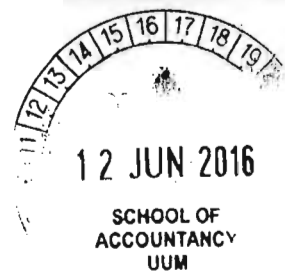


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**THE DETERMINANTS AND VALUE RELEVANCE OF  
GOODWILL IMPAIRMENTS IN MALAYSIAN FIRMS:  
THE ROLE OF CORPORATE GOVERNANCE  
MECHANISMS**



**UUM**

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**DOCTOR OF PHILOSOPHY  
UNIVERSITI UTARA MALAYSIA**

**April 2016**

**THE DETERMINANTS AND VALUE RELEVANCE OF GOODWILL  
IMPAIRMENTS IN MALAYSIAN FIRMS: THE ROLE OF CORPORATE  
GOVERNANCE MECHANISMS**



By  
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**UUM**  
Universiti Utara Malaysia

**Thesis Submitted to  
Tunku Puteri Intan Safinaz School of Accountancy,  
Universiti Utara Malaysia,  
in Fulfillment of the Requirement for the Degree of Doctor of Philosophy**



**TUNKU PUTERI INTAN SAFINAZ  
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COLLEGE OF BUSINESS  
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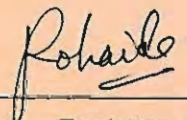
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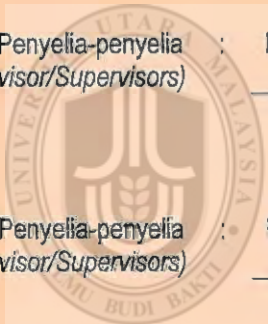
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## ABSTRACT

The purpose of this study is to examine the determinants and the value relevance of goodwill impairments. In contrast to similar studies, this study does not focus solely on management's opportunistic reporting behavior. Instead, it provides some insights into the likelihood that they exercise their discretion to improve the informational value of accounting information. In addition, this study compares the determinants of goodwill impairments across the pre- and the post Malaysian Code on Corporate Governance 2012 (MCCG 2012) and explores the influence of monitoring mechanisms on shareholders' valuation assessments of goodwill impairments. By doing so, it extends the literature relating to the role of corporate governance in constraining management's discretionary behavior associated with goodwill impairment testing. Using panel data over the period 2010 to 2014, the results show that goodwill impairments are associated with "big bath" behavior, an earnings management technique, and CEO changes. The results also indicate that these impairments generate value relevant and bad news to shareholders. Therefore, the combined findings suggest that establishing accounting standards which provide relevant information are difficult to implement reliably. Additionally, this study documents that, except for CEO changes, goodwill impairments have greater association with big bath behavior, and lower association with return on assets subsequent to MCCG 2012 implementation, consistent with criticisms of the MCCG. Finally, this study shows that effective corporate governance mitigates the bad news conveyed by goodwill impairments, indicating that firms with strong monitoring mechanisms are less likely to engage in big bath reporting behavior. Overall, the findings of this study should be useful to standard setters and policy makers who are interested in improving and evaluating the quality of goodwill reporting and corporate governance practices in Malaysia while emphasizing the importance of good corporate governance in ensuring credible accounting information.

**Keywords:** corporate governance, goodwill impairments, managerial agency-based motives, value relevance, principal component analysis.



