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Who checks the new boss? Company secretaries' commercial attributes, CEO succession, and real earnings management in Malaysian public listed companies

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ABSTRACT

The integrity of financial reporting is increasingly undermined by real earnings management (REM), which distorts operational decisions to meet short-term performance targets. This study examines how Chief Executive Officer (CEO) succession characteristics of early-tenure CEOs (EARLY) and heir-apparent CEOs (HEIR) in particular influence REM in Malaysian Public Listed Companies (PLCs), and whether company secretaries' commercial attributes (CSCOMM) condition these relationships. Drawing on Agency Theory and Resource Dependence Theory (RDT), this study argues that succession alters managerial incentives for REM, while the effectiveness of procedural governance resources depends on leadership context. Using 1,302 firm-year observations from 2017 until 2019, and Panel-Corrected Standard Errors (PCSE) with firm and year fixed effects, the results show that EARLY are not significantly associated with REM, and that CSCOMM do not moderate this relationship. In contrast, HEIR exhibit a significant negative association with REM, which is further strengthened when company secretaries possess commercial capabilities. These findings are robust to alternative REM proxies and lagged specifications. The study contributes to governance research by highlighting the contingent role of company secretaries as procedural governance actors during leadership transitions. From a policy perspective, the findings support ongoing corporate governance reforms, underscoring the importance of strengthening company secretaries' commercial competencies and aligning their advisory roles with CEO succession to enhance financial reporting integrity in Malaysian PLCs.

Contribution/Originality: This study contributes to existing literature by conceptualizing company secretaries as procedural governance actors influencing real earnings management (REM) during Chief Executive Officer CEO succession. The paper's primary contribution is finding that commercial competencies strengthen heir-apparent CEOs' monitoring effectiveness. It documents limited influence during early-tenure leadership and offers policy-relevant insights for improving governance in Malaysian Public Listed Companies (PLCs).

1. INTRODUCTION

Financial reporting integrity underpins investor confidence and market credibility, yet it is frequently undermined by real earnings management (REM), where manipulation of operational activities such as accelerating

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sales, overproducing, or reducing discretionary expenditures is committed to achieve short-term objectives. Unlike accrual-based earnings management (AEM), REM alters the timing and substance of real transactions and is often formally compliant with accounting standards, while distorting economic reality and impairing long-term firm value (Roychowdhury, 2006). REM is particularly prevalent in emerging markets, where enforcement intensity and monitoring effectiveness are uneven (Al-Duais, Malek, Abdul Hamid, & Almasawa, 2022; Kouaib, Jarboui, & Mouakhar, 2018). In Malaysia, prior studies report that firms employ REM to avoid covenant breaches, meet earnings' benchmarks, and enhance executive compensation (Enomoto, Kimura, & Yamaguchi, 2018; Kalgo, Bany-Ariffin, Nahar, & Matemilola, 2019). High-profile cases, such as those from Serba Dinamik and KNM Group, further illustrate how such practices can escalate into broader governance failures and financial misconduct (The Edge Malaysia, 2021).

A critical yet underexplored setting for REM is Chief Executive Officer's (CEO) succession, which represents a temporary governance disruption that reconfigures incentives, monitoring routines, and decision-making processes. Early-tenure CEOs (EARLY) typically face heightened legitimacy pressures, career concerns, and short-term performance expectations, increasing incentives for opportunistic behavior. In contrast, heir-apparent CEOs (HEIR) internally promote successors and benefit from organizational continuity, firm-specific knowledge, and established trust with the board, which can reduce reporting opportunism (Shen & Cannella, 2002; Zhang & Rajagopalan, 2010). Although prior research has examined earnings management around CEO succession, it is largely focused on structural governance mechanisms, such as board independence or audit committee (AC) expertise (Lin, Xi, Hu, & Tang, 2025; Nuhu, Ahmad, & Zhee, 2023). As a result, less is known about how procedural governance capacity the ability of governance actors to influence decision-making processes rather than formal structures, affects REM behavior during leadership transitions.

This gap is particularly salient in Malaysia, where company secretaries have evolved from administrative officers into governance professionals following reforms under the Companies Commission of Malaysia (2016) and the Securities Commission Malaysia (2021a). Beyond statutory compliance, company secretaries are now expected to facilitate board processes, support governance discipline, and provide advisory input on financial and strategic matters. Relevant to this are their commercial attributes (CSCOMM) that include financial expertise, strategic acumen, risk management capability, and governance oversight, which position them as procedural safeguards and strategic advisors in contexts where formal monitoring may be constrained (Kakabadse, Khan, & Kakabadse, 2016).

This study advances the literature by positioning CSCOMM as a context-dependent procedural governance resource in the CEO succession–REM relationship. Drawing jointly on Agency Theory and Resource Dependence Theory (RDT), it argues that CEO succession alters agency incentives for REM, while the effectiveness of procedural governance resources depends on whether they can be activated within a given leadership context. Specifically, CSCOMM is expected to exert limited influence under EARLY leadership, where short-term incentives and authority consolidation reduce receptiveness to advisory constraints, but they strengthen REM discipline under HEIR leadership, where relational continuity and trust enhance the usability of procedural expertise. Accordingly, this study addresses two research questions: (i) Do commercially capable company secretaries mitigate REM during early CEO tenure? and (ii) Do they reinforce heir-apparent CEOs' ability to constrain REM?

Three contributions are offered by this study. Theoretically, it moves beyond a descriptive combination of Agency Theory and RDT by advancing a procedural governance activation perspective, which explains when and why governance resources can counter agency-driven opportunism during leadership transitions. Empirically, by using 1,302 firm-year observations from Malaysian Public Listed Companies (PLCs) over the years 2017 to 2019, and by employing Panel-Corrected Standard Errors (PCSE) with firm and year fixed effects, the findings show that CSCOMM significantly reinforces HEIR CEOs' capacity to reduce REM but exerts a minimal influence under EARLY leadership. These results are robust to alternative REM proxies and lagged specifications. Practically, the findings highlight the importance of strengthening company secretaries' commercial competencies and aligning them

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with CEO succession planning, thereby informing regulatory and professional initiatives aimed at deepening procedural governance effectiveness.

From a policy perspective, the evidence aligns with Malaysia's evolving corporate governance architecture under (Companies Commission of Malaysia, 2016; Securities Commission Malaysia, 2021a), which emphasizes leadership accountability, board effectiveness, and professional competence. By demonstrating that commercially capable company secretaries can enhance financial reporting integrity during CEO transitions, this study provides empirical support for ongoing reforms that seek to professionalize company secretarial practice and reduce managerial opportunism in Malaysian PLCs.

Overall, while governance research continues to prioritize structural mechanisms, the persistence of REM, particularly during leadership transitions, suggests that procedural governance capacity remains underexplored and underutilized. By examining how CSCOMM interacts with CEO succession pathways, this study offers new insights into the contingent effectiveness of governance actors in emerging-market firms. The remainder of the paper is structured as follows: Section 2 reviews the literature and develops the hypotheses, Section 3 outlines the research design, Section 4 presents the findings, and Section 5 discusses implications, limitations, and concludes the study.

2. LITERATURE REVIEW

2.1. Real Earnings Management (REM) in Corporate Governance

REM involves manipulating operational activities such as accelerating sales, overproducing, or cutting discretionary spending to meet short-term financial targets (Roychowdhury, 2006). Unlike accrual-based earnings management (AEM) that relies on accounting choices, REM alters the firm's underlying economic activities while remaining technically compliant with reporting standards. This compliance, however, comes at the cost of distorted performance signals and diminished long-term value (Graham, Harvey, & Rajgopal, 2005). Scholars emphasize that although REM may appear less visible than accrual manipulation, it undermines financial reporting integrity and poses significant ethical concerns (Tarus & Korir, 2024). Despite global moves towards principles-based standards such as International Financial Reporting Standards (IFRS), REM remains widespread, particularly in emerging markets with inconsistent enforcement regimes (Klish, Shubita, & Wu, 2022; Kouaib et al., 2018). Research on constraining REM has primarily focused on structural governance mechanisms, such as board independence, CEO duality restrictions, and AC expertise (Baatour, Ben Othman, & Hussainey, 2017; Nuhu et al., 2023; Sun, Lan, & Liu, 2014). While being focal, this structural focus overlooks the procedural dimensions of governance, such as processes, advisory functions, and relational capital that shape managerial discretion, yet are less easily codified in governance codes. Addressing this gap requires attention to governance actors who influence boardroom processes, rather than only those captured by formal structures.

2.2. Real Earnings Management (REM) in the Malaysian Context

Malaysia provides an instructive setting for examining REM. Prior studies show that Malaysian PLCs resort to REM to avoid covenant breaches, meet performance thresholds, and enhance executive remuneration (Amran, Ishak, & Manaf, 2016; Kalgo et al., 2019; Nuhu et al., 2023). Corporate scandals such as Serba Dinamik and KNM Group demonstrate how such practices can escalate into severe misconduct (Achariam, 2022; Securities Commission Malaysia, 2021b). The governance environment is shaped by concentrated ownership, family-controlled firms, and relational networks, which can weaken the monitoring role of independent directors and heighten the risks of manipulation (Amran et al., 2016; Goh, Rasli, & Khan, 2014; Rahman & Mansor, 2019).

Regulatory reforms aim to strengthen governance. The Companies Commission of Malaysia (2016) introduced a solvency test that expanded directors' fiduciary duties and imposed a practising certificate requirement for company secretaries (Companies Commission of Malaysia, 2016). The Securities Commission Malaysia (2021a) reinforced expectations on board independence, diversity, and AC competencies (Securities Commission Malaysia, 2021a) yet

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despite these reforms, enforcement gaps remain. This underscores the need to complement structural safeguards with procedural governance actors capable of influencing board processes and decisions on a day-to-day basis.

2.3. CEO Succession and Real Earnings Management (REM)

CEO succession is a pivotal governance event with significant implications for financial reporting behavior. Early-tenure CEOs, often appointed externally, face increased pressure to deliver immediate results, which can incentivize opportunistic reporting through REM (Ali & Zhang, 2015; Nuanpradit, 2019). In contrast, heir-apparent CEOs are internally promoted successors who benefit from firm-specific knowledge, relational continuity, and established trust with boards and stakeholders, thereby reducing the scope for financial manipulation (Shen & Cannella, 2002; Zhang & Rajagopalan, 2010).

Although numerous studies have explored succession-related earnings management (Barker III & Mueller, 2002; Bouaziz, Salhi, & Jarboui, 2020; Geertsema, Lont, & Lu, 2020), most have concentrated on structural governance factors such as board composition and AC effectiveness. The potential influence of company secretaries, whose statutory and advisory roles have been substantially elevated through regulatory reforms, has received minimal empirical attention despite their growing involvement in facilitating board processes and ensuring reporting integrity. To contextualize this study, Table 1 summarizes key prior research on CEO succession and REM, highlighting variations in institutional contexts, methodological emphases, and empirical findings.

Table 1. Comparative summary of prior studies on CEO succession and Real Earnings Management (REM) practices.

Author(s)	Context / Country	Focus of Study	Key Findings on CEO Succession and REM	Relevance to Current Study
Young, Lin, Chien, and Chen (2015)	Global sample	CEO turnover and earnings manipulation	CEO transitions increase REM likelihood due to performance pressure and oversight gaps.	Highlights the vulnerability of transition periods to REM.
Nuanpradit (2019)	Thailand (Emerging Market)	Early-tenure CEOs and sales manipulation	No consistent evidence of early tenure directly increasing REM, though CEO duality amplifies it.	Shows contextual variation; emerging-market dynamics may differ.
Setyawan and Anggraita (2017)	Indonesia	CEO succession and REM behaviour	Newly appointed CEOs engage in REM to meet short-term performance targets.	Supports the argument that early-tenure CEOs face heightened reporting pressure.
Ali and Zhang (2015)	United States	CEO tenure and earnings management	Early-tenure CEOs more likely to inflate earnings to build credibility and meet expectations.	Provides foundational evidence on tenure-based opportunism.
Bouaziz et al. (2020)	France	CEO characteristics and earnings management strategies	Early-tenure CEOs use REM to create a positive performance image.	Reinforces the behavioural tendency of new CEOs toward opportunistic reporting.
Pan, Yue Wang, and Weisbach (2018)	China	Heir-apparent succession and financial performance	Internal successors with prior firm experience exhibit stronger performance stability.	Demonstrates benefits of heir-apparent continuity in governance.
Tao and Zhao (2019)	China	Heir-apparent CEOs and corporate outcomes	Heir-apparent CEOs improve post-succession performance and reduce financial volatility.	Supports argument that heir-apparent CEOs promote transparent reporting.
Bae, Joo, and Yu (2023)	Korea	Succession planning and market stability	Firms with structured succession experience fewer performance shocks post-transition.	Highlights value of formal succession planning for market confidence.
Rahman and Chen (2023)	Malaysia	CEO tenure and REM	Limited empirical evidence linking tenure to REM in Malaysian PLCs.	Identifies contextual research gap addressed by the current study.

Source: Prior literature (2015–2023).

Collectively, these studies underscore the complex and context-dependent nature of CEO succession and its influence on REM. However, little is known about how procedural governance actors, particularly company

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secretaries endowed with commercial, strategic, and advisory competencies, can mediate these effects within emerging-market settings. This study responds to that gap by examining how the commercial attributes of company secretaries interact with CEO succession types (early-tenure and heir-apparent) to shape REM behavior in Malaysian PLCs.

2.4. Company Secretaries as Procedural Governance Actors

The role of company secretaries in Malaysia has evolved considerably. Once primarily administrative, they are now recognized as governance professionals with statutory accountability under the Companies Commission of Malaysia, 2016 and responsibilities that include facilitating board processes, ensuring compliance, and supporting governance quality (Companies Commission of Malaysia, 2016; McNulty & Stewart, 2015; Nowland, Chapple, & Johnston, 2021). Importantly, their commercial attributes (CSCOMM) that include financial expertise, risk management, strategic acumen, and governance oversight, have positioned them not only as compliance officers, but also as strategic advisors (Kakabadse et al., 2016).

In contexts characterized by concentrated ownership and relational governance, commercially capable company secretaries can provide essential procedural safeguards against managerial opportunism (Kakabadse et al., 2016). However, empirical evidence on their effectiveness remains sparse. This study addresses this gap by examining CSCOMM as a moderator in the CEO succession–REM relationship, thereby reframing company secretaries as strategic governance actors.

2.5. Theoretical Framework and Hypotheses Development

2.5.1. Agency Theory, CEO Succession, and Real Earnings Management (REM)

This study explains the relationship between CEO succession and REM through Agency Theory (Jensen & Meckling, 1976), which emphasizes managerial opportunism arising from information asymmetry or irregularity, incentive misalignment, and imperfect monitoring. CEO succession constitutes a heightened agency condition because leadership transition disrupts established monitoring routines, increases uncertainty regarding managerial intent, and intensifies short-term performance evaluation.

During succession, specifically under early-tenure leadership (EARLY), newly appointed CEOs face acute career concerns, legitimacy pressures, and strong incentives to demonstrate immediate performance to boards, shareholders, and capital markets (Ali & Zhang, 2015; Zhang & Rajagopalan, 2010). These conditions heighten incentives to engage in REM, which alters real operating decisions while remaining formally compliant with accounting standards and less transparent than accrual-based earnings management (Roychowdhury, 2006). Empirical evidence shows that managers under intense scrutiny prefer REM precisely because it is more difficult for auditors and regulators to detect ex ante (Cohen & Zarowin, 2010; Graham et al., 2005).

Agency Theory links CEO succession to REM through two reinforcing mechanisms. First, information asymmetry increases, as boards have limited insight into a new CEO's strategic priorities and operational execution, particularly in the early tenure period (Shen & Cannella, 2002). Second, incentive intensity peaks, as early-tenure CEOs' compensation, retention prospects, and reputational capital depend disproportionately on short-term financial outcomes (Ali & Zhang, 2015; Bouaziz et al., 2020). These conditions expand managerial discretion over real activities such as sales timing, production volume, and discretionary expenditures, thereby increasing the propensity for REM.

Agency Theory further predicts heterogeneity across succession pathways. Early-tenure CEOs (EARLY), often externally appointed, experience stronger agency conflicts due to limited firm-specific knowledge, weaker relational embeddedness, and reliance on short-term performance signals (Zhang & Rajagopalan, 2010). In contrast, heir-apparent CEOs (HEIR), as internally promoted successors, benefit from accumulated organizational knowledge, relational continuity, and established trust with the board, which reduce information asymmetry and attenuates short-

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term opportunistic incentives (Pan et al., 2018; Shen & Cannella, 2002). Accordingly, the agency's motivation for REM is expected to be weaker under heir-apparent leadership.

These agency dynamics are especially salient in emerging-market contexts like Malaysia, where concentrated ownership, relationship-based governance, and uneven enforcement can further constrain effective monitoring during leadership transitions (Amran et al., 2016; Rahman & Mansor, 2019). CEO succession is therefore not a peripheral governance event, but a theoretically grounded determinant of REM that warrants focused empirical examination.

2.5.2. Resource Dependence Theory (RDT) and the Moderating Role of CSCOMM

While Agency Theory explains why CEO succession generates incentives for REM, it offers limited insight into how such opportunistic behavior can be constrained beyond formal monitoring structures. To address this limitation, this study draws on RDT (Pfeffer & Salancik, 1978) to conceptualize company secretaries' commercial attributes (CSCOMM) as a source of procedural governance capacity.

RDT views governance actors as providers of critical organizational resources, such as expertise, information, and advisory capability, which generally reduce uncertainty and enable firms to manage dependence-related risks effectively (Hillman, Withers, & Collins, 2009). Within this framework, company secretaries endowed with CSCOMM that include financial expertise, strategic insight, risk management capability, and governance oversight – operate not merely as compliance officers but as process-oriented governance resources that influence how decisions are framed, escalated, and evaluated within the boardroom (Kakabadse et al., 2016; McNulty & Stewart, 2015).

CSCOMM is theorized to influence REM through process-based mechanisms rather than direct monitoring. Commercially capable company secretaries can (i) improve information quality by translating operational and financial implications into governance-relevant risk signals, (ii) challenge short-term strategies that prioritize earning targets over long-term value, and (iii) reinforce accountability by embedding risk awareness and follow-through into board deliberations (Concannon & Nordberg, 2018; Kakabadse et al., 2016). Through these channels, CSCOMM can constrain opportunistic REM ex ante before such behavior manifests in reported financial outcomes (Rui & Xing, 2020).

However, RDT also emphasizes that the effectiveness of governance resources is context-dependent. Resources only generate governance value when they can be activated within existing organizational relationships (Pfeffer & Salancik, 1978). Under EARLY leadership, authority consolidation, heightened performance signaling, and limited relational capital reduce receptiveness to advisory constraints, thereby weakening the moderating influence of CSCOMM (Zhang & Rajagopalan, 2010).

Differently, under the HEIR leadership, relational continuity, organizational embeddedness, and established trust networks increase the usability of procedural governance resources. In this context, heir-apparent CEOs are more likely to integrate company secretaries' commercial advice into decision-making processes, allowing CSCOMM to function as effective constraints on REM (Shen & Cannella, 2002; Tao & Zhao, 2019).

2.5.3. Integrated Theoretical Logic, Originality, and Contextual Contingency

By integrating Agency Theory and RDT, this study advances a contingent procedural governance perspective. Agency Theory specifies when and why incentives for REM are strongest during CEO succession, while RDT explains when governance resources can realistically counter those incentives. The theoretical tension lies in the fact that procedural governance capacity may exist but remain ineffective unless the leadership context allows its activation.

The originality of this study does not lie in the general proposition that governance moderates succession effects, a well-established idea in the literature, but in theorizing and testing a procedural governance activation mechanism centered on company secretaries. Unlike past studies focusing on structural moderators such as board composition

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or AC characteristics, this study examines an underexplored yet institutionalized governance profession whose influence operates through process architecture rather than formal monitoring authority.

This contribution is particularly salient in Malaysia, where regulatory reforms under the Companies Commission of Malaysia (2016) and the Securities Commission Malaysia (2021a) have expanded the expected role of company secretaries beyond compliance towards board effectiveness and governance rigour (Companies Commission of Malaysia, 2016; Securities Commission Malaysia, 2021a). The framework further avoids an overly linear interpretation of governance effects by explicitly recognizing contextual contingencies such as leadership receptiveness and relational embeddedness that condition whether procedural governance resources can meaningfully constrain REM. Consistent with the foregoing theoretical arguments, the following hypotheses are proposed.

H_1: Company secretaries' commercial attributes (CSCOMM) do not significantly moderate the relationship between early-tenure CEOs (EARLY) and REM.

H_2: Company secretaries' commercial attributes (CSCOMM) negatively moderate the relationship between heir-apparent CEOs (HEIR) and REM.

Figure 1 illustrates the moderating role of company secretaries' commercial attributes (CSCOMM) on the relationship between CEO succession types and REM. Hypothesis 1 (H1) predicts that CSCOMM exerts minimal or insignificant influence under early-tenure CEOs (EARLY), whereas Hypothesis 2 (H2) predicts a significant negative moderating effect under heir-apparent CEOs (HEIR).

