

THE ASSOCIATION BETWEEN CORPORATE GOVERNANCE ATTRIBUTES AND AUDIT FEES IN MALAYSIA: ETHNICITY IMPLICATIONS

Abstract

This study extends the literature on audit pricing by examining the relationship between audit fees and corporate governance factors, namely audit committee and CEO characteristics of 605 public-listed companies in Malaysia. The study specifically investigates the association between audit fees and the ethnicity attributes of the CEO (*bumiputra* or not) and audit committee members (i.e. proportion of *bumiputra* membership), as well as audit committee characteristics pertaining to the proportion of independent members, financial expertise and diligence. The findings indicate audit committee independence is significantly and positively associated with audit fees, while financial expertise has a negative association with audit fees. We however do not find any relationship between audit fees and audit committee diligence as measured by meeting frequency. In addition, the data also reveals that firms with *bumiputra* CEOs and *bumiputra* dominated audit committees hold significant and positive relationships with audit fees.

Key words: Audit fees, audit pricing, audit committee, corporate governance, Malaysian ethnicity.

1. Introduction

Audit fees reflect an economic cost to organisations, and over the years a long line of research has developed examining the determinants of audit fees. Early work by Simunic and Stein (1996) and numerous subsequent studies (such as by Gul and Tsui, 2001; Ferguson, Francis and Stokes, 2003; Hay et. al, 2008) suggest that audit fees tend to vary with the size, complexity, riskiness, and other characteristics of the audited entity. More recently, the impact of corporate governance mechanisms (e.g. the board of directors and audit committees) on audit fees has attracted substantial research interest (Carcello, Hermanson, Neal and Riley Jr., 2002; Abbott, Parker and Peters, 2004; Goodwin-Stewart and Kent, 2006). The motivation for this line of research largely lies in the increasing attention received by boards and audit committees over their financial reporting oversight responsibilities. Further, the various regulatory policies and best practice corporate governance guidelines continue to emphasise the importance of the link between the external auditors and the firms' board, senior management and audit committees. For example, in July 2002 following the enactment of the Sarbanes-Oxley Act, the Securities and Exchange Commission (SEC) required audit committees to be directly responsible for the audit fees paid to external auditors.

Empirical evidence by Abbott et al. (2003) suggests that audit committee effectiveness, namely their independence and expertise have a positive association with audit fees. Carcello et al. (2002) also found positive associations between audit fees and board independence, expertise and diligence. However, much of the evidence to date is from developed countries where corporate governance systems are mature and the roles of boards and audit committees tend to be better defined in comparison to those in developing countries. In addition, prior studies have acknowledged that

there can be systematic differences in organisational and managerial incentives across different nations due to political economy, securities laws, taxation regime and cultural factors and that further study of their implications for financial reporting quality and related assurance processes be undertaken (Bushman and Piotroski, 2006; Gul, 2006).

The overall objective of this study is to examine the relationship between audit fees and corporate governance variables from a Malaysian context. More specifically, the study is motivated by two broad issues. The first concerns the inconsistent and mixed results of prior studies examining the relationship between audit committee characteristics and audit fees of Malaysian public-listed companies. Although limited in number, there have been two studies to date (i.e. Yatim et al. (2006) and Muniandy (2007)) that have expressly examined the link between audit fees and audit committee characteristics. Unfortunately, their results appear mixed and limited as well as inconsistent with findings of other studies in more developed countries (Abbott et al., 2003; Vafeas and Wangles, 2007). Firstly, while Yatim et al. (2006) examined three types of audit characteristics, namely the independence, financial expertise and diligence of the committee, Muniandy (2007) examined only one aspect i.e .the independence characteristic. Further, Yatim et al. (2006) found only two significant relationships, namely between audit fees and audit committee's financial expertise and diligence, while Muniandy (2007) found a significant interaction between audit committee independence and CEO duality or dominance affecting audit fees. It is possible some of these differences lie in the data-set used for analysis where Yatim et al.'s (2006) study was premised on data of 736 non-financial listed companies for the year-end 2003, Muniandy (2007) utilised year-end 2001 data of 447 non-financial listed companies. The present study thus aims to review these relationships based on more recent annual report data i.e. year-end 2005 of public-listed firms on the Main

board of Bursa Malaysia. In addition, investigation of this relationship is warranted given that the most recent review of the Malaysian Corporate Governance Code, (first released in 2001 and revised in 2007), has placed significant emphasis on audit committee composition e.g. all committee members should be non-executive directors, and has expanded the roles and rights of audit committee where such committees are to review the adequacy of the competency of the internal audit function, and have rights to convene meetings with external auditors, internal auditors or both, excluding the attendance of other directors and employees.

The second broad issue addressed by this study relates to the ethnicity of major corporate governance members and its implication for audit fees. We focus specifically on the ethnicity aspects of two major governance stakeholders: the audit committee member ethnicity and CEO ethnicity. The corporate environment of Malaysia is rather unique where “its economy offers clearly identifiable capital segments divided along ethnic lines” (Yatim et al., 2006, p. 764). The bumiputera or Malays are the majority ethnic group, followed by the Chinese.¹ A review of the literature reveals that several prior studies have examined the relationship between ethnicity, corporate governance and audit fees of Malaysian listed firms (Eichenseher, 1995; Che Ahmad and Houghton, 2001; Ayoib, 2001; Yatim et al., 2006; Gul, 2006). The general argument as presented by Johnson and Mitton (2003), Gomez and Jomo (1997) and Gul (2006) is that bumiputera-controlled firms are ethnically favoured firms as well as often politically connected firms and thus are generally perceived to entail poor corporate governance practices and greater agency problems. Such perceptions in turn are expected to increase monitoring costs such as higher audit fees.

¹ Malaysia is a multi-racial society with the major ethnic groups being Malays (otherwise referred as bumiputras), Chinese, and Indians and a variety of indigenous groups in East Malaysia. However, the first two ethnic groups play a major role in the socio-economic fabric of the country with the Malays controlling the political administration and the Chinese having significant influence over the economic environment.

However, these studies have largely assessed the ethnicity impacts in terms of ownership (Eichenseher, 1995; Che Ahmad and Houghton, 2001), board control (Yatim et al, 2006) or political connections (Gul, 2006). We specifically focus on the relationships between bumiputera-dominated audit committees and audit fees, and the association between the CEO's ethnicity (i.e. ethnicity of top management/leadership) and audit fees in Malaysia. Given that the basic assumption that ethnicity attribute potentially affects auditors' perceptions of corporate governance working and consequently their assessment of inherent risk for an engagement, it is also likely to ultimately affect audit fees. However, no study to date has directly assessed the ethnicity implications for audit fees in relation to key governance stakeholders such as the audit committee and the CEO.

