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**THE INFLUENCE OF CORPORATE GOVERNANCE
MECHANISMS AND EMPLOYEE STOCK OPTIONS ON
ACCRETIVE SHARE BUYBACK IN MALAYSIA**



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UUM
Universiti Utara Malaysia

**DOCTOR OF PHILOSOPHY
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EMPLOYEE STOCK OPTIONS ON ACCRETIVE SHARE BUYBACK IN
MALAYSIA**

By

ABDUSALAM SAAD SALEH ALQUHAIF



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



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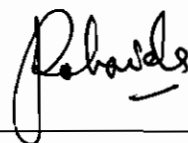
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ABSTRACT

In recent decades, there has been a notable and growing practice of real earnings management practiced through accretive share buybacks. Corporate governance is recognised as a significance mechanism in confirming the credibility of financial reporting quality. Overall, this study examines accretive share buybacks as a mechanism for real earnings management. The objectives of this study are to investigate the influence of corporate governance mechanisms: board of directors (BOD) effectiveness (independence, size, meetings and financial expertise), audit committee (AC) effectiveness (independence, size, meetings and financial expertise), audit quality and ownership structure (family, managerial, foreign) on accretive share buybacks. Considering the stock options hypothesis, this study also investigates the impact of employee stock options (ESOS) on accretive share buybacks. The study utilised 235 firm-year observations of non-financial firms listed on the Bursa Malaysia that were involved in accretive share buybacks over the years 2010 to 2015. By using panel data, the findings of the main analysis indicate that AC effectiveness and family ownership was negatively related to accretive share buybacks, but the effectiveness of the BOD and audit quality was positively associated with accretive share buybacks. The findings also show that ESOS were positively related to the accretive share buybacks, and no relationship was revealed between managerial ownership and foreign ownership with accretive share buybacks. The unexpected result of BOD effectiveness revealed the negative role of concentrated ownership in the monitoring functions of the BOD. This study contributes to a better understanding of corporate governance practices and accretive share buyback activities by Malaysian listed firms. The results indicate that firms should improve the effectiveness of corporate governance mechanisms (BOD, AC, audit quality and ownership structure) to enhance financial reporting quality. Hopefully, this study will provide a reference point for relevant parties to improve the applicable regulations and corporate governance schemes.

Keywords: Accretive share buyback, corporate governance mechanisms, ownership structure, employee stock options, Malaysia

ABSTRAK

Dalam beberapa dekad kebelakangan ini, terdapat satu amalan yang ketara dan berkembang dalam pengurusan pendapatan sebenar yang diamalkan menerusi pembelian semula saham secara akresi. Tadbir urus korporat diiktiraf sebagai mekanisme penting dalam mengesahkan kredibiliti kualiti pelaporan kewangan. Secara keseluruhannya, kajian ini menyelidik pembelian semula saham sebagai mekanisme pengurusan pendapatan sebenar. Objektif kajian ini adalah untuk mengkaji pengaruh mekanisme tadbir urus korporat: keberkesanan lembaga pengarah (BOD) (kebebasan, saiz, mesyuarat, dan kepakaran kewangan), keberkesanan jawatankuasa audit (AC) (kebebasan, saiz, mesyuarat dan kepakaran kewangan) kualiti audit dan struktur pemilikan (keluarga, pengurusan, asing) ke atas pembelian semula saham akresi. Dengan mengambli kira hipotesis opsyen saham, kajian ini juga menyiasat kesan opsyen saham pekerja (ESOS) ke atas pembelian semula saham akresi. Kajian menggunakan 235 pemerhatian tahunan firma bagi firma bukan kewangan yang disenaraikan di Bursa Malaysia yang terlibat dalam pembelian semula saham akresi pada tahun 2010 hingga 2015. Dengan menggunakan data panel, penemuan model utama menunjukkan bahawa keberkesanan AC dan pemilikan keluarga mempunyai kaitan negatif terhadap pembelian semula saham akresi tetapi keberkesanan BOD dan kualiti audit adalah berkaitan secara positif dengan pembelian semula saham akresi. Penemuan ini juga menunjukkan bahawa ESOS mempunyai kaitan positif dengan pembelian semula saham akresi, dan tiada hubungan didedahkan antara pemilikan pengurus dan pemilikan asing dengan pembelian semula saham akresi. Hasil yang tidak dijangka dari keberkesanan BOD menunjukkan peranan negatif pemilikan tertumpu dalam fungsi kawalan BOD. Kajian ini menyumbang kepada pemahaman yang lebih baik mengenai amalan tadbir urus korporat dan aktiviti pembelian semula saham oleh syarikat Malaysia yang disenaraikan. Hasilnya menunjukkan bahawa firma perlu meningkatkan keberkesanan mekanisme tadbir urus korporat (BOD, AC, kualiti audit dan struktur pemilikan) untuk meningkatkan kualiti pelaporan kewangan. Akhir sekali, kajian ini berharap hasilnya memberikan titik rujukan bagi pihak-pihak yang berkaitan untuk memperbaiki peraturan dan skim tadbir urus korporat yang berkenaan.

