

BOARD CHARACTERISTICS AND MUSLIM OWNERSHIP STRUCTURE ON VALUE RELEVANCE OF ACCOUNTING INFORMATION: EVIDENCE FROM MALAYSIAN SHARIAH COMPLIANT COMPANIES

Abdelhakhem Hamed Mohamed Ali Adaa

Mustafa Mohd Hanefah

Universiti Sains Islam Malaysia

ABSTRACT

Corporate reporting is considered important because it provides information to assist internal and external corporate annual report users in making informed decisions. The high quality of financial reporting information is really significant, since employing this information can also lead to an increase in investment efficiency. Owners or shareholders need all necessary financial information for decision making. Nevertheless, even though they own the companies but the management is carried out by a pool of professionals – managers and directors. Thus, the directors set the directions and policies for the management team to run the company's daily affairs. The separation between ownership and managers in firms leads to the agency problem between them. This study looks into the relationship between corporate governance characteristics (the size of the board of directors, the number of Shariah background directors, number of Muslim female in board, Muslim ownership structure) and value relevance of accounting information. Findings show a positive association between board size and value relevance of accounting information in Malaysian Shariah-compliant firms. However, there is not enough evidence to prove Shariah background members on board can enhance the value relevance of accounting information. Regarding the relationship between the presence of Muslim female directors in the board and the value relevance of accounting information, the results reveal insignificant relationship. The findings also indicate that companies with large Muslim ownership are negatively significant for value relevance of accounting information.

Keywords: Board size, Shariah background board of director, Muslim female, Muslim ownership structure and the value relevance of accounting information

INTRODUCTION

The tragic collapses and scandals of giant firms that occurred recently in the international financial community have raised many criticisms about the quality of accounting information (Klai & Omri, 2011). Several giant companies were involved in accounting frauds, such as Enron, WorldCom, Marconi, Parmalat, etc., due to failure in reporting the correct financial information has highlighted the critical demand to enhance the quality of financial information and to strengthen and build better corporate governance structures in both developed and developing countries (Firth et al., 2007; Petra, 2007). The bankruptcy of these giant companies comes mainly from earnings manipulation due to fraudulent practices by the board of directors and weak governance mechanisms in place. As a result, this has shaken the investors' confidence towards the management team and the reliability of the provided information. These problems are envisaged to be much more serious in developing markets, where many market imperfections continue to persist.

Furthermore, the most proper tool to restore the lost confidence and trust of corporate stakeholders is the corporate governance regulations (Abdoli & Royae, 2012). This instance, the regulatory responses to financial scandals has been applied to take measures to protect information transparency, mitigate conflicts of interest and ensure the independence of auditors (Leuz et al., 2003). A weak governance structure may pave the road toward managers to engage in behaviour that would eventually result in a lower quality of reported information.

Generally, corporate governance can be defined as a framework that guarantees stakeholders' rights by placing an effective board of directors, efficient internal control and audit, in addition to reliable financial reporting and disclosure. According to Mallin (2002), corporate governance is a process of supervision and control intended to ensure that the company's management acts based on the interests of shareholders. Another definition, which is also the most widely used one, is that of Organisation for Economic Co-operation and Development (OECD), which defines corporate governance as "a set of relationships between a company's management, its board, its shareholders and other stakeholders". Also, according to Shleifer & Vishny (p 2, 1997), corporate governance refers to "deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment".

Agency theory assumed that better corporate governance structure results in good accounting financial quality reported in the marketplace. The separation of ownership and control gives rise to information asymmetries that managers could use to exploit outside atomistic shareholders (Berle & Means, 1932; Jensen & Meckling, 1976). Shareholders demand information from managers in order to evaluate the managers' performance, but, in the absence of strong monitoring mechanisms on managerial behaviour, managers could manipulate financial information and mislead the stockholders. This provided information cannot be used to evaluate firm performance and there would not be any association between share price and provided information. So, having the right compensation and an effective board are expected to limit the management opportunistic earnings behaviour.

Following the collapse of certain "giant" corporations, the corporate governance is recognized to play a significant role in the management of corporations. Indeed, the significance of corporate governance has increased with the separation of control (Clarke, 2007). Therefore, it is intended for safeguarding the interests of the investors from management. Nonetheless, strong corporate governance does not only establish and maintain a good corporate culture that helps the management to make decisions, which optimise the wealth of shareholders, but it also ensures efficient management of a firm's resources (Wambua, 2011). From the shareholders perspective, strong corporate governance also ensures their rights, such as the right to vote and, to participate in decisions on any substantive changes that might impact the performance of the firm in the future. Furthermore, corporate governance gives suitable incentives to both board of directors and the managers to efficiently look for objectives that serve the company and the management interests .

Indeed, the Islamic moral code will prevent employees and management from behaving in ways which are unethical. Furthermore, Sulaiman (2001) and Grassa (2013) argue that implementing and effective religious board permits the strict adherence to ethics, which in turn will act as a counter to moral hazard behavior problems. Furthermore, Noreen (1988), sees that religion (through religious organisations) assists to sustain behavioural norms that are critical in enforcing ethical behaviour. Following and applying the teachings of the Islamic religion can act as an incentive mechanism to reduce the inefficiency that arises from asymmetric information and moral hazard. Hence, implementing an effective religious board permits to more efficient monitoring by the management and the benefits from such monitoring are shared by all users.

