FAMILY OWNERSHIP HETEROGENEITY AND AUDIT COMMITTEES INDEPENDENCE AND ITS IMPLICATION TOWARDS THE REVISED MALAYSIA CODE ON CORPORATE GOVERNANCE (MCCG, 2007)

Wan Masliza Wan Mohammad*, Wan Fadzilah Wan Yusoff, Nik Mohamad Zaki Nik Salleh

Abstract

This study examines the effectiveness of audit committee independence when moderated by firms' family ownership. This is to investigate the implication of revised Malaysia Code on Corporate Governance (2007) that requires majority composition of independence directors in the audit committee. We study 1,206 firm-year observations between fiscal years 2004 to 2009 of firms listed in Bursa Malaysia. The findings suggest that independent directors are more effective in curbing earnings management when there is stronger ownership of family members. Our research offers insights on the important of family institutional structures on corporate governance reforms in Malaysia. Malaysian family firms are mostly traditional firms which have built their reputation and strength in the industry for many generations. The reputation built, improve shareholders confidence and reduce potential agency conflicts.

Keywords: Corporate Governance, Family Ownership, Audit Committees

** Faculty of Management, Multimedia, Cyberjaya, Malaysia*
Email: wan.masliza@mmu.edu.my

1. Introduction

Numerous studies that have been done in developed countries support the notion of independent director's effectiveness (Beasley, Carcello, Hermanson, & Lapides, 2000; Beasley, 1996; Caramanis & Lennox, 2008; Klein, 2002; Peasnell, Pope, & Young, 2005). However in the context of Malaysia the findings are mixed (Abdul Rahman & Mohamed Ali, 2006; Mohd-Saleh, Iskandar, & Rahmat, 2005, 2007).Earlier study conducted by Norman et al.(2005) shows that independent directors reduce earnings management in Malaysia, however in recent years after the imposition of RMCCG(2007), there is a surge in the number of independent directors in the audit committees Malaysia. In addition, one of the main agenda of *Organisation for Economic Co-operation and Development* (OECD) Asian Roundtable of Corporate Governance in Malaysia (2013) is to address the unique characteristics of Asian markets, notably through high concentrated ownership of states and family firms.

In Malaysia for instance, the percentage of family firms' ownership is second largest after Indonesia and controlled by a small group of related parties members (Claessens & Fan, 2002; Jaggi, Leung, & Gul, 2009; Liew, 2007). The concentrated ownership of family firms in Malaysia are approximately RM 800 million of revenue in Bursa Malaysia (Ibrahim & Samad, 2011). Due to the concentrated family ownership, the roles of independent directors in the audit committees are imperative. This is notably after the imposition of revised Malaysia Code on Corporate Governance (2007). The focus of the revised code is to strengthen the roles of audit committee through a larger composition of independent directors. Nonetheless, previous studies in Malaysia have found that affiliated independent directors are appointed as part of the board members(Abdullah & Mohd-Nasir, 2004; Wan-Hussin, 2009). These raises concerns over the objectivity of the audit committee board in Malaysian firms.

2. Family ownership, Revised Code on Corporate Governance (2007) and Earnings Management

Malaysia is unique in terms of family ownership structures in comparison to the western world[1]. For

[1] Ownership of firms can be classified into three different categories:(a) management or inside ownership;(b) outside blocks (c) diffuse outside ownership(Donnelly & Lynch, 2002). There are two main types of ownership; 1)quasi insiders or managers of the firm who owns a considerable portion of the entity's shares, and this is deemed to be useful in reducing agency conflicts 2) Outsiders who are not part of the management and plays an important roles in reducing agency conflicts. The roles of outsiders in reducing the conflicts

instance in Malaysia, majority of firms are family owned and highly concentrated (Hashim & Ibrahim, 2013). Therefore the influence of family ownership is stronger in Asian countries like Malaysia (Fan & Wong, 2002). Further family firms in Malaysia practices better disclosures practices(Wan-Hussin, 2009) and have better earnings quality (Hashim, 2009; Nahar, 2010) . Even in some other countries, family firms are associated with less earnings management. For instance, Prencipe and Bar-Yosef (2011) found family ownership is negatively related to earnings management in Italian firms. This is also supported by Jaggi et al.(2009) in Hong Kong and Stockmans et al. (2013) in Belgian settings. In western countries, family firms are argued to have greater disclosures and earnings quality (Ali, Chen, & Radhakrishnan, 2007; Wang, 2006). This is consistent with alignment effect theory that states, managers will try to align the interest of both managers and shareholders to bridge the expectation gap.

