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THE USE OF FINANCIAL DISTRESS AND FINANCIAL STRUCTURE ABILITY AS A DETERMINANT OF FINANCIAL MANIPULATIONS LEVEL AMONG PUBLIC LISTED COMPANIES IN MALAYSIA

Macaulay Ndifreke Imo[1], Norfadzilah Rashid[2*], Saheed Ademola Lateef[3]

[1]Faculty of Economics and Management Sciences, University Sultan Zainal Abidin (UniSZA).
E-mail: macaulayndifreke@yahoo.com
[2*]Faculty of Economics and Management Sciences, University Sultan Zainal Abidin (UniSZA).
E-mail: nikmfadzilah@unisza.edu.my
[3]Faculty of Economics and Management Sciences, University Sultan Zainal Abidin (UniSZA).
E-mail: latsad4real@yahoo.com

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ABSTRACT--- Financial manipulations are growing exponentially due to the dynamic complexities of businesses. This influenced a huge number of jobs and fund losses and renowned worldwide corporate scandals right from Health South and Freddie Mac, WorldCom, Cendant Corp and Tyco Scandals in 2002, Enron Scandal and Waste Management Scandal among others. However, if not detected early, and prevented, it could lead to a gradual loss of investor's confidence. Therefore, this study examines the influence of financial distress and financial structure ability on financial manipulation level in the trading and service industry of Bursa Malaysia. This study employed secondary data from the annual reports of the selected companies listed in Bursar Malaysia under the trading and service industry. Hence, the study obtained the data sets from the year 2009 – 2018 as the investigation period. A total of 191 firms listed in the Trading and service industry on Bursa Malaysia were identified to be sampled in the current study. However after the elimination of delisted firms, it brought the total observation to 1490 firm years. The result of the multiple regression analysis for the financial structure ability indicate that the accounting information related to the financial structure ability was ascertained to be significant at 5% level indicating a significant relationship between financial structure ability and financial manipulation level. In addition, it also indicated a significant relationship between Financial Distress and the financial manipulation level among firms in the trading and service industry of Bursa Malaysia. The present study has provided important evidence of the conditions of the financial attributes in the companies which would usually have significant influence on the financial manipulation level in the companies. Therefore, the study suggested that the policy market should have a clear framework in the accounting reporting transactions in order to control the degree of financial manipulations in the companies.

KEYWORDS--- Financial manipulation level, Financial distress, Financial structure ability, Trading and Service, Malaysia.

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I. INTRODUCTION

In the past few years, corporate scandals have influenced a huge number of jobs and fund losses and renowned worldwide corporate scandals, such as Cendant Corp and Tyco Scandals in 2002, Enron Scandal in 2001, WorldCom, Waste Management Scandal in 1998, Health South and Freddie Mac Scandal in 2003, American Insurance Group in 2005 and among others have influenced the handling of governance practices and financial manipulations by the introduction of Sarbanes Oxley Act 2002 (Rapoport & Van Niel, 2018; Ghafoor, Zainudin, &Mahdzan, 2019; Bhatt, 2016). In Malaysia, there are numerous renowned corporate scandals that served as measures for an improved Malaysian corporate governance practice such as the Renong Berhad scandal in 1999, Transmile Group Berhad in 2005, Repco Holdings Berhad in 1997, Scan Associates Berhad in 2006,, Kenmark Industrial Co. Berhad in 2009 and Megan Media Holdings Berhad in 2007 (Suffian, Sanusi, Osman, &Azhari,

2015). However, financial manipulations are now a multi-million dollars business practice with a yearly increase and according to the global economic crime survey of the 2018 report undertaken by PwC, 49% of 7,200 companies surveyed had experienced fraud (Price water house Coopers, 2018). Financial manipulations are growing exponentially due to the dynamic complexities of businesses and if not detected early, and prevented, it could lead to a gradual loss of investor's confidence. Recently, financial distress, financial structure ability and financial manipulations have become a global concern and the financial health of firms is a crucial indicator for interested users to know more about an organization's performance (Hail, Tahoun, & Wang, 2018; Ghafoor, Zainudin, &Mahdzan, 2019). Many stakeholders such as suppliers, investors, creditors, customers as well as employees are reluctant to deal with financially distressed firms. This is because of the decline in financial performance which may eventually result in bankruptcy and increased costs (Ghafoor et al., 2019; Habib, Uddin Bhuiyan, & Islam, 2013) if the firm falls under a financially distressed condition, the firm might be unable to fund its business operations and the managers' remunerations and positions are expected to be unsecured. This study is aimed at investigating the effect of financial distress and financial structure ability on the level of financial manipulations among the firms listed in the trading and service sector of Bursa Malaysia.

