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Does Shareholder Activism Limit Real Earnings Management: Evidence of Financial Misreporting in Family And Foreign-Owned Business

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ABSTRACT

This study examines the effects of the Minority Shareholder Watchdog Group (MSWG) on real earnings management practices of family-owned and foreign-owned businesses listed on Bursa Malaysia. In particular, we analyze how shareholder activism by MSWG affects the level of real earnings management of Malaysian listed firms. Using a sample of 1,180 firm-year observations from 2008 to 2014, this study finds that MSWG has a significantly negative association with all proxies of real earnings management namely abnormal cash flow from operations, abnormal production costs, and abnormal discretionary expenses in both family-owned and foreign-owned businesses. The findings support the alignment hypothesis, which argues that the MSWG is a monitoring mechanism in limiting unethical corporate behaviour including real earnings management practices.

JEL Classification: D19, G30, F20

Keywords: Minority Shareholder Watchdog Group, Family-Owned Business, Foreign-Owned Business, Real Earnings Management

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INTRODUCTION

Prior studies provide evidence suggesting that institutional investors are playing an active role in monitoring and disciplining managerial discretion (Bushee, 1998; Koh, 2007; Velury & Jenkins, 2006). Gillan and Starks (2000) highlighted that the emergence of institutional investors as equity owners has the potential to influence a management's activities directly through their ownership, and indirectly by trading their shares. Extant literature however, posits two competing views on the effects of institutional ownership on earnings management. First, according to the incentive alignment argument, in widely-held firms, institutional investors with substantial shareholdings can act as a monitoring tool in reducing agency conflicts between managers and shareholders as they are able to force the management to focus on economic performance and eschew opportunistic behaviour. This occurs because large institutional investors have more opportunity, resources and incentives to monitor and influence management decisions (Gillan & Starks, 2000). Further, Koh (2003) pointed out that as institutional shareholding grows, the exit option becomes more expensive since large block sales generally entail large discounts and therefore investors are more likely to focus on long-term performance and to get involved in monitoring their portfolio firms. This long-term orientation coupled with active participation in portfolio firms' corporate governance limits managers' discretion and reduces their incentive to manage earnings. In addition, Velury and Jenkins (2006) highlighted that institutional investors, who are generally thought to be sophisticated investors, are more capable of detecting earnings management and monitoring the quality of financial reporting. This is because institutional investors are more able in analyzing financial statements thoroughly and proficiently than individual investors.

The effectiveness of such a monitoring function however will be dependent on the nature of their investment horizons (Bushee, 1998; Koh, 2007), the constraints to which they are subjected, their objectives, and their preferences for liquidity (Gillan & Starks, 2000). Proponents of the entrenchment hypothesis believe that institutional investors have an inherent short-term orientation. They argue that such institutional investors normally known as myopic (or transient) investors focus excessively on current earnings rather than long-term earnings in determining stock prices (Bushee, 1998). This short investment horizon limits institutional investors from incurring monitoring costs, as the benefits of governing the portfolio firms are unlikely to accrue to investors in the short run. Thus, since such institutional investors are less likely to be involved in monitoring the opportunistic behavior of management and tend to focus excessively on current earnings, it creates incentives for managers to manage earnings aggressively. Consistent with these conflicting theories, previous research on the relationship between institutional investors and earnings management provided mixed results (see for example Kalgo *et al.*, 2015; Emamgholipour *et al.*, 2013; Lin *et al.*, 2014).

In Malaysia, institutional investors have emerged as a powerful constituent playing a very significant role in corporate governance. One of the institutional investors in the country is the Minority Shareholder Watchdog Group (MSWG). The main role of MSWG is to enhance shareholder activism and to protect minority shareholders' interests. MSWG plays a significant role in corporate governance in mitigating the problems associated with conflict between controlling owners and minority shareholders in Malaysia. For public companies, MSWG is regarded as one of the mechanisms to discipline, scrutinize, and monitor management especially for listed firms that have ownership concentration such as family-owned businesses (FAMB) and foreign-owned businesses (FORB). Given that, the objectives of this paper are twofold. First, this study attempts to examine the degree of real earnings management (REM) practices of FAMB and FORB. Second, this study attempts to examine the impact of MSWG in limiting REM in such firms.