Further the revised code which supersede MCCG(2000), requires that all members of the audit committee to be financially literate and at least one should be a member of an accounting association or body. This requirement is an impetus for the directors to learn, understand and interpret financial statements accurately, as part of their duties to monitor the firm's internal control system. One of the main duties of the directors is to ensure that the managers prepare the financial statements according to the approved accounting standards. Further, revised Malaysia Code on Corporate Governance (2007) hereafter referred RMCCG (2007), also requires that the audit committee should comprise of at least three members and these members should comprise in majority of independent directors. The stronger roles of the independent directors are posited to reduce earnings management.

3. Data sources and methodology

3.1 Samples of the study

The sample consists of 1,206 firm-year observation between fiscal years 2004-2009. There are seven industries within Bursa Malaysia. Within these industries, the data is first stratified based on the list available in Emerging Market Information System (EMIS) database. Initially the population consists of 772 firms as at 31st December 2009.However due to missing data from the annual reports downloaded from EMIS and incomplete data to estimate Modified Jones Model (1995) the samples are finally reduced to 201 companies.

3.2 Model specification

The present study employs panel data regression using fixed effect panel regression. Panel data regression is utilised because the analyses are more robust, allows heterogeneity within samples and has less collinearity among variables (Baltagi, 2008). In order to measure earnings management Modified Jones (1995) is used to estimate discretionary accruals (DAMODIFIED). The list and definition of all variables used are represented in Table I.

$$DAMODIFIED = \alpha 0INTERCEPT + \alpha 1ACINDEP + \alpha 2FAMILYOWNERSHIP + \alpha 3FAMILYOWNERSHIP*ACINDEP + \alpha 4FAMPERCENT + \alpha 5ROA + \alpha 6CHAIRINDEP + \alpha 7MBRATIO + \alpha 8BIG4 + \alpha 9LOGBSIZE + \alpha 10LOGTENURE + \alpha 11LOGASSET + \varepsilon$$

Consistent with Klein (2001) and Jaggi et al. (2009), a minimum requirement of 10 observations in each industry for each year are needed to estimate the coefficients for the discretionary accruals.

TA_t/A_{it-1} = $\alpha_1 (1/A_{it-1}) + \beta_1 (\Delta REV_{it} / A_{it-1}) + \beta_2 (PPE_{it}/ A_{it-1}) + \varepsilon$ (1)

NDA_{it} = $\alpha_1 (1/A_{it-1}) + \beta_1 [(\Delta REV_{it} - \Delta REC_{it})/ A_{it-1})] + \beta_2 (PPE_{it} / A_{it-1})$ (2)

DA_{it} = $TA_{it}/A_{it-1} - NDA_{it}$ (3)

Where,

TA_t = the change in non-cash current assets minus the change in current liabilities

A_{it-1} = total asset for firm *i* at the end of year t-1;

ΔREV_{it} = revenue for firm i in year t less revenues year t-1;

PPE_{it} = gross property, plant and equipment for firm i at the end of year t;

α_1,β_1,β_2 = represent the OLS estimates of α_1,β_1,β_2;

ε = residual

Thus, following Jaggi et al.(2009) and Prencipe and Bar-Yosef(2011), the effect of family firms are tested based on the moderating effects of the direct and indirect family ownership variables. Based on alignment effect theory, it is hypothesized that family ownership will improve firms' corporate governance and eventually reduce earnings management.

depend on the amounts of shares owned and long term trading behaviour (Bushee, 1998).