Thus, in conclusion, the overarching aim of this study is to address the above-mentioned gaps in the literature and to facilitate better insights to the governance debates in the area of audit pricing with respect to audit committees and ethnicity impacts.

Our results, based on the analysis of 605 public-listed Malaysian firms, indicate a positive association between audit committee independence and audit fees. This is contrary to previous studies where Yatim et al. (2006) and Muniandy (2007) did not find any such direct relationship. This appears to be in line with the predictions based on capital reputational theory which claims that independent directors who have higher reputation tend to seek greater assurance on the organisational functions (Carcello et al., 2002, 2003; Baysinger & Butler, 1985). However, in contrast to prior findings (see for instance Carcello, 2002; Goodwin-Stewart and Kent, 2006), we find a negative relationship between audit fees and audit committee's finance expertise. This may suggest a substitution effect where audit

committees with better understanding of financial matters may rely less on external audit firms. No such relationship was however found between audit committee diligence (meeting frequency) and audit fees. As expected, audit fees were found to be positively associated with a bumiputera dominated audit committee and a bumiputera CEO. These results extend previous studies, namely Che Ahmad and Houghton (2001) and Yatim et al (2006) that have explored the impact of ethnicity on audit fees within the Malaysian context. However, we argue that the potential explanations for these findings may not only lie on actual and perceived poorer governance arrangements of bumiputra-dominated audit committees or bumiputra CEO led firms, but also may relate to the non-aggressive, and non-confrontational communication style of bumiputeras. For example, a bumiputera audit committee member or CEO may be less inclined to question persons in authority and may prefer to defer to other authoritative mechanisms such as the external audit firms to ask the difficult questions and investigate anomalies. Consequently, this has implications for external and internal auditor interactions through protracted investigations and discussions, which in turn results in higher audit fees.

The remainder of this paper is organised as follows. The next section a brief overview of the audit pricing literature development and a discussion on the justification for choosing Malaysia as the context for study followed by a brief overview of recent changes in corporate governance guidelines in Malaysia. In section 3, a more detailed discussion of the research hypotheses development is provided. This in turn is followed by a delineation of the research method and data analysis in section 4. The final two sections (i.e. sections 5 and 6) comprise discussions of the results and conclusions of the study including limitations of the study and suggestions for future research.

2. Background

2.1 Literature Review

The body of research on audit fees has been largely guided by the early work by Simunic (1980) which provided the stimulus for numerous studies from a production view of the audit process. It was proposed that certain drivers would be associated with variations in the level of audit fees because those drivers would cause an auditor to perform more (or less) work during the course of engagement. The findings by Simunic (1980) indicated that audit fees are associated with measures of client size, client risk and client complexity. Subsequently, the determinants of audit fees have been extensively researched especially in numerous developed countries such as the US (Palmrose, 1986a, 1986b; Francis & Simon, 1987; Simon & Francis, 1988; Turpen, 1990, Felix et al., 2001, Abbott *et al*, 2004), the UK (Taffler & Ramlinggam, 1982; Chan, Ezzamel & Gwilliam, 1993; Collier & Gregory, 1996), Australia (including Francis, 1984; Francis & Stokes, 1986; Craswell, Francis & Taylor, 1995; Goodwin & Kent, 2006), and Canada (Andersen & Zeghal, 1994; Chung & Lindsay, 1988). In line with Simunic's findings (1980), these studies also generally reveal significant associations between audit fees and a variety of variables representing auditee characteristics (size, complexity, and risk), auditor attributes (auditor size, industry specialist), client attributes (form of ownership, complexity of the reporting, and the state of internal control and the degree of corporate governance). Interestingly the client size alone was commonly observed to account for over 70 per cent of the variation in audit fees.

To a smaller extent, various studies have also investigated audit pricing in several developing countries including India (Simon, Ramanan & Dugar, 1986), South Africa (Simon, 1995), Bangladesh (Karim & Moizer, 1996), Japan (Taylor,

1997), Hong Kong (Simon, Teo & Trompeter, 1992; Ho & Ng, 1996), and Singapore (Low, Tan & Koh, 1990 and Simon et al., 1992). Consistent with results in developed countries, client size, complexity and risk appear to be the major fee determinants.

2.2 Why Malaysia?

Malaysia has been chosen as the location for this study for several key reasons as follows. First, in comparison to most other East Asian economies, the Malaysian equity market is considered well developed (EAU, 2002b). Compared to other ASEAN countries, in the mid-1990s (prior to the 1997 crisis) Malaysia had the largest debt and equity market (ADB, 2001). In the post crisis period – 2000 onwards - a total of 757 companies were listed with a market capitalisation of RM552 billion². Malaysia continues to be ranked as one of the largest stock markets, by both market capitalisation and number of listed companies, in the developing/emerging market (EAU, 2002b). Second, audit pricing remains an important issue in the auditing literature and yet there is limited research evidence from countries with developing markets such as Malaysia. Furthermore, Malaysia has undergone significant corporate governance reforms in recent years and the establishment of an audit committee has been mandatory since 1994 for all listed companies. Nevertheless, the impact of audit committees on audit fees remains indeterminate.

Finally, the corporate environment in Malaysia is unique based on ethnicity, religion and language (Haniffa & Cooke, 2001) and it offers clearly identifiable capital segments divided along the major ethnic lines. Such a division can be clearly witnessed in the listed companies whose ownership are mainly controlled by two main ethnic groups, the Bumiputera (Malays) and the Chinese (Yatim et al., 2006). Given this unique corporate environment and the impact of ethnicity attributes on inherent risks of an organisation, this study is well-placed to further extend the audit

² As at 30th June 2000, the number of companies listed on the KLSE was 773, making up a total market capitalization of RM572 billion.

pricing literature by examining ethnicity-related factors and the audit fees paid to the external auditors.

