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

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

By

AHMAD ALI EID AL HIYARI

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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.
ABSTRAK


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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<td>Book to Market Value</td>
<td>BVTM</td>
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<td>BVE</td>
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<td>Chief Executive Officer</td>
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<td>Cash Generating Unit</td>
<td>CGU</td>
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<td>Capital Issuance Committee</td>
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<td>Exposure Draft</td>
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<td>Financial Accounting Standard Board</td>
<td>FASB</td>
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<td>Fair Value Accounting</td>
<td>FVA</td>
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<td>High Level Finance Committee on Corporate Governance</td>
<td>HLFC</td>
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<td>International Accounting Standard Board</td>
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<td>International Financial Reporting Standard</td>
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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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