THE RELATIONSHIP BETWEEN AUDIT COMMITTEES' SOCIAL POWERS AND PERCEIVED EFFECTIVENESS IN MALAYSIAN PUBLIC LISTED COMPANIES

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THE RELATIONSHIP BETWEEN AUDIT COMMITTEES' SOCIAL POWERS AND PERCEIVED EFFECTIVENESS IN MALAYSIAN PUBLIC LISTED COMPANIES

By

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ABSTRACT

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Annie Ng Cheng San

On-going frauds in the corporate world deteriorate the stakeholders' confidence towards the Malaysian capital market. Audit Committee (AC) is an important guardian to safeguard the governance practices in order to restore the stakeholders' confidence. Therefore, strengthening Audit Committee Effectiveness (ACE) has become a major concern for regulators, researchers, AC, and the public. This study aims to examine the relationship between the six social powers namely, independence, expert, legitimate, sanctionary, institutional support and diligence power, and ACE in Malaysian public listed companies to strengthen the ACE.

A quantitative study via electronic mail questionnaire was conducted to obtain feedback from external auditors who have close connections with AC. One hundred and forty eight responses were received and analyzed through SPSS statistical software to examine the relationship between social powers and ACE in the Malaysian context.

The empirical findings indicates that there is a significant and positive relationship between five social powers namely, independence, expert, legitimate, sanctionary and diligence power and ACE. Yet, insignificant relationship has been noticed between the institutional support power and ACE. Among these six social powers, diligence power is the most important contributor, which has the strongest relationship with ACE. Thus, the willingness to commit, prepare and actively participate in all related governance matters provide sufficient diligence power for the AC to perform its duties effectively.

This study narrowed the literature gap by contributing to the growing knowledge on AC and social power studies. It reveals the contribution of social powers in strengthening the ACE, which was largely overlooked in the Malaysian context. An effective AC needs social power. These empirical results highlight the regulators regarding the usefulness of social powers, which cannot be easily codified in the governance code in order to strengthen the ACE and governance development in Malaysia.

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APPROVAL SHEET

This dissertation/thesis entitled "**THE RELATIONSHIP BETWEEN AUDIT COMMITTEES' SOCIAL POWERS AND PERCEIVED EFFECTIVENESS IN MALAYSIAN PUBLIC LISTED COMPANIES"** was prepared by ANNIE NG CHENG SAN and submitted as partial fulfillment of the requirements for the degree of Master of Philosophy in the Faculty Business and Finance at Universiti Tunku Abdul Rahman.

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SUBMISSION OF THESIS

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DECLARATION

I hereby declare that the dissertation is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UTAR or other institutions.

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Date 29 MARCH 2013

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LIST OF ABBREVIATIONS

AC	Audit Committee
ACE	Audit Committee Effectiveness
ACI	Audit Committee Institute
AICPA	American Institute of Certified Public Accountants
b	Unstandardized regression coefficient
BM	Bursa Securities Malaysia Bhd
BMF	Bumiputra Mechant Finance
BRC	Blue Ribbon Committee
Email	Electronic mail
FCCG	Malaysia's Finance Committee on Corporate Governance
GAAP	Generally accepted accounting principles
IIA	Institute of Internal Auditor
KLSE	Kuala Lumpur Stock Exchange
MCCG	Malaysian Code of Corporate Governance
MIA	Malaysian Institute of Accountants

MICPA	Malaysian Institute of Certified Public Accountants
MMLR	Malaysia's Main Market Listing Requirements
NACD	National Association of Corporate Directors
r	Correlation coefficient
RLPI	Rahim Leader Power Inventory
SOX	Sarbanes- Oxley Act 2002
SPSS	Statistical Package for Social Sciences
VIF	Variation inflation factors
β	Standardized beta coefficient

CHAPTER 1

INTRODUCTION

Chapter 1 provides an overview of the research, which comprises of seven sections. First, section 1.1 discusses about the background of the study, which includes the formation of audit committee in Malaysia. It is then followed by the problem statement and the current issues faced by the audit committees (section 1.2). Section 1.3 outlines the research questions. Next, section 1.4 discusses on research objectives aimed to be achieved, and followed by the contributions of the study. Then, section 1.6 presents the structure and organization of the layout of thesis. Lastly, it is for summary of Chapter 1.

1.1 Background of the Study

The Malaysian Code of Corporate Governance (MCCG) defined corporate governance as the process and structure, which involve various participants to manage the organizations' prosperity and accountability with the ultimate aims of protecting and maximizing long term shareholders and stakeholders' welfare (Finance Committee, 2007). Strong governance is globally

recognized as the most fundamental for organization competitiveness, growth, and sustainability as it provides a stable base for companies to enhance the efficiency of capital market (Teh, Azrbaijani, & Ong, 2012). Audit Committee (hereinafter-called AC) is thus, introduced as a proactive oversight governance mechanism to monitor the reliability of financial reporting and audit quality in order to protect the shareholders' welfare. However, the ongoing high profile business failures and earnings restatements have led to high concerns over the effectiveness of AC (Song & Windram, 2004; Chan, Lau, & Ng, 2011).

The fall of Enron became the largest collapse in the corporate history of the world have alerted the financial statements' users. In November 2001, Enron, the American energy company had announced that its earnings had to be restated from the year 1997. Enron was the seventh largest company in the United States at that time. The news shocked the U.S. capital market. Subsequently, its stock price declined from US$60 to US$0.16 after the announcement of malpractices (Rahman, Burckel, & Mustafa, 2009). Enron's employees lost their jobs and their superannuation fund. In addition, shareholders lost all their investment when Enron collapsed (Arnold & Lange, 2004). A year later, WorldCom, one of the biggest telecommunication corporations found misstated revenue of approximately US$3.8 billion (Cullinan, 2004). Since the fall of Enron, there were thousands of companies' financial statement have revealed a restatement (Rahman et al., 2009). Since then, the dark chapter of corporate governance began

and thousands of criticisms on the AC had been received. AC's effectiveness (hereinafter-called ACE) is hence under scrutiny.

The ongoing accounting manipulations do not only happen in Western countries, but also happens in Asian countries as well. Recently, in January 7, 2009, a similar inflated earnings and asset fraud of US$1.5 billion found in Satyam, India. It was one of the four largest leading information technology companies in India (Gomes, 2009). The largest source of defalcation in Satyam was from an inflated amount of salary and bonus that were to be allocated to 10, 000 "fake" employees. Since then, Satyam was named as India's Enron and became the remark on the enormous crack of Asian corporate governance (Bidwai, 2009).

In Malaysia, a series of well-publicized fraud and financial restatement cases have been discovered as well. In year 2007, Transmile went into business collapse. It was once a share market darling and voted as one of the Asia's top 200 small and medium sized companies by Forbes Asia (Chong, 2007). Overstated revenue of RM622 million in the financial year 2004 to 2006 have been found in the company. As a result, the share price of Transmile dropped from RM15 to RM2 (Oh, 2010; Shamsul, Nor Zalina, & Mohamad Naimi, 2010). The aftermath of Transmile (dubbed Malaysian Enron), a similar case occurred

again in Megan Media Holding. The company was again found in a fraudulent trade and defaulted RM900 million of bank loans (Goh, 2007). Lee and Azham (2008) believed that all malpractices that occurred in Malaysia might just be a beginning. Many more cases that are similar may be discovered in future.

With all these corporate failures and earnings restatement practices happening in such a dramatic way, all shareholders have been astounded and their confidences shaken. The AC has been criticized on their capabilities as they failed to identify and prevent the catastrophic malpractices. The AC has let the shareholders down (Turley & Zaman, 2007). Weak corporate governance and ineffective AC are the main reasons of all these malpractices (World Bank, 1998; Khoo, 2003; Rahman & Ali, 2006; Tengamnuay & Stapleton, 2009). As a result, the importance of governance has been increasingly recognized by the world. More and more calls and pressures were raised for good governance and to tighten up the effectiveness of AC in all countries including Malaysia (Rezaee, Olibe, & Minmier, 2003; Rahman & Ali, 2006; Turley & Zaman, 2007). The idea of having an effective AC has become a major subject of concern for regulatory parties, investors, researchers and the public.

1.1.1 The Formation of Audit Committee (AC) in Malaysia

Today, the formation of AC is a compulsory procedure for all listed companies in Malaysia under Part C, Paragraph 15.09 of the Main Market Listing Requirements (MMLR). The MMLR Paragraph 15.09 also determines the compulsory requirements for AC's composition (Appendix 1) to be fulfilled by all listed companies. The mandatory requirement for AC's establishment was started since 1st August 1994. Prior to this mandatory requirement, the establishment of AC in Malaysia was first proposed by Bank Negara Malaysia in the year 1985. With the financial disaster incident of RM2.5 billion losses in Bumiputra Merchant Finance Berhad (BMF) during the year 1980, Bank Negara Malaysia required all the financial institutions to set up AC (Shamsul & Norita, 2004). Furthermore, the Malaysian Institute of Accountants (MIA) had submitted 263 pages of proposal memorandum "Fraud Prevention Measures" to the government in November 1988. The memorandum proposed the establishment of AC to enhance and safeguard the credibility of financial reporting. However, the AC formation was implemented based on a voluntary basis only (Rahmat, Iskandar, & Saleh, 2009).

The actual constructive development of mandatory for AC's establishment had only begun in the year of 1991. MIA, Institute of Internal Auditors (IIA) and the Malaysian Association of Certified Public Accountants

(currently known as the Malaysian Institute of Certified Public Accountants, MICPA) re-sent a memorandum to the Registrar of Companies, the Capital Issues Commission and Kuala Lumpur Stock Exchange (KLSE, currently known as Bursa Securities Malaysia Bhd, hereinafter-called BM). The institutes requested and stressed on the importance of the presence of the AC to safeguard companies' corporate governance. As a result, KLSE mandated the formation of AC for all public listed companies and they were given 12 months from 1st August 1993 to form it (Zulkarnain, Shamsher, & Mohd Saad, 2007).

The idea of an effective AC received attention once again when the Asian financial crisis happened in year 1997. According to Rahman and Ali (2006), the financial crisis was the turning point of corporate governance in Malaysia. Due to the impact of the financial crisis, the economic performance of Malaysia had been adversely affected. The KLSE Composite Index fell from 1271 points to 262 points within the year of 1997 and 1998, which represented 79 percent of the decline rate (Khoo, 2003). This financial crisis brought to the foreground of weak governance practice, little effective regulatory process and lack of transparency and reliability of the financial reporting process. The financial crisis, which was triggered together with the downfall of worldwide corporations, had resulted in a loss of investor confidence towards the capital markets (Ponnu & Ramthandin, 2008).

The crisis significantly altered the economic landscape in the Asian region. Against this backdrop, it emphasized the reformation, strengthens of the regulations, law, accounting practices and auditing standards in promoting better governance. Hence, Malaysia's Finance Committee on Corporate Governance (FCCG) was established in the year 1999 and followed by the establishment and enforcement of MCCG in March 2000. MCCG emphasized the importance of AC in improving the corporate decision-making, enhancing the monitoring function to improve the reliability and transparency of financial reporting together with promoting a healthier economy in Malaysia (Khoo, 2003). In year 2001, with the recommendation of MCCG, BM issued its revamped listing requirement for corporate governance and AC. The MCCG has been revised again in year 2007 to strengthen the AC duties and responsibilities, and revised the independence requirement to enhance ACE.

From the outlook, Malaysian corporate governance is ready. AC has been put at the forefront of the battle against fraud. The public expects the AC to enhance the reliability of financial statements and to protect their interests. However, corporate governance is always the toughest part. It requires an ideal control system and structure to regulate the attitude and behavior of directors and management. Mere formation of AC would not be able to solve all corporate governance problems in the companies (Sommer, 1991; Menon & Williams, 1994; Tengamnuay & Stapleton, 2009).

1.2 Current Issues of Audit Committee (AC) and Problem Statement

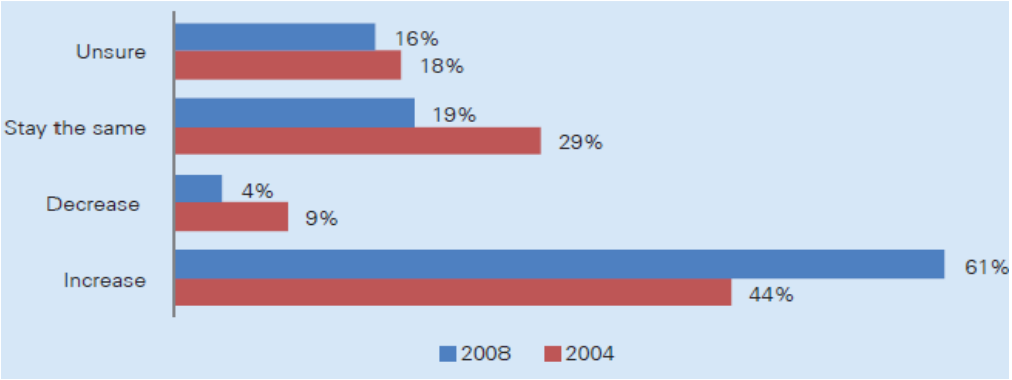
AC is the corporate guardian to enhance governance practice in terms of financial reporting, the quality of external and internal auditors (Simnet, Green, & Roebusk, 1993; Ismail, Mohd-Iskandar, & Rahmat, 2008; Chan, Lau, & Ng, 2011). However, the recent well-publicized corporate frauds showed that the ACE is in doubt. Shamsul, Nor Zalina, and Mohamad Naimi's (2010) concluded that that the increasing number of corporate collapses and frauds in Malaysia (Table 1.1) constantly erode the investors and shareholders' trust towards the Malaysian capital market. All these reported frauds might only be a tip of the iceberg. There will be much more similar cases, which occur in the future (Lee & Azham, 2008). Hence, maintaining the shareholders' confidences towards Malaysian capital market has become the major task for AC.

Table 1.1: Examples of Recent Financial Restatements Cases in Malaysia

Year	Company	Alleged Offence
2000	Tat Sang Holdings Bhd	Submission of false statements
2002	Granasia Corporation Bhd	Submission of false statements
2003	Polymate Holdings Bhd	Submission of false statements
2005	Wimems Corporation Berhad	Submission of false statements
2005	Goh Ban Huat Bhd	Submission of false statements
2006	Welli Multi Corporation Berhad	Submission of misleading statements
2006	GP Ocean Food Berhad	Submission of misleading statements
2007	Mems Technology Berhad	Submission of misleading statements
2007	Transmile Group	Submission of false statements
2008	Satang Holding Berhad	Submission of false statements
2010	Actacorp Holding Bhd	Market Manipulations
2010	INIX Technologies Holdings Bhd	Submission of false informations
2011	Kosmo Technology Industrial Berhad	Submission of false statements

Source: Securities Commission of Malaysia

In addition, the latest KPMG Malaysia Fraud Survey Report (2009) has proven that the financial statement frauds have become a major threat in Malaysia's capital market. The survey showed that 49 percent of the surveyed companies experienced at least one fraud case. In addition, the majority of the survey respondents (61 percent) perceived that the fraud would be ongoing and would increase in the coming two years. This depicted an increment of 17 percent as compared to the previous survey in year 2004 (Figure 1.1). Additionally, 63 percent of the targeted respondents in the survey assented that there is a need to increase the role of AC as well as to strengthen the ACE in order to mitigate the risk of fraud. Therefore, stronger corporate governance practice and more effective AC are needed in the current Malaysian capital market.



Source: KPMG Malaysia Fraud Survey Report (2009)

Figure 1.1: Respondents' opinion on whether fraud will rise over the next two years.

Notwithstanding, the AC formation is a common global governance mechanism, but the ultimate effectiveness of AC is still in doubt (Kadir, 2002). The ACs do not carry out their functions effectively. Questions are frequently raised by shareholders on the AC ability to perform up to the expectations. Sommer (1991) urged that the increasing trend in AC's popularity does not guarantee its effectiveness in oversight functions. Shamsul (2002) found that, the majority of Malaysian's public listed companies establish AC in order to fulfill the MMLR. With such a motive, the AC formation in Malaysia is seen as a box ticking action. Lavelle (2002) also stated that the entire formal guidance on the AC characteristics seems to have little impact on enhancing the ACE in order to strengthen the corporate governance structure. Hence, factors that enhance the ACE have become the major interest for the regulators, academicians, practitioners and the public.

In the past studies on AC, several gaps have been identified. First, most of the AC studies focused on the economic perspective, Agency Theory, and governance characteristics (Menon & Williams, 1994; Klein, 2002; Chau & Leung, 2006; Rahmat, Burckel, & Mustafa, 2009; Rupley, Almer, & Philbrick, 2011). However, the past studies assented that the Agency Theory and formal characteristics might not be the sole factor and theory to capture the effectiveness of AC's dynamicity (Kalbers & Fogarty, 1993; Carcello, Hermanson, & Ye, 2011). The Agency Theory may not fit for all governance processes especially in

the complex public listed companies' environment (Turley & Zaman, 2007). It ignores the behavioral assumptions, social system, and social power in the organization (Saam, 2007). Bedard and Gendron (2010) concluded that the past studies have neglected the sociology perspective, to determine the contribution of Social Power Theory, which might help to explain the ACE in a more comprehensive manner. However, the past studies ignored the sociology perspective that might lead to enhance the ACE.

Next, social power is a natural process and exists in every organization. Without it, leaders may not be able to lead the organization (Shailendra, 2004). Thus, every organization member needs social power as well as the AC members. Bedard and Gendron (2010) suggested that the Social Power Theory can be one of the useful frameworks to lead the regulators, academicians and the public to understand further the dynamics of ACE. Saam (2007) also proposed that the social power would resolve the agency problems faced by the organization. According to Turley and Zaman (2007), if an effective AC is to be realized, then the social power would be deemed as one of the important devices in strengthening their oversight functions. Consequently, to enhance the ACE, it is essential for the members to understand, develop, and exercise the social power bases surrounding them. However, only limited past studies discovered this gap. Albeit, the Social Power Theory or ACE, which has been widely discussed in the prior literature, there are still limited studies applying the Social Power Theory to

gauge the relationship between the social power and ACE. It remains unclear which social power is important to strengthen the ACE in Malaysia.

In addition, the prior studies on social power or ACE were mainly conducted in the Western countries (Chau & Leung, 2006). Shamsul, Nor Zalina, and Mohamad Naimi (2010, p. 528) assented that "each country is unique". The authors stressed that the cultural setting, ownership structure, and regulatory framework of Malaysian public listed companies is different as compared to the developed market. So far, only a minority of research has been conducted in Malaysia, where the capital market and corporate governance structure are still evolving (Yatim, Kent, & Clarkson, 2006). Additionally, the findings in Fletcher and Melewar (2001) also proved that there were major differences between the developed and emerging market. For example, developing market like Malaysia is being characterized as high power distance country. It is based on autocratic and hierarchy culture. By contrast, developed market tends to be categorized as low power distance, which is based on the democratic culture. As a result, given with all these different settings, the examination of the relationship between social power and ACE in Malaysian public listed companies would yield different results and implications (Hofstede, 2001; Mazlina & Nava, 2007). Hence, applying the Social Power Theory into ACE in developing markets such as Malaysia is deemed necessary (Rahim, Khan, & Uddin, 1994; Goodwin, 2003; Carcello, Hermanson, & Ye, 2011).

Therefore, this study aims to fill in the gaps of the past studies by incorporating the Social Power Theory to examine the relationship between the social power and ACE in Malaysia from the perspective of external auditors.

1.3 Research Questions

This study aims to examine whether social power has a significant relationship with the ACE in Malaysian public listed companies from the perception of external auditors. The specific research questions of this study are as follows:

RQ1. Is there a significant and positive relationship between the six social powers (independence, expert, legitimate, sanctionary, institutional support and diligence power) and ACE in Malaysian public listed companies?

RQ2. Among the six social powers proposed (independence, expert, legitimate, sanctionary, institutional support, and diligence power), which social power has the strongest relationship with ACE in Malaysian public listed companies?

1.4 Research Objectives

Based on the above research questions, the study objectives are set as below to narrow down the gap between the ACE and those social powers associated with it within the Malaysian context.

Main Objective:

The primary objective of this study is to examine the relationship between the social powers and ACE in Malaysian public listed companies from the external auditors' point of view.

Specific Objectives:

1. To examine the relationship between the six social powers (independence, expert, legitimate, sanctionary, institutional support, and diligence power) and ACE in Malaysian public listed companies.
2. To examine which social power (independence, expert, legitimate, sanctionary, institutional support, and diligence power) has the strongest relationship with ACE in Malaysian public listed companies.

1.5 Contributions of the Study

Business frauds are an ongoing reality in Malaysia. Frauds sink the organization, deteriorate the investors' confidence, and therefore, lead to the loss of investment interest in the Malaysian capital market (Shamsul, Nor Zalina, & Mohamad Naimi, 2010). Hence, maintaining the investors' confidence and trust is the primary aim. AC is expected to become the most important guardian to ensure integrity and reliability of financial reporting. Consequently, the expectations for an effective AC have increased dramatically. However, the purported advantages of having AC are not being realized in practice. The former chairperson of BM, YBhg Datuk Ali Abdul Kadir commented that AC in Malaysian public listed companies is not effective (Kadir, 2002). The current formal guidelines and regulations seem to have limited impact in enhancing ACE. Hence, ways or factors to enhance the ACE in a comprehensive manner are needed and it becomes the major interest for the regulators, academicians, and practitioners.

This study aims to examine the relationship between six social powers and ACE in Malaysian public listed companies from the perceptions of external auditors. The empirical findings would contribute in several ways as follows:

1.5.1 Contributions to Body of Knowledge

Corporate governance involves a social system among various participants to direct the organization performance and to maximize shareholders' welfare (Cheah & Lee, 2009). Social power is to bring about changes in organizations and lead to a better governance outcome (Shapiro, Ingols, & Blake-Beard, 2011). To safeguard the governance development, it is best implemented with social power usage. Kalbers and Fogarty (1993) agreed with the conclusion above and emphasized that an effective AC member needs social power in performing their duties, to influence all governance players and to make sure of alignment with shareholders' interest. As a communication bridge between the auditors, board of directors and the management, AC needs social power to act and influence all the relevant parties in the social network in order to accomplish sound governance practices.

Additionally, Saam (2007) proposed that the social power could be a new mechanism to resolve agency problem by strengthening the ACE. It is always not enough to focus on the AC characteristics in order to strengthen the governance effectiveness. To enhance the ACE, it is necessary to examine the nature of influence and interaction process in which AC utilizes the social power bases among the governance players (Cohen, Krishnamoorthy, & Wright, 2008).

However, limited empirical research has examined the social power in ACE especially under the Malaysian context. Thus, this study aims to close the literature gap through the examination of the relationship between social power and ACE, which has been overlooked thus far by the previous studies on AC (Bedard & Gendron, 2010; Carcello, Hermanson, & Ye, 2011).

The significant empirical findings would help to recognize the usefulness and importance for the Social Power Theory. It assists the governance development to include these social power bases in order to strengthen the board effectiveness. The significant result of Social Power Theory and ACE aims to provide an alternative theory to enhance the design of governance development and structure in Malaysia. It leads to understanding the dynamics of ACE in a way that is more comprehensive and largely unexplored in Malaysian context.

Additionally, this study adds on to the majority of past studies conducted in Western countries and provides essential highlights about the attentiveness and understanding of social power development in ACE within the Malaysian public listed companies. As compared to Western firms, Malaysian public listed companies are categorized as in the autocratic culture and developing stage. Thus, the empirical results are expected to bring significant implications on the difference of cultural nuances between developing capital market and developed

capital market. Given with all these differences in the cultural setting and regulatory framework, this would contribute additional knowledge and evidences for future studies. It helps to concern about the different cultural preference on the ACE studies.

1.5.2 Contributions to Audit Committee (AC) Practices and Policy Recommendation

Different cultural settings influence the preference of social power usage and acceptance in the organization (Lo & Ramayah, 2011). Under the sociological context, social power is an essential predictor of the effective AC. However, the AC members lack of utilization of social power to perform their oversight duties effectively (Cohen, Krishnamoorthy, & Wright, 2008). Additionally, social power can gain from different bases and might yield different implications in the organization. Without a full understanding of the social power dynamic, there is high potential of misuse the social power and cause failure of effectiveness. Primarily, this study helps to discover the effective usage and practice of social power development, which are specifically fit for AC members in Malaysian public listed companies. It helps the AC members to recognize the social power surrounding them and guide them to utilize the social power appropriately and effectively. It guides and provides recommendations to determine which social

power base has the strongest relationship with ACE, which is suitable to be used in this high power distance and developing country like Malaysia.

Additionally, in these current complex business environments with challenges posed by the economic downturn and ongoing fraudulent activities, it is critical albeit challenging for the policy makers to strengthen ACE. ACE is essential to promote the strong governance practice and maximize the protection for stakeholders' interest. Thus, the empirical findings would provide significant evidence and understanding, which is important to relevant parties such as BM, FCCG, other regulators, the board of directors, and shareholders. It will shed some lights on the regulators to identify the AC's social power, which in turn promotes the effectiveness that cannot easily be codified in the governance code. Consequently, it is expected to convey an important message to the related parties in order to improve the design of corporate governance development and structure in Malaysia.

Most notably, a strong governance structure will strengthen ACE and lead to better governance practice in public listed companies. All these would help to sustain and improve the stakeholders' confidence in Malaysia's capital market. Hence, in order to reduce the growth of fraudulent activities and maximize the protection of shareholders, the related parties should identify and

implement the corporate governance best practice that aligns with the current needs as suggested in this study later.

1.6 Organization of the Study

Chapter 1 discusses the background of AC globally and the corporate governance practices in Malaysia. Then, the problem statement and the current issues in AC studies, research questions, and objectives are included. Lastly, discusses the theoretical and practical contributions of this study.

Chapter 2 provides discussion on the background and literature of AC, including the development of AC theories together with the theoretical framework and hypotheses to be tested.

Next, Chapter 3 presents the research methodology, which including the research design, target population, data collection technique, and measurements for each variable. Chapter 4 discusses the results of statistics analysis. Lastly, Chapter 5 provides discussion of the findings, implications, research limitation, and future recommendations of this study.

1.7 Conclusion

With the increasing trends of the corporate scandal and earnings restatement cases, more and more calls have risen up for a more effective AC. New challenges are posed to AC members as well as regulators to strengthen the ACE. To capture true board effectiveness, there is a need to identify the linkage of the utilization of social power for AC members to interact and performing the oversight roles to achieve the desired effectiveness. Different social powers bring different implications for ACE. Thorough understanding of social power helps to alert the AC members of the dynamics of social power surrounding them and lead them to utilize the social power in order to enhance the ACE.

However, limited attention has been given to the issue of social power in ACE in the past studies. Hence, in order to fill up the gap in the past literature, this study aims to investigate the sociology perspective in order to test relationship between the social power and perceived ACE with the development of the above research questions and objectives.

Next, Chapter 2 reviews the past literature of AC and social powers, including the development of AC theories together with the proposed conceptual framework and hypotheses for this study.

CHAPTER 2

LITERATURE REVIEW

Increasing financial restatements cases and frauds require AC to function as an effective oversight mechanism. Thus, this study aims to investigate the sociology perspective, to examine the relationship between social power and ACE to strengthen the ACE in Malaysian public listed companies. In Chapter 2, it focuses the past researches on the ACE and social power. The first section provides comprehensive review on secondary sources of data including the definition of AC and ACE. Follow by, the discussion on Social Power Theory in order to guide the empirical research. Next, there will be discussion and overview of past studies related to social power associated with ACE. Finally, the proposed conceptual framework model and six hypotheses of this study will be developed.

2.1 Definition of Audit Committee (AC)

The term Audit Committee (AC) has been defined in various studies. The word Audit, originated from the Latin word Audire. It means to check, investigate and verify the financial record to identify any fraud and material

misstatement (Ruin, 2003). Whereas, the word committee means, a team appointed to perform specific functions (Cassell dictionary as cited by Ruin, 2003). According to Collier's study (as cited by Zulkarnain & Yusuf, 2006), with the numerous businesses collapsing and malpractices happening, there has been an increase in the requirements and ways of defining AC. Below are some of the examples in defining the AC:

Treadway Commission (1987) defined AC as the keystone committee comprising of independent directors to serve as a primary vehicle for the board of directors in order to discharge their responsibilities concerned on the company's financial reporting.

According to Zulkarnain, Shamsher, and Mohamad Ali (2001a; b), AC is a committee consisting of the independent directors who are responsible for overseeing and monitoring management in the financial reporting process.

Gendron and Bedard (2006) recognized AC as one of the main governance mechanisms, which aims to reduce agency issues and "predicated stakeholders' hopes" by ensuring the alignment of interest between the management and shareholders (p. 211).

In Malaysia, the Securities Commission (2007) revised the MCCG and listed down the AC as a committee, which consists of not less than three member from fully non-executive directors and majority of whom are independent to review the financial report, enhancing companies' accounting and internal control system and safeguarding the independence of internal, external audit functions, reviewing the findings from auditors and lastly, making recommendations on the nomination and remuneration of external auditors.

According to the Johl, Nava, and Mazlina (2012), AC serves as the communication bridge between the management and auditors, and acts as the oversight mechanism to improve the overall financial reporting process.

From the past literature review above, it does not matter if it is in a Western or a Malaysian context, it is observed that the definition of AC has generally included the description of members' status, composition and the roles anticipated. Therefore, all findings concluded that AC is a sub-committee of the main board, which consists of non-executive (independent) directors, and plays an important role in promoting effective governance, overseeing the reliability of financial reporting, audit and internal control.

2.2 Audit Committee Effectiveness (ACE)

The ongoing frauds make it obvious that having an AC does not directly translate into an effective governance mechanism (Turley & Zaman, 2004). Questions and curiosity arose about the extent of how AC is considered as effective and what is ACE. The word effective means the capability to produce successful outcomes (Hornby, 2010). Additionally, the Merriam- Webster Online Dictionary defines the effective as producing a three Ds effect, "a decided, decisive, or desired effect" (as cited by Bedard & Gendron, 2010, p. 181).

In the past, a majority of studies agreed that the ACE is the AC's composition, authority, resources and diligence (DeZoort, Hermanson, Archambeault, & Reed, 2002). However, Kalbers and Fogarty (1993, p. 25) highlighted that the past studies "may not have adequately separated outcomes from process effects" in defining ACE. The authors urged that the researchers should adequately separate between effectiveness and factors that influence committees to be effective in defining the ACE clearly. As a result, ACE should focus on their oversight objectives and outcomes (Kalbers & Fogarty, 1993; 1998).

Similarly, DeZoort et al. (2002, p. 41) stated that: "an effective AC shall be able to protect the shareholders' interest by ensuring the reliability of financial reporting, internal control, and risk assessment management." The authors stressed that AC is effective when they managed to achieve the ultimate goal that is to protect shareholders' welfare. Consistently, Shamsul and Ku Nor Izah (1999) also asserted that AC is effective only when they perform the mandated function effectively.

Thus, this study defines that ACE refers to the potential capability in achieving desired governance outcomes in three main areas:

- financial reporting (McDaniel, Martin, & Maines; 2002; Ismail, Mohd-Iskandar, & Rahmat, 2008; Rahmat, Iskandar, & Saleh, 2009; Shamsul, Nor Zalina, & Mohamad Naimi, 2010; Kang, Kilgore, & Wright, 2011);
- internal control or internal auditing activities (DeZoort, 1998; Goodwin, 2003; Joshi & Wakil, 2004; Yatim, 2009); and
- external auditing activities (Collier & Gregory, 1992; Abbott & Parker, 2000; Archambeault & DeZoort, 2001; Bliss, Muniandy, & Majid, 2007).

However, an active or passive role of AC is in the oversight areas as they are mainly related to the theory, which underpins its effectiveness (Spira,

1998; Tengamnuay & Stapleton, 2009). Therefore, the next section will discuss on the AC theories, which underpin the motivation of AC formation and its effectiveness.

2.3 Audit Committee (AC) Theories and Perspectives

Generally, there are four theoretical perspectives guiding the AC's formation and its effectiveness in the past studies (Bedard & Gendron, 2010). It includes legal, psychological, economic, and sociological standpoint.

First, AC formation is a fulfillment of the legal requirement from the legal perspective. They believe that through enforcement of regulations, it leads AC to fulfill their oversight functions effectively (Shamsul, 2002; Al-Sa'eed & Al-Mahamid, 2011). However, some past studies opposed the legal viewpoint (Sommer, 1991; Menon & Williams, 1994; Spira, 1999; Shamsul, 2002). These studies emphasized that the mandate of AC is to fulfill the entire regulatory requirement, but it does not guarantee ACE. The findings of Shamsul's (2002) study depicted that, most of the public listed companies in Malaysia formed AC because of compliance of the MMLR. As a result, the AC formation under the legal perspective only encourages the box-ticking approach. It only provides symbolic roles rather than the substance to understand and improve the true

effectiveness for AC (Cohen, Krishnamoorthy, & Wright, 2008). It has a limited impact to enhance the ACE.

