

Corporate Governance Mechanisms, Whistle-Blowing Policy and Earnings Management Practices of Firms in Malaysia

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Abstract : This study examines whether corporate governance (CG) mechanisms in firms that have a whistle-blowing policy (WHBLP) are more effective in constraining earnings management (EM), than those without. A sample of 288 Malaysian firms for the years 2013 to 2015, amounting to 864 firm-years were grouped into firms with and without WHBLP. Results show that for firms without WHBLP, the board chairman tenure would minimize EM activities. Meanwhile, for firms with WHBLP, board chairman independence, board chairman tenure, audit committee size, audit committee meeting and women in the audit committees are found to be associated with less EM activities. Further, it is found that ownership concentration and Big 4 auditing firms help to reduce EM activities in firms with WHBLP, while not in firms without WHBLP. Hence, functional and effective governance can be achieved by having a WHBLP, which is in line with agency and resource dependent theories. Therefore, this study suggests that firms should have a WHBLP in place, and policymakers should come up with enhanced criteria to strengthen the mechanisms of WHBLP.

Keywords : corporate governance, earnings management, whistle-blowing policy, audit committee, board of directors

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