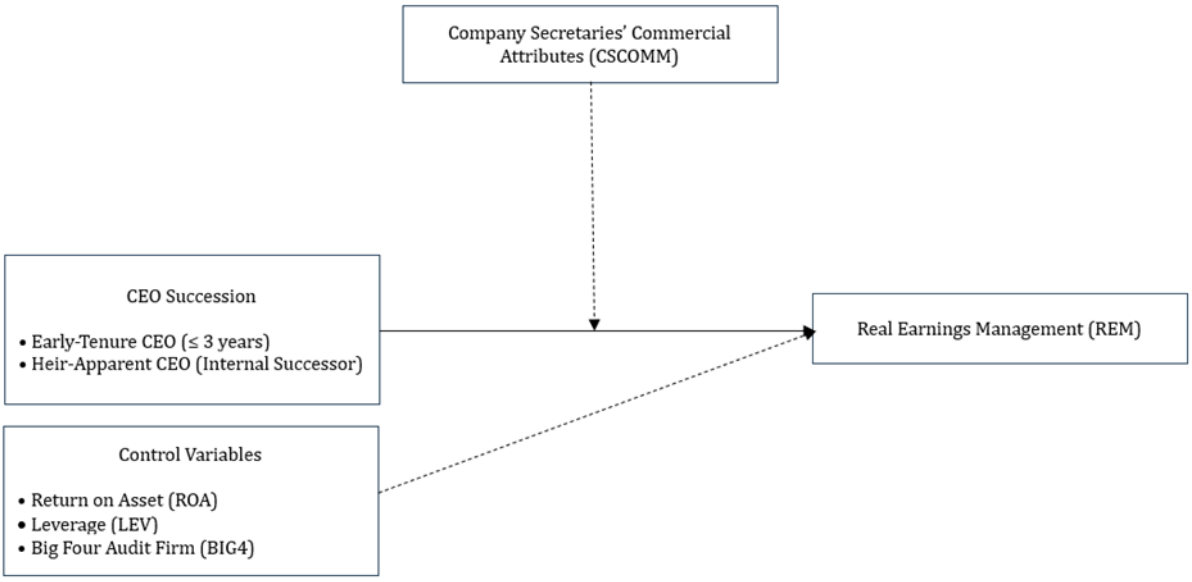


Figure 1. Conceptual framework CSCOMM as moderator in the CEO succession–REM relationship.

3. METHODOLOGY

3.1. Data Sources

This study utilizes secondary data from Malaysian PLCs. Annual reports were obtained from Bursa Malaysia, while firm-level financial data were sourced from Thomson Reuters DataStream. Information on company secretaries was collected and verified using statutory filings of Particulars of Directors/Officers accessed through the Companies Commission of Malaysia (CCM) via the MyData portal an official platform for corporate appointments and officer disclosures (MyData, 2023).

To enhance data accuracy, professional credentials of company secretaries involving memberships with the Malaysian Institute of Accountants (MIA), the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA), and the Malaysian Association of Company Secretaries (MACS) were cross-checked against the respective professional bodies' membership databases. This multi-source verification process reduces disclosure bias,

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strengthens construct validity for governance-related variables, and improves the overall reliability of the dataset (Law, 2018; Sahlan, 2021).

3.2. Study Period

The study covers the period from 2017 to 2019, representing a reform-intensive phase in Malaysia's corporate governance and financial reporting landscape. The Companies Commission of Malaysia (2016), which came into force in 2017, introduced substantive regulatory changes, including the solvency test, enhanced directors' fiduciary duties, and mandatory practising certificates for company secretaries (Companies Commission of Malaysia, 2016). In parallel, the Securities Commission Malaysia (2021a) strengthened expectations related to board independence, AC expertise, and board diversity (Securities Commission Malaysia, 2021a). This period also coincided with the implementation of major financial reporting standards like MFRS 9 (Financial Instruments), MFRS 15 (Revenue from Contracts with Customers), and MFRS 16 (Leases), which raised disclosure quality and heightened scrutiny of firms' operational and reporting decisions (Malaysian Accounting Standards Board, 2017). Collectively, these developments mark a phase of institutional transformation, making the period particularly suitable for examining firms' governance behaviour and REM responses under strengthened regulatory and professional standards.

Importantly, by restricting the sample to 2017 until 2019 only, this timeline restriction avoids confounding effects that arose from the COVID-19 pandemic and associated emergency regulatory interventions, which substantially altered firms' operational decisions and earnings management behaviour for reasons unrelated to routine governance mechanisms. The use of a short-to-medium panel is consistent with prior REM research, balancing temporal relevance with data integrity and analytical clarity (Ge & Kim, 2014a; Yasser & Al Mamun, 2016).

3.3. Sample Selection

The initial population comprised 801 PLCs on Bursa Malaysia as of 31 December 2018. Consistent with prior earnings management studies (Baatour et al., 2017; Cohen & Zarowin, 2010), financial institutions, utilities, Real Estate Investment Trusts (REITs), and closed-end funds were excluded due to their distinct regulatory regimes and industry-specific reporting requirements. Firms with inaccessible annual reports, incomplete REM data, or missing company secretary information were also excluded.

To ensure adequate cross-sectional variation, only industries with a minimum of eight firms per year were retained. After applying these criteria, the final sample comprised 434 firms, yielding 1,302 firm-year observations over the period 2017–2019.

The selection of this three-year window is theoretically motivated rather than data-driven. It captures a critical post-reform phase in which the professional role, accountability, and expected competencies of company secretaries were materially redefined under (Companies Commission of Malaysia, 2016; Securities Commission Malaysia, 2021a). Extending the sample beyond 2019 would introduce structural breaks associated with the COVID-19 pandemic and temporary governance relaxations, which could obscure the governance mechanisms of interest.

Although the three-year panel limits long-run inference, it is appropriate for this study's focus on CEO succession events and short-horizon REM behaviour. Prior literature shows that REM incentives are most pronounced during early CEO tenure and leadership transitions, where short-term performance pressures dominate (Ali & Zhang, 2015; Roychowdhury, 2006). Similar short-panel designs are commonly employed when examining behavioral responses to institutional or leadership changes (Baatour et al., 2017; Daniel-Vasconcelos, Crisóstomo, & Ribeiro, 2023).

Overall, the final sample provides balanced coverage across major non-financial sectors and aligns closely with the study's theoretical focus on procedural governance and CEO succession, enhancing internal validity while maintaining sufficient cross-sectional variation for robust empirical analysis.

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3.4. Variables and Measurement

3.4.1. Dependent Variable: Real Earnings Management (REM)

The dependent variable is an aggregate measure of real earnings management (REMALL), constructed following Roychowdhury (2006) and Baatour et al. (2017). REMALL combines three components: (i) abnormal cash flow from operations (ACFL), (ii) abnormal production costs (APCO), and (iii) abnormal discretionary expenditures (ADEX). Each component is estimated using cross-sectional industry-year regressions, with the resulting residuals serving as proxies for abnormal operational behavior. The aggregate index captures the extent to which firms engage in real operational adjustments to influence reported earnings, providing a comprehensive representation of REM practices.

3.4.2. Independent Variables: CEO Succession

CEO succession is captured using two binary variables. EARLY equals 1 if the CEO's tenure is three years or less, and 0 otherwise. This threshold reflects the period during which CEOs face heightened legitimacy pressures, increased performance scrutiny, and stronger incentives for opportunistic behavior (Ali & Zhang, 2015; Bills, Lisic, & Seidel, 2017). HEIR equals 1 if the CEO is an internally promoted successor and 0 if appointed externally. This classification reflects leadership continuity, firm-specific knowledge, and established relational trust with the board, all of which have been shown to reduce reporting volatility and opportunistic earnings management (Pan et al., 2018; Shen & Cannella, 2002).

3.4.3. Moderating Variable: Company Secretaries' Commercial Attributes (CSCOMM)

Company Secretaries' Commercial Attributes (CSCOMM) capture the extent to which company secretaries possess commercial and strategic capabilities beyond statutory compliance, consistent with their expanded governance role under the Companies Commission of Malaysia (2016) and the Securities Commission Malaysia (2021a). CSCOMM is conceptualized as a procedural governance resource that can influence board processes, managerial discretion, and financial reporting quality.

