IFRS ADOPTION, CORPORATE GOVERNANCE, INVESTOR PROTECTION AND EARNINGS QUALITY IN MALAYSIAN LISTED COMPANIES

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By

SALEH M. A. ABD ALHADI

Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in Fulfilment of the Requirements for the Degree of Doctor of Philosophy

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DEDICATION

This thesis is dedicated to my beloved mother and wife for their endless love, prayers, support, and encouragement

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Doctor of Philosophy

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Chairman : Rosmila Senik, PhD
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Earnings quality (EQ) is a vital indicator for financial reporting users. However, the existence of accrual-based (ACEM) and real earnings management (TREM) might distort EQ. This thesis has four objectives. First, it intends to investigate EQ changes among different types of firm ownership pre and post IFRS adoption. Second, it attempts to determine the relationship between board of directors (*i.e.* multiple directorships, social title, board effectiveness and audit committee (AC) effectiveness), ownership structure (*i.e.* managerial, institutional, family, and politically-connected (PC) ownership), and EQ. Third, it examines the moderating effect of IFRS on the link between corporate governance (CG) mechanisms and EQ. Finally, this research investigates the moderating role of investor protection (INP) on the relationship between CG and EQ. The study used a sample of 209 non-financial companies listed on the Bursa Malaysia during the period of 2007 to 2016. It also employed the Paired t-test to achieve the first objective and the Generalized Method of Moments (GMM) for the rest of the objectives.

The results indicate that managerial, institutional, and family ownership provide an appropriate environment and strengthen IFRS effectiveness in reducing ACEM. Also, both the board and ownership characteristics significantly influence EQ indicators. This study finds that multiple directorships, AC effectiveness, and PC ownership significantly reduce both ACEM and TREM, while the rest influence only one of the earnings management indicators. After IFRS, ownership structure plays a major role in improving the firm's EQ. More importantly, the monitoring role of board and AC attributes are more efficient in a healthy INP environment. Policymakers should realise that developing accounting standards alone will not be able to improve EQ per se. In addition, accounting and law enforcements are essential in fighting corporate misbehaviours. As ownership concentration can substitute the monitoring mechanism

(which may backfire), alternative characteristics of good governance, such as, INP are indispensable.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

PENGGUNAAN IFRS, TADBIR URUS SYARIKAT, PERLINDUNGAN PELABUR, DAN KUALITI PEROLEHAN DALAM SYARIKAT TERSENARAI DI MALAYSIA

Oleh

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Kualiti perolehan (EQ) adalah satu penunjuk penting kepada pengguna pelaporan kewangan. Walaubagaimanapun, kewujudan pengurusan perolehan berasaskan akruan (ACEM) dan pengurusan perolehan nyata (TREM) mungkin mengganggu EQ. Tesis ini mengandungi empat objektif. Pertama, untuk menyelidik perubahan EQ diantara pelbagai jenis pemilikan firma sebelum dan selepas pengambilan Piawai Pelaporan Kewangan Antarabangsa (IFRS). Kedua, untuk menentukan hubungan diantara lembaga pengarah (iaitu pelbagai jawatan pengarah, darjah kebesaran sosial, keberkesanan lembaga pengarah, keberkesanan jawatan kuasa audit (AC)) dan pemilikan (iaitu pemilikan pengurusan, institusi, keluarga dan berkait-politik) dengan EQ. Ketiga, untuk menguji kesan IFRS sebagai penyederhana ke atas hubungan diantara mekanisma urus tadbir korporat (CG) dan EQ. Yang terakhir, untuk mengkaji peranan penyederhana perlindungan pelabur ke atas hubungan CG dan EQ. Kajian ini menggunakan sampel 209 syarikat bukan kewangan yang tersenarai di Bursa Malaysia dalam tempoh 2007 hingga 2016. Ia menggunakan ujian pasangan t untuk mencapai objektif pertama dan *Generalized Method of Moment* (GMM) untuk mencapai objektif yang lain.

