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ABSTRACT

During the past three decades, many firms in developing market have embarked retrenchment strategy in order to defend firm going concern from economy turbulence. Yet, this strategy is rarely investigated compared to another strategy like diversification. This is not to mention limited research investigating whether companies might manipulate their earnings through the retrenchment costs across ownership expropriation. As Malaysia offers unique background earnings management, corporate strategy and ownership structure, this study aims to answer intriguing yet interesting question: Do Malaysia's listed companies consider retrenchment costs when they manipulate earning across its ownership expropriation? Using 237 Malaysian listed companies over the period 2008-2013, this study found that retrenchment costs are used to manipulate earnings in companies. In addition, we find that ownership concentration do not significantly affects the earnings management of the firms.

Keywords: *Retrenchment; Ownership Expropriation; Earnings Management; Corporate Governance*

1. INTRODUCTION

Earnings management has been a real deal for stakeholder due to good corporate governance. The collapse of Enron and WorldCom is one of the examples of how earnings management creates a major problem in the market, and it pushed policy maker to devise new policy, such Sarbanes-Oxley act, which requires board to acquire financial sophistication as an attempt to eliminate earnings management. NASDAQ also issues a new guideline about financial literacy of audit committees for all listed companies due to reduce earnings management. In addition, accounting board in every country seeks to modify the accounting standard for the sake of elimination of creative accounting. These are the evidences that earnings management cannot be underestimated, and make it as important research.

Earnings management is occurred because of accrual accounting system. Accrual accounting gives agents (managers) significant rights to determine profit in various periods. In fact, agents have meaningful control on the recognition of cost such as R&D cost, fixed asset, inventory, and advertisement (Amy, 2005; Gunny, 2005; Roychowdhury 2006). Agents have also power in recognition of revenue in accrual system such as credit sales or merger and acquisition (Yoon and Miller, 2002). In alignment perspective, agents believe that the goal of earnings management is investors' wealth (Yoon and Miller, 2002). Hence, it could be concluded that agents have control in operating earnings management due to accrual accounting system.

In other side, the activities of selling fixed asset, purchasing inventory, paying selling and general expense (including advertisement), merger and acquisition, and employee layoff are part of firm strategy, known as retrenchment strategy. In the perspective of strategy management, retrenchment strategy is a common method for firm in securing potential future cash flow (Robbins and Pearce, 1992; David, 2013). For instance, Malaysia Airlines fired their employees due to financial distress, or Facebook bought Instagram for expanding the business. Yet, this strategy is not popular in governance research, as many corporate governance papers focus more on diversification strategy (Denis et al, 1997; Khanna and Palepu, 2000; Denis et al, 2002; Lins and Servaes, 2002; Fauver et al, 2004; Chen and Yu, 2012; Lee et al, 2012), or marketing strategy (Ghosh and John, 1999; McAlister and Ferrell, 2002; Kurt and Hulland, 2013). Therefore, this study aims to fill that gap.

Earnings management is occurred around the world, and Malaysia is no exception. For instance, Malaysia Securities commission reported there were 17 cases of earnings manipulation

from 1996 to 2012. PwC reported their survey that 48% of Malaysian companies were the victims of white collar crime, and only 25% of them had willingness to strengthen the internal audit. Further, the PwC survey revealed that for the two years prior to the survey, the average loss from fraud per company in Malaysia was US \$173,303.

Further, the main driving forces behind the retrenchment strategy and earnings management may be is the matter of institutional characteristics. Note that highly controlled firm has less information openness, and affiliation is able to form close social ties that provide shared information, resources and business opportunities among themselves (George and Kabir, 2012, Lee et al, 2012). This means that highly concentrated family firms will have higher chance to manipulate earnings compared to lower concentrated family firms, or foreign firms are more regulatory complied compared to family firms. Agents who came from family firm may act following the shareholder needs as they are also member of family. Meanwhile, agents who came from foreign firms perhaps comply the regulation by avoiding earnings management because professionalism.

Typically, Malaysia companies belong to family-controlled owners (Claessens et al., 2002; Tam and Tan, 2007). These family ultimate owners usually participate actively in the management's decision making process of the firm without necessarily owning significant majority shareholdings in the firm. As a consequence, issue of corporate governance is unsurprisingly an alarming concern, in which the agency problem between majority and minority shareholders has overshadowed the agency problem between owners and managers which is more common in the developing countries. This implies that Malaysia has more tendency of earnings management due to the dominance of family-controlled firms.