2.3 Recent Corporate Governance Developments in Malaysia

The Malaysian Code of Corporate Governance (MCCG) was first issued in March 2000 and is a voluntary guide that is aimed to be non-statutory and self-regulatory. Also, in 2004, the Kuala Lumpur Stock Exchange became demutualised, and was re-named Bursa Malaysia. Bursa Malaysia strengthened efforts towards enhancing corporate governance practices by integrating the MCCG in its listing requirements. The recommendations set out in MCCG are divided into four main parts: Part (1) *Principles of Corporate Governance*; Part (2) *Best practice in Corporate Governance*; Part (3) *Principles and Best Practices for other corporate participants*; and Part (4) *Explanatory notes*. (For a more detailed discussion of the development of corporate governance in Malaysia, see Subramaniam, Mat Zain, and Johl, 2009 and Liew, 2008).

More recently, the MCCG was revised and published on 1 October, 2007 with the amendments aiming to further strengthen corporate governance framework/practices in line with developments in the domestic and international capital market. The Revised MCCG did not entail any changes to Part 1 of the Principles of Corporate Governance, but involved 11 changes to Part 2: Best Practices of Corporate Governance. The revisions to the Code largely focused on enhancing the roles of boards by more clearly spelling out eligibility criteria for appointment of directors, the role of internal audit and audit committee composition. Some of the main amendments in relation to the role of audit committees are as follows:

- All audit committee members need to be non-executive.

- Mandating the internal audit function by listed issuers and requiring the internal audit function of listed issuers to report directly to the audit committee.
- Expanding the functions of audit committee to include the review of the adequacy of the competency of the internal audit function.
- Setting out the rights of audit committee to convene meetings with external auditors, internal auditors or both, excluding the attendance of other directors and employees.
- Clarifying that Bursa Securities may approve such other requirements relating to the financial-related qualifications or experience that must be fulfilled by at least one audit committee member with the signatory to the statutory declaration in relation to accounts

3. Hypotheses Development

A total of five hypotheses are developed in this section: the first three hypotheses relate to the link between audit fees and audit committee characteristics, namely independence, financial expertise and diligence, and the fourth and fifth hypotheses relate to audit fee associations with bumiputra-dominated audit committees and ethnicity of CEO, respectively.

3.1 Audit Committee – Independence

A key characteristic of an audit committee’s effectiveness is its independence from management. Bursa Malaysia’s listing requirements mandates that all audit committee members must be non-executive directors with a majority of them being independent directors, and the chairman of the audit committee be an independent director. Independence has been defined as having “no relationship to the corporation

that may interfere with the exercise of their independence from management and the corporation” (BRC, 1999).³ In general, following

In our study, we document two motivations for independent directors to demand for a higher quality audit. First, independent audit committee members have significant interest in protecting their capital reputation. Fama and Jensen (1983) argue that independent directors may view their directorate as a means for enhancing their reputation as experts in decision control and as such would be motivated to avoid any reputational damage through incidences of financial mis-statements and scandals. Second, unlike an executive director, independent directors do not have psychological ties and are not economically dependent on company. As such, there will be greater objectivity and willingness to ensure financial reporting processes are valid and the financial reports provide a fair view of the firm.

Empirical studies on the relationship between audit committee independence and financial reporting outcome in general indicate that the higher the proportion of independent directors on the audit committee of a firm, the less likely the firm is to be sanctioned by the SEC for fraudulent or misleading financial reporting (Abbott *et al.*, 2000; Beasley, 1996). Further, both Abbott *et al.* (2003) and Vafeas and Waagelein (2007) found that audit fees are higher when audit committees are made up of solely or more independent members, respectively. A counter argument however is that effective audit committees i.e. those with more independent members reduce the auditor’s assessment of control risk and hence, lead to less testing by external auditor which in turn reduces the scope of the audit and lowers audit fees (Goddard and Masters, 2002).

Interestingly, Yatim *et al.* (2006) using Malaysian data do not find any significant relationship between audit committee independence and audit fees.

³ Goodwin and Yeow (2001, p.109) define independence “as not having a relationship which would interfere with the exercise of independent judgment in carrying out the functions of the committee”.

Muniandy (2007) also did not find any direct relationship between audit committee independence and audit fees, but his study revealed a significant interaction between audit committee independence and CEO duality affecting audit fees. More specifically, the results indicate that a more independent audit committee and the presence of CEO dominance (i.e. CEO is also chair of the board), tends to lower audit fees. It is argued that a more independent audit committee may somewhat reduce inherent risk when CEO dominance exists, leading to lower audit fees.

Nevertheless, based on the preceding discussions, we believe that audit committee independence will be positively associated with audit fees. This follows a risk-based approach whereby an independent audit committee would be more demanding of better quality assurance over the financial reporting process. Thus, the following hypothesis is suggested:

Hypothesis 1: There is a positive relationship between audit fees and audit committee independence

3.2 Audit Committee - Financial Expertise

Experience and knowledge in accounting and finance is regarded as an important dimension for audit committee effectiveness (De Zoort, 1998; Kalbers and Fogarthy, 1993). This is because audit committee members that thoroughly understand their responsibilities and possess financial expertise can be more conversant with financial and operational reports and issues that enable effective discharge of their oversight duties. For instance, McDaniel, Martin and Maines (2002) suggest that inclusion of financial experts on audit committee is likely to change the structure and focus of audit committee discussions about financial reporting quality. Regulators worldwide also emphasise the need for companies to have audit committees with financial expertise. For example, the Corporate Governance Council

(2007) of the Australian Securities Commission recommends that all audit committee members be able to read and understand financial statements and contends that at least one of the audit committee members to have relevant qualification.⁴ Bursa Listing Requirements require at least one of the audit committee members to be financially literate as well.

DeZoort and Salterio (2000), based on an experimental case study, found that audit committee members' judgements on issues related to an auditor management dispute over an accounting policy differed between those with and without accounting and auditing knowledge. Specifically, findings indicate that audit committee members with accounting experience and auditing knowledge are more likely to support the auditor rather than support the firm's management. We argue that audit committee members who possess financial expertise are more likely to support external auditors when faced with accounting and auditing issues as they are able to better understand issues and audit procedures proposed to overcome those issues. This may mean additional audit processes may need to be undertaken, increasing audit fees consequently.

Abbott et al. (2003) found a positive association between audit committees with accounting and financial expertise and audit fees, and their measure of the variable being binary – 1 equals at least one member had accounting or financial expertise, 0 representing none. Likewise, Yatim et al. (2006) found a significant and positive association between audit committee expertise and audit fees where expertise related to the proportion of audit committee members with accounting and finance qualifications. Accordingly, we also predict a positive relationship between audit fees

⁴ The NACD (2000) and BRC (1999) have also reemphasized the importance of having audit committee members with experience in accounting related area. Specifically, this groups highlight the importance of "financial literacy" and "financial sophistication" within audit committees, including relevant accounting and financial expertise in risk management and the internal audit function which are crucial to the audit committee's role.

and the extent of members with financial expertise on the audit committee. The second hypothesis for this study is thus:

Hypothesis 2: There is a positive relationship between audit fees and the extent of members with financial expertise on the audit committee

3.3 Audit Committee Diligence

Regulators recognise the need for audit committees to meet regularly so as to effectively carry out their duties (BRC, 1999; ASX Corporate Governance Council, 2007). Prior studies also suggest that an increase number of board meetings can increase board effectiveness (Vafeas, 1999). Further, audit committees that meet frequently are more likely to be better informed and will be more diligent in discharging their responsibilities (Kalbers and Fogarthy, 1993; Goodwin-Stewart and Kent, 2006). Should a material misstatement or auditing issue arise, the audit committee can then demand for an in-depth work scope which in turn lead to external auditor charging higher audit fees. As such, it is reasonable to expect that audit committee members that meet frequently will demonstrate greater diligence in performing their duties by demanding a higher quality audit through an enhanced audit work by external auditors or by supporting the purchase of ‘brand’ i.e. higher quality audit service provider.

Abbott et (2003) found no significant relationship between audit committee meeting frequency and audit fees, while Yatim et al. (2008) found marginal support for a positive association between the two variables.

Based on the above discussion, the third hypothesis for this study is as follows:

Hypothesis 3: There is a positive relationship between audit fees and the frequency of meetings by the audit committee

3.4 Ethnicity and Implications for Corporate Governance in Malaysia

Cultural and ethnicity-based value systems play a significant role in management and leadership behaviour (Hofstede, 1983; Haniffa and Cooke, 2002). Malaysia is a multi-racial society Malays (otherwise referred as bumiputras) being the dominant race, followed by Chinese and Indians and a variety of indigenous groups in East Malaysia. However, the first two ethnic groups play a major role in the socio-economic fabric of the country with the Malays controlling the political administration and the Chinese having significant influence over the economic environment. In order to minimise the so called economic gap or disparity in economic status between the Malays and Chinese (with the latter seen as being more affluent), the New Economic Policy (NEP)⁵ was established in 1971 providing many new initiatives and funding to support bumiputra business and to increase bumiputra participation in the capital market. Thus, as highlighted by Salim (2006), the bumiputra entrepreneur is a more recent phenomenon and compared to many of the local Chinese or Indian firms and multinational businesses, bumiputra managed or controlled companies are relatively young with many of the executives and managers lacking business experience and nuance. Further, bumiputra firms are also often the beneficiaries to government projects and other state-funded initiatives (Salim, 2006), indicating ethnicity to be deeply institutionalised in Malaysia. Such support in turn is contended to breed to some degree complacency and laxity in business practices and organisational performance (Cheong, 1990; Jesudason, 1990). In other words, the accountability and corporate disclosures in bumiputra firms are still maturing and open to power and social norm influences. As a result, how regulators, auditors and the public in general may perceive the quality of the corporate governance of

⁵ The NEP was superseded by the National Development Policy.

bumiputera firms as a whole may differ from their perceptions of non-bumiputera firms.

To date, most empirical studies examining corporate governance, ethnicity and audit fees have concentrated on the impact of the ownership or control of the firm (i.e. Bumiputera-controlled or not) and the ethnicity of the auditor (Bumiputera or Chinese auditor). Early studies by Eichenseher (1995) and Che Ahmad and Houghton (2001) indicate that bumiputera-controlled firms pay higher audit fees than Chinese-controlled firms. For example, Che Ahmad and Houghton (2001), using proxies of a percentage of Chinese shareholding to total shareholding and type of auditor, found that Chinese companies pay lower audit fees compared to their Bumiputera counterpart. However, there was no significance difference between audit fees charged by Chinese and non-Chinese auditors. In addition, Gul's (2006) study provided additional support on a positive relationship between politically-connected firms (which are largely linked with bumiputera firms) and audit fees, thus suggesting such firms are associated with higher audit risks and higher audit fees. Overall, these results in general suggest that Bumiputera-controlled companies are likely to be perceived as having poor corporate governance practices and greater agency problems, and as such the probability of incurring larger audit fees is high.⁶ By contrast, results from Yatim et al. (2001) did not support this relationship. Instead they document a significant negative association between external audit fees and Bumiputera-controlled companies.

Another dimension of ethnicity that also has implications for understanding corporate governance behaviour in bumiputera firms is the bumiputera self-identity and communication style. . For example, the study by Patricia Sloane on Malay

⁶ Che Ahmad and Houghton (2001) and Eichenseher (1995) suggest that business practices may influence differences in levels of agency conflicts and risk associated with Bumiputera-controlled companies (or non-Bumiputera companies) leading to higher (or lower) external audit fees charged to these firms.

entrepreneurship suggests that bumiputras' self-identity is also largely shaped by the religion of Islam (cited in Salim, 2006). "While material self-interest serves as a powerful incentive to the Malay entrepreneur, they have a duty to share the material benefits of development with other Malays, and believe in creating a social balance" (Salim, 2006, p.20). Further from a social communication style perspective, prior findings indicate that as a race, Malays strive to get along with people without friction and prefer to avoid interpersonal conflict (Goddard, 1997). Similarly, Mastor, Jin and Cooper (2000) found in their study of Malay students that such students scored high on the personality dimensions of self-consciousness, order and deliberations but low in competence and self-discipline. The study by Osman-Gani and Tan (2002) on negotiation styles of managers from three ethnic groups in Singapore (Chinese, Indians and Malays) suggest that while there were many similarities across the groups, there were also some differences. Compared to the other groups, the Malay managers were in particular non-confrontational, personal and social relationships were given top priority. Furthermore, being respectful of older generation and previous office holders was also seen to be valued highly. Further, Osman-Gani and Tan (2002) also note that Malay negotiators would like to be treated in the same manner as they would like to treat others which involves being respectful and considerate.

Given that the relationship between external auditor and governance stakeholders in a firm such as the audit committee and top management (e.g. CEO) are based on interpersonal interactions, the issue of differences in ethnic communication styles is likely to have a substantial bearing on assessments of inherent risks and audit fees.

3.4.1 Audit Committee, Ethnicity and Audit fees

Communication is an important aspect of the audit committee-external audit relationship. As bumiputera and non-bumiputera members may differ in communication style (Osman-Gani and Tan, 2002), the proportion of bumiputeras on audit committees is likely to have implications for how a committee functions and liaises with other governance mechanisms. For instance, the responsibilities of an audit committee involve liaising with internal and external auditors, questioning management, and in general providing rigorous oversight of the financial reporting process. This would mean that audit committee members will need to ask 'the difficult' or 'hard' questions which can be controversial and may at times need to question the decisions of senior management.

We argue that an audit committee that is bumiputera dominant may increase inherent risk assessment of external auditors for two key reasons. First, bumiputera audit committee members tend to lack the business and management experience in scrutinising financial reports given their more recent participation in business and corporate governance, and as such may not identify key issues before the matter is found by the external auditors. This in turn would signal higher inherent risk and possibly increase audit scope and effort. Second, as discussed in the previous subsection, bumiputeras have a high propensity to avoid conflict and controversy, and questioning persons who may be senior to them (Osman-Gani and Tan, 2002). This would further thwart their willingness to debate on sensitive matters, and possibly may defer such matters to others in authoritative positions such as the external auditors. Subsequently, this will lead to greater audit investigations and effort. As such, we predict that a more bumiputera dominant audit committee will be associated with external auditors identifying and dealing with the more sensitive issues and decisions, particularly those involving top management decisions, leading to higher assessments of inherent risk and subsequently higher audit fees as well.

Therefore, based on the discussion above, the fourth hypothesis for this study is as stated below:

Hypothesis 4: There is a positive relationship between audit fees and the extent of bumiputera members on the audit committee

3.4.2 Senior Management Leadership, Ethnicity and Audit fees

Leadership is a critical aspect of management with senior management such as CEOs and managing directors playing an important role in not only managing the day-to-day internal affairs of their organisations, but also acting as the main liaisons of the firm with external parties. Furthermore, when it comes to external audit matters, senior management often have to deal with various issues such as queries relating directly with the audit, interviews and updating the external auditor with corporate strategic developments, post-audit reviews and updates as well as negotiations on accounting policies and estimates. This requires considerable self-confidence, business nuance and governance experience. We argue, given the above discussion on the lack of business experience of bumiputera firms and its managers, as well as communication style preferences of bumiputeras, that the ethnicity of the CEO will have implications for inherent risk assessments and audit fees consequently.

For example, in an external audit situation, a bumiputra CEO is likely to be more careful and may deliberate on their explanations of the firm's affairs in trying to avoid any controversy. Particularly, in situations of questionable decision-making, a bumiputra CEO is likely to avoid making negative or controversial comments explicitly, which will make the CEO appear to lack both confidence and competence. Consequently, external auditors will tend to take a longer time in their interactions with a bumiputra CEO and may need to resort to alternate information sources so as

to attain a full understanding on how the company has been led and managed. It is also possible that the external auditor is more likely to spent longer periods of time in gaining the confidence of the CEO for the purposes of attaining a proper understanding of the business in order to develop an effective audit plan. In sum, external auditors would tend to perceive higher inherent risk leading to higher audit fees.

Thus, based on the discussion above, the first hypothesis for this study is as stated below:

Hypothesis 5: Audit fees will be significantly higher for firms with a bumiputra CEO than for firms with a non-bumiputra CEO

RESEARCH METHOD

Data Collection

The data was primarily hand-collected from 2005 annual reports of companies listed⁷ on the Main Board of the Bursa Malaysia. Both financial and non financial data were extracted from these annual reports which were obtained online from the Bursa Malaysia's website. The initial data, which consists of 646 firms, was screened for missing annual reports and missing data on both the dependent and independent variables. After eliminating sample with no annual reports, the sample was reduced to 611 firms. Next, the sample was further reduced to 605 after deleting missing value on the each of the variables. Table 1 summarises the process selection.

Insert Table 1 here

⁷ As of 31 December there were 646 companies listed on the Main Board.

Audit Fee Model Specification and Variables Description

Based on prior literature on audit fees (eg. Francis (1984), Carcello (2002), Ferguson, Francis and Strokes (2003), Gul (2006), Yatim et al. (2006)), the following ordinary least squares regression model is used to test the hypotheses.

$$\begin{aligned} \text{LAF} = & \alpha_0 + \beta_1\text{LASSET} + \beta_2\text{LEV} + \beta_3\text{RECTA} + \beta_4\text{INVTA} + \beta_5\text{CATA} + \\ & \beta_6\text{ROE} + \beta_7\text{YE} + \beta_8\text{LSUB} + \beta_9\text{LFORSUB} + \beta_{10}\text{LOSS} + \beta_{11}\text{BIG4} + \\ & \beta_{12}\text{OPINION} + \beta_{13}\text{FINANCE} + \beta_{14}\text{POL} + \beta_{15}\text{BODIND} + \\ & \beta_{16}\text{BODMEET} + \beta_{17}\text{ACIND} + \beta_{18}\text{ACMEET} + \beta_{19}\text{ACFE} + \\ & \beta_{20}\text{ACBUMI} + \beta_{21}\text{ACBUMI} + \varepsilon \end{aligned}$$

where:

Dependent variable

LAF = natural logarithm of audit fees

Control variables

LASSET = natural logarithm of total assets

LEV = book-value of long-term debt to total equity

RECTA = book-value of receivables to total assets

INVTA = book-value of inventories to total assets

CACL= current assets to current liabilities

ROE = net income to total equity

YE = 1 for financial year ending 31/12, 0 otherwise

LSUB = natural logarithm of the number of subsidiaries

LFORSUB = natural logarithm of the number of foreign subsidiaries

LOSS = 1 for firms with loss in the prior year, 0 otherwise

BIG4 = 1 for big audit firms, 0 otherwise

OPINION= 1 if the audit report is qualified and 0 otherwise

FINANCE= 1 if the firm is in the finance industry, 0 otherwise
POL= 1 if the firm is politically connected to the ruling party –
Barisan Nasional, 0 otherwise
BODIND= Proportion of independent directors on the board
BODMEET= Number of meetings held in the year

Hypotheses variables

(without ethnicity)

ACIND = percentage of independent non-executive audit
committee members

ACMEET= 1 if the audit committee meets 4 or more times in the
year, 0 otherwise

ACFE = number of audit committee members with accounting
and financial background to total number of audit
committee member

Hypotheses variables

(with ethnicity)

ACBUMI = 1 for firms with bumiputera dominated⁸ audit
committee, 0 otherwise

BUMICEO= 1 for firms with bumiputera CEO, and 0 otherwise.