Hasil kajian menunjukkan bahawa pemilikan pengurusan, institusi dan keluarga menyediakan persekitaran yang sesuai dan mengukuhkan keberkesanan IFRS dalam mengurangkan ACEM. Kajian juga mendapati kedua-duanya, iaitu ciri lembaga pengarah dan ciri pemilikan mempengaruhi penunjuk EQ dengan signifikan. Penyelidikan ini mendapati pelbagai jawatan pengarah, keberkesanan AC, pemilikan berkait-politik mengurangkan ACEM dan TREM dengan signifikan, manakala yang lain hanya mempengaruhi salah satu penunjuk pengurusan perolehan. Selepas pengambilan IFRS, struktur pemilikan memainkan peranan utama dalam mempertingkatkan EQ firma. Apa yang lebih penting, peranan pemantauan lembaga pengarah dan ciri AC lebih efisen dalam persekitaran pelindungan pelabur yang sihat.

Pembuat polisi perlu sedar yang pembangunan piawai perakaunan sahaja tidak akan mampu meningkatkan EQ. Sebagai tambahan, penguatkuasaan perakaunan dan undang-undang adalah penting dalam memerangi salah laku korporat. Memandangkan penumpuan pemilikan dapat menggantikan mekanisma pemantauan (yang mungkin mempunyai kelemahan), ciri alternatif tadbir urus yang baik, seperti, perlindungan pelabur adalah sangat diperlukan.

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Declaration by graduate student

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LIST OF ABBREVIATIONS

ABCFO	Abnormal Cash Flow from Operations
ABDIX	Abnormal Discretionary Expenses
ABPRD	Abnormal Production Costs
AC	Audit Committee
ACEM	Accrual-based earnings management
ACEFCT	Audit Committee Effectiveness
BEFCT	Board Effectiveness
BIG4	Audit Quality
BSTITL	Board Social Title
CCM	Companies Commission of Malaysia
CG	Corporate Governance
CMSA	Capital Markets Services Act
DAC	Discretionary Accruals
DGMM	Two-Step Difference GMM
EQ	Earnings Quality
FAMOW	Family Ownership
FCCG	Finance Committee on Corporate Governance
FE	Fixed Effect
GMM	Generalized Method of Moments
GRWTH	Firm Growth
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
INSTOW	Institutional Ownership
IPN	Investor Protection

LEV	Firm Leverage
LnSIZE	Firm size
MACPA	Malaysian Association of Certified Accountants
MANOW	Managerial Ownership
MAS	Malaysian Accounting Standards
MASB	Malaysian Accounting Standards Board
MFRS	Malaysian Financial Reporting Standards
MCCG	Malaysian Code on Corporate Governance
MULTD	Multiple directorships
PC	Politically Connected
POLS	Pooled OLS
RE	Random Effect
ROA	Return on Assets
ROE	Return on Equity
SC	Securities Commissions
SCA	Securities Commissions Act
SCM	Securities Commission of Malaysia
SDAC	Signed Value of Discretionary Accruals
SGMM	Two-Step System GMM
SIA	Securities Industry Act
TREM	Real Earnings Management

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Malaysia's decision to adopt International Financial Reporting Standards (IFRS) in 2012 was part of the event that saw several countries follow suit to enhance their national accounting standards[1]. Given the significance of the new financial reporting standards, it is essential that it be examined to evaluate its impact. This study investigates the impact of IFRS adoption with regard to the advancement of the quality of earnings (da Silva and Nardi, 2017). Such accounting standards' effect on the improvement of firms' earnings quality (EQ) and accounting disclosure requirements in developed and emerging economies are still widely debated among policymakers (Marra, Mazzola, and Prencipe, 2011; Oz and Yelkenci, 2018).

EQ has become critical subject matter after a succession of global financial crises and accounting scandals involving large companies. According to previous literature, numerous economic benefits depend on the quality of earnings, which include, capital provision, market efficiency, firm's performance, as well as, economic growth (Atieh and Hussain, 2012). EQ also ensures investment and market efficiency (Li, 2019). This indicator could be a valuable source if it is comprehensive, unbiased, and irreproachable (FASB/IASB, 2010).

