Value Relevance of Financial Information in Malaysian Listed Firms: Real Earnings Management’s Perspective

Aboubakar Mirza, Lecturer, SKANS School of Accountancy, Multan Campus, Pakistan
*Javaria Abbas, Assistant Professor, Institute of Management Sciences (IMS), Bahauddin Zakariya University, Multan, Pakistan

*Corresponding author’s email: javeriaabbass@bzu.edu.pk

ARTICLE DETAILS

History
Revised format: Feb 2022
Available Online: Mar 2022

Keywords
Value Relevance of Financial Information, Earnings, Book Value of Equity, Cash Flow from Operations, Real Earnings Management

JEL Classification
M41, G17, M49

ABSTRACT

Purpose: This study investigates the value relevance of financial information i.e., earnings (EPS), the book value of equity (BVE), and cash flow from operations (CFO). The study further investigates the influence of real EPS management (REM) on the value relevance of financial information because firms are now switching toward real earnings management rather than accrual-based earnings management (ABEM).

Methodology: A sample of 250 public listed companies was used to test the hypotheses over the period 2014-2018. Using Driscoll-Kraay regression.

Findings: This study finds that earnings, the book value of equity, and cash flow from operations are value relevant, and real earnings management moderates the value relevance of EPS, book value of equity, and cash flow from operations.

Implications: This study has specific policy implications for regulators to push auditors to detect real earnings management to improve the value relevance of financial information.


Introduction

The scandals in the widely held corporations around the world, such as Enron, WorldCom, and Toshiba are related to bad accounting practices. There are also many Malaysian accounting scandals in public listed firms, e.g., Transmile Group Berhad, MEMS Technology Berhad, and Felda Group Berhad are also related to the manipulation of financial information (Mirza, Abbas, & Nawaz, 2020). These firms deceived investors through false financial statements and shattered investors’ confidence (Darussamin, Ali, Ghani, & Gunardi, 2018; Mirza et al., 2020). These cases highlighted the importance of the quality of financial information and its implications for investors (Mirza et al., 2020; Mirza, Malek, & Hamid, 2018; Pfanner & Fujikawa, 2015).

EPS is the main financial information of the financial statement, suggested by the International Accounting Standards Board (IASB) to support investors in making economic decisions and is superior to any other financial information (IASB, 2018). Contrary to this, EPS is losing its value relevance; this has raised concerns about the lower quality of EPS supplied by the listed firms, as highlighted by prior
international and Malaysian empirical studies and the reduced value relevance of EPS is reduced due to the growing reliance of investors on BVE and CFO for making investment decisions (Barth, Li, & McClure, 2018; Callao, Cimini, & Jarne, 2016; Kwon, 2018a, 2018b, 2019; Lev, 2018; Mirza et al., 2020; Mirza, Malek, & Abdul-Hamid, 2019a). The above studies have highlighted that value relevance of EPS is reduced due to the growing reliance of investors on BVE and CFO for making investment decisions (Barth, Li, & McClure, 2018; Callao, Cimini, & Jarne, 2016; Kwon, 2018a, 2018b, 2019; Lev, 2018; Mirza et al., 2020; Mirza, Malek, & Abdul-Hamid, 2019a).

The issue of the decreasing value relevance of EPS and more reliance on BVE for the investment decision-making was initially observed by Collins, Maydew, and Weiss (1997), who claimed, value relevance of EPS has been declined and increase in BVE is observed due to the fact that EPS can be manipulated through accounting policies. Later research by other authors such as, Callao et al. (2016), Mostafa (2017) and Whelan and Mcnamara (2004) also observed similar findings, that EM practices reduces value relevance of EPS (Barth et al., 2018; Bhatia & Mulenga, 2019; Mirza et al., 2020).

Previous research has explored the impact of ABEM on the value relevance of financial information (Callao et al., 2016; Christensen, Hoyt, & Paterson, 1999; Marquardt & Wiedman, 2004; Mostafa, 2017; Whelan & McNamara, 2004) and ignored the more fatal EM factor for firms in long-run i.e., REM. Moreover, the REM is very difficult for the auditor to detect (Achleitner, Gunther, Kaserer, & Siciliano, 2014). Consequently, firms have shifted their focus from ABEM to REM. Therefore, it shows a significant theoretical gap. Following these arguments, the current study proposes that EPS, BVE and CFO are value relevant factors and REM influences the value relevance of EPS, BVE and CFO.