The second viewpoint in AC research derives from a psychology perspective. From this perspective, it uses the Resource Dependence Theory to examine the ACE (Gibbins, McCracken, & Salterio, 2007; Nelson & Jamil, 2012). Psychologist believed that AC's external resources such as their expertise, experience, knowledge, information, better perspective taking ability and accountability would be able to serve better and be more effective in their oversight function. However, in the latest findings of Nelson and Jamil (2012), the study reported that this theory fails to support and enhance the ACE. Kalbers and Fogarty (1998) and Turley and Zaman (2007) commented that the ACE cannot be predicated solely on the members' characteristics. Without understanding the AC governance influence and interaction process, the existence of characteristic like AC's expertise may "nonetheless be unable to sufficiently fulfill its role (Cohen, Krishnamoorthy, & Wright, 2008, p. 193). Similarly, Carcello, Hermanson, and Ye (2011) also urged that the researchers should investigate the utilization of the characteristics in the AC's governance process rather than the simple existence of formal characteristics.

Next, the most famous theory applied in the majority of ACE studies is drawn from the Agency Theory. This theory originated under the economic perspective. It emphasized the conflicts between principal and agent relationship. Jensen and Meckling (1976) stated that, a contractual relationship exists between the principal (shareholders) and the agent (management). Principals will delegate the decision-making authority to the agents. Therefore, the agent owes the principal a fiduciary duty to be concerned about and to safeguard the shareholders' welfare.

However, this theory reminds the public about self-interest bias in the business environment. When there is separation of management and ownership, the agency issues will raise such as conflict of interest, different risk preference and information asymmetry (Petrina, 2005; Saam, 2007). All these issues will increase the agencies' cost and harm the shareholders. To prevent the agents' opportunistic and individualistic behavior, the theory suggests developing a monitoring system like AC (Chau & Leung, 2006). AC should be placed to provide an important means for internal monitoring to minimize the opportunistic behavior of management and prevent fraudulent activities (Fama & Jensen, 1983a; Kalbers & Fogarty, 1998).

Yet, the Agency Theory has received criticisms. According to Perrow's study (as cited by Saam, 2007), the Agency Theory only focuses on one paradigm and single human nature in a complex organization. It might not capture the complete picture of a complex organization structure. The Agency theory ignores the social systems and network in the organization (Turley & Zaman, 2007). Kalbers and Fogarty (1998, p. 144) emphasized "it is not safe to assume that all committees naturally possess a certain degree of effectiveness". The theory stresses on the importance of having a monitoring mechanism like AC, but it does not translate directly to guarantee that AC is effective in governance oversight.

In the latest study conducted by Nelson and Jamil (2012), the findings indicated that the Agency Theory fails to enhance the ACE and corporate governance effectiveness. Furthermore, Chariri (2008) also criticized that the Agency Theory is over mechanistic. The theory dehumanizes the AC members. It believed that once the AC is placed on the organization, they could automatically perform their function effectively. The theory has ignored the spectrum of human behavioral and social power influence within the organizations (Kanter, 2005; Saam, 2007). In order to develop and maintain the sound governance practice, AC members need sufficient social power to act and to influence the related parties and governance process in order to strengthen their oversight effectiveness.

The fourth theory was drawn from the sociological perspective. One of the sociological perspectives used the Social Power Theory as a useful framework to enhance the ACE (Bedard & Gendron, 2010). Turley and Zaman (2007, p. 769) purport that the social power held by AC "have an impact on, be affected by, and exercise powers from a variety of sources". Among all these four theoretical foundations, sociological perspective was less explored in the AC context (Bedard & Gendron, 2010; Al-Sa'eed & Al-Mahamid, 2011). A comprehensive understanding of ACE dynamics can be explained through the Social Power Theory. According to Ng, Krishna, and Choe (2012), social power is an important indicator to enrich the ACE. In every organization process, decision-makings, and resolutions, the utilization of social power is needed. Social power is a means to develop the ACE (Kalbers & Fogarty, 1998). However, to date which social power has the strongest influence on the ACE remains unknown.

As a result, in this study, the Social Power Theory is used to examine whether the social power is significantly related to ACE. The following section will discuss in detail, the Social Power Theory as a theoretical framework to support the desirable powers to underpin the ACE.

2.4 Overview of Social Power Theory Past Studies

2.4.1 Definition of Social Power

According to Ng, Krishna, and Choe (2012), social power is a natural and compulsory process in every organization regardless of the types of organization. Additionally, McClelland and Burnham's study (as cited by Elangovan & Xie, 2000), concluded that the achievement, utilization and maintenance of social power is the most socially motivating process, which occurs in every organization. It is needed for every decision to be made in the organization. In the study of Russell, the understanding of one's social power is the most essential aims of social science studies (as cited by Lucas & Baxter, 2012).

In spite of this, defining the social power is not simple. In the past studies, the terms "influence", "social power," or "authority" were often used interchangeably. However, the three terms bring different meanings. The social power is defined as the potential ability to act, influence, and defend all resistance to achieve the desired outcome (Robbins, DeCenzo, & Coulter, 2011). Influence refers to the actual exercise of powers (Koslowsky & Stashevsky, 2005). The reason why these two terms "social power" and "influence" were used interchangeably was due to the absence of a verb form in social power (Lucas & Baxter, 2012). On the other hand, the concepts of "authority" or "social power"

are also often being confused of carrying the same meaning but in reality, they are not. Authority is the right given through the formal position or mandatory regulation. It is called as legitimate power. However, social power is a broader concept than an authority (Elias, 2008). Example, social power might be obtained through diverse ways like through the knowledge, experience and expertise of the power holders (expert power) or one's independent standing (independence power). It might not solely obtain through one's formal position (authority).

The various definitions of social power always depend on the research functions, areas of interest and objectives (Kim & Guan, 2010). This study does not state that the concepts used in the past studies were incorrect. Rather, the clarification of terminology above helps to provide a clear distinct. Regardless of the difference in definitions of social power, it is generally agreed that social power is the potential ability to act, influence, and defend against all resistance to accomplish the objectives successfully within the organization (Robbins, DeCenzo, & Coulter, 2011). In addition, Kim and Guan (2010) also highlighted that social power is not solely on the existence of certain characteristics of an individual but the interaction and influence of self and others based on those characteristics.

Furthermore, the perceived social power is used as the proxy for desired outcome rather than the actual power in the past studies (Liao, 2008; Lo & Ramayah, 2011). According to Aguinis, Ansari, Jayasingam, and Aafaqi (2008), the perceived social power equally represents the actual influence of social power. This is because "simply perceiving that an individual has power to affect oneself helps create the reality of that power, insofar as one's belief, intentions, and actions change as a result of that perception" (Farmer & Aguinis, 2005, p. 1069). Therefore, when one perceives that the individual holds the power, it creates the reality of the individual being near to the power core and has the potential ability to achieve the desired goal. Hence, the following discussion on social power refers to the perceived social power rather than the actual power itself.

2.4.2 French and Raven's Social Power Taxonomy

Several conceptualizations of social power have been proposed in the past studies (Table 2.1). Undoubtedly, the social power taxonomy proposed by French and Raven (1959) and later modified by Raven (1965) is the best known and a useful framework (Jayasingam, Ansari, & Jantan, 2009; Jain, Giga, & Cooper, 2011).

Table 2.1: Examples of Several Social Power Taxonomy in the past studies

Authors	Proposed Social Power Taxonomy in different context.
Handy (1978)	• Physical Power • Reward/ Resource Power • Position Power/ Legitimate Power • Expert Power • Personal Power/ Charisma • Negative Power
Morgan (1990)	• Decision Making Power • Discretion Power • Power through control of resources • Power through control of knowledge and network
Merlo (2009)	• Bureaucratic Power • Critical Contingencies Power • Network Power. • Psychological Power

Source: Merlo (2009); Isosaari (2011)

In year 1959, social psychologists French and Raven developed the first formal Social Power Theory named "The Bases of Social Power." Originally, it consisted of five main power bases: coercive, reward, legitimate, expert, referent powers. Subsequently in the year 1965, Raven added the informational power as part of the social power taxonomy to enhance the magnitude effect of social power (Raven, 1965). The six bases of social power are shown in Table 2.2.

Table 2.2: The Bases of Social Power

Social Power Bases	Definition
Coercive power	Ability to influence and force a party to obey by using punishment.
Reward power	Ability to influence using his/her power to give the valued material rewards such as money, opportunity.
Legitimate power	Ability to influence others' behavior by using the holder's respective position or formal authority in the organization.
Expert power	Ability to influence others derives from the holder's skills, knowledge, experience, and expertise.
Referent power	Ability to influence others based on the charisma and interpersonal skill of the holder. This means that the holder is respected, admired, and liked.
Informational power	Ability to control the information or resource needed for decision-making process.

Source: Robbins (2005)

Since the publication of French and Raven's social power taxonomy, it has been carried out in various settings studies (shown in Table 2.3 below). It has been applied, expanded, and modified in association with different factors such as organizational and personal effectiveness; supply chain management and satisfaction; supervisor and employee relationship management in accounting and auditing settings; students' satisfaction and knowledge-sharing behavior. As a result, the social power bases proposed by French and Raven (1959) and Raven (1965) are the most widely adopted social power taxonomy.

Table 2.3: The Application of French and Raven Social Power Taxonomy in Diverse Studies

Settings	Authors	Objectives
Accounting/ Auditing	Hian and Chan (1997)	To examine the relationships of French and Raven's (1959) five power bases and the subordinate compliance and satisfaction with superior for Singapore's accountants. 355 questionnaires received from the accountants listed from Institute of Certified Public Accountants of Singapore.
	Fedor and Ramsay (2007).	To test the relationship of reviewers' coercive, referent and expert powers towards preparers' responses to audit review (performance improvement effort, feedback seeking and impression management). This study targeted the 156 auditors from the Big-six accounting firms.
Educational	Standifird et al. (2008)	Test the social power and empathy effects towards the students' satisfaction in education setting. Referent and Expert power are categorized into rational tactics influence. Strong tactics were referred to Reward, Coercive and Legitimate power. The study added the Empathy variables as the soft tactics of influence towards students' satisfaction.
Marketing	Crosno, Freling, and Skinner (2009)	To propose and to examine the modified fivefold French and Raven (1959) social power bases namely, legitimate, reward, coercive, expert and referent brand social powers and the brand equity. 201 students enrolled in Southeastern University's marketing course are targeted.
	Goodrich and Mangleburg (2010)	To examine the parental and peer influence of social power towards the teen purchasing decision by applying the five bases social power taxonomy proposed by French and Raven (1959). Sample targeted 175 students in three public high schools in the Southeastern U. S. City. 149 feedbacks were useable.

Continue next page

Table 2.3 continued: The Application of French and Raven Social Power Taxonomy in Diverse Studies

Settings	Authors	Objectives
Organization and Management	Kim and Guan (2010)	To examine the relationship between the five power bases and educational orientation towards subordinates' work autonomy and satisfaction with supervision in Malaysian manufacturing companies.
	Jain et al. (2011)	To investigate the modified French and Raven's social power (Reward power: Intra- work reward and Extra-work reward; Legitimate, Informational, Referent, Coercive and Expert power) effects towards the personal and organizational effectiveness with the mediator variable of organizational citizenship behavior. Self- administrative questionnaires conducted in motorcycle manufacturing organizations in Northern India.
Supply Chain	Benton and Maloni (2005)	To investigate the relationship between the powerful effect driven by the buyer and seller relationship and supplier satisfaction. This study targeted the five main automobile manufacturers with total 195 respondents participated.
	Williams and Moore (2007)	Determine the effects of powers (coercive and non-coercive powers) on the supply chain relationships and information capabilities.

However, to date, less attention has been given to the social power in the corporate governance setting. A corporate governance mechanism like AC is needed to monitor the management, corporate internal control, external auditing, as well as the financial reporting process. Social power brings the strategic change and lead to better organization effectiveness as well as personal effectiveness (Jain, Giga, & Cooper, 2011). Hence, social power might assist the AC members to oversee their duties effectively (Turley & Zaman, 2007). By applying the

Social Power Theory in ACE context, it would be helpful for AC members to be aware of the multiple sources of social power surrounding them and provide a more comprehensive way of understanding the dynamic of ACE (Bedard & Gendron, 2010).

2.4.2.1 Social Power and Audit Committee Effectiveness (ACE)

The mere existence of AC does not enhance their effectiveness. Cohen, Krishnamoorthy, and Wright (2008) stated that the AC members may have all the necessary characteristics like independence and expertise, "but lack of sufficient power to fulfill their responsibilities effectively" (p. 195). An effective AC must hold sufficient social power to oversee their function effectively (Kalbers & Fogarty, 1993).

According to Turley and Zaman (2007), every public listed company is a social system. It involves norms, social interactions, and influences. With the responsibilities assigned to AC, they need to monitor, review, and recommend the financial reporting, internal and external audit process, and quality. Besides, they also act as the liaison between the board of directors, the management, external and internal auditors. Consequently, AC members must have the ability to convince and to interact with the relevant parties that their recommendations are

worth pursuing and will lead to governance effectiveness. As such, an effective AC must rely on the social power as to strengthen their ability to act and influence others. Therefore, social power is discovered as a core for the committee. It might lead to a better understanding of the dynamics of ACE.

Kalbers and Fogarty (1993) were the first to adopt the Social Power Theory in the ACE context. The authors aimed to investigate the relationship between six social powers with the ACE in 90 United States companies selected from Value Line Investment Survey. Due to the different contexts and discipline, Kalbers and Fogarty (1993) advised that the six social power categories originated from French and Raven (1959) and Raven (1965) needed to be reassessed and renamed for a better fit in ACE studies.

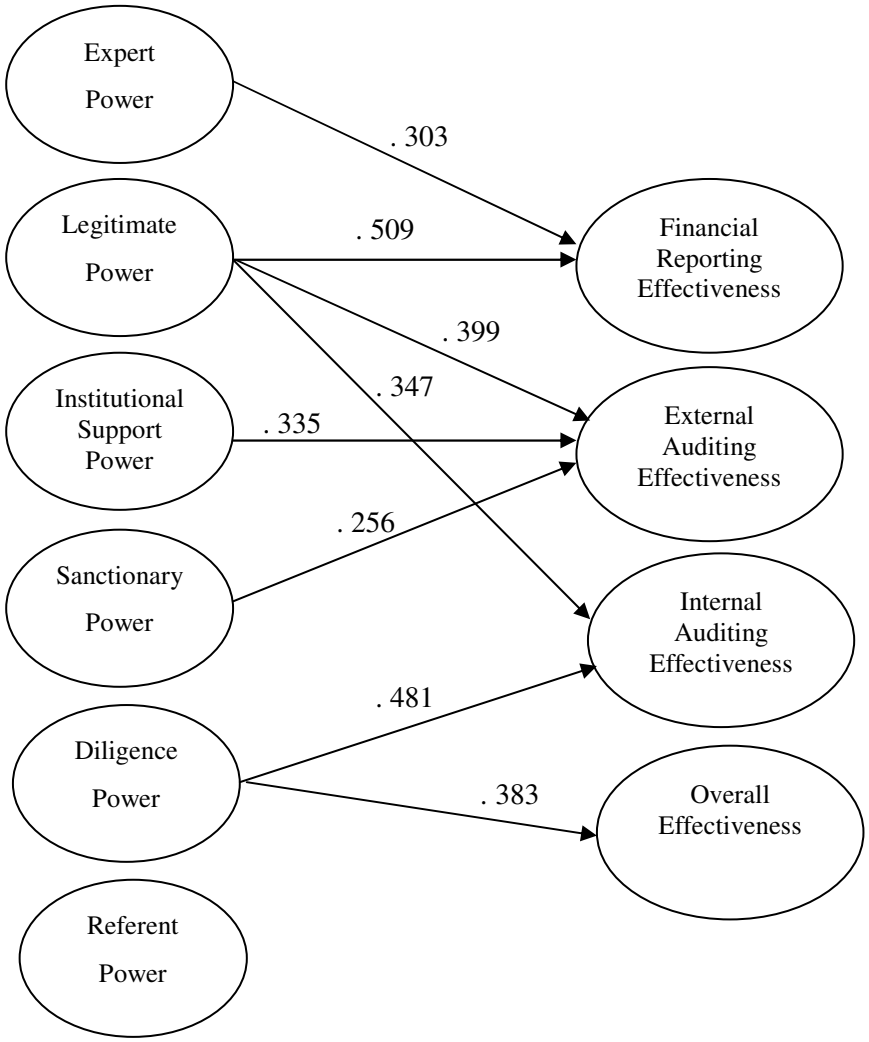
Among the six social powers, Kalbers and Fogarty (1993) found that the legitimate power and diligence power have the most profound and positive relationship with the ACE in terms of all oversight functions. Followed by, the institutional support power as another significant element to enhance the ACE. Expert and sanctionary power were found to have a significant relationship to the AC oversight function in terms of different effectiveness perspectives. However, the result discovered that the relationship between referent power and ACE is not significantly supported. It might be because referent power is only suitable for the

management level, which needed daily interaction, but AC does not involve in the executive roles, as they need to maintain the independence stance. Furthermore, the AC refers to a team rather than individuals (Carcello, Hermanson, & Ye, 2011). As a result, the charisma and individual personality do not contribute to the ACE. The modified AC social powers are shown in Table 2.4 below. Figure 2.1 shows the conceptual framework and relationships proposed in Kalbers and Fogarty's (1993) study.

Table 2.4: Modified Social Power in ACE studies

Social Power Bases	Definition
Legitimate power	Ability to influence and act based on the AC widely accepted authority.
Sanctionary power	Combination of coercive and reward power. It refers to the AC's ability to review, make decisions and manipulate rewards and punishment such as the audit fees to other related parties including the board of directors, external and internal auditors.
Institutional Support power	It is originated from the informational powers. The institutional support power refers to the ability to influence and act based on the supportive relationship and the informal communication among the governance parties.
Expert power	Ability to influence and act based on AC's expertise and skills and cause others to respect
Referent power	It refers to adequate personalities or charisma which is able to influence others
Diligence power	Ability to act and influence based on the AC's preparation, readiness, involvement, and persistence.

Source: Kalbers and Fogarty (1993)



Source: Kalbers and Fogarty (1993)

Figure 2.1: Kalbers and Fogarty (1993) Proposed Framework

Kalbers and Fogarty's (1993) study was then extended in Ibrahim (2006) study. The objective of Ibrahim's study was to examine the relationship of social power with ACE in terms of auditor selection process and non-audit services purchases in Saudi Arabia and Australia. The author added in the independence power as the independence of AC brings a significant contribution to ACE.

However, the author dropped the sanctionary power as suggested by the Kalbers and Fogarty (1993). He argued that the AC's independence power disallows members to have direct reward or punishment towards the related parties. In the study done by Ibrahim (2006), the findings proved that only perceived independence power contributed the most significant and positive relationship with ACE on non-audit services purchases in the Australia.

In a recent study, Turley and Zaman (2007) examined the social power's contribution in enhancing the ACE through a case study approach to interview the relevant governance players' opinion. The result supported that; an effective AC member needs to utilize the social power to influence the organization participants and lead to directly as well as indirectly achieving the desired governance outcomes. The case study supported that the social power is an essential contributor to guide AC members to act as "a threat, an ally and an arbiter" in influencing the governance participants and bring contribution to accomplish the desired governance effectiveness (Turley & Zaman, 2007, p.765).

It was evident from the past studies that the social power has a significant relationship with ACE. Understanding the social power will lead to more knowledge for regulators, researchers and practitioners to recognize the AC governance process in order to promote an effective AC. Social power could gain

from several sources to strengthen the ACE. Yet, few studies to date specifically examine the relationship between social power with ACE in Malaysia and which power brings the most significant impact to ACE remains unknown. Therefore, the contribution of this study is to incorporate the Social Power Theory in examining the relationship between perceived social power within AC members and the ACE.

2.5 Overview of Audit Committee (AC) Social Power Past Studies

Social power could take many forms and contribute to the ACE (Cohen, Krishnamoorthy, & Wright, 2004; Turley & Zaman, 2007). The past literature on the six main social powers will be presented as follows.

2.5.1 Independence Power

Independence is defined as an unbiased and objective manner (Messier, Glover, Prawitt, & Margaret Boh, 2007). Generally, it could be separated into two aspects: independence of mind and independence in appearance. Independence of mind means one's mental attitude in maintaining unbiased practices and actions. However, it is not easy to observe (Fearnley & Beattie, 2004). The independence

in appearance is defined as third party's perception on whether the individuals hold the independent stance (Messier et al., 2007).

As a governance mechanism, the main duties of AC are to monitor the management, enhance the credibility of financial reporting process, and to be a liaison between the external auditors and internal audit function. Hence, the independence stance is an important factor to make sure AC's oversight duties are performed in an objective and unbiased manner (Fama & Jensen, 1983b; DeZoort & Salterio, 2001; Rainsbury, Bradbury, & Cahan, 2008). In the past studies, the contribution of independence towards ACE has been widely discussed. However, mixed results were found.

2.5.1.1 Studies of Independence in Western Context

Various studies were carried out in the examination of AC's independence of mind in the Western context. In order to maintain the independence, the AC must be free from any relationship with the company that may interfere with their functions. According to Bedard and Gendron (2010), there are three classes of relationships, which will create a threat to AC's independence of mind:

a) Business relationship

b) Employment relationship

c) Personal relationship

As an effective AC, the members are required to avoid all forms of independence threat, which may impair their independence of mind as well as in appearance. In addition, Klein's (2002) study examined 803 United States firms listed on S&P 500 and have proved AC's independence has the significant relationship with the ACE in reducing the earnings restatement and minimizing financial fraud. Klein's study earned the support and consistent findings from Bedard, Chtourou, and Couteau, (2004); Persons (2005); Archambeault, DeZoort, and Hermanson (2008). Moreover, independence proved to have significant connection with ACE in terms of external audit quality in strengthening auditors' independence (Chen, Moroney, & Houghton, 2005; Bronson, Carcello, Hollignsworth, & Neal, 2009). In the latest Kang, Kilgore, and Wright's (2011) study of 202 low-cap and 86 mid cap firms listed on Australian Stock Exchange, independence was found to have a significant correlation with lower earnings management to enhance the ACE.

2.5.1.2 Study of Independence in Malaysia Context

In the Malaysian perspective, the listing requirements have not specifically defined the terms of independence. However, MMLR mandated that all public listed companies to form AC with composition of at least three non-executive members and the majority should be independent. To maintain their independence, AC should be independent from management and shareholders.

The prerequisite of an effective AC is to maintain the independence of mind and appearance (Yatim, 2009). In the Mohd Saad, Evans, and Zulkarnain's (2006) study, the senior manager perceived and agreed that AC comprising of non-executive director will enhance better function in auditing and financial reporting. Similarly, findings by Saleh, Iskandar, and Rahmat (2007) proved that the fully independent AC helps to minimize the earnings management practice. On the other hand, with the non-executive directors present in AC, cases of auditor being switched or terminated due to the unfavorable audit report could be avoided. Therefore, AC's independence is found to be able to enhance its external auditor liaison function (Archambeault & DeZoort, 2001; Ibrahim, 2006).

However, the recent study done by Shamsul, Nor Zalina, and Mohamad Naimi (2010) had an unexpected finding. The results showed that independence in

the committee member has a high correlation with the financial restatement malpractices. This result was totally opposite of the findings of previous studies. The independence does not contribute to enhance the ACE. The reason given by the authors was it is due to the data collected is prior to the revision of MCCG in year 2007. During that said time, there was no prohibition to limit the participation of the executive director in the AC team. As a result, AC team might comprise of executive management. The management will influence the decision-making of AC members. Thus, it might be the reason, which adversely affected the relationship of independence and ACE.

In addition, Wan Nordin and Noor Marini's (2009) findings showed that there was no direct relationship between the AC independence and financial reporting quality. Moreover, recent studies (Shamsul & Norita, 2004; Ismail, Mohd-Iskandar, & Rahmat, 2008; Nelson & Jamil, 2012) reported the similar results as there was no relationship found between AC independence and financial reporting quality. According to Shamsul and Norita (2004), the insignificant contribution of AC's independence to ACE might be due to placing the independent director in AC as a puppet. It is for window dressing purpose. Yet, the AC members do not fully utilize their independence social power to interact and influence the governance outcome. Secondly, it is difficult to appoint a "truly" independent director to join the AC and contribute to the governance effectiveness.

Based on the past literature above, mixed results have been found in the connection between independence factor and ACE. The majority of the past research focused on the economic determinant to measure the independence. Solely on the background characteristic of AC independence, it has limited the sense to predict the oversight effectiveness (Kalbers & Fogarty, 1998). Cohen, Krishnamoorthy, and Wright (2008) asserted that the achievement of independence in AC might be only for appearance purposes. It does not capture the true substance of the AC independence. The AC members may be fully equipped with the independence requirement as per requirement by the regulation, yet they do not have the independence power to confront and challenge the management when it is necessary. The true relevance of structure to strengthen ACE is the linkages that AC utilizes their independence stance to create the perceived independence power in order to influence others and perform effective monitoring functions. Bedard and Gendron (2010) also supported and pointed out that the mere existence of the independence of AC is an important input but not to ensure the ACE. The most important is which AC independence is translated into the influence or interaction process to lead AC to achieve the desired governance outcome to protect shareholders' welfare.

To fill the literature gap, this study focuses on perceived independence power rather than just the sole existence of independence. The independence power is defined as the ability of AC to act and influence based on the

independence stance in the organization. With sufficient independence power, AC members have the ability to act and confront management when it is necessary (Cohen, Krishnamoorthy, & Wright, 2008). In the findings reported in Turley and Zaman's (2007) study, a whistle blower will only report a fraud when they perceive that AC members hold independence power. This is because the AC utilizes their independence stance and influences others to believe that they have the potential ability to alleviate any fear of retaliation from the management. This would let the whistle blower feel safe and trusted. It will then encourage the reporting and interaction among the relevant parties and let the AC keep abreast and alert about the current governance issues to perform their duties effectively.

The high level of perceived independence power must exist as it gives an impression that AC has the ability to maintain a proper balance from the management and auditors' network. It will lead AC to have a greater potential ability to influence others and to enforce ACE (Carcello & Neal, 2003). Therefore, it might be interesting for this study to evaluate on the relationship of independence power and ACE in Malaysian public listed companies.

2.5.2 Expert Power

Expert power is often an important predictor of personal and organizational effectiveness (Jain, Giga, & Cooper, 2011). Rahim, Khan, and Uddin (1994) pointed out that the expert power often has a consistent and significant relationship with the effectiveness to improve the organization performance in the past management researches. Braynion (2004) also asserted that, the organization members need expert power, as it will enhance the power holder's ability to act and to influence. Others will feel confident and have trust towards the power holder who possesses better skills and knowledge. With the function of expert power, it will lead the power holders to have wisdom in making good decisions (Kim & Guan, 2010).

Similarly, AC needs expert power in their oversight duties. According to Cohen, Krishnamoorty, and Wright (2004), expertise for AC is the domain quality in enhancing the ACE. Expert power might derive from the members skilled in the functional knowledge such as accounting, finance, auditing and corporate relations. In the past studies on ACE, the expertise often focused on the financial expertise, literacy, and governance competencies.

2.5.2.1 Financial Expertise

The various AC duties need an understanding of auditing issues as well as the review of audit plan, procedures, and evaluate the risk management and accounting area. Therefore, AC members are required to be well equipped with sufficient expertise (Wan Nordin & Noor Marini, 2009). Sarbanes-Oxley Act (2002) pointed out that a financial expert must understand the generally accepted accounting principles (GAAP) and financial reports; having certain experiences in the preparation or audit work of financial statements, and experience in internal accounting control (as cited by Bedard & Gendron, 2010). This is agreed and has been adopted under the MMLR, which requires at least one AC member to possess relevant skills, experience, and knowledge such as recognized as members of MIA. Qin (2007) categorized financial expert into two major categories: accounting related professionals and professionals who have sufficient knowledge and experience in financial fields.

Number of researchers found evidence that financial expertise was highly associated with the effectiveness of AC's oversight function related to financial reporting, internal auditing, and external auditing (DeZoort, 1998). AC members with adequate knowledge and experience in accounting and finance aspects are most likely to provide better access and understanding in reviewing the scope of internal audit work and results. All these enable them to provide an

effective mechanism to improve the internal control to prevent and detect fraud and errors (Raghunandan, Read, & Raman, 2001). They were found to have better skills to resolving the disputes within the management and auditor, and to serve an effective liaison role (DeZoort & Salterio, 2001). The financial expertise leads the AC to have a better assessment in financial reporting quality as compared to those who are non-expert (McDaniel, Martin, & Maines, 2002). The studies from Defond, Hann, and Hu (2005) and Saleh, Iskandar, and Rahmat (2007) also supported these findings.

However, in the latest study of Chan, Lau, and Ng (2011), the researchers found that the expertise of AC does not demonstrate a significant value towards the governance practice. The authors commented that the existence of expertise serve ceremonially for the regulation requirement only. It does not place value on the effectiveness of AC members and the companies.

2.5.2.2 Financial Literacy

Financial literacy received less attention in the past studies (Ibrahim, 2006). It might be due to the lack of benchmarking in measuring the literacy abilities in AC. Financial literacy was defined in Blue Ribbon Committee's (1999) report as being able to read and understand the financial reports that

contain the complexity of accounting issues. They believed that an oversight financial reporting function of AC required them to have a high degree of financial literacy. In Malaysia, the MMLR requires all members to be financially literate. However, there is no further definition to guide the financial literacy. A study done by Shamsul and Al-Murisi (1997) demonstrated that financial literacy has significant relationship with the ACE. This was supported by Song and Windram (2000) and Ruzaidah and Takiah (2004) who noticed that financially literate AC members have better ability to produce credible and good financial reports. However, the past research done by Shamsul and Ku Nor Izah (1999) and Ismail, Mohd-Iskandar, and Rahmat (2008) received contrasting findings of the previous studies. The authors found that possessing financial literacy did not bring any significant impact to the effectiveness of AC oversight duties to enhance the quality of financial statements.

An extensive research was conducted by McDaniel, Martin, and Maines (2002) under the psychology perspective to compare the different effects between the financial expert and financial literacy in ACE. The findings indicated that financial expert is more likely to add to the contribution and the structure of the financial reporting quality to enhance the ACE. On the other hand, financially literate members have limited experience and professionalism in finance and accounting aspects. This reason may cause the financial literacy not to be a significant contributor towards the ACE in the past studies.

2.5.2.3 Governance Competencies

In governance, competency of AC is mainly focused on the experience of the AC. Some researchers used the multiple directorships to determine the governance competencies of an AC. Multiple directorship of AC is a double-edged sword, with two different conflicting opinions received from the past researches.

Some of the researches denied on the contribution of the multiple directorships of ACE. They commented that the multiple directorships might limit their commitment and effort to perform its AC functions. Past studies of Lipton and Lorsch (1992), Song and Windram (2000) demonstrated that there was no significant evidence in the relationship between the members' multiple directorships and the effectiveness of AC.

However, Boo and Sharma (2008) concluded that the multiple directorships held by members were linked to a higher demand to protect their reputation to avoid the poor performance. As a result, it reflected a more effective financial reporting quality. Persons's (2005) study proved that the multiple directorships is significant in enhancing the effectiveness of AC and able to reduce financial reporting fraud and earnings restatement. Consistent results were

found in the research done by the Ismail, Mohd-Iskandar, and Rahmat (2008). With multiple directorships, members are exposed to the current issues, economic trends, and international business aspects. These provide the important experience for them to exercise their duties effectively. In the Malaysian context, Haniffa and Cooke (2005); Haniffa and Hudaib (2006) found that AC with sufficient experience provided a significant influence in corporate social reporting and promote high quality of financial reporting in avoiding fraud and misleading information.

Overall, the sole existence of AC's financial expertise, financial literacy, or governance competency has received inconclusive findings on the contribution towards ACE in the governance researches. Carcello, Hermanson, and Ye (2011) asserted that rather than focus on the sole existence of AC's expertise, the actual ACE should be determined by the governance process on which the AC fully utilize their expertise, experience and skills to act and influence others in order to achieve the desired outcomes. Kim and Guan's (2010, p. 600) also agreed that the expert power is not just the existence of knowledge but is the "function of the knowledge possessed" by the power holder to influence themselves and others in their duties and lead to achieve and maintain the desired governance practice. Therefore, the relationship between expert power and ACE under the Malaysian context is further studied.

2.5.3 Legitimate Power

All organization leaders need legitimate power. This power will create synergy within the team to accomplish the organizational objectives (Rajan & Krishnan, 2002). According to French and Raven (1959), legitimate power will exist when one has the authority to act and cause others to have the responsibilities and obligations to comply with it. It is an influence of position and mandated authority (Wilken & Raven, 2002). Kim and Guan (2010) further explained that the legitimate power is dependent on one's formal authority and position in an organization, but not related to one's personality.

In the past studies on social power, the legitimate power often showed the significant effects with compliance (Rahim, Kim, & Kim, 1994; Hian & Chan, 1997), personal and organizational effectiveness (Elangovan & Xie, 2000; Jain, Giga, & Cooper, 2011). Similarly, for governance setting, Kalbers and Fogarty (1993) demonstrated that the perceived legitimate power is needed for AC to oversee their duties. This power has the most profound effect towards the overall ACE in terms of financial reporting, internal control, and external audit functions. The perceived legitimate power may be gained through the AC's mandated authority and responsibility delegated from the listing requirement, law, corporate governance, board of directors and the public (DeZoort et al., 2002). When the

AC holds legitimate power, it creates a sense of compliance, responsibility for related parties to comply with the AC and to enhance the oversight duties effectively. The perceived legitimate power in AC might create a "threat" for the wrongdoing or for the management to be alert and thus enhance the corporate governance practices (Turley & Zaman, 2007).