Table 1. List and Definition of Variables

Variables		Sign	Definition	Source
Panel A: Dependent Variables				
1.	DAMODOFIED		Absolute Discretionary Accruals(Modified Jones Model)	EMIS
Panel B: Experimental Variables				
2.	ACINDEP	+	Percentage of independent non-executive directors in the audit committees	Annual reports
3.	FAMILYOWNERSHIP	-	DFOWN/IDFOWN-Percentage of Direct/ Indirect Family Managerial ownership.	Annual reports
Panel C: Continuous Variables				
4.	FAMPERCENT	-	No. of family members on the board/total no. of directors on the board	Annual reports
5.	ROA	-	Return on asset	EMIS
6.	MBRATIO	-	Market value of equity/book value of equity	EMIS
7.	BOARDSIZE	-	The number of directors in the board	Annual reports
8.	TENURE	+	Total number of years of service of the Chief Executive Officer (CEO)	Annual reports
9.	TOTALASSET	-	Log 10 of Total assets (RM'000)	EMIS
Panel D: Dichotomous Variable				
10.	CHAIRINDEP	-	Indicator variable with the value of "1" if Chairman	Annual reports
			is independent non-executive directors and "0"indicate otherwise	
11.	BIG4	-	Indicator variable with the value of "1" if audited by Big4 and "0" otherwise	Annual reports

4. Data analysis and findings

Table II represents the descriptive statistics for this present study. The mean for DAMODIFIED is 0.2895. The mean is lower as compared to that found by Wan Ismail et al. (2010).Nonetheless slightly higher than the mean found by Abdul Rahman and Mohamed Ali (2006). The study use larger sample size than Abdul Rahman and Mohamed Ali (2006).Thus higher variation in the discretionary accruals figures is expected. Consistent with Abdul Rahman and Mohamed Ali (2006), the mean of ACINDEP is 0.7490 indicating that two third of the audit committees comprise of independent directors. This fulfils the requirement as laid out in RMCCG (2007). Direct family ownership is 7.8218 per cent with the highest being 60.76 per cent. While indirect family ownership percentage is ranging from 21.5212 to 98.42 per cent. The indirect family ownership is much higher than direct family ownership indicating that the complexity of family ownership in Malaysian family firms.

4.1 Diagnostics checking

Preliminary analysis on the data revealed issues of normality. However, Hair et al. (2006) suggest that researchers can be less concerned with non-normal variables as the sample sizes become larger (i.e. sample sizes of 200 or more)(Hair, 2009). In addition, Hausman test is used to determine whether fixed or random effect is better in analysing the data. The null hypothesis states fixed effect and random effect does not differs, if the null hypothesis is rejected fixed effect is a better model (Gujarati & Porter, 2009).Based on the Hausman test conducted, the result is highly significant, p-value <1% significant level, thus indicating fixed effect is a better model. Since the data collected for this research is 6 years or less than 10 years there is no indication of serial correlation issues in the errors. This present research employed Wooldridge test for autocorrelation. An important consideration in regression is no perfect collinearity between independent variables. High collinearity between independent variables reduces the predictive power of the regression. The correlation should be below 0.7 or else it may affect the robustness of the analysis(Hair, 2009). Based on Table III, there is no indication of any issue of collinearity in the present research.

Table 2. Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Obs
Panel A: Continuous Variables						
DAMODIFIED	0.2895	0.2779	1.4708	-3.2365	0.2779	1206
ACINDEP	0.7490	0.1709	3.0000	0.3300	0.1709	1206
DFOWN	7.8218	14.1969	60.7600	0.0000	14.1969	1206
IDFOWN	16.9154	21.5212	98.4200	0.0000	21.5212	1206
FAMPERCENT	25.40	23.98	86.66	0.0000	23.98	1206
ROA	2.9807	13.2787	142.3400	-182.2200	13.2787	1206
MBRATIO	1.2087	3.1173	66.6000	-43.2300	3.1173	1206
BOARDSIZE	7.6202	1.9737	16.0000	3.0000	1.9737	1206
TENURE	9.5364	8.1459	43.0000	0.0000	8.1459	1206
TOTALASSET	5.9264	6.6272	8.0128	4.4129	6.6272	1206
Panel B: Dichotomous Variables						
			1	0		
CHAIRINDEP			107(8.87)	1099(91.13)		
BIG4			753(62.44)	453(37.56)		

