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**THE MODERATING EFFECTS OF FAMILY AND STATE
OWNERSHIP ON VALUE RELEVANCE OF ACCOUNTING
INFORMATION IN MALAYSIA**



UUM

Universiti Utara Malaysia

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DOCTOR OF PHILOSOPHY UNIVERSITI UTARA MALAYSIA

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

CERTIFICATION OF THESIS WORK



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ABSTRACT

Firm value represents the economic worth of a firm. It is a good indicator of investor perception about a firm's prospect. Many factors influence firm value; one of the most influencing factors is accounting information. Therefore, unbiased accounting information is of the utmost importance. Otherwise, it will be considered irrelevant for decision-making by investors and will result in lower value relevance (firm value) of accounting information. The primary accounting information earning is losing value relevance due to the managerial manipulation practices by the Malaysian listed firms. Investors are now relying more on other accounting information for decision-making. According to agency theory, concentrated ownership is the most significant factor that determines the value relevance of accounting information. The value relevance research has paid more attention to concentrated ownership and overlooked the unique agency context of concentrated family and state ownership, a common phenomenon in Malaysia. Therefore, this study investigates value relevance of earning, book value of equity, and cash flow from operations. Due to inconsistencies in prior studies, the moderating role of family and state-ownership on the value relevance of earning, book value of equity, and cash flow from operations are also examined. The sample of 607 public listed companies were used to test the hypotheses over the period 2012-2016. Using Prais-Winsten (PCSE) multivariate regression, this study finds that earning, book value of equity, and cash flow from operations are value relevant, and family ownership moderates the value relevance of earning, book value of equity, and cash flow from operations. State ownership only moderates the value relevance of book value of equity and cash flow from operations. These results have theoretical implications for the alignment and entrenchment hypotheses of the agency theory and practical implications for the regulators to improve investors' perception regarding quality of accounting information.

Keywords: Value relevance of accounting information, Family ownership, State ownership, Concentrated ownership, Malaysia

ABSTRAK

Nilai firma mewakili nilai ekonomi sesebuah firma. Ia merupakan petunjuk yang baik tentang persepsi pelabur terhadap prospek sesebuah firma. Terdapat banyak faktor yang mempengaruhi nilai firma; salah satu faktor yang paling mempengaruhi adalah maklumat perakaunan. Oleh demikian, maklumat perakaunan yang tidak berat sebelah adalah sangat penting. Jika tidak, ia akan dianggap tidak relevan kepada para pelabur dalam membuat keputusan dan akan menghasilkan maklumat perakaunan yang mempunyai nilai relevan (nilai firma) yang lebih rendah. Pendapatan maklumat perakaunan utama kehilangan nilai relevannya disebabkan oleh amalan manipulasi pengurusan oleh firma tersenarai di Malaysia. Pelabur kini lebih bergantung kepada maklumat perakaunan lain dalam membuat keputusan. Menurut teori agensi, pemilikan bertumpu merupakan faktor paling penting yang menentukan nilai relevan maklumat perakaunan. Kajian nilai relevan telah memberi tumpuan kepada pemilikan bertumpu dan mengabaikan keunikan konteks agensi pemilikan bertumpu keluarga dan kerajaan, yang merupakan fenomena biasa di Malaysia. Oleh itu, kajian ini menyiasat nilai relevan pendapatan, nilai buku ekuiti, dan aliran tunai dari operasi. Berikutan kajian tedahulu yang tidak konsisten, peranan penyederhanaan pemilikan keluarga dan kerajaan terhadap nilai relevan pendapatan, nilai buku ekuiti dan aliran tunai dari operasi turut dikaji. Sampel daripada 607 buah syarikat awam tersenarai digunakan untuk menguji hipotesis sepanjang tempoh 2012–2016. Dengan menggunakan regresi multivariat *Prais-Winsten* (PCSE), kajian ini mendapati bahawa pendapatan, nilai buku ekuiti, dan aliran tunai dari operasi adalah nilai relevan, dan pemilikan keluarga menyederhanakan nilai relevan pendapatan, nilai buku ekuiti, dan aliran tunai dari operasi. Pemilikan kerajaan hanya menyederhanakan nilai relevan bagi nilai buku ekuiti dan aliran tunai dari operasi. Hasil kajian ini mempunyai implikasi teori bagi penyelarasan dan penubuhan hipotesis bagi teori agensi serta implikasi praktikal kepada badan kawal selia untuk memperbaiki persepsi para pelabur terhadap kualiti maklumat perakaunan.