However, misuse of legitimate power might create job stress in the organization (Erkutlu & Chafra, 2006). As a result, it causes inconsistent relationship with the effectiveness (Rahim, Khan, & Uddin, 1994). This is because the relevant parties are reminded of their obligation to be fulfilled. They must comply with the instructions of power holders. Elangovan and Xie (2002) supported that legitimate power will create work stress but sufficient utilization of legitimate power is the major predictor for job motivation and commitment as well. Thus, an effective power holder needs to be fully understood and utilize the legitimate power carefully.

With a wide range of authority given, AC shall have a charter to record their oversight responsibilities. Therefore, in the past ACE studies, charter has become an important proxy to draw the perceived legitimate power for ACE (Kalbers and Fogarty, 1993; DeZoort et al., 2002).

2.5.3.1 Audit Committee (AC) Charter

Chapter 15.12 in MMLR states that it is vital to have written terms of reference/ charter in dealing with authority of AC. Charter represents a document or formal written document, which standardizes and records the AC's authority (Beasley, Carcello, Hermanson, & Neal, 2002). It provides legitimate power to AC. It should be disclosed in the financial report and evaluated periodically to provide better assessment for related parties on the legitimate power mandated to the AC (Shamsher & Zulkarnian, 2001; Zulkarnain, Mohamed Ali, Mohd Saad, & Evans, 2007).

With the perceived legitimate power shown in the AC charter, it will also alert the related parties to comply and co-operate with AC to reinforce the ACE. On the other hand, it could serve as a reminder to alert the AC members to carry out their oversight functions and roles effectively. AC might be liable for any negligence of duties in any form of failure to commit to the mandated authority cited in the charter. According to Marx (2008), AC charter can avoid the public expectations on uncertain issues and provide a clear cut guidance of the AC oversight functions. It serves as a delineation line to minimize resistance or conflict and separate the responsibility between management and the AC (Kuppusamy, Nazim, & Shanmugan, 2003). Therefore, it reduces the expectation gap to enhance a trusting relationship between AC and the public. Furthermore,

the Kalbers and Fogarty (1993) proved that AC charter would provide a sufficient legitimate power to enhance the AC roles.

However, some of the respondents denied the usage and benefit of the AC charter. The reason given by the respondents was that the charter acts as a standard format of documents for "cosmetic" purposes only. Therefore, they perceived that the charter as having a meaningless contribution to ACE (Carcello, Hermanson, & Neal, 2002; Zulkarnain et al., 2007). With the conflicting results in terms of legitimate power towards the ACE, this creates a motive for this study to examine the relationship between perceived legitimate power and the ACE in Malaysia.

2.5.4 Sanctionary Power

"Sanctionary" originated from the word sanction. According to Hornby (2010), sanction is defined as to give official permission or approval. Sanctionary power is the combination of the coercive and reward power originally proposed by French and Raven (1959). Reward power helps the power holder to gain acceptance. While, the coercive power helps to ensure compliance within the organization (Kim, 2008). Furthermore, Podsakoff and Schriesheim (1985) stated that when one believes to have the power to reward, it is more likely to have the

same ability to punish as well. In Kim and Guan's (2008) study, the findings also showed that coercive and reward power can be used interchangeably.

The combination of coercive and reward power into sanctionary power was first suggested by Mintzberg (1983) and adopted in the Kalbers and Fogarty (1993; 1998) studies. Sanctionary power means the potential ability of AC to manipulate positive or negative outcomes and influence the relevant parties to achieve its desired effectiveness.

The past studies showed that when one has the ability to control over the reward or punishment outcome for related parties; it provides an effective means to affect an organization's productivity and commitment (Elangovan & Xie, 2000; Kim & Guan, 2010). The sanctionary power requires the need for the power holder to monitor closely the related party's performance and to ensure its compliance (Wilkes & Raven, 2002; Lo & Ramayah, 2011). In ACE studies, MCCG recommended that an effective AC must be actively evaluating and monitoring the performance of internal auditors and external auditors (FCCG, 2007). With this sanctionary power, it creates a power that is like a "threat" or "arbiter" for AC to make sure the related parties perform effectively and provide significant conditions for governance outcome (Turley & Zaman, 2007). Kalbers and Fogarty (1993) suggested that it is essential to enhance the AC's sanctionary

power as it is significantly related to the monitoring effectiveness in terms of auditing issues.

However, there were also some contradicting results shown in past studies. In the Hian and Chan's (1997) study, the sanctionary power (coercive and reward power) did not have any significant contribution to accounting subordinates' effectiveness. The authors stated that sanctionary power might be imposed stress to the related parties as the power involves high surveillance to monitor the related parties. Politis (2005) also commented that sanctionary power does not contribute to the knowledge management environment. An effective leader should hold less sanctionary power especially the coercive power in order to build a trust relationship between related parties and the leader.

As such, contradictory results have been found in the past studies, which examined the relationship between the sanctionary power and effectiveness. It is the motive of this study to find out the relationship between sanctionary power and the ACE in Malaysia in order to determine whether it has significant relationship to enhance the effectiveness in AC setting.

2.5.5 Institutional Support Power

Kalbers and Fogarty (1993) proposed the term "institutional support power". It originated from the informational power. According to French and Raven (1959), access to relevant, reliable, and updated information creates power. It allows the power holders to assess the information flow and enhances their ability to act and influence the decision-making process. Information creates a competitive advantage and enhances one's knowledge. It serves as a critical success factor (Williams & Moore, 2007).

However, due to the independence stance requirement of AC, AC members are disallowed to be involved in executive roles in the organizations. The access to the reliable and relevant resource in organizations is often limited. As a result, information access by AC mainly depends on the informal communication, interaction, and reliable reporting support from the related parties such as internal and external auditors. With such a rationale, Kalbers and Fogarty (1993) reassessed the informational power as the institutional support power to best fit into the ACE context.

National Relationship of Corporate Directors survey conducted in the United States during the year 2000, stated that sufficient resources and

relationships were the key elements to aid the AC member in performing their oversight function effectively (as cited by Mohd Saad, Evans, Zulkarnain, & Mohamad Ali, 2006). Unrestricted access into the relevant, reliable and updated information as well as private meetings to create sufficient knowledge for AC in order to interpret, analyze and evaluate the decision in an effective and efficient manner. In order to achieve the ACE, the committee must hold the institutional support power surrounded by communication channel from organization members to share information or matters of concern (Bedard & Gendron, 2010).

Cohen and Hanno (2000) examined the evidences collected from thirty-six auditors and found that the external auditors would show less favorable audit judgment where the AC involved lacked of technical expertise and lack of access right to the external and internal information without the executive director's involvement. Knapp (1987) asserted that interaction or support from the external auditor is vital because it will increase the AC support for the auditor in auditor-management disputes. Furthermore, findings in past studies (Scarbrough, Rama, & Raghunandan, 1998; Goodwin & Yeo, 2001; DeZoort et al., 2002) showed that the interaction and supportive relationship among the key governance parties could enhance the AC duties for a better quality of decision-making.

Moreover, in order to eliminate information asymmetry issues, which may harm the ACE, the members need to develop the informal channels of communication and private meetings to interact with the related parties. Through the supportive interaction between the related parties such as the auditors, it derives the institutional support power. It will then create the sense of "ally" within the AC and auditors and will lead to a better oversight internal control and external auditing function (Turley & Zaman, 2007). Beasley's (1996) study also proved that AC with less internal audit support was more likely to be associated with fraud companies. In the Malaysian context, external auditors perceived that the institutional support is important for an effective AC (Zulkarnain, Shamsher, & Mohamad Ali, 2001a).

Mistrust between the related parties limits the information sharing (Tjosvold, Coleman, & Sun, 2003). A supportive interaction and relevant reporting from the board of directors, internal and external auditors will lead the AC to gain sufficient institutional support power. As commented by Sabia and Goodfellow (2005), the ACE is achieved when the members are surrounded by informal communication and institutional support power. It is believed that when the supportive and information communication exist, organization members like employees or auditors will feel more safe and comfortable to voice or report their opinion to AC.

All these past studies were convinced that by having sufficient perceived institutional support power, the AC oversight roles in terms of internal control and external audit quality have been enhanced. Thus, the institutional support power will be significantly related to ACE in Malaysian public listed companies.

2.5.6 Diligence Power

Mintzberg (1983) stated that every power holder needs the desire to act. Diligence power defines as the AC ability to act and influence others based on their willingness, preparation, and perseverance in carrying out the oversight duties. In the study by Kalbers and Fogarty (1993), the authors demonstrated the importance of perceived diligence power as the predictor for ACE. No matter how strong and how much power given to the AC members, it will not be enough if they are not willing to act. DeZoort et al. (2002) also agreed that diligence of the committee members is an important element to show obligation and commitment to carry out their duties effectively. Sufficient perceived diligence power shows a sense of readiness, solid preparation, and perseverance in providing reliable guardianship to safeguard the shareholders' interests.

The study of Turley and Zaman (2007) also proved that when the diligence power does not exist, the AC would not have the self-motivation to

demand for further information or to challenge the audit findings and management. Hence, the quality of internal control and external audit function may be affected. Thus, it may lead to a weakened ACE. Without the diligence power, little evidence shows that the AC members play a proactive role in the governance process and it impairs the quality of the AC. Therefore, an effective AC member is required to increase on the commitment of time and effort in monitoring the transactions and business.

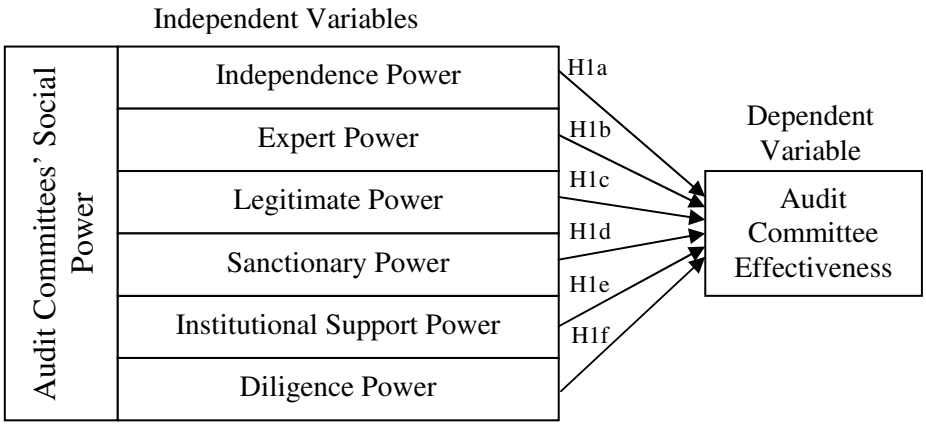
Unfortunately, the diligence power is difficult to measure and capture directly (Bedard & Gendron, 2010). Most of the past researches measured the diligence power of AC with the number of AC meetings per year or the duration in a meeting to determine the activeness of AC in enhancing their oversight function. According to FCCG (2007), listed companies' AC members are encouraged to conduct meetings at least once per year without the attendance of the executive management. Moreover, AC members should meet regularly with at least three to four meetings per annum for the discussions on audit and accounting issues on the financial statement and other circumstances (Securities Commission of Malaysia, 2007). The findings of Larry and Taylor (2012) also found that AC with greater diligence (high frequency of meeting) safeguards the external auditor's independence. However, the frequency of meetings depends on the complexity of the company process and the AC charter.

Some of the past literature had clearly displayed the importance of the number of AC meetings in improving the ACE. Ruzaidah and Takiah (2004) found evidence that frequency of meetings is associated with the quality of company's financial report. They believed that the higher number of meetings among AC members indicate that the AC is more active and is able to provide a better commitment in identifying fraud and earnings restatement in enhancing the reliability of financial reports. This received the agreement in the study of Saleh, Iskandar, and Rahmat (2007), in which they examined 561 public listed companies in Malaysia and had supported that a significant relationship exist between the earnings management practice and the frequency of AC meetings. More meetings held by the committee members showed the activeness and diligence in providing more effort in their monitoring roles (Zulkarnain, Mohamed Ali, & Annuar, 2006). The past studies (Kalbers & Fogarty, 1993; Menon & Williams, 1994; Song & Windram, 2000; Beasley, Carcello, Hermanson, & Lapides, 2001; and Xie, Davidson, & Dadalt, 2003) have generally supported this conclusion. Fraud companies with poor quality of financial reporting have lesser number of AC meetings. Therefore, the discretionary accruals and financial reporting fraud are negatively associated with the number of meetings. As a result, the more often committee members meet, the more active it is being perceived.

Unfortunately, in the studies conducted by Rahman and Ali (2006) as well as Ismail, Mohd-Iskandar, and Rahmat (2008); there was a contrasting finding. The empirical results found that there is no significant relationship between the frequencies of AC meetings with the financial report quality. Therefore, the frequency meetings by AC members may not necessarily show the value of AC diligence in enhancing the ACE (Bedard & Gendron, 2010).

With such conflicting results shown in past studies, it creates a motive for the study to close up the gap by examining the relationship between the diligence power and ACE in Malaysia.

2.6 Proposed Conceptual Framework



Source: Developed for the Research

Figure 2.2: A simplified research framework to measure the relationship between Audit Committees' Social Power and their effectiveness in Malaysian public listed companies.

Figure 2.2 shows the proposed conceptual framework for this study. It aims to examine the significant relationship between the perceived social power and ACE in Malaysian public listed companies. The proposed conceptual framework for this study is adapted from the study of Kalbers and Fogarty (1993) and Ibrahim (2006) with a minor modification to better adapt to Malaysian AC context. This study intends to examine six social powers proposed by the past studies namely, the independence, expert, legitimate, sanctionary, institutional support and diligence power and their relationship with ACE in Malaysian public listed companies. In addition, this study will also determine which social power has the strongest relationship with ACE to contribute and strengthen the governance development for public listed companies under Malaysian context.

The dependent variable used in this study is the ACE and the six social powers are the independent variables. It is believed that these six social powers will directly have a significant and positive relationship with the ACE under the Malaysian context. To test the relationship between the independent and dependent variable, six hypotheses are proposed and will be discussed in the following section.

2.7 Hypotheses Development

Hypothesis is a testable statement of prediction to understand and confirm the relationship of each variable. From the overview of past literature, six directional hypotheses (H1a, b, c, d, e, and f) are formed as follows:

2.7.1 The Relationship between Social Power and Audit Committee Effectiveness (ACE)

Every organization's leader needs social power and utilize it to accomplish work objectives, and to strengthen the effectiveness of their duties. In order to strengthen the governance development for every organization, AC members need social power to act, influence, and achieve the desired objectives effectively. However, Bedard and Gendron (2010) stated that the social power

was neglected in the ACE past studies. The past studies predominantly focused on the existence of AC characteristics to enhance the effectiveness of governance outcome. However, the existence of characteristics might be only a box-ticking approach rather than enhancing the ACE (Chan, Lau, & Ng, 2011).

Understanding the social power can be the core in contributing to the effectiveness of AC oversight duties (Turley & Zaman, 2007). This is because through the understanding of social power leads the regulators, researchers and practitioners to focus and be alert about the current governance process of the AC members (Cohen, Krishnamoorthy, & Wright, 2008). It will then focus on the influence and interaction process on which the AC utilizes their bases of social power to act and influence others in the organization in order to achieve the desired governance outcomes. Kalbers and Fogarty's (1993) study demonstrated that the perceived social power is important and significantly contributes to ACE. It is believed that, by strengthening the social power of AC members, it will lead to better governance role in AC. Thus, the following six components of social powers are proposed and the six hypotheses are formed in the following section.

2.7.1.1 The Relationship between Independence Power and ACE

Independence power in this study refers to the AC's potential ability to act and influence others with their independence stance in the organization. Turley and Zaman (2007) showed that the whistle blower would only report corporate fraud to the AC when they perceived the committee as having the potential ability to hold the independence stance and are free of any fear of "revenge" from management to protect the whistle blower. Independence power leads AC members to have better ability to act and think objectively and improve their monitoring effectiveness to challenge and confront the management when it is necessary.

However, the past researches predominantly focused on the existence of independent AC and ACE in the economic perspective. Additionally, they found inconclusive results in the Western as well as the Malaysian context. Some findings indicate that independence stance is the key tool to enforce AC oversight duties effectively (Mohd Saad, Evans, & Zulkarnain, 2006; Bronson et al., 2009). However, studies conducted by Shamsul and Al-Murisi (1997); Shamsul and Norita (2004); Lin, Li, and Yang (2006); Ismail, Mohd-Iskandar, and Tahmat (2008); Wan Nordin and Noor Marini (2009); and Shamsul, Nor Zalina, and Mohamad Naimi (2010) showed a discrepancy that the independence stance has

no relationship with AC roles in term of financial reporting, internal control and external auditing.

Cohen, Krishnamoorty, and Wright (2008) emphasized that it is not sufficient to focus on the AC independence characteristic only. Rather, it is more important to consider the nature of the process for AC members to utilize their independence stance to interact and influence the other governance players in order to perform their duties effectively. An effective AC must have the sufficient independence power to confront the management in performing the oversight duties when it is necessary. This study therefore, aims to test the hypothesis H1a below:

H1a: There is a significant and positive relationship between Independence power and ACE in Malaysian public listed companies.

2.7.1.2 The Relationship between Expert Power and ACE

Expert power is one's potential ability to influence based on their expertise, knowledge, skills, experience, and wisdom. The expert power will lead the power holder to create a sense of respect and gain inner acceptance from others as others believe that the power holder knows better. Often, expert power in social power studies has a significant relationship with the personal

effectiveness, group performance and subordinate compliance (Braynion, 2004; Elias, 2008; Jain, Giga, & Cooper, 2011).

In governance setting, due to the scope of AC's work, it is an important element for AC members to be well equipped with the expert power. Kalbers and Fogarty (1993) commented that, expert power might be gained when the members are skilled in the functional knowledge such as accounting, finance, auditing and corporate relations. Past studies found evidence that expert power has significant contributions towards their oversight duties regardless of the credibility of financial reporting, holding better resolving role on the director and auditor dispute, which all aim to enhance the corporate governance practice and to protect shareholders and shareholders' welfare (Kalbers & Fogarty, 1993; Turley & Zaman, 2007).

Unfortunately, the majority of past studies only focused on the existence of AC expertise, literacy and governance competency with ACE (Shamsul & Al-Murisi, 1997; Shamsul & Ku Nor Izah, 1999). In addition, no evidence was found to prove that AC expertise such as financial expertise and literacy have any significant relationship with effectiveness. Ismail, Mohd-Iskandar, and Rahmat's (2008) study only found the multiple directorship of AC to be significantly related to financial reporting quality. Kim and Guan (2010) commented that the existence

of expertise is not sufficient in the organization. It should focus on the function of the individual's expertise to act, to influence others and to defend all resistance to achieve the effectiveness. However, there is a lack of past studies focused on the expert power in AC setting.

Hence, this research aims to fill the vacuum and to develop the following hypothesis as follows:

H1b: There is a significant and positive relationship between Expert power and ACE in Malaysian public listed companies.

2.7.1.3 The Relationship between Legitimate Power and ACE

The mandated authority creates the legitimate power to the power holders and enhances their potential ability to influence others. Therefore, every organization's leader needs authority to perform their duties effectively. When the power exists, it leads others to have a sense of responsibility to comply with the power holder's instructions and orders (Braynion, 2004).

The authority of AC given by the regulatory and written mandates provides a source of legitimate power to AC. The legitimate power held by AC

may be used as a "threat" to make sure all governance practice is safeguarded (Turley & Zaman, 2007). FCCG (2007) believed that the source of authority is able to increase the power for AC members to enhance their oversight function effectively especially in the aspect of monitoring the corporate financial reporting process. Legitimate power highly contributes towards the job performance (Jain, Giga, & Cooper, 2011). This was strongly supported by the findings in Kalbers and Fogarty (1993) study. Legitimate power demonstrates a strong and profound effect to the overall AC governance effectiveness. Proper utilization of legitimate power will bring a sense of commitment and motivation in the organization (Elangovan & Xie, 2002).

Therefore, this study aims to test the hypothesis H1c on perceived legitimate power and ACE as follows:

H1c: There is a significant and positive relationship between Legitimate power and ACE in Malaysian public listed companies.

2.7.1.4 The Relationship between Sanctionary Power and ACE

Sanctionary power means the potential ability of AC to influence others when they have the power to monitor, evaluate, and input the positive and negative outcomes of the related parties such as external and internal auditors'

audit fees. Sanctionary power is the combination of coercive and reward power suggested by the Mintzberg (1983) and Kalbers and Fogarty (1993; 1998). Kim and Guan's (2008) study findings also suggest that, the coercive and reward power could be used interchangeably and combined into a single source. The past studies suggest that this power helps to enforce the conformity in the organization through the surveillance process (Elangovan & Xie, 2000; Kim & Guan, 2010). Similarly in ACE studies, when the AC has the sanctionary power to evaluate and hold important decisions on the auditors' scope and fees, it provides a significant means to monitor their performance and enhances the corporate governance (Kalbers & Fogarty, 1993). As the monitoring process will significantly affect the outcome of performance, thus the related parties will tend to be more committed and comply with the instruction or suggestion given by the AC.

However, some past studies showed the perceived sanctionary power provided dysfunction of effects to the organization's effectiveness (Hian & Chan, 1997; Politis, 2005). The sanctionary power will create the emotional burden and stress to the related parties. This could create a sense of demotivation and thus affect the performance of related parties.

With such contradicting result shown in past studies, the relationship between sanctionary power and ACE in Malaysia is examined again from the external auditors' perceptions and the hypothesis H1d is set as below:

H1d: There is a significant and positive relationship between Sanctionary power and ACE in Malaysian public listed companies.

2.7.1.5 The Relationship between Institutional Support Power and ACE

Information is power, and it creates a competitive advantage for the organization as well as the individual (Williams & Moore, 2007). With sufficient information, it will enhance the potential ability to control the decision-making process. Quality and quantity of information are the critical determinants of an effective AC. Relevant, reliable and timely information assists the AC members to make the accurate decision in a manner most likely to achieve their objectives effectively (Mohd Saad et al., 2006). Individual and governance effectiveness may definitely be impaired if the AC evaluates, analyzes or makes important decisions in the absence of reliable, updated, and relevant information (Fast, Sivanathan, Mayer, & Galinsky, 2012). Access to updated, reliable, and relevant information is important elements of an effective AC.

However, due to the independence stance of AC, organization's access to information may be limited. Hence, access to information mainly depends on the networking, informal communication, and reporting support from related organization members such as the auditors. Kalbers and Fogarty (1993) modified the informational power from Raven (1965) into institutional support power. The study demonstrated that the power is significantly contributing and relevant to AC external audit functions.

In the past studies, it was believed that informal communication and support from the internal and external auditors are the vital proxy in contributing to the institutional support power to enhance the ACE (Zulkarnain, Shamsher, & Mohamad Ali, 2001a; Sabia & Goodfellow, 2005; Turley & Zaman, 2007). Furthermore, the institutional support from related parties would improve the performance of AC especially in terms of auditor-management disputes and eliminating the information asymmetry issues (Knapp, 1987; Scarbrough, Rama, & Raghunandan, 1998; Goodwin & Yeo, 2001). There is no way for AC to perform its oversight duties effectively on its own without the support from related parties (Mazlina & Nava, 2007).

Consequently, this study will test the hypothesis H1e regarding the institutional support power of AC in the Malaysian context:

H1e: There is a significant and positive relationship between Institutional Support power and ACE in Malaysian public listed companies.

2.7.1.6 The Relationship between Diligence Power and ACE

Every power needs the willingness to act (Mintzberg, 1983). Failure to have the desire will result in AC acting as a "rubber stamp" only. Hence, Levitt (1998) agreed that the diligence of AC is important. A diligent AC has better ability to provide reliable guardianship to maximize the shareholders' interests. The perceived diligence power is defined as the AC's ability to act, to influence others, and to defend all resistance based on their willingness, readiness, and perseverance in carrying out the duties actively and effectively. With the existence of diligence power, it shows the obligation and commitment of AC to carry out the oversight duties effectively (DeZoort et al., 2002).

The past studies have demonstrated that diligence power showed there is a high level of activeness, involvement, and concern in the AC. As a result, it significantly relates to the internal auditing functions (Kalbers & Fogarty, 1993). Turley and Zaman (2007) also supported the findings. The authors believe that

when the diligence power disappears, the AC members will lose their self-motivation to ask demanding questions, to challenge the corporate information, and being demanding in the quality of auditing findings and evaluation (Bedard & Gendron, 2010). Without the diligence power, little evidence showed that AC members played a proactive role in the governance process and thus impairing the ACE (Saleh, Iskandar, & Rahmat, 2007).

Thus, the following hypothesis H1f is employed to test the significant relationship between the diligence power and ACE:

H1f: There is a significant and positive relationship between Diligence power and AC in Malaysian public listed companies.

2.8 Summary of Literature Review

This chapter provides the overview of AC and social power past literature. From the review of past literature, it is observed that there is a large body of AC and social power literature. However, most of the past research mainly focused on the developed countries such as the United States and United Kingdom (Lary & Taylor, 2012). There are limited studies mainly focused on the relationship between the social power and ACE in developing countries like Malaysia. Rahim, Khan, and Uddin (1994) study's findings supported that there is

different implication of the social power bases to the effectiveness due to the cultural difference. As a result, this research in contrast focused on the Malaysian public listed companies that fall under the high power distance country as categorized by Hofstede (1981; 2001) in order to contribute to the body of knowledge to develop the social power bases, which are suitable for Malaysian AC.

Moreover, the past AC literature mainly focused on the economic perspective (Agency Theory) to determine the existence of governance characteristics in enhancing the ACE. However, the findings were inconsistent towards their contribution to ACE. The latest research conducted by Nelson and Jamil (2012) supported that Agency Theory have limited contributions in enhancing ACE to protect the shareholders' welfare. Similar findings were found in the Kalbers and Fogarty (1998) research. The heavy reliance on Agency Theory and sole focus on the existence of characteristics in most of the governance research may harm the ability and contribution to understand the importance and effectiveness of the governance mechanism like AC (Cohen, Krishnamoorthy, & Wright, 2008). More views that are comprehensive are needed in order to understand the ACE. As a result, this study incorporates the Social Power Theory, developed in the sociology perspective as suggested by Kalbers and Fogarty (1993); Turley and Zaman (2007); and Bedard and Gendron (2010). This theory leads researchers to understand the utilization of social power

to influence AC's interaction with other governance players and improving their oversight duties in the organization.

Kalbers and Fogarty (1993) and Turley and Zaman (2007) supported that the AC members placed in the institutional business environment. Therefore, they need the social power to act, interact, and influence others in achieving their effectiveness. From the overview of past literature, it is supported that, these six components of social power namely, independence, expert, legitimate, sanctionary, institutional support and diligence power help to enhance the ACE in the developed or western countries. However, there appears to be limited studies have discovered these gaps and examine the contribution of these six social powers in ACE under the Malaysian context. The relationship between social power and ACE remains unknown in this high power distance country, Malaysia. Hence, the study aims to examine the six social powers adapted from the suggestion given by Kalbers and Fogarty (1993); and Ibrahim (2006) to test their relationship with ACE in Malaysian public listed companies. Further, the proposed conceptual framework showed in Figure 2.2 and six hypotheses (H1a, b, c, d, e, and f) were developed to test their relationship with ACE. It was hypothesized that greater social power, leads to greater effectiveness for AC members. The next Chapter 3, it presents the discussion on the research methodology adopted for testing the hypotheses developed in this study.

CHAPTER 3

RESEARCH METHODOLOGY

There are two specific research questions together with six hypotheses proposed to test the relationship between social power and ACE in the Malaysia context. Hence, the purpose of this Chapter 3 is to use scientific methods to test the hypotheses developed in Chapter 2 and to answer the research questions. The quality of findings is highly correlated to the research methodology used. In this chapter, the review of research design such as the research approach, data collection method, and data operationalization are further presented.

3.1 Introduction of Research Design

Research design is the blueprint for a research. It includes the operationalization of the variables, target respondents, how data is collected, and what data analysis technique to be used to test the hypothesis and provide answers for the research question. Generally, the research design comprises two main categories: exploratory and conclusive design (Malhotra & Peterson, 2006). Table

3.1 shows the difference between the exploratory and conclusive research. For conclusive research design, it consists of causal and descriptive research. Causal research is used to test the cause and effect relationships among the variables when the research problem is narrowly recognized. It requires field experiments and laboratory experiments. A descriptive study aims to describe the characteristics and process of certain groups or phenomena and offers a better profile of factors associated with the situation (Sekaran, 2003).

Table 3.1: Differences between Exploratory Research and Conclusive Research

	Exploratory Study	Conclusive Study
Objective	To recognize and clarify and provide understanding to problems	To test the specific hypotheses and to examine the relationships where the problem is clearly known
Characteristic	The sample is small and flexible research process is used	The sample is large and formal and structured research processes are implemented

Source: Malhotra and Peterson (2006, p. 151)

3.1.1 Descriptive Research

This study is a descriptive research, which aims to describe the relationship between the social power and ACE in Malaysian public listed companies. A descriptive study is the best design to describe the relationship of certain groups to examine which factors or variables are related to the

phenomena. The phenomenon is thus, referring to describe whether the social power bases have significant and positive relationship to contribute and enhance the ACE in Malaysia's public listed companies.

Secondly, the major problem and research gaps on AC in Malaysia have been well defined in past literature, therefore a descriptive research is appropriate to be used for hypotheses testing to find out the relationship between the six social powers and ACE. The study aims to provide a better understanding and comprehensive knowledge on enhancing ACE to the Malaysian regulators, public, academicians, and shareholders.

3.1.2 Quantitative Approach

In this study, quantitative research approach is used because the research objective is to determine whether the predictive generalization of social power have a significant relationship in the ACE under the Malaysian public listed companies context. Quantitative approach is defined as deductive approach. It explains the phenomena by using the quantitative or numerical method to formulate the research procedures. Therefore, this study's data analysis tends to be focused on the hypotheses testing in quantitative approach. It focuses on

hypotheses testing (H1a, b, c, d, e, and f) to seek for conclusive evidence to fulfill the research objective on whether the prediction of social power relates and contributes to ACE in Malaysian public listed companies based on the external auditors' perceptions.

Sekaran (2003) also commented that quantitative research approach is an efficient and economical method, which aims to provide a wide coverage of the phenomenon. As such, this study has adopted the quantitative research method to examine the relationship between the six social powers namely, independence, expert, legitimate, sanctionary, institutional support and diligence power and the ACE in Malaysia. Next section provides the discussion on the data collection method adopted in this study.

3.2 Data Collection Method

3.2.1 Primary Data

Information obtained first hand by the researcher for the specific purpose is defined as primary data. In this study, the primary data will be fully utilized for this quantitative research. With the aim to answer the research questions in Chapter 1, electronic mail (hereinafter-called as email) questionnaire survey method was used as the data collection tool to collect the primary data

from the external auditors. Questionnaire survey is an effective and widely used data collection tool to obtain the specific, relevant, and up to date data from a large group of respondents (Ghauri & Gronhaug, 2002).

3.3 Sampling Design

In this segment, it highlights the sampling design processes including the target respondent, population, sampling frame, technique and sample survey size used for this study.

3.3.1 Target Respondent-External Auditors

Internal, external auditors and AC members are described as the three-legged stool to support each other in monitoring and enhancing the corporate governance, financial reporting quality and to protect the shareholders' welfare (Blue Ribbon Committee, 1999). Due to this fact, internal and external auditors are required to work closely with the AC members. Thus, they are able to provide a sufficient judgment to evaluate the ACE in Malaysian public listed companies. Yet, perception of internal auditor towards the ACE has been criticized.

Shamsul and Al-Murisi (1997) also asserted that, the internal auditors are the internal employees of companies. As a result, they lack of independent judgment in evaluating the ACE. Secondly, the internal auditors' duties and roles are mainly determined by the management. Their contact with AC members may be limited and their judgment of AC members may be biased due to the influence of management. In the recent study of Mazlina and Nava (2007), the findings also reported that the interaction between AC and internal auditor is passive. Their interactions or meetings have often been intervened by management. Thus, the internal auditors often have to be submissive to management, and this cause lack of independence to evaluate the AC members. As a result, the authors suggest that future research should target on the external auditors' perceptions to contribute a more independent judgment to evaluate the ACE.

Based on the suggestions given from the past studies, the target respondents in this study focused on the external auditors who are connected with the AC in the public listed companies in Malaysia. Based on the MMLR, all public listed companies are required to form the AC and the external auditors should audit the financial statements. According to Messier et al. (2007), the external auditors refer to the independent auditors who perform the external audit functions for listed companies. They are the approved company auditors, who are licensed by the Ministry of Finance. They are called as the chartered accountants whom mainly are the audit partners within the approved audit firms.

External auditors are the key players of corporate governance (FCCG, 2007). They work with AC members in order to assess the quality of financial reporting and to enhance the reliability of financial information to maximize shareholders' welfare (Vera-Munoz, 2005). This is further supported by Shamsul and Norita (2004); and Beasley, Carcello, Hermanson, and Neal (2009). The nature of AC's oversight functions requires the committee members to work closely with the auditors in order to exchange information. Hence, the external auditors and AC have a close connection and interactions in the public listed companies. Johl, Nava, and Mazlina's study (2012) further highlighted that the external auditors are increasing their expectation towards the quality of AC as they believe that good quality of AC members have potential implication in enhancing the financial reporting process.