The specific objectives of the study are given below:

1. To determine whether EPS, BE, and CFO are value relevant in the Malaysian capital market.
2. To determine whether real earnings management influences the value relevance of EPS, BVE, and CFO.

**Literature Review**

**Value Relevance**

Francis and Schipper (1999, p. 325) defined value relevance as a relationship among firm value or stock returns and financial information. Hellstrom (2006, p. 328) classified the value relevance research into two main aspects, first signaling perspective and secondly a measurement perspective. The signaling perspective means to evaluate, how markets react after announcing the financial information. The measurement perspective determines association among firm value and financial information. The domination of EPS and BVE as financial information is based on the theoretical foundation of valuation framework of Ohlson’s (1995). A formal model is presented below

\[ P_t = BVE_t + \sum NI_t - ke \times BVE_{t-1} / (1+ke) t \]

Where,

1. P: Share price,
2. BVE: Book value of equity,
3. NI: Net income or earnings available to ordinary shareholders,
5. Residual income is thus equal to a firm’s net income minus the required rate of returns of BVE.

Many studies in the prior literature have added other variables especially CFO along with EPS and BVE to explain variation in share price and found CFO as significantly value relevant variable (Badu & Appiah, 2018; Boonler-U-Thai & Sen, 2019; Mirza et al., 2020). Whereas prior research findings are not consistent, therefore, this study considers EPS, BVE and CFO as independent variables to test value relevance in Malaysian context.

**Value Relevance of EPS, BVE and CFO**

The studies conducted initially on value relevance of financial information focused on EPS and conducted in US. These studies found EPS a relevant variable (Beaver, Clarke, & Wright, 1979; Collins & Kothari,
1989). Subsequent research related to value relevance focused on comparative analysis of alternative measures of financial information such as BVE alongside with the EPS in the developed countries (Barth, Beaver, & Landsman, 1998; Collins et al., 1997; Ohlson, 1995) and found the considerable role of the BVE as well. In the meantime, studies also started to investigate the role of CFO in developed countries because CFO is not subject to change in accounting policies (Lee, 1974). Based on above discussion, prior empirical literature endorse that EPS, BVE and CFO provide value relevant financial information but EPS is still a superior measure as compared to other financial information (Black & White, 2003; Miranda-Lopez & Nichols, 2012). On the other hand, some researchers believes that in developed countries, EPS does not provide decision useful information (Amir & Lev, 1996; Arora & Bhimani, 2016).

The research conducted in the developing countries also found EPS as a superior measure in comparison with BVE and CFO (Mostafa & Mostafa, 2016; Shamki & Rahman, 2011) but some researchers rejected this notion based on empirical evidence that EPS is irrelevant due to EM practices (Mirza et al., 2020; Pervan & Bartulovic, 2014). Whereas, BVE was claimed as more significant variable in comparison with EPS and CFO (Kargin, 2013; Mirza et al., 2020; Sharma, Kumar, & Singh, 2012; Tanaka, 2015). While other researchers found BVE irrelevant to take economic decision (Omokhudu & Ibadin, 2015). Some researchers claimed that there is low risk of managerial entrenchment through CFO that made it more relevant in comparison with EPS and BVE (Barth et al., 2018; Mirza et al., 2020; Vichitsarawong, 2011). While other claimed that CFO is not decision useful factor. (Mostafa & Mostafa, 2016; Sharma et al., 2012). Malaysian research on value relevance of financial information also provided mixed results regarding the decision usefulness of financial information (Gan, Chong, & Ahmad, 2016; Kadri, Abdul Aziz, & Ibrahim, 2009; Kwong, 2010).

