

COMPANY SECRETARIES' COMMERCIAL ATTRIBUTES AS MODERATORS OF CEO SUCCESSION AND REAL EARNINGS MANAGEMENT: A CONCEPTUAL FRAMEWORK IN THE MALAYSIAN PUBLIC-LISTED COMPANIES

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Abstract

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This paper develops a conceptual corporate governance (CG) framework to address the persistent challenge of real earnings management (REM) in emerging markets, focusing on Malaysia. Despite regulatory reforms, REM remains pervasive due to enforcement gaps, concentrated ownership, and market pressures. Chief executive officer (CEO) succession, particularly involving early-tenure or heir-apparent appointments, heightens the risk of REM by exposing transitional governance weaknesses. The purpose of this study is to examine how the company secretaries' commercial attributes (CSCOMM) may moderate these risks. Drawing on agency theory and resource dependence theory (RDT), the framework highlights financial expertise, strategic insight, risk management capacity, and governance engagement as attributes that enhance oversight. By extending Kakabadse et al.'s (2016) attribute model and building on recent insights by Khalidi et al. (2025), the paper advances the conceptualisation of company secretaries as both governance resources and internal control agents. The framework contributes to theory by clarifying the moderating role of CSCOMM on CEO succession and REM, and to practice by offering guidance for boards, regulators, and professional accountancy bodies. It also outlines an agenda for empirical research on Malaysian public-listed companies (PLCs), thereby informing governance reforms in emerging markets.

Keywords: Real Earnings Management, Company Secretaries' Commercial Attributes, CEO Succession and Planning, Board Membership Duality, CEO Duality, General Counsel Duality

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1. INTRODUCTION

The integrity of financial reporting is a fundamental pillar of corporate governance (CG), underpinning investor confidence, safeguarding market stability, and ensuring organisational accountability. Yet, this integrity is increasingly threatened by real earnings management (REM) — a subtle but pervasive practice whereby managers manipulate actual operational activities to achieve targeted financial outcomes (Roychowdhury, 2006). Unlike accrual earnings management (AEM), which exploits discretion within accounting standards, REM involves altering the substance and timing of real transactions — such as accelerating sales to generate abnormal cash flows from operations (ACFL), overproducing to manipulate reported production costs (APCO), or reducing discretionary expenditures (ADEX) — to meet short-term performance benchmarks. Such actions distort the firm's underlying economic reality, potentially misleading stakeholders and undermining sustainable value creation (Graham et al., 2005; Putra & Setiawan, 2024; Roychowdhury, 2006).

While REM often occurs within the bounds of formal legal compliance, its ethical ambiguity and capacity to obscure true performance have raised persistent concerns among regulators, scholars, and market actors (Al-Duais et al., 2022; Carcello et al., 2006). By eroding the quality of reported earnings, REM weakens the effectiveness of governance mechanisms in providing an accurate and reliable account of corporate performance (Al-Duais et al., 2022; Tarus & Korir, 2023). The principles-based approach championed by the International Financial Reporting Standards (IFRS) seeks to enhance transparency and discourage manipulation (Klish et al., 2022; Kouaib et al., 2018), yet the persistence of REM — particularly in jurisdictions with inconsistent enforcement — demonstrates the enduring challenges of sustaining high-quality reporting.

In emerging economies such as Malaysia, REM poses a pronounced governance risk due to structural and institutional factors. Empirical studies reveal that Malaysian public-listed companies (PLCs) engage in REM to meet or exceed earnings thresholds (Enomoto et al., 2015, 2018; Ghaleb et al., 2020), avoid breaching debt covenants (Kalgo et al., 2019), and inflate performance-related remuneration (Nuhu et al., 2023). Recent high-profile CG scandals, including those involving Serba Dinamik and KNM Group (Securities Commission Malaysia, 2021b), have illustrated how REM can serve as a precursor to more severe financial misconduct. These developments underscore the need for governance frameworks that not only deter opportunistic reporting behaviour but also embed procedural resilience to detect manipulation at an early stage.

Much of the existing literature on REM mitigation emphasises structural governance levers — such as board composition, audit committee competencies, and executive leadership traits (Nurjanah et al., 2025). However, comparatively little scholarly attention has been paid to procedural governance actors, particularly company secretaries, despite their statutory and strategic role in enabling effective board processes (Khalidi et al., 2025). Historically perceived as administrative functionaries, company secretaries have evolved into governance professionals charged with ensuring procedural compliance, facilitating

transparent board deliberations, and safeguarding adherence to statutory requirements (Liu et al., 2025; McNulty & Stewart, 2015). This redefined role has gained particular relevance in Malaysia, where the Companies Act 2016 (CA 2016) and the Malaysian Code on Corporate Governance (MCCG) formalise their professional obligations and potential contribution to governance quality.

This study adopts a distinctive perspective by positioning company secretaries not as primary decision-makers but as moderators of board process effectiveness, especially during chief executive officer (CEO) succession — a period often associated with elevated REM risk. While board leadership traits and audit committee competencies provide strategic oversight, company secretaries reinforce procedural rigour by ensuring transparent succession planning, compliance with governance codes, and effective communication among governance actors (Khalidi et al., 2025; Xiuli et al., 2025).

Extending the multidimensional attribute model of Kakabadse et al. (2016), and building on recent insights by Khalidi et al. (2025), this paper conceptualises company secretaries' attributes across three dimensions: technical, commercial, and social. The present study focuses on company secretaries' commercial attributes (CSCOMM), which encompass financial expertise, strategic acumen, risk management capability, and governance oversight (Khalidi et al., 2025; Rui & Xing, 2020; Xing et al., 2019). These attributes are particularly salient in the Malaysian context for several reasons. First, Malaysia's high proportion of family-controlled firms and relationship-based business culture can create governance environments where procedural checks are essential to counterbalance concentrated power (Md Nasir et al., 2018). Second, regulatory reforms such as CA 2016 and MCCG have heightened expectations placed on company secretaries, rendering their commercial competencies a critical complement to formal compliance obligations (Companies Commission of Malaysia, 2016b; Securities Commission Malaysia, 2017, 2021a, 2021b). Third, in an emerging market where market discipline remains underdeveloped and regulatory enforcement is uneven, commercially competent company secretaries can play a pivotal role in bridging the gap between procedural governance and strategic oversight, thereby enhancing the board's capacity to detect and deter REM (Brooks et al., 2020; Concannon & Nordberg, 2018; Khalidi et al., 2025).

Accordingly, this study addresses three interrelated research gaps: 1) the limited scholarly recognition of company secretaries' procedural influence in mitigating REM (Nowland et al., 2021; Rui & Xing, 2020); 2) the absence of a structured and quantifiable framework for assessing commercial competencies within governance contexts (Kakabadse et al., 2016; Khalidi et al., 2025); 3) the lack of integration between procedural governance theory and REM research in emerging market settings (Al-Duais et al., 2022; Lin et al., 2025). By proposing a conceptual framework that positions CSCOMM as a moderating mechanism in the relationship between CEO succession and REM, this study advances theoretical understanding while providing practical guidance for enhancing governance effectiveness in Malaysian PLCs.

The remainder of this paper is structured as follows. Section 2 reviews the relevant literature, while Section 3 outlines the theoretical foundations

and develops the study's propositions alongside the proposed conceptual model. Section 4 discusses the theoretical, practical, and policy implications of the framework. Finally, Section 5 concludes by summarising the key contributions, acknowledging the study's limitations, and identifying directions for future research.

2. LITERATURE REVIEW

2.1. Real earnings management in corporate governance

REM refers to the deliberate manipulation of actual operational activities to achieve targeted financial outcomes without directly breaching accounting standards (Roychowdhury, 2006). Unlike AEM — which relies on discretionary accounting estimates and policy choices — REM alters the timing, structure, or scale of genuine business transactions. Common strategies include: 1) accelerating sales to generate ACFL and boost short-term revenue; 2) overproducing inventory to increase APCO and reduce reported cost of goods sold; 3) cutting ADEX, such as research and development, marketing, or staff training, to temporarily improve profitability.

While such actions may improve reported earnings in the short term, they often undermine long-term value creation, impair operational efficiency, and mislead stakeholders regarding a firm's true financial position (Graham et al., 2005; Putra & Setiawan, 2024; Roychowdhury, 2006). The ethical implications of REM are particularly contentious: although legally permissible, its intent to misrepresent performance blurs the boundary between prudent discretion and opportunistic behaviour (Tarus & Korir, 2023).

Globally, regulatory bodies such as the International Accounting Standards Board (IASB), through the IFRS framework, have promoted principles-based reporting to enhance transparency and deter manipulation (Klish et al., 2022; Kouaib et al., 2018). Nonetheless, the persistence of REM — especially in emerging markets — highlights the limitations of formal standards when enforcement and monitoring remain inconsistent (Al-Duais et al., 2022; Lin et al., 2025).

2.2. Real earnings management in the Malaysian context

In Malaysia, REM poses a significant threat to market confidence and governance credibility. Empirical evidence shows that Malaysian PLCs employ REM to meet or exceed earnings thresholds (Enomoto et al., 2015, 2018; Ghaleb et al., 2020), avoid breaching debt covenants (Amran et al., 2016; Kalgo et al., 2019), and inflate performance-linked executive remuneration (Al-Absy, 2022; Nuhu et al., 2023).

The persistence of REM despite governance reforms under the MCCG and the CA 2016 reflects systemic weaknesses in institutional enforcement and internal monitoring. Corporate scandals such as those involving Serba Dinamik and KNM Group demonstrate how REM can serve as an early warning signal of more severe financial misstatements or fraud (Hasnan et al., 2022; Securities Commission Malaysia, 2021b; Teen, 2021). Recent Malaysian

studies provide further evidence of its pervasiveness. Ghaleb et al. (2020) find that family ownership concentration has a significant influence on REM among manufacturing firms, while Hasnan et al. (2022) show that pressure, opportunity, and rationalisation factors are key drivers of REM practices in PLCs. Similarly, Mansor and Wan Abdul Rahman (2019) reveal that the size and structural complexity of family-affiliated business groups heighten REM engagement, underscoring how entrenched ownership and pyramidal structures exacerbate earnings manipulation risks.

Malaysia's governance environment is further shaped by concentrated ownership, family-controlled firms, and relationship-based business networks, which may exert pressures on boards and dilute oversight effectiveness (Ghaleb et al., 2020; Md Nasir et al., 2018; Mansor & Wan Abdul Rahman, 2019). In such contexts, mitigating REM requires broadening the scope of governance beyond traditional oversight bodies such as boards of directors and audit committees to include procedural governance actors. Company secretaries, in particular, are well positioned to uphold board process integrity and embed procedural safeguards that can detect and deter REM at an operational level.

2.3. Chief executive officer succession and real earnings management

CEO succession represents a pivotal moment in CG, with significant implications for both strategic direction and operational decision-making. Two succession scenarios are particularly relevant in the context of REM risk.

First, early-tenure CEOs — defined as those with three years or less in the role — often face intense pressure to demonstrate managerial competence, deliver rapid performance improvements, and establish legitimacy among investors, boards, and markets (Ali & Zhang, 2015; Geiger & North, 2011). These conditions may heighten the incentive to engage in REM, which offers immediate, visible earnings gains but compromises long-term organisational sustainability (Setyawan & Anggraita, 2018).

Second, heir-apparent CEOs, appointed through planned internal succession, generally benefit from smoother leadership transitions and deeper organisational familiarity (Ahn & Joo, 2020). However, they are not immune to REM risks. In situations where such leaders inherit entrenched governance weaknesses, operate within politicised board environments, or face implicit expectations to preserve a predecessor's performance legacy, REM can emerge as a mechanism to sustain perceived continuity or meet inherited performance benchmarks.

The role of board processes during succession — encompassing candidate evaluation, performance monitoring, and disclosure oversight — is central to constraining these risks. Yet, the effectiveness of such processes depends critically on the degree of procedural rigour, transparency, and compliance culture embedded within the governance system. Where procedural safeguards are weak or inconsistently applied, even well-intentioned succession processes may fail to deter opportunistic earnings management behaviour.

2.4. The role of company secretaries in corporate governance

The role of the company secretary has undergone a significant transformation, particularly in jurisdictions that have embraced modernised CG frameworks. Once perceived primarily as an administrative position, the company secretary is now recognised as a strategic governance professional responsible for compliance assurance, board advisory functions, and the facilitation of transparent and accountable decision-making (Liu et al., 2025; McNulty & Stewart, 2015). Following governance reforms such as the Cadbury Report (The Committee on the Financial Aspects of Corporate Governance, 1992) and subsequent legislative developments, company secretaries are increasingly viewed as procedural custodians who safeguard the integrity of board processes, ensure adherence to statutory requirements, and serve as intermediaries between boards, senior executives, and regulatory bodies (The Committee on the Financial Aspects of Corporate Governance, 1992; Companies Commission of Malaysia, 2016b; Companies Commission of Malaysia, 2022; Financial Reporting Council [FRC], 2018; Securities Commission Malaysia, 2017). Their privileged access to board deliberations, consistent presence at board and committee meetings, and responsibility for maintaining confidential corporate records position them to exert a meaningful — albeit indirect — influence on governance quality (Li et al., 2023; Wang et al., 2019).

Despite this strategic repositioning, the academic literature continues to offer limited attention to company secretaries, both internationally and within Malaysia. Governance research has traditionally focused on structural mechanisms such as board composition, audit committee characteristics, and executive leadership traits, often overlooking the procedural actors whose work underpins these governance structures. Recent work by Peij and Bezemer (2021) highlights this gap, showing that company secretaries occupy a critical yet challenging position within board governance systems. Their study of Dutch company secretaries demonstrates how time pressures, role ambiguity, and complex information flows constrain effectiveness, yet also underscores their potential to shape board decision-making and enhance governance quality through process and relational interventions. While studies from the UK, China, Australia, and Hong Kong have acknowledged the positive contribution of company secretaries to governance outcomes (Nowland et al., 2021; Song & Zhu, 2023; Zheng, 2020), there is a scarcity of empirical research examining the specific attributes that enhance their role in financial reporting oversight and in constraining opportunistic practices such as REM.

2.4.1. Company secretaries' attributes: Technical, commercial, and social

Drawing on Kakabadse et al. (2016), company secretaries' attributes are generally categorised into three dimensions: technical, commercial, and social. Technical attributes cover expertise in corporate law, governance codes, compliance frameworks, and regulatory reporting. Social attributes encompass interpersonal influence, networking capabilities, reputation, and stakeholder relationship

management. Commercial attributes — the focal point of this paper — include financial literacy, strategic insight, governance oversight, and risk management capabilities.

Recent studies by Khalidi et al. (2025) emphasise that these three dimensions, particularly the commercial attributes, represent a shift in the perception of company secretaries from administrative facilitators to strategic governance actors. Their systematic review of international literature underscores that commercial competencies allow company secretaries to influence board decisions, advise on financial and risk-related issues, and contribute to strategic resilience (Khalidi et al., 2025). Complementing this, their empirical study of Malaysian PLCs highlights that, despite statutory recognition under the CA 2016, the commercial influence of company secretaries remains underutilised, as few hold dual roles or board memberships that would strengthen their strategic standing (Khalidi et al., 2025). Together, these insights confirm that commercial attributes enable company secretaries to bridge procedural compliance with strategic oversight, reinforcing governance resilience.

2.4.2. Company secretaries' commercial attributes and real earnings management mitigation

CSCOMM extend the role of the company secretary beyond procedural administration into strategic governance facilitation. These competencies encompass financial expertise, which enables the interpretation of financial data, assessment of earnings quality, and detection of anomalies indicative of REM (Li et al., 2023; Thesing, 2023; Xing et al., 2019). They also include strategic insight, involving a deep understanding of business models and the alignment of governance decisions with sustainable performance objectives (Brooks et al., 2020; Concannon & Nordberg, 2018). Risk management and compliance oversight form another core dimension, whereby company secretaries anticipate governance vulnerabilities and ensure adherence to reporting standards (Ham & Koharki, 2016). Furthermore, governance and stakeholder engagement capabilities allow them to facilitate transparent communication with investors, regulators, and other stakeholders (Sun et al., 2023).

Khalidi et al. (2025) advance this discussion by demonstrating, through empirical evidence from Malaysian PLCs, that although many company secretaries possess strong technical secretarial competencies, their commercial contribution is often overshadowed by routine compliance responsibilities. Consequently, their capacity to enhance financial oversight and inform strategic decision-making remains substantially underutilised. This limited engagement highlights an important gap within both professional practice and the academic literature.

When fully leveraged — particularly through dual roles such as chief financial officer (CFO), General Counsel (GC), or board director — CSCOMM can integrate financial oversight, legal compliance, and strategic alignment into board decision-making processes (Rui & Xing, 2020; Xing et al., 2019; Zheng, 2020). Addressing this gap, the present study positions CSCOMM as a key moderating mechanism in mitigating REM risks during CEO succession within Malaysian PLCs.

2.5. Theoretical gap and research relevance

Globally, the governance literature offers limited conceptual integration between CSCOMM and specific governance outcomes such as REM mitigation. While Peij and Bezemer (2021) draw attention to the evolving challenges and ambiguous expectations placed on company secretaries in two-tier board systems, they also highlight the necessity of reframing the role as integral to governance effectiveness rather than administrative compliance. Building on this, the present study advances the argument by conceptualising CSCOMM as a measurable moderating mechanism in the CEO succession-REM relationship, thereby extending both agency theory and resource dependence theory (RDT) to procedural governance actors. While the technical compliance responsibilities of company secretaries are widely acknowledged (Liu et al., 2025; McNulty & Stewart, 2015), their strategic advisory capacity — particularly in moderating risks associated with CEO succession and planning — remains largely underexplored. Existing studies have tended to focus on structural governance mechanisms, such as board composition and audit committee expertise (Al-Duais et al., 2022; Kouaib et al., 2018; Kouaib & Jarboui, 2016a, 2016b), thereby overlooking procedural governance actors whose influence on strategic and operational oversight can be both substantial and indirect (Kakabadse et al., 2016; McNulty & Stewart, 2015).