Moreover, it is important to set up the foundations for the relationship between the managers, board of directors and shareholders, which leads to clarifying the rights and obligations of

each party to efficiently utilise the available resources and opportunities. A strong corporate governance will lead to growth in global capital markets and attract a broad base of investors to finance the expansion of projects. In other words, the application of the rules of corporate governance enhances investors' confidence due to those rules that ensure the protection of their rights.

One of the important properties of a strong corporate governance mechanism is to ensure a high quality of accounting information regime for efficient resource allocation and economic growth. Financial reporting concedes as the main source of independently verified information to investors, users and researchers alike about the performance of managers (Sloan, 2001). Previous works on the value-relevance of accounting information have mentioned that both income statement and balance sheet information are useful in finding share values (Collins et al., 1997; Francis & Schipper, 1999). There are several factors that influence the value relevance of accounting information, such as characteristics of the firm system, practices and procedures of corporate governance practices adopted in the financial statements, capital market, and important regulations to set up the foundations. It has been noted among these factors, the impact of the corporate governance characteristics on the quality of the numbers provided by the firms is important for decision making. Provided accounting information seeks to reduce information asymmetry and minimizes agency conflicts. This only can be true, when firms provide high-quality accounting information about the companies' financial and economic situation. Within the literature, there are several studies that examined the quality of accounting information (value relevance of accounting information) and corporate governance characteristics (for e.g. Shan, 2015; Alkdai & Hanefah 2012; Azzoz et al., 2014).

Previous works on the value-relevance of accounting information have demonstrated that there is a connection between the relevance of financial information and share price. For example, Ohlson (1995) contacts earnings, equity book values, dividend and other relevant financial information to share price by integrating the dividend discount model, clean surplus equation and linear information dynamics. This study will follow Ohlson's (1995) valuation framework to look at the effects of the corporate governance characteristics (board size, Shariah background member in the board, the number of Muslim female in the board, and Muslim ownership structure) on the quality of accounting information, measured by value relevance of earnings per share and net asset value among the Malaysian Shariah-compliant listed companies (MSCLCs). Given the growth of the Islamic capital market (ICM) in Malaysia, studies examining this issue are clearly warranted. Furthermore, Shariah compliant companies are expected to be free from unethical or immoral transactions, manipulation of earnings and insider trading which may have an adverse effect on investment activities (Saringat et al., 2013). In addition, this study contributes to the existing literature on ICM, business ethics, corporate governance and accounting financial quality. The study would give a better understanding on issues relating to reporting quality of Shariah-compliant companies which would be useful for financial statement users, including the investment analysts and researchers.

The Shariah-compliant listed companies provide an undeniable contribution to the Malaysian economic growth. The Malaysian shariah-complaint companies consist of a variety of sizes and sectors. They represent around 80 per cent of Malaysian listed companies (Bursa Malaysia website, 2010). Thus, this research aims to examine the effect the corporate governance characteristics namely, the board size, the number of Shariah background director, number of Muslim female in the board, and Muslim ownership structure on the value relevance of accounting information in Malaysian Shariah-compliant companies.

Consequently, the contribution of this study to the previous literature can be seen from two ways. Firstly, to understand and know the effect of corporate governance characteristics and the

value relevance of earnings and net asset value in a fast-developing East Asian country like Malaysia as well as in a very important and fast-growing sector—Shariah compliant listed companies. Secondly, it contributes to the literature by offering policy-makers and regulators in Malaysia a few suggestions relating to how they may enhance corporate governance practices in corporations.

Conceptual Framework

The dependent variable is the quality of corporate governance, which is measured by value relevance of accounting information, and independent variables with five dimensions consists of board size, Shariah background member in the board, Muslim female in the board, and Muslim ownership structure. The conceptual framework is depicted in **Figure 1** below.

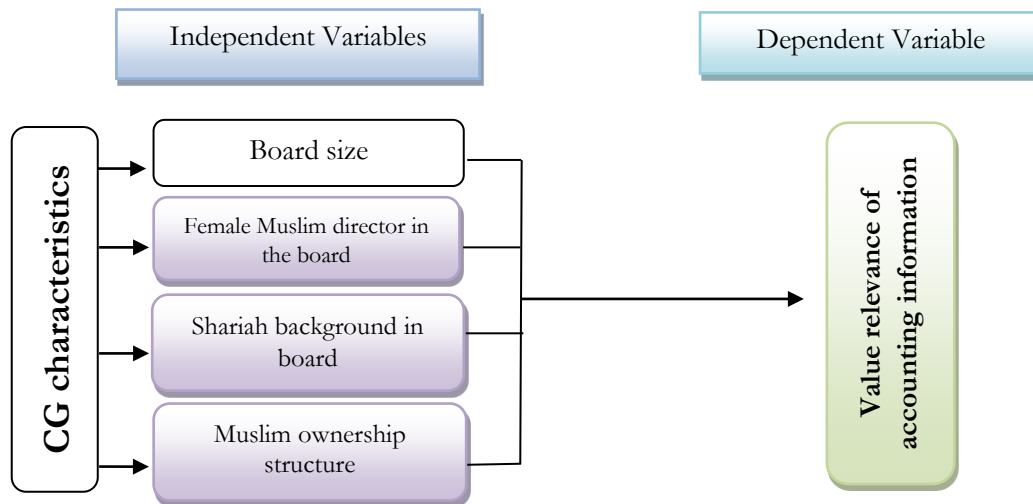


Figure 1: Conceptual framework

LITERATURE REVIEW

In order for the board of directors to fulfill its duties effectively, several characteristics relevant to Shariah-compliant listed companies have been widely suggested within the structure of corporate governance. Some of these characteristics are board size, Shariah background member on the board, Muslim female board member, and Muslim ownership structure.

Board Size

Board size refers to the total number of directors on the board. There are different views and arguments on the issue of board size among the researchers. Some support the idea of a large board (Lipton & Lorsch, 1992; Forbes & Milliken, 1999; Pfeffer, 1972), they assume that larger board is likely to consist of a mix number of experience, variety of knowledge and it may be more likely to have independent directors with corporate or financial experience and so they have more ability to manage the capital resources of the company. Whereas, others view supports small board size. They argue that smaller board size provides a better quality of monitoring because there would be no contradiction in thinking or objectives among directors (e.g. Yermack, 1996; Vafeas, 2000; Al-Janadi et al. 2013; Alfraih et al. 2015).

Therefore, the evidence from previous literature on the relation between accounting information quality and board size is inconclusive, we in this study expect that smaller boards would be more effective in terms of coordination and efficiency, communication, and decision-making, which

results in better monitoring of management and enhances the quality of accounting information. This study hypothesizes that the large board size does not effectively influence the value relevance of accounting information.

H_{1a}: The size of the board of directors is negatively related to earnings per share.

H_{1b}: The size of the board of directors is negatively related to the net asset value.

Shariah Background Board Member

Recent research findings highlight the role of diversity in the firm's performance. Having Shariah background on the board increases the diversity of the backgrounds, skills, the experience of board members and culture, which might enhance the effectiveness of the decision-making process. Islam requires Muslims to adopt Islamic instructions in all aspects of their life and dealings, and these regulations are enforced by Allah SWT. As a result, Shariah is taken to cover all the main principles, that set out the way that the different treatments should be conducted in the light of the framework of Islamic rules. Muslim managers believe that they are held answerable to their stakeholders in addition to their answerability to Allah SWT in the hereafter; therefore, they should do what is necessary to discharge their accountability.

Shariah background/expertise can be obtained by hiring Shariah scholars from many Islamic institutions in Malaysia, Egypt, Saudi Arabia and others. Many scholars in Islamic finance are also attached to many universities in the USA, UK, and Australia and these universities also produce many students in this particular area of expertise. These institutions equip graduates with the necessary skills to be effective in dealing with the complexities and linkages in a modern economy and financial system (Kamaruddin & Hanefah, 2017). Thus, Haqqi, (2014) claimed that involving such background in the board would lead to a well governed, directed, managed, and controlled board for the purpose of Shariah compliance. In this study, we consider board member has a Shariah background, if he/she is a Shariah scholar, graduated from Islamic institutions, has a diploma in Shariah, or attend Shariah training courses. So, what is the number of board who has such background in the board to the total number of the board of directors? Subsequently, it is expected that the presence of Shariah background members in the board of directors will enhance and strengthen the role of corporate governance to increase the quality of financial statements and the information provided in the report as well as restore investors' confidence. The hypothesis is as below:

H_{2a}: The existence of Shariah background board member is positively related to earnings per share.

H_{2b}: The existence of Shariah background board member is positively related to the net asset value.

Muslim Female Board Member

It is widely mentioned in the extant literature that having women in the board could improve firm performance. Adams et al. (2015) stated that boardroom gender diversity has a positive relationship with observed measures of corporate performance. Moreover, Janis (1972) mentioned that gender diversity on the board can result in several beneficial organizational outcomes. Nielsen & Huse (2010) found that the presence of females on boards reduces the conflicts between the members of the board, thus promoting best practice in the company. Nevertheless, Alonso-Almeida et al. (2015), and Larrieta-Rubin de Celis et al. (2015) in their studies documented that female directors are more sensitive to corporate social responsibility issues than male.

Interestingly, Man & Wong (2013) found that female directors are more risk-averse in decision making and more conservative than male. Furthermore, Siekkinen (2017) and Velte (2018) in their studies concluded that more female board members would increase the value relevance of fair value

accounting and lower earnings management. Such variety can be expected to influence the quality of decision-making by drawing upon wider and deeper knowledge. Having Muslim female board members would allow individuals with more varied skills, experiences and personality attributes as compared to the others in the board. The board may contain different race, religion and teachings of the Islamic religion that will urge Muslims (male or female) to operate within the Shariah boundaries (Ibrahim, 2000). In this study, the presence of Muslim female members on the board of directors is expected to increase the quality of financial statements and the information provided in the report and as presented in the following hypothesis:

H_{3a}: The existence of female Muslim directors on the board is positively related to earnings per share.

H_{3b}: The existence of female Muslim directors on the board is positively related to the net asset value.

Muslim Ownership Structure

One of the most significant factors that influence the policies of the firm is ownership control by an investor or a group of investors and a large proportion of the shares of the firm as well; this is called ownership concentration (Shleifer & Vishny, 1986). There are several studies that have shown a relationship between ownership structure and the quality of disclosure of financial information. Haniffa & Cooke (2002) concluded that the relationship between the proportion of shares held by the top ten shareholders and voluntary disclosure is significantly positive. This finding is supported by Eng & Mak (2003). They found that lower managerial ownership and significant government ownership are associated with increased voluntary disclosure. Huafang & Jianguo (2007) too found a positive relationship between the voluntary disclosure and interest of block holders. If the firm's majority shareholders are Muslims, they may influence the firm to comply with Shariah rules. According to Aziz (2009) who mentioned that if the majority of the firm's shareholders is Muslim, this may lead the firm to comply with Shariah principles that will give their customers high satisfaction. Recent corporate governance literature stated that agency problems are related to investors' controlled power to exploit company resources at the cost of the minority shareholders (Claessens & Yurtoglu, 2013). As the controlling investors have a strong impact on management, the majority Muslim shareholder is expected to be related to increasing the value relevance of accounting information. The preceding discussion leads to the following hypothesis:

H_{4a}: The proportion of Muslim ownership structure is positively related to earnings per share.

H_{4b}: The proportion of Muslim ownership structure is positively related to the net asset value.

Research Model

A dynamic panel data model of Ohlson (1995) is used to test the relationship between the board of directors' characteristics and the value relevance of accounting information. A modified price model (Ohlson, 1995), which consists of two major indicators from financial reports, namely the equity book value per share and earnings per share is then developed. To assess whether there are significant differences across corporate governance characteristics, we modified the model of Ohlson (1995) to include board size, Shariah background and female Muslim on board as well as Muslim ownership structure as follows:

$$MP_{it} = \beta_0 + \beta_1 MP_{it-1} + \beta_2 EPS_{it} + \beta_3 NAV_{it} + \beta_4 BS_{it} + \beta_5 SHBD_{it} + \beta_6 + FMB_{it} + \beta_7 MOWNR_{it} + \epsilon_{it} \dots\dots\dots (1)$$

Where, MP_{it} is the share price of the firm i in the period t , EPS_{it} is representing earnings per share of the firm i in the period t , NAV_{it} is representing net assets value of the firm i in the period t , BS

represents board size, SHBD represents Shariah background member in the board, FMB represents Female Muslim on board, MOWNR represents Muslim ownership structure. A lagged dependent variable is included to allow for the partial adjustment of MP to its long-term equilibrium value.

Equation 1 provides a test of the relationship between the board of directors' characteristics and the value relevance of accounting information. In addition to the board of directors' characteristics, we also include control variables in the regression model, namely company's size, leverage and profitability.

Firm Size (logsize)

Jensen & Meckling (1976) assumed that large firms have the incentive to disclose more financial and non-financial information to avoid political costs represented in the form of tight regulations and increasing tax and social obligations. According to the agency theory, larger firms are more likely (than smaller companies) to disclose more information as they have higher agency costs and they are more sensitive to political cost. Furthermore, larger firms tend to provide more information because of many reasons such as greater pressure from various users groups, complexity of business structure and closer monitoring from regulatory authorities (Haniffa & Cooke 2002). The literature has provided many ways to measure the firm's size, such as; the number of shareholders, number of employees, the total market value of the company, and sales volume and total assets (Iskander, 2008). In this study, we used the firm's LOG of the total assets to measure size.

Return on Assets (ROA)

The profitability of the firm is mainly based on the revenue and expenses of the entire accounting period, therefore profitability could be a major factor in the decision to produce a summarised version of the annual reports (Iskander, 2008). The profitability of a company is a reflection of the firm's performance for a specific year. Therefore, Haniffa & Cooke (2002) mentioned that previous literature has tended to a positive relationship between profitability and the external disclosure. Managers are motivated to disclose high-quality information to support their positions, remuneration and signal institutional confidence. Moreover, the profitable firms tend to disclose high quality accounting information to distinguish themselves from the less profitable ones. Likewise, previous literature has proposed various proxies to measure the firms' profitability, such as; return on total assets, return on net assets, and return on equity. In this study, we used the return on total assets to measure the firms' profitability because Burns (1987) proved that it is the best measure of a firm's efficient use of assets since it is independent of financing methods, while return on equity is a measure of the profit return to shareholders. Thus, return on total assets is used in this study as a proxy for the company's profitability.

Leverage (LEV)

The last control variable in this study is leverage. A review of previous studies showed that leverage has been found to be an important explanatory variable (Haniffa & Cooke, 2002). High leverage firms disclose extra information to ensure creditors that management and shareholders are less likely to bypass their covenants claims (Myers, 1977). We used the ratio of total debt to total assets as in most studies to measure the leverage ratio.

After adding the control variable, the model is presented as follows:

$$MP_{it} = \beta_0 + \beta_1 MP_{it-1} + \beta_2 EPS_{it} + \beta_3 NAV_{it} + \beta_4 BS_{it} + \beta_5 SHBD_{it} + \beta_6 FMB_{it} + \beta_7 MOWNR_{it} + \beta_8 BS * EPS_{it} + \beta_8 SHBD * EPS_{it} + \beta_8 FMB * EPS_{it} + \beta_8 MOWNR * EPS_{it} + \beta_8 logsize + \beta_9 ROA + \beta_{10} LEV + \epsilon_{it} \dots\dots\dots(2)$$

$$MP_{it} = \beta_0 + \beta_1 MP_{it-1} + \beta_2 EPS_{it} + \beta_3 NAV_{it} + \beta_4 BS_{it} + \beta_5 SHBD_{it} + \beta_6 FMB_{it} + \beta_7 MOWNR_{it} + \beta_8 BS*NAV_{it} + \beta_8 SHBD*NAV_{it} + \beta_8 FMB*NAV_{it} + \beta_8 MOWNR*NAV_{it} + \beta_8 \text{logsize} + \beta_9 ROA + \beta_{10} LEV + \epsilon_{it} \dots\dots\dots(3) .$$

METHODOLOGY

To estimate the models, this study employed the Malaysian Shariah-compliant listed companies on the Main Market. Data for this study were collected from secondary sources, comprising of 240 Shariah-compliant companies listed in Bursa Malaysia. We chose the sample based on specific criteria. Companies were excluded based on the following criteria: a) companies which do not have the electronic website in the Bursa Malaysia, b) companies which did not publish their annual reports for the years from 2011 to 2015, c) companies whose websites were under maintenance during the data collection period, and d) companies that had difficulties in downloading its annual reports were not included in the analysis. Also, companies excluded are those that have missing data in the DataStream database, others were, banks, financial and insurance companies because their income is measured by a different regulatory framework compared with firms in other sectors (Short & Keasey, 1999). We obtained the Shariah-compliant company list from the Securities Commission of Malaysia (SCM). This list is updated by Majlis Penasihat Syariah (MPS), namely the Shariah Advisory Council (SAC) every year. The financial, board and ownership information were hand-collected from annual reports provided on the website of Bursa Malaysia. However, other data such as share price that is not available from the annual report was sourced from DataStream database.