Kata kunci: Pembelian semula saham akresi, mekanisme tadbir urus korporat, struktur pemilikan, opsyen saham pekerja, Malaysia

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LIST OF ABBREVIATIONS

ABB	Accretive Shares Buyback
ABBD	Accretive Shares Buyback as Dichotomous Variable
AC	Audit committee
ACEXPRT	Audit committee Expertise
ACIND	Audit committee Independence
ACMEET	Audit committee Meeting
ACSIZE	Audit committee Size
AIM	Accountants Institute of Malaysia
BIG4	Big 4 Audit Firms
BM	Bursa Malaysia
BMLRs	Bursa Malaysia Listing Requirements
BDEXPRT	Board of directors Financial Expertise
BDIND	Board of directors Independence
BDMEET	Board of directors Meeting
BDSIZE	Board of directors Size
BNM	Bank Negara Malaysia
BOD	Board of directors
CCM	Companies Commission of Malaysia
CEO	Chief Executive Officer
CG Blueprint	Corporate Governance Blue Print
CL	Cash Level
CPA	Certified Public Accountant
DSM	Department of Statistics Malaysia
EPS	Earnings Per Share
ESOS	Employee Stock Options
ESOSEXR	Stock Options Exercise
FAMD	Family Ownership
FCCG	Financial Committee of Corporate Governance
FDI	Foreign Direct Investment
FOWN	Foreign Ownership

FSIZE	Firm Size
LEV	Leverage
KPMG	Klynveld Peat Main Goerdeler
MOWN	Managerial Ownership
MASB	Malaysian Accounting Standards Board
MCCG	Malaysian Code on Corporate Governance
MICG	Malaysian Institute of Corporate Governance
MIDA	Malaysian Investment Development Authority
MTB	Market To Book Value
RM	Ringgit Malaysia
SC	Securities Commission of Malaysia
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley Act
UK	United Kingdom
US	United States



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CHAPTER ONE

INTRODUCTION

1.0 Overview of the Chapter

This chapter presents the introduction of the current study. It is divided into several sections. Section 1.1 displays the background of the study. Section 1.1.1 discusses corporate governance mechanisms and real earnings management by accretive share buybacks. Section 1.2 presents the problem statement. The research questions are stated in Section 1.3. Research objectives are presented in Section 1.4. Section 1.5 displays the motivations of this study. Section 1.6 explains the significance and contributions of this study. The chapter proceeds with the scope of the study in Section 1.7. Finally, Section 1.8 proceeds with the organisation of the thesis.

1.1 Background of the Study

Payout policy has gained a significant attention since the mid-twentieth century. Miller and Modigliani (1961) provide a theoretical analysis of the relationship between firms' value and corporate payout policy. Their model indicates that payout policy would not affect firm's value in a perfect market. However, finding a perfect market is impractical due to several factors including information asymmetry, agency problems, tax differentials between dividend and capital gains, and transaction cost (Chen, 2006; Washer & Casey, 2011). Share buyback programs are one of payout policy methods in addition to regular and special dividends payments. The most popular method used by firms to buy back their share is open market buyback (Dittmar, 2000; Grullon & Michaely, 2002; Huang, 2016; Moser, 2009; Su & Lin, 2012).

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APPENDIX

List of Accretive Share Buyback Firms

Firm Name	Sector
ACME HOLDINGS	INDUSTRIAL PRODUCTS
ADV PACKAGING TECH	INDUSTRIAL PRODUCTS
ADVANCE INF MKTG	TRADING/SERVICES
ANALABS	TRADING/SERVICES
ASIAMET EDUCATION	TRADING/SERVICES
ASTINO BERHAD	INDUSTRIAL PRODUCTS
ATLAN HOLDINGS BHD	INDUSTRIAL PRODUCTS
ATTA GLOBAL	INDUSTRIAL PRODUCTS
BATU KAWAN BERHAD	PLANTATION
BENALEC HOLDINGS BHD	CONSTRUCTION
BERJAYA CORP	TRADING/SERVICES
BERJAYA SPORTS TOTO	TRADING/SERVICES
BREM HOLDING BERHAD	CONSTRUCTION
BSL CORP BHD	INDUSTRIAL PRODUCTS
CAHYA MATA SARAWAK	INDUSTRIAL PRODUCTS
CAM RESOURCES BHD	CONSUMER PRODUCTS
CB IND PRODUCT HLDGS	INDUSTRIAL PRODUCTS
CCK CONSOL	CONSUMER PRODUCTS
CENTURY LOGISTICS	TRADING/SERVICES
CEPATWAWASAN GRP	PLANTATION
CHEETAH HOLDINGS BHD	TRADING/SERVICES
CYMAO HOLDINGS BHD	INDUSTRIAL PRODUCTS
DAIBOCHI PLASTIC	INDUSTRIAL PRODUCTS
DAIMAN DEVELOPMENT	PROPERTIES
DAYA MATERIALS BHD	TRADING/SERVICES
DELLOYD VENTURES BHD	INDUSTRIAL PRODUCTS
DIGISTAR CORP BHD	TECHNOLOGY
EASTERN & ORIENTAL	PROPERTIES
ENGTEX GROUP BHD	TRADING/SERVICES
EONMETALL GRP BHD	INDUSTRIAL PRODUCTS
EP MANUFACTURING	INDUSTRIAL PRODUCTS
FAJARBARU BUILD	CONSTRUCTION
FITTERS DIVERSIFIED	TRADING/SERVICES
GLOMAC BHD	PROPERTIES
GOLDEN LAND BERHAD	PLANTATION
GOLDIS BHD	CONSUMER PRODUCTS
GRAND-FLO BHD	TECHNOLOGY

