

AUDIT COMMITTEE DIVERSITY - MALAYSIAN EVIDENCE AFTER THE REVISION OF MCCG

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ABSTRACT

The purpose of this study is to examine the relationship between audit committee diversity and earnings management in Malaysia after the revision of the Malaysian Code of Corporate Governance (MCCG) in 2007. The sample for this study is drawn from 280 companies listed on Bursa Malaysia in 2005, 2006, 2008 and 2009. Multivariate regression analysis is used to address the research hypotheses. The discretionary accrual is estimated using the Modified Jones Model which is used to proxy for earnings management. The study finds negative correlation between the compositions of Malay audit committee members with earnings management. In contrast, female directors show no effect in mitigating earnings management which may be due to the small size of female members in the audit committee.

This study provides to the researchers new empirical results on the effectiveness of audit committee diversity in mitigating earnings management after the amendments of MCCG. This study is important because it is among the pioneer empirical evidences to compare the effectiveness of audit committee diversity in mitigating earnings management between the pre and post revised MCCG periods. The audit committee diversity refers to ethnic diversity and gender diversity.

Keywords: *audit committee, gender diversity, ethnics diversity, earnings management*

Introduction

The diversity issues on board and subcommittee have received a significant awareness in firms especially in Western countries. Based on the 2009 KPMG survey of 955 companies in the UK, it reveals that more than 61% of these companies have diversity policies in terms of gender, age, ethnicity and disability in place. American corporations also are making some progress towards the inclusion of more women and ethnic minorities on corporate boards. For example, in 2004, 82% of Fortune 1000 companies have at least one woman on board and 76% of Fortune 1000 companies have at least one member of an ethnic minority on their board where the composition is 47% African Americans, 18% Latinos, and 11% Asian Americans (Fairfax, 2005). Catalyst Inc. (2011) indicates that women holds 15.6% of the board seats of the Fortune 500 companies in 2010, an increase from 13.6% in 2003 and 11.7% in 2000. While women that lead the audit committee is 12.1% in 2010 compared to 8.2% in 2006 which is an increase of 3.9%.

Chooi, (2011) reports that in Malaysia there are only 13% of women being appointed as board directors in the Ministry of Finance Incorporated, while only 7.6% in the 200 companies listed on Bursa Malaysia. Due to the low participation of women in top management, in 2011 the Malaysian Cabinet has approved a policy stipulating that there must be at least 30% of women holding decision-making posts in the corporate sector by 2016 (Chooi, 2011). In addition, the Malaysian Corporate Governance Blueprint 2011 states that its goal is for women participation on boards to reach thirty per cent by the year 2016 and assessment aspect should be monitored on yearly basis starting 2013 (SCM, 2011). Thus, the blueprint recommends that boards through their Nominating Committee should take steps to ensure that women candidates are sought as part of their recruitment exercise.

On the ethnic issue, Malaysia is a multi-ethnic society, where Malays (also known as bumiputra) are the dominant group, followed by Chinese and Indians and a variety of indigenous groups in East Malaysia. Athukorala and Menon (2004) report that the native Malays, who account for 52 percent of the population, dominate politics, but are relatively poor and involved mostly in low-productive agricultural activities. In contrast, the ethnic Chinese (37 percent of the population) enjoy greater economic power and dominate most of the modern-sector activities. Due to this imbalanced economic activity,

the Malaysian government introduces the National Economic Plan (NEP) in 1971 to eliminate the identification of race with economic functions and to minimize the economic gap or disparity in economic status between the Malays and the Chinese (Mamman, 2002). For instance, the NEP-based reforms saw bumiputra corporate ownership grow from 1.5% in 1970 to 20.3% in 1990 (Tam & Tan, 2007).

Issues on diversity can be addressed in two distinctive general categories namely, the demographic (observable) diversity and cognitive (non-observable) diversity. Instances of demographic diversity are gender, age, race and ethnics (Conyon and Mallin, 1997; Daily and Dalton, 2003, Brammer, Millington and Pavelin, 2007) and the instances of cognitive diversity include knowledge, education, values, perception, affection and personality characteristics (Erhardt et. al., 2003; Brammer et al., 2007).