Using 1180 firm-year observations from 2008 to 2014, we find that both FAMB and FORB engage in REM practices. In addition, the results show a significantly negative relationship between MSWG and three proxies of REM namely, RCFO, RPC, and RDE. The findings suggest that MSWG is an effective monitoring mechanism in limiting earnings management by real activities in both family and foreign-owned businesses.

This paper has multifaceted contributions. First, the study expands on the existing body of knowledge on the relation between MSWG and the level of earnings management. This is an extension of prior studies on MSWG influence on accrual earnings management (Abdul Jalil & Abdul Rahman, 2010) by examining the impact of MSWG on another perspective of earnings management activities, REM. Second, from a regulatory perspective, the paper shows that MSWG can help to promote confidence in the quality and reliability of audited financial statements in a Malaysian setting.

The remainder of the paper is organized as follows. Section two provides a brief description of the Malaysian MSWG and draws a connection between earnings management and institutional investors and develops the research hypothesis. Section three elaborates the research design. Section four presents and discusses the findings. The final section provides the summary and conclusions.

LITERATURE REVIEW

Minority Shareholder Watchdog Group in Malaysia

In Malaysia, the MSWG was established in 2000 to protect the interests of minority shareholders through shareholder activism. The MSWG comprises the five largest institutional funds namely the Employee Provident Fund (EPF), Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH), the Social Security Organization (SOCSO), and Permodalan Nasional Berhad (PNB).

In 2014, MSWG's monitoring portfolio consisted of 295 companies, which represented 30 percent of the total number of companies listed on Bursa Malaysia. The criteria for monitoring portfolio are (i) FBM KLCI companies; (ii) MCG Index Top 100 companies; (iii) companies that subscribers want monitored under the Subscribers' List; and (iv) companies that warrant monitoring based on complaints received from shareholders, as well as those that affect the minority shareholder interests.

Earnings Management and Institutional Investor

Dechow and Shrand (2004) argue that REM occurs when managers use real economic actions that affect cash flows to produce desired earnings. Examples of REM include reductions in discretionary spending such as research and development (R&D), advertising and maintenance expenditures, aggressive price discounts to increase sales volumes, overproduction to report lower cost of goods sold (COGS), and repurchase of common shares.

A review of literature on the impact of institutional investors on opportunistic earnings management documented mixed empirical results. For example, consistent with the management entrenchment effect hypothesis, Emamgholipour *et al.* (2013) investigated the relationship between institutional investors and earnings management of listed companies on the Tehran Stock Exchange by examining a sample of 700 firm-years data over the period of 2006-2010. In this study, the discretionary accruals are used as an indicator for earnings management. The results indicate that there is a positive and significant relationship between institutional investors and earnings management. The results suggest that increasing the ownership percentage of institutional shareholders increases earnings management.

Nevertheless, some scholars cast doubt on the entrenchment effect of institutional investors on opportunistic earnings management (Lin *et al.*, 2014; Abdul Jalil & Abdul Rahman, 2010; Kalgo *et al.*, 2015). For example, Lin *et al.* (2014) argue that institutional investors play an important external monitoring role, and affect a firm's earnings manipulation. Consistent with their argument, they found a negative association between earnings management and institutional investor shareholdings.

In the Malaysian context, Abdul Jalil and Abdul Rahman (2010) investigated the impact of institutional investors including MSWG on earnings management activities of their portfolio firms. This paper uses the magnitude of discretionary accruals as the proxy for earnings management. Using a final sample of 94 top firms on the Bursa Malaysia over a six-year period from 2002 to 2007, this study provides empirical evidence that MSWG through its shareholder activism limits earnings management activities. The results from this study provide evidence that ownership alone is not enough and institutional investors need to be involved in shareholder activism in order to be effective as an external monitor.

Kalgo *et al.* (2015) examined if Malaysian IPO firms engage in real and accrual earnings management, and investigated the impact of institutional ownerships on the earnings management discretionary behaviour. This study classified institutional ownerships into Conservative and Neutral Pressure Groups. The results indicate Malaysian IPO firms engage in both real and accrual earnings around IPO corporate event. In addition, the result shows institutional investors, proxied by MSWG shareholdings, constrain real activity discretionary behavior of Malaysian IPOs.

