

UNIVERSITI TEKNOLOGI MARA

**AN ACCOUNTING EDUCATED
CEO'S RELATIONSHIP WITH
EARNINGS MANAGEMENT AND
ACCOUNTING CONSERVATISM,
AND THE MODERATING ROLE OF
EXECUTIVE COMPENSATION**

YVONNE JOSEPH ASON

DBA

August 2021

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 dissertation 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 Postgraduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

Name of Student : Yvonne Joseph Ason

Student I.D. No. : 2017736711

Programme : Doctor of Business Administration - AA901

Faculty : Arshad Ayub Graduate Business School

Dissertation Title : An Accounting Educated CEO's Relationship with Earnings Management and Accounting Conservatism, and The Moderating Role of Executive Compensation

Signature of Student : 

Date : August 2021

ABSTRACT

This study focuses on the area of corporate governance, particularly looking at the relationship between CEO with accounting background towards earnings management and accounting conservatism. Motivated by the unexplained trend of companies in the developed countries to hire individuals with accounting background to hold a post as Chief Executive Officer (CEO) after the introduction of the Sarbanes Oxley Act in 2002, this study attempts to examine empirically the effectiveness of the CEOs with accounting backgrounds in curbing the earnings management activities. This study also examines the accounting conservatism of CEOs with accounting backgrounds based on the findings from prior studies which suggested that CEOs with accounting backgrounds possess a higher level of accounting conservatism. Furthermore, this study examines the moderating role of the executive compensation towards; firstly, the relationship between CEO's accounting background and earnings management; secondly, the relationship between CEO's accounting background and accounting conservatism. Using the data from 71 companies from the Malaysian FTSE top 100 companies that fulfilled the requirement to become the sample, this study provides evidence from the perspective of developing countries. Earnings management is represented by discretionary accruals estimated using Modified Jones (1991) model and Performance – Matching model by Kothari (2005). For the proxy of accounting conservatism, this study uses the estimation of C-Score following Basu (1997). All financial data were downloaded through the DataStream Software by Thompson One Banker, while the data for CEOs' education backgrounds, CEOs' demographic backgrounds, and other corporate governance variables were collected manually from the companies' annual reports. The regression results of this study suggest that CEOs with accounting backgrounds are indeed conservative as compared to their non-accounting educated counterparts. Unfortunately, there is no evidence found on the effectiveness of CEOs with accounting background in curbing the earnings management activity, neither the role of executive compensation in influencing the relationship between CEO's accounting background towards earnings management and accounting conservatism. The finding of this study is meaningful in a way that it highlighted the successful learning outcome at the tertiary level in producing accounting graduates that are hopeful to practice conservative accounting in an effort to provide more reliable accounting information to the wide range of users of financial information.

ACKNOWLEDGEMENT

It is with great pleasure to finally able to complete this dissertation. Firstly, I thank God for the blessings that enable me to go through all the process smoothly. I am also grateful to have helpful guidance from my main supervisor, Prof. Dr. Imbarine Bujang, and my second supervisor, Dr. Agnes Paulus Jidwin. From attending an overseas conference and having able to publish a paper in a journal, words just do not suffice to express how thankful and grateful I am to have been supervised by both of them. I could not have done this without the constant support and advice from them.

Next, I would like to express my biggest appreciation to my husband, Jude Jainus, for the unconditional and undivided support that he has given to me throughout the 3-year DBA journey. Not forgetting my biggest fans of all time, Josh and Joey, for being so thoughtful despite their young age. I am so touched and guilty by their priceless sacrifices. To my father, Joseph Ason, and my younger siblings, Leonie and Leo, thank you for the support and love you have showered me. Not forgetting my big family, Sakag Rukasim, thank you for the moral support I received throughout my study journey.

My appreciation also goes to all of my awesome classmates, DBA intake for March 2018; Habibah, Emelia, Flicia, Rahayu, Rainah, Sarmila, Cindy, Boyd, PM Ros, Mina, Qadrina, Fiza, Lorraine, Midin, Ridwan, Nasrul, Roslan, Adrian, Datin Mariam, and Dion. It is definitely an unforgettable DBA journey with a bunch of supportive and cheerful people, a memory that I will cherish forever. We have gone through a lot together in support of each other. Not forgetting Norazian and Maizanee for their countless assistance to ease my application for the study leave. I am blessed to have all of you on this journey.

I am also thankful to have a superb support system from the Top Management of UiTM Sabah and all members of Faculty of Accountancy, UiTM Sabah, for allowing me to take a study leave, a meaningful leave indeed to enable me to focus on the writing stage of my dissertation. I really appreciate the opportunity given to me, and as promised, I have used it wisely by completing this dissertation within the stipulated time. I wish to contribute more to my faculty and UiTM Sabah after I finish my study.

As a humble note of appreciation, I would also like to thank all individuals who, directly or indirectly, have helped me in completing my DBA journey. I appreciate all the kind acts that had helped me all the way ever since I started this journey three years ago. I truly admire your sincerity. No doubt that this whole journey humbles me in many ways. Despite the struggle to pen a complete 40,000-word dissertation, the knowledge contributed is just a small part of the area where it is related. This scenario makes me realize that acquiring knowledge is a never-ending process. I am grateful that now I have better experience in writing; thus, I hope to write and contribute more research findings in the future. As Jim Rohn was quoted saying, 'life does not get better by chance, it gets better by change,' this DBA journey has definitely brought a good change in me. I am more confident in expressing my thoughts in writing and more pessimistic about conducting research in my area of interest. For now, with gratitude and pleasure, I bid farewell to my DBA study.

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