As the main focus of this study are board size, Muslim female directors, Shariah background board member and Muslim ownership structure, the percentage of board size and board with Shariah background member on the board of directors were computed. We traced out the identity of the Muslim female directors on the company board and number of Muslim owners on the largest 30 shareholders. It was easy to count the board size, to trace the identities of Muslim female board members in the annual reports and to figure out percentage of Shariah background member on the board. However, we had some difficulties to calculate the number of Muslim owners since most of the largest shareholder are not individuals but listed companies (Alkdai & Hanefah, 2012). Pertaining to the companies, we obtained the annual reports to identify the identity of the owner, unless for companies which have Islamic names such as Amanah Raya, Lembaga Tabung Haji and so on.

Table 1 shows some information on our sample selection and representation. It shows that the number of Shariah-compliant firms has always been above 70 per cent of the overall market. From our data-filtering process, we only managed to cover 240 firms annually from 2011–2015, but the percentage of the Shariah compliant sample is decreasing in tandem with the decline in the total number of companies in the main market.

Table 1: Sample selection

Items	2011	2012	2013	2014	2015
Listed Firms in Malaysian Main Market	946	923	914	844	815
Shariah-compliant Companies	731	713	695	587	592
Percentage of Shariah Listed Firms	77%	77%	76%	70%	72%
Selected Firms in the Sample	240	240	240	240	240
Percentage of the Sample	33%	34%	35%	41%	41%

Furthermore, this study employed the dynamic panel GMM estimation to examine the relationship between the board of directors' characteristics and the value relevance of accounting information. Under this approach, equation 1 is estimated using the two-step GMM estimator provided by Arellano & Bond (1991). This approach has been widely used in recent finance and macroeconomics empirical studies. Beck et al. (2000) argued that this estimator is useful as it has the advantage of the time series variation in data, accounting for unobserved individual specific effects, allowing to involve of lagged dependent variables on the equation to be regressed. Furthermore, this approach provides good control for endogeneity of the whole explanatory variables.

RESULTS

This section presents the results and discussion of the findings, dealing with the statistics summary of the variables under study, the correlation matrix between the variables and finally, the regression output for the various equations.

Table 2: Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
SHP	1200	1.9759	4.0455	0.04	47.76
BV	1200	0.5184	1.2017	-0.6104	31.8498
EPS	1200	0.0246	0.0541	-0.0290	0.1999
BS	1200	7.5525	1.9123	4	13
SHBD	1200	0.4458	0.7600	0	7
FMB	1200	0.5992	0.7521	0	3
MOWNR	1200	4.275	4.0008	0	20
ROA	1200	4.9867	7.3363	-5.7620	22.6543
logSIZE	1200	6.9139	1.3571	4.2171	9.5544
LEVERAGE	1200	3.2160	9.6471	-6.9597	34.6736

Descriptive Statistics

Table 2 shows the descriptive statistics of all variables used in this study. It indicates that the average share price on the Malaysian Stock Exchange was RM1.9759, with some prices as low as RM0.04 and others as high as RM47.76. In terms of earnings per share (EPS), the values ranged from negative RM0.0290 to positive RM0.1999, recording an average value of RM0.5184 with the net asset value over the period averaging approximately RM0.0246, contributing to a minimum value of RM-0.6104 and a maximum value of RM31.8498.

The average board size was 7.5 directors, while the maximum size was 13. In contrast, the smallest was just 2 directors. Furthermore, with regard to Shariah background members on the board of directors, 44.5 per cent of companies had at least one director with Shariah background. The table also shows that 59.9 per cent of the companies have at least one Muslim female director on their board and some companies did not have any Muslim female on the board. The average Muslim ownership in large thirty companies is 4.28, while the largest number was 19. Furthermore, the average leverage for all companies studied was 22.8 per cent.

Regression Results

The regression results are presented in **Table 3**. It provides evidence that the value relevance of accounting information is in favour of net asset value per share. Net asset value per share was high and significantly and positively related to share prices in equation (2). However, it is negatively significant at 10 per cent to share prices in equation (3). Furthermore, earnings per share, the major

indicator of firm performance, is positive and significant at 1 per cent to share prices in equation (1), moreover, it is negative and statistically significant in equations (2) and (3). From the regression output, it can be concluded that investor valuation of shares on the Malaysian market is highly dependent on net asset values and without regard to the earnings reported by listed firms.

The regression results in **Table 3** show the results between the market share price as a proxy for value relevance of accounting information and the board of directors' characteristics under the dynamic panel GMM approach. In this estimation, the lagged dependent variable (LSHP) is statistically significant across all regressions. This means, the dynamic panel GMM is an appropriate estimator and the empirical results are reliable; therefore, the statistical conclusion related to the hypothesis of interest can be performed.

The estimated results of Model I indicate that the lagged one period of the market share price is significant with regard to Model I. The results of both specification tests employed namely Autocovariance (AR)1 & 2 testing and the Hansen test for instrument validity testing are also valid. Specifically, the p-values for the Autocovariance (AR)1 & 2, whereas Hansen tests as presented in **Table 3** exceed the value of 0.05, which means that the variables are statistically not significant at the significance level of 5 per cent. In other words, the empirical model has been fittingly specified according to the non-existence of serial correlation (autocorrelation) in the transformed residuals. Meanwhile, the instruments (moments conditions) employed in the models are valid. Apart from that, the conditions of an additional moment such as the difference in Hansen tests is insignificant statistically.

Furthermore, the outcome for Model I at 5 per cent level of significance shows that Shariah background member in the board, and Muslim ownership structure are significant at 0.008 and 0.000 respectively. On the other hand, board size and Muslim female in the board are insignificant.

Table 3: Regression output of dynamic panel-data estimation, two-step system GMM

Variable	Regression 1	Regression 2	Regression 3
cons	0.22627	1.81959***	-0.18785
SHP L1.	0.93337***	0.66014***	0.65672***
NAV	0.00457	0.27766***	-1.57669*
EPS	4.38149***	-12.97792***	-23.02589***
BS	-0.12171	-1.50635*	-0.38832
SHBD	-0.33794***	-8.35702***	-0.64183
FMB	0.46938	2.13023**	0.01500
MOWNR	0.16829***	0.61465***	0.57714***
EPS*BS	--	1.43223***	--
EPS*SHEB	--	5.23947***	--
EPS*FMB	--	-1.29761	--
EPS*MOWNR	--	-2.23610**	--
NAV*BS	--	--	0.42969*
NAV*SHEB	--	--	-0.63742**
NAV*FMB	--	--	0.03895
NAV*MOWNR	--	--	-0.23302*
Logsize	--	-1.09601*	0.06632
ROA1	--	0.33340***	0.28221***
Leverage	--	0.02396***	0.02996**
No of observations	960	960	960
No of groups	240	240	240

No of instruments	30	37	37
AR(1)-p value	0.206	0.011	0.019
AR(2)-p value	0.486	0.073	0.483
Hansen test -p value	0.086	0.808	0.544

* significant at 10 per cent level; **significant at 5 per cent level; ***significant at 1 per cent level

Table 3 shows the relationship of the value relevance of accounting information and the board of directors. Contrary to hypotheses H_{1a} and H_{1b} which state that the board of directors' size is negatively related to value relevance of accounting information (earnings per share and net asset value), the findings reveal that the coefficient for the board size are positive and statistically significant to share price in Regression 2 and Regression 3 Models. However in Regression Model 1, there is a negative and insignificant relationship. Thus, H_{1a} and H_{1b} are rejected. This findings provide evidence that the larger the board of directors, the more value relevance of accounting information practice in the companies. This implies that board of directors' size is a significant factor in the value relevance of accounting information. This result is in line with Lipton & Lorsch, (1992) and Forbes & Milliken (1999) which is predicated on the argument that larger board members have diverse expertise, skills, efficient decisions and ultimately higher performance and market valuation. The results of positive relation between board size and the value relevance of accounting information indicate that Hypothesis H_{1a} and H_{1b} are rejected revealing that results in this study are mixed.

As shown in **Table 3**, for the Shariah background members on board, the study hypothesized, that board members with Shariah background would lead to more value relevance of accounting information. The results indicate that based on the Regression Model 1, the coefficient is negative and significant. Nevertheless, in the Regression Model 2, the coefficient for the Shariah background on board is positive and statistically significant to earnings per share (EPS). Also, the interaction of Shariah background on board with net assets value (SHBD*NAV), the coefficient is negative and significant. Results are mixed. This indicates that there is not enough evidence to proof Shariah background members on board can enhance the value relevance of accounting information.

Regarding the relationship between the presence of Muslim female directors in the board and the value relevance of accounting information, the results reveal insignificant relations across the three regression models, thus H_{3a} and H_{3b} are rejected. Furthermore, we can conclude that the presence of Muslim female director on the board is not an effective monitoring mechanism to reduce opportunistic earnings management practice. A possible reason to explain the insignificant result could be due to the sample size of Muslim female directors on the board of director being very small.

The findings also indicate that companies with large Muslim ownership are negatively significant for value relevance of accounting information in Regression Models 2 and 3. This result is consistent with Abdul Rahman et al. (2005), who found that there is no relationship between the Muslim-managed companies and the quality of reported information in comparison with the non-Muslim-managed companies in Malaysia. Furthermore, Alkdai & Hanefah (2012) reveal that there is no statistical evidence to support the relationship between the value relevance of accounting information and the board of directors' characteristics in Shariah-compliant companies in Malaysia. Similarly Hooy & Ali (2017) who documented that Muslim ownership does not influence the Muslim CEO in the context of ROA. Thus, H_{3a} and H_{3b} are also rejected. The possible reasons to explain the result could be due to the small number of Muslim ownership.

CONCLUSION

A review of the theoretical and empirical literature on corporate governance mechanisms highlights the importance of an effective board of directors in monitoring managers, limiting agency conflicts and mitigating agency costs. Shareholders demand financial information from managers in order to evaluate their performance and take an informative decision. However, in the absence of an effective board, managers can manipulate the information, which in order will deceive the shareholders on the underlying managers' performance. Therefore, it has been argued that a good board structure should result in increasing the value relevance of accounting information.

