

International Conference on Economics and Business Research 2013 (ICEBR 2013)

Corporate Governance and Earnings Management: A Study on the Malaysian Family and Non-Family Owned PLCs

Mansor, N.^{a*}, Che-Ahmad, A.^b, Ahmad-Zaluki, N.A.^c, Osman, A. H.^d

^{a,c} Faculty of Accountancy, Universiti Teknologi MARA, 32610 Seri Iskandar, Perak, Malaysia

^{b,d} College of Business, Universiti Utara Malaysia, 06000 Sintok, Kedah, Malaysia

Abstract

This study supported the claim that corporate governance (CG) mechanisms are able to overcome earnings management (EM) activities specifically from the perspective of family owned companies (FOC) and the non-family owned companies (NFOC). A total sample of 264 public listed companies (PLCs), selected based on stratified samplings, were tested. The results showed that for FOC, only number of board meetings held; while for NFOC, independence of directors, audit committee, non-duality, audit committee size, in-house internal audit function and quality differentiated auditors are the CG mechanisms that are found to be able to assist in minimizing the EM activities.

© 2013 The Authors. Published by Elsevier B.V. Open access under [CC BY-NC-ND license](https://creativecommons.org/licenses/by-nc-nd/4.0/).
Selection and peer-review under responsibility of ICEBR 2013

Keywords: Earnings Management; Corporate Governance; Family Owned Companies; Board of Directors; Audit Committee

1. Introduction

Corporate governance (CG) mechanisms guarantee investors that they will receive adequate return on their investment (Shleifer and Vishny, 1986). Thus, it justifies the necessity for this study to prod into the ability of the CG mechanisms in overcoming earnings management (EM) so that reliable financial statements could be produced. EM happens when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholder about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers (Healy and Wahlen, 1999). This study is done on the distinction of family owned companies (FOC) and non-family owned companies (NFOC) so as to provide evidence to the knowledge gap on the types of CG mechanisms that could assist in overcoming EM during the recent financial crisis between these two groups, specifically

* Corresponding author.
Email address: noori882@perak.uitm.edu.my

from the perspective of a developing country, Malaysia. The findings supported the claim that CG mechanisms are able to overcome EM activities in the FOC and NFOC.

2. Literature Review

Finance Committee on CG in Malaysia in the Report on GC (2002) defines CG as: ‘*The process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long term shareholders value, whilst taking into account the interests of other stakeholders*’ (HLFC, 2000).

Under CG mechanisms, board of directors (BOD) is considered as the central point in providing effective oversight over a company’s financial reporting system to the stakeholders. These includes presence of an independent non-executive director (NED) (Jaggi *et al.*, 2009; non-duality (Gulzar and Wang, 2011); and non-multiple directorship (Dhaliwal *et al.* 2010). The presence of an independent NED could provide effective monitoring mechanism for EM (Jaggi *et al.*, 2009, while Gulzar and Wang, 2011, find that the existence of chief executive officer (CEO) duality is positively related to discretionary accruals as duality enhances further the CEO's position and power, providing ample opportunities for management discretion. Further, Dhaliwal *et al.*, 2010, state that accrual quality is positively related to accounting experts who has fewer multiple directorships.

Besides BOD, the audit committee (AC) (Ahmad-Zaluki and Wan-Hussin, 2010; Abed *et al.*, 2012), internal audit function (Prawitt *et al.*, 2009), and quality differentiated auditor (the Big Eight/Big Six/Big Five/Big Four) also play CG role for a company (Fan and Wong, 2005). Ahmad-Zaluki and Wan-Hussin, 2010, provide evidence that for those companies with a higher percentage of NED in the AC would indeed exhibit greater forecast accuracy. Abed *et al.*, 2012, provide evidence that having large board would assist in hindering the incidence of EM as in a large board size there is varied expertise among its members that could assist in identifying any misconduct arisen. Further, the overall internal audit function has a significant relation with absolute abnormal accruals (Prawitt *et al.*, 2009); and quality differentiated auditor (the Big Eight/Big Six/Big Five/Big Four) also plays CG role for a company (Fan and Wong, 2005). The latter is supported by Che-Ahmad and Mansor, 2009, who state that the presence of such auditor would hinder the auditee from involving in income smoothing activities.

In addition to CG mechanisms, corporate ownership structures of a FOC and NFOC are also incorporated into the study’s model equation. This is because Fama and Jensen, 1983, have stated that the presence of the founding family with strong equity position and their ability to have control over the management, present an advantage for the family to monitor the business. Additionally, founding FOC have less incentive to manage the companies’ earnings as they face lesser pressure to meet or beat earnings expectation (Jiraporn and DaDalt, 2009).

In addition, control variables that have significant influence on a company’s ability and propensity to engage in EM are also included. These include; firstly profitability. Saleh *et al.*, 2005, state that company which is making losses would have higher tendency to be involved in EM activities. Secondly is the company size. Che-Ahmad and Mansor, 2009, discover that smaller size companies have the tendency to be involved in income smoothing activities as their actions would not be scrutinized. Thirdly is the debt. Companies that use high levels of debt are exposed to increase levels of institutional monitoring, which would decrease the company’s ability to manage its earnings (Becker *et al.*, 1998).

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات