APPENDIX (A) CORPORATE GOVERNANCE AND CORPORATE PERFORMANCE

The results from Table A display the univariate and multivariate impact of

corporate governance, respectively.

Does corporate governance influence corporate performance?							
	Pooled	Pooled	Mean	Mean			
	(univariate)	(multivariate)	(univariate)	(multivariate)			
Ownership	-0.08	-0.04	-0.14	-0.49			
Concentration	(-0.84)	(-0.49)	(-0.90)	(-2.00)*			
CEO	0.09	0.05	-0.30	0.19			
dominance	(0.75)	(0.42)	(-0.89)	(1.34)			
Board Size	-0.03	-0.03	-0.30	-0.52			
	(-2.76)***	(-2.58)***	(-2.75)**	(-3.54)**			
Board	-0.23	-0.18	-0.42	-0.08			
Independence	(-1.39)	(-0.68)	(-1.94)*	(-0.30)			
Audit	-0.01	0.17	0.09	-0.08			
Committee	(-0.05)	(1.39)	(0.43)	(-0.27)			
Independence							
Audit	-0.04	-0.03	-0.03	0.27			
Committee	(-0.22)	(-0.22)	(-0.16)	(0.98)			
Competence							
Independent	-0.11	-0.13	-0.22	-0.58			
Directors'	(-1.31)	(-1.50)	(-1.34)	(-3.30)**			
Ownership							
Managerial	-0.02	-0.03	1.56	0.18			
Ownership	(-5.50)***	(-10.57)***	(1.22)	(0.60)			
Debt Reliance	-0.58	-0.57	-1.00	-0.80			
	(-1.72)*	(-1.80)**	(-5.13)***	(-2.94)**			

Table A:	Corporate	governance and	corporate	performance.
	1	0		

* Correlation is significant at the 0.10 level (2-tailed)

** Correlation is significant at the 0.05 level (2-tailed)

*** Correlation is significant at the 0.01 level (2-tailed)

Pooled represents the pooled GLS (random effect) regression.

Mean represents the mean of the four yearly coefficients, and the t-statistic of the mean is obtained by dividing the mean by its standard error. Significance level at three degrees of freedom are 4.451 (0.01 level), 2.353 (0.05 level), and 1.638 (0.10 level). All t-statistics are calculated using white (1980) heteroscedasticity corrected standard errors.

The results shown are controlled for beta risk.

By analysing the adjusted R-squared (Pooled 2% and Mean 4%), it seems that corporate governance has a higher role than simply and directly enhancing share performance. Compared to the findings in section 4.3, corporate governance is more related to earnings as an indictor of reliability than being a device to directly increase share performance.

Only three corporate governance variables are negatively associated with share returns at significant levels. The pooled coefficients of board size, managerial ownership and debt reliance are significant greater than zero, univariately and multivariately. The some of the results are supported by prior studies.

1. Board size

Zahra and Pearce (1989) and Jensen (1993) argue that large boards are less likely to function effectively. Empirical results in Yermack (1996) and Eisenberg et al. (1998) support the notion that firm performance is enhanced by smaller boards. Yermack (1996) and Eisenberg et al. (1998) report a negative relationship between board size and firm value.

2. Managerial ownership

Given that the empirical literature finds a positive association between firm value and managerial ownership (e.g. Agrawal and Knoeber, 1996; Yermack, 1996; Mehran, 1995), the findings relating to share performance are supportive of the entrenchment effect literature rather than the alignment effect literature.

3. Debt reliance

The significant negative impact of debt reliance is explained by Hitt and Smart's (1992) findings that high leverage is often a major source of reductions in performance. Hence, the results relating to share performance display debt reliance not as a monitoring device, but rather as an indicator of financial risk.

APPENDIX (B) EXTREME EARNINGS MANAGEMENT vs. NO EARNINGS MANAGEMENT

Focusing on extreme earnings management is conducted by creating a sub-sample. Earnings management is incorporated into the models by classifying firms into quartiles based on its magnitude of abnormal accruals. Firms in the top quartile are considered to have engaged in extreme earnings management. Firms in the bottom quartile are considered to have not employed earnings management.

The approach is expected to empower the strength of hypotheses testings, because it removes the confounding effect of the middle two quartiles. However, the results should be noted with caution because chances of harmful collinearity are high in this sub-sample (condition index is above 30).