In the Malaysian context, this gap is accentuated by several factors. First, although company secretaries are formally recognised as key governance officers under the CA 2016 and the MCGC (Companies Commission of Malaysia, 2016b; Companies Commission of Malaysia, 2022; Securities Commission Malaysia, 2017), there has been little empirical examination of their strategic competencies, particularly their commercial attributes. Second, the prevalence of family-controlled ownership structures and relationship-based governance networks can compromise the independence of board oversight, creating vulnerabilities in monitoring and accountability (Ghaleb et al., 2020; Hasnan et al., 2022; Md Nasir et al., 2018; Nuhu et al., 2023). Third, as an emerging economy, Malaysia faces persistent market pressures that often prioritise short-term performance targets over sustainable governance practices (Al-Absy, 2022; Enomoto et al., 2015, 2018), thereby heightening the risk of REM.

This study addresses these gaps by proposing a conceptual framework in which the CSCOMM moderate the relationship between CEO succession type — namely, early-tenure and heir-apparent appointments — and the incidence of REM in Malaysian PLCs. By integrating agency theory (Jensen & Meckling, 1976) and RDT (Pfeffer & Salancik, 1978), the framework positions company secretaries as both internal control agents who safeguard shareholder interests and strategic governance resources who enhance the capacity of boards to resist short-term opportunistic behaviour (Kakabadse et al., 2016; McNulty & Stewart, 2015; Xiuli et al., 2025). In doing so, the study advances theoretical understanding of procedural governance roles while offering practical insights for strengthening governance resilience against REM in emerging market contexts.

3. RESEARCH METHODOLOGY

3.1. Theoretical framework

3.1.1. Agency theory perspective

Agency theory (Jensen & Meckling, 1976) posits that managers (agents) may pursue personal objectives that diverge from the interests of shareholders (principals), particularly where information asymmetry limits the board's ability to monitor managerial actions effectively. CEO succession can exacerbate these agency problems due to leadership changes, unfamiliarity with the new CEO's decision-making style, and increased pressures to achieve short-term results.

Early-tenure CEOs, with three years or less in their role, often face heightened scrutiny from both boards and external stakeholders. This performance pressure, combined with limited track records, can incentivise them to engage in REM as a quick means of meeting earnings expectations (Ali & Zhang, 2015; Geiger & North, 2011; Setyawan & Anggraita, 2018). Heir-apparent CEOs — beneficiaries of planned succession — generally enjoy smoother transitions and organisational familiarity, but may still resort to REM to maintain the predecessor's legacy or meet implicit performance benchmarks set by entrenched boards (Ahn & Joo, 2020).

From an agency perspective, CSCOMM strengthen procedural rigour and financial oversight, thereby reducing the opportunity for opportunistic behaviour. Their financial expertise, strategic insight, and compliance acumen enable them to ensure that CEO performance evaluations incorporate transparent and accurate financial disclosures, flag anomalies indicative of REM, and align CEO incentives with long-term shareholder value. These capabilities directly address the information asymmetry that fuels agency costs during CEO transitions.

3.1.2. Resource dependence theory perspective

While agency theory focuses on monitoring and control, RDT (Pfeffer & Salancik, 1978), emphasises the importance of governance actors as providers of critical resources — such as expertise, legitimacy, and access to strategic information — necessary for organisational stability and adaptability.

Commercially competent company secretaries extend their role beyond procedural compliance to become embedded governance resources. Their commercial acumen allows them to interpret evolving regulatory requirements, advise on risk management strategies aligned with corporate objectives, and facilitate strategic board deliberations on financial matters. During CEO succession, such attributes provide continuity, safeguard procedural integrity, and embed governance practices that deter REM.

Moreover, company secretaries holding dual roles — such as CFO, GC, or board director — gain greater access to strategic decision-making processes and financial oversight mechanisms (Li et al., 2023; Nowland et al., 2021; Xing et al., 2019; Xiuli et al., 2025). This expanded influence strengthens their ability to intervene in operational decisions that may risk earnings manipulation.

3.1.3. Integrating agency theory and resource dependence theory in the context of real earnings management

Integrating agency theory and RDT provides a complementary lens for understanding the moderating role of CSCOMM in the CEO succession-REM relationship. From an agency perspective, CSCOMM reduce information asymmetry, enhance oversight, and align managerial incentives with shareholder interests. From an RDT perspective, they contribute strategic resources, legitimacy, and continuity that strengthen governance during leadership transitions.

Effective REM mitigation requires both control and advisory functions. Thus, CSCOMM serve as a dual-function mechanism — constraining managerial opportunism while enabling informed, compliant, and strategically aligned decision-making.