DAMODOFIED is absolute discretionary accruals based on Modified Jones Model. *ACINDEP* is the percentage of independent non-executive directors in the audit committees. *DFOWN* percentage of direct family managerial ownership, *IDFOWN* is the percentage of indirect family managerial ownership. *FAMPERCENT* is the number of family members on the board/total no. of directors on the board. *ROA* is the return on asset. *MBRATIO* is the market value of equity/book value of equity. *BOARDSIZE* is the number of directors in the board. *TENURE* is the total number of years of service of the Chief Executive Officer (CEO). *TOTALASSET* is Log 10 of Total assets (RM'000).*CHAIRINDEP* is an indicator variable with the value of "1" if Chairman is independent non-executive directors and "0"indicate otherwise. BIG4 is an indicator variable with the value of "1" if audited by Big4 and "0" otherwise

4.2 Regressions results

Based on Table IV, there are two models for this research. Model 1 used direct ownership of the family members as the moderating variables, whereas Model 2 used indirect ownership as the moderating variables. The family ownerships are separated to account for complex ownership of family members in Malaysia. Section 4.2.1 will discuss the control variables and the next section 4.2.2 discusses both Model 1 and Model 2.

4.2.1 Control Variables

Several control variables are insignificant. The explanation for this is that there is no mean variation in the number of CHAIRINDEP, BIG4, LOGBSIZE and LOGASSET in the firms' pre and post RMCCG (2007) .Nonetheless, four control variables used are significant. For both Model 1 and 2, the results for FAMPERCENT are all significant at 1% significant level. This indicate a strong presence of family members reduce earnings management.

In contrary to Jaggi et al.(2009), ROA is positively related to DAMODIFIED. Therefore higher performance firms are associated with greater scale of earnings management. Similarly in Malaysia few studies on earnings management document the same findings of performance firms to be associated with earnings management(Abdul Rahman & Mohamed Ali, 2006; Johari, Mohd Saleh, Jaffar, & Hassan, 2008; Wan Ismail, Dunstan, & Zijl, 2010).In addition to that, Hashim (2009) also find that higher performance firms are associated with lower earnings quality. In contrary to Jaggi et al.(2009), MBRATIO is also positively associated to DAMOFIED at 1% significant level.

Consistent with earlier finding that ROA is positively associated with DAMODIFIED, the present study suggest that earnings management is more prominent in high performance and growth firms. Similarly in another study in Malaysia, Wan Ismail et al.(2010) in their samples of 1625 firms year observation, from year 2003 to 2007, find earnings management is positively associated with market to book ratio. This is because growth firms are able to employ more sophisticated financial reporting systems that allow the manager more opportunity to manage the reported earnings. In fact in sophisticated financial reporting systems, it is difficult for the auditor to detect manipulation of reported figures by the managers(Wan Ismail et al., 2010).

Further, LOGTENURE is positively associated with DAMOFIDIED at 5% significant level. This suggests that highly experience directors are associated with higher earnings management. Zhang (2009) explains that higher tenure CEO will be engage in earnings management to meet the stakeholders' expectations and maintain their reputation in the market(Zhang, 2009). Therefore Recommendation 3.2 of MCCG (2012) that suggests, the tenure of the independent directors is capped to nine years, should also be applied to the CEO as well, perhaps on a rotation basis to ensure the objectivity of the board is sustained. The mean for TENURE in the present study is 9.5364 with longest tenure being 43 years (refer Table 4.2).

