EARNINGS MANAGEMENT AND CORPORATE GOVERNANCE IN FAMILY- CONTROLLED PUBLIC LISTED FIRMS IN MALAYSIA

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Abstract

More than half of the Malaysian economy activities are dominated by family controlling firms. They are significant players in the building and rising of the nation economic growths. This study aims to capture the effectiveness of corporate governance mechanism in managing these companies. Better known as family-controlled companies, earnings management quality is used to gauge their significance through assessing their board independence and also the role of CEO. Moreover, referring to available literatures, it is aimed to confirm or dispute the findings through keen observation from the Malaysian perspective. The findings suggest that the percentage of board independence has a weaker effect on earnings management in family controlled companies and CEO duality is less effective in reducing earnings management especially when the CEO is the member of the family. The result of this study may be useful for academics and industry players as a whole to evaluate the effectiveness of the current model used and for future references.

Keywords: *corporate governance, family-controlled firms, public-listed firms, Malaysia*

1.0 INTRODUCTION

The purpose of this paper is to study the significance between board independence and CEO duality with earnings management, particularly among family-controlled companies in Malaysia. Generally, family ownership or a family dominant company seems to be associated with higher profitability and larger success. Nevertheless, the degree of earnings management remains lesser covered in family-controlled companies (Wang, 2006). Therefore it is important to examine the extent to which board independence and CEO duality will affect earnings manipulation in such an environment. Existing literature mostly focus on widely held ownership public companies. However, family-controlled companies represent a substantial amount from the pool globally, thus their significance cannot be ignored. Conflicts in family-controlled companies usually arise between the minority shareholders and controlling family which also known as type II agency conflict (Chiraz, 2009). It is suggested in family controlled firms that a more independent board and good corporate governance can evade such problems from arising (Anderson & Reeb, 2003).

Furthermore, the literature on corporate governance and earnings management worldwide are very wide. This is due to the importance of corporate governance in enhancing the corporations' management and this encourage regulators in various countries to embark in new regulation on how the firm should be managed. Despite that recognition, the most important concern is the ability of corporations in adopting the recommendations of corporate governance effectively.

Therefore, this study provides some preliminary insight into the relationship between the characteristics of the corporate governance with earning management. Mixed results have been documented in different studies (Zhao & Chen, 2008; Osma & Noguer, 2007; Peasnell, Pope, & Young 2005 & Park and Shin, 2004). The decision to use Malaysian market is viable because about 60-70% of listed companies in Malaysia are owned by family related business (Amran, 2011). Thus, the result of this study documents different results and thus supporting the notion the corporate governance could have different impact in certain countries such as Malaysia. The findings of the study will be significant because this could assist the relevant regulatory bodies in Malaysia to assess the ability and effectiveness of corporate governance code. To the best of researcher knowledge, there is a lack of literature that examines the relationship of corporate governance on earnings management in family-controlled public listed companies in Malaysia. Hence, this study will examine the issue of corporate governance on earnings management among family controlled public listed companies in Malaysia.

2.0 LITERATURE REVIEW

2.1 Corporate Governance in Malaysia

Malaysian corporate governance issue has become an interesting topic following Asian financial crisis in 1997/1998 (Wan Yusoff, 2010). A number of factors have been associated with the financial crisis in Asia. Issues concerning the role and function of regulators and the need for improving good corporate governance are among the issues that most generate analysis and debate by the public (Buniamin, Alrazi, Johari & Rahman, 2008). In Malaysia the 1997/1998 financial crisis has been considered as a wake-up call to the need for better corporate governance and transparency among Malaysian companies (Abdullah, 2001). Moreover, the Asian financial crisis also exposed a number of poor corporate governance practices in Malaysia including absence of independent directors, lack of impartial audit committees and independent auditors in overseeing and disciplining corporate misbehavior (Liew, 2006) and lack of transparency, financial disclosure and accountability (Mitton, 2002). However, the financial crisis has provided added momentum to corporate governance reforms in Malaysia (Wan Yusoff, 2010). It needs to maintain corporate governance standard, increase transparency and improve investor relations while market regulatory agencies such as Securities Commission (SC) and Bursa Malaysia should press for more effective enforcement of legislation (Haniffa & Hudaib, 2006).

