

**UNIVERSITI TEKNOLOGI MARA**

**THE INFLUENCES OF RELATED  
PARTY TRANSACTIONS AND  
MONITORING MECHANISMS ON  
EARNINGS MANAGEMENT AND  
COMPANY'S PERFORMANCE IN  
MALAYSIA**

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Thesis submitted in fulfillment  
of the requirements for the degree of  
**Doctor of Philosophy**  
**(Financial Criminology)**

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## AUTHOR'S DECLARATION

I declare that the work in this thesis 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 thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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## ABSTRACT

Recent corporate scandals that implicated Hong Kong's Tianhe Chemicals, Japan's Toshiba and Australia's DickSmith have jeopardised the public's trust towards the accounting profession. Malaysia has its share of financial scandals with the cases of IMDB, Petronas Carigali in 2017 and Petrol One Resources Berhad in 2015. The actions of incompetent managers and related party transactions gave birth to these scandals, which subsequently erode these company's performance by engaging in earnings management practices. Previous studies on related party transactions in Malaysia are scarce, and the results are inconclusive. The surge of related party transactions in companies necessitates the conception of monitoring mechanisms to reduce financial frauds and to boost company's performance. Even though a few mechanisms have been introduced to monitor related party transactions, abusive related party transactions are still pervasive. This study examines the effects of related party transactions and monitoring mechanisms on earnings management and company's performance in Malaysia. By utilising the data from 646 firms out of a total of 3,230 firms-year observations in Bursa Malaysia for five years that were active from 2013 until 2017, the panel results show that related party transactions proxy by number of transactions and value of transactions have negatively significant related with earnings management proxy by real earnings management. Related party transactions also found to have negative significant relationship with company's performance proxy by Tobin's Q, return on asset and return on equity. This result contrasted the Agency Theory Type II that concerns the problems between majority and minority shareholders. However, the adverse effect of related party transactions can be mitigated by practising exemplary internal monitoring (family ownership and board diversifications) and external monitoring (institutional ownership and audit quality) mechanisms. Significant progress in the governance of Malaysian companies is evident when the industry's best practices in these monitoring mechanisms are applied. The interaction effect of monitoring mechanisms between related party transactions and earnings management as well as company's performance suggested that these mechanisms can mitigate the opportunistic behaviour of managers in engaging with earnings management activities and controlling shareholders in the expropriation of minority shareholders' wealth. The result also depicts that the earnings management is influencing the performance of the company. It is an essential resource for any market participant since it provides a reduced volume of information asymmetries between managers, investors, regulatory agencies, society and other stakeholders. The current findings can be treated as tools to lessen the earnings management activities and to increase the company's performance by the management and stakeholders by applying monitoring mechanisms on related party transactions to curtail opportunistic behaviour among the management which relates to agency theory.

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