BOARD OF DIRECTORS IN MALAYSIAN FIRMS: ARE THEY STRONG GOVERNANCE TOOL?

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ABSTRACT

The purpose of this paper is to examine the ability of the board of directors in mitigating the influence of controlling shareholders on accounting conservatism. A panel data analysis of financial statements is conducted for 300 Malaysian listed firms between 2001 and 2007. The results show that substantial shareholders are associated with low conservatism and board of director's inability to mitigate the adverse association. The results provide a useful input to the Malaysian policy setter that emphasizing on the structure of the board of directors in Malaysian firms may not be a solution to better governance, with the presence of substantial shareholders. This paper measures empirically the effectiveness of the Malaysian board of directors in moderating the effect of substantial shareholders on accounting conservatism.

Keywords: *Malaysia, Financial reporting, Boards of directors, Conservatism*

Introduction

The purpose of this study is to investigate the influence of Malaysian firms' board of directors on accounting conservatism; and whether the board of directors can mitigate the influence the controlling shareholders have on accounting conservatism. Positive accounting theory posits that managers make accounting choices tailored to their needs to increase their wealth through compensation incentives, to avoid violation of debt contract or to minimise political cost. The theory suggests that conservatism accounting choices are desirable to limit managers' opportunistic behaviour including those of controlling shareholders, the absence of which will enable them to extract firms' wealth for their private benefit.

Majority managers of Malaysian firms hold substantial shares in the firms; referred to as concentrated owners (see: Lim, 1981, Claessens et al., 2000, Zhuang et al., 2001, Tam and Tan, 2007). There is concern that concentrated owners in Malaysian firms may apply less conservatism as Tam and Tan (2007) note that major shareholders in Malaysian firms are entrenched. It is unlikely that those shareholders, who have control and decision making power in the firms, will employ a mechanism that can limit or disclose their opportunistic behaviour. Dargenidou, McLeay and Raonic (2007) argue that when agency conflict is controlled through close monitoring by large shareholders, these shareholders put less reliance on the financial reports, and thus adopt less conservative accounting.

The Malaysian Code on Corporate Governance displays the unitary system where the board of directors is the highest governing body in the company; and hence its ability to encourage the application of accounting conservatism is worth investigating. Bhattacharya, Daouk and Welker (2003) examine uninformative or opaque earnings among 34 countries including Malaysia. One of the proxies used in their study is the opposite measure of conservatism, namely earnings aggressiveness. The study shows that Malaysian firms are ranked amongst countries that have aggressive earnings. Malaysia ranks in 9th place, as having severe earnings opacity. However, a recent finding by Vichitsarawong, Eng and Meek (2010) shows that conservatism in the Malaysian financial reports increases after the post Asian financial crisis (1999-2004) as compared to the pre-crisis period (1995-1996). They suggest that corporate governance reforms after the financial crisis may have had a positive influence on the conservatism.

Previous studies argue that corporate governance in Asian countries generally, is not effective due to the influence of controlling shareholders. To our best knowledge, no study on Malaysian samples has tested the moderating effect of board of directors on the effect of ownership concentration on firms' accounting conservatism. This study uses two measures of conservatism:

one based on asymmetric timeliness and one accrual-based. Our results show that the ownership concentration is associated with low conservatism and board of directors inability to mitigate that adverse association. The results provide a useful input to the Malaysian policy setter that emphasizing on the structure of the board of directors in Malaysian firms may not be a solution to better governance, with the presence of concentrated ownership.

The remainder of the paper is organised as follows. Section 2 discusses previous empirical studies. Section 3 covers research methods and section 4 presents the findings and discussions. Lastly, section 5 concludes the paper with limitations of the study and suggestions for future research.

Literature Review and Hypotheses Development

The presence of independent directors on the board ensures the board's independence from the management, as it clearly segregates the management and control tasks. In addition, independent directors can solve disagreements among the internal managers or between the internal managers and residual claimants. Thus, boards comprising of independent directors will provide a counter balance so that the insiders do not take advantage of their position and sacrifice the shareholders' wealth. Based on the resource dependent view of Pfeffer and Salancik (2003), the presence of independent directors on the board will enhance the flow of information, and hence protect the firm's resources and reduce uncertainty.

Independent directors are credited for being more experienced and for giving independent judgment over the board's decision; and hence regarded as a strong governance mechanism. Evidence shows that independent directors reduce fraud on financial statements (Beasley, 1996), lower earnings management (Peasnell et al., 2006) and lead to more conservatism (Beekes et al., 2004, Ahmed and Duellman, 2007, Lara et al., 2007). Board of directors that are designed to control agency conflict would demand more conservatism because it provides them with early notice of any future losses and assists them in controlling managers' opportunistic behaviour. The following hypothesis is presented, H1: The proportion of independent directors on the board is positively related to conservative accounting.

Directors, who serve on the firms' board for a longer period, would have greater understanding about the firms' businesses and eventually become more competent. Buchanan (1974) suggests that these directors are more committed to the firm, which in turn will increase their effort to achieve the firm's goal. Opposing that expertise hypothesis, Lipton and Lorsch (1992) are of the opinion that there should be a time limit for the directors serving on the board, otherwise, the seasoned directors may assume some of the CEO's functions. Their suggestion implies that long time relationships between the independent directors and the management would impair the independence of the board, and hence defeat the purpose of having independent directors in the firm. Supporting the argument, Vafeas (2003) who proposes management friendliness hypothesis posits that seasoned directors are more likely to befriend the management and become less effective in monitoring the managers. He finds that outside directors serving for twenty years and more become affiliated with the management as these senior directors are preferred in the nomination and remuneration committee. The finding suggests that the basis for the director's appointment is more on preference than qualification. Further, he claims that longer tenure relates to the attrition process as they find that directors' participation on committees and additional directorships reduces eventually with longer service.

Empirical studies show that longer tenure reduces earnings management (Peasnell et al., 2005, Bedard et al., 2004) implying that directors are more competent to curb earnings manipulation. Rutherford and Buchholtz (2007) show that longer tenure reduces asymmetric information within the firms as it leads to frequent information exchange with the other committees in the firms. However, it does not determine the quality of the information gathered by the board, and does not lead to more proactive information seeking. The findings of Chang (2009) indicate that board tenure is not a contributing factor to financial distressed status of the Taiwanese firms, though majority members of the non-financial distress firms' board are senior directors relative to those in the financial distressed firms. In the Malaysian scenario, the appointment of the independent directors is made by the controlling shareholders; and their appointment is dependent on the availability of talented individuals (Abdullah, 2004). Independent directors who have been serving on the board for a longer period may be influenced by the management, especially when a Malaysian firm's board is dominated by the controlling shareholders. Thus, we posit that,

H2: Directors' tenure is inversely related to conservative accounting.

Very few studies explore financial expertise of the board as more are tested on the financial expertise of the audit committee. Although the board assigns its committee with the oversight role of the financial reporting process, the quality of the reports remains the responsibility of the board members. As noted by Volpe and Woodlock (2008), many boards have been charged to review major issues on accounting principles and financial statements presented. To monitor the financial reporting process, the directors must have accounting knowledge either to control manipulation or to make information more transparent. Lanfranconi and Robertson (2002) point out that the collapse of Enron and WorldCom was due to the lack of knowledge of their board members. Specifically, in the Enron case, the board members did not understand its complex financial planning structures using 'special purpose entities'. In the WorldCom case, the board members had no knowledge of basic accounting principles, as they were not aware of expenditure being capitalised instead of expensed. Hence, in the two cases one could ask how effective were the directors in carrying out their duties.

Empirical studies show that financial expertise is an important determinant of quality financial statements. The findings of Agrawal and Chadha (2005) on US firms show that outside directors are effective in reducing the probability of influencing financial restatements only if they have financial expertise. Guner, Malmendier and Tate (2008) examine several types of financial expertise including financial executives, finance professors and bank executives. The study reports that bank executives acting as directors on the board benefit the creditors but not the shareholders, as they are associated with higher debt though the firms have low investment opportunities. The findings on the non-bank finance executives however confirm that, this type of financial expertise promotes better governance as it leads to less value-destroying acquisition. Rose and Rose (2008) who perform an experimental study on highly experienced audit committee members find that, members with less accounting knowledge are more likely to rely on the manager's explanation on the accounting judgement relative to those with more accounting knowledge. They affirm that lack of accounting knowledge may give more freedom to the managers to manipulate the financial statements.

Since financial experts have better monitoring skill, hence are more effective in enhancing the quality of the financial reporting (Lanfranconi and Robertson, 2002, McMullen and Raghunandan, 1996, Rose and Rose, 2008), we present the following hypothesis,

H3: The proportion of financial expertise on the board is positively related to conservative accounting.