Furthermore, earnings figures are broadly used in various contractual agreements (Kamarudin and Wan Ismail, 2014). Accounting information acts as a determinant towards contractual terms and an observance tool for most agreements. Such contracts vary with the procedures adopted in computing accounting numbers (Ewert and Wagenhofer, 2005). This means that the standard of earnings issued by companies depends on the nature of the procedures that are used in computing the earnings numbers. EQ is hence associated directly with the quality of financial reporting standards (Ewert and Wagenhofer, 2005). Standard setters view it as an essential indicator of the quality of financial reporting and accounting standards (Elias, 2002).

Corporate managers do attempt to manipulate earnings at the expense of shareholders to meet personal goals, such as, official benefits, income smoothing, executive directors changes, self-reputation, long-run presence and, stock repurchases (Dechow, Ge, and Schrand 2010; Hribar, Jenkins, and Johnson, 2006). Such management behaviours lead to misleading operational and strategic decisions. They affect managers' reputation and reward losses (Haga, Ittonen, Tronnes, and Wong, 2018). They are also the main reason behind high-profile scandals in accounting, such as,

[1] Around 80% of counties worldwide have adopted IFRS. For a list of IFRS adopters, please refer to http://www.iasplus.com/country/useias.htm.

Enron, as financial performance may not be accurately and fairly presented (Habib, Bhuiyan, and Islam, 2013). This phenomenon leads investors and other users to demand higher EQ through the improvement of monitoring mechanisms and application of high-quality standards.

It is argued that several mechanisms, including IFRS, can enhance firm's EQ and performance. Two purposes of IFRS are to (i) enhance financial reporting quality and (ii) support their comparability across countries (De George, Li, and Shivakumar, 2016). The International Accounting Standards Committee (IASC) had been improving IFRS for years removing accounting choices and rules that contain thresholds from the standards. These efforts resulted in declining flexibility in accounting rules to be accepted globally (Dimitropoulos, Asteriou, Kousenidis, and Leventis, 2013). The global support of such standards is expected to enhance the aptitude of the firm's monitoring mechanisms to ensure transparent financial information and encourage emerging markets to become more aligned with developed markets.

The global adoption of accounting norms, like IFRS, is an inducement for sound corporate governance (CG). Effective CG has several advantages (Sarbah and Xiao, 2015). This mechanism plays a vital role in enhancing the financial performance, disclosure, and accounting information quality (Reguera-alvarado and Bravo, 2017). It also reduces the cost of capital (Gupta, Krishnamurti, and Tourani-Rad, 2018). According to the Agency theory, CG acts as a system that increases financial reporting credibility and reduces opportunistic behaviour (Jensen and Meckling, 1976; Shu, Yeh, Chiu, and Yang, 2015). Poor CG, however, leads to severe earnings manipulations and is responsible for the collapse of companies, like, Enron, WorldCom, HIH and even leads to the Asian financial crisis (Cohen, Dey and Lys, 2008; Zabri, Ahmad, and Wah, 2016). Such crises cause high earnings management (Eng, Fang, Yu, and Zhang, 2019). Therefore, many countries have encouraged the improvement of CG mechanisms, such as, the Malaysian Code on Corporate Governance (MCCG)[2], the Combined Code in the United Kingdom, and the Sarbanes–Oxley Act in the USA.

In a dynamic environment, corporate boards have become a crucial factor in improving firm performance and control. It has been suggested that the improvement of the board of directors could enhance its capacity in strengthening its control over the managers', mitigating agency costs, and protecting minority shareholders (Fama and Jensen, 1983; Pearce and Patel, 2017). Additionally, this effective mechanism contributes towards improving disclosure (Marra et al., 2011) and firm performance (Ferris, Jayaraman, and Liao, 2018; Shawtari, Mohammed, Abdul Rashid, and Ayedh,

[2] CG and financial reporting are factors that are critically linked to investor's confidence, economic growth, and survival (FCCG, 1999).