This study is motivated by the research conducted by (Arasteh&Nourbakhsh, 2014) who indicated that the financial structure ability can be used in short-term and long-term debts analyses in order to examine the possible impact of the variations of financial manipulations in the companies. The debts analyses are arguably important in the investigation of the level of financial manipulations in a firm because the managers are provided with the accounting provision in relation to the debts declarations level. However, with the debt level declaration, firms that have higher debt levels may have a higher risk of bankruptcy, if they do not make payments on their external financing to their creditors. If the firms wish to take another loan, creditors will make some measurements whether the company has too much borrowing and request the company to keep its debt within reasonable boundaries (Kazemian& Sanusi, 2015). Due to this reason, firm managers are likely to manipulate the financial information of the firm hence misleading the shareholders.

This paper is organized as follows; The first section begins with an introduction. The second section reviews the literature on the relationships between the study variables. The third section explains the methodology of the study, the process of sampling and data collection. Section four is the result discussion and section five is the conclusion of the study.

II. LITERATURE REVIEW

2.1 Financial Manipulations

The term financial manipulation has received numerous recognition from academic researchers in terms of effects or factors that are related to financial manipulation in the organization. One of these definitions describes financial manipulation as a competitive advantageous strategies utilised by firms with regard to the users in the capital markets (Mitra, Jaggi, & Hossain, 2013). There are also other definitions of financial manipulation like the definition by (Abuaddous, Hanefah, & Laili, 2014)who explained financial manipulation as an accounting strategy employed by firms in order to present the goodness of their financial position level in the capital market activities. The managers in the firms usually employ such financial manipulation strategies in order to attract more potential shareholders and retain existing shareholders to engage with the business. Meanwhile, the financial manipulation was also engaged by the managers due to optimize the tax benefit to the local tax authorities, (Hamid et al. 2020). Therefore, in their decision making activity, the shareholders will take into consideration the financial information disclosed by the firms in the capital market. Due to this reason, (Zhang & He, 2013)have defined financial manipulation as a promotional accounting strategy to influence the decisions of the shareholders with financial information disclosed in the capital market.

2.2 Financial Structure Ability

One of the determinants of financial manipulation level is financial structure ability which (Al-Najjar, 2013)defined as the ability of the firms to support the companies with the capital provided by the shareholders in the capital market. Therefore, the financial structure ability can be used to represent the ability of the business organization to acquire additional capital from the shareholders such as financial institutions and also investors. This variable has also been argued to be considered as a significant criterion in facilitating the needs of financial support for the business organization activities (Bouzguenda, 2014). Furthermore, this variable can also be used as an indicator in accounting information disclosure by the companies in order to enable more capital inducement from the capital providers in the capital market. Therefore, this variable has also been tested as being possibly related to the financial manipulation level in a firmas a result of being linked to accounting discretion strategies utilised by the managers in the companies. The rationale behind the relationship between financial structure ability with financial manipulations is that the managers in the firms are allowed to manage the debt financing level towards the total equity level in the business transactions activities (Wang & Zhu, 2013). The accounting discretion practices are also linked to the adjustment of the debt level utilised in the companies. Therefore, this situation has contributed to the opportunity connected with financial manipulation in the financial leverage compared to the equity level in the business transaction activities. For instance, (Hansen, 2015)has also explained that the financial structure ability is also possible to be manipulated with aggressive debts treatment in order to give benefits to the business organization. Therefore, from the previous studies reviewed above, the following hypothesis is proposed:

H_1 There is a significant influence between financial structure ability and financial manipulation

2.3 Financial Distress

Another variable of the study is Financial distress which can be defined as "a condition where the financial obligations of a firm are not met or are met with difficulty" (Wu, Liang, & Yang, 2008). (Chan & Chen, 1991)defined financially distressed organizations as those having inefficient producers, poor performance, cash flow problems and also those likely to have high financial leverage due to which firms lose their market value. They are marginal as their prices tend to be more sensitive to changes in the economy, and are less likely to survive adverse economic conditions. According to (Beaver, 1966)and (Betker, 1997)financial distress plays a significant role in a company's operations and profitability through its cost implications, such as administrative and legal costs associated with bankruptcy process (i.e., direct financial distress costs) or increased costs for debt service and supplies (i.e., indirect financial distress costs). These costs may reduce the value of the firm and thus it is important to determine the financial distress level among firms in Malaysia (Abdul-Rahman & Zulkifly, 2016). Determining the financial level is significant for investors and creditors in other to as certain if a company is financially healthy. They can utilise this knowledge especially in their financial planning and take remedial actions to avoid potential bankruptcy costs. This is crucial as well to current investors, potential investors and also to the stock market regulators. In other words, it could be employed in developing an early warning system to either evade, or lessen the impeding failures. For example, bankers or creditors could utilise this information to assess potential borrowers or their potential credit risk. Information provided in the financial statements of a firm is sufficient to discriminate and assess creditworthiness of large businesses (Belás, Bartoš, Ključnikov, & Doležal, 2015). Financially distressed companies face several issues of financial difficulty and poor financial performance.

In addition, (Song, Lee, & Cho, 2013)have further claimed that the financial manipulation windows dressing strategy are utilised because of the existence of financial distress situations in the firm. Hence, with windows dressing strategy, all of the undesired accounting information are hidden from the shareholders. Therefore, the managers in the firms will attempt to hide the undesired business position from the potential and existing shareholders in the capital market. If the shareholders are aware of the financial distress situations in the firm, it will lead them to withdraw their investment activities in the firms. Consequently, this will be a disadvantage to the firms in managing their business activities in the capital market. Hence, during financial distress the managers employ financial manipulation strategies in order to 'make up' the financial statement of the company hence decreasing the reliability of the current financial position in other to influence the decision of the shareholders. This is because, financial manipulation activities are usually utilised in order to meet the target of the shareholders. Therefore, the application of financial manipulation in the business transaction activities is significantly related to the level of financial distress in the firm. Thus, this accounting approach was being used as backup plan by the managers in the firms in order to safeguard the interest of the company's shareholders in the capital market.

In Malaysia, the stock market regulator is Bursa Malaysia, which also deals with financially distressed firms. Bursa Malaysia, previously known as the Stock Exchange of Malaysia, is an exchange holding firm approved under Section 15 of the Capital Markets and Services Act 2007, operating under the Securities Commission. In Malaysia, in order for a firm to remain listed on the main market, all public listed firms need to fulfil two key requirements. The first requirement is that public listed firms must have continuous profit after tax for three to five full financial years with an aggregate of at least RM 20 million. The second requirement is that public listed firms should have profit after tax of at least RM 6 million in the most recent financial years. The firms that fails to maintain their quality will be listed as a financially difficult firm according to Practice Notes 4 and 17 (Raziah Bi Mohamed Sadique, Jamal Roudaki, 2010). The stock exchange of Malaysia introduced Practice Note No. 4/2001 (PN4) on 15 February 2001 and Practice Note No. 17/2005 (PN17) on 3 January 2005. PN17 was further amended on 5 May 2006 to improve the ways in which Bursa Malaysia deals with listed financially distressed firms.

The situation of financial distress in the business transaction activities are commonly known as undesired financial transaction to be incurred in the company activities. Meanwhile, the financial distress information's was also importance to be recognize by the shareholders in order to optimize their business activities, (Dakhlallh et al. 2020). Therefore, Earnings Management Theory has provided important influential strategies for the managers in the firm to control unfavourable financial position towards the shareholders. In addition, the existence of the high financial distress would also distract the financial performance of the firms. This is because, in a financial distress situation the firms would have limitations in meeting the financial obligations transactions in order to achieve the business objective in the capital market transactions, (Shie, Chen, & Liu, 2012).One of the indication of a financially distress firm is that the company will have an excessive operating cost in the productions activities, (Bulot, Salamudin, Abdoh, Yusuf, & Mutallib, 2016). Therefore, these situations creates other financial liabilities for the companies due to the incapacity of the companies to meet the obligation expenses in the business transaction activities this will invariably lead to the managers hiding their true financial position to avoid losing their shareholders. Meanwhile, financial distress has also been argued to influence the managers in the firms to employ financial manipulation activities towards the business transactions activities, (Zaki, Bah, & Rao, 2011). This is because, by having financial manipulation activities in the firm, they were enabled to estimate the changes to the company's value transactions(Pathirawasam, 2013).