Previous studies show that ownership structure in Malaysian firms is highly concentrated (Lim, 1981, Claessens et al., 2000, Zhuang et al., 2001, Tam and Tan, 2007); and hence conflict between majority shareholders and minority shareholders is more prevalent as decision made by the controlling owners may jeopardise the interests of the minority shareholders. The controlling owners, who are in fact the management of the firms, and can control the managers of the firms, can access managers' private information and may take advantage of their controlling power to extract the firms' wealth for their own good.

Many studies have highlighted the unfavourable effect of concentrated ownership that it may distract from capital allocation efficiency (Maher and Andersson 2002) and firms may employ weak internal controls, and thus increase the risk of expropriation (Bozec and Bozec, 2007). Gibson (2003) states that majority shareholders expropriate especially when they are also the creditor, manager or customer; thus they can extract rents from the firm through these relationships. With the decision making power in firms, the managers may gain private benefit by diverting the firm's resources or spending funds on unprofitable projects (Lemmon and Lins, 2003). In the Malaysian context, controlling shareholders increase their profit through related party transactions or earnings management (Rachagan, 2006). The controlling shareholders not only expropriate but also conceal their behaviour through self-interested accounting choices and conceal the firm's performance from outsiders to avoid disciplinary action (Korczak and Korczak, 2009).

The entrenchment effect of the concentrated owners is adversely affecting the accounting information. Concentrated owners produce less informative earnings to conceal their expropriation activities and to avoid outside monitoring, hence reducing the credibility of the information for outside shareholders (Fan and Wong, 2002). This finding is consistent with the finding of Haat, Rahman and Sakthi (2008) who finds no association between corporate governance and transparency, or between transparency and corporate performance. They argue that the users do not use annual reports for making investment decisions due to less relevant information being reported, or because of the availability of other credible and easily accessible sources of information. The manipulation of financial information and less reliance on the reports however imply that concentrated owners may have more freedom to pursue their personal agenda. Chin, Kleinman, Lee and Lin (2006) examine earnings forecasts of Taiwanese companies and find that firms with concentrated ownership structure issue less accurate and more optimistically biased forecasts. They argue that concentrated owners use their power to manipulate the earnings in order to protect and promote their own economic position.

Dargenidou et al. (2007) argue that the majority shareholders have lower demand for accounting conservatism because they rely less on the financial reports. Two competing arguments, namely the entrenchment effect and the substitution effect suggest that the majority shareholders would lead to less conservatism either because they do not need a governance tool to control their behaviour or to monitor the management substitutes for the governance mechanism. The following hypothesis is to be tested,

H4: The proportion of concentrated ownership is inversely related to conservative accounting.

Researchers have raised concerns that the corporate governance model adopted from developed countries does not work well in emerging economies due to its different institutional environment notably concentrated ownership structure. In particular, previous studies suggest that the board of directors in emerging economies are ineffective due to the dominant role of the concentrated owners, the majority of whom are insiders. Moderating effects provide direct indication whether or not the board of directors is effective in influencing the concentrated owners' behaviour. Hu, Tam and

Tan (2010) report that concentrated owners in Chinese listed firms reduce the firms' performance; and board of directors and supervisory board members in the firms could not improve the firms' performance since their monitoring duties are hindered by the concentrated owners. Chen, Li and Shapiro (2011) find similar findings, where at board meetings, CEO duality, independent directors and supervisory board members could not moderate the adverse effect of the concentrated owners on the firm's performance. We expect that if the governance structure of Malaysian listed firms is effective, it should be able to influence the concentrated owners to adopt high conservatism. We present the following hypothesis,

H5: The board attributes, represented by BRDIND, BRDTENURE and BRFFINEXP, positively moderate the negative effect of the concentrated ownership on conservatism.

Research Methodology

Sample Selection and Research Design

The sample in this study consists of 300 non-financial Malaysian listed firms over the period 2001 – 2007. We adopt panel data analysis of 2018 firm-year observations for Basu's (1997) conservatism model and 2039 firm-year observations for Givoly and Hayn's (2000) accrual-based conservatism model. We collect data from two separate sources: Datastream and annual reports. Financial accounting data is retrieved from Datastream; and data on ownership concentration and board of directors are obtained from the annual reports.