Grounded in RDT (Pfeffer & Salancik, 1978), CSCOMM reflects the ability of company secretaries to provide boards with critical resources such as financial expertise, strategic insight, risk awareness, and governance oversight, all through process-based and advisory mechanisms, rather than formal authority (Kakabadse et al., 2016; McNulty & Stewart, 2015). Such capacity is particularly relevant in emerging-market settings characterized by concentrated ownership and relational governance (Concannon & Nordberg, 2018).

CSCOMM is operationalized as an index adapted from Kakabadse et al. (2016). One point is assigned for each concurrent strategic role held by the company secretary (e.g., Chief Financial Officer (CFO), General Counsel, or board director), yielding a theoretical range of 0 to 3. These roles represent observable indicators of formal commercial involvement in organizational decision-making.

Although the observed maximum value is 1, this reflects institutional and regulatory constraints in Malaysian PLCs rather than measurement weakness, as governance norms limit multiple concurrent executive roles. Accordingly, CSCOMM captures the presence versus absence of enhanced commercial capacity, a role-based approach consistent with prior governance research in regulated environments (Nowland et al., 2021; Rui & Xing, 2020).

While this measure may understate informal influences such as relational trust or advisory credibility, it offers a conservative, replicable proxy suitable for large-sample analysis. Any measurement error likely biases results against detecting significant effects, thereby increasing confidence in the observed moderating role of CSCOMM under heir-apparent leadership.

3.4.4. Control Variables

This study includes a parsimonious set of firm-level control variables commonly employed in the REM literature, while intentionally excluding BOD and AC variables to preserve conceptual clarity. Specifically, Return on Assets

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(ROA), measured as net income divided by total assets, controls for profitability, as more profitable firms generally face lower incentives for REM; Leverage (LEV), calculated as total debt divided by total assets, captures financial pressure and covenant-related incentives; and Audit quality (BIG4) is a binary variable equal to 1 if the firm is audited by a Big Four audit firm, reflecting the role of high-quality external auditors as an external monitoring mechanism (Al-Absy & AlMahari, 2023; Haji-Abdullah & Wan-Hussin, 2015).

BOD and AC characteristics are excluded because the study focuses on procedural governance capacity rather than structural monitoring mechanisms, as such variables exhibit limited variation among Malaysian PLCs during 2017-2019 due to prescriptive governance requirements under (Securities Commission Malaysia, 2021a), and including closely related governance controls risks "over-control" and multicollinearity that may partial out the channels through which company secretaries' commercial attributes (CSCOMM) exert influence.

3.5. Econometric Approach

Given evidence of heteroskedasticity and contemporaneous cross-sectional dependence, this study employs PCSE regression (Beck & Katz, 1995), which is well suited to short panels with large cross-sections. All models are estimated with firm and year fixed effects, controlling for unobserved time-invariant firm characteristics and common macroeconomic or regulatory shocks, thus mitigating omitted variable bias.

Compared with conventional fixed-effects estimators, PCSE provides more reliable inference under cross-sectional dependence, while avoiding the instrument proliferation and weak-instrument concerns associated with the Generalized Method of Moments (GMM) in short panels (Daniel-Vasconcelos et al., 2023). The baseline specification includes CEO succession variables, CSCOMM, and their interaction terms, along with firm-level controls. The interaction terms test whether CSCOMM moderates the EARLY–REM and HEIR–REM relationships. Robustness checks using alternative REM proxies and lagged specifications further address potential endogeneity concerns (Li, Wang, & Huang, 2023; Zadeh, Askarany, Shirzad, & Faghani, 2023).

4. FINDINGS AND DISCUSSION

4.1. Descriptive Statistics

Table 2 presents descriptive statistics for the aggregate measure of REM (REMALL). The mean of 0.003 and wide range (−1.55 to 1.12) indicate variation in reporting practices across Malaysian PLCs, consistent with prior evidence that REM intensity differs significantly in emerging markets (Enomoto, Kimura, & Yamaguchi, 2015; Enomoto et al., 2018; Ge & Kim, 2014a, 2014b).

Table 2. Descriptive statistics for the REM practices.

Variable	Mean	Standard Deviation	Median	Min.	Max.
REMALL	0.003	0.249	0.020	-1.550	1.120

Note: N=1302.

Table 3 presents the descriptive statistics for the independent, moderating, and control variables. EARLY accounts for approximately one-quarter of the total observations, whereas HEIR represents more than one-third, indicating that internal CEO succession is relatively prevalent among Malaysian listed firms. The mean value of the CSCOMM index (0.066) is notably low, suggesting that most company secretaries continue to operate primarily within compliance-based functions rather than assuming broader strategic or commercial roles. Consistent with (Kakabadse et al., 2016), this finding underscores the underutilization of company secretaries' potential in contributing to governance processes through commercial and advisory roles. Regarding control variables, firms show significant variation in profitability (ROA) and leverage (LEV), reflecting diverse financial structures across the sample. Approximately 37% of firms are audited by Big Four auditors, indicating uneven adoption of high-quality external monitoring practices within the Malaysian corporate environment.

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Table 3. Descriptive statistics for independent, moderating, and control variables.

Variables	Mean	Standard Deviation	Median	Min.	Max.
EARLY	0.250	0.433	0.000	0.000	1.000
HEIR	0.362	0.481	0.000	0.000	1.000
CSCOMM	0.066	0.158	0.000	0.000	1.000
ROA (%)	3.281	8.368	2.955	−44.430	52.590
LEV	0.249	0.963	0.214	0.000	32.177
BIG4	0.369	0.483	0.000	0.000	1.000

Note: N=1302; EARLY refers to CEOs in early tenure (≤ three years); HEIR denotes internally appointed CEOs; CSCOMM captures commercial attributes of company secretaries; ROA refers to return on assets; LEV denotes the leverage ratio; BIG4 indicates whether the firm is audited by a Big Four audit firm.

4.2. Correlation Analysis

Table 4 presents the Pearson correlation coefficients for the main study variables. Both EARLY and HEIR exhibit negative correlations with REMALL, suggesting that CEO succession contexts, whether through early-tenure or internally promoted leadership, are generally associated with more conservative financial reporting behavior.

The weak and statistically insignificant correlation between CSCOMM and REMALL implies that the influence of company secretaries' commercial competencies is likely indirect and context-dependent, supporting the premise that their moderating role may only emerge when interacting with leadership dynamics.

The control variables display the expected patterns. ROA and BIG4 are negatively correlated with REM, indicating that more profitable firms and those audited by higher-quality external auditors tend to engage less in earnings manipulation.

Conversely, LEV shows a positive association with REM, consistent with the view that higher debt pressures may intensify incentives for REM. These correlation patterns align with prior empirical findings (Al-Absy & AlMahari, 2023; Haji-Abdullah & Wan-Hussin, 2015) and provide initial assurance against multicollinearity, justifying the inclusion of all variables in subsequent regression analyses.

Table 4. Correlation matrix for REMALL.

Variables	REMALL	EARLY	HEIR	CSCOMM	ROA	LEV	BIG4
REMALL	1.000						
EARLY	-0.114***	1.000					
HEIR	-0.170***	0.100***	1.000				
CSCOMM	-0.039	-0.041	-0.034	1.000			
ROA (%)	-0.132***	-0.052*	0.059*	0.004	1.000		
LEV	0.043	-0.028	0.016	0.079***	-0.026	1.000	
BIG4	-0.101***	0.128***	0.008	0.137***	0.029	0.008	1.000

Note: REMALL denotes aggregate REM as per Model 1; EARLY refers to CEOs in early tenure (≤3 years); HEIR denotes CEOs appointed through internal succession; CSCOMM refers to company secretaries' commercial attributes; ROA refers to return on assets; LEV denotes leverage; BIG4 indicates whether the firm is audited by a Big Four audit firm. Statistical significance is denoted as *** $p < 0.01$, * $p < 0.10$.