Malaysia offers a unique environment for examining the relationship between retrenchment and earnings management for numerous reasons. First, the high degree of retrenchment among Malaysian firms would act as good platform for further exploration of this topic. Especially, there is high correlation between retrenchment and earnings management cases in Malaysia. Second, Malaysia provides an interesting setting to examine the relationship between retrenchment and earnings management with its emerging and open economy, where the capital market is not well monitored and regulated like developed market. Lastly, the prevalence of the highly concentrated ownership and control through pyramiding or crossholding

might provide us different insight into the literature of this area. Those rationales make this research more interesting.

This study aims to address the following question. Do Malaysia's listed companies consider retrenchment costs when they manipulate earnings across its ownership expropriation? This study explores the distinction of family owned companies, government owned companies and foreign companies so as to provide evidence to the knowledge gap on the retrenchment costs that could assist in investigated in earnings management between these three groups.

This research's contribution is fourfold. First, this study expands current research areas such as performance of corporate strategy. Most research on the association between corporate strategy and corporate governance discuss about diversification strategy. It is very rare to found a research engages with retrenchment strategy. Second, this research contributes the literature by extending the understanding of this research area of a small emerging market such Malaysia. The findings of this research may be used as the benchmark for the same research with similar market context (less develop market). Third, this research further establishes the fact that ownership identity and or structure may play important role in the relationship between retrenchment strategy and earnings management. In addition, the contribution is regarding to the methodologies that used in the study. This study does not only offer panel approach which more robust than pooled regression, but also offers a new method to measure retrenchment strategy.

2. LITERATURE REVIEW

Retrenchment is popular and frequency strategies used in organization all over the world. Morrow et.al, (2004) defined retrenchment is the activities that deducted in assets and costs. This is consistent with Robbins and Pearce (1992) and David (2013) said that retrenchment occurs when an organization regroups through cost and asset reduction to improved sales and profits. The retrenchment actions included entail selling off land and buildings to rise needed cash, layoff the employees, pruning product lines, closing marginal businesses, closing obsolete factories and systems. Moreover, prior research classified the retrenchment into two schemes which is asset retrenchment and cost retrenchment (Morrow et al., 2004; Hofer, 1980; Robbins and Pearce, 1992). Asset retrenchment refers to the reduction of assets (Robbins and Pearce, 1992), such as closing plants, divesting equity, reducing stocks of property, plants, equipment(PPE), and reduction of inventory (Morrow et al., 2004). Meanwhile, cost

retrenchment refers to the reduction of total costs such as miscellaneous costs, selling, general, and administrative expenses (SGA) and interest expense (Robbins and Pearce, 1992). In this study, we defined retrenchment as reduction of the finished goods and inventory, the reduction of the number of employees, the reduction of SGA, the reduction of PPE, and the reduction of research and developing costs (R&D).

Earnings management is not only primary area of accounting research, but also an important concern of corporate stakeholders. Healy and Wahlen's (1999) defined earnings management as an activity that occurred when managers adjusted the value financial reporting and alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers. Managers may participate in earnings management by convey or adjusted the information about the firm's future and latest performance to the insiders in the form of financial reporting (Christie and Zimmerman, 1994; Healy and Palepu, 1993; Leuz et al., 2003).

One of the ways to employ earnings management is through the retrenchment costs. Beaugard (1991) mentioned that managers generally focused on control because the purpose was to strive for a rigorous and scientific command of technology, product quality, sales networks and financial management. Therefore, enterprise managers may ask to retrench activity or excess staff responded in a variety of ways to improve the financial performance. The prior literature also suggests that managers will choose earnings management method to recover a business's poor performance. (Callen, Livnat, and Segal, 2006). Moreover, Richardson et al. (2003) also found that the working capital (account receivable, inventory, and account payable) and non-current assets (property plant and equipment, intangibles, differing tax and post-retirement liabilities) were statistically significant for the accounting manipulation technique. In addition, Damak and Halioui (2013) indicated that the managers also try accounting treatment of R&D expenditures in order to smooth earnings. Arya et al. (2003) argue that the way to improve the overall quality of earnings information is by smoothing earnings. In simply, managers remove the transient portion of earnings and communicate the sustainable portion, thereby enabling investors to form an efficient estimate of firm performance.