3.2. Propositions development

Drawing upon the integrated theoretical lens of Agency Theory and RDT, this study proposes that the CSCOMM moderate the relationship between CEO succession type — specifically, early-tenure and heir-apparent appointments — and REM in Malaysian PLCs.

From an agency perspective, early-tenure CEOs may resort to REM due to heightened performance

pressures and the need to establish credibility (Ali & Zhang, 2015; Geiger & North, 2011; Setyawan & Anggraita, 2018), while heir-apparent CEOs may engage in REM to preserve the predecessor's legacy or meet entrenched board expectations (Ahn & Joo, 2020). Commercially competent company secretaries can mitigate these tendencies by reinforcing disclosure rigour, ensuring transparent CEO performance evaluations, and aligning executive incentives with sustainable shareholder value.

From an RDT perspective, CSCOMM function as a strategic governance resource, offering financial acumen, risk oversight, and strategic advisory capacity to support boards in resisting earnings manipulation. Their influence is further strengthened when they hold dual roles — such as CFO, GC, or board director — which provide privileged access to decision-making channels (Li et al., 2023; Nowland et al., 2021; Xing et al., 2019; Xiuli et al., 2025). Accordingly, the following propositions are advanced:

P1: The relationship between early-tenure CEOs and REM is moderated by the CSCOMM, such that higher CSCOMM reduce the likelihood of REM.

P2: The relationship between heir-apparent CEOs and REM is moderated by the CSCOMM such that higher CSCOMM reduce the likelihood of REM.

The summary of propositions is presented in Table 1 below.

Table 1. Summary of propositions, theoretical foundations, and constructs

Propositions	CEO succession types	Integrated theoretical lens	Key CSCOMM attributes	Expected moderating effect on REM
P1 and P2	Early-tenure and heir-apparent CEOs	Agency theory reduces information asymmetry and constrains opportunism; Resource dependence theory provides strategic resources, legitimacy, and continuity.	Financial expertise, strategic insight, compliance acumen, risk management capability, governance engagement, dual-role influence.	Strengthens oversight, aligns CEO incentives with long-term value, and deters REM during leadership transitions.

Note: This integrated framework positions CSCOMM as a dual-function governance mechanism that both constrains managerial opportunism (agency theory) and provides strategic resources to support effective decision-making (RDT). In the conceptual model, these attributes are operationalised as the moderating variable linking CEO succession type (early-tenure or heir-apparent) to the likelihood of REM, with the expectation that higher CSCOMM will attenuate opportunistic reporting behaviours during leadership transitions.

3.3. Conceptual model

The proposed conceptual framework positions CEO succession — specifically early-tenure CEOs ($\leq$ three years) (Bills et al., 2017; Nuanpradit, 2019), and heir-apparent CEOs (Geertsema et al., 2020; Pan et al., 2018) — as the independent variables influencing REM. REM is operationalised through three core components: ACFL, APCO, and ADEX (Baatour et al., 2017; Graham et al., 2005; Roychowdhury, 2006). The CSCOMM — covering financial expertise, strategic insight, risk management, and governance engagement (Kakabadse et al., 2016; Khalidi et al., 2025b) — serve as the moderating variable, influencing both the strength and direction of the relationship.

The CSCOMM construct is measured using an index that assesses the strategic integration of company secretaries within governance structures. This index evaluates engagement beyond administrative functions across three commercial roles: 1) CFO duality; 2) GC duality; 3) board directorship. Each role is assigned a score of “1” if concurrently held, producing a maximum score of 3, with verification through public disclosures such as annual reports and Companies Commission of

Malaysia MyData filings (Khalidi et al., 2025b). CFO duality reflects direct involvement in financial oversight, enhancing earnings transparency and enabling early detection of REM practices (Li et al., 2023; Nowland et al., 2021; Xing et al., 2019). GC duality strengthens legal strategy, compliance, and governance frameworks that constrain managerial discretion (Al Mamun et al., 2021; Brooks et al., 2020; Concannon & Nordberg, 2018). Board directorship elevates the secretary's role to strategic decision-making, shaping disclosure policies and performance evaluation processes (Xing et al., 2019; Xiuli et al., 2025; Zheng, 2020). Collectively, these attributes position commercially embedded company secretaries as integrative governance agents who align operational practices with long-term objectives, bolster internal control systems, and reinforce ethical standards — thereby reducing REM risk.