As well, Abu Bakar and Ahmad (2009) pointed out that the external auditors are not only providing the reasonable certification on the credibility of financial statements but also the users of financial statements. They understand better in the interests of stakeholders and the importance of effective AC. Additionally, external auditors are the professionals who have the sufficient knowledge and expertise to provide valuable information in evaluating the ACE (Zulkarnain, Shamsher, & Mohamad Ali, 2001a).

With such an independent, objective role of external auditors as well as the close interaction with AC, hence they are perceived as appropriate respondents to evaluate and provide an opinion on the social power surrounding the AC and their dynamics of effectiveness (Carcello, Hermanson, & Ye, 2011). External auditors and AC are the indispensable oversight component. They work with each other to monitor the governance practice and ensure the stakeholders' welfares are protected (Cohen, Krishnamoorthy, & Wright, 2002). Their perceptions towards the ACE are valuable as they are directly involved in the AC monitoring activities (Zulkarnain, Shamsher, & Mohamad Ali, 2001a). Therefore, this study focuses on the external auditors who perform the external audit function in public listed companies in Malaysia to collect their feedback on the ACE.

3.3.2 Population of Study

This research attempts to study the external auditors' perceptions of the relationship between the social power and effectiveness of AC in Malaysia public listed companies. Thus, the target population of this study is the external auditors who perform external audit functions in public listed companies in Malaysia. To identify the target population on the number of external auditors in Malaysia, all 860 listed companies' audited financial statement on BM for the year ended 2009, 2010, and 2011 were examined to find out the external auditors.

Moreover, the past studies like Shamsul and Ku Nor Izah (1999); and Shamsul (2002) also used the same method to identify the populations of auditors in Malaysian public listed companies. From the audited financial statement of 860 listed companies, one company (Berjaya Retail Bhd) was excluded as it was a newly listed company in August 2010 and no annual report was provided. Recently in April 2011, the company was found to be delisted. Hence, this study excludes delisted company from the list. Through the investigation of annual reports, 75 external audit firms were found. Four hundred and ninety three listed companies were audited by the Big 4 audit firms and 366 listed companies were audited by the other 71 audit firms (non-big 4). In these 75 respective audit firms, 215 approved external auditors were found. Furthermore, the list is also double confirmed with the registered list and email address from the MIA and the Audit Oversight Board's register. Hence, it strengthens the adequacy of the population in this study.

3.3.3 Sampling Frame

The sampling frame is important. It is a complete list of elements, where the sample may have been drawn from. In this study, through the investigation of the annual reports, the audited financial statements, and the Audit Oversight Board's register, the sampling frame showed that there were 215 external auditors

providing the external audit function in the public listed companies and has a connection with the AC.

3.3.4 Sampling Technique

Since the population size is considered small, the whole population with 215 external auditors was targeted for this study. Hence, census study was carried out.

3.3.5 Sample Size

Sample size affects generalizability of results. Due to the small population size, 215 sets of questionnaires were distributed to all targeted external auditors in Malaysia according to the sampling frame. To ensure the sample size of 215 in this study is adequate, sample size calculator and formula proposed by Godden (2004) are used. From the sample size calculator (Creative Research Systems, 2012), sample size of 138 is needed for the population of 215 external auditors targeted with confidence interval of five at 95% confidence level.

Furthermore, formula developed by Godden (2004) also provides the same answer of 138 sample size is considered adequate for this study. The formula is as follows:

$$\text{Sample size} = \frac{Z^2 \times (p) \times (1 - p)}{C^2}$$

where,

Z = Z- value (1.96 for 95% confidence level)

p = percentage of population picking a choice, expressed as decimal (0.5 used for sample size needed)

C = confidence interval, expressed as decimal (0.05, which is ±5 for this research)

Through the formula above, sample size of 384 is found. Due to the population is less than 50,000, then use the sample size derived from the above formula (384) to calculate accurate sample size for a finite population based on the second formula as shown below:

$$\text{New Sample size for finite population} = \frac{\text{Sample Size}}{1 + \left[\frac{\text{Sample Size} - 1}{\text{Population}} \right]}$$

Based on the formula and sample size calcutor, the same sample size of 138 is found. Next, Hair, Black, Babin, and Anderson (2010) also suggested that at least 15 to 20 observations for each independent variable should be collected from the target respondents in order to achieve generalizability of study. Beyond this, Sekaran (2003) also commented that sample size within 30 to 500 is appropriate. The author further explained that the minimum ratio of sample size should achieve at least 30 for each variable. With the 215 sets of questionnaires, the sample size for this study is in the ratio of 35.8: 1. Therefore, the sample size of 215 is in line with the suggestion from Sekaran (2003), Godden (2004), and Hair et al. (2010), it further strengthens the study's sample size of 215 questionnaires is considered adequate.

Hair et al. (2010) stated that, sampling error arises when the study focused on the sample rather than the population. However, it will reduce when the sample size is adequate. Since all the external auditors in the population are targeted and the sample size is adequate in the ratio of 35.8: 1, and therefore the sampling error is eliminated.

3.4 Research Instrument

A questionnaire is the main instrument used in this study. Through the overview of ACE literature, it found that the majority of the past researches focused on archival method, which investigated on the company annual report and AC charter to examine the structural characteristic and ACE (Hasnah, Muhamad, & Eow, 2005; Saleh, Iskandar, & Rahmat, 2007; Yatim, 2009; Kang, Kilgore, & Wright, 2011). However, Bedard and Gendron's (2010) stated that the archival method is perceived as non-interaction model with no contact and no feedback needed from the respondents. It is based on the historical publicly available data to obtain sufficient answers for the study. The adoption of an archival method has received limited value to examine the linkage between ACE and its perceived factors (Bedard & Gendron, 2010). Furthermore, the archival method is mainly based on the secondary data; hence, it is not well suited for analysis like the interaction and dynamics of ACE (Carcello, Hermanson, & Ye, 2011).

To study the AC process and interaction, the questionnaire survey method is more appropriate and suggested to be used to collect the primary data to examine the social power linkage with effectiveness of AC. Beyond this, questionnaire survey method aims as "the best vehicle to measure perceptions" by Abu Bakar and Ahmad (2009, p. 133). This is supported by the study of Beattie and Fearnley (1998), Zulkarnain and Yusuf (2006); and Carcello, Hermanson, and

Ye (2011). These studies pointed out that questionnaire instrument include economic and behavioral factors that provide better and richer insights than using the archival method. The entire questionnaire constructed in this study was developed based on the past researches in Western and Malaysia context.

3.4.1 Emailing Questionnaire

The questionnaire is not only a set of questions, but it is a vital instrument for data collection in a research aimed to measure the variables (Oppenheim, 2005). In the current advanced technology decade, it is very common to use emailing questionnaire as a tool to collect information from the respondents. It was primarily used in this study to collect data from target-recognized auditors in the respective audit firm. The reasons to adopt email questionnaire survey was consistent with the reasons stated in Oppenheim (2005); Sekaran (2003); Malhotra and Peterson (2006); and Denscombe (2007) because it is appropriate to capture the behavioral factors, fast to deliver, easy to administrate, can reach a large group of targets and it is suitable when there is limited time and financial resource.

However, there are several limitations of using email questionnaire. First, the target respondents might misunderstand the questions asked and cause an incomplete data to be received. Secondly, low response rate is often the major limitation of using the questionnaire and impair the representative and generalizability of the study. All these limitations might impair the quality of data and findings of the research.

To overcome the limitations, some actions have been taken. First, the questionnaire is pilot tested to ensure the target respondents are able to understand and answer the questions correctly. Next, this study used Email Questionnaire 4.1 to create the survey in a quick, standardize template, and distribute the questionnaires to reach the target respondents through email. The software will also display a warning signal and message to make aware the respondent on the incomplete survey. Through this, a fully completed feedback will be received which enhances the quality of the findings.

To concern about the response rate of the email questionnaire, a pre-notification via telephone call is made to notify and to confirm with the respondents' email address before the questionnaires are distributed. According to Taylor and Lynn (1998), the pre-notification is an important step as it increases the response speed and rate for the email survey. During the pre-notification via

telephone, the external auditors are informed about the research purpose, importance and the anonymity of contact in the research report. Secondly, a cover letter is attached to the first page of questionnaire to induce the understanding, attention, and co-operation from the external auditors. Cover letter includes the purpose, importance, and use of the information and anonymity of contact in order to encourage and convince the external auditor to participate in the survey. Furthermore, the cover letter also highlighted those auditors who audited multiple public listed companies to provide their evaluation of the AC members in an overall and general perception.

In addition, post- notification has been sent out through email every 2 months later to remind and encourage the feedback. Lastly, follow up contact via telephone and email is made to the respective external auditors after 3 months in order to increase the response rate for this study.

3.4.2 Questionnaire Design

Questionnaire design is a translation process to convert the variables into measurement to collect feedback from the respondents. The questionnaire has been prepared with the international language, English. Close ended and multiple-choice questions were used in the survey to collect the feedback on the relationship of perceived social power and ACE. A cover letter, which briefs introduction and the motivation of this research, was attached in the email and sent to the respondents together with the entire questionnaire. The full questionnaire is shown in Appendix 2.

The questionnaire consists of the four sections as below:

- Section A solicited the respondents' general information. Two general questions asking about the respondents' experience years in external auditing and the categories of audit firms (Big 4 or non Big 4);
- Section B comprised 15 questions to measure the concepts of the dependent variable, ACE. Thirteen questions set on the AC three specific oversight functions and two questions for the overall effectiveness. The respondents were asked to rate their opinion on the five point Likert- scale effectiveness rating.

- Section C is for the questions used to measure the independent variables, six social powers. Twenty-seven questions were used to ask in terms of five point Likert- scale from (1) Strongly Disagree to (5) Strongly Agree.
    - Independence power (three questions asked);
    - Expert power (six questions solicited);
    - Legitimate power (five questions raised);
    - Sanctionary power (three questions set);
    - Institutional Support power (five questions asked)
    - Diligence power (five questions)
- Lastly, section D solicited the respondents' demographic information. Two questions were set to obtain information like gender and age by using the nominal and ordinal scale.

All the questionnaire constructs for dependent and independent variables in section B and C were adopted from the past studies using the five point Likert-scale (Rahim, 1989; Kalbers & Fogarty, 1993; Rahim, Khan, & Uddin, 1994; Erkutlu & Chafra, 2006). The five points Likert- scale is the most common, simple and frequently used in the past studies (Malhotra & Peterson, 2006). Dawes (2008) also agreed that, five point or seven point Likert- scale provides the same mean score, and therefore not much difference between both Likert- scales. In this study, to ensure the content validity, the five points Likert- scale as

suggested by the past studies was adopted to measure the dependent and independent variables.

3.4.3 Construct Measurement

3.4.3.1 Dependent Variable: Audit Committee Effectiveness (ACE)

ACE is measured by the members' competency to carry out the specific oversight responsibilities. The Kalbers and Fogarty (1993; 1998) constructs of ACE are adopted in this study. It is measured by four specific AC oversight functions, which are overall effectiveness, financial reporting oversight, external auditor liaison, and internal control oversight duties. The ACE constructs proposed by Kalbers and Fogarty (1993; 1998) originated from the study of Kalbers (1992). These constructs have also been applied in the Malaysian context through the study of Zulkarnain et al. (2008). Thus, the content validity is achieved. The effectiveness of the construct by the AC oversight functions are depicted in Table 3.2.

Table 3.2: Dependent variable: ACE measurements

Financial reporting (4 items)	FR1	AC reviews the quarterly result and year-end financial statement before approval by the board.
	FR2	AC reviews and analyses the application of alternative generally accepted accounting principle (GAAP).
	FR3	AC understands and reviews the significant accounting estimates and judgments.
	FR4	AC reviews and analyses the significant changes in accounting policies and year-end adjustment.
External auditor liaison (5 items)	EA1	AC enhances the effectiveness of the external auditor.
	EA2	AC plays an appropriate role in making recommendations on the appointment, reappointment, and removal of external auditors.
	EA3	AC reviews and evaluates external auditors' performance, including determination of independence.
	EA4	AC reviews with external auditors, the scope, audit plans, and audit report.
	EA5	AC monitoring of corrections by management of reported deficiencies in the independent auditor's management letter.
Internal control and audit oversight (4 items)	IC1	AC reviews and analyses the adequacy and effectiveness of the internal accounting and financial controls of the company.
	IC2	AC reviews and analyses the internal audit reports, budget, and findings.
	IC3	AC reviews and makes recommendations to the internal audit program, scope, and results of the internal audit procedures.
	IC4	AC evaluates the internal auditors' performance.
Overall Effectiveness (2 items)	OV1	Beyond the legal or other regulatory requirements, the AC serves an important need for the company.
	OV2	Overall, the AC is very effective.

Source: Kalbers and Fogarty (1993; 1998)

3.4.3.2 Independent Variable: Independence Power

Table 3.3: Independent variable: Independence power measurements

IND1	AC demonstrates the impartial state of mind.
IND2	I approach the AC for advice on work related problems because they have the independence stance in the organization.
IND3	AC members are independent from the management.

Source: Ibrahim (2006) and Zulkarnain, Shamsher, and Yusuf (2009)

The MMLR had instructed that all public listed companies' must comprise of non-executive directors and a majority shall be independent in AC. They shall be free of management influence and have independence of mindsets and appearance to provide a source of independence power to carry their duties objectively and in an unbiased manner to protect shareholders' welfare. In this study, the perceived independence stance of AC members was used to measure the independence power. It was modified from Ibrahim (2006) and Zulkarnain, Shamsher, and Yusuf (2009). The three items constructed for independence power are shown in the above Table 3.3.

3.4.3.3 Independent Variable: Expert Power

Table 3.4: Independent variable: Expert power measurements

EXP1	I approach the AC for advice on work related problems because they are usually right.
EXP2	When a tough corporate issue comes up, the AC has the sufficient technical knowledge of accounting, auditing, finance, and internal control to get it done.
EXP3	AC has demonstrated appropriate industry experience and knowledge.
EXP4	I prefer to accept and implement the AC's suggestion as they have high professional expertise.
EXP5	AC has considerable professional experience to draw from in helping me to perform my duties.
EXP6	AC has the knowledge that I need to perform my duties.

Source: Rahim (1988) and Kalbers and Fogarty (1993)

The measurement for expert power showed in the above Table 3.4. Due to the mandated oversight duties of financial reporting, internal control, and external audit oversight function, AC is required to be well equipped with sufficient knowledge, experience, and expertise to enhance the effectiveness. The source of expert power therefore may derive from the members' skills, experience, and knowledge. The expert power's measurements were adopted from Rahim's (1988) Leader Power Inventory (hereinafter-called RLPI) and the suggested measurement from Kalbers and Fogarty (1993) with minor modification. The RPLI scale measurement has been widely used in the past studies such as Rahim, Khan, and Uddin (1994); Hian and Chan (1997); Rahim, Antonioni, and Psenicka (2001); Kim and Guan (2008). Additionally, past studies

conducted by Rahim and Psenicka (1994); Rahim, Antonioni, and Psenicka (2001); Erkutlu and Chafra (2006); Kim and Guan (2010) have supported the construct and criterion validity of RLPI scales. Hess and Wagner (1999) further concluded that the RPLI scales measurement is suitable for different settings like accountants, professionals, and managers. The authors also asserted that minor modification of the RLPI constructs is allowable to make it better fix in the specific populations and it does not harm the construct validity.

3.4.3.4 Independent Variable: Legitimate Power

Table 3.5:Independent variable: Legitimate power measurements

LEG1	AC's authority and responsibilities have been clearly defined in the written charter.
LEG2	AC's position and formal written charter give him/ her sufficient authority to review and monitor my work.
LEG3	AC is justified in expecting cooperation from me in work related matters.
LEG4	AC position entitles the members to expect support from me.
LEG5	AC has the right to expect me to perform their instruction and suggestion.

Source: Rahim (1988) and Kalbers and Fogarty (1993)

The measurement for legitimate power is shown in Table 3.5. French and Raven (1959) defined legitimate power as an ability to influence others with one's position or the formal authority given. For every decision implemented, there is a need for legitimate power. In the AC context, the legitimate power may

derive from the formal written charter and the legitimate position held by the members (Turley & Zaman, 2007). To measure the legitimate power, the constructs developed from RLPI (1988) and Kalbers and Fogarty (1993) studies are used. Five questions were asked to measure the legitimate power with a five point Likert- scale.

3.4.3.5 Independent Variable: Sanctionary Power

Table 3.6:Independent variable: Sanctionary power measurements

SA1	AC has the right to evaluate and determine external auditor's performance, audit fees, and scope.
SA2	AC has the right to determine the internal auditor's budgets and findings.
SA3	AC has the right to review, evaluate, and determine the internal program, scope, and result of internal auditors.

Source: Kalbers and Fogarty (1993; 1998)

Table 3.6 above shows the measurement of sanctionary power for ACE. The measurement is adopted from Kalbers and Fogarty (1993; 1998) and RLPI (1988) with modification. Five point Likert- scale is used to measure the sanctionary power. Sanctionary power is the combination of coercive and reward power. It refers to the AC potential ability to evaluate, monitor the performance, and input the positive or negative outcome to the related parties. With the ability to assess and evaluate the related parties' performance, the perceived sanctionary

power exists. Kalbers and Fogarty (1993; 1998) proposed that sanctionary power is measured by the perceived monitoring right for AC to determine the performance of internal auditors and external auditors. Kim and Guan (2010) also suggested that sanctionary power is important as it ensures the conformity in the organization through the surveillance by the power holder.

3.4.3.6 Independent Variable: Institutional Support Power

Table 3.7: Independent variable: Institutional Support power measurements

IS1	The level of openness among the AC and relevant parties such as the management, internal audit, and external audit is maintained appropriately.
IS2	AC members have ready access to the management, internal and external auditors.
IS3	The relationship between the AC and management has strike the right balance between challenge and mutuality.
IS4	AC has the updated, useful, reliable, and relevant information.
IS5	AC members are supported by management and auditors.

Source: Kalbers and Fogarty (1993; 1998)

The ability to obtain and access information will create an impact on the quality of AC's decisions. This is supported by MMLR. Due to the independence stance requirement, AC members need to enhance the institutional support power to avoid the information asymmetry. According to Tjosvold, Coleman, and Sun (2003), the mistrust atmosphere between the parties may restrict the information sharing and exchange. Hence, a supportive interaction between AC and related

parties is important. It allows access, exchange, and sharing of updated, relevant, and reliable information through the information communication with the related parties. It enhances the decision quality of AC members.

The institutional support power is measured through the informal communication of AC with the management, internal auditors, and external auditors and through a supportive atmosphere provided. Therefore, the measurement of institutional support powers is adopted from the studies by Kalbers and Fogarty (1993; 1998) with the combination of the performance evaluation provided by Deloitte (2010) as presented above in Table 3.7. The institutional support power is measured by five-item index with five point Likert-scale.

3.4.3.7 Independent Variable: Diligence Power

Table 3.8: Independent variable: Diligence power measurements

DIL1	AC has regular meetings with the auditors.
DIL2	AC's meeting arrangement (frequency, timing, duration, venue, and format) enhances its effectiveness.
DIL3	AC allows us to have sufficient time for discussion and questions.
DIL4	AC demonstrates the highest level of activeness and diligence.
DIL5	AC inputs sufficient time to devote in their committee's affairs.

Source: Developed for the Research

Diligence is defined as the willingness of members to act and carry out their oversight responsibilities effectively. An active and diligent committee member is a crucial characteristic to indicate the AC's commitment rather than just act as "window dressing" purpose (Kalbers & Fogarty, 1993; Zulkarnain, Mohamed Ali, & Annuar, 2006). According to the Blue Ribbon Committee's report (1999), an effective AC needs to expand one of their valuable resources and times in performing their responsibilities. Consequently, the diligence power is measured by the perceived preparation, vigilance, and commitment of the AC, which was suggested by Kalbers and Fogarty (1993; 1998) in above Table 3.8.

3.4.4 Pilot Study

A pilot study was conducted before the actual survey took place. It was to reveal any deficiencies in the proposed questionnaire and to ensure that it is understandable and applicable in Malaysian context. According to Fink (2003), at least 10 sets of questionnaires for the pilot study are sufficient. As a result, it further strengthens the number of 20 sets questionnaires were distributed to 10 audit partners and 10 senior academicians with prior audit experiences. The senior academicians and audit partners were selected because of their experience and knowledge in the respective professional practice.

During the pilot interview, the respondents were asked to provide feedback and comment on the questionnaire's design and structures' clarity. They also requested to mark any unclear items in the questionnaire. All 20 sets pilot tested questionnaires were received. Minority of participants highlighted to reorder the sequence and minor change of the wording to reflect better understanding. On other hand, the majority of participants agreed that the questionnaire was clear and understandable. Time taken to complete the questionnaire from the respondents' feedback was around 20-25 minutes.

The comments and suggestions from the respondents are taken into account to revise and improve the draft questionnaire. Upon all the feedback and comments received, the questionnaire was amended. Once the final version of the questionnaire was ready, it was then forwarded to the respective external auditors. The scale reliability analysis of the pilot study was conducted and this will be presented in chapter 4.

3.5 Data Preparation Process

Before the data is analyzed, data preparation processes will be conducted which include data checking, editing, coding, transcribing, and cleaning. Although the data preparation process is time consuming, it is essential before any

multivariate analysis is conducted (Hair et al., 2010). The data processing preparation steps are illustrated as below:

First Stage: Questionnaire Checking

The initial step in the data preparation process is to check the questionnaires returned from the respondents. It involves checking for the completeness and eliminating unacceptable questionnaires such as missing pages. Therefore, any problems or error can be detected as early as possible and corrective action can be done in the initial stage (Malhotra & Peterson, 2006).

Second Stage: Editing

Data editing is a process to check the overall accuracy, completeness, and usability of the questionnaires. However, Email Questionnaire 4.1 software provides a function to remind and make sure that the respondents fully answer the entire questionnaire before they submit. Therefore, completeness in answering the questionnaires will be enhanced.

Third Stage: Data Coding

Data coding is a process to assign numerical codes to represent each variable. In this study, data coding into numeric is vital and most of the statistical analysis adopted by the Statistical Package for Social Science (hereinafter-called SPSS) software version 20 will be used in this study, mainly for the numeric codes. For example, the respondents' age category will be re-coded into the following numeric codes: recode 0 to represent the age range from 20 to 29 years old; 1 for the range from 30 to 39 years old; 2 for age range within 40 to 49 years old and lastly code 3 for the age range equal and more than 50 years old.

Fourth Stage: Data Transcribing

In this step, the data from the questionnaires are transferred into the excel format to make it accessible for the researcher to capture any missing questionnaires and lastly, importing it into the SPSS software for further processing analysis.

Fifth Stage: Data Cleaning

In this stage, data consistency checking is conducted to identify any outlier and to apply treatments for those missing responses. For consistency checking, SPSS software will be used to identify any outlier response systematically and corrective actions will be taken. Field (2009) suggested that the outlier should exclude from the study, as it will affect the quality of the result.

3.6 Data Analysis

3.6.1 Descriptive Statistics Analysis

A descriptive statistical analysis will be conducted in order to feel or summarize the information from the samples. According to Sekaran (2003), it should include the central tendency mean analysis and the dispersion (maximum and minimum score). With this descriptive analysis, it will enhance the researcher's understanding on how the questions are answered by the respondents.

3.6.1.1 Frequency Distribution

Frequency distribution will show the number of observations falling into each of several ranges of values (Sekaran, 2003). It is the most common way of summarizing profiles of respondents and it provides a useful statistical and graphical display.

3.6.2 Testing Goodness of Fit

Testing the goodness of fit is to test the reliability and the validity of the measure. The objective of carrying out this test is to enhance the credibility of all subsequent analysis and finding (Sekaran, 2003).

3.6.2.1 Reliability Test

According to Hair et al. (2010), reliability is the degree of consistency and it is free of random error between multiple measurements of a variable. Therefore, reliability test will be conducted to determine the stability and consistency of the construct measurements. According to Cronbach's study, the reliability coefficient analysis is important as it guarantees that the items are correctly and consistently yield the interpretable statement for each variable (as cited by Lo & Ramayah, 2011).

In order to examine the reliability of constructs for each variable: ACE, and six social powers, the Cronbach's Alpha reliability test will be used. It is the most widely used reliability coefficient analysis to examine the reliability of multi-pointed scaled items. The Cronbach's Alpha coefficient with not less than

0.7 is considered acceptable and it will satisfy the internal consistency reliability (Nunnally, 1978; Hair et al., 2010).

3.6.2.2 Validity Test – Mann Whitney U Test

A common phenomenon in using questionnaire survey is non-response bias. Non-response bias occurs when there is a bias on the answer between observed respondents who return the survey with those who do not respond. It might affect the goodness and quality of the study. Thus, the Mann Whitney U Test needs to be conducted as suggested by these studies of Oppenheim (2005); Zulkarnain, Mohamad Ali, and Annuar (2006); Zulkarnain, Shamsher, and Yusof (2009) to examine the non-response bias. Through the Mann Whitney U Test, it is able to observe whether there is any difference between early and late respondents. Wallace and Mellor (1988) and Zulkarnain, Mohamad Ali, and Annuar (2006) stated that the late respondents are classified as surrogate for the non-respondents.

3.6.3 Inferential Analysis

3.6.3.1 Pearson Correlation Coefficient Analysis

According to Malhotra and Peterson (2006), correlation analysis is a statistical technique used to examine the strength of the linear connection between two variables. It is a bivariate analysis. However, this study proposed six independent variables namely, independence, expert, legitimate, sanctionary, institutional support and diligence power and aims to test all these multiple variable effects towards the ACE. Hence, the Pearson correlation coefficient analysis will be used to measure the correlation coefficient (*r*) of variables and to identify the multicollinearity problem. Multicollinearity occurs when the correlation of variables is too high, which is more than 0.9 (Hair et al., 2010). Multicollinearity may harm the overall prediction power of the model and cause unreliable regression coefficient.

Prior to conducting the correlation analysis, the data should be distributed normally. The correlation coefficient shows the prefect positive relationship when it is +1.0. However, it shows the perfect negative relationship when the value shows -1.0. The test will be carried at 5 percent significance level (p value < 0.05).

3.6.3.2 Multiple Regression Analysis

To test the hypotheses (H1a, b, c, d, e, and f) proposed earlier, the multiple regression analysis would be utilized in order to answer the research questions proposed in this study. Multiple regression analysis is appropriate and useful when the study aims to investigate the relationship between a single dependent variable and several independent variables (Hair et al., 2010). It is a multivariate analysis, which takes into consideration of each significant independent variable's prediction towards the ACE

Besides, there are many assumptions need to be considered in the multiple regression analysis. According to Leech, Barrett, and Morgan (2005), the assumptions include, the normality of the variables must be enhanced, the relationship between the dependent and independent variables should be linear, no autocorrelation and multicollinearity issues. Therefore, all these assumptions will be taken into consideration before conducting the multiple regression analysis. The regression analysis result assists to find out the regression coefficient (*b*) to weigh the regression line of all six social power bases (independent variables) and the ACE (dependent variable).

The equation is as follows:

ACE =

b_0 + b_1 (IND Power) + b_2 (EXP Power) + b_3 (LEG Power) + b_4 (SA Power) + b_5 (IS Power) + b_6 (DIL Power)

Whereby,

b_0	= constant coefficient/ intercept
b_1, b_2, b_3, b_4, b_5, b_6	= regression coefficient
ACE	= Audit Committee Effectiveness
IND Power	= Independence Power
EXP Power	= Expert Power
LEG Power	= Legitimate Power
SA Power	= Sanctionary Power
IS Power	= Institutional Support Power
DIL Power	= Diligence Power

Lastly, the second research objective aims to find out which social power has the strongest relationship to the ACE in Malaysian public listed companies. Hence, the standardized beta coefficient β values implied in the multiple regression analysis will be used. According to Field (2009), the standardized β coefficient value helps to express the strength of the relationship

between independent and dependent variable in a standardized form. It overcomes the difficulty to compare due to the different scale used to measure each independent variable and their relative influence to ACE (Kerr, Hall, & Kozub, 2004; Hair et al., 2010). By converting the entire independent variable beta coefficient in a standardized unit, it enhances the comparability of the independent variables and provides better insight to identify which social power has the strongest relationship with ACE among the six social powers.

3.7 Summary of Current Research Methodology

This chapter elaborates on the research design, design approach, sampling design, research instrument, construct measurement, data processing, and data analysis method for the study. Firstly, this descriptive and quantitative research aims to find out conclusive evidence to explain the relationships between six social powers and effectiveness of AC in Malaysian public listed companies.

Secondly, all the 215 external auditors who are performing external audit functions in Malaysian public listed companies are focused as the target respondent in this study. The population was obtained from the audited annual report published in BM. Next, email questionnaire survey method was used to collect feedback from the external auditors. It is an efficient and effective tool

used to measure and capture the perception from the external auditors to provide valuable feedback contribution to this finding. The entire variables measurement was adapted from the past literature with minor modification. Hence, the construct validity is supported.

To overcome the limitation of using questionnaire, survey administration was performed such as the cover letter was attached to the questionnaire to induce attention and co-operation from the respondents and the questionnaire was pilot tested to ensure the quality, reliability, and applicability to Malaysian practice. Pre-notification and follow up action was taken to improve the response rate for the study. From the 215 questionnaires distributed, 148 feedbacks were received from the respondent. It yielded a 68 percent responses rate. Multiple regression analysis was used to test the hypotheses proposed to answer the research questions. Next, Chapter 4 reports the findings of the statistical analysis together with the interpretation of feedback received from the targeted respondents.

CHAPTER 4

RESULT FINDINGS

This study adopted the quantitative approach to test the relationship between social power and ACE in Malaysian public listed companies. In terms of the statistics analysis methods selected in early chapter, the aim of this chapter 4 is to present the complete statistical results of this study. First section 4.1 shows the pilot study result. Follow by, section 4.2 is to discuss about the responses collected from the target respondents. Next, section 4.3 reports the normality test result and, follow by descriptive statistic analysis about the respondents' demographic profile and general information in section 4.4. Then, there is a brief discussion of the inferential analysis, which included the Pearson Correlation Coefficient and the Multiple Linear Regression analysis. Lastly, section 4.7 and 4.8 present the result of hypotheses testing and the summary of data findings.

4.1 Pilot Study Result

Before the actual survey, 20 sets of questionnaires were distributed for pilot test by 10 external auditors and 10 senior academicians. This is to eliminate

any ambiguous items and constructs in the questionnaire. The Cronbach's Coefficient Alpha reliability test was used to test the stability and consistency of the construct measurements for the pilot study. Table 4.1 shows the result of reliability test for the pilot study.

Table 4.1: Reliability Test for Pilot Study: Cronbach's Coefficient Alpha

	Number of Items	Alpha Coefficient
ACE	15	0.815
Independence Power	3	0.713
Expert Power	6	0.723
Legitimate Power	5	0.714
Sanctionary Power	3	0.712
Institutional Support Power	5	0.723
Diligence Power	5	0.891

Source: Developed for the Research

Nunnally (1978); Hair, Babin, Money, and Samouel (2003) have proposed the minimum acceptable standard for reliability as 0.7. The reliability result for pilot study shown in Table 4.1 indicates all the variables have an acceptable reliability ranging from 0.712 to 0.891, which are above the minimum acceptable standard. Thus, the result confirms that the constructs used in the entire questionnaire are reliable and consistent.

4.2 Responses Rate

In this study, 215 external auditors were approached and 148 fully completed questionnaires were received. The response rate for this study was 68 percent. According to Sekaran (2003), the response rate of at least 30 percent is considered acceptable. In the past studies that targeted the external auditors in Malaysia as the respondents, the response rate was within the range of 24 percent to 60 percent (Zulkarnain, Shamsher, & Mohamad Ali, 2001a; Suwaidan & Qasim, 2010). Thus, the response rate received for this study is above the minimum acceptable level.

Prior to the data analysis, all the 148 received questionnaires were examined for missing values. It has been noticed that there are no missing values and incomplete data. This is because the Email Questionnaire 4.1 software used to remind the respondents if there were any incomplete responses to the questions during the survey. Hence, all 148 data were used to present the complete account of the statistical results of this study.

4.3 Normality Test

Normality is the most important assumption to be fulfilled in multivariate analysis (Hair et al., 2010). If the data is not normally distributed, it biases the statistical results. Kolmogorov-Smirnov test and Shapiro-Wilk tests are both well-known normality tests. According to Razali and Yap (2011), Shapiro-Wilk test is restricted to sample size, which is less than 50. In contrast, for a larger sample size, the Kolmogorov-Smirnov should be used to test the normality. Hence, Kolmogorov-Smirnov normality test was used and the result is presented in Table 4.2.

Table 4.2: Test of Normality

	Kolmogorov-Smirnov		
	Statistic	Df	Sig (p)
ACE	0.052	148	0.200

Source: Developed for the Research

Table 4.2 shows the normality test result for the data in this study. The Kolmogorov-Smirnov test in Table 4.2 shows the significance level (p-value) of 0.200, which is larger than 0.05. According to Field (2009), when the p-value is more than 0.05, the data distribution is not significantly different from the normal distribution. As such, the result proves that the data in this study are normally distributed. The detailed SPSS output for normality test is shown in Appendix 3.1.