In the model above, the natural logarithm of audit fees (LAF) is the dependent variable. From the descriptive statistics reported in Table 2, the average audit fees is RM\$260,248 and ranges from RM\$6000 to RM\$9,100,000. The audit fee model used in this study includes several control variables which were used in prior studies and

⁸ A bumiputera dominated audit committee is assumed when the number of members in the committee is made-up of more than 50% bumiputras.

those that are unique to the Malaysian setting. These variables include firm size (LASSET), leverage (LEV), complexity (LEV, ROE, OPINION), complexity (RECTA, INVTA, LSUB and FORSUB), auditor quality (BIG4), financial performance (LOSS), politically connected firms (POL) and finance firms (FINANCE). As shown in the descriptive statistics table, the mean total assets for our sample is RM2,590,000,000 and ranges from RM\$465,000 to RM\$192,000,000,000. The sample firms have an average leverage of 0.729 and the mean ROE is -0.012. The Big 4 auditors appears to dominate the Malaysian audit market with a market share of about 74%. One institutional factor that is quite unique in Malaysia is the existence of politically favoured companies. 13.7% of the sample firms are politically connected to the ruling political party (Barisan Nasional).

In addition to the typical variables used to control the audit fees model, recent studies have also included corporate governance variables such as board independence (BODIND) and board activity (BODMEET). As shown in the table, on average 40% of the boards of sample firms are made-up of independent directors. The number of board meetings held ranges between 3 and 15 with most firms having a mean of 7 meeting in the year.

In the model above, audit committee independence (ACIND), audit committee diligence (measured in terms of number of audit committee meetings (ACMEET)), audit committee financial expertise (ACFE), bumiputra dominated audit committee (BUMIAC) and bumiputra CEO (BUMICEO) are the hypothesised variables. As shown in the descriptive table, the mean percentage of audit committee members who are independent is 76.9% and ranges from 33.33% to 100%. In terms of audit committee diligence, 48.93% of the sample firms had more than 4 meetings, about

41.32% had at least four meetings, whilst about 9.75% of the firms held less than 4 meetings. The mean percentage of firms with accounting and finance expertise is 60% and ranges between zero and 100%. Turning to the two ethnicity test variables, BUMIAC and BUMICEO, about 49% of the sample audit committees are dominated by bumiputra members and about 32% of the sample firms are managed by a bumiputra CEO.

Insert Table 2 here

The Pearson correlations presented in Table 3 generally suggest that audit fees is positively correlated with audit committee independence (ACIND), audit committee meeting (ACMEET), audit committee financial expertise (ACFE), bumiputra audit committee (BUMIAC) and bumiputra CEO (BUMICEO).

Insert Table 3 here

The correlations amongst the independent variables are comparatively low. With the exception of All values are well below 0.50 except for the correlation between LOCSUB and FORSUB ($r=0.568$). To test for multicollinearity, the VIF was calculated for each independent variable. Myers (1990) suggests that a VIF value of 10 and above is cause for concern. The results (not shown in paper) indicate that all the independent variables had VIF values of less than 10.

Regression Findings

A total of six estimations were carried out. The first two estimations were carried out to test the validity of the basic plus an extension of the audit fee model. Estimations 4

to 6 are estimations in relation to the hypotheses tested. In Estimation 1 we estimated our model using the traditional audit fee model, while in Estimation 2 we included additional control variables to control for board characteristics and firms that are politically connected. From Table 4 the F-statistic for each of the OLS model is statistically significant at 0.01 levels and the adjusted R^2 is about 62 percent. Although it is slightly lower than some of the prior studies in the US, UK and Australia, but it is comparable to other studies in Malaysia (Gul, 2006; Yatim et al, 2006)⁹. Consistent to prior studies, the variables LASSET, LEV, RECTA, INVTA, YE, LOCSUB, FORSUB, LOSS, BIG4 and POL are positive and significant ($p < 0.05$ and $p < 0.01$). The variable ROE is significant and negatively associated with audit fees.

Insert Table 4 here

Hypothesis 1 predicts a positive relationship between audit committee independence and audit fees. As shown in Estimations 3 to 5, the coefficient between ACIND and AFEE is positive and significant (Estimation 3: 0.458; Estimation 4: 0.437, $p < 0.01$, 1-tailed), thus providing support for H1. Although this finding is contrary to Yatim et al. (2006) and Muniandy (2007), who did not find any relationship, it is consistent with the findings of Abbott et al. (2003) and Vafeas and Waagelein (2007), and hence is in line with the capital reputational theory which argues that independent directors who have higher reputation tend to seek greater assurance on organisational functions.

The second hypothesis, predicts a positive relationship between audit committee expertise (ACFE) and audit fees. The results for Estimations 3 to 5 show that the

⁹ The reported adjusted R^2 in Muniandy (2007) is 46.08.

coefficient for the variable ACFE is negative and significant (Estimation 3: -0.193, $p < 0.05$, 1 tailed). This result is in contrast to Abbott et al. (2003) and Yatim et al. (2006) which reported a positive relationship between audit expertise and audit fees. In addition, this finding is also contrary to the findings of Stewart and Kent (2006) and Carcello et al. (2002), who find audit committee characteristics, are not significant when board related variables are included. In summary the results suggest that audit committee expertise reduces auditor risk assessments associated with the audit of the financial reporting process, thus reducing the extent of audit and in turn lowering audit fees.

Hypothesis 3 predicts an association between audit committee diligence (ACMEET) and audit fees. In all estimations ACMEET is not significant at any conventional level, and hence H3 is not supported. Similar to H1, the findings is consistent with Abbott et al (2003) but contrary to Yatim et al. who found a weak association between these two variables. One possible reason for this finding is the measurement of this variable, in that, Yatim et al. (2006) used number of meetings, whilst we used a dummy variable of 1 for firms having 4 or more meetings in the year.

Hypotheses 4 and 5 investigate the issue of ethnicity of two major corporate governance members (the audit committee ethnicity and CEO ethnicity) and its implication for audit fees. These two hypotheses tests the basic assumption of ethnicity attribute which has a potential effect on auditor's perceptions on the state of governance in a firm which consequently affects their assessment on the firm's inherent risk and in turn affect audit fees. As shown in Estimation 4, the variable bumiputra dominate audit committees (BUMIAC) is positive and is significantly associated with audit fees (0.094; $p < 0.05$, 1-tailed), thus providing support for H4.