Variable Measurements

Independent variables: Board of directors, ownership concentration and control variables

We identify three attributes for board of directors namely, board composition, board tenure and board's financial expertise. Board composition (BRDIND) is the proportion of independent directors on the board. Bursa Malaysia defines independent directors as those independent of the management, and free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interest of the stakeholders. *BRDIND* is computed as the total number of independent non-executive directors on the board divided by the total number of board members (Klein, 2002, Peasnell et al., 2006, Abdullah, 2006). Board tenure (*BRDTENURE)* is computed as the total number of years of service of all independent directors on the board divided by the total number of independent directors on board (Peasnell et al., 2005, Rahman and Ali, 2006). Board's financial expertise (BRDFINEXP) is the proportion of board members with qualifications or experience in accounting or finance, including those who are members of professional accounting bodies. The definition includes directors who are current or former chief financial officers, accountants and former auditors. BRDFINEXP is computed as the total number of board members with financial expertise divided by the total number of board members (Saleh et al., 2007, Bedard et al., 2004).

Following Chu and Cheah (2006), we measure ownership concentration (OWNCONC) by the percentage of the firm's outstanding shares held by the substantial shareholders. Section 69D of Companies Act 1965, defines substantial shareholder as a person who holds not less than five per centum of the aggregate of the nominal accounts of all the voting shares in the company. The substantial shareholdings disclosured in the annual reports indicate the shareholders' direct interest and indirect interest. Direct interest refers to shares directly purchased from the firm under the shareholder's own name whilst indirect interest refers to the interest of individual shareholders (or firms) through shares owned in another linked company and/or through shareholdings by the shareholder's family members.

Our research model includes type of auditor (AUD), firm size (SIZE), growth (SALESGRW/MTB), profitability (PROFIT) and leverage (LEV) as control variables given the evidence of the association between these variables and accounting conservatism. Sales growth (SALESGRW) and market to book ratio (MTB) are the two proxies for growth; where SALESGRW is a control factor in accrual-based conservatism whilst the MTB is a control factor in asymmetric timeliness. Table 1 presents the summary of variables and measurements.

Table 1: Variables and Measurements

Variables	Measurements
Accounting conservatism	Asymmetric timeliness (Basu, 1997); Accrual-based (Givoly and Hayn, 2000).
OWNCONC	Percentage of substantial shareholding over outstanding shares.
BRDIND	Proportion of independent directors on board.
BRDTENURE	Average number of years independent directors serve on the board.
BRDFINEXP	Proportion of board members with qualifications or experience in accounting or finance.
Control variables:	
AUD	Dummy variable, coded 1 if big-4 auditor, 0 otherwise.
SIZE	Log of total assets
PROF	Cash flow from operation divided by total assets
LEV	Noncurrent liabilities divided by total assets
SALESGRW	Percentage of annual sales growth
MTB	Market value of equity divided by book value of equity

Dependent variables: Accounting conservatism

We employ two models to measure accounting conservatism, a) Asymmetric timeliness introduced by Basu (1997) and b) Accrual-based conservatism proposed by Givoly and Hayn (2000).

Asymmetric Timeliness

This study follows similar approaches by LaFond and Watts (2008) who accumulate the returns and earnings over the previous three years. Ahmed and Duellman (2007) report that this backward accumulation approach increases the asymmetric timeliness coefficient. The dummy variable (*D*) interacts with the return variable (*R*) to proxy for bad news (*RD*) whilst the main effect on return (*R)* is a proxy for good news. Basu's regression model is as follows:

$$E_{it}/P_{it-1} = \beta_0 + \beta_1 D_{it} + \beta_2 R_{it} + \beta_3 RD_{it} + \varepsilon_{it} \qquad \text{(eq.1)}$$

where:

E_{it}/P_{it-1}	=	3-year backward accumulation of net income before extraordinary items divided by beginning of aggregated year market value of equity;
β_0	=	the intercept across all firms and years;
D	=	dummy variable is equal to 1 if returns are negative and 0 otherwise;
R	=	3-year backward accumulation of stock returns

The sensitivity of earnings to good news is measured by β_2 estimate while sensitivity of earnings to bad news is measured by $\beta_2 + \beta_3$. The value of β_3 reflects the incremental sensitivity of earnings to bad news compared to good news, commonly referred to as 'asymmetric timeliness'. Therefore, under greater conservatism, β_3 is expected to be more positive.