In this study, the audit committee diversity refers to the demographic diversity specifically on ethnic and gender differences on audit committee board of directors. Davidson et al., (2005) argues that to ensure good corporate governance, the effectiveness of the Board of Directors and particularly that of the non-executive Directors is to be enhanced by the establishment of appropriate board sub-committees. The Audit committee is one of the sub-committees of the board. An audit committee, which mainly comprises of non-executive directors, can be an effective tool to ensure corporate governance in an organisation (Baxter and Cotter, 2009). This committee tries to enhance the ability of the Board to fulfill its legal responsibilities and ensure the credibility and objectivity of the financial reports. Accountants International Study Group (1977) defines audit committee in a detailed way: "A committee of directors of a corporation whose specific responsibility is to review the annual financial statements before submission to the board of directors". The committee generally acts as a liaison between the auditor and the board of directors and its activities may include the review of nomination of auditors, overall scope of the audit, results of the audit, internal financial controls and financial information for publication." A Company establishes an audit committee within the Board of Directors to take active role in overseeing the company's accounting and financial reporting policies and practices (Whittington & Pany, 2001). Improved quality of financial reporting practices, and more specifically earnings, has been widely cited as one of the major benefits of companies

establishing audit committees (Blue Ribbon Committee, 1999; Ramsay, 2001).

The Malaysian Code on Corporate Governance (MCCG) which was published in 2000 requires the board to establish an audit committee comprising of at least three members, a majority of whom are independent. However in 2007, the revised MCCG requires that all members of the audit committee should be non-executive directors. It is interesting to see whether the additional requirement of the revised MCCG will have the impact on the gender and ethnic diversity in the audit committee's membership. This also will further give the implication on the effectiveness of the audit committee to constraint earnings management after the revision of the MCCG. Therefore, the present study fills the gap by providing the findings about the contribution of gender and ethnic diversity towards constraining the earnings management in the Malaysian publicly-listed firms after the revision of MCCG. This is because most of the previous studies in Malaysia study the effectiveness of audit committee characteristics such as size (Wan Ismail et al., 2009), financial expertise (Rahmat et al., 2009), audit committee independence (Saleh et al., 2007), ethnic (Marimuthu, 2008) before the revised MCCG.

Issues of diversity in corporate governance can be discussed based on several recognized theories. Westphal and Milton (2000) provide the argument in the perspective of an agency theory. They argue that board diversity in terms of gender and ethnic minorities can help correct information bias in strategies formulation and problem solving. Carter et al. (2003) also suggest that greater gender diversity may improve the board as one of the internal governance mechanism to monitor the managers' activities. This is because female directors like to ask questions that may not be asked by male directors. Fields and Keys, (2003) raise the same issue through stakeholder theory as the pressure of firms to appoint female as directors comes from a broad set of people, which includes shareholders, activists and large institutional investors. In addition, Hambrick and Mason (1984) view the contribution of board diversity based on the Upper Echelon Theory. They argue that characteristics of the top management team who, with greater demographic diversity, have a great power to influence the decision-making process of the organisation and can positively contribute to the firm's performance.

Ethnicity and gender diversity provide several positive impacts to the firms. Katzenbach et al. (1995) reports that board diversity promotes wider creativity and flexibility that enables a firm to adjust more rapidly to the changing and dynamic business environment. Furthermore, diversity of group membership increases organisational value and performance by providing new insights and viewpoint (Carter et al., 2003). Similarly, Gilbert and Ivancovich (2000) emphasize that heterogeneous board membership has higher ability to address the challenges of uncertain and dynamic business environment. In the UK, the Higgs report (2003) argues that diversity could enhance board effectiveness and specifically recommends that firms draw more actively from professional groups in which women are better represented. If the characteristics of the board are homogenous in nature, there is likelihood that the decision making will be single-minded, predictable and inflexible (Westphal and Zajac, 1998).

The results based on the analysis of 280 public-listed Malaysian firms in 2005, 2006, 2008 and 2009 show that the presence of female committee members in the audit committee does not support the hypothesis. In contrast the presence of Malay committee members in the audit committee is negatively associated with earnings management. The mixed results indicate the need to improve the quality and the effectiveness of female audit committee members in mitigating earnings management. Furthermore, it also supports the argument that ethnic diversity will improve the board's flexibility in its management process due to a wider set of opinions and views.

The remainder of the paper is divided into four sections. Section 2 reviews previous literatures on the relationship between gender diversity and earnings management, ethnic diversity and earnings management and develops the hypotheses. It also discusses the measurement of earnings management through the estimation of discretionary accruals. Section 3 outlines the research method used to test the hypotheses. Section 4 reports the present study's results and data analysis. Section 5 concludes by discussing the implications of the research findings and considering future areas for research.

LITERATURE REVIEW AND HYPOTHESES

Gender and Earnings Management

In the previous researches, it is found that all of them investigate whether the gender of board members play a role in board effectiveness and linked with the firms' performance. However, so far, there are a limited number of researches that investigate the impact of gender diversity on audit committee's effectiveness in mitigating earnings management. Therefore, this research will attempt to test whether there is an impact of gender diversity on audit committee's effectiveness in mitigating earnings management.

Campbell et al., (2008) argue that diversity increases creativity and innovations as these characteristics are not randomly distributed in the population, but tend to vary systematically with demographic variables such as gender. In addition, diversity also can enhance problem-solving as the variety of perspectives that emerges from a more diverse board means that more alternatives are evaluated. Gul, Srinidhi and Tsui (2007) are also of the opinion that female directors with higher ethical standards and greater risk aversion, are therefore likely to exhibit greater hatred to earnings management than their male members. As a result, female audit committee members are more likely than their male directors to offer more suggestions and make efforts to improve board monitoring in terms of preventing earnings management behavior.

Researches on gender diversity are based largely on U.S. and European countries data. There are positive and negative arguments pertaining to gender diversity in the boardroom. Shrader et.al (1997) are unable to find any significant positive relationship between the percentage of female members of U.S. boards and several accounting measures of financial performance. Carter et al. (2003) find a positive and a significant relationship between Tobin's Q and the proportion of women on the boards of Fortune 1000 firms, after taking into consideration the size, industry and other corporate governance measures. Erhardt et al. (2003) report that the percentage of women on the boards of large U.S. firms is positively associated with two accounting measures of performance, return on assets and the return on investment. Catalyst (2004) finds that Fortune 500 companies with the

highest representation of women on their top management teams experience significantly higher returns on equity and total shareholder returns compared to the companies with the lowest female representation.

Bohren and Ström (2005) report a significantly negative relationship between the proportion of women on the boards of Norwegian firms and Tobin's Q. Randøy et al. (2006) analyse the impact of board diversity on the performance of the 500 largest firms from three Scandinavian countries namely Denmark, Norway and Sweden. They find that there is no significant gender diversity effect on stock market performance or on the return on assets. Campbell et al., (2008) find that the presence of women on the board of directors in Spanish companies does not affect firm value. However, they find that the diversity of the board (measured by the percentage of women) has a positive impact on the firm's value. Therefore, they argue that the most important focus for Spanish companies should be the balance between women and men rather than simply the presence of women. Gullet. al., (2007) find that there is a significantly lower earnings management and higher accruals quality in the U.S. firms that have at least one non-executive female director on the board and when at least one member of the audit committee is a female director.

However, there are also arguments that greater gender diversity may likely reduce the firm's performance. There are suggestions that members of homogeneous groups tend to communicate more frequently because they share the same opinions (Earley and Mosakowski, 2000) and they are more cooperative and experience fewer emotional conflicts (Williams and O'Reilly, 1998).