In addition, the application of financial manipulations in the firms were also initially employed in order to reduce the irregularities in the financial distress. This means that financial distress could be considered as an automatic accounting signal for the companies to properly manage their financial reporting strategies in the business transaction (Coffinet, Pop, & Tiesset, 2013). In another study, (Habib et al., 2013)found that managers of distressed companies engage in more income-decreasing financial manipulation practices as compared to healthy company and these findings are consistent even after the global financial crisis period. They stated that financial manipulation occurred in firms which faced financial distress condition and this could provide incentives for managers to manipulate earnings(Habib et al., 2013). Therefore, from the prior studies mention above the following hypothesis is proposed:

H_2 There is a significant influence between financial distress and financial manipulation

III.RESEARCH METHODS AND DATA

This study employed secondary data from the annual reports of the selected companies listed in Bursar Malaysia. The secondary data is gotten from Thompson Routers Data Stream, Thompson One-Banker and selected financial data from the companies listed on the Malaysian capital market. The present study was engaged with balanced panel data approach in order to maximize the benefits from the selected data sets to be tested along the investigation process. Hence, the current study obtained the data sets from the year 2009 – 2018 as the investigation period. A total of 191 firms listed in the Trading and service industry on Bursa Malaysia were identified to be sampled in the current study. Based on this approach, the total number of observation amounted to 1910 firm-years. However after the elimination of delisted firms, it brought the total observation to 1490 firm years. Three types of regression methods of analysis were utilized, namely, fixed effect regression, pooled ordinary least square regression and random effect regression through the use of STATA software. This study indicates the measurement of dependent variable, independent variables and mediating variable. Table 1 offers the summary of the operationalization of research variables.

Table 1: Summary of the Operationalization of Research Variables

S/N	VARIABLES	ACRONYM	OPERATIONALISATION	SOURCES
Dependent Variables:				
1.	Financial Manipulation Level	FML	Beneish M-score Model	(Beneish, 1999)
Independent Variables:				
	Financial Structure Ability	FSA	Total Liability/ Total Equity = Debt to Equity	(Chen et al., 2011)
	Financial Distress	FD	Z-score	(Altman, 1968)

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Model:

FMLit = β0 + β1FSAit + β2FDit + β3LEVit+ β4FSIZEit + εit……..………………….……………. (1)
Where: FML = Financial Manipulation Level, FSA = Financial Structure Ability, FD = Financial Distress, LEV = leverage, FSIZ = firm size, εit = error term.

The study used three different types of specification estimates for the regressions methods. The rationale for the application of different specification methods in panel data analyses was to ensure the robustness of the findings in the research study carried out (Wooldridge, 2002). Therefore, in order to provide better evidence of the relationships between financial structure ability and financial distress and the level of financial manipulations, the present study utilised the following methods; Pooled Ordinary Least Square method (Pooled OLS), fixed effect method, and random effect method. Hence, data in this study were separately analysed according to these three methods.

IV. ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Descriptive Analyses

The table 2 below indicates the result of the descriptive analyses involving all the variables. This explains the standard deviation, mean, minimum, maximum and number of observations of the variables among public listed companies in the Trading and Service industry on Bursa Malaysia.

Table 2: Descriptive Statistics

Constructs	Observation	Min	Max	Mean	Std. Deviation
Financial Distress	1490	-0.078468	0.33389	0.12787	0.10185
Fin. Structure Ability	1490	0.003424	0.09927	0.03097	0.02514
Fin Manipulation Level	1490	1.030285	5.03936	2.97343	1.05810
Leverages	1490	0.00707	1.00023	0.37346	0.22632
Firm Size	1490	12.55736	21.21529	16.77409	1.79975

The descriptive statistics in Table 2 above presents the descriptive statistical data of all the variables utilised in this study which are: financial distress, financial structure ability, firm’s size, leverage and financial manipulation level. The descriptive statistics of the firms also shows that the mean for the financial distress level of the firms is at 0.12787with the minimum level at -0.078468 and the maximum level of 0.33389, while the standard deviation for financial distress level is0.10185. Also, the mean of the financial structure ability is 0.03097 and minimum amount of 0.003424 while the maximum amount and overall standard deviation is 0.09927 and 0.02514 respectively. In addition, for the financial manipulation level, the mean value for the firms listed in the trading and service industry of Bursa Malaysia is 2.97343 while the minimum and maximum level of financial manipulations among firms is 1.030285 and 5.03936 respectively with the overall standard deviation of 1.05810.

4.2 Correlation Analyses

According to Pallant (2016) correlation analysis was used to determine the level of the relationship between one variable and another. This section begins by determining the relationship between the independent variables to the dependent variable in terms of strength and direction. Correspondingly, correlation analysis was carried out in order to determine the relationship between the independent variables as this will serve as a guide in the estimation of the model. In the situation where there is no relationship, the correlation estimation between the variables will be 0. Adversely, a correlation equals +1 indicates a perfectly positive relationship, and a correlation equals to -1 indicates a perfectly negative relationship. Hence, where the relationship is 0.30 to 0.49 this indicates a strongly weak relationship and greater than 0.50 is a substantial relationship. Table 3below presents the correlation matrix between all the independent and dependent variables utilised in this study.