Several prior research describes the emerging logic has been that retrenchment strategic is positively related to firm performance (Hambrick & Schechter, 1983; O'Neill, 1986; Schendel et al., 1976). However, research investigating whether companies might manipulate their

earnings through the retrenchment costs across ownership expropriation is limited. Therefore, this study aims to investigate whether Malaysia listed companies use retrenchment costs to manipulate earnings across its ownership expropriation. Most of the previous researcher has indicated there is a positively statically significant relationship between retrenchment and firm performance. In surmise, the retrenchment will be positively statically significant relationship on earnings management as the reverse the declining financial statement and performance.

Considering all the factors and issues, this research hypothesizes three important statements. First, we suggest that there is a significant relationship between the retrenchment and earnings management. When firms face declining financial performance, retrenchment costs may influence the manager by using the income smoothing technique can to improved performance especially among poorly performing firms. In other word, there is a statically significant relationship between earnings management and retrenchment. A number of recent studies focus on the relationship between earnings management and certain factors, such as firm size, return on assets, firm's natural, leverage ratio, and other control variables that are significant to the earnings management (Donghua et al., 2011; ; Lei and Liu 2006; Bartov et al., 2000; Dechow et al., 1995, 1996; Watts and Zimmerman, 1978)

The second hypothesis is that the relationship between the retrenchment and earnings management across its ownership expropriation. This supports previous research highlights a number of consequences of founding ownership expropriation (Pornsit et al., 2009; Anderson et al., 2003; Jung and Kwon, 2002). According to Fan and Wong (2002), the larger the insider ownership of controlling, the stronger the motivation of controlling to expropriate minority interest will directly make the higher the degree of earnings management. In short, the larger of the ultimate ownership of the firm will affect the mind of the controlling of the earnings management.

Lastly, this research hypothesizes that ownership identity has a significant impact on the relationship between the retrenchment and earnings management across different ownership identify. In this study, we classified ownership identity into family, foreign and government controlled firm. Pornsit et al. (2009) said that non-family firms are likely to manage earnings than family firms. Earnings management is perceived a better performance to investors especially for family owned companies (Fan and Wong, 2002). Moreover, prior research findings support the notion that family control can reduce earnings management (Wang, 2006).

3. METHODOLOGY

This study examines the companies, which listed on the Bursa Malaysia for the period 2008-2013. The relationship between retrenchment and the earnings management of the companies across its ownership expropriation is investigated. Beneish m-score is used as a proxy to detect earnings management and short candidates (Beneish, 1999). Besides that, control variables, including firm's size, firm's profitability, growth opportunity, and leverage are estimated by using a regression model to control the effect on the earnings management. Retrenchment costs as the main focus independent variable in this study.

3.1. Earnings Management as Dependent Variable

The magnitude of earnings management (EM) is an important issue to be explained in this study. The Beneish M-score model denotes the probability of manipulation from Beneish (1999) score to detect earnings management and short candidates. In this study, five financial ratios Beneish equation is used to detect whether a company has managed its earnings. Once calculated, the five variables are combined together to achieve an M-score for the company. An M-Score greater than -2.22 indicates a high probability of earnings manipulation which the company is likely to be manipulator. An M-Score of less than -2.22 indicates that the company will not be a manipulator. The Beneish m-score model is described as below:

$$\text{M-score} = -6.065 + 0.823 \text{ DSRI} + 0.906 \text{ GMI} + 0.593 \text{ AQI} + 0.717 \text{ SGI} + 0.107 \text{ DEPI}$$

Noted that the Days' Sales in Receivables Index, DSRI is the ratio of days' sales in receivables in year t to year t-1. A large increase in Days' Sales in Receivables Index could be indicative of revenue inflation. GMI is the Gross Margin Index is the ratio of gross margin versus the prior year. Generally, a firm with poorer prospects is more likely to manipulate their firm earnings. AQI is the Asset Quality Index, which measures the ratio of non-current assets other than plant, property and equipment to total assets. Meanwhile, SGI is the Sales Growth Index, which measures the ratio of sales in year t to sales. Lastly, DEPI is the Depreciation Index, which

measures the ratio of the rate of depreciation in the prior year to the corresponding rate. In surmise, the five financial ratio can formulated in the equation as shown in **Table 1**:

Table 1
Beneish M-score financial ratio's formula

This table shows the Beneish M-score's five financial ratio in equation form. DSRI is Days' Sales in Receivables Index; GMI is Gross Margin Index; AQI is Asset Quality Index; SGI is Sales Growth Index; DEPI is Depreciation Index. $M = -6.065 + 0.823 DSRI + 0.906 GMI + 0.593 AQI + 0.717 SGI + 0.107 DEPI$