All independent variables interact with each component in Basu's original regression model (eq.1) to identify their effect on the conservatism. The following model illustrates the interaction of OWNCONC with each component in eq.1. Similar interactions are made with the remaining variables.

$$E_{it}/P_{it-1} = \beta_0 + \beta_1 R_{it} + \beta_2 D_{it} + \beta_3 RD_{it} + \beta_4 OWNCONC_{it} + \beta_5 R_{it} * OWNCONC_{it} + \beta_6 D_{it} * OWNCONC_{it} + \beta_7 RD_{it} * OWNCONC_{it} + ... + \varepsilon_{it} \quad \text{(eq.2)}$$

Accrual-based Conservatism

According to Givoly and Hayn (2000), conservatism leads to persistently negative accruals. More conservative accounting is reflected by more negative average accruals. This measure is computed as income before extraordinary items and discontinued operations plus depreciation expenses minus operating cash flows and deflated by total asset. The accrual value is then averaged over 3 years centred in year *t*, and is multiplied by -1 and referred to as ACCRCON. Higher values of ACCRCON indicate more conservatism. Averaging over a number of years will mitigate the effects of any temporary large accruals, since accruals will likely reverse within one to two years (Richardson et al., 2005).

The following regression model tests the influence of ownership concentration, board of directors and the control variables on accrual-based measure of conservatism.

$$ACCRCONS_{it} = \beta_0 + \beta_1 OWNCONC_{it} + \beta_2 BRDIND_{it} + \beta_3 BRDTENURE_{it} + \beta_4 BRDFINEXP_{it} + CV_{it} + \varepsilon_{it} \qquad \text{(eq.3)}$$

Our aim is to identify whether board of directors can influence ownership concentration to adopt high conservatism. According to Jaccard and Turrisi (2003), interaction effect exists if the effect of the independent variables (OWNCONC) on the dependent variables (conservatism) changes depending on the value of the moderating variable (BRDIND, BRDTENURE and BRDFINEXP). We perform multiple regressions analysis to test the effect of the moderating variables on the relationship between OWNCONC and conservatism. The following are the empirical models:

Asymmetric Timeliness (AT)

$$\begin{aligned} E_{it}/P_{it-1} = {} & \beta_0 + \beta_1 R_{it} + \beta_2 D_{it} + \beta_3 R_{it}{*}D_{it} + \beta_4 OWNCONC_{it} + \beta_5 OWNCONC_{it}{*}R_{it} + \beta_6 OWNCONC_{it}{*}D_{it} + \beta_7 OWNCONC_{it}{*}R_{it}{*}D_{it} \\ & + \beta_8 BRDIND_{it} + \beta_9 BRDIND_{it}{*}R_{it} + \beta_{10} BRDIND_{it}{*}D_{it} + \beta_{11} BRDIND_{it}{*}R_{it}{*}D_{it} + \beta_{12} BRDTENURE_{it} + \beta_{13} BRDTENURE_{it}{*}R_{it} \\ & + \beta_{14} BRDTENURE_{it}{*}D_{it} + \beta_{15} BRDTENURE_{it}{*}R_{it}{*}D_{it} + \beta_{16} BRDFINEXP_{it} + \beta_{17} BRDFINEXP_{it}{*}R_{it} \\ & + \beta_{18} RDFINEXP_{it}{*}D_{it} + \beta_{19} BRDFINEXP_{it}{*}R_{it}{*}D_{it} + \beta_{20} OWNCONC_{it}{*}BRDIND_{it} + \beta_{21} OWNCONC_{it}{*}BRDTENURE_{it} \\ & + \beta_{22} OWNCONC_{it}{*}BRDFINEXP_{it} + B_{23} OWNCONC_{it}{*}BRDIND_{it}{*}R_{it} + \beta_{24} OWNCONC_{it}{*}BRDIND_{it}{*}D_{it} \\ & + \beta_{25} OWNCONC_{it}{*}BRDIND_{it}{*}R_{it}{*}D_{it} + \beta_{26} OWNCONC_{it}{*}BRDTENURE_{it}{*}R_{it} + \beta_{27} OWNCONC_{it}{*}BRDTENURE_{it}{*}D_{it} \\ & + \beta_{28} OWNCONC_{it}{*}BRDTENURE_{it}{*}R_{it}{*}D_{it} + \beta_{29} OWNCONC_{it}{*}BRDFINEXP_{it}{*}R_{it} + \beta_{30} OWNCONC_{it}{*}BRDFINEXP_{it}{*}D_{it} \\ & + \beta_{31} OWNCONC_{it}{*}BRDFINEXP_{it}{*}R_{it}{*}D_{it} \ \&\ \textit{Control Variables}_{it} + \varepsilon_{it} \end{aligned} \qquad \text{(eq.4)}$$