4.4 Descriptive Statistics

4.4.1 Frequency Distribution: Demographic Profile and General Information

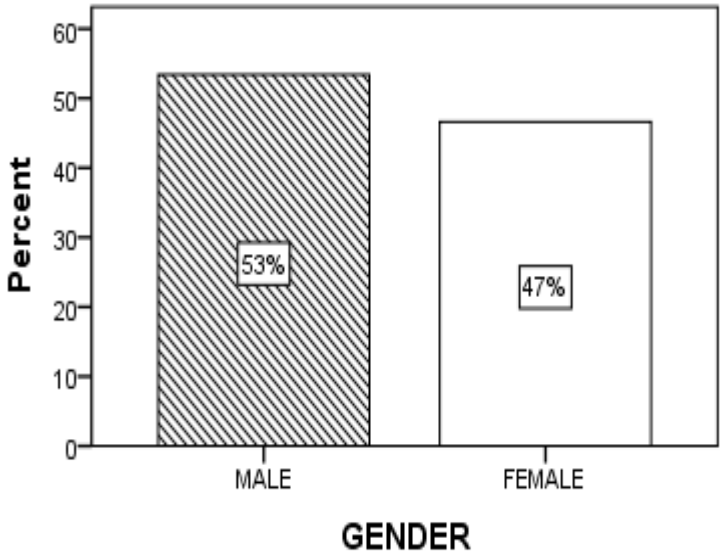
Table 4.3: Descriptive Analysis: General Information and Demographic Profile

Item	Frequency	Percentage (percent)
Gender		
Male	79	53
Female	69	47
Total	**148**	**100**
Age		
20 – 29 years old	1	1
30 – 39 years old	84	57
40 – 49 years	55	37
≥ 50 years	8	5
Total	**148**	**100**
Category of audit firm		
Big 4	63	43
Non Big 4	85	57
Total	**148**	**100**
Experiences in external auditing		
≤ 5 years	4	3
6 – 10 years	27	18
11 – 15 years	52	35
16 – 20 years	50	34
21 – 25 years	12	8
≥ 26 years	3	2
Total	**148**	**100**

Source: Developed for the Research

Frequency distribution assists in enhancing the researcher's understanding about the data collected (Hair et al., 2003). Table 4.3 shows the summary of the profile of respondents and general information from the 148

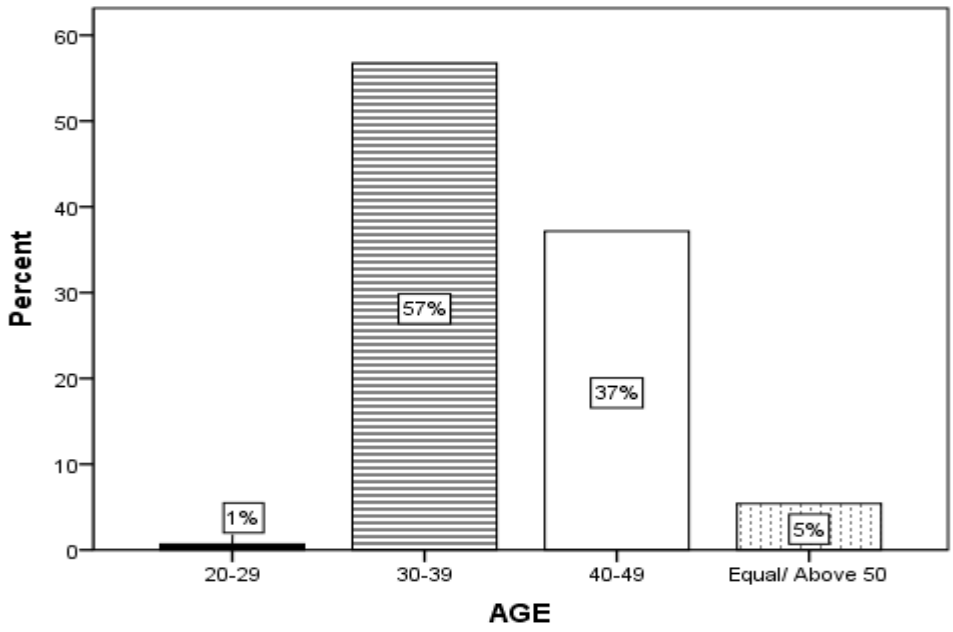
respondents. All the information in Table 4.3 is the output from SPSS. Detailed description for general information and respondents' demographic profile is shown in Appendix 3.2.



Source: Developed for the Research

Figure 4.1: Descriptive Statistics: Gender

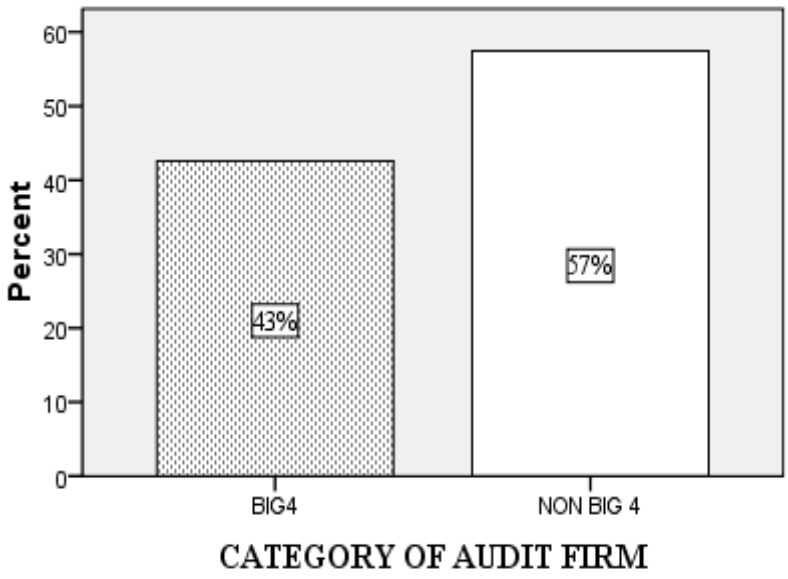
Figure 4.1 depicts the detailed information about the gender of 148 targeted respondents. The result shows that among the total of 148 respondents, 79 of the external auditors are males. Male external auditors represent 53 percent of the total group. The remaining 69 respondents are the female external auditors and they represent 47 percent of the overall group. From the observation of this result, it shows that the male is dominant in numbers in the respective external audit professions.



Source: Developed for the Research

Figure 4.2: Descriptive Statistics: Age

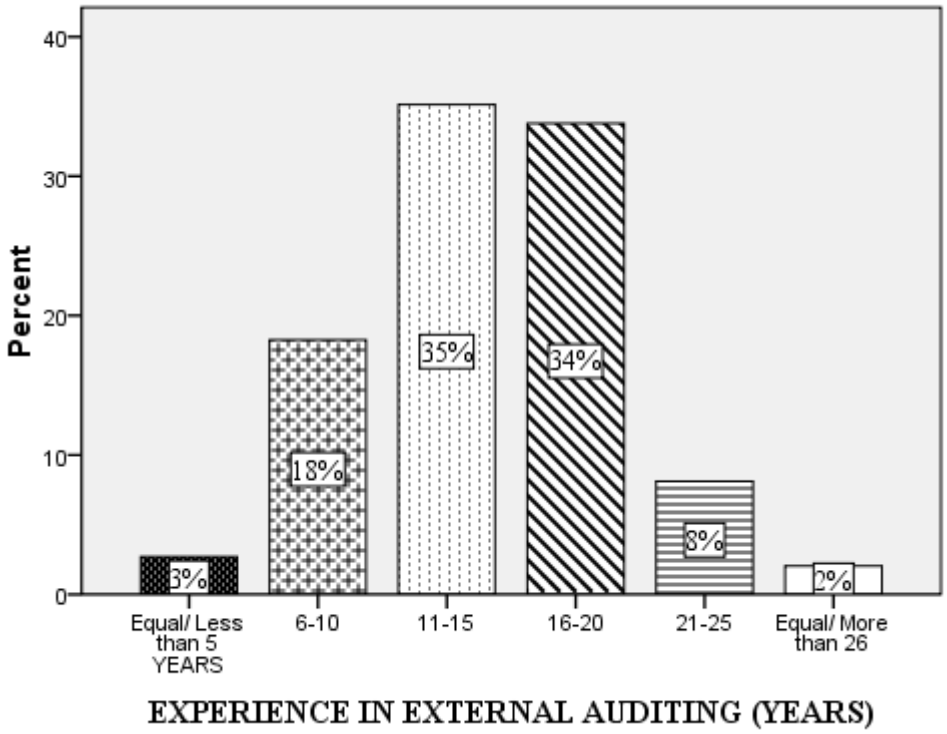
The majority of respondents (57 percent) fall under the age range between 30 to 39 years old, in which there are 84 external auditors among the 148 respondents. It is followed by the age range of 40 to 49 years old with 55 respondents within this age range and they represent 37 percent of the group. 8 external auditors are aged more than 50 years old and they stand for 8 percent of the total group and remaining 7 percent of external auditors fall under the age group of 20 to 29 years old. Figure 4.2 above shows the detail of the age information of the 148 targeted respondents.



Source: Develop for the Research

Figure 4.3: Descriptive Statistics: Category of Audit Firm

Figure 4.3 depicts the category of external audit firms (Big 4 and Non Big 4) in percentage. The result indicates that 43 percent of targeted external auditors work in the Big 4 audit firms from the whole sample gathered (63 external auditors). Fifty-seven percent of the respondents are from the Non-big 4 audit firms and it is derived from 85 respondents out of the whole sample.



Source: Develop for the Research

Figure 4.4: Descriptive Statistics: Experience in External Auditing (years)

The experience of the 148 target respondents in the external auditing is shown in Figure 4.4. Thirty five percent of respondents have at least 11 to 15 years of experience in the external auditing field. It is followed by the 34 percent external auditors who fall between the range of 16 to 20 years, 18 percent under the range of 6 to 10 years, 8 percent in the range of 21 to 25 years and 3 percent in the range of less than or equals to 5 years of experience. The remaining 2 percent of external auditors have at least 26 years experiences in the external auditing. The mean experience level among the external auditors is 15 years. The result

indicates that the targeted respondents are quite experienced in the respective areas.

Based on the descriptive statistics of respondents' profile information and general information, it is found that the majority of target respondents have sufficient experiences in the professional external audit field. This fulfills the criteria set by the MIA to make sure all the external auditors should gain more than three years practical working experience in the respective external audit professions. This is to maintain the quality and expertise of qualified external auditors. Hence, the targeted respondents are mature person and have sufficient decision-making power. They are also possessed with sufficient experience and expertise in the respective external audit profession. This fulfills the reason why the external auditors were chosen as respondents for this study. The external auditors are independent persons. They have sufficient expertise, and work closely with AC. Hence, they have a better ability to determine and evaluate the ACE in Malaysia (Zulkarnain, Shamsher, & Mohamad Ali, 2001a).

4.4.2 Central Tendency Measurement

In central tendency measurement, the result reveals the mean, minimum and maximum for each dependent and independent variable. It helps to understand better the respondents' response on the items in the questionnaires (Sekaran, 2003). Table 4.4 presents the summary of the statistical result of central tendency measurement for the dependent variable, ACE. While Table 4.5 shows the statistical results for the six independent variables namely, perceived independence, expert, legitimate, sanctionary, institutional support and diligence powers. All the variables are based on the five points Likert- scale. All results in Table 4.4 and 4.5 are derived from SPSS output of Central Tendencies Measurement of Constructs in Appendix 3.3.

Table 4.4:Central Tendency Measurement of Construct: Dependent Variable: Audit Committee Effectiveness (ACE)

Items	Min	Max	Mean
Overall Effectiveness			
OV1	2	5	3.8243
OV2	2	5	3.8851
Financial Reporting			
FR1	2	5	3.7432
FR2	2	5	3.4324
FR3	2	5	3.5878
FR4	2	5	3.6824

Continued next page

Table 4.4 continued: Central Tendency Measurement of Construct: Dependent Variable: Audit Committee Effectiveness (ACE)

Items	Min	Max	Mean
External Auditing			
EA1	2	5	3.8243
EA2	2	5	3.6689
EA3	2	5	3.6689
EA4	2	5	3.8378
EA5	1	5	3.4459
Internal Control			
IC1	1	5	3.5878
IC2	2	5	3.5878
IC3	2	5	3.6419
IC4	2	5	3.7027

Source: Developed for the Research

The ACE has been constructed into 15 items in four specific areas: overall effectiveness (2 items), financial reporting (4 items), external auditing (5 items) and internal control oversight (4 items). The results in Table 4.4 show that the 15 items in ACE fall between the mean score of 3.4324 to 3.8851. The overall maximum score is 5 and the majority have a minimum score of 2 except items EA5 and IC1. Both EA5 and IC1 have the minimum score of 1. It demonstrates that the respondents tend to agree that AC members are effective in the four specific areas.

Table 4.5: Central Tendency Measurement of Construct: Independent Variable: six social powers

Items	Min	Max	Mean
Independence Power			
IND1	3	5	3.8986
IND2	3	5	3.7770
IND3	3	5	3.7432
Expert Power			
EXP1	2	5	4.0000
EXP2	2	5	3.9054
EXP3	2	5	3.9054
EXP4	3	5	3.9797
EXP5	2	5	3.7230
EXP6	2	5	3.8243
Legitimate Power			
LEG1	2	5	3.9324
LEG2	2	5	3.8581
LEG3	2	5	3.9662
LEG4	2	5	3.7432
LEG5	2	5	3.8581
Sanctionary Power			
SA1	2	5	3.6757
SA2	2	5	3.6824
SA3	2	5	3.7365
Institutional Support Power			
IS1	2	5	3.8378
IS2	3	5	4.0068
IS3	2	5	3.7770
IS4	2	5	4.0743
IS5	2	5	3.8514
Diligence Power			
DIL1	2	5	3.8176
DIL2	2	5	3.5473
DIL3	2	5	3.6486
DIL4	1	5	3.5068
DIL5	2	5	3.5541

Source: Developed for the Research

The results in Table 4.5 discuss on the minimum, maximum and mean of each independent variables. For independence power and sanctionary power, 3 items are used to construct these two independent variables. 6 items are used to construct the expert power and 5 items are used to measure for legitimate, institutional support and diligence power respectively. The result describes that the maximum score for all independent variables is 5. The majority of the independent variables obtain a minimum score of 2. IND1, IND2, IND3, EXP3, IS3 have the minimum score of 3. Yet, DIL4 has the minimum score of 1. The mean for all independent variables are above 3.0 (3.5068 - 4.0743), which indicates that the respondents agreed on all items.

4.5 Testing Goodness of Fit

Testing the goodness of fit means to examine the quality of the constructs. It is important, as the quality of constructs will bring significant impact towards the statistical results.

4.5.1 Reliability Test

Reliability means that the questionnaire items are consistent and reliable for the construct that is being measured. In this study, the Cronbach's Coefficient Alpha is used to test the internal reliability for each variable. Reliability test is to discover the stability and consistency of construct measurement. Cronbach's Coefficient Alpha is the most widely used to test the internal reliability consistency (Sekaran, 2003; Hair et al., 2010). The summary result of Cronbach's Coefficient Alpha reliability test is shown in Table 4.6.

Table 4.6: Reliability Test: Cronbach's Coefficient Alpha

	Number of Items	Alpha Coefficient
ACE	15	0.910
Independence Power	3	0.723
Expert Power	6	0.756
Legitimate Power	5	0.761
Sanctionary Power	3	0.713
Institutional Support Power	5	0.791
Diligence Power	5	0.899

Source: Developed for the Research

From the result shown in Table 4.6, 42 items are tested. Fifteen items are used to construct the dependent variable, which is ACE. Twenty-seven items are used for six independent variables: independence power (3 items), expert power (3 items), legitimate power (5 items), sanctionary power (3 items), institutional

support power (5 items), and diligence power (5 items). Detailed Cronbach's Coefficient Alpha result is presented in Appendix 3.4.

Nunnally (1978) has proposed the minimum acceptable standard for reliability as 0.7. This is similar to the suggested rule of thumb of Hair et al., (2003). The study indicates that if the coefficient is below 0.6, it is considered as having poor reliability of the construct. For Alpha coefficient that falls within the range of 0.6 to less than 0.7, it is considered moderate. If the coefficient score is within 0.7 to less than 0.8 is considered strong. On the other hand, if the coefficient result is ranges from 0.8 to less than 0.9, it is considered as very strong.

Coefficient result shown in Table 4.6 depicts that all variables in this study are within the range of 0.713 to 0.910. The dependent variable, ACE has the highest coefficient with 0.910. It means 15 items can be combined to measure the effectiveness of AC members. It brings an excellent strength of association. The sanctionary power has the lowest coefficient result of 0.713. However, all the variables' coefficient are above 0.7, the suggested rule of thumb of Hair et al. (2003). Therefore, the overall internal reliability for the entire constructs is considered strong. Furthermore, as compared with the pilot study's reliability result, all the variables construct reliabilities have improved. Thus, the result confirms that the data and constructs used in this study are reliable and consistent.

4.5.2 Mann Whitney U Test

A major drawback for questionnaire survey is the non-response bias. Non-response bias appears when there is a bias on the answer between observed respondents, those who respond to the survey with those who do not respond. It may impair the quality and goodness of fit. To enhance the validity and reliability of data, Mann Whitney U test used to identify the presence of non-response bias as suggested by Oppenheim (2005) and Zulkarnain, Shamsher, and Yusof (2009). Yet, before conducting the Mann Whitney U test, two assumptions must be fulfilled. First, the data must be normally distributed in order to enhance the quality of data. Secondly, the variance of the two groups (first 10 responses and last 10 responses) must be similar to ensure the homogeneity assumptions are met. The homogeneity assumption can be detected through the Levene's test for Equality of Variances.

In this study, the normality assumption for Mann Whitney U test has been fulfilled and the result is shown in the beginning of section 4.3 and in Table 4.2. The data for this study is normally distributed. To identify the homogeneity assumption, the Levene's test for equality of variances is examined and the result is shown in Table 4.7. It shows that the Levene's test significance level (p-value) is 0.210 which is larger than 0.05. Thus, it can be concluded that the homogeneity

assumption has been met as the variance between the first 10 and last 10 responses are not different.

Table 4.7: Assumption for Homogeneity: Levene's Test for Equality of Variances

	F	Sig (p)
ACE (First 10 and Last 10 responses)	1.687	0.210

Source: Developed for the Research

Table 4.8: Mann Whitney U Test

	Number of Items	Mean Rank	Exact Sig
First 10 responses	10	10	0.739
Last 10 responses	10	11	

Source: Developed for the Research

After the two assumptions are met, the Mann Whitney U test is thus, conducted to identify the non-response bias. The result is presented in Table 4.8. The mean ranks for first ten questionnaires responses are 10, whereas the last ten set of questionnaires' mean rank are 11. According to Field (2009), if the value of exact significance level is less than 0.05, then the two groups are significantly different. Hence, the non-responses bias might have occurred. However, the exact significance level (p-value) in this study shows 0.739, which is larger than the 0.05. It means there is no difference between the first 10 responses and the last 10

responses. It is safe to conclude that the non-response bias is absent in this study, which upholds the quality of data. Detailed results shown in Table 4.7 and 4.8 are captured from SPSS output in Appendix 3.5.

4.6 Inferential Analysis

4.6.1 Pearson Correlation Coefficient Analysis

In this study, the Pearson Correlation Coefficient analysis is used to detect whether there is any multicollinearity problem. Multicollinearity may impair the predictive power of the variable and reduce the validity of the result. When the correlation between two independent variables is more than 0.9, the multicollinearity problem may occur (Hair et al., 2010).

Before the Pearson Correlation Coefficient Analysis is conducted, the normality assumption must be met in order to generate a valid test. In this study, the normality assumption is met as shown in section 4.3 above. Table 4.9 provides the correlation coefficient between all the variables including ACE (dependent variable) and six independent variables (independence, expert, legitimate, sanctionary, institutional support, diligence power). Table 4.9 is captured from the SPSS analysis output shown in Appendix 3.6.

Table 4.9: Pearson Correlation Coefficient Analysis

	ACE	IND Power	EXP Power	LEG Power	SA Power	IS Power	DIL Power
ACE	1						
IND Power	0.675**	1					
EXP Power	0.733**	0.562**	1				
LEG Power	0.715**	0.567**	0.678**	1			
SA Power	0.717**	0.524**	0.575**	0.547**	1		
IS Power	0.555**	0.421**	0.509**	0.562**	0.347**	1	
DIL Power	0.679**	0.377**	0.418**	0.431**	0.491**	0.463**	1

** Correlation is significant at 0.01 level (1 tailed).

Source: Developed for the Research

The correlation coefficient (*r*) for all variables has the p-value of less than 0.05. Table 4.9 shows that all the correlation coefficient (*r*) is relatively high, ranging from 0.347 to 0.733. From the result, it could be seen that, all independent variables have the significant positive correlation with the dependent variable ACE. Among the group, the correlation coefficient between the expert power and ACE shows the highest correlation with *r*= 0.733 and p-value = 0.000. The second highest group is the sanctionary power and ACE, which shows the correlation of *r*= 0.717 with the significance level (p-value = 0.000). It is followed by the legitimate power and ACE. The legitimate power is positively correlated to ACE with *r*= 0.715 and p-value = 0.000. The remaining independent variables: diligence (*r*= 0.679), independence (*r*= 0.556) and institutional support power (*r*=

0.555) also show a positive correlation with ACE with significant level (p-value) of less than 0.05.

Among the correlation within the independent variables, the highest correlation coefficient (*r*) is only 0.678 (relationship between legitimate and expert power). None of them is above the 0.9 value, according to the rule of thumb as suggested by Hair et al. (2010). Therefore, it is assumed that there is no multicollinearity problem exists in this study.

4.6.2 Multiple Regression Analysis

The multiple regression analysis is used to examine the hypotheses set in the earlier chapter. It is used to predict the outcome variable, ACE from several predictor variables, six social powers in the Malaysian context.

4.6.2.1 Assumption for Multiple Regression Analysis

Before conducting the multiple regression analysis, few important issues need to be highlighted. First, the sample size has a direct impact on the

appropriateness and reliability of the regression model. In this study, the sample size is 148. Thus, it achieved 25 observations for each independent variable, which is more than the suggested ratio given by Field (2009) and Hair et al. (2010) for at least 15 or 20 observations per independent variable. Hence, it supports that the sample size in this study is generalized adequate to achieve the reliability and appropriateness of the regression model.

Secondly, the data must be normally distributed in order to validate the statistical result. In this study, the Kolmogorov- Smirnov normality test is conducted in the earlier section 4.3 under Table 4.2. The result shows that the data for this study is normally distributed with p-value of 0.200, which is more than 0.05. As a result, the normality assumption is met. Next, it should be absent from the multicollinearity problem (Field, 2009). Under section 4.6.1 above (Table 4.9), the Pearson Correlation Coefficient Analysis supported that all the independent variable correlations are less than 0.9 as suggested by Hair et al. (2010). Hence, the multicollinearity assumption is met.

Besides, the linearity assumption for the mean of the dependent variable for each independent variable must fall along the straight line. Failing to achieve the linearity assumption will affect the generalizability of the regression findings (Hair et al., 2010). In this study, normal plot for multiple regression analysis is

shown under the Appendix 3.7. The normal plot shows that there is a straight line between the dependent and independent variables. Therefore, the linear assumption is met.

In addition, the independent errors must be maintained. Durbin- Watson test can be used to test the correlation between the errors and identify the autocorrelation problem. Field (2009) concluded that the Durbin- Watson result must be more than one but less than two to ensure that the independent error assumption is met. The result of Durbin- Watson test will be discussed in the following section 4.6.2.2.

4.6.2.2 Result of Multiple Regression Analysis

The result of multiple regression analysis is shown in Table 4.10 and 4.11. All the information shown in the following tables have obtained through the SPSS Output in Appendix 3.7.

Table 4.10: Result of Multiple Regression Analysis: Model Summary [b] and ANOVA [b]

Model	R	R Square	Adjusted R Square	Durbin-Watson	F	Sig (p)
1	0.902 [a]	0.814	0.806	1.870	103.054	0.000 [a]

a. Predictors (constant), Independence power, Expert power, Legitimate power, Sanctionary power, Institutional Support power and Diligence power
b. Dependent variable : ACE

Source: Developed for the Research

Based on the above Table 4.10, Durbin- Watson result shows a value of 1.870, which fulfills the suggested rules of thumb more than one but less than two by Field (2009). It supported that the independent error assumption of the multiple regression analysis is met. All the assumptions of multiple regression analysis have been achieved to ensure the validity of multiple regression analysis.

To evaluate the regression analysis, first assess the statistical F significance of the overall regression model. The rule of thumb for the statistically significant level of the overall regression model is that F statistic's significance level must be less than 0.05. It provides the overall model fitness. The F statistics result in this study shown in the Table 4.10 is 103.054 with the significance level (p-value) of 0.000. Hence, it is confirmed that the overall regression model proposed in this study is fit. This means that the six social powers proposed can be used to model the dependent variable ACE.

Secondly, evaluating the R square to identify the coefficient of determination of the overall model is proposed in this study. The R square shown in Table 4.10 is 0.814. It shows the ability of the six social powers to predict the ACE. As a result, it can be concluded that the 81.4 percent of the variation in ACE can be explained by all six independent variables which are independence, expert, legitimate, sanctionary, institutional support and diligence power. According to Kinnear and Gray (2006), if the coefficient of determination is more than 10 percent, the effect size is considered large. Based on the R square in Table 4.10, it shows the value of 0.814, which is more than the value of 10 percent as suggested by Kinnear and Gray (2006). As a result, the effect size of this regression model is considered large.

Referring to the Table 4.11, all the variables' tolerance values fall into the range from 0.428 to 0.657 and the VIF in the range of 2.339 to 1.522. Hence, it fulfils the rule of thumb as suggested by Hair et al. (2010) for VIF must be less than 10 and tolerance value must be more than 0.1. These results support that the multicollinearity problem is confirmed to be absent in this study. In addition, the Table 4.11 shows that five independent variables which are the independence power (t = 4.213), expert power (t = 4.177), legitimate power (t = 3.069), sanctionary power (t = 4.500) and diligence power (t = 6.864) have the significance level (p-value) of less than 0.05. All these five social powers are supported to have a significant and positive relationship with ACE.

Table 4.11: Result of Multiple Regression Analysis: Coefficients [a]

Model	Unstandardized Coefficient		Standardized Coefficient			Collinearity Statistics	
	b	Std Error	Beta	t	Sig (p)	Tolerance	VIF
(Constant)	-0.616	0.194		-3.183	0.002		
IND	0.246	0.058	0.201	4.213	0.000	0.579	1.728
EXP	0.256	0.061	0.228	4.177	0.000	0.444	2.253
LEG	0.178	0.058	0.170	3.069	0.003	0.428	2.339
SA	0.209	0.046	0.223	4.500	0.000	0.536	1.865
IS	0.038	0.045	0.039	0.832	0.407	0.597	1.676
DIL	0.208	0.030	0.307	6.864	0.000	0.657	1.522

a. Dependent variable : ACE

Source: Developed for the Research

Surprisingly, the result discovered that the institutional support power (t = 0.832) has a p-value of 0.407, which is more than 0.05. It means the institutional support power is not a significant predictor of ACE in Malaysian public listed companies. According to Hair et al. (2003), any independent variable with insignificant level should be removed from the regression model and rerun the regression analysis as it provides meaningless predictive value to the model. The researcher needed to rerun the regression analysis to take into consideration for only significant independent variables to build up the accurate equation model. In such a case, stepwise multiple regression analysis is suggested to rerun to confirm the conclusion and enhance the predictive accuracy for only significant variables in predicting the ACE in Malaysia.

4.6.2.3 Result of Stepwise Multiple Regression Analysis

The purpose of rerunning the stepwise multiple regression analysis is to confirm whether the insignificant variable, institutional support power should be dropped in the regression model for this study. The stepwise multiple regression analysis will only take into consideration of those predictor variables which significantly contribute to the dependent variable and tell us the most parsimonious regression equation for the study. The result of stepwise multiple regression analysis is shown in the following Table 4.12. Detail information of stepwise multiple regression analysis is attached in Appendix 3.8.

Table 4.12: Result of Stepwise Multiple Regression Analysis: Model Summary [f] and ANOVA [f]

Model	R	R Square	Adjusted R Square	Durbin-Watson	F	Sig (p)
1	0.733 [a]	0.537	0.533			
2	0.840 [b]	0.705	0.701			
3	0.875 [c]	0.765	0.760			
4	0.893 [d]	0.798	0.792			
5	0.902 [e]	0.813	0.807	1.874	123.795	0.000 [f]

a. Predictors: (constant), Expert power
b. Predictors: (constant), Expert power and Diligence power
c. Predictors: (constant), Expert power, Diligence power, Independence power
d. Predictors: (constant), Expert power, Diligence power, Independence power, Sanctionary power
e. Predictors: (constant), Expert power, Diligence power, Independence power, Sanctionary power, Legitimate power
f. Dependent variable : ACE

Source: Developed for the Research

Referring the result from Table 4.12, the F statistical result shows a value of 123.795 with the significance level (p-value) 0.000. The results reported that the overall model 5, which comprises only five social powers namely, expert power, diligence power, independence power, sanctionary power and legitimate power with the dependent variable, ACE is fit. In addition, as compared to previous simultaneous regression F ratio result of 103.054 with significance level of 0.000 shown in Table 4.10, the stepwise regression model 5 shows the higher F ratio. According to Hair et al. (2003), the larger F ratio shows the most variance of the dependent variable is explained by the independent variable. Hence, the stepwise regression model 5 by excluding the institutional support power explained the ACE better as compared to the earlier model.

Among the model proposed by the stepwise regression analysis, the R square result from the last model 5 shows the highest value of 0.813 in Table 4.12. The result supported that the 81.3 percent of the variation in ACE can be explained by all these five social powers. This effect size is considered large as suggested by Kinnear and Gray (2006). To ensure useful comparison is made between the equations with different numbers of independent variables, the adjusted R square should be used (Hair et al., 2010). Hence, the stepwise regression model 5 has the adjusted R square of 0.807 (Table 4.12). On the other hand, the simultaneous regression model shows the adjusted R square of 0.806 (Table 4.10). The result showed that the stepwise regression model has a better

effect size of the five social powers in predicting the ACE in Malaysian public listed companies. This once again shows the lack of predictive value of the excluded variable, institutional support power.

Table 4.13: Result of Stepwise Multiple Regression Analysis: Excluded Variables [f]

Model	Beta In	t	Sig (p)	Tolerance	VIF
5	0.039 [e]	0.832	0.407	0.597	1.676

e. Predictors in the Model: (constant), Expert power, Diligence power, Independence power, Sanctionary power, Legitimate power
f. Dependent Variable: ACE

Source: Developed for the Research

Table 4.13 lists out the excluded variable. In model 5, the institutional support power has been excluded from the R square and F ratio due to the insignificant relationship to ACE. From the excluded variable test in Table 4.13, the institutional support power was found to have a p-value of 0.407, which is more than the rule of thumb value 0.05. Hence, it supported that the institutional support power does not have a significant contribution to predict the ACE in Malaysian public listed companies.

Lastly, the stepwise regression result confirms the beta coefficient for only the significant variables namely; expert power, diligence power, independence power, sanctionary power, and legitimate power are useful in

predicting the ACE in Malaysian public listed companies. The institutional support power should be excluded from the final equation for this study as it shows an insignificant relationship (p-value of 0.407) with ACE in the Malaysian context under Table 4.13. Next, Table 4.14 shows the beta coefficient value for each significant independent variable. For hypotheses testing, Table 4.13 and Table 4.14 are referred.

Table 4.14: Result of Stepwise Multiple Regression Analysis: Coefficient [a]

		Unstandardized Coefficient		Standardized Coefficient		
	Model	B	Std Error	Beta	t	Sig (p)
5	(Constant)	-0.580	0.188		-3.078	0.003
	EXP	0.265	0.60	0.235	4.381	0.000
	DIL	0.215	0.029	0.318	7.397	0.000
	IND	0.250	0.058	0.204	4.305	0.000
	SA	0.204	0.046	0.218	4.437	0.000
	LEG	0.191	0.055	0.183	3.450	0.001

a. Dependent Variable: ACE

Source: Developed for the Research

Referring the Table 4.14, it is similar to the simultaneous regression analysis result shown in Table 4.11. These entire five social powers namely, expert power (t = 4.381), diligence power (t = 7.397), independence power (t = 4.305), sanctionary power (t = 4.437) and legitimate power (t = 3.450) are supported with a p-value of less than 0.05. Hence, the hypotheses of H1a, b, c, d,

and f are supported. All these five social powers have a significant and positive relationship with ACE in Malaysian public listed companies. On other hand, Table 4.13 shows the institutional support power is being excluded from the stepwise regression analysis due to the p-value of 0.407, which is more than 0.05. This is a similar result as conducted in simultaneous regression under Table 4.11. Hence, these results rejected the hypothesis H1e. It shows that there is an insignificant relationship between institutional support power and ACE.