Does corporate governance influence extreme earnings management?						
	Pooled	Pooled	Mean (univariate)	Mean		
	(univariate)	(multivariate)		(multivariate)		
Ownership	0.18	-0.01	0.15	-0.39		
Concentration	(0.62)	(-0.07)	(1.33)	(-2.81)**		
CEO dominance	0.04	-0.22	0.13	-0.07		
	(0.82)	(-1.55)	(0.93)	(-0.57)		
Board Size	-0.05	-0.04	-0.14	-0.08		
	(-1.80)*	(-1.73)*	(-3.17)**	(-3.13)**		
Board Independence	-0.83	-1.04	-0.74	-0.52		
	(-1.24)	(-1.13)	(-1.17)	(-0.67)		
Audit Committee	-0.42	-0.26	-0.49	-0.26		
Independence	(-1.55)	(-3.84)***	(-1.44)	(-2.57)**		
Audit Committee	-0.16	0.07	0.31	0.26		
Competence	(-1.34)	(2.81)***	(-1.24)	(1.04)		
Independent	-0.000	0.08	0.06	-0.16		
Directors' Ownership	(-0.80)	(1.02)	(0.23)	(-0.74)		
Managerial Ownership	-0.001	-0.40	0.11	-0.08		
	(-0.71)	(-1.02)	(2.91)**	(-0.18)		
Debt Reliance	0.37	0.61	0.32	0.49		
	(0.91)	(1.09)	(1.04)	(1.22)		
				1		

 Table B-1: The regression of extreme abnormal accruals on empirical indicators of corporate governance

Does extreme earnings management influence the informativeness of earnings?						
	E _{jt}	EAAA _{jt}	ΔE_{it}	ΔEAAA _{jt}		
Pooled	0.93	-1.14	-0.08	0.21		
	(1.11)	(-3.1)***	(-0.12)	(4.64)***		
Wald		1.16		0.01		

Table B-2: The results of regressing earnings response coefficient on extreme abnormal accruals.

 Table B-3: The results of regressing earnings response coefficient on the empirical indicators of corporate governance conditioned on the magnitude of extreme abnormal accruals

Does corporate governance influence earnings informativeness in the presence of extreme earnings management?

management.					
		Pooled	Pooled	Mean	Wald Stat.
		(univariate)	(multivariate)	(multivariate)	
Ownership	Е	2.50	1.19	1.89	0.21
Concentration		(1.51)	(2.25)**	(0.95)	
	ΔΕ	-0.60	0.39	-1.28	0.02
		(-0.40)	(0.35)	(-1.86)*	
CEO dominance	Е	-5.30	-6.58	-2.79	4.91**
		(-2.59)***	(-2.64)***	(-2.15)*	
	ΔΕ	1.43	1.74	3.58	0.59
		(1.67)*	(1.22)	(1.52)	
Board Size	Е	0.23	0.16	0.07	1.45
		(2.78)***	(2.23)**	(0.91)	
	ΔΕ	-0.10	0.02	-0.09	0
		(-1.38)	(0.30)	(-0.25)	
Board	Е	-1.78	-1.45	1.96	0.88
Independence		(-1.27)	(-1.36)	(1.03)	
	ΔΕ	-0.33	-0.06	-3.54	0.06
		(-0.39)	(-0.11)	(-3.19)**	
Audit	Е	0.74	-3.63	-2.18	0.1
Committee		(0.94)	(-1.82)*	(-1.76)*	
Independence	ΔΕ	0.62	1.67	0.97	0
		(0.65)	(0.68)	(0.25)	
Audit	Е	1.49	2.86	1.08	0.56
Committee		(2.82)***	(2.15)**	(0.89)	
Competence	ΔΕ	-0.80	-1.78	3.00	1.23
		(-3.07)***	(-3.26)***	(0.87)	
Independent	Е	-0.32	-1.99	-1.20	0.58
Directors'		(-1.92)*	(-1.57)	(-0.50)	
Ownership	ΔΕ	-1.34	-1.07	17.03	1.5
		(-1.94)**	(-0.25)	(0.51)	
Managerial	Е	0.43	7.71	6.58	0.01
Ownership		(1.05)	(4.62)***	(1.34)	
	ΔΕ	1.77	-2.99	-4.19	0.43
		(0.92)	(-4.33)***	(0.81)	
Debt Reliance	Е	0.23	0.24	-0.29	0.002
		(0.16)	(0.31)	(-0.06)	
	ΔΕ	-0.52	-1.79	-5.26	0.14
		(-0.37)	(-0.86)	(-0.88)	

APPENDIX (C) EXCLUDED ATTRIBUTES

The model excludes some corporate governance attributes that may reflect earnings reliability. These attributes are excluded due to poor definition or lack of consistent empirical evidence on their effects. They are:

1. Board Dynamics (or Activities)

The model includes no attributes relating to board dynamics or activities of board committees. After reviewing the literature, Johnson et al. (1996) and Zahra and Pearce (1989) argue that evidence, from the literature, relating to the impact of board activities is sporadic and inconclusive. For example, Forbes and Milliken (1999) demonstrate the complexity of board dynamics by showing how a single aspect of board demography can have multiple and contrasting effects on different mediating constructs. Thus, even if these attributes may reflect earnings reliability, poor definition, attribute complexity, and lack of empirical evidence prevent their inclusion.