Accrual-based Conservatism (ACCRCONS)

$$ACCRCONS_{it} = \beta_0 + \beta_1 OWNCONC_{it} + \beta_2 BRDIND_{it} + \beta_3 BRDTENURE_{it} + \beta_4 BRDFINEXP_{it} + \beta_5 OWNCONC_{it} * BRDIND_{it} + \beta_6 OWNCONC_{it} * BRDTENURE_{it} + \beta_7 OWNCONC_{it} * BRDFINEXP_{it} \;\&\; \textit{Control Variables}_{it} + \varepsilon_{it} \quad \text{(eq.5)}$$

Results and Discussion

Descriptive Analysis

Table 2 provides descriptive statistics of the dependent and independent variables for the sample companies. The mean value for BRDIND suggests that Malaysian listed firms comply with the minimum ratio of one-third composition of independent directors in the board. Non presence of independent directors however, occurr in 2001 and 2002, which are the transition periods before firms fully comply with MCCG implementation in 2001. The mean value for BRDTENURE indicates that independent directors serve on the firms' board for 7 years but the longest being 31 years. The mean value for BRDFINEXP suggests at least one-third of the board members have financial expertise. The mean value of OWNCONC shows that the shareholding of Malaysian firms is highly concentrated. The highest percentage of shares held by the substantial shareholders in the sample is 93%. About 66% of the sample firms are audited by the big four audit firms. The mean of -0.01 for ACCRCONS indicates that the sample firms practice low accounting conservatism.

Table 2: Descriptive Statistics of the Dependent, Independent and Control Variables

	Mean	Median	Std. Dev.	Min	Max
E/P	0.14		0.44	-2.17	2.49
R	0.16		0.62	-1.78	3.28
ACCRCONS	-0.01		0.05	-0.25	0.28
OWNCONC	0.54		0.17	0	0.93
BRDIND	0.40		0.11	0.00	1.00
BRDTENURE	6.78		4.37	0.00	31.00
BRDFINEXP	0.27		0.15	0.00	1.00
TOTASSET (RM'000)	1,350,000		4,990,000	21,200	67,700,000
PROFIT	0.05		0.08	-0.34	0.54
LEV	0.09		0.12	0.00	0.69
SALESGRW (%)	9.17		29.03	-91.72	172.63
MTB	1.05		0.77	-1.78	5.45
Dummy variable:					
AUD=1	66%				

E/P: Earning price ratio, R: Stock return, ACCRCONS: Accrual-based conservatism based on Givoly and Hayn (2000), OWNCONC= Ownership concentration, BRDIND= Board composition, BRDTENURE= Board tenure, BRDFINEXP= Board financial expertise, TOTASSET= Total assets (Firm size), PROF= Profitability, LEV= Leverage, SALESGRW= Sales growth, MTB= Market to book value, AUD= Auditor.

Findings and Discussions

The influence of board of directors and ownership concentration (OWNCONC) on conservatism is presented in Table 3 for asymmetric timeliness model and Table 4 for accrual-based conservatism model. The results suggest that BRDIND, BRDTENURE and BRDFINEXP have significant effect on asymmetric timeliness but have no effect on accrual-based conservatism. Conversely, OWNCONC has significant effect on accrual-based conservatism but does not influence asymmetric timeliness. Similar finding is obtained by Haniffa and Hudaib (2006) on the Malaysian sample as concentrated ownership increases the accounting returns but not the market returns. As accrual-based conservatism is an accounting based measure, the result supports Dalton and Dalton's (2005) argument that accounting based measure is subject to managerial manipulation.

Positive coefficient of BRDIND and BRDFINEXP implies that firms with higher proportion of independent directors and higher proportion of financial expertise on their board apply more conservative accounting. Negative coefficient of BRDTENURE suggests that independent directors who serve too long on the firms' board are associated with lower conservatism. It suggests that the seasoned directors do not employ more conservatism to enhance their ability to monitor the management; and hence consistent with the management-friendliness hypothesis. Possibly, the directors' long service itself helps the controlling shareholders to pursue their own agenda. The findings also support the recent revision of the Malaysian Code on Corporate Governance to limit a maximum of 9 years tenure of the independent directors. Therefore, our results show that BRDIND and BRDFINEXP promote more conservatism but not the BRDTENURE, supporting H1, H2 and H3.