Firm Name	Sector
ACME HOLDINGS	INDUSTRIAL PRODUCTS
ADV PACKAGING TECH	INDUSTRIAL PRODUCTS
ADVANCE INF MKTG	TRADING/SERVICES
GUH HOLDINGS BHD	INDUSTRIAL PRODUCTS
HAI-O ENTERPRISE BHD	TRADING/SERVICES
HAP SENG CONSOLIDATE	TRADING/SERVICES
HUAT LAI RESOURCES	CONSUMER PRODUCTS
HUNZA PROPERTIES BHD	PROPERTIES
IGB CORPORATION BHD	PROPERTIES
INCH KENNETH KAJANG	PLANTATION
INTEGRATED LOGISTICS	TRADING/SERVICES
IOI CORPORATION BHD	PLANTATION
JAYCORP BHD	CONSUMER PRODUCTS
JOBSTREET CORP BHD	TRADING/SERVICES
KEN HOLDINGS BERHAD	CONSTRUCTION
KNM GROUP BHD	INDUSTRIAL PRODUCTS
KPJ HEALTHCARE BHD	TRADING/SERVICES
KULIM (MALAYSIA) BHD	PLANTATION
KUMPULAN H & L	INDUSTRIAL PRODUCTS
LBI CAPITAL BHD	PROPERTIES
LBS BINA GROUP BHD	PROPERTIES
LIEN HOE CORPORATION	PROPERTIES
M3 TECH	TECHNOLOGY
MEDA INCORPORATED	PROPERTIES
MEGA FIRST CORP	TRADING/SERVICES
MQ TECHNOLOGY BHD	INDUSTRIAL PRODUCTS
MTOUCHE TECH BHD	TECHNOLOGY
MUDAJAYA GROUP BHD	CONSTRUCTION
MULPHA INTERNATIONAL	TRADING/SERVICES
N2N CONNECT BERHAD	TECHNOLOGY
NOTION VTEC BERHAD	INDUSTRIAL PRODUCTS
NTPM HOLDINGS BHD	CONSUMER PRODUCTS
ORNAPAPER BHD	INDUSTRIAL PRODUCTS
OSK PROPERTY HLDGS	PROPERTIES
PARKSON HOLDINGS	TRADING/SERVICES
PELANGI PUBLISHING	INDUSTRIAL PRODUCTS
PELIKAN INT'L CORP	CONSUMER PRODUCTS
PERMAJU INDUSTRIES	INDUSTRIAL PRODUCTS
PJ DEVELOPMENT HLDGS	PROPERTIES
POH HUAT RES HLDGS	CONSUMER PRODUCTS

Firm Name	Sector
ACME HOLDINGS	INDUSTRIAL PRODUCTS
ADV PACKAGING TECH	INDUSTRIAL PRODUCTS
ADVANCE INF MKTG	TRADING/SERVICES
PROTASCO BHD	CONSTRUCTION
PW CONSOLIDATED BHD	CONSUMER PRODUCTS
RALCO CORP BHD	INDUSTRIAL PRODUCTS
REXIT BERHAD	TECHNOLOGY
SCANWOLF CORP	INDUSTRIAL PRODUCTS
SEG INTERNATIONAL	TRADING/SERVICES
SMRT HOLDINGS BHD	TECHNOLOGY
SUCCESS TRANSFORMER	INDUSTRIAL PRODUCTS
SUNWAY BHD	PROPERTIES
SUPERLON HOLDINGS	INDUSTRIAL PRODUCTS
SYMPHONY LIFE BHD	PROPERTIES
TAS OFFSHORE	INDUSTRIAL PRODUCTS
TASEK CORPORATION	INDUSTRIAL PRODUCTS
TEKALA CORP BHD	INDUSTRIAL PRODUCTS
TONG HERR RES	INDUSTRIAL PRODUCTS
TROPICANA CORP	PROPERTIES
UMS-NEIKEN GROUP BHD	INDUSTRIAL PRODUCTS
UNIMECH GROUP BHD	TRADING/SERVICES
UPA CORP BHD	CONSUMER PRODUCTS
WAH SEONG CORP	INDUSTRIAL PRODUCTS
WCT HOLDINGS BHD	CONSTRUCTION
WILLOWGLEN MSC BHD	TECHNOLOGY
YI-LAI BHD	INDUSTRIAL PRODUCTS
YNH PROPERTY BHD	PROPERTIES
YOKOHAMA INDUSTRIES	INDUSTRIAL PRODUCTS
YTL CORPORATION BERHAD	CONSTRUCTION
YTL POWER INT'L BHD	IPC