The responsibility for good corporate governance is the responsibility of the board of directors (Abdullah, 2006). The accountability of directors is considered as one of the important issues. The job description and legal obligation of directors have been debated among scholars, practitioners and initiate them for shareholders' approval (Ribstein, 2005). The monitoring function requires the board to play an effective role in order to protect the interests of the shareholders. In essence, they are apparently accountable for any decisions made by the management to serve the best interests of the shareholders (Monks & Minow, 2008).

2.2 Earnings Management

Earnings management has been defined in many ways. However, most of the definitions agree that earnings management is a kind of alteration of accounting number. Schipper (1989) defines this practice as "purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain". According to the definition, it is foreseeable that managers can exploit accounting numbers and manipulate financial statements for their own benefit (Watts & Zimmerman, 1986; Patten & Trompeter, 2003). The interests may be related to giving themselves a big bonus, perks, share options and other ways to enrich themselves in the expense of shareholders (Sweeney, 1994; DeFond & Jiambalvo, 1994; Holthausen, Larcker & Sloan, 1995 and Guidry, Leone & Rock, 1999). The practice of earnings

management has attracted attention from shareholders, stakeholders, accountants and auditors (Elias, 2002). It is a common problem to the accounting profession and has been a strategy among managers and corporate executives (Elias, 2002; Levitt, 1998). Loomis (1999) found that managers may manage earnings to conceal the true financial situation of a firm and relevant information that investors should know. In view of the fact that the separation of managers and owners creates an opportunity for the management to provide misleading information to the shareholders and this will increase the agency cost of the firms.

Getting into the issue why the managers manage earnings, the literature has come over two different dimensions of engaging in earnings management. The first group of literature believes that earnings management is a way to mislead investor and called as opportunistic behavior of managers, whereas the second group views that earnings management is exercised to signal some information to the users about future cash flows and hence enhancing information content of earnings that would be beneficial to stakeholders' expectation (Beneish, 2001). Dechow and Skinner (2000) reported that accountants view earning management as a problem and need attention. According to Elias (2002) the majority accounting practitioners consider earnings management unethical. Based on the discussion of earnings management, it is contended that earnings management activities are intended to affect the contracts written in terms of accounting number or lending contracts, influencing the capital market, political costs and management compensation contract (Bagnoli & Watts, 2001).

2.3 Family-ownership scenario in Malaysia

Some studies have been made with regard to the ownership structure of Malaysian companies. Abdul Rahman and Mohamed Ali (2006) mentioned that many local firms are family owned and are previously passed down from their fathers to son and are inherited from one to the next generation. The top 40 wealthiest men in Malaysia as reported by Malaysian Business in February 2009 edition shows that most of the list members comes from family owned business. Tan Sri Robert Kwok is one of the outstanding examples with his massive wealth accounted for RM26.6 billion or 27.6 percent of the wealth of the 40 richest in 2008. There is no other tycoon in Malaysia has yet to come close in winning the wealth race against him, albeit there are many more successful ones (Malaysian Business, 2009). Generally, more than half of the Malaysia Gross Domestic Product known as GDP is contributed by family owned companies except for multinational companies; state owned companies, government linked agencies, and estimated that out of 890 companies listed on Bursa Malaysia, 70% of them are family owned companies (Malaysian Business, 2009). Most of these companies started off as traditional owned enterprise which later grew into public listed firms. These firms practice a traditional governance method whereby the company is managed by the founders or their descendants as long as it is possible (Abdul Rahman & Mohamed Ali, 2006). According to agency theory, family ownership is believed to minimize agency problem due to the commitment and business knowledge from the family founders who have a strong understanding in the management of the business. Besides, family owners usually invest primarily in their own business and have a very long commitment, usually over their lifetime in managing their business, giving them the edge of monitoring the managers and decision making (Fama & Jensen, 1983).