EPS, BVE and CFO provide information that supports to take economic decision as per conceptual framework for financial reporting (IASB, 2018). It further explains that EPS is a superior variable to take economic decision. Prior research found conflicting findings concerning the relative significance of EPS, BVE and CFO. So, it is arguable that there is no universal financial information to determine firm value, significance of each variable depends on firm-level managerial manipulation (Barton, Hansen, & Pownall, 2010; Mirza et al., 2020). These arguments lead to the notion that earning, BVE, and CFO are value relevant but relative value relevance of each variable may vary. Thus, the following hypothesis can be developed:

**Hypothesis 1:** Relative value relevance of EPS, BVE and CFO is different in Malaysian capital market.

**REM and Value Relevance of Financial Information**

Past literature has highlighted the influence of ABEM on EPS and BVE, such as Whelan and McNamara (2004) investigated the impact of ABEM on the value relevance of EPS and BVE of the firms listed on the Australian capital market. Results reveal a decline in the value relevance of earning due to EM practices, whereas it also does not increase the value relevance of BVE. Moreover, the authors claimed that investors prefer other information for making economic decisions in the presence of EM practices rather than BVE. Marquardt and Wiedman (2004) presented evidence that in the firms which are involved in the earnings manipulation, BVE played a major role in decision making and earning was less value relevant, and in addition, cash flow portion of earning is not influenced by the EM practices.

Callao et al. (2016) explored the effect of EM on the value relevance of EPS and BVE of the European firms. Findings reveal that EPS loses its relevance in the firms, where there are high EM practices. In that case, value relevance of BVE rises for those firms. Adisetiawan and Surono (2016) investigated the influence of ABEM on the relevance of financial information in Indonesia stock exchange. Findings show that ABEM does not reduce the value relevance of EPS and BVE. Mostafa (2017) scrutinized the association between ABEM and value relevance of earning of the firms listed on the Egyptian capital market. The findings recommended that firms involved in EM practices lose value relevance compared to the firms not involved in EM.

One of the most important firms’ specifics factors in the context of Malaysia is the EM practices. The focus of major prior research was on ABEM practices but recently companies have changed their strategy.
to manipulate financial information from ABEM to REM practices (Achleitner et al., 2014). Some studies in the literature explore the influence of REM on the value relevance of EPS but ignored the important financial information i.e., BVE and CFO. For example, Heshmat, Nahandi, and Khanghad (2015) investigated the impact of accrual and REM on the value relevance of EPS in firms on Tehran Stock Exchange. The results found that REM and ABEM have a negative influence on the value relevance of EPS. Oraby (2017) examined the impact of ABEM on financial information relevance in Saudi stock exchange. Results indicate that ABEM does not influence value relevance of EPS, but REM influences the value relevance of EPS negatively.

Signalling theory is useful to evaluate value relevance of accounting information. According to Scott William (2006), a firm can enhance its share price by sending signals through its annual report. If the information published contains positive information e.g., higher EPS, it is expected that share price will increase, whereas negative information e.g., loss-making firms will be considered a negative signal and share price will be reduced (Prihatni et al., 2016; Rashid et al., 2017). Therefore, if investors consider financial information manipulated through REM, its value relevance will be reduced. Based on these arguments this study has introduced REM as a moderator. Therefore, following hypothesis can be developed.

**Hypothesis 2: REM influences EPS, BVE and cash flow from operations.**

**Methodology**

**Measurement of Variables**

This study has used Ohlson’s (1995) model to operationalize the dependent variable, consistent with the previous studies (Bhatia & Mulenga, 2019; Kwon, 2018a; Mirza et al., 2019b, 2019c). This study also controlled variables, i.e., firm size, leverage and growth that is in line with previous studies (Mirza et al., 2019b, 2019c). The measurement of REM is established on REM metrics. There are three measurements available, abnormal CFO, abnormal discretionary expenses, and abnormal production costs to measure REM (Achleitner et al., 2014; Cohen & Zarowin, 2010; Roychowdhury, 2006). Finally, following Cohen et al. (2008), overall matrix of REM is developed by using all three real actions at the same time. Independent variables measurement is given below. H1 and H2 are estimated through final regression model that is presented below.
SPPS_{it}=\beta_0 + \beta_1\text{EPS}_{it} + \beta_2\text{BVE}_{it} + \beta_3\text{CFO}_{it} + \beta_4\text{REM}_{it} + \beta_5\text{SIZE}_{it} + \beta_6\text{LEVERG}_{it} + \beta_7\text{GROW}_{it} + \beta_8\text{REM}_{it}\times\text{EPS}_{it} + \beta_9\text{REM}_{it}\times\text{BVE}_{it} + \beta_{10}\text{REM}_{it}\times\text{CFO}_{it} + \epsilon_{it}