Likewise as shown in Estimation 5 the variable bumiputra CEO (BUMICEO) is positive and is strongly associated with audit fees (0.178; $p < 0.01$; 1-tailed), hence H5 is supported. The findings in part suggests that auditors tend to perceive bumiputra dominated audit committees or bumiputra CEO led firms as firms having poorer governance practices and greater agency problems. Poorer governance practices and greater agency problems in such firms is a result of the working style of bumiputras who tend to be non-aggressive, non-confrontational and having lackadaisical attitude which may be due to the Malay culture and the ongoing unconditional support received from the ruling party. Consequently, this has implications for external auditors in their audit as they will have to undertake interactions through protracted investigations and discussion, which in turn results in higher audit fees.

Insert Table 5 here

Conclusions

This paper revisits prior literature that provides inconclusive evidence on the relationship between audit committee characteristics and audit fees. In addition, it also adds to the stream of literature by considering the role of ethnicity of major corporate governance members on audit fees. Specifically, it examines how the external auditor perceive and react to firms whose audit committee is dominated by bumiputra and firms whose CEO is a bumiputra. The first three hypotheses predict that, audit committee independence, financial expertise and diligence are positively associated with higher audit fees. This study finds that audit committees that are more independent are associated with higher audit fees. The finding is consistent to the capital reputational theory. Contrary to prediction, our results also show a negative

association between audit committee financial expertise and audit fees. Our findings imply that audit committee expertise and external audit are complementary mechanisms within the governance framework, in that less audit effort is required for firms which audit committees are made up by members who have accounting and finance knowledge, and in turn leads to lower audit fees. We do not find support to hypothesis 3, which predicts a positive relationship between audit committee diligence and audit fees.

Finally, this study also considered the relationship between audit committee ethnicity and CEO ethnicity; and audit fees. As expected, we find higher audit fees is associated with firms whose audit committee is dominated by bumiputras. Similarly, a positive relationship is found between audit fees and firms that are managed by a bumiputra CEO. Both these findings support the argument that the auditor's tend provide higher audit risk assessment for firms that are lead by Bumiputra CEO and whose audit committees are dominated by bumiputras, resulting in higher audit effort and higher audit fees. In sum, the results are consistent with the view that institutional structure of the country in which firms domiciled does influence the property of accounting numbers, which in turn, are likely to affect auditor's risk assessment and finally having implications on audit pricing (Gul 2006; Ball, et al. 2000).

This paper is subject to a number of limitations. First, there may be exogenous factors at the entity level that are correlate with both audit committee characteristics, CEO appointments and audit fees. We have controlled for the common determinants of audit fees as used in prior studies e.g. firm size, risk, industry, other related corporate governance variables such as board size and independence. Nevertheless, there is still

a risk of omitted variable. Second, the measurement of audit committee diligence based on frequency of meetings may not be accurate, given that audit committees that meet less frequently may still perform the necessary tasks with due diligence as one that meets more frequently, but for shorter time periods. Furthermore, the data we used relates to a specific time period (i.e. year-end 2005). With the new revised Malaysian Code of Corporate Governance released in late 2007, there may be increasingly less variability in audit committee composition characteristics in terms of their independence or financial expertise. Finally this paper adopts a supply side perspective for audit fees and does not test the demand-side for audit fees such as that undertaken by Bedard and Johnstone (2004) who used a proprietary database in assessing how auditors' billing behaviour is affected by various corporate governance factors.

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Table 1

Summary of the sample selection process

Number of firms listed on the Main Board of Bursa Malaysia as at 31 December 2005	646
Less	
Annual reports not available	(35)
Firms with missing values for all the variables	(6)
Final sample	605

Table 2
Descriptive Statistics for sample companies
(N = 605)

Panel A: Descriptive Statistics for Continuous Variable

Variable	Mean	Std. Dev.	Min	Max	Median
LAF	11.820	0.984	8.699	16.024	11.687
AF (RM'000)	260.248	565.030	6	9,100	119.000
LASSET	20.092	1.536	13.050	25.980	19.953
ASSET (RM'000)	2,590,000	11,800,000	465	192,000,000	463,000
LEV	0.729	3.116	-0.79	53.39	0.200
RECTA	0.165	0.138	0	0.67	0.130
INVTA	0.084	0.104	0	0.71	0.040
CACL	3.68	12.272	0	253.03	1.710
ROE	-0.012	1.009	-13.89	7.45	0.070
LSUB	2.268	0.997	0	5.655	2.303
SUB (numbers)	15.714	20.413	0	286	10
LFORSUB	0.480	0.875	0	5.068	0
FORSUB (numbers)	2.605	8.575	0	159	0
BODIND	0.400	0.112	0	0.83	0.38
BODMEET	7.653	1.996	3	15	7
BODFE	0.468	0.188	0	1	0.44
BODSIZE	7.694	1.988	3	15	7.00
ACIND	0.769	0.147	0.333	1	0.7
ACFE	0.600	0.230	0	1	0.667
ACSIZE	3.523	0.764	2	8	3

Panel B: Frequencies for Dichotomous Variables

Variable	Firms coded 1	%	Firms coded 0	%
YE	334	55.21	271	44.79
LOSS	171	28.26	434	71.74
BIG4	447	73.88	158	26.12
OPINION	22	3.64	583	96.36
ACMEET4	546	90.25	59	9.75
ACBUMI	297	49.10	308	50.90
BUMIBRD	146	24.1	459	75.90
BUMICHAIR	391	64.60	214	35.37
POL	83	13.7	522	86.30

