings management practices within the firms. A plausible explanation may be based on (1) lack of knowledge in firms' activities [47]; (2) lack of expertise [2],[3]; (3) lack of ownership interest of the firms they monitor [55]; (4) earnings management can be viewed as beneficial to shareholders to improve the informativeness of reported earnings driven by a firm's profitability [56].

This study encounters significant obstacles which reduce the validity of findings where results are limited by the accuracy of the models applied to isolate discretionary accruals as suggested by prior studies as well as the sample size that may limit the generalization of the results. The impact of earnings management can then be further explored through other



elements on corporate governance variables including the existence of independent audit committee, concentration of ownership structure and political influences which are unique in Asian emerging markets. Likewise, low explanatory power of the regression model used in this study may not be substantial enough in explaining whether the earnings management practices have been reduced due to the enhancement of corporate governance regulatory framework and financial reporting structure in improving the transparency and accountability on the reported financial statements. This may be due to strong heteroscedasticity between corporate governance variables and earnings management measurements. Therefore, it is suggested that further research studies may explore by using different research methods, namely accounting performance measures such as Tobin's Q.

Nevertheless, corporate governance development in Asian emerging markets are still far behind comparatively to developed countries such as US and UK to which the initiatives to promote good practices have been either ignored or applied in spirit of compliance with legal requirements rather than driven by firm performance and capital market pressures [69];[34];[63]. It is obvious that Malaysia requires the development of greater transparency and accountability in the relationship between board of directors, management and shareholders with more effective governance arrangement where investor protection can be enforced while shareholders' interests are safeguarded for market mechanisms to function competitively. This may suggest the need for further constructive thinking and ideas in adopting corporate governance model in Malaysia with proper consideration of socio-political-economical environment of the country in promoting corporate governance reformation to effectively capture and resolve corporate scandals.

## 7. References

- [1] Abbott, L.J., Park, Y., Parker, S., 'The Effects of Audit Committee Activity and Independence on Corporate Fraud', *Managerial Finance*, (2000), Vol.26 (11), pp.55-67
- [2] Abdul Rahman, R., Mohd Ali, F.H., "Board, Audit Committee, Culture and Earnings Management: Malaysian Evidence", *Managerial Auditing Journal*, (2006), Vol.21 (7), pp.783-804
- [3] Abdullah, S.N., Mohd. Nasir, N., "Accrual Management and the Independence of the Board of Directors and Audit Committees", *Journal of Economics and Management*, (2004), Vol.12 (1), pp.1-31
- [4] Abdullah, S.N., "Directors' Remuneration, Firm's Performance and Corporate Governance in Malaysia among Distressed Companies", *Corporate Governance*, (2006), Vol.6 (2), pp.162-174
- [5] Abdullah, S.N., "Board Composition, CEO Duality and Performance among Malaysian Listed Companies", *Corporate Governance*, (2004), Vol.4 (1), pp.47-61
- [6] Anderson, R.C., Bizjak, J.M., "An Empirical Examination of the Role of the CEO and the Compensation Committee in Structuring Executive Pay", *Journal of Banking and Finance*, Vol. 27, pp.1323-1348
- [7] Bergstresser, D., Philippon, T., "CEO Incentives and Earnings Management: Evidence from the 1990s", *Journal of Financial Economics*, (2006) Vol.80, pp.511-529
- [8] Bhattacharya, U., Daouk, H., Welker, M., "The World Price of Earnings Opacity", paper presented in XI SFM Conference, (2002), Kaohsiung, Taiwan