Based on the above arguments, it seems that more literatures support that greater gender diversity may likely have an impact on earnings management activities in a firm. Therefore, the hypothesis in this research is:

H1: The presence of female directors in the audit committee is negatively associated with earnings management.

Ethnic Diversity and Earnings Managements

Ethnic diversity for this research is referred to as an ethnic difference that comprises Malay, Chinese, Indian and others in the audit committee. Haniffa and Cooke (2000) have made a classification for Malays (Bumiputra) and Chinese based on cultural/societal values suggested by Hofstede (1991). They classify Malays and Chinese as having high power distance and low masculinity. However, the Malays are low on individualism but for the Chinese, they are only low on individualism at the ethnic level but high at the national level. In addition, the Malays are said to have high uncertainty avoidance and are often perceived as focusing on the short-term orientation while the Chinese are characterized as having low uncertainty avoidance and long-term orientation.

The Upper Echelon Theory states that the top management team comprising of greater demographic diversity is most likely to have a great power to influence the decision-making process of an organisation and can positively contribute to the firm's performance. Gilbert and Ivancevich (2000) express that boards comprising of diversity mix of members will be able to address better the challenges of an uncertain and dynamic business environment. They also state that greater ethnic diversity will enhance the board's flexibility in its decision-making process due to a wider set of perceptions and views. So far, the current local studies revolve on examining the relationship between ethnic diversity of board of directors with the firm's financial performance (Marimuthu, 2008). He finds that there is a significant positive impact by ethnic diversity on the firm's performance. So far, limited studies have been conducted to examine the impact of ethnic diversity on audit committee's effectiveness in reducing earnings management.

Based on the statistics report by Athukorala and Menon (2004), the native Malays who account for 52 percent of the population, dominate politics, but are relatively poor, and involved mostly in low-productive agricultural activities. On the other hand, the ethnic Chinese (37 percent of the population) enjoy greater economic power and dominate most of the modern-sector activities. Based on their statement, it is assumed that since ethnic Chinese dominates the economic activities therefore, the majority of the directors are also from ethnic Chinese. Thus, in this study ethnic diversity is measured as the proportion of ethnic Malay in the audit committee. Therefore, the hypothesis in this study is:

H2: The presence of Malay directors in the audit committee is negatively associated with earnings management.

Earnings Management

There are various methods that have been developed by researchers to test earnings management, examples are, the assessment of accounting policy changes (Sweeney, 1994), specific accounting transactions (McNichols and Wilson, 1988) and discretionary accruals (Jones, 1991).

This study uses discretionary accruals which was developed by Jones (1991) and later being modified by Dechow, Sloan and Sweeney (1995) which is known as modified Jones model. The model partitions accruals into a discretionary component and nondiscretionary component to form total accruals. The following model is used to determine the total accruals.

$$TAC_{it}/A_{it-1} = \alpha_1[1/A_{it-1}] + \beta_{1it}[(\Delta REV_{it} - \Delta AR_{it})/A_{it-1}] + \beta_{2it}[PPE_{it}/A_{it-1}] + \varepsilon_{it} \quad (1)$$

Where :

TAC	=	total accruals for firm j in year t;
ΔREV	=	Change in the revenues (sales) or the revenue in year t less revenue in year t-1 for firm j;
ΔAR	=	Change in accounts receivables or the receivable in year t less receivable in year t-1 for firm j;
PPE	=	the gross properties, plants and equipments in year t for firm j;
TA	=	total assets in year t-1 for firm j.
j	=	1,2,..., N – firm index
t	=	1,2,..., T – year index for the years included in the estimation periods for firm j

The modified Jones model is run in a cross-section manner based on the industry-year combinations to estimate non-discretionary and discretionary accruals. The estimated coefficients α_j , β_{1j} , β_{2j} and β_{3j} are the firm's specific parameters and are then used to estimate the non-discretionary accruals:

$$NDA_{it} = a_1[1/A_{it-1}] + b_1[\Delta REV_{it} - \Delta AR_{it}/A_{it-1}] + b_2[PPE_{it}/A_{it-1}] \quad (2)$$