M-score financial ratio	Formula
Days Receivable Index (DSRI)	$DSRI = (Net\ Receivables_t / Sales_t) / Net\ Receivables_{t-1} / Sales_{t-1})$
Gross Margin Index (GMI)	$GMI = [(Sales_{t-1} - COGS_{t-1}) / Sales_{t-1}] / [(Sales_t - COGS_t) / Sales_t]$
Asset Quality Index (AQI)	$AQI = [(Total\ Assets_t - Current\ Assets_t - PPE_t) / Total\ Assets_t] / [(Total\ Assets_{t-1} - Current\ Assets_{t-1} - PPE_{t-1}) / Total\ Assets_{t-1}]$
Sales Growth Index (SGI)	$SGI = Sales_t / Sales_{t-1}$
Depreciation Index (DEPI)	$DEPI = [Depreciation_{t-1} / (PPE_{t-1} + Depreciation_{t-1})] / [Depreciation_t / (PPE_t + Depreciation_t)]$

3.2 Control Variables

A number of recent studies focus on the relationship between earnings management and certain factors, such as firm size, return on assets, firm's natural, leverage ratio, and other control variables that are significant to the earnings management (Donghua et al., 2011; Lei and Liu 2006; Bartov et al., 2000; Dechow et al., 1995, 1996; Watts and Zimmerman, 1978). In this study, size, profitability, growth opportunity, and leverage are incorporated as control variables. Firm size can be measured by using the log of assets (LTA). Meanwhile, a growth opportunity was measured by the capital expenditure-sales ratio (CES). The profitability was measured by the ratio of operating income-sales (OIS), and leverage (LEV) was measured by using the ratio of debt to common share equity. Hence, the empirical regression model is as follows:

$$EM_{i,t} = \beta_0 + \beta_1 LTA_{i,t} + \beta_2 OIS_{i,t} + \beta_3 CES_{i,t} + \beta_4 LEV_{i,t} + \varepsilon_{i,t} \dots \dots \dots (1)$$

3.3 Retrenchment as Independent Variable

In this research, retrenchment defined as reduction in assets and costs especially in action of the reduction of the finished goods and inventory, the reduction of the number of employees, the reduction of SGA, the reduction of PPE, and the reduction of R&D costs (David, 2013; Morrow et al., 2004; Hofer, 1980; Robbins and Pearce, 1992). We find the data through annual report and

related website especially the number of the employees. The annual reports were downloaded from the website of Bursa Malaysia. The retrenchment is part of earnings management; hence, we could

obtain data pertaining to it from the income statement. Otherwise, we could find the data from the notes of the financial statements that explain the company's revenue.

$$EM_{i,t} = \beta_0 + \beta_1 LTA_{i,t} + \beta_2 OIS_{i,t} + \beta_3 CES_{i,t} + \beta_4 LEV_{i,t} + \beta_5 RET_{i,t} + \varepsilon_{i,t} \dots \dots \dots (2)$$

3.4 Ownership Structure as moderate variable

This study presented ultimate ownership (UO) to represent ownership expropriation to align with the second hypothesis is that the relationship between the retrenchment and earnings management across its ownership expropriation. This supports previous research highlights a number of consequences of founding ownership expropriation (Pornsit et al., 2009; Anderson et al., 2003; Jung and Kwon, 2002). In addition, we also investigate the square of the ultimate ownership (UO2) where the relationship between ultimate ownership and earnings management is nonlinear can determined (Morck et al., 1988; Davies et al., 2005). The two variables are added to the model.

$$EM_{i,t} = \beta_0 + \beta_1 LTA_{i,t} + \beta_2 OIS_{i,t} + \beta_3 CES_{i,t} + \beta_4 LEV_{i,t} + \beta_5 RET_{i,t} + \beta_6 UO_{i,t} + \beta_7 UO2_{i,t} + \varepsilon_{i,t} \dots \dots \dots (3)$$

To further investigate on the ownership identify. We added the interactive term into Model (3) according to each type of firm identity, namely, family owned and government owned. We consider foreign firms as benchmark in this research.

$$EM_{i,t} = \beta_0 + \beta_1 LTA_{i,t} + \beta_2 OIS_{i,t} + \beta_3 CES_{i,t} + \beta_4 LEV_{i,t} + \beta_5 RET_{i,t} + \beta_6 UO_{i,t} + \beta_7 UO2_{i,t} + \beta_8 DFAM * RET_{i,t} + \beta_9 GOV * RET_{i,t} + \varepsilon_{i,t} \dots \dots \dots (4)$$

3.4 Data

The sample used in this study covered 237 publicly listed firms on the Malaysian stock exchange in Malaysia between 2003 and 2013. Previously, the sample consisted of 714 firms-years over the period of 6 years with complete data. However, we exclude firms that have insufficient data throughout the six-year period from 2008 until 2013.