4.7 Result of Hypotheses Testing

In this section, all the six hypotheses proposed earlier are assessed to examine whether there is a significant and positive relationship between the social power and ACE in Malaysia. Table 4.15 shows the summarized results for hypotheses testing. The data in Table 4.15 are summarized from the above Tables 4.13 and 4.14.

Table 4.15:Result of Hypotheses Testing

	Hypotheses	Standardized Beta Coefficient (β)	Result
H1a:	There is a significant and positive relationship between the Independence power and ACE in Malaysian public listed companies.	0.204	H1a supported p value = 0.000 (p value < 0.05)
H1b:	There is a significant and positive relationship between the Expert power and ACE in Malaysian public listed companies.	0.235	H1b supported p value = 0.000 (p value < 0.05)
H1c:	There is a significant and positive relationship between the Legitimate power and ACE in Malaysian public listed companies.	0.183	H1c supported p value = 0.001 (p value < 0.05)
H1d:	There is a significant and positive relationship between the Sanctionary power and ACE in Malaysian public listed companies.	0.218	H1d supported p value = 0.000 (p value < 0.05)
H1e:	There is a significant and positive relationship between the Institutional Support power and ACE in Malaysian public listed companies.	0.039	H1e rejected p value = 0.407 (p value > 0.05)
H1f:	There is a significant and positive relationship between the Diligence power and AC in Malaysian public listed companies.	0.318	H1f supported p value = 0.000 (p value < 0.05)

Source: Developed for the Research

H1a: There is a significant and positive relationship between Independence power and ACE in Malaysian public listed companies.

Based on the result in Table 4.15, it shows that the independence power has the (p-value) 0.000, which is lower than the 0.05 and the β coefficient value of 0.204. Thus, the result supported the acceptance of H1a. The result suggested that independence power is significantly and positively related to the ACE in Malaysia.

H1b: There is a significant and positive relationship between Expert power and ACE in Malaysian public listed companies.

Result in Table 4.15 convinced that the H1b is supported. The standardized beta coefficient, β value of the expert power is 0.235. While, the significance level (p-value) of expert power with ACE is 0.000, which is smaller than the cutoff point 0.05. Hence, the H1b is supported. It evidences that, there is a significant and positive relationship between expert power and ACE in Malaysian public listed companies.

H1c: There is a significant and positive relationship between Legitimate power and ACE in Malaysian public listed companies.

Referring to the result shown in Table 4.15, legitimate power is found to have a significant relationship with the ACE. The significance level (p-value) of legitimate power is 0.001 with the β coefficient value of 0.183. With the significance level less than 0.05, it supports the H1c above. The result indicates that there is a significant positive relationship between legitimate power and the ACE in the Malaysian context.

H1d: There is a significant and positive relationship between Sanctionary power and ACE in Malaysian public listed companies.

As shown in Table 4.15, sanctionary power is found to have a significant and positive relationship with ACE. It's standardized beta coefficient (β) value is 0.218 with a significance level (p-value) of 0.000. Based on the rule of thumb, the significance level of sanctionary power has fallen below 0.05, and hence the relationship between sanctionary power and ACE in Malaysia is confirmed to be significant. H1d is supported and accepted.

H1e: There is a significant relationship between Institutional Support power and ACE in Malaysian public listed companies.

Hypothesis H1e proposed that there is a significant and positive relationship between institutional support power and ACE in Malaysian context. The result in Table 4.15 shows that the institutional support power has β coefficient value of 0.039 with the significance level (p-value) of 0.407. However, the p-value of institutional support power is higher than 0.05. Hence, it indicates the rejection of H1e.

H1f: There is a significant relationship between Diligence power and ACE in Malaysian public listed companies.

Every power holder needs the desire to work. Table 4.15 shows the β value of diligence power is 0.307 with the significance level (p-value) 0.000. The significance level is smaller than the suggested rule of thumb of 0.05. Hence, it supported the H1f. The result proved that there is a significant and positive relationship between the diligence power and ACE.

From the standardized beta coefficient, β value shown in Table 4.15, the β value of diligence power (0.318) shows the largest value among the six dimensions of social power. It is then followed by the β value of expert power (0.235); sanctionary power (0.218); independence power (0.204) and legitimate power (0.183). On other hand, the β value of institutional support power shows the smallest value of 0.039. However, the institutional support power shows an insignificant relationship in contributing to ACE in Malaysia. Its' significance level (p-value) is 0.407, which is more than the rule of thumb 0.05. Thus, it does not provide any significant means to contribute to the ACE.

The standardized beta coefficient (β) value is needed to answer the last research question (RQ2) and meet the second research objective, which aims to identify which social power has the strongest relationship with the ACE in public listed companies in the Malaysian context. Based on the β values of all six dimensions of social powers, the diligence power has the greatest contribution to the ACE (β value of 0.318). When diligence power changes of one standard deviation, it produces a change of 0.318 standard deviation of the ACE in Malaysian public listed companies.

In additions, based on the regression coefficient result shown in the Table 4.14, the estimated multiple linear regression equation is as follows:

ACE = - 0.580 + 0.250 (Independence power) + 0.265 (Expert power) + 0.191 (Legitimate power) + 0.204 (Sanctionary power) + 0.215 (Diligence power)

4.7.1 Comparison with Previous Empirical Studies

4.7.1.1 Independence Power and ACE

With the supported hypothesis H1a, the result supported that the independence power has a significant and positive contribution to predict the ACE in Malaysian public listed companies. This is similar to the findings in the past studies of Ibrahim (2006); Turley and Zaman (2007) and Cohen, Krishnamoorthy, and Wright (2008). An effective AC needs to hold sufficient independence power to act objectively without any influence from management. The independence power helps to enhance the AC monitoring role in terms of financial reporting process, internal control and auditing issues. It provides AC a sense of objective and the ability to alleviate any fear from management and thus act in the best interest of the shareholders.

4.7.1.2 Expert Power and ACE

Expert power is the function for knowledge, skills and experience possessed by AC members to act and influence others in the organization. In the past management literature, expert power often contributes the significant prediction to organizational and personal effectiveness (Nygaard & Biong, 2010; Jain, Giga, & Cooper, 2011). Similarly, the H1b is supported by the p- value of 0.000. It shows that when the AC members hold greater expert power, it leads to greater ACE. The findings supported that the expert power also has a significant and positive relationship with ACE. This is consistent with the findings in Kalbers and Fogarty (1993) under the governance setting. Past studies as well as this study agreed that, expert power improves the capability and wisdom of AC members in performing their oversight duties in a more effective way to provide reliable guardianship to shareholders. It leads the others governance players to have confidence, respect and accept the recommendation and advise from the AC with sufficient expert power as they are perceived to know better.

4.7.1.3 Legitimate Power and ACE

H1c is supported by the p-value of 0.001 and the β coefficient value of 0.183. It supported that the legitimate power serves as a significant and positive

prediction to enhance the ACE. It creates a sense of compliance and responsibility for all parties including the AC members to perform the oversight duties effectively. Every leader needs it to implement the decision to ensure compliance, and to maintain effective governance practices. This finding is consistent with the past studies no matter in ACE (Kalbers & Fogarty, 1993; DeZoort et al., 2002) or in the social power studies (Elangovan & Jia, 2000; Kim & Guan, 2010; Jain, Giga, & Cooper, 2011). Legitimate power lead AC members to act as threat to improve the governance effectiveness and to maximize the shareholders' welfares.

4.7.1.4 Sanctionary Power and ACE

H1d is supported by the p-value of 0.000. Sanctionary power is significantly and positively related to enhancing the ACE in the Malaysian context. This result is consistent with the study by Kalbers and Fogarty (1993; 1998). With the sanctionary power, the AC has sufficient ability to monitor the performance of internal and external auditors to enforce quality. It leads the AC members to monitor closely the governance practice and thus, reduce the possibility of fraudulent activities and to ensure the every organizational player has their align goals to protect the shareholders.

4.7.1.5 Institutional Support Power and ACE

Institutional support power derives from the supportive relationship and informal communication maintained among the related parties to obtain updated, reliable, and relevant information for AC. In this study, the H1e is rejected with the p-value of 0.407, which is more than 0.05. This indicates that the institutional support power has limited contribution to predict ACE in Malaysia. Surprisingly, the result found contradicting finding as compared to past studies in Western countries conducted by Kalbers and Fogarty (1993), Sabia and Goodfellow (2005), Turley and Zaman (2007). The supportive atmosphere and informal communication among the related parties do not bring significant means to ACE in public listed companies in the Malaysian context.

Yet, similar findings were found in Mazlina and Nava (2007) study conducted in Malaysia under the internal auditors' perceptions. Similar results supported that the infrequent private meetings and communication (institutional support power) was found in Malaysian public listed companies to enhance ACE. Hence, with such difference in findings between Malaysia and Western countries, it highlights that the cultural difference may affect the implication of institutional support power towards ACE.

4.7.1.6 Diligence Power and ACE

Diligence power refers to the AC's willingness, enthusiasm, perseverance, and activeness to act as the governance mechanism. From the above Table 4.15, H1f is supported by the p- value of 0.000 and β coefficient value of 0.318. The result is agreed upon and it supports the findings in past studies (Kalbers & Fogarty, 1993). Diligence power provides a means to enhance the ACE in Malaysia under the perspective of external auditors. The diligence power shows a high level of involvement and activeness of the AC members to oversee their duties in an effective manner (DeZoort et al., 2002). Furthermore, among the six social powers proposed, the diligence power has the highest standardized β value. It supported that diligence power is the most important predictor for ACE in Malaysia. This is consistent with the study of Kalbers and Fogarty (1993) and Zulkarnain, Shamsher, and Mohamad Ali (2001a) who found that AC's enthusiasm and willingness has the strongest relationship with ACE. As a result, it is believed that the diligence power is the most important determinant to enhance the effectiveness of AC.

4.8 Summary of Data Findings

In this study, the external auditors who perform the external audit function in the public listed companies are the key respondents. From the summary descriptive statistics of respondents' profile information and general information, it is found that the target respondents are mature persons and most of them have sufficient experiences (11 to 15 years) in the respective external audit field. Secondly, the external auditors are the key players, who are familiar with the activities of AC. Due to the high interaction with AC, their opinion of the social power's contribution to ACE are important and valuable to determine an effective AC.

Moreover, the normality result by using the Kolmogorov- Smirnov test has found that all the data in this study are normally distributed. The Cronbach's Coefficient Alpha analysis also shows that all the variables fulfil the minimum acceptable standard 0.7. Hence, the consistency of constructs for all variables (ACE and six social powers) is confirmed. To strengthen the quality of data, Mann Whitney U test is then used. The exact significance level confirms that the non-response bias is absent from this study. For inferential analysis, the Pearson Correlation Analysis is run, and also to test the multicollinearity assumption. All the correlations among the independent variable are below the 0.9 suggested. Thus, the multicollienearity problem is absent in this study.

Lastly, the Multiple Regression analysis is also used for the hypothesis testing. To double confirm the predictive accuracy of regression model, stepwise regression analysis is tested after the simultaneous regression analysis. This is to validate the accuracy of the equation model to confirm only significant variables included to predict the ACE in Malaysia. In conclusion, only five social powers namely, independence power, expert power, legitimate power, sanctionary power, and diligence power have the significance level, p- value less than 0.05. Hence, the H1a, b, c, d, and f are supported, which is consistent with the past literature. Surprisingly, the institutional support power is excluded from the R square, F ratio and equation due to its insignificant p-value of 0.407. Thus, the H1e is rejected. Among all these social powers proposed, the diligence power shows highest standardized β value of 0.318 with the ACE. Thus, it is the most important determinant for an effective AC. The summarized hypotheses testing result is presented in Table 4.15. The overall model excluding the less significant variable (institutional support power) provides a large effect size of 81.3% and the F ratio supported that this model is a good and fit.

In the next chapter, an in-depth discussion on major findings will be carried out and the conclusion of the entire study will be presented. Finally, the implication of the study will be discussed in the following chapter 5.

CHAPTER 5

DISCUSSION AND CONCLUSION

Based on the statistical results showed in Chapter 4, this chapter provides the in-depth discussion, conclusion, and implications of the entire study. First, the summary of the study will be presented. Next, it provides the discussion of major findings on the relationships between the six social powers and ACE in Malaysia to meet the research questions and objectives. This is followed by the theoretical and managerial implications of the study. Lastly, the research limitations as well as the recommendations for future research and conclusion will be presented at the end of this chapter.

5.1 Introduction

The corporate collapses and frauds discovered in the giant companies have constantly eroded the users' confidence towards the capital market. A sound governance practice is the crucial component to enhance the efficiency of capital markets and restore the confidence of stakeholders (Cohen, Krishnamoorthy, & Wright, 2002). As a result, the recognition of the importance of AC is growing.

The AC members are introduced as the corporate guardians to safeguard sound financial reporting, strengthen the internal control structure and the external audit quality (Ismail, Mohd-Iskandar, & Rahmat, 2008; Beasley et al., 2009). In Malaysia, AC formation is a compulsory requirement for all public listed companies under Part C of MMLR. AC has been put at the forefront to deter fraud. However, the ongoing frauds reported in Malaysia have shown that the mere formation of ACs do not guarantee their effectiveness. The ultimate effectiveness of AC is still in doubt. The formal guideline on AC composition seems to have limited impact on enhancing its effectiveness (Lavelle, 2002; Turley & Zaman, 2007; Carcello, Hermanson, & Ye, 2011).

Gendron and Bedard (2006) stressed that the topic to strengthen the ACE has become the essential theme of corporate governance studies. The recognition of other factors that enhance the ACE in Malaysia is increasingly important. However, the majority of ACE studies focused mainly on the Agency Theory. Yet, in the latest study of Nelson and Jamil (2012), the researchers found that the Agency theory has limited contribution in enhancing ACE. Other theories like Social Power Theory should be investigated to contribute and strengthen ACE (Bedard & Gendron, 2010; Carcello, Hermanson, & Ye, 2011). Additionally, Saam (2007) and Turley and Zaman (2007) believed that this Social Power Theory aids to resolve the agency issue and enhance ACE. Ng, M. Krishna, and Choe (2012) further stated that every organizational mechanism

including the AC members need social power. Social power leads to effective and efficient implementation of board decisions and subsequent achievement of governance outcomes. By understanding of the social power, it leads the AC to realize the powers surrounding them. Then, it helps the AC members to utilize the social power to interact with the governance process in order to enhance their effectiveness in governance oversight functions. Nevertheless, adopting the social power in the ACE studies to gauge the relationship between social power and ACE in Malaysia is still receiving limited attention. Hence, the general aim of this study is to examine the relationship between the six social powers proposed and ACE in public listed companies in Malaysia.

In the Chapter 1, two specific research questions and research objectives were proposed as well as six hypotheses (H1a, b, c, d, e, and f) developed to examine the relationship between social power and ACE in the Malaysian public listed companies. Next, the discussion of major findings will be presented in the following section 5.2.

5.2 Discussion of Major Findings

5.2.1 Discussion of Major Findings (Research Objective 1)

Table 5.1:
Summary of Hypotheses Testing Result

	Hypotheses	Result
H1a:	There is a significant and positive relationship between the Independence power and ACE in Malaysian public listed companies.	H1a supported p- value = 0.000
H1b:	There is a significant and positive relationship between the Expert power and ACE in Malaysian public listed companies.	H1b supported p- value = 0.000
H1c:	There is a significant and positive relationship between the Legitimate power and ACE in Malaysian public listed companies.	H1c supported p- value = 0.001
H1d:	There is a significant and positive relationship between the Sanctionary power and ACE in Malaysian public listed companies.	H1d supported p- value = 0.000
H1e:	There is a significant and positive relationship between the Institutional Support power and ACE in Malaysian public listed companies.	H1e rejected p- value = 0.407
H1f:	There is a significant and positive relationship between the Diligence power and AC in Malaysian public listed companies.	H1f supported p -value = 0.000

Source: Developed for the Research

The first research objective proposed by this study is to examine the relationship between six social powers and the ACE in public listed companies in the Malaysian context. Hence, the first research question (RQ1) formulated earlier asked, "Is there a significant and positive relationship between the six social

powers (independence, expert, legitimate, sanctionary, institutional support and diligence power) and ACE in the Malaysian public listed companies? To meet the first research objective, six hypotheses have been developed and tested accordingly. The summary findings based on the hypotheses are presented above Table 5.1.

5.2.1.1 Relationship between Independence Power and ACE

The first hypothesis (H1a) has been developed as below:

H1a: There is a significant and positive relationship between Independence power and ACE in Malaysian public listed companies.

Independence power is derived from the perceived independence standing of the AC in the public listed companies. In response to strengthen the corporate governance in Malaysia, AC needs to maintain and utilize the objective standing to monitor and evaluate the performance of management and auditors (Chan, Lau, & Ng, 2011). Past studies have shown that independence power is an important contributor for ACE to strengthen their oversight function such as to deter the financial fraud and enhance the quality of reporting (Kalbers & Fogarty, 1993; Ibrahim, 2006; Turley & Zaman, 2007; Cohen, Krishnamoorthy, & Wright, 2008).

However, Mazlina and Nava (2007) highlighted that independence contributes positively to ACE but also brings liability to the AC members. Sabia and Goodfellow (2005) also agreed that AC independence does not necessarily bring the contribution to enhance the ACE. This is because the independence stance creates information asymmetry for the AC members. They are avoided from daily operational management in the organization. AC members might not understand clearly the actual governance issue inside the organization. In Malaysia, the past studies conducted by Ismail, Mohd-Iskandar, and Rahmat (2008); Wan Nordin and Noor Marini, (2009) and Shamsul, Nor Zalina, and Mohamad Naimi (2010) concluded that the existence of independence does not contribute significantly towards AC's oversight function to enhance the financial reporting quality and governance system. Shamsul, Nor Zalina, and Mohamad Naimi (2010) highlighted that the insignificant relationship of independence and ACE might be affected by the participation and influence of management in the AC seating. In addition, for some of the past studies, data were collected prior to the revised MCCG published in the year 2007. Prior to the revised 2007 MCCG, there was no limitation for the executive director to serve as AC in public listed companies. Thus, the relationship of independence and ACE in the past studies might be adversely affected by the influence of management.

The inconclusive findings of the past studies create the motive for this study to examine the relationship of independence power and ACE under the

Malaysian context. The data collected for this study were after the year 2007 when the revised MCCG had been published. The revised MCCG emphasized that all the AC members must be non-executive directors and the majority must be independent (FCCG, 2007).

Based on the summary results shown in Table 5.1 above, the relationship between independence power and ACE in public listed companies in Malaysia in H1a is supported. The p-value is 0.000 with β value of 0.204. The significance level (p-value) of the independence power and ACE is smaller than the suggested rule of thumb of 0.05. Thus, the finding has shown evidence that, there is a significant and positive relationship between the independence power and ACE. The result of this study is aligned with the past studies of Ibrahim (2006) and Turley and Zaman (2007).

The findings highlighted that the independence standing brings a significant and positive power for AC members to perform their duties effectively without any influence from the management. AC's major tasks are to monitor the management and act in the best interest of shareholders. As a result, the independence power is an essential contributor to ACE. The independence appearance of AC significantly affects the honesty and transparency of the audit and financial reporting quality (Zulkarnain et al., 2008). Without the

independence power, the issue of managerial hegemony may be present and the management could significantly influence the AC's decision. Hence, it will adversely affect the monitoring effectiveness and cause the shareholders and related parties to have a lack of trust in the ACE. Through the utilization of the independence power, it aids AC members to minimize the conflict of interest and managerial hegemony issue. This strengthens their monitoring effectiveness, as the AC members are able to discharge their oversight duties without undue dependence and affiliation with the management. They would therefore, serve as an independent representative for the best interest of shareholders (Shamsul, 2002).

In order to become an effective governance party, AC should not have any fear to the management (Turley & Zaman, 2007). When the AC holds sufficient independence power, it demonstrates that AC members have the ability to avoid and alleviate their fealty to confront the management. It will then encourage the interaction between the AC, whistle blower, and auditors. This is because the perceived independence power of AC makes whistle blowers and auditors feel more secure and comfortable to voice out any sensitive or fraudulent activities to the AC, which might counterbalance the management (Gendron & Bedard, 2006). Indeed, the independence power leads whistle blowers and auditors to believe that the AC members have the ability to protect them from being penalized by the management. It provides the impression that the AC has

the ability to maintain a proper balance between the management and auditors. It will then strengthen the protection of the shareholders' interest by ensuring that an effective monitoring system is in place.

This finding also supported the studies of Fama and Jensen (1983b) and Abbott and Parker (2000), which claimed that independent directors are able to provide more effective monitoring function than the insider. This is because the independent AC will try to avoid the fraudulent activities, which might harm the organization as well as their own reputation. The result of this study proved that the independence power (p- value of 0.000) is significantly related to governance effectiveness to strengthen the ACE. With the greater extent of the independence power, the AC members are then more ready to confront the management and reduce the fraudulent activities to enhance its effectiveness.

5.2.1.2 Relationship between Expert Power and ACE

A second hypothesis (H1b) is developed as below to answer the research question 1 (RQ1):

H1b: There is a significant and positive relationship between Expert power and ACE in Malaysian public listed companies.

The summary result in Table 5.1 shows that there is a significant relationship between the expert power and ACE in the Malaysian context with p-value of 0.000 and (β) value of 0.235. The p-value of the relationship between expert power and ACE is smaller than the suggested rule of thumb of 0.05. Hence, the H1b proposed is supported. To answer the RQ1, the empirical result showed evidence that there is a significant and positive relationship between the expert power and ACE in the Malaysian public listed companies. In AC context, Kalbers and Fogarty (1993) commented that the perceived expert power is derived from the members' governance competencies, skills, and expertise in the financial, accounting, business and other related areas. It is a function posed by the AC's expertise to influence themselves and others in achieving better governance effectiveness. It can strengthen the expert power through training development, education and experience (Lo & Ramayah, 2011). The empirical finding in this study found that the expert power is an important contributor to strengthen the ACE in the Malaysian context.

This is consistent with the findings shown in the past studies, whether in management or AC. In the management studies, expert power is often found to have a consistent result associated with the individual or group performance and effectiveness (Yukl & Falbe, 1991; Braynion, 2004; Jain, Giga, & Cooper, 2011). Kim and Guan (2010) found that the sufficient expert power leads the power holder to have better wisdom to enhance the decision quality and leads them to

perform the duties in an effective way. Furthermore, the findings of Koslowsky and Stashevsky (2005) showed that expert power is a useful tool to gain respect and acceptance of the organizational value and boost the organizational effectiveness. It influences the organization as well as the organization member through the expert knowledge, useful governance competencies, and experience to accomplish the objectives. Sufficient expert power influences the governance parties to trust and comply with AC's suggestion or instruction as the AC members are perceived to know better and have more knowledgeable (Braynion, 2004). Hence, the expert power brings significant contribution to enhance the individual productivity as well the group performance and effectiveness.

In the AC context, the findings proved that AC members need the expert power to perform their oversight function and to enhance the AC's effectiveness. The economic downturn and ongoing growth of fraudulent reporting require AC members to perform effectively and vigilantly the oversight duties on those matters related to the organization's business operation, internal control, risk management process, audit, and financial reporting quality. All these tasks are increasingly complex and require specific technical knowledge (Chan, Lau, & Ng, 2011). Hence, this study as well as the past studies suggested that AC members must be well equipped with sufficient expertise and knowledge in order to have better capability to understand and perform effectively (Kalbers & Fogarty, 1993; Haniffa & Cooke, 2005; Haniffa & Hudaib, 2006). Sufficient expert power

influences AC to exercise foresight and experimental wisdom in the decision-making process. It improves the capability of AC to understand, monitor, and evaluate the financial report, internal audit program and external audit report. This is because the AC knows how and what is to be done to improve the governance practice. Thus, the AC members have better capability to detect and prevent the fraudulent activities within the organization.

In summary, the proposed H1b is supported. The expert power shows that the AC members must possess high cognitive ability, relevant experience, skills, knowledge, right mix of governance competencies and experience and use them to influence members and others in order to understand well about the company's internal control structure, auditing and financial reporting process and provide further insight to contribute towards the governance practice. It is a necessity and important element for an effective AC. To answer the RQ1, the findings show that the expert power is important and significantly related to the ACE in the Malaysian public listed companies.

5.2.1.3 Relationship between Legitimate Power and ACE

According to Kalbers and Fogarty (1993), the responsibility and authority delegated from the regulator and written mandates provide sufficient

legitimate power for AC members to act. Every leader needs legitimate power (Ng, Krishna, & Choe, 2012). With sufficient legitimate power, it shows that the power holder has the right to act and the other parties such as the subordinates have the obligation to comply and fulfill the instruction given (French & Raven, 1959). Thus, it is important to ensure the compliance in the organization. However, past studies also found that legitimate power is related to work stress as the employees have less control towards their work (Elangovan & Xie, 2000; Hakan & Jamel, 2006). Thus, it might reduce the work performance and effectiveness. Yukl's study (1981) concluded that the legitimate power has less effective means towards the job performance and effectiveness. This finding is supported by Aguinis et al. (2008).

Although it is an important power base for the organization leader to ensure compliance, yet this legitimate power does not show a clear relationship towards the performance and effectiveness (Hian & Chan, 1997; Lo & Ramayah, 2011). Thus, it creates the third hypothesis, H1c as follows:

H1c: There is a significant and positive relationship between Legitimate power and ACE in Malaysian public listed companies.

Based on the summary results in Table 5.1, it is found that the p-value of the relationship between legitimate power and ACE in the Malaysian context is

0.001, which is smaller than 0.05. Hence, the empirical finding supports and accepts the H1c. There is a significant and positive relationship between legitimate power and ACE in public listed companies under the Malaysian context with β value of 0.183. The result is consistent with the findings found in AC and management studies (Kalbers & Fogarty, 1993; DeZoort et al., 2002; Turley & Zaman, 2007; Zulkarnain et al., 2007; Jain, Giga, & Cooper, 2011).

The study confirmed that the clarification of AC duties in term of position and rights which written in charter provide means to enhance the ACE in the Malaysian public listed companies. This conclusion is supported by study of Kalbers and Fogarty (1993). Legitimate power helps to ensure the AC to perform its duties as per the written charter. In addition, the result in this study also convinced that public listed companies in Malaysia were still using the traditional interaction process. According to Hofstede (2001), Malaysia is a high power distance country. The public listed companies in Malaysia tend to have a more autocratic culture whereby they must obey the authority (Mazlina & Nava, 2007). Therefore, the whole organization tends to follow the rigid hierarchical process to meet their duties. The legitimate power held by the AC can be used as a "threat" to remind the concerned parties such as management and auditors about their responsibilities and make them aware that their performances are being monitored, reviewed and evaluated (Turley & Zaman, 2007).

Furthermore, Jain, Giga, and Cooper (2011) stated that legitimate power leads to convergence between personal and organizational effectiveness. It aids to reduce the conflict of interest among the governance players. With an equitable objective, this will bring synergy to motivate the entire organization members to commit and enhance the effectiveness. Consequently, legitimate power leads to enhance the AC monitoring effectiveness positively to make sure that all the governance parties act in the best interest of the shareholders. It improves the control structure as well as corporate governance practice in the public listed companies. As a result, legitimate power is proved to be important and significantly related to the ACE in the Malaysian context.

5.2.1.4 Relationship between Sanctionary Power and ACE

Sanctionary power was proposed and suggested by Kalbers and Fogarty (1993). It is a combination of reward and coercive power in the French and Raven's study (1959). This power stems from the AC's potential ability to influence positive or negative outcome of the relevant parties. Sanctionary power is a double-edged sword. In the past studies, sanctionary power was important to enforce compliance in the organization through the close surveillance process (Wilkes & Raven, 2002; Kim & Guan, 2010). Thus, it acts as a reminder to make sure the organization members are aware of their obligations to ensure job effectiveness and productivity. However, the closely monitoring process in

sanctionary power might create work stress to the organization members (Elangovan & Xie, 2000). The constant reminder about the monitoring and evaluation of performance process might impair the job performance (Hian & Chan, 1997; Politics, 2004; Lo & Ramayah, 2011).

MCCG suggested that the AC members should monitor and evaluate closely the performance of their respective management and auditors in the public listed companies (FCCG, 2007). Thus, sanctionary power exists in the AC. AC members must impose and utilize their sanctionary power during their oversight duties. Conversely, with such contradicting results from the past studies above, the fourth hypothesis, H1d is proposed and examined in order to answer the RQ1 as discussed earlier. The H1d is formulated as follows:

H1d: There is a significant and positive relationship between Sanctionary power and ACE in Malaysian public listed companies.

The summary table 5.1 above depicts that the p-value of sanctionary power and ACE is 0.000 with the β value of 0.218. The significance level (p-value) of H1d is smaller than the suggested rule of thumb of 0.05. Hence, the empirical finding supported the H1d. Sanctionary power has a significant and positive relationship with ACE in public listed companies under the Malaysian context.

The empirical result is consistent with the findings in Kalbers and Fogarty (1993; 1998). It is believed that sanctionary power leads AC to monitor the performance of management and auditors closely to enhance the ACE in the organization. The utilization of sanctionary power through the surveillance process indicates the presence of effective monitoring process. It helps AC members closely monitor and also nominate the independent auditors to enforce the quality of audit and financial reporting. This was also supported by Turley and Zaman (2007). The authors purported that the sanctionary power leads AC members to act as a "threat" or "arbiter" to monitor and remind all concerned parties about their obligations and responsibilities.

Kim and Guan (2010) perceived that sanctionary power helps the power holder like AC to exercise greater monitoring control to minimize the opportunistic behavior in the organization. Even though Elangovan and Xie's study (2000) asserted that sanctionary power creates work stress, the authors also believe that the sufficient stress imposed by the sanctionary power might create adequate pressure to enhance the concerned parties' productivity and performance. For example, when AC utilizes sanctionary power, which could significantly affect performance outcomes as audit fees and appointments and consequently, this will remind the auditors to be more committed and enhance the governance practice of the organization. Sanctionary power is, therefore important to enhance the ACE. The empirical result proved that there is a

significant relationship between sanctionary power and ACE in Malaysian public listed companies.

5.2.1.5 Relationship between Institutional Support Power and ACE

The following hypothesis, H1e is developed as follows:

H1e: There is a significant relationship between Institutional Support power and ACE in Malaysian public listed companies.

The concept of institutional support power is derived from the Raven's (1965) informational power. However, due to the non-executive roles held by AC, the information quality of AC is based on a supportive atmosphere and informal communication process with the management and auditors. The independent non-executive AC members have limited internal knowledge about what is happening in the organization. If the executive directors and top management of the organization are willing to share, update, and disseminate the relevant and reliable information, it will significantly enhance the AC's decision-making quality (Kalbers & Fogarty, 1993). Hence, increased interaction between the governance players and AC reduces the information asymmetry issues faced by the AC members (Raghunandan, Read, & Raman, 2001). Sabia and Goodfellow (2005) also supported that in order to achieve ACE, the AC members should be

surrounded by informal communication channels to share information and interact with the relevant parties, especially the auditors. Furthermore, the case study of FTSE 100 financial service companies conducted by Turley and Zaman (2007) also concluded that, "AC is a very much receiving and responding body" (p. 755). Supportive and informal interaction with management and auditors are important to make sure that AC remains informed about the governance issues within the organization. The AC will not perform effectively on its own without the support and informal communication with the relevant parties (Mazlina & Nava, 2007).

Nevertheless, the findings in this study depict that the institutional support power does not have a significant relationship with ACE in the Malaysian public listed companies. The summary result in Table 5.1 shows that the p-value of the relationship between the institutional support power and ACE is 0.407. It is higher than the p-value of 0.05 as suggested. Hence, the result shows the rejection of H1e. It can be concluded that there is no significant relationship between the institutional support power and ACE in the public listed companies under the Malaysian context.

Interestingly, the result is in contrast with the past studies' findings by Kalbers and Fogarty (1993); Sabia and Goodfellow (2005); and Turley and Zaman (2004; 2007). All these past studies were conducted in the Western

context. In contrast, this study was conducted on the public listed companies under the Malaysian context. The possible reason of yielding different finding in examining the relationship between institutional support power and ACE might be due to the difference in culture and power distance. Cohen, Krishnamoorthy, and Wright (2004) commented that different national culture might bring different influences towards the implication of ACE and social power. This is also consistent with the study of Kelley, Whatley, and Worthley (1987) which asserted that different level of power distance brings significant different influence towards managerial behavior and interaction. Cultural nuance affects "the actors, the activities, the transformation of resources, as well as the atmosphere in which this takes place and the interactions involved" (Fletcher & Fang, 2006, p. 431). For example, the developing markets like Malaysia have a greater degree of power distance, which is generally more autocratic and willing to accept inequalities as it is influenced by the hierarchy. In contrast, low power distance society like the United States tends to be egalitarian, willing to share and maintain flexible, loose and informal communication (Hofstede, 1981; Fletcher & Melewar, 2001; Mazlina & Nava, 2007).

Compared to Western countries, Malaysia is categorized as a high power distance society (Hofstede, 2001). The business environment in the Malaysia public listed companies tends to be more autocratic and therefore, the organization members will most likely be reticent and conservative (Hofstede,

1981). The auditors and employees will more likely remain silent and retroactive during communication or interaction with those in high position like AC members. In addition, Mazlina and Nava's (2007) findings also concluded that the informal communication with AC were infrequent especially without any intervention of senior management. Cultural differences could influence the frank and open discussion between the auditors and AC especially on the sensitive issues relate to senior management. Informal communication without the knowledge of the management concerned might be considered improper and discourteous to the management. Thus, this action could be perceived as non-conformity to the authority given to management, which is not acceptable in a high power distance country. Therefore, this limits the contribution of institutional support power towards the ACE in the Malaysian context.