2017). However, the intensity of the board effectiveness in monitoring management is much affected by the type of ownership (Desender, Aguiler, and Crespi, 2012).

There are systematic variations among countries with regard to the organisations of firms and CG structures (Fan and Wong, 2002). In East Asia, concentrated ownership structure is the dominant feature among firms. The major listed firms are in the hand of few shareholders, especially family owners. They populate the corporate board and play significant managerial roles (Al-Hadi, Taylor, and Al-Yahyaee, 2016). However, Type II agency problem (principal-principal) emerges in such firm ownership. This is due to the owners have both the incentive and ability to entrench the rights of minority shareholders. This is perilous to the company's value (Chau and Gray, 2010). In the case of countries with weak investor protection (INP) and inefficient legal system, majority owners protect their interests at the expense of minorities through concentrated ownership or other mechanisms. Rules and regulations may not secure the rights of minority investors in such firms (Hribar et al., 2006).

As they are deeply rooted in social and political environments, organisational practices and structures are influenced by their environment. Firm-specific practices, such as, accounting and control are the consequence of a complex interaction among historical, cultural, economic, and institutional factors (Bao and Lewellyn, 2017; Rahman, Yammeesri, and Perera, 2010). It is argued that institutional mechanisms have an effective role in influencing international differences in EQ levels (Zhong, Chourou, and Ni, 2017), risk premium (Semper and Beltrán, 2014), and cost of capital in developed and emerging markets (Persakis and Iatridis, 2017).

Over the past three decades, global economic integration has become the essence of Malaysian economic achievement. Malaysia has achieved a remarkable transformation; from being a mostly agricultural to an efficient middle-income economy, on the brink of a final stage towards becoming developed economy (Randhawa, 2011). During this time, the bond market, Islamic finance, and equity markets have exhibited impressive growth (Randhawa, 2011). Today, Malaysia is among the fastest developing economies in the world. Malaysia opens its markets with lowered tariffs and eases foreign investment requirements. Additionally, the introduction of IFRS is viewed as an advantage to the country (Joshi, Yapa, and Kraal, 2016)[3].

Malaysian companies used to prepare financial statements following the provisions of the Companies Act 1965 and national accounting standards issued by the Malaysian Accounting Standards Board (MASB) (Saudagaran and Diga, 2000). This body was assisted by the Financial Reporting Foundation (FRF). To primarily bridge the gap between national and international accounting standards, the MASB and FRF announced, in August 2008, for companies to fully adopt the IFRS. This is locally

[3] Before 2012, listed firms used to apply International Accounting Standards (IAS), which are different from IFRS in some aspects (Wan Ismail, Kamarudin, Zijl, and Dunstan, 2013).

referred to as the Malaysian Financial Reporting Standards (MFRS). In 2012, most of the public listed companies published their first set of IFRS-based quarterly reports (Chan, 2012; De George et al., 2016). Such achievements are expected to assist local businesses to increase EQ and develop market efficiency in line with developed markets'.

1.2 Problem Statement

EQ is an important factor for users. However, it might be manipulated through Accrual-based (ACEM) and real earnings management (TREM) practices. Low quality of earnings occurs when management utilises opportunistic judgment in both financial reporting and transactions structuring to provide benefits to corporate managers and shareholders. Such breaches might result from the flexibility of certain accounting standards in preparing financial reports (Dimitropoulos et al., 2013). This phenomenon affects firm performance, investors' confidence, resource allocation efficiency (Zang, 2012), and future cash flow (Li, 2019). It is also behind many previous accounting scandals, such as, Enron ($111 billion in 2000), WorldCom ($3.8 Billion in 2002), HealthSouth ($446.0 million in 2005), and Xerox ($6.4 billion in 2009) in the USA, as well as, the accounting scandals in Europe: Parmalat (€14 billion in 2001) (Cohen et al., 2008; Habib et al., 2013; Ilmas, Tahir, and Asrar-ul-Haq, 2018). Therefore, earnings should be freed from ACEM and TREM and disclose accurate and fair views of firm performance.