Where:

NDA_{it}	=	Nondiscretionary accruals in year t for firm i ;
ΔREV_{it}	=	Revenues in year t less revenues in year $t-1$ for firm i ;
ΔAR_{it}	=	Net receivables in year t less net receivables in year $t-1$ for firm i ;
PPE_{it}	=	Gross property, plant and equipment in year t for firm i ;
A_{it-1}	=	Total assets in year $t-1$ for firm i ;

The discretionary accruals are then obtained by:

$$DA_{it} = TAC_{it}/A_{it-1} - NDA_{it} \quad (3)$$

Where:

DA_{it}	=	Discretionary accruals in year t for firm i ;
TAC_{it}	=	Total accruals in year t for firm i ;
A_{it-1}	=	Total assets in year $t-1$ for firm i ;
NDA_{it}	=	Nondiscretionary accruals in year t for firm i

While discretionary accruals are considered in signed value as a proxy for earnings management, the study also performs empirical tests using absolute value to measure the overall propensity to earnings management.

RESEARCH METHOD

Sample Selection

The sample for this study is based on 280 companies listed on the Bursa Malaysia in 2005 and 2006 (period for pre revised MCCG); 2008 and 2009 (period for post revised MCCG). Consistent with Hashim and Devi (2008) due to different statutory requirements, all banks, insurance and unit trust firms which are under the finance category are excluded from the sample size. Moreover, they possess unique and different working capital structure (Klein, 2002). Financial data for the study are obtained from the Emerging

Market Information Service (EMIS) database, whereas non-financial data such as percentage of female and Malay members in the audit committee are extracted manually from the respective annual report.

Regression Model

The following regression equations are adopted to test the hypotheses.

$$DA = \beta_0 + \beta_1 \text{ACMAL} + \beta_2 \text{ACFE} + \beta_3 \text{ACSIZE} + \beta_4 \text{ACIND} + \beta_5 \text{BDRSIZE} + \beta_6 \text{LEV} + \varepsilon \quad (4)$$

Where:

ENJONES	=	Discretionary accrual derived from the Jones Model
ACMAL	=	The percentage of Malay members in audit committee
ACFE	=	The percentage of female members in audit committee
ACSIZE	=	The number of directors on audit committee
ACIND	=	The percentage of independent directors in audit committee
BDRSIZE	=	The number of directors on board
LEV	=	Ratio of total debts to total assets

EMPIRICAL ANALYSIS

Descriptive Statistics

Table 1 provides the descriptive statistics for the variables used in the tests of association between audit committee diversity and earnings quality, together with control variables that are relevant to this association. The mean value for EMJonespost is 0.382 compared to 0.474 for EMJonespre. Furthermore the means for ACGEN and ACMAL are also increased in the post MCCG which are 0.064 and 0.447 respectively.

Table 1: Descriptive Statistics of Continuous Variables (independent variables and control variables) for pooled data in pre and post period

		Pre	Post
		N=560	N=560
EMJONES	Mean	0.474	0.382
	Minimum	0.000	0.002
	Maximum	6.870	2.627
	Std. Dev	0.502	0.299
ACSIZE	Mean	3.482	3.230
	Minimum	2.000	2.000
	Maximum	5.000	7.000
	Std. Dev	0.661	0.513
ACIND	Mean	0.713	0.850
	Minimum	0.330	0.020
	Maximum	1.000	1.000
	Std. Dev	0.109	0.164
ACGEN	Mean	0.057	0.064
	Minimum	0.000	0.000
	Maximum	0.670	0.670
	Std. Dev	0.132	0.139
ACMAL	Mean	0.406	0.447
	Minimum	0.000	0.000
	Maximum	1.667	2.333
	Std. Dev	0.337	0.342
BRDSIZE	Mean	7.530	7.430
	Minimum	3.000	3.000
	Maximum	17.000	17.000
	Std. Dev	1.946	1.917
LEVERAGE	Mean	0.413	0.407
	Minimum	0.010	0.010
	Maximum	3.970	3.490
	Std. Dev	0.293	0.262

Table 2 and 3 show Pearson correlation coefficients between earnings quality, audit committee diversity and control variables for pre revised

MCCG and post revised MCCG. ACMAL shows a significant positive relationship with ACSIZE in the post revised MCCG, however ACGEN shows an insignificant positive relationship with ACSIZE. This result suggests that the presence of Malay and female members increase the size of audit committee.