2. Disclosure Quality of Corporate Governance

Disclosure quality of corporate governance practices is not included. The exclusion is related to the fact the disclosure for corporate governance does not necessarily vary across firms, because the ASX listing rules require a standard level of corporate governance disclosure (Asian Business Review, 1996). Thus, it is not possible to measure a non-varying attribute.

3. Shareholders' Activism

The model excludes shareholder activism due to three reasons. First, shareholder activism is measured, in the literature, by focusing largely on shareholder proposals or resolutions (e.g. Smith, 1996). Such measures cannot be effective, because most

proposals can be ignored by management. Second, there is lack of empirical evidence signifying the impact of shareholder activism. For instance, Karpoff (1998) and Romano (2001) surveyed the existing evidence on shareholder activism and found no evidence relating shareholder activism to firm value. Third, the potential impact of shareholder activism is captured by ownership concentration (included in the model), because Shleifer and Vishny (1986) argue that the presence of large outside shareholders increases the likelihood that firms are a target for shareholder activism. Hence, including shareholders' activism may create nesting problems.

4. Tenure of Outside Directors

Tenure of outside directors is not included due to he lack of empirical evidence supporting its inclusion. In addition, outside directors' independence and financial expertise are more relevant to addressing the research question than directors' tenure.

5. Compensation Plans

Compensation plans are not included in the model to avoid nesting problems. This is because setting compensation plans for executive management is part of the board's duties. Thus, compensation plans are directly influenced by attributes relating to the board.

6. External Auditor

Independence of external auditors is not included in the model or controlled for. First, the traditional audit quality measure, which is based on big-five versus non-big five, is no longer a helpful measure in the wake of the Enron bankruptcy and the troubled Arthur Andersen. Second, the limited number of top 500 companies using the services of non-big five auditing firms prevents from establishing a valid statistical relationship.⁸²

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⁸² In 1999, less than 20% of the top 500 companies were audited by non-big five auditing firms.

APPENDIX (D) THE DEVELOPMENT OF EQUATIONS FIVE AND SIX

The original returns-earnings regression by Easton and Harris (1991) is:

 $AR_j = \beta_0 + \beta_1 E_j + \beta_2 \Delta E_j + v_j$

If β_1 and β_2 are functions of corporate governance attributes, then

 $\begin{aligned} \boldsymbol{\beta}_{I} = \boldsymbol{\varphi}_{0} + \boldsymbol{\varphi}_{1} \ D_{1} OWNCON_{jt} + \boldsymbol{\varphi}_{2} \ CEO_{jt} + \boldsymbol{\varphi}_{3} \ D_{2} \ BRDSZE_{jt} + \boldsymbol{\varphi}_{4} \ D_{3} \ BRDIND_{jt} + \boldsymbol{\varphi}_{5} \\ AUDIND_{jt} + \boldsymbol{\varphi}_{6} \ D_{4} \ AUDCMP_{jtj} + \boldsymbol{\varphi}_{7} \ D_{5} \ OWNOUT_{jt} + \boldsymbol{\varphi}_{8} \ D_{6} \ OWNMAN_{jt} + \boldsymbol{\varphi}_{9} \\ D_{7} DEBTRL_{it} \end{aligned}$

$$\begin{split} \boldsymbol{\beta}_2 = \boldsymbol{\lambda}_0 + \boldsymbol{\lambda}_1 \ D_1 OWNCON_{jt} + \boldsymbol{\lambda}_2 \ CEO_{jt} + \boldsymbol{\lambda}_3 \ D_2 \ BRDSZE_{jt} + \boldsymbol{\lambda}_4 \ D_3 \ BRDIND_{jt} + \boldsymbol{\lambda}_5 \\ AUDIND_{jt} + \boldsymbol{\lambda}_6 \ D_4 \ AUDCMP_{jt} + \boldsymbol{\lambda}_7 \ D_5 \ OWNOUT_{jt} + \boldsymbol{\lambda}_8 \ D_6 \ OWNMAN_{jt} + \boldsymbol{\lambda}_9 \\ D_7 DEBTRL_{jt} \end{split}$$

By replacing β_1 and β_2 in the first equation with the above values, the equation becomes:

 $\begin{aligned} AR_{j} &= \beta_{\theta} + (\varphi_{0} + \varphi_{1} D_{1}OWNCON_{jt} + \varphi_{2} CEO_{jt} + \varphi_{3} D_{2} BRDSZE_{jt} + \varphi_{4} D_{3} BRDIND_{jt} + \\ \varphi_{5} AUDIND_{jt} + \varphi_{6} D_{4} AUDCMP_{jtj} + \varphi_{7} D_{5} OWNOUT_{jt} + \varphi_{8} D_{6} OWNMAN_{jt} + \varphi_{9} \\ D_{7}DEBTRL_{jt}) E_{j} + (\lambda_{0} + \lambda_{1} D_{1}OWNCON_{jt} + \lambda_{2} CEO_{jt} + \lambda_{3} D_{2} BRDSZE_{jt} + \lambda_{4} D_{3} \\ BRDIND_{jt} + \lambda_{5} AUDIND_{jt} + \lambda_{6} D_{4} AUDCMP_{jt} + \lambda_{7} D_{5} OWNOUT_{jt} + \lambda_{8} D_{6} OWNMAN_{jt} \\ + \lambda_{9} D_{7}DEBTRL_{it}) \Delta E_{i} + \upsilon_{i} \end{aligned}$

By multiplying earnings and change in earnings with every coefficient, the result becomes:

(Equation Five)

$$\begin{split} \mathbf{AR}_{j} &= \boldsymbol{\beta}_{0} + \boldsymbol{\phi}_{0} \; E_{jt} + \boldsymbol{\phi}_{1} \; E_{jt} \; D_{1} OWNCON_{jt} + \boldsymbol{\phi}_{2} \; E_{jt} \; CEO_{jt} + \boldsymbol{\phi}_{3} \; E_{jt} \; D_{2} \; BRDSZE_{jt} + \boldsymbol{\phi}_{4} \; E_{jt} \; D_{3} \\ BRDIND_{jt} + \boldsymbol{\phi}_{5} \; E_{jt} \; AUDIND_{jt} + \boldsymbol{\phi}_{6} \; E_{jt} \; D_{4} \; AUDCMP_{jtj} + \boldsymbol{\phi}_{7} \; E_{jt} \; D_{5} \; OWNOUT_{jt} + \boldsymbol{\phi}_{8} \; E_{jt} \; D_{6} \\ OWNMAN_{jt} + \boldsymbol{\phi}_{9} \; E_{jt} \; D_{7} DEBTRL_{jt} + \boldsymbol{\lambda}_{0} \; \Delta E_{jt} + \boldsymbol{\lambda}_{1} \; \Delta E_{jt} \; D_{1} OWNCON_{jt} + \boldsymbol{\lambda}_{2} \; \Delta E_{jt} \; CEO_{jt} + \boldsymbol{\lambda}_{3} \\ \Delta E_{jt} \; D_{2} \; BRDSZE_{jt} + \boldsymbol{\lambda}_{4} \; \Delta E_{jt} \; D_{3} \; BRDIND_{jt} + \boldsymbol{\lambda}_{5} \; \Delta E_{jt} \; AUDIND_{jt} + \boldsymbol{\lambda}_{6} \; \Delta E_{jt} \; D_{4} \; AUDCMP_{jt} + \boldsymbol{\lambda}_{7} \; \Delta E_{jt} \; D_{5} \; OWNOUT_{jt} + \boldsymbol{\lambda}_{8} \; \Delta E_{jt} \; D_{6} \; OWNMAN_{jt} + \boldsymbol{\lambda}_{9} \; \Delta E_{jt} \; D_{7} DEBTRL_{jt} + \boldsymbol{\epsilon}_{j} \end{split}$$

However, if β_1 and β_2 are functions of corporate governance attributes conditioned on earnings management, then

 $\begin{aligned} \boldsymbol{\beta}_{I} = \boldsymbol{\varphi}_{0} + \boldsymbol{\varphi}_{1} \ D_{0} D_{1} OWNCON_{jt} + \boldsymbol{\varphi}_{2} \ D_{0} CEO_{jt} + \boldsymbol{\varphi}_{3} \ D_{0} D_{2} \ BRDSZE_{jt} + \boldsymbol{\varphi}_{4} \ D_{0} D_{3} \ BRDIND_{jt} \\ + \boldsymbol{\varphi}_{5} \ D_{0} AUDIND_{jt} + \boldsymbol{\varphi}_{6} \ D_{0} D_{4} \ AUDCMP_{jtj} + \boldsymbol{\varphi}_{7} \ D_{0} D_{5} \ OWNOUT_{jt} + \boldsymbol{\varphi}_{8} \ D_{0} D_{6} \ OWNMAN_{jt} \\ + \boldsymbol{\varphi}_{9} \ D_{0} D_{7} DEBTRL_{jt} \end{aligned}$