4.3. Regression Results

Table 5 reports the PCSE regression estimates, with the model achieving statistical significance ($p < 0.001$) and an R^2 of 0.082, indicating that the explanatory variables collectively account for approximately 8.2% of the variation in aggregate REM (REMALL).

Although this percentage appears modest, it is consistent with cross-sectional corporate governance research, where behavioral and contextual factors typically explain small yet economically meaningful proportions of earnings management variance. The results therefore underscore the substantive, rather than purely statistical, relevance of company secretaries' attributes in influencing managerial reporting behavior.

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Table 5. Regression results for moderating effects.

Variables	Coefficient	Standard Error
EARLY	-0.056	0.060
HEIR	-0.165***	0.025
EARLY × CSCOMM	-0.121	0.078
HEIR × CSCOMM	-0.267***	0.020
ROA	-0.150**	0.059
LEV	0.028***	0.005
BIG4	-0.036***	0.006
Constant	0.059***	0.008
Observations	1,302	
R-squared	0.082	
Prob > χ^2	0.000	
Number of Firms	434	

Note: REMALL denotes aggregate real earnings management. EARLY refers to CEOs in early tenure (≤ three years); HEIR denotes internally appointed CEOs; CSCOMM captures commercial attributes of company secretaries; ROA refers to return on assets; LEV denotes the leverage ratio; BIG4 indicates whether the firm is audited by a Big Four audit firm. Standard errors are reported in the Standard Error column. Statistical significance is indicated as follows: *** $p < 0.01$, ** $p < 0.05$.

The direct association between EARLY and REMALL is negative but statistically insignificant (βEARLY = -0.056; $p > 0.10$), indicating a weak deterrent effect in practical terms. The magnitude suggests that, ceteris paribus, firms led by early-tenure CEOs exhibit roughly 5.6% lower REM scores than their counterparts, a change too small to be economically meaningful. Similarly, the interaction between EARLY and CSCOMM (βEARLY×CSCOMM = -0.121; $p > 0.10$) is statistically and economically insignificant. This provides no support for H1, indicating that commercially capable company secretaries do not materially constrain REM under early-tenure leadership. Such limited influence can be explained by agency theory: early-tenure CEOs often prioritize short-term legitimacy and performance signaling (Ali & Zhang, 2015; Setyawan & Anggraita, 2017), which reduces receptiveness to internal monitoring. From an RDT perspective, the company secretary's commercial expertise may not yet be fully mobilized during this transitional phase, as board relationships and advisory trust are still developing.

In contrast, HEIR exhibits a statistically significant and economically meaningful negative association with REMALL (βHEIR = -0.165; $p < 0.01$). This coefficient suggests that, on average, internally promoted CEOs are associated with a 16.5% reduction in REM, reflecting more conservative reporting aligned with long-term organizational objectives. The interaction between HEIR and CSCOMM (βHEIR×CSCOMM = -0.267; $p < 0.01$) is both statistically and practically substantial. A one-unit increase in the CSCOMM index is equivalent to the company secretary concurrently holding an additional strategic role (e.g., CFO, General Counsel, or board director), and corresponds to a further 26.7% decrease in REMALL. This finding represents a considerable governance effect, reinforcing the moderating power of company secretaries' commercial competencies in curbing opportunistic earnings manipulation.

These results provide robust support for H2, confirming that commercially capable company secretaries amplify the conservative reporting tendencies of heir-apparent CEOs. The magnitude of the interaction term indicates that the combined effect of heir-apparent leadership and strong CSCOMM can reduce REM by over one standard deviation relative to the sample mean, signaling an economically significant governance synergy. From an agency theory perspective, this interaction reflects the alignment between stewardship-oriented leadership and informed internal monitoring, both of which reduce agency costs and managerial opportunism. In RDT terms, CSCOMM constitute a high-value organizational resource that encompasses financial literacy, legal insight, and strategic foresight that institutionalizes sound governance practices and strengthens the relational infrastructure between boards and management.

Overall, these findings empirically substantiate the conceptual model of Kakabadse et al. (2016), reframing company secretaries as strategic governance enablers rather than passive compliance officers. In environments where

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their commercial competencies are embedded within succession structures and supported by stewardship-oriented CEOs, company secretaries play a decisive role in maintaining financial reporting integrity and mitigating REM.

4.4. Robustness Test

To ensure the validity of the results, two robustness checks were conducted (Al-Absy, 2022; Baatour et al., 2017). First, alternative proxies of REM were employed. Specifically, two combinations were tested: REM1, defined as the sum of APCO and ADEX, and REM2, defined as the sum of ACFL and ADEX.

As reported in Table 6, the alternative specifications using REM1 and REM2 confirm the robustness of the baseline results. The models explain approximately 7.0 - 7.3% of the variation in REM, showing a modest value but consistent with behavioral and corporate governance research, where small effect sizes are common yet economically meaningful (Al-Absy, 2022; Baatour et al., 2017). This level of explanatory power underscores that leadership characteristics and governance attributes, although part of a broader organizational framework, exert a practically significant influence on firms' REM behavior.

Table 6. Regression results for alternative REM proxies.

Variables	REM1 (Model 2)		REM2 (Model 3)	
	Coefficient	Standard Error	Coefficient	Standard Error
EARLY	-0.009	0.036	-0.089*	0.054
HEIR	-0.124***	0.021	-0.080***	0.016
EARLY × CSCOMM	-0.106	0.070	-0.062	0.038
HEIR × CSCOMM	-0.208***	0.012	-0.134***	0.020
ROA	-0.091**	0.041	-0.056*	0.029
LEV	0.019***	0.005	0.010***	0.003
BIG4	-0.011***	0.003	0.028***	0.004
Constant				
Observations	1,302		1,302	
R-squared	0.073		0.070	
Prob > χ^2	0.000		0.000	
Number of Firms	434		434	

Note: REM1 = APCO + ADEX; REM2 = ACFL + ADEX. EARLY = CEOs in early tenure (≤3 years); HEIR = internally appointed CEOs; CSCOMM = commercial attributes of company secretaries; ROA = return on assets; LEV = leverage ratio; BIG4 = Big Four auditor dummy. Standard errors are reported in the Standard Error column. Statistical significance is indicated as follows: *** p < 0.01, ** p < 0.05, * p < 0.10.

The coefficient for EARLY is negative across both models, though statistically significant only for REM2 (βEARLY = -0.089; p < 0.10). This implies that, holding other variables constant, firms led by early-tenure CEOs exhibit approximately 8.9% lower REM levels through operational and discretionary expense adjustments compared with other CEOs. The effect, although modest, suggests a cautious financial stance possibly due to early-stage reputation building or initial unfamiliarity with internal controls. The interaction term EARLY × CSCOMM remains negative but statistically insignificant across all models (βEARLY×CSCOMM = –0.106 for REM1; –0.062 for REM2). These magnitudes indicate that even with a one-unit increase in CSCOMM (e.g., an additional strategic commercial role held by the company secretary), the reduction in REM does not exceed 10%, reflecting weak economic relevance. This limited moderating influence may arise from transitional leadership dynamics, where newly appointed CEOs prioritise legitimacy and performance signalling over long-term governance adherence (Ali & Zhang, 2015). From the perspective of RDT, the commercial expertise of company secretaries may not yet be fully leveraged within early-tenure environments, as relational trust and advisory capacity typically develop over time.