Table 2: Correlation Statistics for All Variables for Pre Revised MCCG Period (N=560)

	EMJONES	ACSIZE	ACIND	ACGEN	ACMAL	BRDSIZE	LEV
EMJONES	1						
ACSIZE	.001	1					
	.989						
ACIND	.017	.019	1				
	.691	.661					
ACGEN	-.010	-.063	.119**	1			
	.809	.135	.005				
ACMAL	.000	.201**	.004	.076	1		
	.999	.000	.918	.074			
BRDSIZE	.097*	.191**	.060	-.006	.086*	1	
	.022	.000	.159	.891	.042		
LEV	.253**	.042	.021	-.066	.038	.108*	1
	.000	.323	.617	.122	.363	.010	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Table 3: Correlation Statistics for All Variables
for Post Revised MCCG Period (N=560)

	EQJONES	ACSIZE	ACIND	ACGEN	ACMAL	BRDSIZE	LEV
EQJONES	1						
ACSIZE	.023	1					
	.581						
ACIND	-.055	-.148**	1				
	.192	.000					
ACGEN	.025	.025	-.110**	1			
	.548	.561	.009				
ACMA	-.054	.450**	-.111**	.053	1		
	.200	.000	.008	.211			
BRDSIZE	.066	.219**	.148**	-.012	.034	1	
	.117	.000	.000	.772	.416		
LEV	.114**	-.062	.061	-.113**	.058	.113**	1
	.007	.140	.152	.007	.171	.008	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Table 4 and 5 present the main results of the regression that examine the effects of audit committee diversity on earnings quality using two different models. In Table 5, dummy variables are used to test the robustness of the result. *ACGEN_Dummy* is measured as 1 if the female members are present on the audit committee board and 0 if otherwise, and *ACMAL_Dummy* is measured as 1 if the Malay members are present on the audit committee board and 0 if otherwise. In both analyses, the data for the pre and post MCCG periods are run separately. The study uses Beta under Standardized Coefficients to determine the effectiveness of each variable in mitigating earnings management after the revision of MCCG because the coefficient values for each of the different variables have been converted to the same scale for the purpose of comparison. *ACGEN* shows a positive correlation with *EMJONES* in pre and post revised MCCG for both analyses. A tentative

explanation for such result is that since the maximum number of female director in an audit committee in the post revised MCCG period is only one person, she might not be able to effectively monitor the earnings management activity. ACMAL shows a negative relationship with EMJONES and significant at 0.1 level. This shows that Malay audit committee members are able to mitigate the earnings management. It supports the statement made by Gilbert and Ivancevich (2000) on Upper Enchelom theory that greater ethnic diversity will enhance the board's flexibility in its decision-making process due to a wider set of perceptions and views.

Table 4: Multiple Regression Results – Analysis 1

	Predicted Sign	PRE REVISED MCCG			POST REVISED MCCG		
		Std Coeff.	t	Sig.	Std Coeff.	t	Sig.
		Beta			Beta		
(Constant)			.586	.558		2.288	.023
ACSIZE	-ve	-.020	-.464	.643	.062	1.268	.205
ACIND	-ve	.019	.470	.639	-.067	-1.563	.112
ACGEN	-ve	.008	.189	.850	.042	1.000	.318
ACMAL	-ve	-.028	-.676	.499	-.112	-2.362	.019
BRDSIZE	-ve	.063	1.491	.137	.047	1.070	.285
LEV	+ve	.276	6.649	.000	.167	3.890	.000
Adjusted R		.074			.030		
F Statistics		8.369***			3.901***		
Durbin-Watson		1.821			1.689		