2.4 Relationship between family-controlled companies and earnings management

Earnings management is known to be better controlled in a firm with strong board independence. However the effects of board independence to earnings management is less discussed in the case of family controlled firms environment which has a higher degree of risk to being colluded with the participation of dominant family. Generally, evidence supports that in family controlled companies, the effect of board independence is weaker as compared to non-family controlled companies. The CEO non-duality is less effective in reducing earnings management, in particular when the CEO is a member of the

controlling family. Therefore, in conclusion that in family-controlled companies with long term commitments to the company in audit and appointment of top executives has the tendency to lower board member substantial independence and to reduce board effectiveness in limiting the extent of earnings management.

According to Bartholomeusz and Tanewski (2006), the issue of agency cost may arise as the result of concentrated family ownership. First, a family-controlled company might use its influence on the board to exploit shareholders by issuing special dividends, payments for its personal interest. According to Barontini and Bozzi (2011), they found evidence of excessive compensation in family firms where the children, who are on the board, they tend to issue more significant compensations compared to non-family firm. Meanwhile, Ibrahim and Abdul Samad (2011) found that family firms are more interested in the survival of the firm, thus avoids risk and reduces the firm value. Pertaining to focusing on the financial disclosure, studied by Fan and Wong (2002) found that when cash flow rights exceed voting rights, or when the voting rights are dominant in a firm, the earning figures are less informative. The earnings figure loses its credibility because investors perceive that the figure is being manipulated by controlling owners.

As the study conducted by Bartholomeusz and Tanewski (2006) on 100 listed companies at the Australian stock exchange comprised 50 companies on family controlled firms and 50 others non-family controlled matched firms found that family firms have fewer outside directors shareholding, lower proportion of independent directors and higher percentage of CEO-duality compared to non-family controlled firms. This suggests that the structure/corporate governance employed by family firms does not prioritize adding maximum value to the company and attracts issues on agency cost. In the Malaysian context, Ibrahim and Abdul Samad (2011) also found similar trend in local companies. The companies have a smaller board of directors, minimize outside directors and generally practice CEO-duality.

2.5 Board Independence and Earnings Management

Board size refers to the number of directors on the board and it consists of independent directors and non-independent directors. Commonly, it is believed that a larger size of the board will add advantage to the board independence, also enhance decision making as there are more resourceful inputs from a larger group of talents. According to the regulation set by Bursa Malaysia, one third of the board must consist of independent directors. Basically, independent non-executives directors are preferred in family controlled companies because they are expected to be less bias and non-executive independent directors are not involve in managerial positions of the business, hence reducing the conflict of interest (Hillman & Dalziel, 2003). Newell and Wilson (2002) found that half of the board should comprise non-executives and Abdullah (2001) evidenced that Malaysian companies were largely dominated by non-executive directors.

Generally, a balanced board refers to a board with sufficient independent non-executive directors. This means that the directors do not have executive powers in day to day managerial (Abdullah, 2001). Independent board is one of the effective mechanisms in monitoring the accounting process (Klein, 2002). Hence a good board should include independent board of directors and external directors. External directors are able to monitor the company without bias or conflicting personal interest (Ching, Firth & Rui, 2002). Furthermore, non-executive and external directors are proven to be effective in monitoring the company. Mohd Saleh, Iskandar and Rahman (2005) found that the number of independent executive's directors limits the discretionary accruals in a company. The research shows that the non-executive members behave positively against discretionary accruals. This means the higher the number of non-executive directors, the lower the discretionary accruals and thereby concluded that a higher board independence clearly contribute to a lower earnings management. To ensure there is enough independent

directors on the board to act on behalf of the shareholders, the Malaysian code of conduct and corporate governance dictates that one third of the board of all public listed companies must consist of independent directors.