- [9] Breasley, M.S., “An Empirical Analysis of the Relation between the Board of Director Composition and Financial Statement Fraud”, *The Accounting Review*, (1996), Vol.71 (4), pp.443-465
- [10] Burgstahler, D., Dichev, I., “Earnings Management to Avoid Earnings Decreases and Losses”, *Journal of Accounting and Economics*, (1997), Vol.24, pp.99–126
- [11] Chaney, P.K., Lewis, C.M., “Earnings Management and Firm Valuation under Asymmetric Information”, *Journal of Corporate Finance*, (1995), Vol.1, pp.319–345
- [12] Chih, H.L., Shen, C.H., Kang, F.C., “Corporate Social Responsibility, Investor Protection, and Earnings Management: Some International Evidence”, *Journal of Business Ethics*, (2008), Vol.79, pp.179-198
- [13] Cho, D.S., Kim, J., “Determinants in Introduction of Outside Directors in Korean Companies”, *Journal of International and Area Studies*, (2003), Vol.10(1), pp.1-20
- [14] Chtourou, Bédard, Courteau, “Corporate Governance and Earnings Management”, (2001), Available at SSRN: <http://ssrn.com/abstract=275053> or DOI: 10.2139/ssrn.275053
- [15] Conyon, M.J., Peck, S.I., “Board Control, Remuneration Committees and Top Management Compensation”, *Academy of Management Journal*, (1998), Vol.41 (2), p.146-157
- [16] Cornett, M.M., Marcus, A.J., Tehranian, H., “Corporate Governance and Pay-for-Performance: The Impact of Earnings Management”, *Journal of Financial Economics*, (2008), Vol.87, pp.357-373
- [17] Dalton, D.R., Daily, C.M., Johnson, J.L., Ellstrand, A.E., “Number of Directors and Financial Performance: A Meta-Analysis”, *Academy of Management Journal*, (1999), Vol.42 (6), pp.674-686
- [18] Davidson, R., Goodwin-Stewart, J., Kent, P., “Internal Governance Structures and Earnings Management”, *Accounting and Finance*, (2005), Vol45, pp.241-267
- [19] Dechow, P.M., Sloan, R.G., Sweeney, A.P., “Detecting Earnings Management”, *The Accounting Review*, (1995), Vol.70, pp. 193–225
- [20] Dechow, P.M., Skinner, D.J., “Earnings Management: Reconciling the Views of Accounting Academics, Practitioners and Regulators”, *American Accounting Association*, (2000), Vol.14, (2), pp.235-250
- [21] DeFond, M.L., Jiambalvo, J., “Debt Covenant Violation and Manipulation of Accruals”, *Journal of Accounting and Economics*, (1994), Vol. 17, pp.145-176
- [22] DeFond, M., Park, C., “Smoothing Income in Anticipation of Future Earnings”, *Journal of Accounting and Economics*, (1997), Vol.23 (2), pp.115-140
- [23] Degeorge, F., Patel, J., Zeckhauser, R., “Earnings Management to Exceed Threshold”, *Journal of Business*, (1999), Vol.72, pp.1–33
- [24] Ebrahim, A., “Earnings Management and Board Activity: An Additional Evidence”, *Review of Accounting and Finance*, (2007), Vol.6 (1), pp.42-58
- [25] Eisenberg, T., Sundgren, S., Wells, M.T., “Larger Board Size and Decreasing Firm Value in Small Firms”, *Journal of Financial Economics*, (1998), Vol. 48, pp.35-54
- [26] Eng, L.L., Mak, Y.T., “Corporate Governance and Voluntary Disclosure”, *Journal of Accounting and Public Policy*, (2003), Vol.22, pp.325–345
- [27] Fama, E.F., “Agency Problems and Theory of the Firm”, *Journal of Political Economy*, (1980), Vol.88 (2), pp.288-307