Kata kunci: Nilai relevan maklumat perakaunan, Pemilikan keluarga, Pemilikan kerajaan, Pemilikan bertumpu, Malaysia

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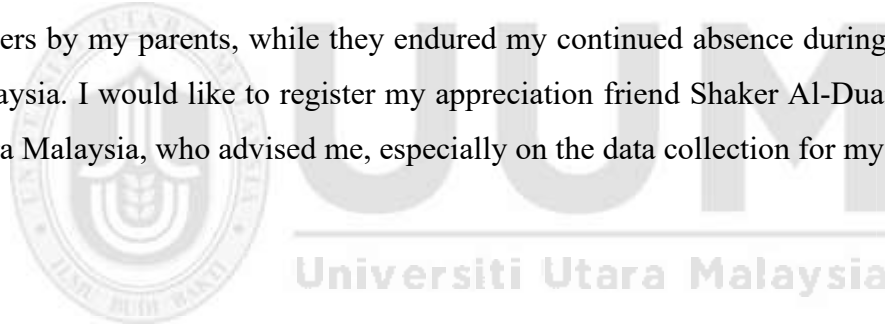


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LIST OF ABBREVIATIONS

BVE	Book value of equity
CFO	Cash Flow from Operations
CSD	Cross-Sectional Dependence
FCCG	Finance Committee on Corporate Governance
FE	Fixed Effect
FGLS	Feasible Generalized Least Square
FGVH	Felda Global Ventures Holdings
GLC	Government-Linked Company
GLICs	Government-Linked Investment Company
IASB	International Accounting Standard Board
IFRS	International Financial Reporting Standards
LM	Lagrange Multiplier
MAS	Malaysian Accounting Standards
MASB	Malaysian Accounting Standards Board
MFRS	Malaysian Financial Reporting Standard
MICG	Malaysian Institute of Corporate Governance
MOF	Ministry of Finance
MSWG	Minority Shareholders Watchdog Group
OLS	Ordinary Least Squared Regression
PCSE	Panel Corrected Standard Error
PLC	Public listed Company
REIT	Real Estate Investment Trust
SMEs	Small and Medium Enterprises
TV	Tolerance Value
UK	United Kingdom
US	United States
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The scandals in the widely held corporations around the world, such as Enron, WorldCom, Tyco and Toshiba, as well as in closely held publicly listed firms, for example, Adelphia, Cirio, Parmalat Pescanova and Toshiba are associated with bad accounting practices. There are also many Malaysian domestic accounting scandals in public listed firms, e.g., Technology Resources Industries Berhad, Transmile Group Berhad, Welli Multi Corporation Berhad, Megan Media Holdings Berhad, Southern Bank Berhad, Nasiocom Holdings Berhad, MEMS Technology Berhad, Ocean Capital Berhad and Felda Group Berhad are also associated with manipulation of accounting information. These firms cheated investors by providing misleading financial statements and shattered investors' confidence (Darussamin, Ali, Ghani, & Gunardi, 2018). These cases not only highlighted the importance of quality of accounting information but also shed light on the issue that the poor accounting information is the main cause of the decline in the firm value.

This fact is evident from prior cases that were associated with poor quality of accounting information. For example, Enron was one of the most famous leading firms globally was liquidated in 2001. The annual revenue of the company rose from USD 9 billion in 1995 to over USD 100 billion in 2000. At the end of 2001, it was discovered that its financial reports were substantially manipulated that caused the decrease of Enron's stock price from USD 90 per share in mid-2000 to less than USD 1 per share at the end of 2001, caused shareholders to lose nearly USD11 billion (Li, 2010).