Table 3. Pearson Correlation Matrix

	DAMODIFIED	ACINDEP	DFOWN	IDFOWN	FAMPERCENT	ROA	CHAIRINDEP	MBRATIO	BIG4	BOARDSIZE	TENURE	TOTALASSET
DAMODIFIED	1.000											
ACINDEP	0.0779***	1.000										
DFOWN	0.018	-0.039	1.000									
IDFOWN	0.0891***	0.003	0.023	1.000								
FAMPERCENT	0.0922***	-0.004	0.466***	0.574***	1.000							
ROA	0.2685***	0.007	0.005	0.090***	0.103	1.000						
CHAIRINDEP	0.037	0.042	0.031	-0.058**	-0.073**	0.056	1.000					
MBRATIO	0.098***	0.017	-0.043	-0.002	-0.049*	0.123***	0.038	1.000				
BIG4	-0.077***	-0.062	-0.081***	-0.078***	-0.111***	0.062	-0.017	0.068**	1.000			
BOARDSIZE	0.137	0.035	-0.057**	0.098***	0.073	0.155***	0.126***	0.043	0.005	1.000		
TENURE	0.034	0.023	0.053*	0.299***	0.287***	0.049	-0.056*	-0.059**	-0.062**	0.005	1.000	
TOTALASSET	-0.125	0.07***	-0.170***	0.032	-0.128***	0.162***	0.123***	0.104***	0.175***	0.284***	0.100***	1.000

DAMODOFIED is absolute discretionary accruals based on Modified Jones Model. *ACINDEP* is the percentage of independent non-executive directors in the audit committees. *DFOWN* percentage of direct family managerial ownership, *IDFOWN* is the percentage of indirect family managerial ownership. *FAMPERCENT* is the number of family members on the board/total no. of directors on the board. *ROA* is the return on asset. *MBRATIO* is the market value of equity/book value of equity. *BOARDSIZE* is the number of directors in the board. *TENURE* is the total number of years of service of the Chief Executive Officer (CEO). *TOTALASSET* is Log 10 of Total assets (RM'000).*CHAIRINDEP* is an indicator variable with the value of "1" if Chairman is independent non-executive directors and "0"indicate otherwise. BIG4 is an indicator variable with the value of "1" if audited by Big4 and "0" otherwise.

Table 4. Regression Output – Audit Committee Independence, Family Ownership and Earnings Management

		Model 1-Direct Ownership			Model 2-Indirect Ownership		
	Exp.	Coeff.	t-Stat	Prob.	Coeff.	t-Stat	Prob.
C	?	1.49979	1.25	0.213	1.53814	1.28	0.201
ACINDEP	+	0.09657	2.63	0.009***	0.09208	2.49	0.013**
DFOWN/IDFOWN	-	-0.00065	-0.51	0.607	0.00138	0.98	0.327
DFOWN/IDFOWN*ACINDEP	-	0.00162	1.19	0.234	0.0014	1.66	0.097*
FAMPERCENT	-	-0.29045	-2.67	0.008***	-0.29702	-2.75	0.006***
ROA	-	0.00304	2.73	0.006***	0.00307	2.73	0.007***
CHAIRINDEP	-	0.36367	1.15	0.252	0.0371	1.15	0.252
MBRATIO	-	0.0104	3.03	0.003***	0.01041	2.93	0.003***
BIG4	-	-0.03609	-1.18	0.239	-0.02877	-0.95	0.343
LOGBSIZE	-	-0.03258	-0.23	0.815	-0.03386	-0.25	0.806
LOGTENURE	-	0.07885	1.82	0.069*	0.07826	1.74	0.082*
LOGASSET	-	-0.23466	-1.01	0.311	-0.24593	-1.06	0.291
Within R-squared			7.85			8.13	
F-statistic			3.67			3.77	

DAMODOFIED is absolute discretionary accruals based on Modified Jones Model. *ACINDEP* is the percentage of independent non-executive directors in the audit committees. *DFOWN* percentage of direct family managerial ownership, *IDFOWN* is the percentage of indirect family managerial ownership. *FAMPERCENT* is the number of family members on the board/total no. of directors on the board. *ROA* is the return on asset. *MBRATIO* is the market value of equity/book value of equity. *BOARDSIZE* is the number of directors in the board. *TENURE* is the total number of years of service of the Chief Executive Officer (CEO). *TOTALASSET* is Log 10 of Total assets (RM'000).*CHAIRINDEP* is an indicator variable with the value of "1" if Chairman is independent non-executive directors and "0"indicate otherwise. BIG4 is an indicator variable with the value of "1" if audited by Big4 and "0" otherwise.