The data used in this research were retrieved from World scope database to collect the panel set of annual financial data from 2008 to 2013. Mostly financial data can be retrieved to measure the variables that needed. However, the insufficient data for retrenchment and ultimate

ownership data can only be retrieved from the annual reports of the sample companies and website. Earnings management data involved the value of revenue, cost of goods sold, and total fixed assets, total assets, total depreciation and net receivable. Meanwhile, retrenchment data needed the value of finished goods and inventory, the number of employees, the value of SGA, the value of PPE, and the value of R&D costs. Lastly, the ultimate ownership is determined through the list of substantial shareholders and continues classified the companies in order to identify the ultimate owner into family, government and foreign.

4. RESULTS AND DISCUSSION

In this study, we investigate the relationship between retrenchment and the value of the firm across its ownership expropriation. This study was covered 237 publicly listed companies on the Malaysian stock exchange in Malaysia between 2003 and 2013 by using the Beneish M-score as measurement for earnings management. This section reports the empirical research results of the study and discusses the significance of the research results.

4.1 Summary of descriptive statistics

Table 2 presents the descriptive statistics and correlations matrix of this study's variables across the six-year period (2008–2013). The mean values were determined for seven variables of this study. On another side of the table, we determined the Satterthwaite–Welch's t tests for differences in the mean value for each variable. From the table, we found that Beneish are all strong negatively correlated with all the variables. Therefore, these results present that there is a statistically significant relationship between retrenchment and earnings management.

Table 2
Summary of descriptive statistics

This table reports the summary statistics for our sample of 1602 firm-years between 2008 and 2013. For the mean value, value in the parenthesis are standard deviation; for SW t test is refers to Satterthwaite–Welch's t test and the value the parenthesis under SWt test are p-values.

Variable	Code	Mean	SW-t test					
			Beneish	LTA	OIS	CES	LEV	RET
Beneish M-score	Beneish	-2.590 (12.099)						
log of assets	LTA	5.467 (0.532)	-8.057 (0.413)***					
Operating income-sales ratio	OIS	-0.062 (1.583)	-2.528 (0.417)***	5.529 (0.057)***				

capital expenditure-sales ratio	CES	0.088 (0.539)	-2.679 (0.413)***	5.379 (0.026)***	-0.150 (0.057)***		
Debt-common share equity ratio	LEV	0.604 (2.253)	-3.194 (0.420)***	4.863 (0.079)***	-0.666 (0.094)***	-0.515 (0.079)***	
Retrenchment	RET	-0.308 (0.401)	-2.282 (0.413)***	5.775 (0.023)***	0.246 (0.056)***	0.396 (0.023)***	0.912 (0.078)***

4.2 Preliminary estimates for earnings management

We report the baseline panel regression results in **Table 3**. The control variables that used in this study are firm size, firm profitability, growth opportunity, and leverage. The coefficients of variable are all positive. There is only a significant positive relationship between CEV and Beneish at 1% level. A unit increase in CEV leads to a 0.566 unit change in Beneish m-score. Based on the results obtained from the OLS estimation, the adjusted R-squared value of the estimated linear-linear regression model is 0.009. As a result, the earnings management is affected by firm growth. This is consistent with Nagy and Neal (2001) who stated that earnings management is influenced by the growth of the firm.