Table 3: Result of the Correlation Analysis

Constructs	FD	FSA	FML	LEV	FSIZ
Financial Distress	1				
Financial Structure Ability	0.080148	1			
Fin Manipulation Level	0.252918**	.264866**	1		

Leverage	0.114743**	-0.542375	-0.210853	1	
Firms Size	0.335925**	0.190423**	0.503253**	-0.142706	1

The table above signifies that the variables are significantly correlated to the fact that there is no variable with a value of 0.9 which indicated that there is no problem of multicollinearity (Hair et al., 2019).

4.3 Regression Analyses Result

The model was analysed and tested using fixed effect as suggested by Hausman test (i.e., after checking of the hausman test to check the appropriate methods between fixed and random effect). Hence, the R^2 value is 43% approximately, which indicates the overall effect of level of influence of the exogenous constructs over the endogenous construct in the model. Therefore, the result of the multiple regression analysis summarized in the Table 4 below:

Table 4: Fixed Effect Regression Analysis

Variables	**Coef.**	**S.Error**	**t-statistics**	**Sign.**
Financial Structure Ability	0.606	0.220	2.754**	0.014
Financial Distress	-0.718	0.220	-3.260**	0.001
Leverage	0.174	0.169	1.030	0.303
Firm Size	0.248	0.031	8.120***	0.000
Constant	2.584	0.136	19.101***	0.000
R-squared			0.431	
Adjusted R-squared			0.430	
F-statistic P-value			35.80	
Hausman Test (Chi2)			0.0000	
Number ofFirms			149	
Number of Observation			1490	

Note: * p<0.01, ** p<0.05, *** p<0.001. = significant at 10%, 5% and 1% respectively.

Based on the Table above, the result of the multiple regression analysis for the financial structure ability indicate that the accounting information related to thefinancial structure ability was ascertained to be significant at 5% level indicating a significant relationship between financial structure ability and financial manipulation level among firms in the trading and services industry on Bursa Malaysia. This also indicated that financial structure ability negatively influenced financial manipulation levels in the company activities. Thus, it was evident that the decrease in thefinancial structure ability in the firms contributed to the increment of financial manipulation activities in the firm. This result was consistent with the previous findings of (Rashid, Noor, Matsuki, AbRahman, & Omar, 2016) that the firms have an opportunity of using financial structure ability to manage their earnings level. The firms usually utilise the financial structure ability in order to acquire more capital from the capital market players. In previous discussions, it has been argued that financial structure ability has asignificant influence on the financial manipulation level of firms. This is as a result of the believe that the firms in the capital market would always try to acquire additional capital if they were unable to carry out their business transaction activities efficiently due to financial distress. This indicates that the firms would be induced to have more resources to finance its firm's activities that were limited by the lack of capital resources.

In addition, the second hypothesis tested in this study is Financial Distress which may be understood as the current financial position reported in the firms activities. This is also usually reflected as the firms are classified as having lower capabilities of making profits in the business transaction activities. The result of the Table 4 indicated a significant relationship between Financial Distress and the financial manipulation level among firms in the trading and services industry on Bursa Malaysia. According to the study which stated that there is a significant relationship between Financial Distress and the financial manipulation level in a firm. This is in support with the discovery of (Bisogno, 2015)who highlighted that there is a strong relationship between financial distress and the financial manipulation level in the firm. Hence, it is expected that a higher level of financial distress in a firm will result in financially manipulated activities being carried out in the firm. Financial

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distress is a key factor in understanding the manager's will and utility in manipulating the financial information of a firm.

V. CONTRIBUTIONS AND CONCLUSIONS

Based on the research findings presented which have resulted in the conclusion of this study. It has been shown that financial manipulation level are influenced by selected accounting attributes in the firms. This means that financial manipulation activities would be more significantly employed by the firms due to certain financial conditions in the companies. These conditions usually include revenue recognition, the existence of financial distress in the business activities. Hence, the present study has provided important evidence of the conditions of the financial attributes in the companies which would usually have significant influence on the financial manipulation level in the companies. The evidence from the current study clearly suggested that the shareholders in capital market should be more aware of the conditions of the financial attributes that may influence the financial manipulation level in the companies. Also, the investigation of the financial manipulation level among the listed firms in the trading and service industry has provided significant evidence for the market policy in the capital market. It is suggested that the policy market should have a clear framework in the accounting reporting transactions in order to control the degree of financial manipulations in the companies. Finally, as this study only concentrated on the Malaysian capital market, this study would be recommended in other countries and other sectors of economy to have more justification and generalisation of the study.

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