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APPENDICES

Appendix A: Descriptive Statistics of Winsorised Variables

Variable	Mean	Min	Max	Median	St.D	Skewness	Kurtosis	Shapiro-Wilk
SPPS	1.884	0.065	23.420	0.840	3.339	4.448	25.816	0.00
EPS	0.110	-0.420	1.236	0.058	0.224	2.287	11.632	0.00
BVEPS	1.535	0.072	9.283	1.013	1.612	2.505	10.491	0.00
CFOPS	0.144	-0.479	1.773	0.069	0.309	2.592	12.875	0.00
GROW	1.232	0.170	10.900	0.810	1.466	4.211	24.911	0.00
SIZE	13.131	10.565	17.559	12.935	1.462	0.761	3.510	0.00
LEVERG	18.302	0.000	58.980	15.900	15.369	0.617	2.548	0.00
FAM	20.180	0.000	74.000	0.000	25.467	0.684	1.830	0.00
STAT	2.720	0.000	78.046	0.000	12.795	4.913	26.439	0.00

NOTE: SPPS: Share price after four-month period; EPS: Earning per share; BVEPS: Book value of equity per share; CFOPS: Cash flows from operation per share; GROW: Market- to- book ratio; SIZE: Natural logarithm of total assets; LEVERG: Ratio of debt to total assets; FAM: Family ownership; STAT: State ownership.



Appendix B: VIF and TV for Model 1 and 2 Including Industry Dummies

Model 1			Model 2		
Variable	VIF	TV	Variable	VIF	TV
EPS	1.41	0.71	EPS	1.63	0.61
BVEPS	1.81	0.55	BVEPS	2.62	0.37
CFOPS	1.76	0.57	CFOPS	2.5	0.40
GROW	1.37	0.73	GROW	1.41	0.70
SIZE	1.82	0.55	SIZE	2.03	0.50
LEVERG	1.26	0.79	LEVERG	1.27	0.79
CONSUMER PRODUCTS	3.34	0.30	FAM	1.95	0.51
HOTEL	1.09	0.92	STAT	3.96	0.27
INDUSTRIAL PRODUCTS	4.36	0.23	FAM*EPS	2.46	0.41
INFRASTRUCTURE PROJECT	1.34	0.75	FAM*BVEPS	4.17	0.24
MINING	1.03	0.97	FAM*CFOPS	2.68	0.37
PLANTATION	1.99	0.50	STAT*EPS	2.54	0.48
PROPERTY	2.72	0.37	STAT*BVEPS	7.36	0.16
TECHNOLOGY	1.71	0.58	STAT*CFOPS	4.89	0.26
TRADING/SERVICES	3.77	0.27	CONSUMER PRODUCTS	3.38	0.30
			HOTEL	1.09	0.92
			INDUSTRIAL PRODUCTS	4.40	0.23
			INFRASTRUCTURE PROJECT	1.35	0.73
			MINING	1.03	0.97
			PLANTATION	2.02	0.50
			PROPERTY	2.74	0.37
			TECHNOLOGY	1.74	0.58
			TRADING/SERVICES	3.83	0.26

Note: SPPS: Share price after four-month period; EPS: Earning per share; BVEPS: Book value of equity per share; CFOPS: Cash flow from operations per share; GROW: Market-to-book ratio; SIZE: Natural logarithm of total assets; LEVERG: Ratio of debt to total assets; FAM: Family ownership; STAT: State ownership; FAM*EPS: Interaction between family ownership and earnings; FAM*BVEPS: Interaction between family ownership and book value of equity; FAM*CFOPS: Interaction between family ownership and cash flow from operations; STAT*EPS: Interaction between state ownership and earnings; STAT*BVEPS: Interaction between state ownership and book value of equity; STAT*CFOPS: Interaction between state ownership and cash flow from operations.