Table 3
Panel regression estimates of earnings management

The value reported is the coefficient value, with standard error in the parenthesis. This study is using four control variables for the baseline regression to affect earnings management of firm where LTA is the log of assets (firm size); CES is the capital expenditure-sales ratio (growth opportunities); OIS is the ratio of operating income-sales ratio (profitability) and LEV is the ratio of debt to common share equity (leverage). *, **, *** Denote statistical significance at the 10%, 5%, and 1% levels, respectively. The model is as follows:

$$EM_{i,t} = \beta_0 + \beta_1 LTA_{i,t} + \beta_2 OIS_{i,t} + \beta_3 CES_{i,t} + \beta_4 LEV_{i,t} + \varepsilon_{i,t}$$

	Model (1)
CONSTANT	-4.299 (4.256)
LTA	0.256 (0.788)
OIS	0.566 (0.408)
CES	3.649 (1.196)***
LEV	0.041 (0.184)
R2	0.014
Adj R2	0.009

4.3 Preliminary estimates for earnings management with retrenchment strategy

Table 4 shows the panel regression results of Model (2). The adjusted R-squared value of the estimated linear-linear regression model is 0.009. We found that the results of **Table 4** is consistent with **Table 3** , where the size (LTA), profitability (OIS) and leverage (LEV) still do not have any significant impact on earnings management, whilst the growth opportunities statistically contribute to earnings management. Meanwhile, the retrenchment denotes the negatively statistical significance on Beneish m-score at 5% level where the coefficient is 2.067. In short, retrenchment might contribute to induce firm's earnings management. Note that Beneish M-Score stated that if the value is lower than -2.2, there is an indication of earnings manipulation. Hence, our findings documented a negative sign between retrenchment and Beneish M-Score. This means that the higher the retrenchment, the lower the value of Beneish M-Score. In other words, the higher the retrenchment, the higher is earnings management possibility. Therefore, agents (managers) might adjust the information about the firm's future and latest performance using the activity of retrenchment. This is consistent to previous research such Hsien and Hsien (2004), Morrow et al (2004), and David (2013).

Table 4

Panel regression estimates of earnings management with retrenchment strategy

The value reported is the coefficient value, with standard error in the parenthesis. This study is using four control variables for the baseline regression to affect earnings management of firm where LTA is the log of assets (firm size); CES is the capital expenditure-sales ratio (growth opportunities); OIS is the ratio of operating income-sales ratio (profitability); LEV is the ratio of debt to common share equity (leverage) and RET is the retrenchment strategy that we mainly focus in this study which is defined as reduction in assets and costs especially in action of the reduction of the finished goods and inventory, the reduction of the number of employees, the reduction of SGA, the reduction of PPE, and the reduction of R&D costs. *, **, *** Denote statistical significance at the 10%, 5%, and 1% levels, respectively. The model is as follows: $EM_{i,t} = \beta_0 + \beta_1 LTA_{i,t} + \beta_2 OIS_{i,t} + \beta_3 CES_{i,t} + \beta_4 LEV_{i,t} + \beta_5 RET_{i,t} + \varepsilon_{i,t}$

	Model (2)
CONSTANT	-6.403 (4.384)
LTA	0.532 (0.788)
OIS	0.561 (0.408)
CES	3.403 (1.201)***
LEV	0.001 (0.185)
RET	-2.067 (0.905)**
R2	0.018
Adj R2	0.012

4.4 Further estimates for earnings management with ownership expropriation

Table 5 presents the estimates of beneish m-score of listed firms across ownership expropriation. All the findings show that the results are consistent with the estimates in **Table 4**. There is no significant relationship on the size (LTA), profitability (OIS) and leverage (LEV) on Beneish. Growth opportunities (CES) still denotes the positively and statistical significance to Beneish m-score meanwhile retrenchment (RET) denotes the negatively and statistical significance to beneish m-score.

From the sample analysed, ultimate ownership does not play significant role with the practice of earnings management. This result was different with previous research that highlights a number of consequences of founding ownership expropriation (Pornsit et al., 2009; Anderson et al., 2003; Jung and Kwon, 2002). Some possible explanations for this result are Malaysian managers or directors normally use retrenchment strategy—by reducing the costs and assets—in order to remain competitive and sustain their profitability during financial downturn, but not to adjust the earnings. In general, retrenchment strategy enables companies to survive through the rising tide during economic crisis.