- [28] Fama, E.F., Jensen, M.C., “Separation of Ownership and Control”, *Journal of Law and Economics*, (1983), Vol.26 (2), pp.327-349
- [29] Fan, J.P.H., Wong, T.J., “Corporate Ownership Structure and the Informativeness of Accounting Earnings in East Asia”, *Journal of Accounting and Economics*, (2002), Vol.33, pp.401–425
- [30] Fudenberg, K., Tirole, J., “A Theory of Income and Dividend Smoothing based on Incumbency Rents”, *Journal of Political Economy*, (1995), Vol.103, pp.75–93
- [31] Gaver, J.J., Gaver, K.M., Austin, J.R., “Additional Evidence on Bonus Plan and Income Statement”, *Journal of Accounting and Economics*, (1995), Vol. 19, pp.3-28
- [32] Goodstein, J., Gautam, K., Boeker, W., “The Effects of Board Size and Diversity on Strategic Change”, *Strategic Management Journal*, (1994), Vol.15 (3), pp.241-250
- [33] Gregory, H.J., Green, S., “The Ripple Effect”, *The Internal Auditor*, (1995), No. 62 (1), pp.48-60
- [34] Haniffa, R., Hubaib, M., “Corporate Governance Structure and Performance of Malaysian Listed Companies”, *Journal of Business Finance and Accounting*, (2006), Vol.33 (7&8), pp.1034-1062
- [35] Healy, P.M., “The Effect of Bonus Schemes on Accounting Decisions”, *Journal of Accounting Economics*, (1985), Vol.7, pp.85-107
- [36] Healy, P.M., and Wahlen, J.M., “A Review of the Earnings Management Literature and its Implications for Standard Setting”, *Accounting Horizon*, (1998), Vol.3 (4), pp.365-383
- [37] Hermalin, B.E., Weisbach, M.S., “Boards of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature”, *Economic Policy Review – Federal Reserve Bank of New York*, (2003), Vol.9 (1), pp.7-26
- [38] Ho, P.L., Sia, C.S., “Earnings Management and Stock Market Response: A Study of Malaysian Firms”, Paper Presented in 19<sup>th</sup> Asian-Pacific Conference on International Accounting Issues, (2007), Kuala Lumpur, Malaysia
- [39] Iacobucci, E.M., “The Effects of Disclosure on Executive Compensation” *University of Toronto Law Journal*, (1998), Vol.48, pp.489-520
- [40] Jacksonh, S.B., Pitman, M.K., “Earnings Management”, *The CPA Journal*, (2001), Vol.71 (7), pp.38-44
- [41] Jensen, M.C., Meckling, W.H., “Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure”, *Journal of Financial Economics*, (1976), Vol.3, pp.305-360
- [42] Jensen, M.C., “The Modern Industrial Revolution, Exit and the Failure of Internal Control System”, *Journal of Finance*, (1993), 48 (3), pp.831-880
- [43] Jones, J., “Earnings Management during Import Relief Investigation”, *Journal of Accounting Research*, (1991), Vol.29, pp.193 – 228
- [44] Klapper, L.K., Love, I., (2004), “Corporate Governance, Investor Protection and Performance in Emerging Markets”, *Journal of Corporate Finance*, (2004), Vol.10, pp.703-728
- [45] Klein, A., “Audit Committee, Board of Director Characteristics and Earnings Management”, *Journal of Accounting and Economics*, (2002), Vol.33, pp.375-400