The quality of earnings depends on the characteristics of the financial reporting procedures used in computing the earnings numbers. It is hence associated directly with the quality of accounting standards and both internal and externals governance mechanisms. Several CG mechanisms could enhance the level of EQ, including ownership structure, the board of directors, and audit committee (AC) (Jensen and Meckling, 1976). They can reduce agency cost and improve firm performance (Zéghal, Chtourou, and Sellami, 2011). However, recent studies have shown conflicting results concerning the relationship between CG mechanisms and EQ in different settings. More monitoring mechanisms are needed to improve EQ and the effectiveness of CG.

Due to contradicting findings of previous research (between CG mechanisms and EQ), this study contributes to EQ literature by using IFRS adoption as a moderating variable to provide some insights regarding EQ levels. IFRS is high quality standards and has several benefits to financial reporting and firms' investments. However, the enforcement of accounting standards is an issue in emerging countries, such as Malaysia (Oz and Yelkenci, 2018). These accounting norms should be enforced in order to improve the corporate monitoring mechanisms. For example, MFRS 10 suggests that institutional ownership should practice and control the business, not just having voting share. Therefore, the weak enforcement of accounting norms leads to high earnings management practices and low EQ.

Although IFRS adoption might enhance transparency and quality of information, it may not entirely work in isolation from other institutional and economic factors (Holthausen, 2009; Mongrut and Winkelried, 2019; Păşcan, 2015). Such standards might not efficiently reduce earnings manipulations in countries with weak INP and law enforcement (Nurul Houqe, van Zijl, Dunstan, and Karim, 2012). The idea of this study arises from prior literature (i.e., Gupta et al., 2018; Mongrut and Winkelried, 2019) which find that enhancing firm-level governance alone will not be sufficient, especially after notable recent CG failures. The INP role in improving EQ is also still questionable in weak law enforcement environments (Zhong et al., 2017). Malaysia has weak law enforcement[4] which may constrain the role of the institutional factors, e.g. INP, in improving corporate monitoring mechanisms. This research enriches the EQ literature by supporting the integration between Agency theory and Institutional theory, adding a country-level factor of INP on the firm-level factors, and investigating the moderating role of INP.

Additionally, ownership structure is an essential monitoring factor in improving EQ. However, it is argued that political connections reduce the effectiveness of accounting standards and are behind several financial crises, including the 1997 Asian financial crisis (Arnold, 2012) and the 2008 financial crisis (Burlaud and Colasse 2011). Therefore, investigating such novel relationships is essential for the Malaysian economy.

This thesis considers Malaysia for numerous reasons. The Malaysian government has disclosed several CG reforms (*i.e.* MCCG)[5] to ensure firms' financial performance, investor's confidence, and economic growth. In 2012, Malaysian mandatorily introduced IFRS among public firms to ensure the comparability of financial reports (Chan, 2012; De George et al., 2016). Moreover, Malaysia aims to enhance institutional contexts to improve market efficiency and achieve a developed economy position, as stated under its Vision 2020 (Randhawa, 2011).

However, this country lacks legal protection, with firms that have high concentrated ownership and a noticeable level of earnings management (Leuz, Nanda, and Wysocki, 2003; Shayan-Nia, Sinnadurai, Mohd-Sanusi, and Hermawan, 2017; Wan-Hussin, 2009). Although ACEM decreased during the voluntary IFRS (Wan Ismail et al., 2013), the TREM still persisted (Shayan-Nia et al., 2017). If EQ remains low, investors' confidence, market efficiency, and the whole economy would be influenced (Atieh and Hussain, 2012; Graham, Harvey, and Rajgopal, 2005; Li, 2019). Therefore, this study investigates both ACEM and TREM practices to reveal the prominence of both the firm-level and institutional factors.