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## ABSTRAK

Kajian ini bermatlamat untuk menyelidik penentu dan relevansi nilai kejejasan muhibah. Tidak seperti kajian yang hampir sama yang pernah dikendalikan sebelum ini, kajian ini tidak memberikan tumpuan terhadap tingkah laku pelaporan oportunistik pengurusan semata-mata. Malahan, kajian memperlihatkan keberangkalian bahawa pihak pengurusan menggunakan budi bicara mereka untuk menambah baik nilai maklumat yang ada dalam maklumat perakaunan. Selain itu, kajian turut membandingkan penentu kejejasan muhibah yang merentas pra dan pasca Kod Malaysia untuk Tadbir Urus Korporat 2012 (MCCG2012). Kajian juga meneliti pengaruh mekanisme pengawasan yang digunakan dalam penaksiran penilaian pemegang saham. Hal ini membantu menambah kosa ilmu tentang peranan tadbir urus korporat dalam menekankan tingkah laku budi bicara pengurusan yang dikaitkan dengan ujian kejejasan muhibah. Berdasarkan data panel untuk tempoh 2010 hingga 2014, kajian memperlihatkan bahawa kejejasan muhibah berkait rapat dengan tingkah laku “big bath,” teknik pengurusan perolehan dan pertukaran CEO. Dapatan kajian juga menunjukkan bahawa kejejasan menjana relevansi nilai dan berita buruk kepada pemegang saham. Oleh yang demikian, dapatan kajian yang bergabung menyarankan bahawa sukar untuk dilaksanakan secara baik piawai perakaunan yang dapat memberikan maklumat yang relevan. Kajian turut memperincikan bahawa, kecuali pertukaran CEO, kejejasan muhibah mempunyai perkaitan yang besar dengan tingkah laku “big bath” dan mempunyai perkaitan yang rendah dengan pulangan aset kesan daripada pelaksanaan MCCG2012. Perkara ini seiring dengan kritikan yang diberikan kepada MCCG. Akhir sekali, kajian mengetengahkan bahawa tadbir urus korporat yang berkesan mengurangkan berita buruk yang dibawa oleh kejejasan muhibah. Hal ini menunjukkan bahawa firma yang mempunyai mekanisme pengawasan yang kuat kurang dikaitkan dengan tingkah laku pelaporan “big bath”. Secara umumnya, dapatan kajian bermanfaat kepada penentu piawai dan penggubal dasar yang berminat untuk meningkatkan dan menilai kualiti pelaporan muhibah dan amalan tadbir urus korporat di Malaysia. Kajian juga menekankan pentingnya tadbir urus korporat yang baik diamalkan untuk memastikan penghasilan maklumat perakaunan yang boleh dipercayai.

**Kata kunci:** tadbir urus korporat, kejejasan muhibah, motif bersandarkan agensi pengurusan, relevansi nilai, analisis komponen utama



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In the name of Allah, the Most Gracious, the Most Merciful

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Ahmad Al-Hiyari

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## LIST OF ABBREVIATIONS

Book to Market Value	BVTM
Book Value of Equity	BVE
Chief Executive Officer	CEO
Cash Generating Unit	CGU
Capital Issuance Committee	CIC
Exposure Draft	ED
Financial Accounting Standard Board	FASB
Fair Value Accounting	FVA
High Level Finance Committee on Corporate Governance	HLFC
International Accounting Standard Board	IASB
International Financial Reporting Standard	IFRS
Malaysian Association of Certified Public Accountant	MACPA
Malaysian Accounting Standard	MAS
Malaysian Accounting Standard Board	MASB
Malaysian Code on Corporate Governance	MCCG
Malaysian Financial Reporting Standard	MFRS
Malaysian Institute of Accountant	MIA
Malaysian Institute of Corporate Governance	MICG
Market Value of Equity	MVE
Net income	NI
Operating Cash Flows	OCF
Securities Commission Malaysia	SC

## CHAPTER ONE

### INTRODUCTION

#### 1.0 Overview of the Chapter

This chapter outlines the introduction of the study, which is divided into the following sections. Section 1.1 introduces the background of the study. Then the Malaysian Code on Corporate Governance (MCCG) is discussed in Section 1.2. Section 1.3 provides motivations for using Malaysian data. Next, Section 1.4 presents the problem statement. This is followed by the research questions and objectives stated in Section 1.5. The scope of the study is explained in Section 1.6. The chapter proceeds with the significance and contributions of the study in Section 1.7. Finally, Section 1.8 presents the summary of the chapter.

#### 1.1 Background for the Study

Accounting for acquired goodwill is a contentious topic that has raised considerable ongoing debate for the past decades (Chalmers, Godfrey, & Webster, 2011). Since the nineteenth century, academics and practitioners have been striving to determine the most appropriate approach to account for the pecuniary excess paid by a buyer over the fair value of the net assets acquired in a business combination transaction (Cooper, 2007). In Malaysia, this issue became more prominent in 1992, when disagreement arose between the Malaysian Association of Certified Public Accountants (MACPA) and the Malaysian Institute of Accountants (MIA) over adopting Malaysian Accounting Standard (MAS) 6 (Susela, 1999). Similarly, Malaysia also witnessed extensive lobbying activities during

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