This fact is based on many cases of family-controlled companies in Malaysia whereby the board consists of family members. Even more, the controlling family is able to use their influence to appoint certain family members to hold top officials and portfolios in the company. The selection of top managers are likely to be based on networking and personal connections (Johannisson & Huse, 2000). Due to this, even a top official that is supposed to be independent may not be strongly connected to the controlling family. Therefore independence on official papers and legally binding contract may not be true independence in practice. The relationship of the board members with the controlling company may lead to possible collusion. This may result in a lower level of monitoring of board with regard to decisions made by dominant shareholders, including accounting policies, and therefore earnings management.

2.6 CEO Duality and Earnings Management

Another part of this study examine the role of CEO who is also the chairman of the company. Prior research studies by Ho and Wong (2001) and Gul and Leung (2004), refer this phenomenon as CEO duality. The CEO duality occurs when a CEO is also the chairman of the company. Agency theory encourage separation of duties to minimize agency problem and enhance monitoring process (Fama & Jensen 1983). The role of the CEO is to make decisions while the chairman serves as an oversight and monitor the governance. With the absence of such separation, the CEO who is also the chairman will have the freedom and discretion to make decisions that might not be in the best interest of the company (Finkelstein & D'Aveni 1994). As a result, in this setting the CEO has power to influence the board and make decisions both at the same time with minimum supervision.

However, the impact of CEO duality is not consistently negative. It was found that the change in duality status does not influence the market (Balinga, Moyer & Rao 1996). Daily and Dalton (1997) found CEO duality status does not have significant effect on performance. Furthermore, studied by Worrel, Nemec and Davidson (1997) found consistent to the agency theory which they documented negative impact of CEO duality to the firm. In contrast to agency theory but consistent to organization theory, Finkelstein and D'Aveni (1994) mentioned that some board prefer CEO duality because it enhance the smoothness of operation and avoid managerial conflict if the two are separated. With the duality in place, the board can avoid interference and show a strong board to issue sufficient checks (Haniffa & Cooke, 2002). However, Brickley, Coles and Jarrell (1997) debates that while agency cost is eliminated with CEO non-duality. There are other cost that incurred, for example, the cost to monitor the behavior of non-CEO chairman.

In the same manner, if the appointment of CEO and the chairman of the board is heavily influenced by the controlling family, the extent of formal separation on paper may not hold water and may not result in true separation in substance. This is even more likely if one of the position is held by a family member. This lack of separation is prone to encourage collusion and consequently to a lower level of monitoring of the board on decisions made by the controlling family. Thus, this lead to the second hypothesis:

3.0 RESEARCH METHODOLOGY

Secondary data is the information that is collected and obtained through financial reports as published on Bursa Malaysia. This requires the researcher to get hold of the financial reports published to the public in the relevant years.

The population for this study was drawn from companies listed on the Main Market of Bursa Malaysia in

the year 2011. After excluding 52 companies from the finance, exchange traded funds and real estate investment trust sector classifications due to different statutory requirements, a sample of 30 companies (evenly divided between family and non-family companies) was randomly selected. The financial data used in this study were extracted manually from the 2011 annual reports of each company downloaded from the website of Bursa Malaysia.

A sample composed of non-financial companies listed on the Bursa Malaysia was selected covering the year 2011. The financial reporting data are taken from financial reports of the companies as published to the public. The study apply abnormal working capital accruals (AWCA) as a proxy for earnings management (DeFond & Park, 2001). AWCA is defined as the difference between the companies's realized working capital and the capital required to support its subsequent year sales level. Expected working capital is estimated by the historical relationship between working capital and sales. The AWCA is as follows:

$$AWCAt, i = WC\ t, i - [(WC\ t\text{-}1, i / S\ t - 1) * S\ t, i] \quad (1)$$

Where the subscripts t and i designated the year of estimation for the ith company; and S and WC represent sales and noncash working capital, respectively. WC is computed as (current assets – cash and short term investments) – (current liabilities – short term debt). The absolute value of AWCA is used in the test as we focus on analyzing earning decisions. This approach is consistent with prior studies and is considered to be more appropriate in tax-orientated reporting regimes in which managers may be motivated to manipulate earnings in either direction (Klein, 2002).