This study explored the effect of corporate governance characteristics such as board size, the presence of Shariah background director on board, Muslim female on board, Muslim ownership structure as well as the control variables such firm size, profitability and leverage on the value relevance of earnings and net assets value information available to market participants. This topic has been investigated in a number of studies (e.g. Abdoli & Royae, 2012; Alkdai & Hanefah, 2012; Azzoz et al. 2016; Shan, 2015; Siekkinen, 2017; Velte, 2018), but the results are inconclusive. In our study, four main hypotheses were examined.

Based on the regression valuation model (Ohlson's, 1995), this study analyses on a sample of 240 firms for the period of 2011–2015 with 1200 firm-year observations, a number of findings were obtained. First, a positive association was found between board size and value relevance of accounting information in Malaysian Shariah-compliant firms. These results support Lipton & Lorsch (1992) and Forbes & Milliken (1999), who reported that a large board size enhances the level of value relevance of accounting information. This implies that Malaysian Shariah-compliant companies with large board size play a powerful role in enhancing the level of value relevance of accounting information.

Second, based on the second hypothesis, we found that this variable plays an important role in enhancing the value relevance of net assets information. However, Muslim female board members and ownership structure show no statistical evidence that they influence the value relevance of accounting information. probably because the must Malaysian companies have a small percentage of Muslim director in board as well as the ownership structure.

This study contributes towards the understanding and knowledge in the field by extending and filling the gap in the quality of accounting information literature in Malaysian Shariah-compliant companies as it is quite limited. As well as to the general literature by studying the influence of the corporate governance characteristics such as Muslim female, and shariah background director in the board and Muslim shareholder structure in the value relevance of earnings and book equity value.

The findings of this study provide some meaningful insights for the stockholders and policy makers such the Securities Commission of Malaysia in terms of the role of corporate governance in enhancing the reliability of the reported information. The above findings also are relevant for policy makers, professional bodies, regulators and Shariah board and committee members. Future studies can study other countries and compare the findings with these findings. All other normal limitations are also applicable to this study.

REFERENCES

- Abdoli, M.R & Royae, R. (2012). Board monitoring and earnings quality: An empirical study in Iran, *African Journal of Business Management*, 6(11), 4179-4184.
- Abdul Rahman, U. M. A., Dowds, J. & Cahan, S. F. (2005). Earnings management practices among Muslim and non-Muslim managers in Malaysia. *International Journal of Economics, Management and Accounting*, 13(2), 189-208.
- Adams, R. B., Haan, J., Terjesen, S. & Ees, H. (2015). Board diversity: Moving the field forward. *Corporate Governance: An International Review*, 23(2), 77-82.

- Alkdai, H. K. H. & Hanefah, M. M. (2012). Board of directors' characteristics and value relevance of accounting information in Malaysian Shariah-compliant companies: A panel data analysis. *Economics and Finance Review*, 2(6), 31-44.
- Alfraih, M. M., Alanezi, F. S. & Alanzi, K. A. (2015). Do the characteristics of the board of directors affect the value relevance of accounting information? *International Journal of Accounting and Finance*, 5(2), 172-187.
- Alonso-Almeida, M.M, Casani Fernandez de Navarrete, F. & Rodriguez-Pomeda, J. (2015). Corporate social responsibility perception in business students as future managers: A multifactorial analysis'. *Business Ethics: A European Review*, 24(1), 1–17.
- Al-Janadi, Y., Rahman, R. A. & Omar, N. H. (2013). Corporate governance mechanisms and voluntary disclosure in Saudi Arabia. *Research Journal of Finance and Accounting*, 4(4), 25-35.
- Arellano, M. & Bond, S. (1991). Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations. *The review of economic studies*, 58(2), 277-297.
- Aziz, D. (2009). Factors influence capital structure: The case shari 'ah compliant companies in KLSE (PhD Thesis). USM.
- Azzoz, M., Abdel, A. R. & Khamees, B. A. (2016). The impact of corporate governance characteristics on earnings quality and earnings management: Evidence from Jordan. *Jordan Journal of Business Administration*, 12(1), 187-207.
- Beck, T., Levine, R. & Loayza, N. (2000). Finance and the sources of growth. *Journal of Financial Economics*, 58(1-2), 261–300.
- Berle, A. & Means, G. (1932). *The modern corporation and private property*. New York: Macmillan.
- Bursa Malaysia website. (2010). Retrieved from https://www.sc.com.my/wp-content/uploads/eng/html/icm/sas/sc_syariah_compliant_101126.pdf.
- Burns, P. (1987). Financial characteristics of small companies in the UK, Cranfield School of Management.
- Claessens, S. & Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging Markets Review*, 15, 1-33.
- Clarke, T. (2007). *International corporate governance: A comparative approach*. Routledge.
- Collins, D. W., Maydew, E. L. & Weiss, I. S. (1997). Changes in the value-relevance of earnings and book values over the past forty years. *Journal of Accounting and Economics*, 24(1), 39-67.
- Eng, L. L. & Mak, Y. T. (2003). Corporate governance and voluntary disclosure. *Journal of Accounting & Public Policy*, 22(4), 325-345.
- Firth, M., Fung, P. M. & Rui, O. M. (2007). Ownership, two-tier board structure, and the informativeness of earnings—Evidence from China. *Journal of Accounting and Public Policy*, 26(4), 463-496.
- Forbes, D. P. & Milliken, F. J. (1999). Cognition and corporate governance: Understanding boards of directors as strategic decision-making groups. *Academy of Management Review*, 24(3), 489-505.
- Francis, J. & Schipper, K. (1999). Have financial statements lost their relevance?. *Journal of Accounting Research*, 37(2), 319-352.
- Grassa, R. (2013). Shariah supervisory system in Islamic financial institutions: New issues and challenges:A comparative analysis between Southeast Asia models and GCC models. *Humanomics*, 29(4), 333-348.
- Haniffa, R. M. & Cooke, T. E. (2002). Culture, corporate governance and disclosure in Malaysian corporations. *Abacus*, 38(3), 317-349.
- Haqqi, A. R. A. (2014). Shariah governance in Islamic financial institution: An appraisal. *US-China L. Rev.*, 11, 112.
- Hooy, C. W. & Ali, R. (2017). Does a Muslim CEO matter in Shariah-compliant companies? Evidence from Malaysia. *Pacific-Basin Finance Journal*, 42, 126-141.