[4] https://www.acga-asia.org/cgwatch-detail.php?id=362
[5] Several versions have been issued since the 1997/1998 Asian financial crisis to improve governance monitoring regime (MCCG, 2000, 2007, 2012, 2016, and 2017).

1.3 Research Questions

This study addresses the research question of how selected CG attributes affect the firms' EQ and whether IFRS adoption and INP moderate this relationship. Specifically, there are four research questions as follows;

1- Does EQ change among different types of firm ownership before and after IFRS adoption[6]?
2- Is there any relationship between CG mechanisms (board and ownership attributes) and EQ?
3- To what extent does IFRS adoption moderate the link between CG mechanisms and EQ?
4- To what extent does INP moderate the association between CG mechanisms and EQ?

1.4 Research Objectives

This study empirically investigates, from an emerging economy perspective, whether the board and ownership attributes are proficient in enhancing EQ. It also examines the moderating effect of both IFRS adoption and INP on the association between CG mechanisms and EQ from 2007-2016. The specific objectives of this research are:

1- To investigate the changes of EQ among different types of firm ownership before and after IFRS adoption;
2- To determine the relationship between CG mechanisms (board and ownership attributes) and EQ;
3- To examine the moderating effect of IFRS adoption on the link between CG mechanisms and EQ;
4- To investigate the moderating role of INP on the association between CG mechanisms and EQ.

1.5 Research Methodology

The research uses the quantitative analysis method. This approach is adopted because of the nature of research objectives that mainly rely on numerical data collected from annual reports and databases. This study uses both descriptive statistics and multiple regression techniques to test the research hypotheses. This research employs the Paired t-test to achieve the first objective and Generalized Method of Moments (GMM) estimators to achieve the rest of objectives.

[6] Concentrated ownership is measured as the percentage of shares of 5% or above to total number of share issued (Chahine and Tohmé, 2009).

The sample for this study is drawn from annual reports and the *DataStream* database. Consistent with previous literature, this study excludes non-financial companies and those reporting under national accounting standards after the IFRS adoption. In other words, companies reporting under national standards for pre-period were included in the sample, as well as, those mandatorily reporting under IFRS for the post-period. After considering the research criteria, the total sample of study is 2090 observations.

1.6 Significance of the Study

This study contributes to the growing body of EQ literature and the debate on the moderating impact of firm and country-level factors on the association between CG mechanisms and EQ. The significance of this study can be viewed from the following aspects;

1.6.1 Theoretical Contribution

This study extends EQ literature by using Agency, Resource Dependency, and Institutional theories to explain the moderating effect of IFRS adoption and INP on the association between board and ownership attributes and EQ. These theories are related to improving EQ and decreasing agency costs stemming from conflicting interests among parties. Furthermore, this study goes beyond the Agency theory constructs to explain EQ with macro-level factors, such as INP, and to propose the use of the Institutional theory. This theory is applicable to all settings, with strong and weak agency orientation, and either emerging or developed markets (Rahman et al., 2010). Accordingly, the study contributes and confirms the importance of integrating Agency theory and Institutional theory to reinforce the understanding of governance phenomena in emerging markets.

This research contributes to the related literature and theories in several ways. First, the study adds to the knowledge of several board characteristics with economic benefits and additional monitoring knowledge and experience. These include 1) board social title and 2) aggregate levels of the AC and 3) board effectiveness. Second, the study suggests that agency theory cannot effectively work without Institutional theory in emerging economies. Third, prior literature studied the economic benefits of IFRS in developed and emerging countries. This thesis adds to the literature by shedding new light on the changes of EQ around IFRS adoption in different types of owners, namely, family, managerial, institutional, and PC companies. Fourth, there is a lack of research on both the relationship of political connections with IFRS and with TREM from an emerging economy (*i.e*., Malaysia). Fifth, Prior literature has ignored the role of institutional mechanisms, namely INP, that might influence the CG mechanisms. Sixth, directors with social title have an advising role in Malaysia. Finally, both board and AC are substitutive factors, and AC can be useful in both weak and strong INP environments.

