UNIVERSITI TEKNOLOGI MARA

DIRECTORS' SHAREHOLDINGS AND EXECUTIVE EQUITY-BASED COMPENSATION INFLUENCE ON FRAUDULENT FINANCIAL REPORTING: MALAYSIA CASE

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Dissertation submitted in partial fulfillment of the requirements
for the degree of
Master of Accountancy

Faculty of Accountancy

June 2013

AUTHOR'S DECLARATION

I declare that the work in this dissertation was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This topic has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

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ABSTRACT

The primary objective of this study is to investigate whether directors' shareholdings and executive equity-based compensation influence the occurrence of fraudulent financial reporting in Malaysia. This study employed a sample of 180 listed firm-year observations of Malaysian listed companies over the period 2003 to 2010. Specifically, the sample consists of 90 fraud firms, matched with 90 non-fraud firms. The sample of fraud firms was identified based on the announcement of fraud occurrence and breach of the listing requirement of Securities Commission and Bursa Malaysia. Employing the logistics regression approach, the findings show that directors' shareholdings have negative association with the occurrence of fraudulent financial reporting which indicate that the higher ownership level reduces the tendency of fraud to occur. The result also shows that the outstanding stock option available has positive association with fraud occurrence, suggesting that executive motivate to commit fraud to gain equity-based compensation. These results were robust even after controlling for firms specific factors, industry and year effects, and various specification tests. This study however, does not address other mechanisms of governance.

Keywords: *Fraudulent Financial Reporting, Director's Shareholdings and Executive Equity-Based Compensation.*

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