Where,

SPPS_{it}: Share price per share after four months following the year t and firm i,
EPS_{it}: EPS per share for a firm at year t and firm i,
BVE_{it}: Book value of equity per share for a firm at year t and firm i,
CFO_{it}: Cash flow from operations per share for a firm at year t and firm i,
GROW_{it}: Market to book ratio at year t and firm i,
SIZE_{it}: Natural log of total assets at year t and firm i,
LEVERG_{it}: Ratio of debt to total assets at year t and firm i,
REM_{it}: Real EPS management, it is a continuous variable based on REM matrix,
REM_{it}\times\text{EPS}_{it}: Interaction between REM and EPS at year t and firm i,
REM_{it}\times\text{BVE}_{it}: Interaction between REM and BVE at year t and firm i,
REM_{it}\times\text{CFO}_{it}: Interaction between REM and CFO at year t and firm i,
\epsilon_{it}: error term.

Sample Selection and Unit Analysis
The population of the study comprises all non-financial listed firms in Malaysia’s main capital market covering the period 2014-2018. This study has considered the firms that have availability of data for all variables for 5 years. Table 1.1 below explains the process of sample selection.

<table>
<thead>
<tr>
<th>Table 1.1 Derivation of Population</th>
<th>Number of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms listed on Main Market Malaysia as of 31 December 2018</td>
<td>801</td>
</tr>
<tr>
<td>Firms with financial year change in the period 2014-2018</td>
<td>(86)</td>
</tr>
<tr>
<td>Financial Institution</td>
<td>(32)</td>
</tr>
<tr>
<td>Real estate investment trust</td>
<td>(15)</td>
</tr>
<tr>
<td>Firms listed in Malaysian capital market after the year 2014</td>
<td>(34)</td>
</tr>
<tr>
<td>Firms with missing data on share price</td>
<td>(27)</td>
</tr>
<tr>
<td>Firms with missing annual report</td>
<td>(14)</td>
</tr>
<tr>
<td>Firms with negative book values of equity</td>
<td>(17)</td>
</tr>
<tr>
<td>Firms with missing data on real EPS management</td>
<td>(97)</td>
</tr>
<tr>
<td>Total</td>
<td>479</td>
</tr>
</tbody>
</table>

The final sample is based on 250 firms based on the random sampling from the population. Data is obtained from Thomson Reuters FinancialDataStream Advance.

Results and Discussion
To perform ordinary least square regression (OLS), data should be based on normally distributed populations (Gujarati, 2003). Therefore, before regression analysis, it is mandatory to conduct descriptive statistical analysis for all variables. According to Greene (2012) kurtosis and skewness figures should be in the limit of +3 and -3. Actual results show that other than LEVERG, SIZE and REM, the data related to remaining variables is not normal. Gujarati (2003) stated that researchers can rely on the central limit theorem, the sampling distribution will be normal if sample size is larger than 30.

<table>
<thead>
<tr>
<th>Table 1.2 Descriptive Statistics of Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>SPPS</td>
</tr>
<tr>
<td>EPS</td>
</tr>
<tr>
<td>BVE</td>
</tr>
<tr>
<td>CFO</td>
</tr>
<tr>
<td>GROW</td>
</tr>
<tr>
<td>SIZE</td>
</tr>
<tr>
<td>LEVERG</td>
</tr>
<tr>
<td>REM</td>
</tr>
</tbody>
</table>
Correlation Analysis
A Pearson correlation analysis was computed for variables included in the study. Table 1.3 below demonstrates that, dependent variable, SPPS, has a significant correlation with the independent variables based on the correlation coefficients at the 1% significance level.

<table>
<thead>
<tr>
<th>Table 1.3 Correlation Matrix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>SPPS</td>
</tr>
<tr>
<td>EPS</td>
</tr>
<tr>
<td>BEVPS</td>
</tr>
<tr>
<td>CFO</td>
</tr>
<tr>
<td>GROW</td>
</tr>
<tr>
<td>SIZE</td>
</tr>
<tr>
<td>LEVERG</td>
</tr>
<tr>
<td>REM</td>
</tr>
</tbody>
</table>

Significance level (.01*,.05**, .10***)

Findings highlight that EPS and CFO has a correlation coefficient (r=0.5650), that is the highest as compared to other relationship among independent variables; it suggests the highest multicollinearity among these two variables. Hair, Bill, Barry, and Anderson (2006) stated that if the value of the multi-collinearity is less than 0.8, then it can be ignored in OLS regression.