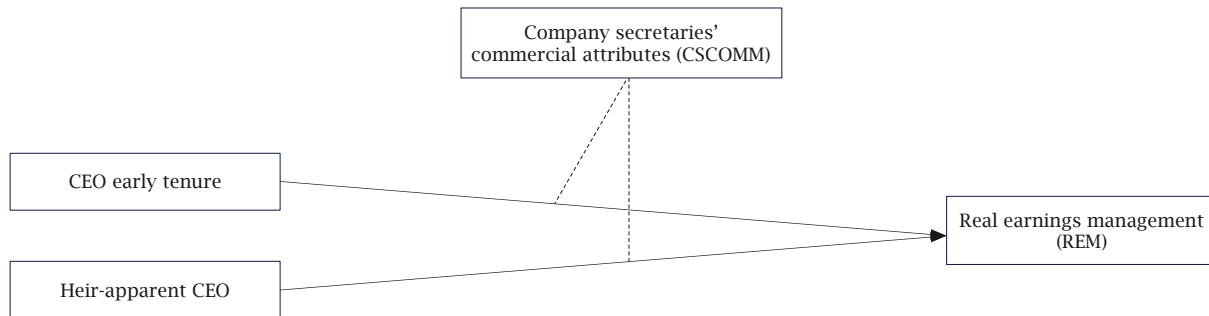
The model draws on two theoretical anchors. From agency theory, CSCOMM reduce agency costs by reinforcing procedural oversight and limiting managerial discretion (Jensen & Meckling, 1976). From RDT, they provide strategic resources and institutional continuity that enhance governance effectiveness during leadership changes (Pfeffer &

Salancik, 1978). In weaker procedural governance environments, CEO succession may increase REM risk: early-tenure CEOs may manipulate short-term earnings to establish credibility (Ali & Zhang, 2015; Geiger & North, 2011), while heir-apparent CEOs may seek to sustain or enhance a predecessor's performance record (Ahn & Joo, 2020). Embedding strong commercial attributes within the company secretary role is therefore posited to moderate such

tendencies by promoting transparency, ensuring compliance, and strengthening the board's ability to curb opportunistic behaviour.

Figure 1 presents the proposed conceptual framework for this study. This conceptual model illustrates the moderating role of CSCOMM in the relationship between CEO succession type — early-tenure and heir-apparent appointments — and REM in Malaysian PLCs.

Figure 1. Conceptual model linking CEO succession, CSCOMM, and REM



The framework integrates agency theory, which explains CSCOMM's role in reducing information asymmetry and constraining managerial opportunism, with RDT, which highlights CSCOMM as a strategic governance resource providing expertise, legitimacy, and continuity. In combination, these theoretical lenses position CSCOMM as a dual-function mechanism that strengthens board oversight, aligns CEO incentives with sustainable shareholder value, and deters REM during leadership transitions.

4. FINDINGS AND DISCUSSION

4.1. Theoretical contributions

This study makes three primary theoretical contributions to the CG literature. First, it extends procedural governance theory by shifting analytical attention from structural mechanisms — such as board independence, audit committee expertise, and leadership traits — to procedural governance actors, specifically company secretaries, as significant moderators in the relationship between CEO succession and REM (Jensen & Meckling, 1976; Pfeffer & Salancik, 1978; Khalidi et al., 2025b). While most prior research has centred on board composition and oversight functions, this study positions company secretaries as pivotal agents in safeguarding procedural integrity during leadership transitions, particularly in emerging market contexts.

Second, it operationalises commercial attributes by adopting and extending the tripartite attribute framework proposed by Kakabadse et al. (2016), and building on recent insights by Khalidi et al. (2025b), offering a structured and measurable conceptualisation of commercial competencies. This approach allows future empirical investigations to assess how financial expertise, strategic insight, risk management, and governance engagement contribute to mitigating REM (Li et al., 2023; Brooks et al., 2020).

Third, it integrates agency theory and RDT into a unified framework, bridging the monitoring and control focus of agency theory with the strategic

resource provision perspective of RDT. This integration demonstrates that CSCOMM can simultaneously constrain opportunistic managerial behaviour and facilitate informed, strategically aligned decision-making during CEO succession events (Ali & Zhang, 2015; Ahn & Joo, 2020).

4.2. Implications for practice

For boards of directors, the findings underscore the value of embedding the assessment of CSCOMM into board performance reviews and succession planning processes (Nowland et al., 2021; Concannon & Nordberg, 2018). Boards could designate commercially capable secretaries as procedural gatekeepers in CEO evaluations, ensuring that financial reporting remains transparent, compliant, and resistant to REM.

For investors and analysts, the presence of commercially adept company secretaries should be regarded as a positive governance signal — particularly within family-controlled firms or organisations undergoing frequent leadership transitions — indicating an enhanced capacity to maintain financial integrity (Khalidi et al., 2025b; Xing et al., 2019).