,=Significant at the 10%, 5% and 1% respectively

Table 5: Multiple Regression Results – Analysis 2

	Predicted Sign	PRE REVISED MCCG			POST REVISED MCCG		
		Std Coeff.	t	Sig.	Std Coeff.	t	Sig.
		Beta			Beta		
(Constant)			2.661	.008		2.780	.006
ACSIZE	-ve	-.022	-.512	.609	.028	.619	.536
ACIND	-ve	.010	.231	.818	-.066	-1.504	.133
ACGEN_Dummy	-ve	.014	.324	.746	.012	.284	.776
ACMAL_Dummy	-ve	-.045	-1.050	.294	-.069	-1.603	.110
BRDSIZE	-ve	.004	.085	.932	.047	1.057	.291
LEV	+ve	.091	2.126	.034	.157	3.655	.000
Adjusted R		.009			.024		
F Statistics		.0932			3.251***		
Durbin-Watson		1.879			1.675		

,=Significant at the 10%, 5% and 1% respectively

Table 6 presents the result from pooled multiple regression. The pooled regression is performed whereby MCCG is included as a dummy variable. MCCG is equal to 0 if the fiscal year is revised to pre MCCG period and 1 if fiscal year is revised to post MCCG period. Table 7 shows that ACMAL_Dummy is negatively associated with EMJONES and is significant at 0.1 level. Thus, it supports the result obtained in Analysis 1.

Table 6: Pooled Multiple Regression Results – Model 2

	Predicted Sign	Unstard. Coeff	t	Sig.
		B		
(Constant)		.413	4.365	.000
ACSIZE	-ve	.001	.056	.956
ACIND	-ve	-.078	-.985	.325
ACGEN	-ve	.065	.816	.415
ACMAL	-ve	-.015	-1.413	.158
BRDSIZE	-ve	.005	.891	.373
LEV	+ve	.194	3.796	.000
MCCG_Dummy	?	-.068	-2.735	.006
Adjusted R	.027			
F Statistics	4.381***			
Durbin-Watson	1.820			

*,**,***=Significant at the 10%, 5% and 1% respectively

Table 7: Pooled Multiple Regression Results – Model 2 (Dichotomous Variables)

	Predicted Sign	Unstard. Coeff	t	Sig.
		B		
(Constant)		.460	4.900	.000
ACSIZE	-ve	-.004	-.210	.834
ACIND	-ve	-.089	-1.105	.269
ACGEN_Dummy	-ve	.018	.636	.525
ACMAL_Dummy	-ve	-.047	-1.755	.080
BRDSIZE	-ve	.004	.751	.453
LEV	+ve	.194	3.801	.000
MCCG_Dummy	?	-.065	-2.600	.009
Adjusted R	.022			
F Statistics	4.510***			
Durbin-Watson	1.814			

*,**,***=Significant at the 10%, 5% and 1% respectively

CONCLUSION

This study examines the situation whether the presence of Malay directors (*ACMAL*) and female directors (*ACGEN*) in the audit committee mitigate the earnings management in Malaysian listed firms. The study covers 560 samples from a period before the revised MCCG and another 560 samples from the period after the revised MCCG. Since most of the previous empirical studies focus on board diversity, this study contributes a new dimension in terms of determining the effectiveness of audit committee diversity in constraining earnings management before and after the revised MCCG. The fundamental theories of this study are based on agency theory and Upper Echelon Theory. The findings of this study indicate that only the presence of Malay directors on audit committee board is negatively associated with earnings management. The tentative explanation that female directors show no effect in mitigating earnings management is possibly due to the small size of female members in the audit committee. Future research can explore the characteristics (i.e. expertise, qualification and tenure) of female and Malay members in the audit committee that may contribute to their effectiveness in performing their tasks. The findings of the study will certainly make a significant contribution towards understanding the audit committee diversity's effects on financial reporting quality.

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