Furthermore, the insignificant result of the institutional support power and ACE might also illustrate that the communication flow in public listed companies follows the traditional hierarchical corporate governance model. Although the dual reporting lines are recommended to the organization especially for internal auditors to report directly to AC members, it might not be fully practiced. For example, the findings in Mazlina and Nava (2007) showed that "private meetings were rare" (p. 902). Internal auditors feel lack of authority to communicate directly with AC members, while some of the internal auditors were reluctant to maintain an informal communication with the AC. This is because

they believed that this would not make any difference, as they are internal staff who are controlled by the management rather than AC members. As such, the hierarchical communication flow within the organization might hamper the independent communication between AC and auditors (Krishnamoorthy, Arnie, & Cohen, 2002). The informal communication and interaction among auditors and AC members will be limited as the auditors feel insecure with the pressure from management. Besides that, another possible reason for the insignificant result in institutional support power and ACE could be due to the busy schedule of the AC members. Hence, the AC members might not have sufficient time to build up and utilize the informal communication and supportive atmosphere (institutional support power) to act and influence the relevant parties to achieve the desired governance effectiveness.

5.2.1.6 Relationship between Diligence Power and ACE

Everyone needs the desire to work. The diligence power is the ability to act, to influence and to defend all resistance stems from the willingness, preparation, and perseverance of AC members (Kalbers & Fogarty, 1993). Mintzberg (1983) agreed that it is important for every power holder to have the desire to act. Without the existence of diligence power, the AC members will only act as a rubber stamp and AC's effectiveness will not be achieved (Kalbers &

Fogarty, 1993; Choi, Jeong, & Park, 2004). Thus, the sixth hypothesis, H1f is developed and presented as follows:

H1f: There is a significant and positive relationship between Diligence power and ACE in Malaysian public listed companies.

Table 5.1 shows that the result of p- value for the relationship between the diligence power and ACE in Malaysian public listed companies is 0.000. The result is smaller than the suggested rule of thumb of 0.05. Furthermore, the β value for the perceived diligence power and ACE is 0.318. Thus, it has caused the acceptance of H1f. The empirical result proved that there is a significant and positive relationship between the diligence power and ACE in the Malaysia context.

The result is consistent with the previous studies reported by Kalbers and Fogarty (1993); Turley and Zaman (2007); Saleh, Iskandar, and Rahmat (2007) and Yatim (2009) which suggested that a diligent AC member is important and significantly related to AC's effectiveness in performing their oversight functions. Chan, Lau, and Ng (2011) also commented that the major oversight duties assigned to AC members involves complex financial, auditing process and business activities. Hence, as an effective AC, they need to have and utilize the

diligence power to learn about all these multifaceted company's governance practices, internal control structures, auditing and financial reporting information.

The result proved that the diligence power brings significant benefits to enhance the ACE. It shows that the AC members are willing to spend more time and effort to critically evaluate and discuss the governance issues during their meetings. With sufficient preparation and diligence, the AC members are able to understand governance issues, detect, and prevent any corporate fraud. Hence, the finding agreed with the statement by Levitt (1998) which, stated that diligent AC provides more reliable guardianship to protect and maximize the shareholders' interest. With the existence and utilization of diligence power, it gives the impression of high commitment and obligation of AC to show their concern for its oversight duties (DeZoort et al., 2002; Turley & Zaman, 2007). This finding highlights that the AC members need to maintain sufficient diligence power to demand for further information, ask questions to challenge, discover more audit findings and management process within the organization in order to achieve its ACE. As a result, the diligence power makes AC members more aware of the potential corporate fraud and seeks to enhance the overall oversight activities (Vera-Munoz, 2005).

In conclusion, the first research objective is achieved where the relationship between the six social powers and ACE is tested. Additionally, the results from the hypotheses testing show that the independence power, expert power, legitimate power, sanctionary power, and diligence power have a significant and positive relationship with the ACE in the Malaysian public listed companies. Yet, the relationship between the institutional support power and ACE is insignificant.

5.2.2 Discussion of Major Findings: Social Power Theory and ACE in Malaysian Public Listed Companies

Social power is often the major concept in every organization. According to Yukl, Falbe, and Youn (1993), social power is necessary and important to achieve the desired outcomes. It is the key contributor to successful management. Every leader needs social power in his or her organization. In management studies, social power frequently provides influence on job and organization effectiveness as reported by Rahim, Khan, and Uddin (1994); Rahim, Antonioni, and Psenicka (2001); Kim (2008); Nygaard and Biong, (2010); and Jain, Giga, and Cooper (2011).

Similarly, a key governance mechanism like an AC member, needs social power to enhance their oversight duties (Ng, Krishna, & Choe, 2012). The governance decision is best implemented with social power usage. Social Power Theory is useful. It assists the AC members to carry out their duties and influence others in a more effective manner. However, the majority of past studies focused solely on the economic perspective to examine the ACE with the Agency Theory. They have neglected Social Power Theory to explain and develop the ACE in a sociological perspective. According to Saam (2007), social power could bring a new solution to the agency problem, which was neglected by Agency Theory. For example, Agency Theory is too mechanistic. It assumes that the mere existence of AC and governance characteristic could directly strengthen the monitoring effectiveness in organizations. However, it ignores the social power relationship within the governance players. Chariri (2008) commented that: "Agency Theory is like a theory without a soul" (p. 4). The true effectiveness is the linkage that AC members build and use powers through their characteristic to act and influence others in order achieve the desired governance outcomes (Kalbers & Fogarty, 1998). Cohen, Krishnamoorthy, and Wright (2008) supported the statement and agreed that understanding the social power dynamics will enhance the governance development to improve ACE. Thus, it creates an opportunity for this study to apply the Social Power Theory by proposing six social powers namely, independence, expert, legitimate, sanctionary, institutional support and diligence power to examine the relationship with the ACE in Malaysian public listed companies.

Based on the empirical result of this study, acceptance of hypotheses H1a, H1b, H1c, H1d, and H1f have evidenced that the contribution of social power dimensions significantly strengthens the ACE in Malaysian public listed companies. Out of the six hypotheses formulated, five hypotheses are supported. Thus, it supports that the social power is an important element to enhance the ACE in Malaysia. Additionally, the stepwise regression F value of 123.795 with significance level (p-value) of 0.000 proved overall, the proposed model incorporated with Social Power Theory and ACE, is a significant fit in Malaysian public listed companies. Additionally, the coefficient of determination (R square) value is 0.813 (81.3 percent). This means that the 81.3 percent of the ACE in Malaysian public listed companies can be explained by all the five perceived social power proposed. The institutional support power is excluded from the model due to its insignificant contribution to the ACE in Malaysia. Kinnear and Gray's (2006) also suggested that if the magnitude effect of size is larger than 10 percent, it is considered large. Consequently, the entire model used in this study is considered to have a large effect size. The empirical results are supported and consistent with the studies by Kalbers and Fogarty (1993), Turley and Zaman (2007).

It is suggested that an AC member must possess and exercise various dimensions of social power to bring about effective means to influence the governance effect in the organization. In order to achieve the desired effectiveness

of governance outcome in these complex business environments, the findings suggest that an effective AC must understand, develop and utilize various dimensions of social powers like independence, expert, legitimate, sanctionary and diligence power in performing the advanced and complex oversight duties. ACE can be achieved by the utilization of AC's social powers from the independence stance, relevant and multifaceted expertise, adequate authority to act, input positive or negative official outcome and performing duties with duty of care.

Carcello, Hermanson, and Ye (2011) stated, "It is unlikely one size fits all" (p. 22). The acceptance and significant evidences have proven the contribution of the Social Power Theory in ACE context. The empirical findings thus provide important hints for AC, regulators, the board of directors, and future researchers to recognize the imperatives and usefulness of Social Power Theory in developing the governance model to strengthen the ACE in this high power distance country. It provides the extension of significant social power factors, which received limited attention in the ACE governance structure in Malaysia beyond the economic variables from the Agency Theory. In doing so, it provides an alternative useful theory or framework to implement better design of governance development structure for Malaysian capital market and public listed companies. Corporate governance research like AC studies is a social science study. It is necessary to consider the governance process between the AC and

other governance players to achieve the sound of governance effectiveness. It is insufficient to examine only isolated AC characteristics to contribute to the ACE and governance effectiveness. In conclusion, Social Power Theory provides useful insights to understand and develop the governance practice guideline to strengthen the ACE and corporate governance in order to maximize the stakeholders' protection and sustain their confidence in the Malaysian capital market.

5.2.3 Discussion of Major Findings (Research Objective 2)

Different dimensions of social power might bring different implications towards the ACE. AC members might gain the social power in diverse ways such as independence, expert, legitimate, sanctionary, institutional support, and diligence. As such, AC members must ask and find out which social power base is the most important, appropriate, and effective to use, to develop and to recognize in the organization (Hian & Chan, 1997). The second research objective of this study aims to find out which social power has the strongest relationship with ACE in Malaysian public listed companies.

Thus, based on the research question 2 (RQ2) presented below, this study aims to help the AC members to find the answer.

"Among the six social powers proposed (independence, expert, legitimate, sanctionary, institutional support and diligence power), which social power has the strongest relationship with ACE in Malaysian context?"

In order to meet the second research objective, the standardized regression coefficient is investigated. In Table 4.15, it could be seen that among the six social powers, the diligence power has the highest coefficient β value of 0.318. This value indicates that when the diligence power increases by one standard deviation, the ACE in public listed companies will also increase by 0.318 of a standard deviation. Hence, this shows that diligence power marks the strongest relationship with ACE in Malaysian public listed companies.

This is in agreement with studies conducted by Mintzberg (1983); Kalbers and Fogarty (1993); and DeZoort et al., (2002). The study highlighted that importance of AC's willingness to prepare, be concerned, and be interested in their oversight duties. According to Menon and Williams (1994), no matter how strong an authority and resource is given, it will be not sufficient if the perceived diligence power is absent. This is because the AC members do not have the concentration and willingness to perform their duties effectively. Therefore, with

the absence of diligence power, the AC members might only act as a rubber stamp and perform "ceremonial" duties as agreed by Collier and Zaman (2005). The AC will not be effective without the diligence power. This empirical result supports that diligence power is the most important factor to enhance the ACE.

Through the diligence power, the AC members will reveal their sincere hard work and preparation for their duties and performance. It shows that they are willing to commit and actively participate in all governance processes (Kalbers & Fogarty, 1993). In addition, it is also believed that when the AC is imbued with diligence power, it helps to reduce the information asymmetry issue. This is because a diligent AC will know more and demand as much as possible of the information related to internal control structure, audit, and financial reporting process (Hoi, Robbin, & Tessoni, 2007). They will tend to ask more questions and even confront the management in order to improve the internal control, audit, and financial reporting quality (Ismail, Mohd-Iskandar, & Rahmat, 2008; Yatim, 2009). They are willing to delegate more time and effort to read and understand the audit, financial reporting, and other relevant governance material and communicate with the auditors and management. All these will put pressure on the management and auditors to take more consideration in their duties and to interact with the AC members (Gendron & Bedard, 2006). Therefore, a diligent AC will easily deter the fraud by their willingness to commit more time and effort

to review the governance process with careful attention and enhancing the monitoring effectiveness of the organization.

In addition, the demonstration of diligence power implies that the AC members have carried out their oversight duties with duty of care. They are willing to participate actively in all related governance matter in terms of internal control, auditing and financial reporting process. As such, they are able to oversight the governance process vigilantly and willing to challenge the management and auditors when necessary. With the presence of diligence power, it tends to reveal that all the judgment and decision-making done by AC are according to the due diligence (Vera-Munoz, 2005). Apart from that, they able to send a positive message that they are dedicated to considering all reasonable alternatives to act in the best interests of shareholders in the entire decision-making. Therefore, the diligence power enhances the effectiveness of AC as well as the governance effectiveness in the organization.

In sum, the second research objective is met whereby the results of standardized coefficient β value have enlightened that diligence power has the strongest relationship with ACE. It indicates the importance of diligence power in determining the effectiveness of AC members. To guarantee the ACE within the organization, the AC members must have diligence power and utilize it to act and

influence others in performing their oversight duties. Without it, the AC will not be effective enough.

5.3 Implications of Study

5.3.1 Theoretical Implications

The empirical findings contribute several implications to theory development. First, this study incorporates the Social Power Theory to examine the six social power factors relationship with ACE in Malaysia. The acceptance of the hypotheses (H1a, b, c, d, and f) proved the contribution of Social Power Theory in ACE, which have been neglected in the majority of past studies. Therefore, it provides implication with empirical results to close the gap in the body of knowledge by creating the awareness and understanding about the theoretical base for social power development in ACE. Particularly, the empirical results also highlight the extension of significant factors which received limited attention in the development and strengthening of the ACE such as the independence, expert, legitimate, sanctionary and diligence powers. Therefore, the empirical findings considered have made significant contributions in highlighting to the future researchers to recognize the imperatives of critical social power dimensions in enhancing the ACE. It is necessary to understand the governance process on which the AC members utilize their social power bases to act, to influence, and to defend all resistance in order to achieve the effective

governance outcome to enhance the corporate governance and maximize the shareholders' interest.

Different culture settings might have different influences on social power dimensions (Lo & Ramayah, 2011). However, the majority of past studies targeted the Western countries like the United States firms, which are categorized as low power distance nations. Therefore, this study has extended the past studies to develop the examination of ACE in Malaysian public listed companies. Through the empirical result, it reflects the cultural nuance in Malaysian public listed companies as compared to a Western context. This is in line with the suggestion given by Mazlina and Nava (2007) and Carcello, Hermanson, and Ye (2011). It highlights that high power distance country like Malaysia have business environments tend to be more conservative and based on hierarchical communication flow. Thus, the findings of this study contribute the empirical evidence to develop better understanding of social power and ACE in a high power distance country with a developing capital market, which is arguably different from the developed capital market and stable economic structure.

5.3.2 Managerial Implications

The empirical findings provide significant hints to the organization, regulators like FCCG, BM and ACI Malaysia and AC to understand the dynamic social power that brings the contribution for ACE in Malaysia public listed companies. This is to avoid and to minimize the misuse of social power by AC members in their organizations. It also contributes to highlight the insights for AC members to understand, develop, and to utilize the independence, expert, legitimate, sanctionary and diligence power to condition their governance process in order to achieve ACE. The empirical findings provide the awareness for the practitioners like AC, regulators and organizations' board to maximize the social power especially the perceived diligence power. Specifically, the empirical findings provide the insightful practical implications as follows:

5.3.2.1 Independence Power

The empirical findings of this study prove that the greater use of independence power leads to greater ACE in Malaysian public listed companies. Thus, the result suggests that the monitoring effectiveness of AC will consistently be realized if the AC team possesses independence power and utilizes it. The independence standing influences the AC members to discharge their oversight

duties effectively and without undue dependence and significant pressure from the senior management. Thus, it highlights the importance of the perceived independence standing of AC in organizations.

The current regulatory requirement demands that only majority of the AC members must be independent directors. Given this finding, it serves as input for regulators and professional bodies' policy review in order to strengthen the AC's independence power with a more stringent independence requirement to encourage a full board of independent directors in AC. This study's finding also suggests the regulators make it mandatory in limiting the tenure of the independent AC to specific years such as on an average of nine years (Canavan, Jones, & Potter, 2004) or five years similar to the audit firms' tenure. Too long a tenure might impair the independence standing of AC and monitoring effectiveness in organizations (Vafeas, 2003). This is because long service terms might lead AC to "begin to operate as an insider" (Canavan, Jones, & Potter, 2004, p. 40).

However, the implication of full independent directors on the AC team needs further caution. Due to the independent position in the organizations, there is limitation for AC members in getting a firsthand insight about the corporate information. As a result, it encourages the full board of AC members to be

independent directors, but an effective channel of communication and direct reporting line for AC and other governance parties must be in place. This is to make sure that independent AC members know how and know what is pertinent to the organization. For example, site visitation should be arranged for independent AC members to have a better understanding of information concerning the internal control system and structure within the organization. This might help to overcome the asymmetrical information issues raised by the independent position of AC members.

5.3.2.2 Expert Power

The challenges posed by the economic downturn and the ongoing fraudulent activities require AC to perform more effective and vigilant monitoring process on the business operations, internal risk management and financial condition of the public listed companies. All these tasks are complex. The expert power is thus significantly important for an effective AC to provide reliable guardianship for corporate governance and to strengthen the protection of the shareholders. Sufficient and multifaceted expert power augments the wisdom of AC members for a better understanding about the current governance practices and thus improves the judgment and decision making quality to enhance the oversight duties.

Continuous learning and practical hands-on training approach are necessary to improve the expert power (Lo & Ramayah, 2011). The lifelong learning process helps AC members to strengthen their cognitive ability and to keep abreast of the latest changes in financial reporting requirements and governance matters to improve their knowledge about the organization. Hence, it leads AC to act effectively in confronting the management and internal control structure.

The current MMLR and MCCG have stipulated that all AC members have to be financially literate and at least one member should be an accounting expert. However, this is not enough. This study provides hints for regulators and organizations' hierarchical levels to implement and to encourage the right mix of multifaceted expertise and not only the accounting expertise in the AC team. Beyond these formal training, it should provide and encourage the establishment of human relations, emotional competency, and communication learning program to strengthen the AC's expert power. As an effective expert in the organization, one should not only have the foresight and analytical mind but also sufficient emotional intelligence control and communication skills to interact and influence others including themselves (Goleman, 1998; Rahim, Antonioni, & Psenicka, 2001). Multidimensional training must be conducted to strengthen the AC's cognitive ability, emotional intelligence, and communication skills in order to perform their duties effectively. The communication skills training may

strengthen the expert power as well as institutional support power (discussed later).

Additionally, organizations and regulatory bodies are recommended to make it compulsory for the disclosure of AC members attending relevant training courses, and seminar in the written AC charter. Indirectly, it will help AC members to gain the acceptance, respect, and confidence from the stakeholders such as auditors, the management, and the shareholders. This is because through the sufficient expert power gained from the training courses, they will be confident that AC is equipped with adequate knowledge to ensure the effectiveness of corporate governance.

A clear, formal, and comprehensive succession planning for AC members should be placed. To implement the succession plan effectively, the board must develop a clear career route map through identification of the talent gap to strengthen the current and future needs. It leads to strengthening of the performance and effectiveness of AC. Additionally, it is also suggested that the succession plan for AC members must also be linked with the performance evaluation framework. This is to recruit and to retain the right persons in the AC team, and to make sure that AC aligns with the shareholders' interest. A transparent and rigorous recruitment policy is needed for shareholders and the

board to recruit and to retain the multifaceted experts in AC. Thus, cooperation is needed between the nominating committee and remuneration committee to link succession plan with the remuneration package to attract and to retain the right persons in the AC team.

5.3.2.3 Legitimate Power

With the positive and significant relationship found between the legitimate power and ACE, AC members and regulators are encouraged to fully utilize the written charter and report to raise sufficient formal power in carrying out their oversight duties. An unambiguous, relevant, and updated written charter strengthens the visibility of authority given to AC members by the regulatory body. It stresses the obedience and cooperation among the relevant parties to the AC members in all their governance duties. This is because legitimate power enables AC members to take actions and to ensure conformity from all relevant parties. Specifically, the autocratic characteristics in a high power distance country as Malaysia accentuates the usefulness and importance of legitimate power and leads to improve the ACE in public listed companies.

However, the written charter and report shall not be the only description of authority and duties of AC. It should include wider and richer information to

capture the actual performance and activities done by AC. For example, to include the opinion of the AC members regarding the organization's internal control structures, auditing and financial reporting quality in the AC charter and report. Through this, it enhances the users' confidence in the financial reporting quality.

It is important for AC members to make sure that the entire group of governance players like auditors and the management are clearly aware of and understand the AC's directive. AC members may increase their legitimate power if they demonstrate that the directives given are unmistakable and consistent with the authority given, organization policies, and governance goals. It will then reinforce the relevant parties to accept, to comply, and to recognize the orders from AC members as they recognize that AC's legitimacy is not likely to be challenged.

However, it is also vital for the AC members to be aware of whether the directive given is within the zone of indifference as suggested by Rahim, Antonioni, and Psenicka (2001) and Wood, Zeffane, Fromholtz, Wiesner, Creed, Schermerhorn, Hunt, and Osborn (2006). Wood et al. (2006) defined the zone of indifference as a situation whereby the entire authoritative request will be agreed and complied with no questioning. On the other hand, any order or instruction, which falls beyond the zone, will not be considered as recognized of legitimate

and it may not be complied with. Thus, the AC charter as well as the AC members must provide a clear delineation regarding the recognized and rightful legitimate power in order to reinforce the acceptance and cooperation from the related parties within the zone of indifference. For example, the AC members need to make sure that the order is right, consistent with the authority given and from the charter rather than misusing the legitimate power to excessive request of the relevant parties.

5.3.2.4 Sanctionary Power

Sanctionary power attached together with the surveillance process contributes significantly and positively to ACE in terms of financial reporting, external auditor liaison, and internal control oversight duties. The significant result may encourage AC members to use the sanctionary power to enhance its effectiveness to maximize protection of the shareholders. The sanctionary power is the combination of coercive and reward power. It is defined as the ability to control the positive or negative outcome from related parties. It helps to create positive or negative reinforcement within the organization. With the use of this power, AC members may act as a "force" to influence, reinforce, or place pressure on the related parties' performance. This is because sanctionary power requires the AC to monitor and to evaluate the performance of the related parties in the organization in order to place the negative or positive outcome on them.

It is a direct and forceful approach, which constantly reminds the related parties about their responsibilities, obligation, and the consequences, if they succeed or fail to achieve the desired outcomes. Therefore, AC members are encouraged to exercise reasonable sanctionary power to input positive recognition or negative sanctions depending on the evaluation of related parties' performance. It is also suggested that the AC members must clarify their expectations and objectives clearly to the relevant parties and increase the transparency of the evaluation process to let them know and trust that a fair evaluation is in place.

However, sanctionary power is seen as a double-edged sword. The use of sanctionary power needs further caution by AC members. Misusing sanctionary power might create unnecessary stress and cause de-motivation in the organization and hence might bring a dysfunctional tone in governance practices (Hian & Chan, 1997; Politics, 2004).

5.3.2.5 Institutional Support Power

The empirical findings did not find any significant relationship between the institutional support power and ACE, yet the possible reasons might shed some important hints about the weakness of the current governance structure to the regulatory body and organizations.

The insignificant result of the institutional support power to ACE might highlight the probability that the traditional governance model with hierarchical communication flow is placing in Malaysian public listed companies. It has restricted the informal communication and interaction among the governance parties with AC members (Sabia & Goodfellow, 2005). For example, the dual reporting line is given to the internal auditors to report functional items to AC and administrative items will be reported to the management. However, a dual reporting relationship might be confusing, and private meetings between internal auditors and AC members, without the presence of senior management, is limited (Mazlina & Nava, 2007). Thus, it is suggested that the regulators should develop more stringent requirements to make it mandatory for internal auditors to make reports directly to AC rather than follows the dual reporting line. This enhances the independence and the quality of the internal auditors as well as the ACE.

Secondly, it is important to note that the autocratic culture in Malaysia might also limit the informal communication in the organization. This is because people tend to be shy when communicating with those of higher position like AC members in a high power distance nation (Hofstede, 1981). Thus, it might also limit the confidential exchange between whistle blower, internal auditors, and AC members. The challenges remain to the regulatory body, organization, and AC members in order to promote a supportive atmosphere among all parties involved to build up the institutional support power for AC members in Malaysia.

A more flexible and direct interaction model are needed to offer and facilitate a channel for every organization member to exchange and report the sensitive information and fraudulent activities to AC members in a more comfortable way. Private meeting sessions with AC should not only be limited to external or internal auditors, but also for any whistle blower in the organization. It is recommended that the AC members should take up the ethics committee role to encourage the whistle blowers' reporting so that the AC members are aware of any warning signals to prevent fraudulent activities and improve their oversight duties. Ethics hotline should be set up to provide an opportunity for all employees to report any fraudulent or sensitive issue to the AC members directly. This will build trust and supportive atmosphere in the organization, which encourages open and honest boards' interaction and communication.

Furthermore, regulatory bodies and organizations may offer communication skills training to build up and strengthen AC's communication, listening and facilitating skills. This will likely motivate and help the AC to communicate confidently and concisely to avoid misunderstanding. It may also reduce the communication obstacles and create better institutional support power for AC members to interact with others.

5.3.2.6 Diligence Power

Among the six dimensions of social power proposed, diligence power is the most important contributor to ACE. Thus, the empirical findings provide significant implications for AC members to develop and use their diligence power. Willingness to act with care, attention, and perseverance is the most effective means for an effective AC.

To strengthen the perceived diligence power of AC members, they must first commit with their time. AC members must be willing to take the time to have a proper upfront preparation, meeting and follow up actions to all related governance matters. They must perform their duties with enthusiasm in order to achieve the desired effective outcome. There is a need for the AC to understand the business operation, internal control structure, risk management process, audit, and financial reporting matters proactively and clearly. Additionally, the AC must be well prepared to participate in discussions with the management and auditors actively, and tenaciously ask tough, probing, and incisive questions to effectively challenge and test the management. All these actions strengthen the AC's diligence power and to influence others by placing pressure on them in performing their duties effectively.

In addition, regulators, professional bodies, shareholders, board of directors and AC need to seek a way to promote their diligence power to enhance ACE. A rigorous recruiting policy and procedure must be in place in the public listed companies. Thus, the nominating committee holds an important role in making sure that only the individuals with high vision, diligence and having adequate and relevant cognitive ability, emotional intelligence, and sufficient communication skills are part the AC. It is suggested that the policy makers should make it mandatory for organizations to form an independent and effective nominating committee in order to develop an attractive recruitment and remuneration package to foster ACE.

Secondly, a comprehensive assessment on the performance of AC members must be implemented periodically. Additionally, the performance evaluation's objectives and guidelines must be clearly defined and understood by all AC members. It might also be conducted internally within the AC members or including feedback from other key players like the board, management, internal and external auditors. The assessment and evaluation of AC performance serves as a checklist to identify the suggested development, and corrective action needs to be taken in order to enhance the diligence power of AC members.

Most notably, good performance-contingent compensation package helps to promote the diligence power of AC members (Engel, Hayes, & Wang, 2010). The shareholders and board of directors must make sure that the alignment of compensation arrangement is sufficient to recognize the commitment and diligences of the AC. However, excessive compensation package might create a dilemma or conflict of interest. Thus, researchers, regulators, and professional bodies must suggest a suitable and balanced range of compensation packages. It leads to enhance of the diligence power of AC. Beyond the compensation package, the penalties for failure to achieve the ACE and effective governance practice are suggested to be implemented in the public listed companies in order to strengthen the diligence power among the AC members (Srinivasan, 2005). All these compensations or penalties must be first clearly explained and understood by the AC team. It helps to foster diligence power, so that they perform their duties with the duty of care.

5.4 Limitations of The Current Research

Some limitations need to be noted and considered. The research limitations in this study are presented as below:

1. The sample data is collected solely on ACE in the Malaysian context. The different cultural settings might limit the generalizability of the current study's findings. One size might not fit all. Thus, the empirical findings in this study might not represent the same value as in different countries.

2. The target respondents of this study were only focused on the external auditors' perception on ACE in public listed companies. Even though the external auditors were aimed as one of the key governance parties who work closely with the AC in public listed companies and understand well the performance of AC members, the perceptions from other key players like internal auditors, the management and investors should not be ignored. By examining all the key players' perceptions, it might provide a richer understanding about the ACE in the organizations.

3. This study aims to examine the direct relationship between the six social powers and ACE in the Malaysian context only. Thus, multiple regression analysis is suggested to be used. Even though knowing the direct influence or relationship between each social power and outcome is reasonably important, interrelationship among the social powers should not be ignored (Rahim, Antonioni, & Psenicka, 2001). Similar to the past literature, this study has devoted less attention to the interrelationship among the various social power bases and the causality with the ACE.

5.5 Recommendations for Future Research

Given the research limitations and implications of this study, there are several recommendations for future study and there are discussed as follows:

1. Different cultural settings yield different influences towards the implication of ACE and social power (Mazlina & Nava, 2007). Thus, future researchers are encouraged to examine a similar study in a variety of cultural settings. A cross-national study is encouraged to be conducted to compare the relationship between social power and ACE between high power distance countries like Malaysia and low power distance societies. It may provide a deeper understanding and further

explanation of the different cultural settings' impact towards the relationship between social power and ACE in future researches.

2. This study solely focused on the external auditors' perception of the relationship between six social powers and ACE in Malaysia. Even though the external auditors are categorized as the suitable and independent persons to evaluate the AC in public listed companies, yet future researchers could expand their study to collect data from the internal auditors, AC members and also the management to study the relationship between social power and ACE. Since all of them are important governance parties, thus it might produce a more holistic and comprehensive findings on ACE and social powers within the organizations.

3. According to Rahim, Antonioni, and Psenicka (2001), the various dimensions of social power may influence the outcome not only directly but also through the intermediation position in the other social powers. As a result, a future study is encouraged to use the structural equation model to test whether the social power has direct as well as mediating effects on the ACE. It will contribute to a further understanding through the interrelationship among each of the social powers with the ACE.

5.6 Conclusion

In these increasingly complex business environments, it is important to have an effective AC. An effective AC is a vital contributor to strengthening governance practice through overseeing the management and safeguarding the internal control, audit, and financial reporting process. However, former chairperson of BM, Kadir (2002) stated that the ACs in Malaysian public listed companies are not performing their oversight duties effectively. With the challenges being posed by the on-going frauds, the stakeholders' confidence in Malaysian capital market is eroded. Strengthening ACE has become the major concern for regulators, researchers, practitioners and the public.

This study incorporates the Social Power Theory and aims to examine the relationship between the social power and ACE and to find out which social power has the strongest relationship with ACE in Malaysian public listed companies. A quantitative research method, which involved collection data through an email questionnaire survey, was used to collect the feedback from external auditors who were performing the external audit function for public listed companies. To achieve the first research objective, six hypotheses were formulated and examined through the 148 data collected from the external auditors. The hypotheses testing results showed that the independence, expert, legitimate, sanctionary and diligence power have a significant and positive

relationship with ACE. The institutional support power, it was found had an insignificant relationship with ACE. Next, to find out among the six social powers, which social power has the strongest relationship with ACE in order to meet the second research objective. From the standardized β coefficient value, the diligence power is supported to have the strongest relationship to contribute the ACE in the Malaysian context.

Both research objectives are met and this study effectively narrowed the literature gap by contributing to the growing body of knowledge on AC and social power studies. The empirical results of this study revealed that the Social Power Theory contributes significantly to enhancing the ACE and understanding the governance process of the AC, which was largely neglected and unexplored in the Malaysian context. It also provides regulators, AC members and the public an alternative theory and framework namely the Social Power Theory to strengthen the ACE in Malaysia.

Additionally, the findings in this study also provide vital information to the regulators, policy makers, and corporate boards in the organization about the current need of social power elements for an effective AC. It would help to build up and develop a more rigorous governance model to enhance the effectiveness of

corporate governance and AC, which in turn would boost up the shareholders' confidence towards the Malaysian capital market.

Finally, social power can be gained through many ways and yield different outcomes in organizations. Fully understanding the social power bases is vital for an effective AC. As a result, the empirical findings provide distinct understanding for AC members to exert their social power effectively in order to achieve the most favorable performance. To achieve the optimum effectiveness in oversight duties, AC must possess and utilize with a greater extent of diligence, expert, sanctionary, independence and legitimate powers. All these social power bases must be identified, developed, and utilized effectively to strengthen the governance effectiveness as well as the ACE in the Malaysian context.

In summary, the major findings to answer the research questions set in the early chapter have also been clearly discussed in this chapter. It is then followed by the discussion of implications of theoretical and managerial perspectives. Moreover, the overview of research limitations are stated with future research suggestions, which usefully provide additional opportunities for future studies. As a final point, the conclusion of the entire study is presented.

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APPENDICES

Appendix 1

Main Market Listing Requirements PART C, Paragraph 15. 09: Composition of the Audit Committee

(1) A listed issuer must appoint an audit committee from amongst its directors which fulfills the following requirements:

(a) the audit committee must be composed of not fewer than 3 members;

(b) all the audit committee members must be non-executive directors, with a majority of them being independent directors; and

(c) at least one member of the audit committee -
- (i) must be a member of the Malaysian Institute of Accountants; or
- (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and -
  - (aa) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
  - (bb) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
- (iii) fulfills such other requirements as prescribed or approved by the Exchange.

(2) A listed issuer must ensure that no alternate director is appointed as a member of the audit committee.

Appendix 2

Questionnaire

The Relationship between Audit Committees' Social Powers and Perceived Effectiveness in Malaysian Public Listed Companies

Dear Sir/ Madam,

Thank you for taking your precious time for considering this survey. My name is Annie Ng Cheng San. At present, I am enrolled as a Master of Philosophy student (ID: 09UBM09175) in University Tunku Abdul Rahman, Perak Campus. I would appreciate for your kind assistance in my master thesis: The Relationship between Audit Committees' Social Powers and Perceived Effectiveness In Malaysian Public Listed Companies.