- [46] Koh, P.T.N., “Corporate Governance in Malaysia: Agendas and Achievements – Reforms in light of Post 1998 Crisis”, paper presented in Asia-Pacific Journal of Accounting and Economics Symposium (January 2004), Kuala Lumpur, Malaysia
- [47] Kosnik, R.D., “Greenmail: A Study of Board Performance in Corporate Governance”, *Administrative Science Quarterly*, (1987), Vol.32 (2), pp.163-185
- [48] Leuz, C., Nanda, D., Wysocki, P.D., “Earnings Management and Investor Protection: An International Comparison”, *Journal of Financial Economics*, (2003), Vol.69 (3), pp.505-527
- [49] Liew, P.K., “Corporate Governance Reforms in Malaysia: The Key Leading Players’ Perspective”, *Corporate Governance*, (2007), Vol. 15 (5), pp.724-740
- [50] Lipton, L., Lorsch, J., “A Modest Proposal for Improved Corporate Governance”, *The Business Lawyer*, Vol.48, pp.59-77
- [51] Marnet, O., “History Repeats Itself: The Failure of Rational Choice Models in Corporate Governance”, *Critical Perspective on Accounting*, (2007), Vol.18, pp.191-210
- [52] Mulgrew, M., Forker, J., “Independent Non-Executive Directors and Earnings Management in the UK”, *The Irish Accounting Review*, (2006), Vol. 13(2), pp.35-62
- [53] Niu, F.F., “Corporate Governance and the quality of Accounting Earnings: A Canadian Perspective”, *International Journal of Managerial Finance*, (2006), Vol.2 (4), pp.302-327
- [54] Norman, M.S., Takiah M.I., Mohd., M.R., “Earnings Management and Board Characteristics: Evidence from Malaysia”, *Jurnal Pengurusan*, (2005), Vol.24, pp.77-103
- [55] Park, Y.W., Shin, H.H., (2004), “Board Composition and Earnings Management in Canada”, *Journal of Corporate Finance*, (2004), Vol.10, pp.431-437
- [56] Peasnell, K.V., Pope, P.F., and Young, S., “Accrual Management to Meeting Earnings Target: UK Evidence Pre- and Post-Cadbury” *British Accounting Review*, (2000), Vol.32, pp.415-445
- [57] Rangan, S., “Earnings Management and the Performance of Seasoned Equity Offerings”, *Journal of Financial Economics*, (1998), Vol.50 (1), pp.101–122
- [58] Saudagaran, S.M., and Sepe, J.E., “Replication of Moses’ Income Smoothing Tests with Canadian and UK Data: A Note”, *Journal of Business Finance and Accounting*, (1996), Vol.23 (8), pp.1219-1222
- [59] Schipper, K., “Commentary: Earnings Management”, *Accounting Horizons*, (1989), Vol.3, pp.91-102
- [60] Shen, C.H., Chih, H.L., “Earnings Management and Corporate Governance in Asia’s Emerging Markets”, *Corporate Governance*, (2007), Vol.15 (5), pp.999-1021
- [61] Shim, S., “Governance in Markets: Malaysian Perspective”, *Journal of Financial Crime*, (2006), Vol.13 (3), pp.300-322
- [62] Shleifer, A., and Vishny, R.W., “A Survey of Corporate Governance”, *Journal of Finance*, (1997), Vol.52, pp.737-783
- [63] Siregar, S.V., Utama, S., “Type of Earnings Management and the effect of Ownership Structure, Firm Size and Corporate Governance Practices: Evidence for Indonesia”, *The International Journal of Accounting*, (2008), Vol.43, pp.1-27
- [64] Stlowy, H., Breton, G., “Accounts Manipulation: A Literature Review and Proposed Conceptual Framework”, *Review of Accounting and Finance*, (2004), Vol.3 (1), pp.5–66
- [65] Subramanyam, K.R., “The Pricing of Discretionary Accruals”, *Journal of Accounting and Economics*, (1996), Vol.22, pp.313 – 325



- [66] Sweeney, A.P., "Debt-Covenant Violation and Managers' Accounting Response", *Journal of Accounting and Economics*, (1994), Vol.17, pp.281-308
- [67] Takiah, M.I., Norman, M.S., "Does Earnings Management Exist in a Good Corporate Governance Environment? The Malaysian Case", *Accountants Today*, (2004), pp.16-20
- [68] Teoh, S.H., Welch, I., Wong, T.J., "Earnings Management and the Underperformance of Seasoned Equity Offerings", *Journal of Financial Economics*, (1998), Vol. 5, pp.63 – 99
- [69] Tsui, J. and Shieh, T., "Corporate Governance in Emerging Markets: An Asian Perspective", *The 4<sup>th</sup> Asian Roundtable on Corporate Governance*, (2002), Organization for Economic Cooperation and Development (OECD)
- [70] Xie, B., Davidson III, W.N., DaDalt, P.J., "Earnings Management and Corporate Governance: The Role of the Board and the Audit Committee", *Journal of Corporate Finance*, (2003), Vol.9, pp.295–316
- [71] Yermack, D., "Higher Market Valuation of Companies with a Small Board of Directors", *Journal of Financial Economics*, Vol. 40(2), pp.185-211
- [72] Yermack, D., "Remuneration, Retention and Reputation Incentives for Outside Directors", *Journal of Finance*, (2004), Vol. 59 (5), pp.2281-2308
- [73] Young, S., "The Determinants of Managerial Accounting Policy Choice: Further Evidence for the UK", *Accounting and Business Research*, (1998), Vol.28 (2), pp.131-143