 $\begin{array}{l} \pmb{\beta}_2 = \pmb{\lambda}_0 + \pmb{\lambda}_1 \ D_0 D_1 OWNCON_{jt} + \pmb{\lambda}_2 \ D_0 CEO_{jt} + \pmb{\lambda}_3 \ D_0 D_2 \ BRDSZE_{jt} + \pmb{\lambda}_4 \ D_0 D_3 \ BRDIND_{jt} + \\ \pmb{\lambda}_5 \ D_0 AUDIND_{jt} + \pmb{\lambda}_6 \ D_0 D_4 \ AUDCMP_{jt} + \pmb{\lambda}_7 \ D_0 D_5 \ OWNOUT_{jt} + \pmb{\lambda}_8 \ D_0 D_6 \ OWNMAN_{jt} + \\ \pmb{\lambda}_9 \ D_0 D_7 DEBTRL_{jt} \end{array}$

By replacing β_1 and β_2 in the first equation with the above values, the equation becomes:

 $\begin{aligned} \mathcal{A}\mathbf{R}_{j} &= \boldsymbol{\beta}_{0} + (\boldsymbol{\varphi}_{0} + \boldsymbol{\varphi}_{1} \ D_{0} D_{1} OWNCON_{jt} + \boldsymbol{\varphi}_{2} \ D_{0} CEO_{jt} + \boldsymbol{\varphi}_{3} \ D_{0} D_{2} \ BRDSZE_{jt} + \boldsymbol{\varphi}_{4} \ D_{0} D_{3} \\ BRDIND_{jt} + \boldsymbol{\varphi}_{5} \ D_{0} AUDIND_{jt} + \boldsymbol{\varphi}_{6} \ D_{0} D_{4} \ AUDCMP_{jtj} + \boldsymbol{\varphi}_{7} \ D_{0} D_{5} \ OWNOUT_{jt} + \boldsymbol{\varphi}_{8} \ D_{0} D_{6} \\ OWNMAN_{jt} + \boldsymbol{\varphi}_{9} \ D_{0} D_{7} DEBTRL_{jt}) \ \boldsymbol{E}_{j} + (\boldsymbol{\lambda}_{0} + \boldsymbol{\lambda}_{1} \ D_{0} D_{1} OWNCON_{jt} + \boldsymbol{\lambda}_{2} \ D_{0} CEO_{jt} + \boldsymbol{\lambda}_{3} \\ D_{0} D_{2} \ BRDSZE_{jt} + \boldsymbol{\lambda}_{4} \ D_{0} D_{3} \ BRDIND_{jt} + \boldsymbol{\lambda}_{5} \ D_{0} AUDIND_{jt} + \boldsymbol{\lambda}_{6} \ D_{0} D_{4} \ AUDCMP_{jt} + \boldsymbol{\lambda}_{7} \\ D_{0} D_{5} \ OWNOUT_{jt} + \boldsymbol{\lambda}_{8} \ D_{0} D_{6} \ OWNMAN_{jt} + \boldsymbol{\lambda}_{9} \ D_{0} D_{7} DEBTRL_{jt}) \ \boldsymbol{\Delta} \boldsymbol{E}_{j} + \boldsymbol{\upsilon}_{j} \end{aligned}$

By multiplying earnings and change in earnings with every coefficient, the result becomes:

(Equation Six)

$$\begin{split} AR_{j} &= \pmb{\beta_{0}} + \pmb{\phi_{0}} \; E_{jt} + \pmb{\phi_{1}} \; E_{jt} \; D_{0} D_{1} OWNCON_{jt} + \pmb{\phi_{2}} \; E_{jt} \; D_{0} \; CEO_{jt} + \pmb{\phi_{3}} \; E_{jt} \; D_{0} D_{2} \; BRDSZE_{jt} + \\ \pmb{\phi_{4}} \; E_{jt} \; D_{0} D_{3} \; BRDIND_{jt} + \pmb{\phi_{5}} \; E_{jt} \; D_{0} \; AUDIND_{jt} + \pmb{\phi_{6}} \; E_{jt} \; D_{0} D_{4} \; AUDCMP_{jtj} + \pmb{\phi_{7}} \; E_{jt} \; D_{0} D_{5} \\ OWNOUT_{jt} + \pmb{\phi_{8}} \; E_{jt} \; D_{0} D_{6} \; OWNMAN_{jt} + \pmb{\phi_{9}} \; E_{jt} \; D_{0} D_{7} DEBTRL_{jt} + \lambda_{0} \; \Delta E_{jt} + \lambda_{1} \; \Delta E_{jt} \\ D_{0} D_{1} OWNCON_{jt} + \lambda_{2} \; \Delta E_{jt} \; D_{0} \; CEO_{jt} + \lambda_{3} \; \Delta E_{jt} \; D_{0} D_{2} \; BRDSZE_{jt} + \lambda_{4} \; \Delta E_{jt} \; D_{0} D_{3} \; BRDIND_{jt} \\ + \lambda_{5} \; \Delta E_{jt} \; D_{0} \; AUDIND_{jt} + \lambda_{6} \; \Delta E_{jt} \; D_{0} D_{4} \; AUDCMP_{jt} + \lambda_{7} \; \Delta E_{jt} \; D_{0} D_{5} \; OWNOUT_{jt} + \lambda_{8} \; \Delta E_{jt} \\ D_{0} D_{6} \; OWNMAN_{jt} + \lambda_{9} \; \Delta E_{jt} \; D_{0} D_{7} \; DEBTRL_{jt} + \pmb{\epsilon_{j}} \end{split}$$