4.2.2 Model 1 and Model 2

In the regression output for both models, ACINDEP is positively and significantly associated with DAMODIFIED at 1% (Model 1) and 5% (Model 2) significant level. The results of this finding are consistent with Wan-Hussin (2009) arguments that appointing independent directors is an allusion to shareholders of active board monitoring. Even though most firms complied with the code, the effectiveness of independent directors in constraining earnings management is still not clear. In order to test the effect of audit committees' independence and extend the previous studies conducted within Malaysia, the moderating effect of family ownership is included. The moderation effect of family ownership is tested and the result for Model 2 suggests that independent directors in the audit committees, moderated by indirect family ownership reduce earnings management. This implies that the roles of independent directors are more objective and impartial in family firms. Nonetheless, present study fails to associate DIRECT with DAMODIFIED. This may be due to lack of variation in the percentage of direct family ownership over the period of 6 years used for the research. . Ishak and Napier (2006) in their study of 355 firms in Malaysia conclude that firms in Malaysia are generally owned via indirect ownership(Ishak & Napier, 2006). The control rights possess by family firms via indirect ownership exerts greater control over firms' operations. This also implies greater understanding over the firms' activities and business strategies. Therefore the findings also indicate that independent directors in Malaysia need to strengthen their understanding over the business activities, not merely being an independent observer of the firms.

In addition to that, the R-squared is 7.85% for Model 1 and 8.13% for model 2. Therefore, there is an increase of 0.28 % of R-squared in model 2, indicating that the explanatory power of the model increase when indirect ownership is the moderating variables. In the context of Malaysian sample, the R–square is lower than Abdul Rahman and Mohamed Ali (2006) which is at 12.8% but almost similar to Hashim (2009) which is 9.1%. However in Hong setting, Jaggi et al. (2009), the R-squared is 19.66%, and in Australian setting, Setia-Atmaja, Haman and Tanewski(2011) find the R-squared to be 8.51%(Jaggi et al., 2009; Setia-Atmaja, Haman, & Tanewski, 2011). Based on the previous studies, the R-squared for this present study has adequately explained the factors that may have an influence on earnings management in Malaysia.

5. Conclusion

The findings suggest that family ownership (indirect) has an influenced towards earnings management activities in Malaysia. Further, independent directors are more efficient when there is a stronger influence of family members on the board. Our study also finds that merely appointing independent directors on the board is not effective in curbing earnings management. The results suggest that family members who are knowledgeable in the area of the business are negatively associated with earnings management. In the future regulators in Malaysia should conduct rigorous training for independent directors, for them to be well verse in the area of the business operations and helps improve the independent directors' competency level.

References:

1. Abdul Rahman, R., & Mohamed Ali, F. H. (2006). Board, Audit Committees, Culture and Earnings Management:Malaysian Evidence. *Managerial Auditing Journal*, *21*(7), 783–804.
2. Abdullah, S. N., & Mohd-Nasir, N. (2004). Accrual management and the independence of the Boards of Directors and Audit Committees. *IIUM Journal of Economics and Management*, *12*(1), 1–31.
3. Ali, A., Chen, T. Y., & Radhakrishnan, S. (2007). Corporate Disclosures by Family Firms. *Journal of Accounting & Economics*, *44*, 238–286.
4. Beasley, M. S. (1996). An Empirical Analysis of the Relation Between the Board of Director Composition and Financial Statement Fraud. *The Accounting Review*, *October 19*, 443–465.
5. Beasley, M. S., Carcello, J. V, Hermanson, D. R., & Lapides, P. D. (2000). Fraudulent Financial Reporting:Consideration of Industry Traits and Corporate Governance Mechanisms. *Accounting Horizon*, *14*(4), 441–454.
6. Caramanis, C., & Lennox, C. (2008). Audit effort and earnings management. *Journal of Accounting & Economics*, *45*(1), 116–138. doi:DOI 10.1016/j.jacceco.2007.05.002
7. Claessens, S., & Fan, J. P. H. (2002). Corporate Governance in Asia: A Survey. *International Review of Finance*, *3*(2), 71–103. doi:10.1111/1468-2443.00034
8. Fan, J. P. H., & Wong, T. J. (2002). Corporate ownership structure and the informativeness of accounting earnings in East Asia. *Journal of Accounting and Economics*, *33*(3), 401–425. doi:http://dx.doi.org/10.1016/S0165-4101(02)00047-2
9. Gujarati, D. N., & Porter, D. (2009). Basic Econometrics Mc Graw-Hill International Edition.
10. Hair, J. F. (2009). Multivariate data analysis.
11. Hashim, H. A. (2009). Board of directors, ownership structure, ethnicity and earnings quality : Malaysian evidence. *PhD Thesis*, *University*.
12. Hashim, H. A., & Ibrahim, H. (2013). The Board of Directors in Family Controlled Firms. *World Applied Sciences Journal*, *28*(11), 1597–1604.
13. Ibrahim, H., & Samad, F. A. (2011). Corporate Governance Mechanisms and Performance of Public-Listed Family-Ownership in Malaysia. *International Journal of Economics & Finance*, *3*(1).
14. Ishak, Z., & Napier, C. (2006). Expropriation of minority interests and corporate diversification in Malaysia. *Asian Academy of Management Journal of Accounting and Finance*, *2*(1), 85–113.