This study, hence attempts to extend prior research (Abdul Jalil & Abdul Rahman, 2010; Kalgo *et al.*, 2015) by examining the association between MSWG and REM. MSWG has seven main objectives including (i) to become the platform to initiate collective shareholder activism on unethical or questionable practices performed by the management of Public Listed Companies; and (ii) to initiate, where appropriate, reports to regulatory authorities and transform MSWG into an effective deterrent of such events or activities that can work against the interests of minority shareholders. Thus, as MSWG plays a significant role in corporate governance in mitigating the problems associated with conflict between controlling owners and minority shareholders, it is expected that MSWG will act as an effective monitoring mechanism in limiting opportunistic REM in their portfolio companies. Based on this expectation, this study hypothesizes that:

H_1: MSWG limits real earnings management practices of family-owned and foreign-owned businesses in Malaysia.

RESEARCH DESIGN AND METHODOLOGY

Sample Selection and Data Collection

The sample for this study consists of FAMB and FORB listed on Bursa Malaysia from 2008 to 2014. Data required for computing the REM and measures of control variables are collected from the Thompson Reuters Datastream. Other non-financial data are collected from the companies' annual reports. We excluded firms in the banking and finance sector because they have different guidelines and governance systems (Abdul Rahman et al, 2016). We also excluded firm-year observations with missing REM measures data. This procedure yields 1,180 firm-year observations.

Operationalization of the Dependent, Independent, and Control Variables

Dependent Variables- Real Earnings Management (REM)

This study employed three metrics to examine the REM, namely the abnormal levels of cash flow from operations (RCFO), abnormal production costs (RPC), and abnormal discretionary expenses (RDE). Consistent with Roychowdhury (2006), the study estimates the RCFO, RPC, and RDE as the residual from the following model respectively.

$$CFO_{it}/A_{it-1} = \beta_1\,[1/A_{it-1}] + \beta_2[Sales_{it} / A_{it-1}] + \beta_3[\Lambda Sales_{it} / A_{it-1}] + \varepsilon_{it}$$

Where,

CFO_{it}	Cash flow from operation in period t
A_{it-1}	Total assets of firm i in year t-1;
$Sales_{it}$	Sales of firm i in year t
$\Lambda Sales_{it}$	Sales of firm i in year t less revenues of firm i in year t-1;
ε_{it}	A residual term that captures the level of abnormal cash flow of firm i in year t.

$$PROD_{it}/A_{it-1} = \beta_1 [1/A_{it-1}] + \beta_2[Sales_{it} / A_{it-1}] + \beta_3[\Lambda Sales_{it} / A_{it-1}] + \beta_4[\Lambda Sales_{it -1} / A_{it-1}] + \varepsilon_{it}$$

Where,

$PROD_{it}$ The sum of cost of goods sold and change in inventory of firm i in year t;
ε_{it} A residual term that captures the level of abnormal production cost of firm i in year t.

$$DISCEXP_{it}/A_{it-1} = \beta_1 [1/A_{it-1}] + \beta_2 [Sales_{it -1} / A_{it-1}] + \varepsilon_{it}$$

Where,

$DISCEXP^{it}$ The sum of R&D expenses and SG&A of firm i in year t;
ε_{it} A residual term that captures the level of abnormal discretionary expenses of firm i in year t.

Independent Variable: MSWG Ownership

The measure of MSWG is a total shareholding via its institutional funds namely EPF, LTAT, SOCSO, LTH, and PNB.

Control Variables

To test the hypothesis, this study controls the variables that could influence the earnings management. These control variables are classified into two categories: firm characteristics and board characteristics.

With regards to the firm characteristics, first, the study controls for the firm size. Large firms often receive more media attention, have higher analyst following, and face regular political scrutiny. Therefore, they would tend not to manage their earnings. Second, the study controls for debt. Firms with higher levels of debt would have their earnings scrutinized by debt providers or their agents, e.g., trustees, such that they do not inflate earnings to benefit the shareholders or managers at the expense of the debt providers through dividends and earnings-based compensations. Third, the study controls for growth. Growth firms are likely to have higher accruals because of increased revenue-generating activities, such as credit sales. Fourth, the study controls for audit quality. According to Wahab *et al.* (2007), higher quality auditors are more likely to ensure greater transparency and eliminate mistakes in financial statements since they are more likely to protect their reputation.

Following prior research, the study controls for board characteristics. First, the study controls for board independence. Fama and Jensen (1983) theorized that the board of directors is the highest internal control mechanism responsible for monitoring the actions of the top management. Thus, the presence of independent directors on the board is seen as the check and balance mechanism in enhancing a board’s effectiveness and constraining opportunistic behaviour among managers.