Heteroscedasticity
Heteroscedasticity (hetro) occurs when error terms result in unequal variances. Hetro is the main concern in multivariate regression analysis (Hair, Black, Babin, & Anderson, 2010), because its presence may result in the biased estimated standard errors that can result in invalid statistical inferences (Brooks, 2014). The existence of hetro is detected through the statistical test by Breusch and Pagan (1979). According to Brooks (2014), the null hypothesis of the Breusch-Pagan test is homoscedasticity, and the alternative hypothesis is the presence of hetro. Table 1.4 below reports the value of Chi² statistic is 2185.59 and corresponding p-value<.01. It shows existence of hetro in the residuals in regression model.

| Table 1.4 Breusch-Pagan/Cook-Weisberg Test for Heteroscedasticity |
|-------------------------|------|
| Values                  | 2185.59 |
| Chi²                    |      |
| Probability > Chi²      | 0.0000 |

Cross-Sectional Dependence
The extant literature provides that panel-data models are expected to show considerable cross-sectional dependence (CSD) in the errors term, that might be an outcome of unobservable factors (Certo & Semadeni, 2006; Hoechle, 2007) that eventually are incorporated in the error term (Baltagi, 2005; Pesaran, 2004). To test the presence of CSD, De Hoyos and Sarafidis (2006) suggested Pesaran (2004) CD test, when N is greater than T, i.e., the case of the current study (250>5). The null hypotheses of the CD test state that there is no CSD in the residuals, while the alternative hypothesis presumes that there is a CSD in the residuals. The results of Pesaran (2004) CD tests are given in Table 1.5 below.

<table>
<thead>
<tr>
<th>Table 1.5 Pesaran’s CD Test for Cross-Sectional Dependence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values</td>
</tr>
<tr>
<td>Pesaran's test of CSD</td>
</tr>
<tr>
<td>The average absolute value of the off-diagonal elements</td>
</tr>
<tr>
<td>Probability</td>
</tr>
</tbody>
</table>

The value of Pesaran’s test is 31.06, with the corresponding average absolute value of off-diagonal elements at 0.47. The result of the CD test strongly rejects the null hypothesis of no CSD based on the corresponding significance of p-value<0.01. Therefore, there is sufficient evidence of the presence of CSD regression model.
Hoechle (2007) recommended assessing linear model of panel data by an approach given by Kraay’s (1998) (Driscoll and Kraay’s regression) for use with pooled OLS estimation and fixed effects (FE) regression. That regression technique offers robust standard errors in case of CSD, and when N is greater than T. This method offers only OLS and FE regression estimation; therefore, the subsequent step is to carry out Hausman specification test (1978) (Baltagi, 2005; Greene, 2012). Results are demonstrated in Table 1.6 below, the value of Chi² statistics is 467.29, and p-value is less than 1%, the significant p-value shows that FE model is appropriate to conduct regression analysis.

Therefore, this study adopted the Driscoll Kerry with FE regression approach to deal with issues of hetero- and CSD as mentioned above. Driscoll and Kraay’s regression has been employed in a study related to value relevance by Mirza, Malek, and Abdul-Hamid (2019b).

**Multivariate Regression Analysis**
Multivariate regression analysis for examining the influence of REM on the EPS, BVE and CFO. Table 1.7 below presents the findings of multivariate regression analysis to test non-directional hypotheses H1 and H2.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Err.</th>
<th>Z Statistics</th>
<th>P&gt;Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>1.02</td>
<td>0.633</td>
<td>1.89</td>
<td>0.064***</td>
</tr>
<tr>
<td>BVE</td>
<td>0.52</td>
<td>0.113</td>
<td>4.87</td>
<td>0.000*</td>
</tr>
<tr>
<td>CFO</td>
<td>3.57</td>
<td>1.230</td>
<td>4.56</td>
<td>0.002*</td>
</tr>
<tr>
<td>GROW</td>
<td>0.34</td>
<td>0.082</td>
<td>3.87</td>
<td>0.000*</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.18</td>
<td>0.077</td>
<td>1.83</td>
<td>0.060***</td>
</tr>
<tr>
<td>LEVERG</td>
<td>-0.007</td>
<td>0.009</td>
<td>-0.32</td>
<td>0.820</td>
</tr>
<tr>
<td>REM</td>
<td>-2.71</td>
<td>1.120</td>
<td>-4.12</td>
<td>0.000*</td>
</tr>
<tr>
<td>EPS*REM</td>
<td>-1.15</td>
<td>0.790</td>
<td>-4.73</td>
<td>0.030**</td>
</tr>
<tr>
<td>BVE*REM</td>
<td>1.85</td>
<td>0.870</td>
<td>3.78</td>
<td>0.010*</td>
</tr>
<tr>
<td>CFO*REM</td>
<td>-2.26</td>
<td>1.014</td>
<td>-3.11</td>
<td>0.007*</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.59</td>
<td>0.129</td>
<td>-1.30</td>
<td>0.394</td>
</tr>
</tbody>
</table>