The abbreviation used for variables are as follows;

AWC is the absolute value of abnormal working capital accruals normalized by the year's sales;
INDIR stands for the percentage of independent members on the board of directors;
NODUAL is a CEO dummy (CEO different from the chairman of the board = 1, otherwise =0);
AUD is the audit committee dummy (company with an audit committee = 1, otherwise = 0);
INST is an institution dummy variable (institutional investors with ownership of at least 5 percent of the capital = 1, otherwise = 0);
BDSIZ designates the size (number) of board members;
SIZ is the company size (measured as natural logarithm of total assets);
LEV stands for the financial leverage of the company, that is, the ratio of financial liabilities to total assets;
ROA stands for the return on assets of the prior period calculated as operating income divided by lagged total assets;
CFO designates the cash flow from operations scaled by lagged total assets;
NEG is a lag negative earnings dummy variable (company reported negative income before extraordinary items during the prior period = 1, otherwise = 0);
SALEGR is the growth rate in sales from t-1 to t

4.0 RESULT AND ANALYSIS

4.1 Results

Table 1 presents descriptive statistic of sampled data. First note that 50% of the sample is composed of family controlled companies. Examining the subsamples from observation the average earnings management (AWCA) is slightly higher for family-controlled companies, albeit the difference is

statistically insignificant (37% for family controlled companies and 29% for non-family controlled companies). The Table 1 also shows that the average percentage of independent directors is 50%. It is slightly higher than the rule imposed by Bursa Malaysia whereby it is compulsory for all public listed companies to have 33% or one third of the board being independent directors. The breakdown of the total sample reveals that the proportion of independent directors in family controlled companies is higher. The sample of CEO duality in these top public listed companies are 100% whereby the CEO is also a member of the board. This is not the case of non-family controlled companies although a high percentage of them are the same (Table 2).

Table 1 Statistic on family controlled companies

Family Companies	AWC	INDIR	NODUAL	AUD	INST	BDSIZ	SIZ	LEV	ROA	CFO	NEG	SALGR
TA Ent.	0.14	0.77	1	1	1	9	21.54	0.4	0.03	0.003	0	0.4
CMS	1.9	0.5	1	1	1	9	14.55	0.18	0.1	0.19	0	0.02
Selangor P.	0.51	0.6	1	1	1	5	14.71	0.17	0.15	0.02	0	0.25
Berjaya	0.15	0.64	1	1	1	14	16.69	0.2	0.12	0.2	0	0.29
Genting	0.17	0.57	1	1	1	7	24.71	0.13	0.15	0.16	0	0.3
IOI	0.3	0.5	1	1	1	8	16.79	0.12	0.07	0.04	0	0.29
PNHB	0.75	0.7	1	1	1	10	23.25	0.16	0.03	0.003	0	0.23
Rimbunan	0.14	0.3	1	1	1	6	21.2	0.15	0.09	0.08	0	0.24
Sunway	0.16	0.3	1	1	1	9	15.87	0.3	0.06	0.05	0	0.19
YTL	0.25	0.3	1	1	1	10	17.69	0.3	0.09	0.07	0	0.11
George K.	0.32	0.5	1	1	1	5	19.26	0.18	0.05	0.02	0	-0.09
Kim Loong	0.16	0.5	1	1	1	8	20.24	0.25	0.02	0.1	0	0.13
HAI-O	0.25	0.5	1	1	1	8	10.36	0.13	0.13	0.06	0	-0.6
Amcorp	0.3	0.8	1	1	1	5	20.68	0.19	0.03	0.02	0	-0.54
Johore-Tin	0.16	0.5	1	1	1	6	19	0.32	0.07	0.11	0	0.4