Secondly, the study controls for board size. Jensen (1993) and Meca and Ballesta (2009) suggest that the number of directors is one of the important factors in the effectiveness of the board to prevent managerial opportunistic behaviour.

Thirdly, the study controls for audit-committee independence. Prior studies suggest that the effectiveness of an audit committee is due, in part, to the extent to which the committee is independent. Fourth, the study controls for CEO duality. Advocates of agency theory argue that CEO duality, which implies CEO dominance over the board, promotes CEO entrenchment and hence, can lead to opportunistic and inefficient behaviour that reduces shareholder wealth (Jensen & Meckling, 1976).

Finally, the study controls for the Muslim chairman, Muslim CEO, and Muslim board members. Bardai (2002) studied the influence of the Islamic ethical code on Muslim board members. He contends that as followers of Islam, they are expected to be honest, sincere, and truthful in their business dealings and transactions, and manage their business within the ethical framework devised by Allah. Year dummy and industry dummy is also included in the study to control for the year and industry effects.

Table 1 Operationalization of the Research Variables

Variables	Acronym	Operationalization
Dependent variables		
Abnormal Cash Flows	RCFO	Natural log of the residual of a regression (RCFO Model)
Abnormal Production Costs	RPC	Natural log of the residual of a regression (RPC Model)
Abnormal Discretionary Expenses	RDE	Natural log of the residual of a regression (RDE Model)
Independent variable		
MSWG	MSWG	Total shareholdings via EPF, LTAT, SOCSO, LTH & PNB
Control variables		
Board independent	BODIND	The percentage of board members who are independent non-executive directors
Board size	BODSIZE	The number of a firm's board members.
CEO/CHAIR DIFF	SEPCEO/ CHAIR	1 if CEO and chairman of the board are different persons, 0 if otherwise
Audit committee independent	ACIND	The percentage of audit committee members who are independent non-executive directors
Muslim Directors	MUSDIR	The number of a firm's Muslim board members
Muslim Chairman	MUSCH	1 if a firm's Chairman is Muslim, 0 otherwise
Muslim CEO	MUSCEO	1 if a firm's CEO is Muslim, 0 otherwise
Size	SIZE	Natural log of total assets
Debt	LEVERAGE	The ratio of total liabilities to total assets
Growth	GROWTH	The ratio of market value to book value
Audit quality	BIG4	1 if a firm is audited by Big-4 audit firms, 0 otherwise

Multivariate Regression Models

The following three multiple regressions are estimated to investigate the impact of MSWG on each proxy of real earnings management. The regression equations are as follows:

$$RCFO_{ft} = \alpha + \alpha 1MSWG\ ft+f_{(}control\ variables) + \xi \quad (1)$$

$$RPC_{ft} = \alpha+ \alpha 1MSWGft+f(control\ variables) + \xi \quad (2)$$

$$RDE_{ft} = \alpha + \alpha 1MSWGft+f(control\ variables) + \xi \quad (3)$$

RESULTS AND FINDINGS

Descriptive Analysis

Proxies of REM

As shown in Table 2, the mean value of RCFO, RPC, and RDE are 0.0659, 0.1432, and .0589, respectively for FORB and 0.0790, 0.1951, and 0.0980, respectively for FAMB. In general, the findings indicate that family-owned and foreign-owned firms in Malaysia manage their reported earnings via RCFO, RPC, and RDE. In addition, the results highlight that the degree of REM in family-owned firms is higher compared to the foreign-owned firms.

Table 2 Descriptive Statistics of REM Measures

	Min	Max	Mean	Std. Dev.
FAMB				
RCFO	.00	.45	.0790	.07943
RPC	.00	1.86	.1951	.20535
RDE	.00	2.59	.0980	.21776
FORB				
RCFO	.00	1.15	.0659	.08445
RPC	.00	1.61	.1432	.13513
RDE	.00	.94	.0589	.10455

Univariate and Bivariate Analysis

Correlation Analysis

Tables 3 and 4 show the Pearson correlations between REM measures and MSWG of FAMB and FORB respectively. Results from the correlation indicate that MSWG is significantly negative correlated with RCFO and RDE for FAMB. Meanwhile, for FORB, MSWG is negatively and significantly correlated with RPC and RDE. This provides some preliminary support for the alignment hypothesis that MSWG activism provides a disciplinary mechanism for the management of their portfolio firms.

