

**THE IMPACT OF CORPORATE GOVERNANCE AND
CORPORATE SOCIAL RESPONSIBILITY
ON EARNING MANAGEMENT**

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**DOCTOR OF PHILOSOPHY
UNIVERSITI MALAYSIA TERENGGANU**

2012

**THE IMPACT OF CORPORATE GOVERNANCE AND CORPORATE SOCIAL
RESPONSIBILITY ON EARNINGS MANAGEMENT**

NOR RAIHAN BT. MOHAMAD

**This Thesis is Submitted in Fulfilment of the Requirements for the Degree of Doctor of
Philosophy in the Faculty of Management and Economics
Universiti Malaysia Terengganu**

January 2012

Abstract of thesis presented to the Senate of Universiti Sains Malaysia in fulfillment of the requirements for the degree of Doctor of Philosophy.

THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON

CORPORATE FINANCIAL

This thesis is dedicated to:

My Parents,
Siah bt Ibrahim & Mohamad bin Ali.
My Beloved Husband,
Roslan bin Awang.
My Children,
Muhammad Ikmal Hanafi,
Esdma Rauhah,
Ahmad Mujahid.
&
My Brothers and Sisters,
Abdullah Suhaimi,
Ahmat Azemi,
Rosdhi,
Jasni,
Rageni,
Razanah,
Saifuddin,
Fadhirlah,
Dayang Normiah.

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Chairperson : Professor Shamsul Nahar Abdullah, Ph.D
Member : Mohd Zulkifli Mokhtar, Ph.D.
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The post-Enron debacle has increased the awareness of and commitment towards corporate social responsibility (CSR). CSR practice is perceived as one of the ethical commitments towards stakeholders. Ethical commitment is an important precaution to avoid the recurrence of accounting failures. Earnings management practice, as one of management's non-value maximising activities, may become a precursor of the accounting failures. It can be mitigated by having effective corporate governance. However, the extant earnings management literature gives more focus to the relationship between the manager and the shareholder, hence, less emphasis has been given to the role of CSR. Therefore, it is imperative to investigate corporate governance, which emphasises CSR practice and its relationship with earnings management.

This study examines two issues: first, the interaction between CSR and corporate governance to mitigate earnings management; and, second, the convergence of the

principle between corporate governance and CSR. Using a sample of 275 Malaysian listed companies during 2005-2007, this study analyses the cross-sectional and the panel dataset of the regression analysis and the two stage least squares analysis. The CSR practices are measured using CSR reporting in the corporate annual reports. The earnings management is measured using the combination of several proxies, such as earnings aggressiveness, earnings smoothing, small loss avoidance and earnings decrease avoidance.

This study found that CSR does not influence the relationship between corporate governance and earnings management. This result suggests that CSR practice does not exhibit an ethical commitment during the financial reporting process. Particularly, it does not reflect the stewardship principle or ethical management, but focuses on philanthropic activities. This proposition is also evidenced by the absence of the endogeneity relationship between the corporate governance and CSR variables. Therefore, the convergence between corporate governance and the CSR concept, at this juncture, is only recognised at the theoretical level.

This study also contributes to the corporate governance literature pertaining to the importance of the board diversity variable such as gender and cultural diversity to restore corporate governance effectiveness in an emerging economy context. In conclusion, further steps should be taken by all parties, either individual managers or government agencies, to nurture CSR practice. CSR should be based on the stewardship principle in order to develop responsible corporate governance towards shareholders and stakeholders.

Abstrak tesis yang dikemukakan kepada Senat universiti Malaysia Terengganu sebagai memenuhi keperluan untuk ijazah Doktor Falsafah.

**KESAN TADBIR URUS KORPORAT DAN TANGGUNGJAWAB SOSIAL
KORPORAT TERHADAP PENGURUSAN PEROLEHAN**

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Era pasca tragedi Enron telah mengakibatkan peningkatan kesedaran dan komitmen terhadap tanggungjawab sosial korporat. Tanggungjawab sosial korporat ditanggap sebagai salah satu komitmen etika terhadap pemegang kepentingan syarikat. Komitmen etika merupakan sebahagian daripada langkah berjaga-jaga yang penting untuk mengelak kegagalan perakaunan berulang. Sebagai salah satu daripada aktiviti yang tidak memaksimumkan nilai, amalan pengurusan perolehan boleh menjadi salah satu pelopor kepada kegagalan perakaunan. Namun, amalan ini boleh dikurangkan dengan adanya tadbir urus yang berkesan. Walau bagaimanapun, sorotan karya mengenai pengurusan perolehan yang sedia ada lebih memfokuskan kepada perhubungan di antara pengurus dan pemegang saham, serta kurang memberi penekanan kepada peranan tanggungjawab sosial korporat. Lantaran itu, adalah sangat penting untuk mengkaji tadbir urus korporat yang memberi penekanan kepada tanggungjawab sosial korporat dan hubungannya dengan pengurusan perolehan.

Kajian ini meneliti dua isu; pertama, interaksi di antara tanggungjawab sosial korporat dan tadbir urus korporat untuk mengurangkan amalan pengurusan perolehan; dan kedua, penumpuan prinsip di antara tanggungjawab sosial korporat dan tadbir urus korporat. Data daripada 275 sampel yang terdiri daripada syarikat yang disenaraikan di Bursa Malaysia di antara tahun 2005-2007, dianalisis data secara keratan rentas dan jalur menggunakan analisis regresi dan analisis kuasa dua terkecil dua peringkat. Pembolehubah tanggungjawab sosial korporat diukur menggunakan laporan tanggungjawab sosial yang terdapat dalam laporan tahunan korporat. Manakala pengurusan perolehan pula diukur menggunakan gabungan beberapa proksi seperti keagresifan perolehan, pelicinan perolehan, pengelakan kerugian kecil dan pengelakan penurunan perolehan.

Hasil kajian ini mendapati bahawa tanggungjawab sosial korporat tidak mempengaruhi hubungan antara tadbir urus korporat dan pengurusan perolehan. Keputusan ini menunjukkan bahawa amalan tanggungjawab sosial korporat tidak sejajar dengan komitmen etika dalam proses pelaporan kewangan. Secara khususnya, amalan ini tidak mencerminkan prinsip pengawasan atau pengurusan beretika, tetapi lebih menjurus kepada aktiviti-aktiviti bersifat dermawan. Saranan ini juga dibuktikan oleh ketiadaan hubungan serentak (endogen) di antara pemboleh ubah tadbir urus korporat dan tanggung jawab sosial korporat. Dengan demikian, penumpuan di antara tadbir urus korporat dan konsep tanggungjawab sosial korporat, pada ketika ini adalah dikenalpasti pada tahap teori sahaja.

Kajian ini juga menyumbang kepada sorotan karya tadbir urus corporate yang menjurus kepada kepentingan pembolehubah kepelbagaian lembaga pengarah seperti kepelbagaian jantina dan budaya (bangsa) untuk mengukuhkan semula kecekapan tadbir urus korporat dalam konteks Negara ekonomi membangun. Kesimpulannya, langkah-langkah lanjutan perlu diambil oleh semua pihak sama ada pengurus secara individu atau pun agensi-agensi kerajaan untuk memupuk amalan tanggungjawab sosial korporat yang didasari oleh prinsip pengawasan. Dengan itu, amalan tadbir urus korporat yang bertanggungjawab sama ada kepada pemegang saham atau pemegang kepentingan syarikat yang lain dapat dibangunkan.