15. Jaggi, B., Leung, S., & Gul, F. (2009). Family control, board independence and earnings management: Evidence based on Hong Kong firms. *Journal of Accounting and Public Policy*, *28*(4), 281–300. Retrieved from http://www.sciencedirect.com/science/article/B6VBG-4WR0D1D-1/2/a86ea6f4445c0c4813d5db934ebd0309
16. Johari, N. H., Mohd Saleh, N., Jaffar, R., & Hassan, M. S. (2008). The Influence of Board Independence, Competency and Ownership on Earnings Management in Malaysia. *International Journal of Economics and Management*, *2*(2), 281–306.
17. Klein, A. (2002). Audit committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics*, *33*(3), 375–400. Retrieved from http://www.sciencedirect.com/science/article/B6V87-46CRW2S-4/2/be7e2308382c741aef86fadad14404a8
18. Liew, P. K. (2007). Corporate Governance Reforms in Malaysia: the key leading players' perspectives. *Corporate Governance: An International Review*, *15*(5), 724–740. doi:10.1111/j.1467-8683.2007.00618.x
19. Mohd-Saleh, N., Iskandar, T. M., & Rahmat, M. M. (2005). Earnings Management and Board Characteristics: Evidence from Malaysia. *Journal Pengurusan*, *24*, 77–103.
20. Mohd-Saleh, N., Iskandar, T. M., & Rahmat, M. M. (2007). Audit committee characteristics and earnings management:Evidence from Malaysia. *Asian Review of Accounting*, *15*(2), 147–163.
21. Nahar, H. S. (2010). The Malaysian Corporate Governance Reform and The Financial Reporting Quality. *PhD Thesis*, *Universiti*.
22. Peasnell, K. V, Pope, P. F., & Young, S. (2005). Board Monitoring and Earnings Management: Do Outside Directors Influence Abnormal Accruals. *Journal of Business Finance and Accounting*, *32*(7), 1311–1346.
23. Setia-Atmaja, L., Haman, J., & Tanewski, G. (2011). The role of board independence in mitigating agency problem II in Australian family firms. *The British Accounting Review*, *43*(3), 230–246. doi:http://dx.doi.org/10.1016/j.bar.2011.06.006
24. Wan Ismail, W. A., Dunstan, K., & Zijl, T. van. (2010). Earnings Quality and Corporate Governance Following the implementation of Malaysian Code of Corporate Governance. In *Paper presented in Journal of Contemporary Accounting and Economics Joint Symposium 2010*. Seoul National University,4-6 January: 4-6 January.
25. Wang, D. (2006). Founding Family Ownership and Earnings Quality. *Journal of Accounting Research*, *44*(3), 619–656. doi:10.1111/j.1475-679X.2006.00213.x
26. Wan-Hussin, W. N. (2009). The impact of family-firm structure and board composition on corporate transparency: Evidence based on segment disclosures in Malaysia. *The International Journal of Accounting*, *44*(4), 313–333. Retrieved from http://www.sciencedirect.com/science/article/pii/S0020706309000703
27. Zhang, W. (2009). CEO tenure and earnings quality. *School of Management. University of Texas*.