APPENDIX (E) EXCLUDING GROWTH

Growth is excluded from the model due to three major reasons. First, most studies measure growth as market value to book value of equity. This measure is biased when including newly listed firms to test a model that employs share returns. While the first year growth measure for a newly listed firm is (1+r), share returns equals r. Thus, the inclusion of growth as control variable is likely to create bias in the results.

Second, if firm growth is captured by earnings growth, then growth is already captured by the variable representing change in earnings per share. Third, Cheng et al. (1999) present an assumption derived from the development of the standard share price growth model. They imply that firm growth is incorporated in the constant variable of the returns-earnings regression when the tests are cross-sectional. The rationalisation of their assumption can be expressed and developed as follows:

$$P_{t} = \frac{E_{t+1}}{r-g}$$

$$r-g = \frac{E_{t}}{P_{t}} + \frac{gE_{t}}{P_{t}}$$

$$r = g + \frac{E_{t}}{P_{t}} + \frac{gE_{t}}{P_{t}}$$

$$r = g + \frac{E_{t}}{P_{t}} + \frac{(1+g)\Delta E_{t}}{P_{t}}$$

$$r = g + \frac{E_{t}}{\alpha P_{t-1}} + \frac{(1+g)\Delta E_{t}}{\alpha P_{t-1}}$$

$$r = g + \frac{1}{\alpha} \left(\frac{E_{t}}{P_{t-1}}\right) + \frac{(1+g)}{\alpha} \left(\frac{\Delta E_{t}}{P_{t-1}}\right)$$

In a regression form this becomes:

 $\mathbf{R} = \boldsymbol{\beta}_0 + \boldsymbol{\beta}_1 \, \mathbf{E}_{jt} + \boldsymbol{\beta}_2 \, \Delta \mathbf{E}_{jt} + \boldsymbol{\upsilon}_{jt}$

In other research, the presence of an intercept is not implied by the theoretical relations (e.g. Ali and Zarowin, 1992; Easton and Harris, 1991). However, the developed standard share price growth (Cheng et al., 1999) model expects a positive intercept term approximating the overall growth for financial period in a cross-sectional returns-earnings model.

APPENDIX (F) TOTAL ACCRUALS REGRESSIONS

The following table presents the results of the regression used to estimate total accruals

for Miscellaneous Industry as categorised by the ASX.

	Adjusted R ² (F-Stat.)	γο	γ1	γ2	Ν
Pooled	0.58	-3911.84	-0.17	-1.27	197
	(90.96)***	(-1.86)*	(-6.15)***	(-6.07)***	
1997	0.09	-2126.15	0.05	-0.03	43
	(2.43)*	(-2.375)**	(0.68)	(0.60)	
1998	0.60	4420.70	-0.17	-1.34	46
	(23.97)***	(0.53)	(-1.61)	(-6.80)***	
1999	0.20	2519.86	0.01	-0.09	53
	(5.28)***	(3.70)***	(0.46)	(-2.04)**	
2000	-0.02	606.48	0.001	-0.04	55
	(0.61)	(1.24)	(0.04)	(-0.82)	

Table E: Estimation of the parameters of total accruals model for the Miscellaneous industry.

APPENDIX (G) MEAN RESPONSE COEFFICIENTS

The following table presents the results of the mean coefficients used to test the

hypotheses.

Returns-Earnings Model

Table F-1: The mean earnings response coefficients of earnings level and change in earnings

$AR_{j} = \alpha_{\theta} + \alpha_{1} E$	$f_{jt} + \alpha_2 \Delta E_{jt} + \zeta_j$
Coefficient	Mean
(t-statistic)	
Constant	-0.06
	(-1.76)*
E_{jt}	0.75
	(1.51)
ΔE_{it}	0.20
2	(0.40)
R^2	0.11

* Correlation is significant at the 0.10 level (2-tailed)

** Correlation is significant at the 0.05 level (2-tailed)

*** Correlation is significant at the 0.01 level (2-tailed)

Mean represents the mean of the four yearly coefficients, and the t-statistic of the mean is obtained by dividing the mean by its standard error. Significance level at three degrees of freedom are 4.451 (0.01 level), 2.353 (0.05 level), and 1.638 (0.10 level). All t-statistics are calculated using white (1980) heteroscedasticity corrected standard errors.