Please take note that ALL INFORMATION collected will be STRICTLY CONFIDENTIAL. The questionnaire will take approximately 20-25 minutes. Please see the attached questionnaire and select the button "Submit" once finished and it would forward directly to my email.

Note: Please provide the overall perception of the Audit Committee Effectiveness if you audited for multiple public listed companies.

Your participation will greatly contribute to the success of the survey. Once again, thank you for your time and assistance. If you have any further questions, please do not hesitate to contact me via anniencsan@gmail.com or 012-435 7717.

Thank you for your participation in making the survey a success.

Best Regards,
Annie Ng Cheng San

PART A: General Information

Please indicate the number of years/ experiences you have been in audit field.

- ○ 0 ≤ 5 years
- ○ 1 6 – 10 years
- ○ 2 11 – 15 years
- ○ 3 16 – 20 years
- ○ 4 21 – 25 years
- ○ 5 ≥ 26 years

Categorizes of audit firm

- ○ 0 Big 4
- ○ 1 Non- Big 4 1

PART B: Audit Committees Effectiveness

Please indicate to what extent you would rate the audit committees' oversight effectiveness.

	Very Ineffective	Ineffective	Neutral	Effective	Very Effective
AC reviews the quarterly result and year-end financial statement before approval by the board.	○	○	○	○	○
AC reviews and analyses the application of alternative generally accepted accounting principle (GAAP).	○	○	○	○	○
AC understands and reviews the significant accounting estimates and judgments.	○	○	○	○	○

AC reviews and analyses the significant changes in accounting policies and year-end adjustment.	O	O	O	O	O
AC enhances the effectiveness of the external auditor.	O	O	O	O	O
AC plays an appropriate role in making recommendations on the appointment, reappointment, and removal of external auditors.	O	O	O	O	O
AC reviews and evaluates external auditors' performance, including determination of independence.	O	O	O	O	O
AC reviews with external auditors, the scope, audit plans, and audit report.	O	O	O	O	O
AC monitoring of corrections by management of reported deficiencies in the independent auditor's management letter.	O	O	O	O	O
AC reviews and analyses the adequacy and effectiveness of the internal accounting and financial controls of the company.	O	O	O	O	O
AC reviews and analyses the internal audit reports, budget, and findings.	O	O	O	O	O
AC reviews and makes recommendations to the internal audit program, scope, and results of the internal audit procedures.	O	O	O	O	O
AC evaluates the internal auditors' performance.	O	O	O	O	O

Please review the following statement and indicate to what extend that you would agree on the overall effectiveness of audit committee in Malaysia.

	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Beyond the legal or other regulatory requirements, the AC serves an important need for the company.	○	○	○	○	○
Overall, the AC is very effective.	○	○	○	○	○

PART C: Audit Committees' Social Powers

To what extent would you agree on the **Independence Power** of Audit Committee in Malaysia?

	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
AC demonstrated the impartial state of mind.	○	○	○	○	○
I approach the AC for advice on work related problems because they have the independence stance in the organization.	○	○	○	○	○
AC members are independent from the management.	○	○	○	○	○

To what extent would you agree on the **Expert Power** of Audit Committee in Malaysia?

	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
I approach the AC for advice on work related problems because they are usually right.	○	○	○	○	○
When a tough corporate issue comes up, the AC has the sufficient technical knowledge of accounting, auditing, finance, and internal control to get it done.	○	○	○	○	○
AC has demonstrated appropriate industry experience and knowledge.	○	○	○	○	○
I prefer to accept and implement the AC's suggestion as they have high professional expertise.	○	○	○	○	○
AC has considerable professional experience to draw from in helping me to perform my duties.	○	○	○	○	○
AC has the knowledge that I need to perform my duties.	○	○	○	○	○

To what extent would you agree on the **Legitimate Power** of Audit Committee in Malaysia?

	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
AC's authority and responsibilities have been clearly defined in the written charter.	○	○	○	○	○
AC's position and formal written charter give him/ her sufficient authority to review and monitor my work.	○	○	○	○	○

AC is justified in expecting cooperation from me in work related matters.	○	○	○	○	○
AC position entitles the members to expect support from me.	○	○	○	○	○
AC has the right to expect me to perform their instruction and suggestion.	○	○	○	○	○

To what extent would you agree on the **Sanctionary Power** of Audit Committee in Malaysia?

	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
AC has the right to evaluate and determine external auditor's performance, audit fees, and scope.	○	○	○	○	○
AC has the right to determine the internal auditor's budgets and findings.	○	○	○	○	○
AC has the right to review, evaluate, and determine the internal program, scope, and result of internal auditors.	○	○	○	○	○

To what extent would you agree on the **Institutional Support Power** of Audit Committee in Malaysia?

	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
The level of openness among the AC and relevant parties such as the management, internal audit, and external audit is maintained appropriately.	○	○	○	○	○
AC members have ready access to the management, internal and external auditors.	○	○	○	○	○

The relationship between the AC and management has strike the right balance between challenge and mutuality.	○	○	○	○	○
AC has the updated, useful, reliable, and relevant information.	○	○	○	○	○
AC members are supported by management and auditors.	○	○	○	○	○

To what extent would you agree on the **Diligence Power** of Audit Committee in Malaysia?

	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
AC has regular meetings with the auditors.	○	○	○	○	○
AC's meeting arrangement (frequency, timing, duration, venue, and format) enhances its effectiveness.	○	○	○	○	○
AC allows us to have sufficient time for discussion and questions.	○	○	○	○	○
AC demonstrates the highest level of activeness and diligence.	○	○	○	○	○
AC inputs sufficient time to devote in their committee's affairs.	○	○	○	○	○

PART D: Demographic Profile

Gender

- ○ 0 Male
- ○ 1 Female

Age

- ○ 0 20 – 29 years old
- ○ 1 30 – 39 years old
- ○ 2 40 – 49 years old
- ○ 3 ≥ 50 years old

THANK YOU FOR YOUR PARTICIPATION.

Appendix 3: Data Findings

Appendix 3.1

SPSS Output: Test of Normality

Descriptives

			Statistic	Std. Error
ACE	Mean		.0000000	.08078945
	95% Confidence Interval for Mean	Lower Bound	-.1596588	
		Upper Bound	.1596588	
	5% Trimmed Mean		.0130118	
	Median		.0245444	
	Variance		.966	
	Std. Deviation		.98284607	
	Minimum		-2.70671	
	Maximum		2.55557	
	Range		5.26228	
	Interquartile Range		1.17316	
	Skewness		-.192	.199
	Kurtosis		.346	.396

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ACE	.052	148	.200*	.994	148	.764

a. Lilliefors Significance Correction

*. This is a lower bound of the true significance.

Appendix 3.2

SPSS Output: Descriptive Statistics Analysis: Demographic Profile and General Information

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	MALE	79	53.4	53.4	53.4
	FEMALE	69	46.6	46.6	100.0
	Total	148	100.0	100.0	

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-29	1	.7	.7	.7
	30-39	84	56.8	56.8	57.4
	40-49	55	37.2	37.2	94.6
	Equal/ Above 50	8	5.4	5.4	100.0
	Total	148	100.0	100.0	

Category of Audit Firm

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	BIG4	63	42.6	42.6	42.6
	NON BIG 4	85	57.4	57.4	100.0
	Total	148	100.0	100.0	

Experience in external auditing (years)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Equal/ Less than 5 YEARS	4	2.7	2.7	2.7
	6-10	27	18.2	18.2	20.9
	11-15	52	35.1	35.1	56.1
	16-20	50	33.8	33.8	89.9
	21-25	12	8.1	8.1	98.0
	Equal/ More than 26	3	2.0	2.0	100.0
	Total	148	100.0	100.0	

Appendix 3.3

SPSS Output: Central Tendency Measurement

Dependent Variable: Audit Committee Effectiveness (ACE)

Statistics

		OV1	OV2	FR1	FR2	FR3	FR4	EA1	EA2
N	Valid	148	148	148	148	148	148	148	148
	Missing	0	0	0	0	0	0	0	0
Mean		3.8243	3.8851	3.7432	3.4324	3.5878	3.6824	3.8243	3.6689
Std. Deviation		.72578	.66521	.71067	.85047	.69916	.64983	.63585	.71322
Minimum		2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Maximum		5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

Statistics

		EA3	EA4	EA5	IC1	IC2	IC3	IC4
N	Valid	148	148	148	148	148	148	148
	Missing	0	0	0	0	0	0	0
Mean		3.6689	3.8378	3.4459	3.5878	3.5878	3.6419	3.7027
Std. Deviation		.63233	.61781	.88282	.71836	.58238	.68024	.58855
Minimum		2.00	2.00	1.00	1.00	2.00	2.00	2.00
Maximum		5.00	5.00	5.00	5.00	5.00	5.00	5.00

Frequency Table

Overall Effectiveness (OV1)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	51	34.5	34.5	35.1
	Agree	69	46.6	46.6	81.8
	Strongly Agree	27	18.2	18.2	100.0
	Total	148	100.0	100.0	

Overall Effectiveness (OV2)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	39	26.4	26.4	27.0
	Agree	84	56.8	56.8	83.8
	Strongly Agree	24	16.2	16.2	100.0
	Total	148	100.0	100.0	

Financial Reporting (FR1)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INEFFECTIVE	8	5.4	5.4	5.4
	NEUTRAL	37	25.0	25.0	30.4
	EFFECTIVE	88	59.5	59.5	89.9
	VERY EFFECTIVE	15	10.1	10.1	100.0
	Total	148	100.0	100.0	

Financial Reporting (FR2)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INEFFECTIVE	23	15.5	15.5	15.5
	NEUTRAL	50	33.8	33.8	49.3
	EFFECTIVE	63	42.6	42.6	91.9
	VERY EFFECTIVE	12	8.1	8.1	100.0
	Total	148	100.0	100.0	

Financial Reporting (FR3)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INEFFECTIVE	7	4.7	4.7	4.7
	NEUTRAL	58	39.2	39.2	43.9
	EFFECTIVE	72	48.6	48.6	92.6
	VERY EFFECTIVE	11	7.4	7.4	100.0
	Total	148	100.0	100.0	

Financial Reporting (FR4)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INEFFECTIVE	2	1.4	1.4	1.4
	NEUTRAL	56	37.8	37.8	39.2
	EFFECTIVE	77	52.0	52.0	91.2
	VERY EFFECTIVE	13	8.8	8.8	100.0
	Total	148	100.0	100.0	

External Auditor Liaison (EA1)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INEFFECTIVE	1	.7	.7	.7
	NEUTRAL	42	28.4	28.4	29.1
	EFFECTIVE	87	58.8	58.8	87.8
	VERY EFFECTIVE	18	12.2	12.2	100.0
	Total	148	100.0	100.0	

External Auditor Liaison (EA2)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INEFFECTIVE	5	3.4	3.4	3.4
	NEUTRAL	55	37.2	37.2	40.5
	EFFECTIVE	72	48.6	48.6	89.2
	VERY EFFECTIVE	16	10.8	10.8	100.0
	Total	148	100.0	100.0	

External Auditor Liaison (EA3)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INEFFECTIVE	4	2.7	2.7	2.7
	NEUTRAL	50	33.8	33.8	36.5
	EFFECTIVE	85	57.4	57.4	93.9
	VERY EFFECTIVE	9	6.1	6.1	100.0
	Total	148	100.0	100.0	

External Auditor Liaison (EA4)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INEFFECTIVE	2	1.4	1.4	1.4
	NEUTRAL	36	24.3	24.3	25.7
	EFFECTIVE	94	63.5	63.5	89.2
	VERY EFFECTIVE	16	10.8	10.8	100.0
	Total	148	100.0	100.0	

External Auditor Liaison (EA5)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	VERY INEFFECTIVE	4	2.7	2.7	2.7
	INEFFECTIVE	16	10.8	10.8	13.5
	NEUTRAL	49	33.1	33.1	46.6
	EFFECTIVE	68	45.9	45.9	92.6
	VERY EFFECTIVE	11	7.4	7.4	100.0
	Total	148	100.0	100.0	

Internal Control and Audit Oversight (IC1)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	VERY INEFFECTIVE	1	.7	.7	.7
	INEFFECTIVE	10	6.8	6.8	7.4
	NEUTRAL	45	30.4	30.4	37.8
	EFFECTIVE	85	57.4	57.4	95.3
	VERY EFFECTIVE	7	4.7	4.7	100.0
	Total	148	100.0	100.0	

Internal Control and Audit Oversight (IC2)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INEFFECTIVE	2	1.4	1.4	1.4
	NEUTRAL	62	41.9	41.9	43.2
	EFFECTIVE	79	53.4	53.4	96.6
	VERY EFFECTIVE	5	3.4	3.4	100.0
	Total	148	100.0	100.0	

Internal Control and Audit Oversight (IC3)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INEFFECTIVE	6	4.1	4.1	4.1
	NEUTRAL	52	35.1	35.1	39.2
	EFFECTIVE	79	53.4	53.4	92.6
	VERY EFFECTIVE	11	7.4	7.4	100.0
	Total	148	100.0	100.0	

Internal Control and Audit Oversight (IC4)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INEFFECTIVE	3	2.0	2.0	2.0
	NEUTRAL	45	30.4	30.4	32.4
	EFFECTIVE	93	62.8	62.8	95.3
	VERY EFFECTIVE	7	4.7	4.7	100.0
	Total	148	100.0	100.0	

Independent Variable: Independence Power

Statistics

		IND1	IND2	IND3
N	Valid	148	148	148
	Missing	0	0	0
	Mean	3.8986	3.7770	3.7432
	Std. Deviation	.46276	.47839	.46834
	Minimum	3.00	3.00	3.00
	Maximum	5.00	5.00	5.00

Frequency Table

IND1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	24	16.2	16.2	16.2
	Agree	115	77.7	77.7	93.9
	Strongly Agree	9	6.1	6.1	100.0
	Total	148	100.0	100.0	

IND2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	37	25.0	25.0	25.0
	Agree	107	72.3	72.3	97.3
	Strongly Agree	4	2.7	2.7	100.0
	Total	148	100.0	100.0	

IND3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	40	27.0	27.0	27.0
	Agree	106	71.6	71.6	98.6
	Strongly Agree	2	1.4	1.4	100.0
	Total	148	100.0	100.0	

Independent Variable: Expert Power

Statistics

		EXP1	EXP2	EXP3	EXP4	EXP5	EXP6
N	Valid	148	148	148	148	148	148
	Missing	0	0	0	0	0	0
Mean		4.0000	3.9054	3.9054	3.9797	3.7230	3.8243
Std. Deviation		.62814	.62093	.63179	.57699	.62620	.57989
Minimum		2.00	2.00	2.00	3.00	2.00	2.00
Maximum		5.00	5.00	5.00	5.00	5.00	5.00

Frequency Table

EXP1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	26	17.6	17.6	18.2
	Agree	93	62.8	62.8	81.1
	Strongly Agree	28	18.9	18.9	100.0
	Total	148	100.0	100.0	

EXP2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.4	1.4	1.4
	Neutral	30	20.3	20.3	21.6
	Agree	96	64.9	64.9	86.5
	Strongly Agree	20	13.5	13.5	100.0
	Total	148	100.0	100.0	

EXP3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	2.0	2.0	2.0
	Neutral	28	18.9	18.9	20.9
	Agree	97	65.5	65.5	86.5
	Strongly Agree	20	13.5	13.5	100.0
	Total	148	100.0	100.0	

EXP4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	26	17.6	17.6	17.6
	Agree	99	66.9	66.9	84.5
	Strongly Agree	23	15.5	15.5	100.0
	Total	148	100.0	100.0	

EXP5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	2.0	2.0	2.0
	Neutral	46	31.1	31.1	33.1
	Agree	88	59.5	59.5	92.6
	Strongly Agree	11	7.4	7.4	100.0
	Total	148	100.0	100.0	

EXP6

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.4	1.4	1.4
	Neutral	34	23.0	23.0	24.3
	Agree	100	67.6	67.6	91.9
	Strongly Agree	12	8.1	8.1	100.0
	Total	148	100.0	100.0	

Independent Variable: Legitimate Power

Statistics

		LEG1	LEG2	LEG3	LEG4	LEG5
N	Valid	148	148	148	148	148
	Missing	0	0	0	0	0
Mean		3.9324	3.8581	3.9662	3.7432	3.8581
Std. Deviation		.55527	.59488	.68428	.60746	.64954
Minimum		2.00	2.00	2.00	2.00	2.00
Maximum		5.00	5.00	5.00	5.00	5.00

Frequency Table

LEG1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	25	16.9	16.9	17.6
	Agree	105	70.9	70.9	88.5
	Strongly Agree	17	11.5	11.5	100.0
	Total	148	100.0	100.0	

LEG2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.4	1.4	1.4
	Neutral	32	21.6	21.6	23.0
	Agree	99	66.9	66.9	89.9
	Strongly Agree	15	10.1	10.1	100.0
	Total	148	100.0	100.0	

LEG3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	34	23.0	23.0	23.6
	Agree	82	55.4	55.4	79.1
	Strongly Agree	31	20.9	20.9	100.0
	Total	148	100.0	100.0	

LEG4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	2.0	2.0	2.0
	Neutral	42	28.4	28.4	30.4
	Agree	93	62.8	62.8	93.2
	Strongly Agree	10	6.8	6.8	100.0
	Total	148	100.0	100.0	

LEG5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.4	1.4	1.4
	Neutral	37	25.0	25.0	26.4
	Agree	89	60.1	60.1	86.5
	Strongly Agree	20	13.5	13.5	100.0
	Total	148	100.0	100.0	

Independent Variable: Sanctionary Power

Statistics

		SA1	SA2	SA3
N	Valid	148	148	148
	Missing	0	0	0
	Mean	3.6757	3.6824	3.7365
	Std. Deviation	.67225	.59519	.58741
	Minimum	2.00	2.00	2.00
	Maximum	5.00	5.00	5.00

SA1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	3.4	3.4	3.4
	Neutral	50	33.8	33.8	37.2
	Agree	81	54.7	54.7	91.9
	Strongly Agree	12	8.1	8.1	100.0
	Total	148	100.0	100.0	

SA2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	2.7	2.7	2.7
	Neutral	45	30.4	30.4	33.1
	Agree	93	62.8	62.8	95.9
	Strongly Agree	6	4.1	4.1	100.0
	Total	148	100.0	100.0	

SA3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	2.0	2.0	2.0
	Neutral	41	27.7	27.7	29.7
	Agree	96	64.9	64.9	94.6
	Strongly Agree	8	5.4	5.4	100.0
	Total	148	100.0	100.0	

Independent Variable: Institutional Support Power (IS)

Statistics

		IS1	IS2	IS3	IS4	IS5
N	Valid	148	148	148	148	148
	Missing	0	0	0	0	0
Mean		3.8378	4.0068	3.7770	4.0743	3.8514
Std. Deviation		.56005	.62266	.70779	.68105	.67375
Minimum		2.00	3.00	2.00	2.00	2.00
Maximum		5.00	5.00	5.00	5.00	5.00

Frequency Table

IS1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	34	23.0	23.0	23.6
	Agree	101	68.2	68.2	91.9
	Strongly Agree	12	8.1	8.1	100.0
	Total	148	100.0	100.0	

IS2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	28	18.9	18.9	18.9
	Agree	91	61.5	61.5	80.4
	Strongly Agree	29	19.6	19.6	100.0
	Total	148	100.0	100.0	

IS3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	2.7	2.7	2.7
	Neutral	45	30.4	30.4	33.1
	Agree	79	53.4	53.4	86.5
	Strongly Agree	20	13.5	13.5	100.0
	Total	148	100.0	100.0	

IS4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	26	17.6	17.6	18.2
	Agree	82	55.4	55.4	73.6
	Strongly Agree	39	26.4	26.4	100.0
	Total	148	100.0	100.0	

IS5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	43	29.1	29.1	29.7
	Agree	81	54.7	54.7	84.5
	Strongly Agree	23	15.5	15.5	100.0
	Total	148	100.0	100.0	

<u>Independent Variable: Diligence Power (DIL)</u>

Statistics

		DIL1	DIL2	DIL3	DIL4	DIL5
N	Valid	148	148	148	148	148
	Missing	0	0	0	0	0
Mean		3.8176	3.5473	3.6486	3.5068	3.5541
Std. Deviation		.61762	.88321	.82367	.84513	.85144
Minimum		2.00	2.00	2.00	1.00	2.00
Maximum		5.00	5.00	5.00	5.00	5.00

Frequency Table

DIL1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	41	27.7	27.7	28.4
	Agree	90	60.8	60.8	89.2
	Strongly Agree	16	10.8	10.8	100.0
	Total	148	100.0	100.0	

DIL2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	24	16.2	16.2	16.2
	Neutral	34	23.0	23.0	39.2
	Agree	75	50.7	50.7	89.9
	Strongly Agree	15	10.1	10.1	100.0
	Total	148	100.0	100.0	

DIL3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	11	7.4	7.4	7.4
	Neutral	52	35.1	35.1	42.6
	Agree	63	42.6	42.6	85.1
	Strongly Agree	22	14.9	14.9	100.0
	Total	148	100.0	100.0	

DIL4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.7	.7	.7
	Disagree	17	11.5	11.5	12.2
	Neutral	50	33.8	33.8	45.9
	Agree	66	44.6	44.6	90.5
	Strongly Agree	14	9.5	9.5	100.0
	Total	148	100.0	100.0	

DIL5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	20	13.5	13.5	13.5
	Neutral	41	27.7	27.7	41.2
	Agree	72	48.6	48.6	89.9
	Strongly Agree	15	10.1	10.1	100.0
	Total	148	100.0	100.0	

Appendix 3.4

SPSS Output: Cronbach's Alpha Reliability Test

Dependent Variable: Audit Committee Effectiveness (ACE)

Reliability Statistics

Cronbach's Alpha	N of Items
.910	15

Independent Variable: Independence Power

Reliability Statistics

Cronbach's Alpha	N of Items
.723	3

Independent Variable: Expert Power

Reliability Statistics

Cronbach's Alpha	N of Items
.756	6

Independent Variable: Legitimate Power

Reliability Statistics

Cronbach's Alpha	N of Items
.761	5

Independent Variable: Sanctionary Power

Reliability Statistics

Cronbach's Alpha	N of Items
.713	3

Independent Variable: Institutional Support Power

Reliability Statistics

Cronbach's Alpha	N of Items
.791	5

Independent Variable: Diligence Power

Reliability Statistics

Cronbach's Alpha	N of Items
.899	5

Appendix 3.5

SPSS Output: Mann Whitney U Test

Group Statistics

	First and Last 10 Responses	N	Mean	Std. Deviation	Std. Error Mean
AVE_ACE	first 10	10	3.5933	.47188	.14922
	last 10	10	3.6067	.31182	.09861

Independent Samples Test

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	1.687	.210	-.075	18	.941	-.01333	.17886	-.38910	.36243
Equal variances not assumed			-.075	15.601	.942	-.01333	.17886	-.39328	.36662

Mann-Whitney Test

Ranks

	First and Last 10 Responses	N	Mean Rank	Sum of Ranks
AVE_ACE	first 10	10	10.00	100.00
	last 10	10	11.00	110.00
	Total	20		

Test Statistics [a]

	AVE_ACE
Mann-Whitney U	45.000
Wilcoxon W	100.000
Z	-.381
Asymp. Sig. (2-tailed)	.704
Exact Sig. [2*(1-tailed Sig.)]	.739[b]

a. Grouping Variable: First and Last 10 Responses

b. Not corrected for ties.

Appendix 3.6

SPSS Output: Pearson Correlation Analysis

Correlations								
		ACE	IND Power	EXP Power	LEG Power	SA Power	IS Power	DIL Power
ACE	P.Correlation	1.000	.675**	.733**	.715**	.717**	.555**	.679**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000
	N	148.000	148	148	148	148	148	148
IND Power	P. Correlation	.675**	1.000	.562**	.567**	.524**	.421**	.377**
	Sig. (2-tailed)	.000		.000	.000	.000	.000	.000
	N	148	148.000	148	148	148	148	148
EXP Power	P. Correlation	.733**	.562**	1.000	.678**	.575**	.509**	.418**
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000
	N	148	148	148.000	148	148	148	148
LEG Power	P. Correlation	.715**	.567**	.678**	1.000	.547**	.562**	.431**
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000
	N	148	148	148	148.000	148	148	148
SA Power	P.Correlation	.717**	.524**	.575**	.547**	1.000	.347**	.491**
	Sig. (2-tailed)	.000	.000	.000	.000		.000	.000
	N	148	148	148	148	148.000	148	148
IS Power	P.Correlation	.555**	.421**	.509**	.562**	.347**	1.000	.463**
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000
	N	148	148	148	148	148	148.000	148
DIL Power	P. Correlation	.679**	.377**	.418**	.431**	.491**	.463**	1.000
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	
	N	148	148	148	148	148	148	148.000

**. Correlation is significant at the 0.01 level (1-tailed).

Appendix 3.7

SPSS Output: Multiple Regress Analysis

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Diligence Power, Independence Power, Institutional Support Power, Expert Power, Legitimate Power[b]	.	Enter

a. Dependent Variable: ACE
b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.902[a]	.814	.806	.20334	.814	103.054	6	141	.000	1.870

a. Predictors: (Constant), DIL power, IND power, IS power, SA power, EXP power, LEG power
b. ACE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.565	6	4.261	103.054	.000[a]
	Residual	5.830	141	.041		
	Total	31.395	147			

a. Predictors: (Constant),), DIL power, IND power, IS power, SA power, EXP power, LEG power
b. Dependent Variable: ACE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.616	.194		-3.183	.002		
	IND Power	.246	.058	.201	4.213	.000	.579	1.728
	EXP Power	.256	.061	.228	4.177	.000	.444	2.253
	LEG Power	.178	.058	.170	3.069	.003	.428	2.339
	SA Power	.209	.046	.223	4.500	.000	.536	1.865
	IS Power	.038	.045	.039	.832	.407	.597	1.676
	DIL Power	.208	.030	.307	6.864	.000	.657	1.522

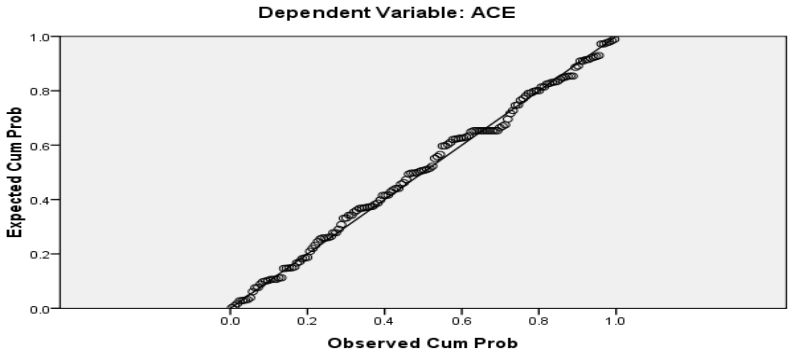
a. Dependent Variable: ACE

Residuals Statistics[a]

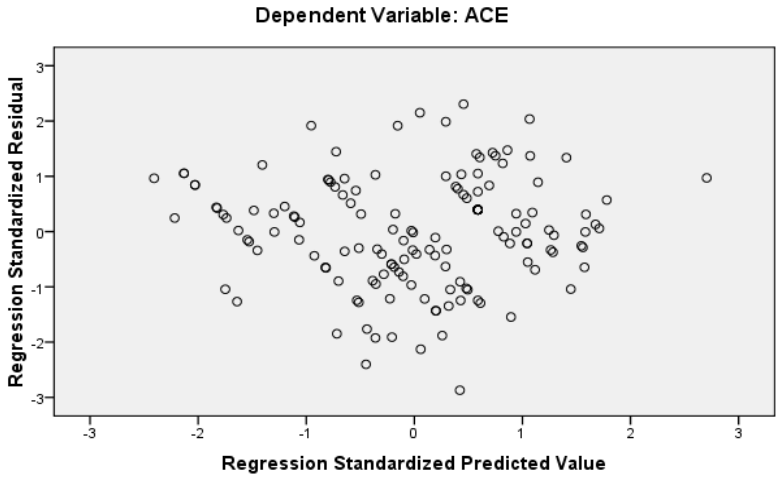
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2.6708	4.8027	3.6748	.41703	148
Residual	-.58372	.46866	.00000	.19914	148
Std. Predicted Value	-2.408	2.705	.000	1.000	148
Std. Residual	-2.871	2.305	.000	.979	148

a. Dependent Variable: ACE

Normal P-P Plot of Regression Standardized Residual



Scatterplot



Appendix 3.8

SPSS Output: Stepwise Multiple Regression Analysis

Model Summary[f]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.733[a]	.537	.533	.31565	
2	.840[b]	.705	.701	.25260	
3	.875[c]	.765	.760	.22630	
4	.893[d]	.798	.792	.21072	
5	.902[e]	.813	.807	.20312	1.874

a. Predictors: (Constant), EXP Power
b. Predictors: (Constant), EXP Power, DIL Power
c. Predictors: (Constant), EXP Power, DIL Power, IND Power
d. Predictors: (Constant), EXP Power, DIL Power, IND Power, SA Power
e. Predictors: (Constant), EXP Power, DIL Power, IND Power, SA Power , LEG Power
f. Dependent Variable: ACE

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.848	1	16.848	169.090	.000[b]
	Residual	14.547	146	.100		
	Total	31.395	147			
2	Regression	22.143	2	11.072	173.522	.000[c]
	Residual	9.252	145	.064		
	Total	31.395	147			
3	Regression	24.020	3	8.007	156.339	.000[d]
	Residual	7.375	144	.051		
	Total	31.395	147			
4	Regression	25.045	4	6.261	141.014	.000[e]
	Residual	6.349	143	.044		
	Total	31.395	147			
5	Regression	25.536	5	5.107	123.795	.000[f]
	Residual	5.858	142	.041		
	Total	31.395	147			

a. Dependent Variable: ACE
b. Predictors: (Constant), EXP Power
c. Predictors: (Constant), EXP Power, DIL Power
d. Predictors: (Constant), EXP Power, DIL Power, IND Power

e. Predictors: (Constant), EXP Power, DIL Power, IND Power, SA Power
f. Predictors: (Constant), EXP Power, DIL Power, IND Power, SA Power , LEG Power

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.466	.248		1.877	.062		
	EXP Power	.825	.063	.733	13.003	.000	1.000	1.000
2	(Constant)	.189	.201		.942	.348		
	EXP Power	.612	.056	.544	10.953	.000	.825	1.212
	DIL Power	.306	.034	.452	9.110	.000	.825	1.212
3	(Constant)	-.443	.208		-2.128	.035		
	EXP Power	.446	.057	.396	7.812	.000	.635	1.576
	DIL Power	.270	.031	.400	8.839	.000	.796	1.257
	IND Power	.369	.061	.301	6.054	.000	.660	1.516
4	(Constant)	-.504	.194		-2.597	.010		
	EXP Power	.356	.056	.316	6.310	.000	.564	1.772
	DIL Power	.227	.030	.336	7.611	.000	.724	1.381
	IND Power	.298	.059	.243	5.078	.000	.618	1.619
	SA Power	.227	.047	.243	4.805	.000	.555	1.801
5	(Constant)	-.580	.188		-3.078	.003		
	EXP Power	.265	.060	.235	4.381	.000	.457	2.190
	DIL Power	.215	.029	.318	7.397	.000	.712	1.404
	IND Power	.250	.058	.204	4.305	.000	.583	1.715
	SA Power	.204	.046	.218	4.437	.000	.544	1.839
	LEG Power	.191	.055	.183	3.450	.001	.465	2.151

a. Dependent Variable: ACE

Excluded Variables[a]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics		
						Tolerance	VIF	Minimum Tolerance
1	IS	.245[b]	3.931	.000	.310	.741	1.350	.741
	DIL	.452[b]	9.110	.000	.603	.825	1.212	.825
	LEG	.404[b]	5.832	.000	.436	.540	1.852	.540
	IND	.384[b]	6.358	.000	.467	.684	1.462	.684
	SA	.442[b]	7.545	.000	.531	.670	1.494	.670
2	IS	.103[c]	1.887	.061	.155	.665	1.503	.665
	LEG	.295[c]	5.068	.000	.389	.514	1.947	.514
	IND	.301[c]	6.054	.000	.450	.660	1.516	.635
	SA	.307[c]	5.810	.000	.436	.593	1.686	.593
3	IS	.063[d]	1.265	.208	.105	.652	1.533	.579
	LEG	.217[d]	3.885	.000	.309	.475	2.107	.475
	SA	.243[d]	4.805	.000	.373	.555	1.801	.555
4	IS	.080[e]	1.725	.087	.143	.649	1.541	.513
	LEG	.183[e]	3.450	.001	.278	.465	2.151	.457
5	IS	.039[f]	.832	.407	.070	.597	1.676	.428

a. Dependent Variable: ACE

b. Predictors in the Model: (Constant), EXP Power

c. Predictors in the Model: (Constant), EXP Power, DIL Power

d. Predictors in the Model: (Constant), EXP Power, DIL Power, IND Power

e. Predictors in the Model: (Constant), EXP Power, DIL Power, IND Power, SA Power

f. Predictors in the Model: (Constant), EXP Power, DIL Power, IND Power, SA Power , LEG Power