TABLE 3
PEARSON CORRELATIONS

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1 LAF	1																				
2 LEV	.090	1																			
3 RECTA	.020	-.010	1																		
4 INVTA	-.049	-.088*	.178**	1																	
5 CACL	-.160**	-.036	-.025	-.072	1																
6 ROE	.028	-.227**	.029	.036	.039	1															
7 YE	-.003	-.023	-.017	.066	.056	-.014	1														
8 LOCSUB	.606**	.099*	-.042	-.124**	-.142**	-.052	-.039	1													
9 FORSUB	.503**	.072	-.019	.010	-.066	.036	.037	.568**	1												
10 LOSS	-.031	.158**	.011	-.106**	-.070	-.273**	.002	.062	-.035	1											
11 BIG4	.124**	-.087*	-.047	.001	.023	.076	.047	.005	.064	-.070	1										
12 OPINION	.024	-.193**	.049	.065	.044	.105**	-.015	-.081*	-.083*	-.278**	.065	1									
13 POL	.262**	.039	-.075	-.110**	-.057	.060	-.008	.181**	.144**	.053	.062	.052	1								
14 FINANCE	.126**	.034	-.097*	-.207**	.019	.019	.009	.014	.012	.003	.080	.020	.110**	1							
15 BODIND	.049	.054	-.039	-.088*	.093*	-.103*	-.031	.129**	.109**	.069	-.039	-.007	.056	.085*	1						
16 BODMEET	.225**	-.110**	.018	.063	-.049	.064	-.017	.076	.095*	-.141**	.057	.139**	.103*	-.006	-.266**	1					
17 ACIND	.133**	.034	-.070	-.054	.001	-.050	.007	.000	-.037	-.007	.102*	.017	.048	.151**	.121**	.068	1				
18 ACMEET	.062	.026	-.020	-.076	.025	-.033	.051	.111**	.072	-.100*	.046	-.034	.018	-.058	-.001	.035	.031	1			
19 ACFE	.006	-.052	-.037	-.060	.014	.052	-.017	.061	.072	.022	.016	.081*	-.004	.079	.013	-.055	-.024	.048	1		
20 BUMIAC	.189**	.033	.021	-.124**	-.014	-.002	.047	.159**	.061	.063	.012	-.021	.079	.120**	.088*	.086*	.124**	.055	.010	1	
21 BUMICEO	.181**	.051	-.052	-.178**	.010	-.016	.033	.095*	.021	.069	.096*	-.020	.060	.125**	.142**	-.017	.188**	.067	.001	.514**	1
22 LASSET	.642**	.073	-.212**	-.168**	-.138**	.034	-.038	.350**	.350**	-.147**	.134**	.119**	.248**	.315**	.001	.260**	.156**	.069	.078	.127**	.131**

* Correlation is significant at the 0.05 level (2-tailed); ** Correlation is significant at the 0.01 level (2-tailed).

Table 4
OLS Regression Results (without ethnicity variables)

	Expected Sign	Estimation 1 Basic Model Coefficient (<i>t</i>- statistic)	Estimation 2 Board Coefficient (<i>t</i>-statistic)	Estimation 3 Audit Committee Coefficient (<i>t</i>-statistic)	Estimation 4 Board and Audit Committee Coefficient (<i>t</i>-statistic)
Constant		3.993 6.29	4.079 6.37	4.079 6.54	4.062 6.38
LASSET	+	.326 9.46***	.310 8.75***	.314 9.16***	.306 8.63***
LEV	+	.006 1.51*	.007 1.83*	.004 1.05	.006 1.41*
RECTA	+	.971 5.15***	.963 5.08***	.988 5.26	.969 5.11***
INVTA	+	.525 2.26***	.530 2.30***	.516 2.25	.490 2.13
CACL	+	-.002 -0.64	-.002 -0.66	-.002 -0.64	-.002 -0.66
ROE	-	.032 3.01***	.029 2.67***	.312 2.68***	.032 2.71***
YE	+	.071 1.40*	.072 1.42*	.069 1.40*	.0711 1.42*
LSUB	+	.367 10.74***	.359 10.47***	.365 10.56***	.364 10.50***
LFORSUB	+	.126 3.11***	.121 3.05***	.133 3.38***	.131 3.37***
LOSS	+	.132 2.19**	.128 2.13**	.102 1.70*	.110 1.81*
BIG4	+	.130 2.12**	.126 2.07**	.113 1.86*	.113 1.88*
OPINION	+	.001 .01	-.042 -0.31	-.003 -0.02	-.022 -.16
FINANCE	?	-.079 -0.69	-.078 -0.67	-.109 -0.95	-.097 -0.84
POL	+		.178 2.10**	.182 2.17**	.174 2.05**
BODIND	+		.166 0.63		.068 0.26
BODMEET	+		.029 2.20***		0.023 1.83*
ACIND	+			.458 2.59***	.437 2.47***
ACMEET	+			-.062 -0.86	-.063 -0.88
ACFE	+			-.210 -2.07**	-.194 -1.89*
Adjusted R²		0.620	0.627	0.631	0.633
F-Stat		66.12	57.51	54.11	49.99

*, **, *** = statistically significant at less than the 0.10, 0.05, and 0.01 level, based on one tailed (two tailed) tests for variables where direction of relationship with dependent variable is (is not).

Table 5
OLS Regression Results (with ethnicity variables)

Variables	Expected Sign	Estimation 5 Audit Committee Ethnicity Variable 1 Coefficient (<i>t</i>-statistic)	Estimation 6 Audit Committee Ethnicity Variable 2 Coefficient (<i>t</i>-statistic)
Constant		4.115 6.43	4.197 6.69
LASSET	+	.305 8.60***	.302 8.73***
LEV	+	.006 1.51*	.006 1.47*
RECTA	+	.947 5.00***	.964 5.03***
INVTA	+	.5252 2.28***	.589 2.60***
CACL	+	-.002 -0.70	-.002 -0.75
ROE	-	.029 2.67***	.029 2.83***
YE	+	.065 1.29	.064 1.29
LSUB	+	.358 10.38***	.359 10.36***
LFORSUB	+	.134 3.42***	.137 3.59***
LOSS	+	.097 1.56*	.097 1.64*
BIG4	+	.1138 1.90**	.0984 1.65**
OPINION	+	-.018 -0.14	-.017 -0.13
FINANCE	?	-.112 -0.96	-.112 -0.97
POL	+	.173 2.03**	.175 2.07**
BODIND	+	.033 0.13	-.014 -.06
BODMEET	+	.021 1.65**	.023 1.85**
ACIND	+	.411 2.34**	.359 2.03**
ACMEET	+	-.070 -0.98	-.077 -1.09
ACFE	+	-.192 -1.90**	-.192 -1.88**
BUMIAC	+	.095 1.81**	
BUMICEO	+		.178 2.99***
Adjusted R²		0.636	0.640
F-Stat		47.77	51.61

*, **, *** = statistically significant at less than the 0.10, 0.05, and 0.01 level, based on one tailed (two tailed) tests for variables where direction of relationship with dependent variable is (is not).