Hypothesis One

 Table F-2: The mean coefficient of regressing the absolute value of abnormal accruals on empirical indicators of corporate governance

Does corporate governance influence earnings management?							
$AAA_j = \gamma_{\theta} + \gamma_1 \text{ OW}$	$NCON_{jt} + \gamma_2 CEO_{jt} +$	$\gamma_3 BRDSZE_{jt} + \gamma_4 BF$	$RDIND_{jt} + \gamma_5 AUDIN$	$D_{jt} + \gamma_6 AUDCMP_{jtj}$			
$+\gamma_7 OWNOUT_{jt} + \gamma_7$	$+ \gamma_7 \text{OWNOUT}_{it} + \gamma_8 \text{OWNMAN}_{it} + \gamma_9 \text{DEBTRL}_{it} + \boldsymbol{\nu}_j$						
Hypotheses	Corporate	Mean (univariate)	Mean	Findings			
	Governance		(multivariate)				
H1A ₀	Ownership	0.12	0.03	Do not reject			
	Concentration	(0.61)	(0.24)				
$H1B_0$	CEO dominance	-0.07	-0.13	Do not reject			
		(-0.87)	(-1.39)				
H1C ₀	Board Size	-0.02	-0.27	Reject			
		(-1.8)*	(-1.79)*				
H1D ₀	Board	-0.37	-0.46	Do not reject			
	Independence	(-1.17)	(-1.05)				
H1E ₀	Audit Committee	-0.21	-0.08	Reject			
	Independence	(-1.44)	(-2.46)**				
H1F ₀	Audit Committee	-0.08	0.01	Do not reject			
	Competence	(-1.24)	(0.72)				
H1G ₀	Independent	-0.003	0.04	Do not reject			
	Directors'	(-0.03)	(1.46)				
	Ownership						
H1H ₀	Managerial	-0.02	-0.12	Do not reject			
	Ownership	(-0.80)	(0.61)				
H1I ₀	Debt Reliance	0.43	0.55	Do not reject			
		(1.10)	(1.13)				

* Correlation is significant at the 0.10 level (2-tailed)

** Correlation is significant at the 0.05 level (2-tailed)

*** Correlation is significant at the 0.01 level (2-tailed)

Mean represents the mean of the four yearly coefficients, and the t-statistic of the mean is obtained by dividing the mean by its standard error. Significance level at three degrees of freedom are 4.451 (0.01 level), 2.353 (0.05 level), and 1.638 (0.10 level). All t-statistics are calculated using white (1980) heteroscedasticity corrected standard errors.

The results shown are controlled for beta risk (an earnings response coefficient determinant).

Hypothesis Two

 Table F-3: The mean coefficients of regressing earnings response coefficients on the absolute value of abnormal accruals

Does earnings management influence the informativeness of earnings?							
$AR_{i} = \beta_{\theta} + \alpha_{\theta} E_{it} + \alpha_{I} EAAA_{it} + \psi_{\theta} \Delta E_{it} + \psi_{I} \Delta EAAA_{it} + \zeta_{i}$							
Hypothesis	Hypothesis Test E_{it} EAAA _{it} ΔE_{it} $\Delta EAAA_{it}$ Findings						
H2 ₀	Mean	0.91	-2.34	0.000	6.35	Do not reject	
		(1.97)*	(-0.61)	(0.00)	(0.90)		
	Wald	0.819		0.004			

* Correlation is significant at the 0.10 level (2-tailed)

** Correlation is significant at the 0.05 level (2-tailed)

*** Correlation is significant at the 0.01 level (2-tailed)

Mean represents the mean of the four yearly coefficients, and the t-statistic of the mean is obtained by dividing the mean by its standard error. Significance level at three degrees of freedom are 4.451 (0.01 level), 2.353 (0.05 level), and 1.638 (0.10 level). All t-statistics are calculated using white (1980) heteroscedasticity corrected standard errors.

Hypothesis Three

 Table F-4: The mean coefficients of regressing earnings response coefficients on the empirical indicators of corporate governance.

