

# Brokerage fee, ownership expropriation and earnings management of Malaysian property companies

Ownership expropriation and earnings management

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## Abstract

**Purpose** – The purpose of this paper is to investigate whether real estate companies manipulate their earnings through the brokerage fee across ownership expropriation or not.

**Design/methodology/approach** – This study considers Kuala Lumpur Stock Exchange listed real estate firms to investigate how the brokerage fee in the real estate industry might affect the earnings management of firms across its ownership expropriation. Using annual report data, the authors investigate the associations over a panel for the period 2008–2012. Robust panel regression is used to divulge the probability values with reference by probit regression.

**Findings** – Overall, the results show that high brokerage fees would drive more events of earnings management and that, generally, the ownership concentration among Malaysian real estate firms significantly affects the earnings management of the firms.

**Practical implications** – This study shows that firm profitability and brokerage fees enhance the probability of firm's earnings management. A low brokerage fee would reflect low revenue to the company. Therefore, management would opt to manipulate earnings in order to overstate earnings, which garners more interest from investors.

**Originality/value** – Real estate values in Malaysia have climbed steadily over the years due to a combination of reasons giving companies a higher brokerage fee. Earnings management has become a big issue for property investors. The study demonstrates the relationship between earnings management and brokerage fee across ownership expropriation which can be considered by shareholders in their own strategic planning and investors in their own investing.

**Keywords** Agency theory, Earnings management, Real estate, Income smoothing, Brokerage fee, Ownership expropriation

**Paper type** Research paper

## Introduction

According to the stewardship theory, an agent (manager) assists principal (stakeholder) to achieve the objective of optimum wealth via organization performance. Number of earnings earned by firm will induce the welfare of shareholder; hence, income generation is a crucial path for an agent in this theoretical framework. Research studies such Davis *et al.* (1997), Azeez (2015) and Nguyen *et al.* (2017) document the positive association between managerial behavior and firm performance. Yet, many managers look at different perspective to enrich their selves and incur agency cost to organization. For example, manager recorded distinguished earnings to have better bonus and better recognition (earnings management behavior). This is in accordance with the agency theory according to which there is different interest between agent and principal to achieve organization objective. Manager imposes distinguished income recording to not to induce firm performance, but to gain pride or extra bonus. Research works such Jensen and Meckling (1976), Lins and Servaes (2002) and Rashid (2016) document the negative relationship between managerial behavior and firm performance.

