

**THE ROLE OF COPERATE GOVERNANCE,  
ETHNICITY AND FAMILY OWNERSHIP ON  
EARNINGS CONSERVATISM**

**SHAHNAZ ISMAIL**

**DOCTOR OF PHILOSOPHY  
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CONSERVATISM**

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**Thesis Submitted in Fulfillment of the Requirement for the  
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## **DEDICATION**

This thesis is dedicated to my husband; Mohd Effendy Abdul Wahid,  
my son; Ahmad Irfan Azfar,  
my daughters; Nur Irdina Danisyah and Nur Amirah Aqilah  
my parents; Ismail Mohd Hussain and Saadat Che Ibrahim  
and  
my sister; Shahrinaz

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**THE ROLE OF CORPORATE GOVERNANCE, ETHNICITY AND FAMILY OWNERSHIP ON EARNINGS CONSERVATISM**

**SHAHNAZ BINTI ISMAIL**

**July 2013**

**Main Supervisor : Professor Shamsul Nahar bin Abdullah, PhD.**  
**Co-Supervisor : Professor Annuar bin Md Nassir, PhD.**  
**Associate Professor Nur Azura binti Sanusi, PhD.**  
**Faculty : Management and Economics**

Corporate scandals around the world, resulting from the use of aggressive accounting practices has eroded investors' confidence towards firm's financial reports. This situation leads to lower quality of financial reporting and integrity of financial reports. It is widely believed that accounting conservatism practice can mitigate the problem by increasing the quality of financial reporting. Considering the importance of conservatism in financial reporting, this study addresses the issue of financial reporting in respect of accounting quality, as reflected in earnings conservatism. Specifically, this study examines the practice of earnings conservatism and the factors that affect the degree of accounting conservatism such as corporate governance mechanism, ethnicity and family ownership. The objectives of this study are (i) to determine the practice of earnings conservatism in financial reporting among listed firms in Malaysia, (ii) to examine the relationship between corporate governance mechanism and earnings conservatism, (iii) to investigate the relationship between ethnicity and earnings conservatism, (iv) to test the relationship

between family dominated firms and earnings conservatism and (v) to examine whether the revised Code on Corporate Governance 2007 influences earnings conservatism. A three-year backward accumulation asymmetric timeliness model was used in the panel data analysis. A total of 233 listed companies were selected using purposive sampling method. The period of study is between the year 2005 and 2009. The findings revealed that corporate governance mechanism, ethnicity and family attributes are related to the practice of earnings conservatism. This study found that the practice of earnings conservatism is low. In terms of corporate governance mechanisms, CEO duality and composition of audit committee members show significant negative association with earnings conservatism. This study provides no evidence that independence of directors on board and on both monitoring committees, nomination committee size and financial literate influenced earnings conservatism. With respect to ethnicity, Bumiputra on board of directors and Bumiputra on board of audit committee show significant positive relation with earnings conservatism. Bumiputra independent directors either on board or on the monitoring committee and the chairman of either the board or the audit committee were not found to influence earnings conservatism. Surprisingly, family dimensions were not found to contribute to earnings conservatism. However, upon separation between family and non-family firms, the study found conservatism practices are more widespread among family firms. Furthermore, corporate governance mechanism were not found to be related to earnings conservatism after the revised of Malaysian Code on Corporate Governance in 2007. Only financial expertise of the audit committee member shows a significant result, albeit an inverse relation. Thus, in Malaysia, the practice of earnings conservatism post-MCCG 2007 is not widespread. The findings of this study support the notion that agency theory is able

to explain governance practices, ethnicity and the family firms towards quality financial reporting. However, policy makers and regulatory agencies should strengthen their enforcement as two important components in MCCG 2007-independent directors and financially literate audit committee members - do not influence the practice of conservative reporting.



antara etnik dan pendapatan konservatif, (iv) untuk menguji hubungan di antara pemilikan keluarga dan pendapatan konservatif dan (v) untuk menyelidik sama ada Kod Tadbir Urus Korporat 2007 yang dikemaskini mempengaruhi pendapatan konservatif. Kajian ini menggunakan analisis data panel dengan model ketetapan masa tak simetri pengumpulan tiga tahun ke belakang. Sebanyak 233 firma dipilih melalui kaedah persampelan bertujuan. Tempoh kajian adalah di antara tahun 2005 dan 2009. Hasil kajian mendapati bahawa mekanisme tadbir urus korporat, etnik dan pemilikan keluarga memainkan peranan dalam amalan pendapatan konservatif. Kajian ini menunjukkan bahawa amalan pendapatan konservatif adalah rendah. Berdasarkan kepada mekanisme tadbir urus korporat, Ketua Pegawai Eksekutif dwi peranan dan bilangan ahli jawatankuasa audit menunjukkan hubungan negatif dan signifikan dengan pendapatan konservatif. Kajian ini tidak menunjukkan hubungan yang signifikan antara pengarah bebas dalam lembaga pengarah mahupun dalam kedua-dua jawatankuasa pemantauan, saiz jawatankuasa pencalonan dan literasi kewangan dengan pendapatan konservatif. Berdasarkan etnik pula, Bumiputra dalam lembaga pengarah dan Bumiputra dalam jawatankuasa audit, menunjukkan hubungan positif dan signifikan dengan pendapatan konservatif. Pengarah bebas bumiputra sama ada dalam lembaga pengarah atau jawatankuasa pemantau dan pengerusi bumiputra sama ada dalam lembaga pengarah atau jawatankuasa audit, tidak mempengaruhi pendapatan konservatif. Pada dasarnya, dimensi keluarga tidak menyumbang kepada pendapatan konservatif. Walau bagaimanapun, apabila sampel kajian dibahagikan kepada pemilikan keluarga dan bukan keluarga, hasil kajian menunjukkan bahawa pemilikan keluarga berkait dengan amalan konservatif. Tambahan pula, mekanisme tadbir urus korporat tidak menunjukkan hubungan dengan pendapatan konservatif selepas Kod Tadbir Urus Korporat Malaysia



dikemaskini pada tahun 2007. Hanya kemahiran kewangan di kalangan ahli jawatankuasa audit menunjukkan keputusan yang signifikan tetapi hubungannya adalah bertentangan. Oleh itu, amalan pendapatan konservatif selepas Kod Tadbir Urus Korporat 2007 adalah rendah. Hasil kajian menunjukkan bahawa teori agensi boleh diguna pakai untuk menerangkan kualiti pelaporan kewangan dari aspek amalan tadbir urus, etnik dan pemilikan keluarga. Walau bagaimanapun, pihak pembuat polisi dan agensi kawal selia perlu memperkukuhkan penguatkuasaan kerana dua komponen dalam Kod Tadbir Urus Korporat 2007, iaitu pengarah bebas dan literasi kewangan, tidak mempengaruhi amalan pelaporan konservatif.