In contrast, the coefficients for HEIR are larger and highly significant across both models, where βHEIR = -0.124 (p < 0.01) for REM1 and βHEIR = -0.080 (p < 0.01) for REM2. These magnitudes represent reductions of roughly 8 - 12% in REM activity, signifying a consistent and economically meaningful restraint on earnings

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manipulation among internally promoted CEOs. The interaction terms HEIR × CSCOMM are strongly negative (βHEIR×CSCOMM = -0.208 for REM1; -0.134 for REM2; both $p < 0.01$), revealing that a one-unit increase in CSCOMM is associated with an additional 13 - 21% decline in REM levels. The practical magnitude of these effects is substantial, as they are approximately double the baseline HEIR coefficient, implying that commercially capable company secretaries significantly amplify the conservative financial reporting behavior inherent in heir-apparent leadership. This pattern reflects a powerful governance synergy. Internally promoted CEOs, already inclined toward stewardship and continuity, appear to utilize the strategic counsel of commercially competent company secretaries to strengthen compliance and transparency. From an agency theory standpoint, this interaction represents a dual-layered monitoring mechanism that is ethical leadership complemented by commercially skilled oversight, collectively suppressing opportunistic earnings manipulation. RDT further interprets CSCOMM as a governance resource that not only enhances information quality but also institutionalizes disciplined financial reporting within leadership transitions.

Overall, these findings suggest that while the economic impact of CSCOMM under early-tenure leadership is minimal, their influence becomes materially significant under heir-apparent succession. A 0.20–0.27 reduction in REM coefficients linked to HEIR × CSCOMM across all models translates into a meaningful decline in manipulation intensity, equivalent to nearly one standard deviation from the mean REM value. This highlights the practical importance of integrating commercially competent company secretaries within firms' succession and governance frameworks to promote sustainable reporting practices.

Secondly, a lagged specification approach was employed to address potential endogeneity concerns by ensuring that CEO succession characteristics (EARLY and HEIR) and CSCOMM precede the observed REM outcomes. This temporal separation mitigates reverse causality and provides stronger grounds for causal interpretation.

The regression results as presented in Table 7 confirm the stability and robustness of the main findings. The lagged model explains 8.5% of the variance in REMALL, 7.1% in REM1, and 8.0% in REM2, consistent with prior models and comparable to effect sizes typically reported in corporate governance studies (Al-Absy, 2022; Baatour et al., 2017). Although the explanatory power appears modest, such R^2 values indicate economically meaningful effects, as governance variables often capture behavioral dimensions that influence firm-level reporting outcomes incrementally yet persistently (Li et al., 2023; Zadeh et al., 2023).

Table 7. Regression results for robustness test for endogeneity.

Variables	REMALL		REM1 (Model 2)		REM2 (Model 3)	
	Coefficient	Standard Error	Coefficient	Standard Error	Coefficient	Standard Error
L_EARLY	-0.079	0.058	-0.005	0.019	-0.089	0.055
L_HEIR	-0.140***	0.034	-0.113***	0.023	-0.065***	0.024
L_EARLY × CSCOMM	-0.099*	0.058	-0.110**	0.050	-0.029	0.027
L_HEIR × CSCOMM	-0.258***	0.037	-0.182***	0.011	-0.149***	0.031
L_ROA	-0.140*	0.081	-0.082	0.058	-0.063*	0.035
L_LEV	0.026***	0.002	0.023***	0.005	0.005**	0.002
L_BIG4	-0.037***	0.005	-0.010***	0.004	-0.029***	0.003
Constant	0.069***	0.009	0.050***	0.007	0.042***	0.004
Observations	868		868		868	
R-squared	0.085		0.071		0.080	
Prob > χ^2	0.000		0.000		0.000	
Number of Firms	434		434		434	

Note: REMALL = Aggregate REM (Model 1); REM1 = APCO + ADEX; REM2 = ACFL + ADEX. L_EARLY = Lagged early-tenure CEOs; L_HEIR = Lagged internally appointed CEOs; CSCOMM = Commercial attributes of company secretaries; L_ROA = Lagged return on assets; L_LEV = Lagged leverage ratio; L_BIG4 = Lagged Big Four auditor dummy. Standard errors are reported in the Standard Error column. Statistical significance is indicated as follows: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

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The interaction between lagged HEIR and CSCOMM (L_HEIR × CSCOMM) remains negative and highly significant across all REM specifications (β = -0.258 for REMALL; β = -0.182 for REM1; β = –0.149 for REM2; all $p < 0.01$). The practical magnitude of these coefficients suggests that a one-unit increase in the commercial competency index of company secretaries is equivalent to an additional commercial or strategic role such as CFO, legal adviser, or governance consultant – associated with a 15-26% reduction in REM levels. This effect is not only statistically robust but also economically meaningful, highlighting the capacity of commercially competent company secretaries to institutionalize ethical and conservative financial reporting practices under heir-apparent leadership. From an Agency Theory standpoint, this moderation reflects enhanced internal monitoring and alignment between stewardship-oriented CEOs and commercially skilled governance professionals. In RDT terms, it confirms that company secretaries' commercial expertise operates as a valuable organizational resource, particularly when embedded within stable leadership structures that leverage continuity and trust.

Conversely, lagged EARLY shows no significant direct relationship with REM across the models, suggesting that early-tenure CEOs continue to prioritize short-term legitimacy and performance demonstration rather than governance alignment. However, the interaction between lagged EARLY and CSCOMM (L_EARLY × CSCOMM) is negative and significant for REMALL (β = –0.099; $p < 0.10$) and REM1 (β = –0.110; $p < 0.05$). These results indicate that commercially capable company secretaries can modestly reduce earnings manipulation by approximately 10% in early-tenure CEO contexts, especially in operational and discretionary spending areas. The effect, though smaller than in heir-apparent settings, suggests that commercial competencies still exert a tempering influence even amid high-performance pressure environments. This moderation can be interpreted as evidence of gradual trust-building, where commercial guidance becomes more effective as early-tenure CEOs begin to rely on procedural and strategic input from the company secretary.

Collectively, the robustness tests confirm that the central relationships identified in the main models are stable across alternative REM proxies and temporal specifications, thereby reducing concerns regarding simultaneity or reverse causality (Li et al., 2023; Zadeh et al., 2023). The persistence of the significant HEIR × CSCOMM effect across all lagged models strengthens the conclusion that heir-apparent CEOs, when supported by commercially competent company secretaries, consistently exhibit lower REM tendencies. The magnitude of these coefficients implies that the governance benefits of HEIR–CSCOMM alignment are both statistically and economically significant, providing practical validation for the conceptual proposition that company secretaries are not mere compliance officers but strategic governance enablers capable of reinforcing ethical leadership and sustaining financial reporting integrity.