Table 2 Statistic on non- family controlled companies

Non-Family	AWC	INDIR	NODUAL	AUD	INST	BDSIZ	SIZ	LEV	ROA	CFO	NEG	SALGR
Top Glove	0.2	0.33	1	1	1	9	21.01	0.16	0.14	0.13	0	-0.02
Redtone	0.3	0.57	1	1	1	7	18.71	0.34	-0.06	-0.08	0	0.08
Airasia	0.1	0.5	1	1	1	8	23.3	0.16	0.12	0.11	0	0.13
Proton	0.03	0.57	0	1	1	7	22.7	0.28	0.1	0.12	0	0.09
Ajinomoto	0.12	0.3	1	1	1	12	19.41	0.15	0.17	0.2	0	0.19
Ibraco	0.17	0.4	1	1	1	9	19.45	0.26	0.04	0.03	0	4
E&O	1.8	0.4	0	1	1	9	21	0.29	0.3	0.2	0	0.52
HELP	0.15	0.5	0	1	1	10	19.15	0.29	0.13	0.14	0	0.02
C.I Holdings	0.17	0.8	1	1	1	10	20	0.34	0.18	0.07	0	0.12
Petronas	0.4	0.5	1	1	1	15	23	0.49	0.14	0.11	0	-0.04
Sarawak Oil Palms	0.18	0.3	0	1	1	10	21	0.11	0.19	0.19	0	0.6
Perangsang Selangor	0.32	0.5	1	1	1	8	22	0.16	0.01	0.08	0	0.03
Konsortium Transnasional	0.19	0.6	1	1	1	5	19	0.19	0.02	0.07	0	0.04
Bina Darulaman	0.18	0.6	1	1	1	7	20	0.16	0.01	0.09	0	0.25
Kumpulan Hartanah Selangor	0.16	0.3	0	1	1	5	20	0.15	0.02	0.06	0	-0.2

Table 3 shows the descriptive statistics for the entire sample, family-controlled companies and non-family controlled companies with regard to variables used in the study.

Table 3: Summary of Statistics

Entire Sample	**AWC**	**INDIR**	**NODUAL**	**AUD**	**INST**	**BDSIZ**	**SIZ**	**LEV**	**ROA**	**CFO**	**NEG**	**SALGR**
Mean	0.33	0.5	0.83	1	1	8.3	19.5	0.22	0.09	0.088	0	0.25
Standard Deviation	0.43	0.15	0.38	0	0	2.5	3.02	0.093	0.073	0.069	0	0.75
Median	0.18	0.5	1	1	1	8	20	0.185	0.09	0.08	0	0.13
Family-Controlled Companies	**AWC**	**INDIR**	**NODUAL**	**AUD**	**INST**	**BDSIZ**	**SIZ**	**LEV**	**ROA**	**CFO**	**NEG**	**SALGR**
Mean	0.37	0.532	1	1	1	7.9	18.4	0.212	0.079	0.075	0	0.108
Standard Deviation	0.45	0.16	0	0	0	2.4	3.74	0.083	0.043	0.065	0	0.304
Median	0.25	0.5	1	1	1	8	19	0.18	0.07	0.06	0	0.23
Non-Family Controlled Companies	**AWC**	**INDIR**	**NODUAL**	**AUD**	**INST**	**BDSIZ**	**SIZ**	**LEV**	**ROA**	**CFO**	**NEG**	**SALGR**
Mean	0.298	0.478	0.67	1	1	8.7	20.6	0.23	0.1	0.101	0	0.38
Standard Deviation	0.43	0.14	0.49	0	0	2.5	1.05	0.1	0.09	0.07	0	1.02
Median	0.18	0.5	1	1	1	9	20	0.19	0.12	0.11	0	0.09