1.6.2 Methodological Contribution

Another contribution to this study is in the methodology and econometrics. Prior EQ literature mainly ignores dynamism, ignoring several econometric issues, such as, endogeneity problems stemming from the omitted variables, sample choice bias, and variables' measuring errors. This thesis contributes to the literature by using dynamic panel data models, namely, GMM regression methods that provide some value to distinguish this study from previous research.

1.6.3 Practical Contribution

For practical purposes, this study benefits corporate managers and boards in making suitable choices about CG characteristics to enhance the firm's financial performance. It also helps them on how to enhance CG effectiveness further to improve financial reporting quality. This preference is also useful to corporate directors and investors on how to determine mechanisms that protect minority shareholders from expropriation. This study also identifies the strengths and weaknesses of institutional factors, such as, board of directors, ownership structures, standard compliance, and legal protections.

This thesis has several practical contributions to Malaysian listed companies. First, the study provides regulators and governance structure in firms with evidence regarding the significance of board and AC effectiveness as recommended by MCCG, 2016. Second, the study calls institutional owners to have long-run (stable) investments and exercise the influence of business, not just having a voting share (MFRS 10). Stable investments help improve the CG mechanisms and discipline corporate managers. Third, the appointment of directors should be through independent and professional procedures and based on market reach. This leads to an appropriate selection of directors and effective corporate boards. Fourth, companies should move away from the insider-dominated board of directors toward real board independence in order to improve both monitoring and advising directors' roles. Fifth, TREM is challenging to be detected and usually happens during financial crises, leading to lower EQ and market inefficiency. It is given less weight by both internal and external auditors, compared to ACEM. This study calls for auditors to perform thorough and detailed checking on financial reporting to minimise TREM. Finally, as ownership concentration can substitute the monitoring mechanisms which may backfire, this study suggests the enhancement of law and accounting standards enforcement in order to improve the quality of INP to protect minority and foreign investors.

1.6.4 Contribution to Policymakers

This study contributes to policymakers by providing insights into how institutional, financial, and regulatory factors moderate and influence the firm's EQ levels. The research calls regulators for the main weaknesses of firm- and country-level factors, such as CG, accounting standards and law enforcement, and ownership concentration, that need to be enhanced for quality assurance in earnings, and thus market efficiency.

This thesis has several contributions to policymakers. First, based on the TREM trend, enforcement mechanisms should be improved. These include: 1) enforcement of laws, 2) accounting norms, and 3) effective board of directors. Second, policymakers should realise that improving firm-level factors depend on the institutional context in a country. Third, they should also realise that developing accounting standards alone will not wholly improve the firm's EQ. The accounting and law enforcement are essential to combat corporate misbehaviours. Fourth, Policymakers and accounting standards bodies alike must be cautious when developing CG regimes and accounting standards since there is no one-for-all pattern of interactions among CG characteristics. Fifth, the study calls for strong and clear definitions of CG mechanisms in emerging markets, i.e. board independence, to protect investors. Finally, the long-run implication is to involve policies to enhance cross-sharing and cross-listing between Bursa Malaysia and a developed Asian market. This enhances policies to help 1) further transparency and financial reporting quality, 2) reduce barriers to investment, 3) increase the firms' liquidity and capital, 4) enhance the legal and monitoring environment, and 5) reduce cost of capital.

1.7 Definitions of Research Variables

This study employs 18 main variables. Table 1.1 summarises definitions of the variables used in this study which are adopted from previous literature. Details discussion on the variables is in chapter 2.