- Huafang, X. & Jianguo, Y. (2007). Ownership structure, board composition and corporate voluntary disclosure: Evidence from listed companies in China. *Managerial Auditing Journal*, 22(6), 604-619.
- Janis, I. L. (1972). Victims of groupthink: a psychological study of foreign-policy decisions and fiascoes.
- Jensen, M. C. & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.
- Iskander, Amir Emil (2008). *The relationship between auditing expectation gap and voluntary corporate disclosure Egyptian evidence* (PhD thesis). University of Durham, UK.
- Kamaruddin, M. I. H. & Hanefah, M. M. (2017). Enhancing shariah audit practices in Islamic financial institutions in Malaysia. *Journal of Modern Accounting and Auditing*, 13(11), 457-470.
- Ibrahim, S. H. B. M. (2000). *The need for Islamic accounting: perceptions of its objectives and characteristics by Malaysian Muslim accountants and accounting academics* (PhD thesis). University of Dundee, UK.
- Larrieta-Rubin de Celis, I., Velasco-Balmaseda, E., Fernandez de Bobadilla, S., Alonso-Almeida & Intxaurburu-Clemente, G. (2015). Does having female managers lead to increased gender equality practices in corporate social responsibility? *Business Ethics: A European Review*, 24(1), 91-110.
- Leuz, C., Nanda, D. & Wysocki, P. (2003). Earnings management and investor protection: An international comparison. *Journal of Financial Economics*, 69(3), 505-527.
- Lipton, M., & Lorsch, J. W. (1992). A modest proposal for improved corporate governance. *Business Lawyer*, 1(1), 59-77.
- Mallin, C. (2002). The relationship between corporate governance, transparency and financial disclosure. *Corporate Governance: An International Review*, 10(4), 253-255.
- Man, C.K. & Wong, B. (2013). Corporate governance and earnings management: A survey. *Journal of Applied Business Research*, 29(2), 391-418.
- Myers, S. C. (1977). Determinants of corporate borrowings. *Journal of Financial Economics*, 5(2), 147-175.
- Klai, N. & Omri, A. (2011). The governance role of the financial information: Empirical evidence in the Tunisian context. *Afro-Asian J. of Finance and Accounting*, 2(4), 283-298.
- Nielsen, S. & Huse, M. (2010). The contribution of women on boards of directors: Going beyond the surface. *Corporate Governance: An International Review*, 18(2), 136-148.
- Noreen, E. (1988). The economics of ethics: A new perspective on agency theory. *Accounting, Organizations and Society*, 13(4), 359-369.
- Ohlson, J.A. (1995). Earnings, book values and dividends in equity valuation. *Contemporary Accounting Research*, 11 (2), 661-88.
- Saringat, S. M., Haron, R. & Tahir, H. H. M. (2013). Income smoothing and Islam: An evidence from Malaysian Shariah compliant companies. *International Journal of Social Science and Humanity*, 3(2), 160.
- Shan, Y. G. (2015). Value relevance, earnings management and corporate governance in China. *Emerging Markets Review*, 23, 186-207.
- Shleifer, A. & Vishny, R. W. (1986). Large shareholders and corporate control. *The Journal of Political Economy*, 94(3, Part 1), 461-488.
- Shleifer, A. & Vishny, R. W. (1997). A survey of corporate governance. *The Journal of Finance*, 52(2), 737-783.
- Short, H. & Keasey, K. (1999). Managerial ownership and the performance of firms: Evidence from the UK. *Journal of Corporate Finance*, 5(1), 79-101.
- Siekkinen, J. (2017). Board characteristics and the value relevance of fair values. *Journal of Management & Governance*, 21(2), 435-471.

- Sloan, R. G. (2001). Financial accounting and corporate governance: A discussion. *Journal of Accounting and Economics*, 32(1-3), 335-347.
- Sulaiman, M. (2001). Testing a model of Islamic corporate financial reports: Some experimental evidence. *IUM Journal of Economics and Management*, 9(2), 115-139.
- Petra, S. T. (2007). The effects of corporate governance on the informativeness of earnings. *Economics of Governance*, 8(2), 129-152.
- Pfeffer, J. (1972). Merger as a response to organizational interdependence. *Administrative Science Quarterly*, 17(3), 382-394.
- Vafeas, N. (2000). Board structure and the informativeness of earnings. *Journal of Accounting and Public Policy*, 19(2), 139-160.
- Velte, P. (2017). Do women on management board increase fair value relevance. *Corporate Governance and Sustainability Review*, 1(1), 6-16.
- Wambua, K. P. (2011). *The Effects of corporate governance on Saccos financial performance in Kenya* (MBA thesis) KCA University, Kenya.
- Yermack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics*, 40(2), 185-211.

Received Date: 12 September 2018
Acceptance Date: 30 November 2018