A spearman rank correlation matrix is presented in Table 4 and 5. The table has two segments. One for the family controlled companies and one for the non-family controlled companies. Some interesting differences are evident in correlation between specific variables. In particular the earnings management measured (AWCA) is negatively and significantly correlated with the percentage of independent board members. The correlation coefficient is -0.133 for the non-family controlled sample and -0.501 for family controlled. A similar result may be observed with regard to the correlation between AWCA and CEO duality for the family controlled companies.

Table 4 Spearman rank correlation matrices for family controlled companies

Family Controlled Companies	**AWC**	**INDIR**	**NODUAL**	**AUD**	**INST**	**BDSIZ**	**SIZ**	**ROA**	**CFO**	**NEG**	**SALGR**
AWC	1										
INDIR	- 0.500	1									
NODUAL	0.31	0.71	1								
AUD	-0.22	0.71	1	1							
INST	-0.22	0.71	1	1	1						
BDSIZ	0.35	0.99	0.80	0.80	0.80	1					

SIZ	0.15	0.99	0.92	0.92	0.92	0.97	1				
LEV	0.60	0.99	0.64	0.64	0.64	0.94	0.87	1			
ROA	0.80	0.91	0.38	0.38	0.38	0.84	0.70	0.95	1		
CFO	0.93	0.76	0.11	0.11	0.11	0.64	0.47	0.82	0.95	1	
NEG	0	0	0	0	0	0	0	0	0	0	1
SALGR	0.79	0.36	-0.34	-0.34	-0.34	0.27	0.03	0.37	0.62	0.73	0.00

Table 5 Spearman rank correlation matrices for non-family controlled companies

Family Controlled Companies	**AWC**	**INDIR**	**NODUAL**	**AUD**	**INST**	**BDSIZ**	**SIZ**	**ROA**	**CFO**	**NEG**	**SALGR**
AWC	1										
INDIR	-0.13	1									
NODUAL	0.38	0.70	1								
AUD	-0.65	0.80	0.19	1							
INST	-0.65	0.81	0.19	1	1						
BDSIZ	-0.15	0.99	0.66	0.82	0.82	1					
SIZ	-0.52	0.88	0.29	0.98	0.98	0.86	1				
LEV	0.15	0.91	0.62	0.62	0.62	0.91	0.74	1			
ROA	0.58	0.66	0.92	0.09	0.09	0.64	0.24	0.75	1		
CFO	0.42	0.79	0.83	0.32	0.32	0.79	0.47	0.91	0.95	1	
NEG	0	0	0	0	0	0	0	0	0	0	1
SALGR	0.96	-0.38	0.19	-0.82	-0.82	-0.40	-0.72	-0.09	0.38	0.199	0.10

5.0 CONCLUSION AND RECOMMENDATION

Board independence and CEO duality is widely known to limit earnings management in typical companies. In this study we see the effects of board independence and CEO duality on earnings management in family controlled companies. An environment where the risk of collusion is higher between the board members and dominant family. As this study is to provide insight on the question whether board independence and CEO duality constrains earning management when the company is controlled by the family. CEO duality is less effective in reducing earnings management, especially when

the CEO is the member of the family. We came to the conclusion that the presence of a family, with its stronger long term commitment to the company and its influence in the appointment of both the top executives and board members tends to lower board member substantial independence and reduce its effectiveness in limiting the extent of earnings management.

This study may help academics evaluate and confirm current method of corporate governance model when applied to family-controlled companies. In particular, the results suggest that regulators should pay special attention to the selection of board members. For the benefit of shareholders, it is important to guarantee substantial independent members. The results are also useful to users of financial statements, suggesting that a company's ownership structure and its corporate governance characteristic should be taken into accounting when accounting numbers are used.

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