Table 1.1 : Definitions of Main Variables

No	Terminology	Author/Year	Definitions
1	Earnings Quality	Kamarudin and Wan Ismail (2014)	EQ refers to the low occurrence of earnings management manipulations to be a more reliable measure of firms' financial performance.
2	Accrual-Based Earnings Management	Ronen and Yaari (2008)	It is abnormal activities that arise from transactions made or accounting treatments chosen to manage earnings.
3	Real Earnings Management	Roychowdhury (2006)	TREM refers to management actions that deviate from normal business practices, undertaken with the primary objective of meeting certain earnings thresholds
4	Multiple Directorships	James, Wang, and Xie (2018)	Multiple directorships refer to a director with three or more outside directorships
5	Directors' Social Title	Yom and Gause (2012)	Individuals who have special privileges differentiating them from others, such as political, economic, or social influences in their own countries, and have loyalty and respect from society.
6	Board Effectiveness	Forbes and Milliken (1999)	The board's ability to perform its monitor and service missions effectively and to continue working together as evidenced by the cohesiveness of the board
7	Audit Committee Effectiveness	Collier and Gregory (1996)	A mechanism that connects between the board of directors, internal control system and the external auditors. it normally has most non-executive directors and is expected to view the company's affairs in a detached and dispassionate manner
8	Managerial Ownership	Hashim and Devi (2015)	It refers to the percentage of shares held by internal board members including executive directors and non-independent non-executive directors
9	Institutional Ownership	Alhazaimeh, Palaniappan, and Almsafir (2014)	The percentage of shares held by institutional investors to the total number of shares issued
10	Family Ownership	Chau and Gray (2010)	The percentage of shares held by family members and their relatives.

11	Politically Connected Ownership	Faccio (2006)	At least one of the company's large shareholders (i.e. controlling at least 10% of votes) or top directors (i.e. the CEO, president, vice–president, or secretary) is a member of the parliament, a minister, or the Chief of the State (i.e. dictator, president, King or Queen), or is closely–related to a top politician
12	IFRS	Ahmed, Neel, and Wang (2013)	Standards that limit managerial discretion and income smoothing.
13	Investor Protection	Altaf and Shah (2018)	It refers to investor protection index that rank countries on the strength of disclosures to protect minority shareholders by measuring the transparency of transactions, the degree of director liability, shareholder suits, and strength of minority investor protection indices.
14	Firm Size	Al-dhamari and Ku Ismail (2015)	It refers to the natural logarithm of total assets.
15	Firm Growth	Cheema and Su (2016)	Firms that generally have increased annual sales by more than the industry average over a sustained period. It refers to revenues for the current year less in the previous year divided by sales in the previous year.
16	Leverage	(Bryce, Ali, and Mather, 2015)	It refers to debt or to borrowing funds to finance firm assets (total debt divided by total assets).
17	ROA	Al-dhamari and Ku Ismail (2015)	It is an indicator of how profitable a company is relative to its total assets (Net income before extraordinary items divided by the average total assets).
18	Big4	(Abbadi, Hijazi, and Al-Rahahleh, 2016)	It refers to the four largest accounting and auditing firms (PricewaterhouseCoopers, Deloitte Touché Tohmatsu, Ernst & Young, and KPMG) that perform audits and other assurance services, such as, tax advising and various management services.

1.8 Organisation of Thesis

This thesis is organised into seven chapters as follows. Chapter one provides a background of the study, problem statement, research questions, research objectives, research methodology, significance, as well as, definitions of research variables. Chapter two begins with the literature review on EQ followed by a discussion of the related theories and empirical studies on IFRS adoption, the board of directors, ownership structure, INP, and EQ. It also presents discussion on CG and ownership structure in Malaysia and ends with research gap. Chapter three explains the research methodology. This chapter describes the research framework, hypothesis development, research variables (dependent, independent, moderating, and control variables), sampling method, data sources, regression models, and data analysis techniques. Chapter four presents the descriptive statistics, as well as, first objective results and discussion. The regression findings and discussion of second objective report in chapter five. Chapter six provides results and discussion for the third and fourth objectives on the moderating relationships. This thesis concludes in chapter seven with a summary of the findings, contributions, limitations and the recommendations for future research.

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