Table 3: Correlation analysis for FAMB

	MSWG	RCFO	RPC	RDE
MSWG	1.00	-.067*	.012	-.082**
RCFO		1	.404**	.074*
RPC			1	.147**
RDE				1

Note: *P<0.005; **p<0.10; ***p <0.001 n=813 FAMB

Table 4: Correlation analysis for FORB

	MSWG	RCFO	RPC	RDE
MSWG	1.00	-.049	-.161*	-.221**
RCFO		1	.102	.271**
RPC			1	.272**
RDE				1

Note: *P<0.005; **p<0.10; ***p <0.001 n=367 FORB

Multivariate Analysis

Table 5: MSWG and REM proxies and control variables (FAMB)

Variables	RCFO	RPC	RDE
MSWG >5% shareholdings	-.001**	-.001*	-.001**
Except RPC >30 % shareholding	(-1.913)	(-1.004)	(-1.784)
Control Variables: Firm's specific characteristics			
SIZE	-.021***	-.071**	-.018***
	(-3.012)	(-1.834)	(-2.247)
LEVERAGE	-.007***	-.004	.002
	(-2.320)	(-.884)	(.641)
GROWTH	.032***	.012	.035***
	(4.448)	(1.098)	(4.261)
BIG4	.011**	-.008	-.026***
	(1.735)	(-.833)	(-3.552)
Control Variables: Firms' board characteristics			
BODSIZE	-.003 **	-.002	.003
	(-1.694)	(-.764)	(1.172)
BODIND	-.008	-.107***	-.039
	(-.219)	(-2.063)	(-.956)
DUALITY	-.002	-.037***	-.017**
	(-.528)	(-2.883)	(-1.700)
AUDIND	.059	.057	-.016
	(-.264)	(1.141)	(-.408)
MUSDIR	.081***	-.036	.030
	(3.345)	(-.978)	(1.062)

Table 5 : (Cont.)

MUSCh	.004	.032**	.003
	(.522)	(2.893)	(.396)
MUSCEO	-.012	-.055***	-.029*
	(-.758)	(-2.251)	(-1.519)
Intercept	.033*	.184***	.145***
	(1.182)	(4.333)	(4.414)
Observations	813	813	813
Durbin-Watson	2.001	1.701	1.554
R-Square	7.5	5.6	9.2
Adjusted R-Square	6.2	4.3	7.7

Table 5 reports the results of the regression of MSWG on the three proxies of REM and control variables for FAMB. As expected, the results show that MSWG has a significant negative association with the dependant variables (RCFO, RPC, and RDE). Specifically, the results indicate that the MSWG is able to limit the RCFO and RDE when it holds more than five per cent of the total shareholding of the FAMB. However, for RPC, the MSWG can only deter the practice if they hold more than 30 percent of shareholding. The results suggest that MSWG become active monitors of FAMB, which in turn limit all REM activities especially when they hold equity more than 30 percent. This is consistent with the argument of Koh (2003) that as institutional shareholding grows, the investors are more likely to focus on long-term performance and to get involved in monitoring their portfolio firms. This long-term orientation coupled with active participation in portfolio firms' corporate governance limits managers' discretion and reduces their incentive to manage earnings. In addition, the findings of this study seem in line with the findings made by Sakinah Azizan and Ameer (2012) who argue that MSWG is a stringent form of monitoring of Malaysian FAMB as they found a positive and significant relationship between MSWG engagement and share returns of such firms.

With regards to control variables used, RCFO has a negative association with SIZE, LEVERAGE, BODSIZE and has a positive association with GROWTH, BIG4 and MUSDIR. This indicates that FAMB that have a lower degree of RCFO are larger, have high debt and have more directors on the board. For RPC, the negative correlation suggests that abnormal production costs is lower if FAMB are larger, have more independent board members, have separate CEO and chairman positions and lead by Muslim CEO. Meanwhile for RPC, the negative correlation suggests that the degree of abnormal discretionary expenses is lower in larger FAMB that hire Big Four auditors, have separate CEO and chairman positions and lead by Muslim CEO.