4.3. Implications for policy

For regulators and policymakers, there is scope to strengthen the MCCG and the CA 2016 by explicitly stipulating demonstrable commercial competencies — such as financial literacy, strategic governance insight, and risk oversight — as prerequisites for the appointment of company secretaries (Companies Commission of Malaysia, 2022; Securities Commission Malaysia, 2021a). For professional bodies, such as the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA), Malaysian Association of Company secretaries (MACS), and the Malaysian Institute of Accountants (MIA), continuing professional development (CPD) programmes could be enhanced to incorporate advanced training in financial interpretation, governance advisory capabilities, and proactive risk analysis (Brooks et al., 2020; Sun et al., 2023).

4.4. Implications for research

This study's operationalisation of CSCOMM offers a replicable framework for empirical testing in other emerging market contexts. Future research could examine whether the moderating effects identified here persist across different ownership structures,

cultural settings, and regulatory regimes. Comparative studies between markets with varying enforcement strengths could further illuminate how institutional environments shape the influence of procedural governance actors in mitigating REM.

The summary of study implications is presented in Table 2 below.

Table 2. Summary of practical, policy, and research implications

Stakeholder group	Key implication	Supporting rationale
Boards of directors	Integrate assessment of CSCOMM into board performance reviews and succession planning; appoint commercially capable secretaries as procedural gatekeepers in CEO evaluations.	Enhances transparency, compliance, and resistance to REM during leadership transitions.
Investors and analysts	Treat the presence of commercially adept company secretaries as a positive governance signal, especially in family-controlled firms or those with frequent leadership changes.	Indicates stronger procedural oversight and reduced REM risk.
Regulators and policymakers	Amend MCGG and CA 2016 to explicitly require commercial competencies (e.g., financial literacy, governance insight, risk oversight) for company secretary appointments.	Elevates baseline governance capability and formalises expectations.
Professional bodies	Enhance CPD programmes to include advanced financial interpretation, governance advisory skills, and proactive risk analysis training.	Strengthens professional capacity to detect and deter REM.
Researchers	Apply and test the CSCOMM framework in other emerging markets and under varied institutional settings.	Facilitates comparative analysis of procedural governance's role in REM mitigation.

5. CONCLUSION

This paper highlights that REM remains a persistent governance challenge, particularly in emerging markets such as Malaysia, where concentrated ownership structures, familial control, and uneven regulatory enforcement can undermine financial reporting quality (Khalidi et al.; 2025b; Ham & Koharki, 2016). The conceptual framework advanced herein demonstrates that CEO succession — whether involving early-tenure leaders or heir-apparent appointments — constitutes a period of heightened REM risk, fuelled by legitimacy pressures, legacy preservation, and transitional governance vulnerabilities (Geiger & North, 2011; Ahn & Joo, 2020).

The main finding of this conceptual study is that CSCOMM — encompassing financial expertise, strategic insight, risk management capability, and governance engagement — can moderate the relationship between CEO succession and REM. Grounded in agency theory (Jensen & Meckling, 1976) and RDT (Pfeffer & Salancik, 1978), the model positions company secretaries not only as internal control agents who reduce agency costs but also as strategic governance resources who enhance board capacity during leadership transitions.

The implications of this framework are twofold. Theoretically, it contributes to the CG literature by integrating procedural governance actors into REM research, bridging structural oversight mechanisms with strategic advisory roles. Practically, it highlights the importance of embedding commercial competencies into the professional expectations of company secretaries to strengthen resilience against opportunistic reporting.

The limitations of this paper stem from its conceptual nature. As no empirical testing has been undertaken, the proposed framework and propositions require validation through future research. Quantitative studies could employ large-sample econometric analyses of Malaysian PLCs, including those in highly regulated sectors such as finance and energy, cross-country comparisons to assess applicability across both emerging and developed markets, and longitudinal approaches to capture changes over time. Future research should also examine how CSCOMM interact with other governance mechanisms, such as audit committee independence and board diversity, to reveal potential layered governance effects. In addition, their role in strengthening whistleblowing practices and ensuring compliance with anti-money laundering regulations (AMLA) warrants closer investigation. Qualitative approaches, such as interviews with directors, audit committee members, and company secretaries, may provide richer insights into the mechanisms through which CSCOMM influence board processes. Furthermore, mixed-method designs that combine survey instruments with archival data could yield a more comprehensive understanding of the multidimensional impact of CSCOMM.

In conclusion, this paper provides a foundation for empirical inquiry by conceptualising CSCOMM as moderators of REM risk during CEO succession. If validated, the framework may reshape both academic perspectives and practitioner approaches to REM mitigation, while informing policy development in Malaysia and other emerging market contexts.

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