Supporting H4, negative coefficient of OWNCONC suggests that the concentrated owners adopt less conservative accounting. LaFond and Roychowdhury (2008) who find similar relationship argue it is consistent with the substitution effect. As managers become owners, their interest is aligned with the shareholders, thus the demand for conservatism as a monitoring tool is reduced. They make this contention on the grounds that US firms, having a dispersed ownership structure, use managerial ownership to reduce high agency conflict between the managers and the shareholders. Arguably, the substitution effect may not apply to firms with highly concentrated ownership because manager-shareholder conflict is no longer apparent, and the more pronounced conflict is between the majority and minority shareholders. The findings of Leuz, Nanda and Wysocki (2003) that Malaysia is one of the three Southeast Asian countries in the common law group having the worst earnings management ratings, is plausibly an indication of entrenchment activities in Malaysian firms. Haniffa and Hudaib (2006) suggest that high managerial ownership is unsuitable in the Malaysian business environment due to the risk of misallocation of the firms' resources at the expense of the minority shareholders. Similar argument is made by Tam and Tan (2007) that ownership concentration in Malaysia becomes more entrenched through ownership structure. Since concentrated owners can conceal their expropriation activities (Korczak and Korczak, 2009, Kothari et al., 2009), an entrenchment effect is a possible explanation for the result obtained in our study because concentrated owners do not need a mechanism that constrains their behaviour.

Table 3: The Eeffect of Board of Directors and Ownership Concentration on Asymmetric Timeliness

Variables	Predicted Sign	Coefficient	t-value
Constant		-1.160	-0.64
R		0.162	0.61
D		-0.514	-1.90
RD		-1.265*	-1.76
BRDIND		-0.136	-1.37
BRDIND *R		-0.456***	-11.49
BRDIND *D		0.125	0.71
BRDIND *RD	+	1.533***	4.76
BRDTENURE		0.001	0.42
BRDTENURE *R		0.002	0.58
BRDTENURE *D		-0.003	-1.09
BRDTENURE *RD	-	-0.017***	-2.93
BRDFINEXP		0.033	0.35
BRDFINEXP*R		-0.642***	-5.18
BRDFINEXP*D		-0.163*	-1.79
BRDFINEXP*RD	+	0.711***	2.74
OWNCONC		0.006***	4.84
OWNCONC*R		-0.001	-1.47
OWNCONC*D		-0.003***	-4.87
OWNCONC*RD	-	-0.002	-0.52
Control variables included			Yes
F- value			14.25***
R^2 within			0.1986
N			2018

Reported t-value was estimated based on Driscoll and Kraay's (1998) method, robust to cross-sectional dependence, heteroskedasticity and autocorrelation.
***p<0.01; **p<0.05;* p<0.10

Table 4: The Effect of Board of Directors and Ownership Concentration on Accrual-Based Conservatism

Variables	Predicted Sign	Coefficient	t-value
Constant		0.260	1.60
BIND	+	0.030	1.16
BRDTENURE	-	0.000	0.52
BRDFINEXPIN	+	0.019	0.93
OWNCONC	-	-0.073***	-2.90
AUD		0.003	0.43
Log TOTASSET		-0.013	-1.59
PROF		0.162***	6.07
LEV		0.048	1.65
SALESGRW		0.000***	-2.82
F- value			5.97***
R^2 within			0.0932
N			2039

Reported t-value was estimated based on Rogers (1993) method, robust to heteroskedasticity and autocorrelation.
***p<0.01; **p<0.05;* p<0.10

The moderating effect of board of directors on ownership concentration is presented in Table 5 and 6. The moderating effect of BRDIND in both asymmetric timeliness and accrual-based conservatism model; and BRDFINEXP in accrual-based conservatism model shows a significant negative coefficient. It suggests that the presence of independent directors and financial experts on the board of directors is unable to influence the concentrated owners to employ more conservatism. BRDTENURE has no moderating effect on OWNCONC in both conservatism models. The findings do not support H5.

Our earlier findings show that firms with strong board attributes employ more conservatism but they are unable to influence the concentrated owner to adopt more conservatism. Our results support the notion that corporate governance in Malaysian firms is ineffective with the presence of the concentrated ownership. Where controlling shareholders adopt less conservatism, this means that they can conceal their behaviour, thus confirming the argument made by Bidin (2009) on the risk that controlling shareholders extract firms' wealth for their own interest. Our findings strongly support Haniffa and Hudaib's (2006) suggestion that necessary actions need to be taken to ensure that controlling shareholders do not misappropriate the firm's resources, thus damaging the firm's value.