Table 6 MSWG and REM proxies and control variables (FORB)

Variables	RCFO	RPC	RDE
MSWG >30% shareholdings	-.001**	-.004***	-.002***
	(-1.913)	(-2.014)	(-2.379)
Control Variables: Firm's specific characteristics			
SIZE	.007	-.071**	-.014
	(.469)	(-2.103)	(-.774)
LEVERAGE	.007	-.008	-.008
	(1.114)	(-.547)	(-1.082)
GROWTH	.043***	.079**	.062***
	(2.908)	(2.285)	(3.448)
BIG4	.000	.027	.007
	(-.024)	(.573)	(.300)
Control Variables: Firms' board characteristics			
BODSIZE	.002	.004	-.006*
	(.608)	(.433)	(-1.443)
BODIND	.024	-.123	-.181**
	(.399)	(-.921)	(-2.620)
DUALITY	-.022	.004	-.010
	(-.898)	(.073)	(-.349)
AUDIND	-.013	-.018	.017
	(-.985)	(-.610)	(1.096)
MUSDIR	-.010	.139*	.065*
	(-.281)	(1.625)	(1.450)
MUSCh	-.001	-.062**	-.004
	(-.093)	(-1.813)	(-.245)
MUSCEO	.008	.054	-.022
	(.392)	(1.179)	(-.934)
Intercept	.108***	.299***	.189***
	(2.078)	(2.524)	(3.068)
Observations	367	367	367
Durbin-Watson	1.545	1.494	1.387
R-Square	34	14.9	33.10
Adjusted R-Square	28.1	7.2	27.10

Meanwhile, Table 6 reports the results of the regression of MSWG on the three proxies of REM and control variables for FORB. Consistent with FAMB's findings, the results indicate that MSWG has a significant negative association with all the REM measures. The results infer that the MSWG act is an effective monitoring tool in FORB if it holds more than 30 percent shareholdings of such firms. The findings in line with the objectives of MSWG; (i) to monitor breach and non-compliance of corporate governance practices and (ii) to limit unethical or questionable practices made by the management of public listed companies in Malaysia.

In relation to control variables, there is a positive association between RCFO and

GROWTH, suggests that high growth FORB more likely to have higher abnormal cash flow from operation. In addition, the results highlight that SIZE, GROWTH, MUSch are significantly correlated to RPC. This indicates that FORB that have a lower degree of RPC are larger, have lower growth and have Muslim chairman on the board. Further, the results also reveal that high growth FORB are more likely to have higher abnormal discretionary expenses.

SUMMARY AND CONCLUSION

The purpose of this paper is to examine the association between MSWG and REM. To capture the REM, the study used three different measures: RCFO, RPC, and RDE as developed by Rochowdhury (2006). The study employed a sample of 1,180 Malaysian family-owned and foreign-owned firm-year observations from 2008 to 2014.

Overall, the results of the study support the view that the MSWG limits REM. In particular, the findings indicate that there is a significant negative relation between MSWG and all measures of the REM namely RCFO, RPC, and RDE. In general, the findings are consistent with the findings of Abdul Jalil and Abdul Rahman (2010) and Kalgo *et al.* (2015), who found that firms that have MSWG's shareholdings are less likely to be involved in opportunistic earnings management practices.

The results have implications for both theory and practice. This is the first study to examine MSWG to explain the real earnings management practices among Malaysian listed firms (except for IPO). Thus, the results provide assistance in establishing a preliminary framework to empirically examine the effect of MSWG in limiting managerial misconducts, particularly REM in the Malaysian setting. Second, the findings of this paper should be of interest to regulators and the MSWG as it highlights the significant role played by the MSWG in deterring REM, which is consistent with the MSWG objectives to limit unethical or questionable practices made by the management of public listed companies in Malaysia.

Some limitations of the current study are addressed in the following. First, the study only focused on family and foreign-owned businesses, even though in Malaysia there are other types of businesses such as government-owned businesses. Second, institutional investors can be categorized into short-term and long-term orientations. This study however only focused on the long-term orientation of institutional investors.

Future research could focus on different classifications of the MSWG portfolio. The MSWG portfolio can be classified into four categories: (i) FBM KLCI companies; (ii) MCG Index Top 100 companies; (iii) companies that subscribers want to monitor under the Subscribers' List; (iv) companies that warrant monitoring based on complaints received from shareholders, as well as those that impact the minority shareholder interests. Future research could use such classifications to examine different implications of MSWG monitoring on managerial misconducts.

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