Does corporate governance influence earnings informativeness?							
Hypotheses	Corporate Governance	Earnings Type	Mean (univariate)	Mean (multivariate)	Wald Stat.	Findings	
H3A ₀	Ownership Concentration	Е	1.95	0.23	0.9	Do not	
	Concentration	ΔΕ	-1.40	0.48	0.02	Teject	
H3B ₀	CEO dominance	Е	-2.90 (-2.19)*	-3.21 (-2.40)**	5.62**	Reject [#]	
		ΔE	1.35 (10.78)***	3.68 (2.55)**	1.75		
H3C ₀	Board Size	Е	-0.22	0.21 (1.13)	0.003	Do not reject	
		ΔΕ	-0.03 (-0.14)	0.07 (0.39)	0.0002		
H3D ₀	Board Independence	Е	1.70 (2.75)**	1.97 (1.90)*	0.01	Do not reject	
		ΔΕ	-0.85	-1.37 (-1.98)*	0.21		
H3E ₀	Audit Committee Independence	Е	1.44 (2.23)*	-2.92 (-2.25)*	0.02	Do not reject	
	1	ΔΕ	-1.01 (-0.80)	2.85	0.01		
H3F ₀	Audit Committee Competence	Е	1.55 (5.35)***	2.13 (4.37)**	2.45	Do not reject	
	1	ΔΕ	-0.74 (-0.59)	-2.12 (-1.71)	0.47		
H3G ₀	Independent Directors'	Е	1.21 (1.86)*	-2.10 (-1.21)	1.8	Do not reject	
	Ownership	ΔΕ	-2.96 (-3.61)**	-1.44 (-0.36)	6.51**		
H3H ₀	Managerial Ownership	Е	1.92 (1.04)	4.25 (1.47)	0.02	Do not reject	
		ΔE	-0.96 (-0.34)	-3.60 (-0.88)	0.21		
H3I ₀	Debt Reliance	Е	-0.91	-0.67	0.004	Do not reject	
		ΔΕ	-2.57 (-1.16)	-2.25 (-0.68)	2.25	;	

* Correlation is significant at the 0.10 level (2-tailed)

** Correlation is significant at the 0.05 level (2-tailed)

*** Correlation is significant at the 0.01 level (2-tailed)

Mean represents the mean of the four yearly coefficients, and the t-statistic of the mean is obtained by dividing the mean by its standard error. Significance level at three degrees of freedom are 4.451 (0.01 level), 2.353 (0.05 level), and 1.638 (0.10 level). All t-statistics are calculated using white (1980) heteroscedasticity corrected standard errors.

Hypothesis Four

Table F-5: The mean coefficients of regressing earnings response coefficient on the empirical indicators of corporate governance conditioned on the empirical indicator of earnings management

Does corporate governance influence earnings informativeness in the presence of earnings management?							
Hypothesis	Corporate Governance	Earnings Type	Pooled (univariate)	Pooled (multivariate)	Wald Stat.	Findings	
H4A ₀	Ownership Concentration	Е	1.70 (2.28)*	-0.33 (-0.34)	3.85**	Reject [#]	
		ΔΕ	-0.69 (-0.69)	-0.06 (-0.03)	0.22		
H4B ₀	CEO dominance	Е	-1.81 (-0.86)	-1.95 (-0.59)	3.4*	Reject [#]	
		ΔΕ	0.09 (0.06)	0.43 (0.13)	2.38		
H4C ₀	Board Size	Е	0.16 (0.98)	-0.02 (-0.12)	0.00	Do not reject	
		ΔΕ	0.18 (1.41)	0.45 (1.16)	0.00		
H4D ₀	Board Independence	Е	1.07 (0.42)	2.09 (1.24)	0.03	Do not reject	
		ΔΕ	0.35 (0.42)	-0.96 (-0.42)	0.05		
H4E ₀	Audit Committee	Е	0.74 (0.50)	-1.8 (-0.72)	0.54	Do not reject	
	Independence	ΔΕ	1.65 (0.93)	3.96 (-0.42)	0.01		
H4F ₀	Audit Committee	Е	2.76 (4.91)***	3.63 (2.48)**	14.33***	Reject [#]	
	Competence	ΔΕ	-4.05 (-1.49)	-8.2 (-2.38)**	3.42*		
H4G ₀	Independent Directors'	Е	1.01 (0.52)	-3.75 (-1.03)	0.51	Do not reject	
	Ownership	ΔΕ	-1.89 (-0.46)	-7.92 (-1.13)	10.37***		
H4H ₀	Managerial Ownership	Е	0.66 (0.51)	6.38 (1.33)	0.00	Do not reject	
		ΔΕ	0.23 (0.07)	-0.74 (-0.12)	1.3	-	
H4I ₀	Debt Reliance	Е	-4.32 (-1.32)	-3.50 (-0.85)	0.18	Do not reject	
		ΔΕ	4.23	5.40	4.33**		

* Correlation is significant at the 0.10 level (2-tailed)

** Correlation is significant at the 0.05 level (2-tailed)

*** Correlation is significant at the 0.01 level (2-tailed)

Mean represents the mean of the four yearly coefficients, and the t-statistic of the mean is obtained by dividing the mean by its standard error. Significance level at three degrees of freedom are 4.451 (0.01 level), 2.353 (0.05 level), and 1.638 (0.10 level). All t-statistics are calculated using white (1980) heteroscedasticity corrected standard errors.