Table 5: Moderating Effect of Board of Directors on the Relationship between Ownership Concentration and Asymmetric Timeliness

Variables	Predicted Sign	Coefficient	t-value
Constant		-1.606	-0.88
BRDIND*OWNCONC		-0.009*	-1.68
BRDIND*OWNCONC*R		0.011***	2.69
BRDIND*OWNCONC*D		-0.022**	-2.59
BRDIND*OWNCONC*RD	+	-0.071***	-2.64
BRDTENURE*OWNCONC		-0.001***	-6.20
BRDTENURE*OWNCONC*R		0.000	-0.17
BRDTENURE*OWNCONC*D		0.000	1.44
BRDTENURE*OWNCONC*RD	+	0.001	1.54
BRDFINEXP*OWNCONC		0.004	0.98
BRDFINEXP*OWNCONC*R		0.026**	2.54
BRDFINEXP*OWNCONC*D		0.024***	3.64
BRDFINEXP*OWNCONC*RD	+	-0.019	-1.27
Control variables included			Yes
F- value			16.29***
R^2 within			0.2324
N			2018

Reported t-value was estimated based on Driscoll and Kraay's (1998) method, robust to cross-sectional dependence, heteroskedasticity and autocorrelation.
***p<0.01; **p<0.05;* p<0.10

Table 6: Moderating Effect of Board of Directors on the Relationship between Ownership Concentration and Accrual-based Conservatism

Variables	Predicted Sign	Coefficient	t-value
Constant		0.143	0.83
BRDIND		0.160*	2.00
BRDTENURE		0.000	-0.04
BRDFINEXP		0.114**	2.47
OWNCONC		0.085	1.39
BRDIND*OWNCONC	+	-0.253*	-2.00
BRDTENURE*OWNCONC	+	0.001	0.25
BRDFINEXP*OWNCONC	+	-0.198**	-2.48
AUD		0.001	0.14
Log TOTASSET		-0.011	-1.35
PROF		0.161***	6.00
LEV		0.043	1.48
SALESGRW		0.000***	-2.91
F- value			5.61***
R^2 within			0.1071
N			2039

Reported t-value was estimated based on Rogers (1993) method, robust to heteroskedasticity and autocorrelation.
***p<0.01; **p<0.05;* p<0.10

Conclusion

While prior studies imply that strong board attributes have favourable impact on quality of financial statements and reduce agency conflict, our study extends the literature by investigating whether the board attributes could influence the concentrated owners to adopt more conservatism. Our paper is the first to examine the effectiveness of the BRDIND, BRDTENURE AND BRDFINEXP and the incident of accounting conservatism by testing the moderating effect of the board attributes on OWNCONC.

We find that the higher the percentage of independent directors and the higher the percentage of financial experts on the board, the higher is the accounting conservatism. Also, the longer the independent directors serve on the firms' board, the lower is the accounting conservatism. These board attributes however, have significant effect in the asymmetric timeliness but not on the accrual-based conservatism model. As expected, we find that the higher the percentage of concentrated ownership, the lower is the accounting conservatism; and is significant in the accrual-based conservatism model but not in the asymmetric timeliness model. Our findings suggest that accrual-based conservatism being an accounting measure is subject to manipulation where the board of directors have no influence on it. Also, we find that the board attributes are not effective to influence concentrated ownership to adopt high conservatism.

Our results suggest that the regulators must first emphasise the market tools to control agency conflicts in Malaysian firms along with the strengthening of the internal governance structure. According to Thillainathan (1999), limited power of Bursa Malaysia listing rules to only suspend or delist firms for breaking its rules, will only compound the damage already suffered by the minority shareholders. The insiders who are the actual offenders remain safe. Thus, the authorities should consider refining the law to increase the punishment to the controlling shareholders who violate their fair share of wealth relative to minority shareholders. The regulators should strengthen the enforcement of legal protection of shareholders as its poor enforcement is one of the reasons for highly concentrated ownerships in Asian countries (La Porta et al., 1998, Shleifer and Vishny, 1997). Leuz et al.'s (2003) findings show that the legal system can be effective in reducing earnings management because insiders enjoy less personal control benefits which then reduce their incentive to mask the firm's performance. Learning from the evidence, the relevant authority should focus on strengthening the law, a system that already exists in Malaysia, rather than implementing mechanisms that can be manipulated by the controlling shareholders.

Future studies to examine the interaction between aggregate measures of governance structure and concentrated ownership are needed before definitive conclusion is made. Aggregate measures should balance the strength of various governance mechanism adopted in Malaysian firms.

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