Table 5

Panel regression estimates of earnings management with retrenchment strategy and ultimate ownership

The value reported is the coefficient value, with standard error in the parenthesis. The panel regression continues performed the result after added the ultimate ownership. The regression involved with variables where LTA, CES, OIS, LEV as control variables; RET as dependent variable; and Ultimate Ownership (UO) as moderate variables. *, **, *** Denote statistical significance at the 10%, 5%, and 1% levels,

$$EM_{i,t} = \beta_0 + \beta_1 LTA_{i,t} + \beta_2 OIS_{i,t} + \beta_3 CES_{i,t} + \beta_4 LEV_{i,t} + \beta_5 RET_{i,t} + \beta_6 UO_{i,t} + \beta_7 UO2_{i,t} + \varepsilon_{i,t}$$

	Model (3)
CONSTANT	-6.028 (4.803)
LTA	0.650 (0.817)
OIS	0.562 (0.408)
CES	3.300 (1.203)***
LEV	-0.008 (0.185)
RET	-2.082 (1.061)*
UO	-0.041 (0.101)
UO2	0.000

(0.001)

R2 0.019

Adj R2 0.011

In addition to CG mechanisms, corporate ownership structures of a family owned companies and government owned companies are also incorporated into the study's model equation. This is because Fama and Jensen, 1983, have stated that the presence of the founding family with strong equity position and their ability to have control over the management, present an advantage for the family to monitor the business. Additionally, founding family firms have less incentive to manage their company earnings as they face less pressure to meet or beat earnings expectation (Jiraporn and DaDalt, 2009). However, when regression is done on the distinction of corporate ownership structures of family firms and non-family firms, different CG mechanisms were found to be effective to control for the EM activities in those respective corporate ownership structures. (Mansor et al.2013). Therefore, it is very important to investigate whether the retrenchment costs will affect the earnings management across the ownership structure. However, our result finds that the regression shown retrenchment has no statically significant or effective in ownership structure. **Table 6** presents that there is no significant effect on interactive variable and earnings management. The CES still denotes a positively and statistically significant with a coefficient value of 3.766 with earnings management. The OIS denotes a positively and statistically significant with a coefficient value of 0.687 with earnings management after adding the interactive dummy variable. In a nutshell, there is no significant relationship between the earnings management and retrenchment across the ownership structure. Both family owned companies and government owned companies is not significant.

Table 6

Panel regression estimates of earnings management with retrenchment strategy and ownership structure

The value reported is the coefficient value, with standard error in the parenthesis. The regression is further investigate on the ownership identify. By adding the interactive term into Model (3) according to each type of firm identity, namely, family owned and government owned. We consider government owned firms as benchmark for the regression,*, **, **** Denote statistical significance at the 10%, 5%, and 1% levels, respectively. The model 4 follows as $EM_{i,t} = \beta_0 + \beta_1 LTA_{i,t} + \beta_2 OIS_{i,t} + \beta_3 CES_{i,t} + \beta_4 LEV_{i,t} + \beta_5 RET_{i,t} + \beta_6 UO_{i,t} + \beta_7 UO2_{i,t} + \beta_8 DFAM * RET_{i,t} + \beta_9 DGOV * RET_{i,t} + \varepsilon_{i,t}$

	Model (4)
CONSTANT	-6.981 (4.846)
LTA	0.788 (0.825)
OIS	0.687 (0.414)*

CES	3.766 (1.222)***
LEV	-0.024 (0.186)
RET	-3.038 (1.206)
UO	-0.041 (0.101)
UO2	0.000 (0.001)
DFAM*RET	-3.59 (2.301)
DGOV*RET	-0.846 (4.85)
R2	0.022
Adj R2	0.012

5. CONCLUSION

Using a sample of listed companies between 2003 and 2013, we conduct an empirical study of the retrenchment activity for earnings management across ownership expropriation in the context of Malaysia. The results show earnings management will be affected by the growth opportunities which is consistent with Nagy and Neal (2001) mentioned that smoothing behavior may also be affected by the pressure to signal growth. Moreover, the motivation to conduct earnings management will be greater when earnings are lower. Our results show that there is a negative relationship between earnings management and retrenchment. In other words, managers or related parties that participate in earnings management will reduce the chance of adjusting the information about the firm's future and latest performance until the firm performance is under control or stable (Hsien and Hsien, 2004). In addition, retrenchment activity is not only to save companies that faced bad financial performance but also a necessary part of securing the future and maximizing the profit for the growth companies become an important variable that affects earnings management. However, there is no significant relationship between earnings management and retrenchment across ownership expropriation. Our first contribution to the earnings management literature is that retrenchment, research investigating whether companies might manipulate their earnings through the retrenchment costs across ownership expropriation is limited. There are a number of limitations to this study. First, we created new variables as

proxies for retrenchment that have limited used in previous studies. Second, there is a data limitation for retrenchment. Nonetheless, these limitations all provide directions for future research.

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