The R² is 43.87%, it shows that the variables included in the study has significant explanatory power. The results shown in Table 1.7 show that EPS, BVE, and CFO are value relevant variables at a significant level of 10%, 1% and 1% respectively and supported hypotheses 1. Results further show that value relevance of EPS has decreased in Malaysian capital market and value relevance of BVE and CFO has increased. The main reason behind this decline is the manipulation of EPS as suggested by the previous studies (Prihatni et al., 2016; Rashid et al., 2017). The interaction effect of REM*EPS is negative and significant at 5% level, supporting H2. This result suggests that the firms that are involved, in REM, the investors perceived that they are entrenched through manipulation in EPS. Moreover, the REM practices are considered a bad signal according to signaling theory (Prihatni et al., 2016; Rashid et al., 2017) and investors consider EPS inappropriate for investment decision-making. Furthermore, this result is in line with the previous studies, which argued that if investors perceive that the firms are managing earnings it results in the reduced value relevance of EPS (Barth et al., 2018; Heshmat et al., 2015; Oraby, 2017).

The interaction among BVE*REM is positive and significant at 1% supporting H2. This result is opposite to the previous results because if companies are involved in real management activities, the value relevance of EPS will be reduced but the value relevance of BVE will be improved. It further infers that the investors will focus more on the BVE in that case they suspect that the firms are involved in the REM.
This result can also be explained through signaling theory because EM practices will be considered as a bad signal by the investors that will reduce value relevance of EPS, therefore, that bad signal will force investors to focus on the BVE for taking investment decisions (Callao et al., 2016; Marquardt & Wiedman, 2004).

The interaction among CFO*REM is significant and negative at 1% level supporting H2. Generally prior studies concluded that when EPS is subject to manipulation, investors focus on CFO as a prime measure for decision making (Barth et al., 2018; Mirza et al., 2020). The results found are not in line with this argument because firms have now switched their EM strategy from ABEM to REM (Achleitner et al., 2014), this practice is very dangerous for the long term cash flows of the firms. In this anticipation, investors don’t consider it reliable as well.

Conclusion

Overall, the findings suggested that in general, the financial information helps investors in making investment decisions making, however, the role of EPS is losing value relevance in comparison with the BVE and CFO. Additionally, results further conclude that the firms that are using REM practices, consequently, value relevance of EPS and CFO is reduced and value relevance of BVE is increased for making investment decisions in the Malaysian capital market.

This study also has theoretical implications for the signaling theory. This study considers not only EPS but also BVE and CFO to investigate value relevance of firms that are involved in REM activities. The results suggest that REM negatively and significantly moderates the value relevance of EPS and CFO but positively moderated BVE. The new evidence confirms that investors considered REM as a bad signal that forced them to alter their preference for financial information for investment decisions making.

This study also offers valuable implications for policy making. Policymakers should take proper action to improve the quality of EPS in the firms that are involved in the REM to improve investors’ perception of EPS. Moreover, the auditor should be given strict guidelines to track down the REM practices. This study uses Malaysia as its scope. However, the results of this study cannot be generalized to other developing countries and financial institutions because institutional and legal environment is altogether different among developing countries. This study also provides some exclusive directions for future research. This study used PLCs as its sample. Most firms globally are dominated by private firms; therefore, it may be a significant contribution to apply this conceptual framework to the private firms.

References


