EARNINGS MANAGEMENT, CORPORATE GOVERNANCE AND GOODWILL IMPAIRMENT AMONG MALAYSIAN LISTED COMPANIES

By

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ABSTRACT

The study examines the impact of corporate governance and company characteristics on earnings management practices among Malaysian public listed companies. In particular, the board meetings, board size, chief executive officer (CEO) duality and independent board of directors represent corporate governance mechanism; while the size of the company, return on assets (ROA), market to book value, total current accruals, and operating cash flow represent company's characteristics. Data are obtained from Datastream and annual report of 126 companies for the financial year ended 2013. The findings indicate a low level of earnings management occurred among Malaysian listed companies. This study provides evidence that boards meetings are significantly and negatively related to discretionary current accruals. Therefore, this study recommends that public listed companies in Malaysia to have a minimum number of six times of board meetings in a year.

ABSTRAK

Kajian ini menyelidik tentang kesan tadbir urus korporat dan ciri-ciri syarikat terhadap amalan pengurusan perolehan dalam kalangan syarikat-syarikat awam yang tersenarai di Malaysia. Secara khususnya, mesyuarat lembaga pengarah, saiz lembaga pengarah, ketua pegawai eksekutif berdwi-peranan dan lembaga pengarah bebas adalah mewakili mekanisma tadbir urus korporat; manakala saiz syarikat, pulangan atas aset, pasaran kepada nilai buku, jumlah akruan semasa dan aliran tunai operasi adalah mewakili ciri-ciri syarikat. Data kajian diperoleh dari *Datastream* dan laporan kewangan tahunan bagi 126 buah syarikat untuk tahun kewangan berakhir pada 2013. Hasil kajian menunjukkan pengurusan perolehan dalam kalangan syarikat-syarikat yang tersenarai di Malaysia adalah pada tahap yang rendah. Kajian ini menunjukkan bukti bahawa mesyuarat lembaga pengarah mempunyai hubungan negatif dan signifikan terhadap akruan semasa berpilihan. Oleh itu, kajian ini mencadangkan syarikat-syarikat awam yang tersenarai di Malaysia untuk melaksanakan mesyuarat lembaga pengarah minimum sebanyak enam kali dalam setahun.

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

In the period between 1997 - 1998, the financial crisis has occurred, and it gives bad impact to the Asian countries. This crisis is due to weak and poor governance standards which cause confidence of foreign investors is reduce in the Asian nation including Malaysia (Leng, 2004; Rahman & Haniffa, 2005). After the crisis, the effectiveness of corporate governance mechanism within a corporation has been questioned in the business community. The crisis is followed by two international famous cases which are Enron in 2001 and WorldCom in 2002; this makes many types of researchers believes earnings management practices is difficult to root out by existing corporate governance mechanisms. In order to enhance the monitoring function of corporate governance mechanism in Malaysia, the code of corporate governance has been introducing by Ministry of Finance in the year 2000. The Code has outlined some necessary conditions for the structure and functioning process of the board of directors, audit committee, and external auditors to take care of the interest of shareholders.

Companies around the world are mandated to prepare a financial statement in the form of annual reports at the end of company’s financial year. Financial statement user will refer to this statement in order to know company’s outcome and activities while management often uses the financial statement in order to plan and control. Companies have to abide various statutory requirement and regulatory rules such as accounting standard, company law, and taxation law while preparing the financial

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