5. DISCUSSION AND CONCLUSION

5.1. Discussion of Key Findings

The results of this study offer new insights into the governance dynamics surrounding CEO succession and financial reporting quality. Specifically, the evidence demonstrates that EARLY is not significantly associated with higher levels of REM, nor are their actions meaningfully constrained by CSCOMM. This finding suggests that early stages of leadership transition, performance pressures, and information asymmetry overshadow the influence of governance advisors, thereby limiting the effectiveness of secretarial commercial competencies. This aligns with prior studies that show early-tenure CEOs often engage in opportunistic decision-making due to heightened expectations from shareholders and the board (Ali & Zhang, 2015; Bhussar, Zorn, Hill, & Schwarte, 2025; Zhang & Rajagopalan, 2010).

In contrast, this study provides strong evidence that HEIRs are negatively associated with REM, and that this effect is significantly reinforced when CSCOMM are high. This finding reflects the unique relational continuity of heir-apparent appointments, where insider successors inherit established trust networks and are more responsive to governance signals. The moderating role of company secretaries highlights their capacity to leverage commercial

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expertise such as financial acumen, risk oversight, and strategic insight that can strengthen monitoring and advisory functions in succession contexts. These results extend governance research by illustrating that the influence of company secretaries is not uniform but contingent on leadership trajectories.

The robustness checks, including alternative REM proxies and lagged specifications, confirm the stability of these findings, mitigating concerns of endogeneity and reinforcing the causal interpretation of results (Li et al., 2023; Zadeh et al., 2023). Collectively, the evidence underscores the importance of considering both leadership characteristics and governance support structures in shaping financial reporting outcomes.

5.2. Theoretical and Empirical Implications

Theoretically, this study extends Agency Theory by showing that the ability of governance actors to constrain managerial opportunism is not uniform but contingent on succession dynamics. Under EARLY leadership, agency costs are heightened, and procedural actors are limited; under HEIR leadership, lower agency frictions amplify their monitoring capacity. RDT is also extended by demonstrating that the commercial expertise of company secretaries' functions as a valuable organizational resource only when embedded in relational continuity. These insights refine governance theory by integrating leadership context into the analysis of procedural governance effectiveness.

Empirically, the study provides rare large-sample evidence on company secretaries, an under-researched governance actor in emerging markets. Using 1,302 firm-year observations from Malaysian PLCs (2017–2019) and employing PCSE, the results demonstrate consistent moderation effects under heir-apparent succession, robust across alternative REM measures and lagged specifications. This strengthens confidence in the causal interpretation despite short-panel constraints (Beck & Katz, 1995; Li et al., 2023).

5.3. Practical and Policy Implications

The findings carry important implications for regulators, boards, and professional bodies. For boards of directors, the evidence highlights the need to integrate company secretaries more strategically into succession planning processes. By ensuring that secretaries possess strong commercial competencies, including financial expertise, risk management skills, and governance oversight, the boards can enhance their monitoring capacity during periods of leadership change.

For regulators and professional associations such as CCM, MAICSA, MIA, and MACS, the results highlight the importance of Continuing Professional Development (CPD) programmes that focus on the commercial, not just technical, aspects of secretarial practice. Incorporating these skills into certification, evaluation, and training requirements could enhance governance and organizational resilience during CEO transitions.

For practitioners, the study demonstrates that commercially capable company secretaries are particularly valuable when firms appoint insider successors. In these contexts, secretaries can act as balancing mechanisms, ensuring that relational trust does not translate into unchecked discretion.

From a broader public policy perspective, the findings contribute to discussions on institutional capacity-building in corporate governance. Strengthening the commercial and advisory competencies of company secretaries aligns with Malaysia's wider public administration objectives of enhancing regulatory quality, accountability, and professional governance standards. Institutionalizing these competencies through national training frameworks and accreditation systems can help embed integrity, transparency, and ethical stewardship within private and quasi-public entities, thereby reinforcing confidence in the Malaysian corporate governance framework.

5.4. Limitations and Directions for Future Research

While this study offers robust insights into the contingent role of company secretaries' commercial attributes during CEO succession, several limitations define its scope and suggest directions for future research.

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Firstly, the analysis is confined to Malaysian PLCs over the period of 2017 to 2019, a reform-intensive phase following the implementation of the Companies Commission of Malaysia (2016) and Securities Commission Malaysia (2021a). Although this window is theoretically appropriate for examining governance behavior under strengthened regulatory and professional standards, it limits the generalizability of the findings across time and institutional contexts. Future research could extend this framework to other jurisdictions or later periods to assess whether the procedural governance role of company secretaries remains effective under different regulatory regimes or post-crisis environments.

Secondly, the study adopts a short-panel design that is well suited to capturing CEO succession events and short-horizon REM behavior, where incentives for opportunistic reporting are most pronounced. However, this design does not allow examination of longer-term governance dynamics or the evolution of procedural influence over extended CEO tenures. Future studies could employ longer panels or event-study approaches to explore whether repeated interactions between company secretaries, boards, and CEOs reinforce or weaken governance discipline over time.

Thirdly, the measurement of company secretaries' commercial attributes relies on observable, role-based indicators derived from archival data. While this approach ensures objectivity and replicability, it may understate informal dimensions of influence such as relational trust, advisory credibility, and interpersonal capital within the boardroom. Future research could integrate qualitative methods like interviews, surveys, or case studies to capture these intangible mechanisms and complement large-sample empirical evidence.

Fourthly, although this study employs firm and year fixed effects, uses PCSE, and performs multiple robustness checks to mitigate endogeneity concerns, the empirical design remains observational. As such, the findings should be interpreted as conditional associations consistent with the proposed theoretical mechanisms, rather than definitive causal effects. Future research could strengthen causal inference by exploiting regulatory shocks, staggered governance reforms, or quasi-experimental settings related to CEO succession or the professionalization of governance roles.

Finally, this study focuses on commercial attributes as one dimension of procedural governance capacity. Company secretaries' influence, however, is multidimensional. Extending future research to incorporate technical and social attributes would enable a more comprehensive understanding of how different facets of procedural governance interact with leadership transitions and financial reporting behavior.

Overall, these limitations do not detract from the study's core contributions, but they delineate the conditions under which the findings apply. They also point to promising avenues for advancing research on procedural governance actors and their evolving role in shaping financial reporting integrity, especially in emerging-market settings.

5.5. Conclusion

This study advances the understanding of CEO succession and financial reporting integrity by demonstrating the contingent role of company secretaries in constraining REM. The findings reveal that heir-apparent CEOs are significantly more effective in curbing opportunistic reporting behaviors, particularly when supported by company secretaries with strong commercial competencies. By integrating Agency Theory and RDT, the study reconceptualizes company secretaries as strategic governance actors, shifting their role from compliance administrators to advisory professionals who actively shape board processes and reporting quality.

Theoretically, the research contributes to corporate governance scholarship by extending Agency Theory and RDT to leadership transition contexts, illustrating how the effectiveness of governance mechanisms is contingent on the interaction between CEO succession type and the commercial attributes of governance advisors. This integration offers a more dynamic framework for understanding how leadership legitimacy and relational trust influence the utilization of internal governance resources.

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Empirically, the study provides robust evidence through the use of 1,302 firm-year observations and PCSE estimations, showing that commercially capable company secretaries strengthen the negative association between heir-apparent CEOs and REM. This interaction effect is consistent across alternative REM proxies and lagged models, confirming both the reliability and economic significance of the results. The empirical evidence fills a notable gap in emerging-market research by positioning procedural governance capacity, rather than structural composition alone, as a determinant of financial reporting quality.

From a policy perspective, the findings support Malaysia's evolving governance agenda under the Companies Act 2016 and the Malaysian Code on Corporate Governance 2017 and 2021, which emphasize professional competence, board accountability, and advisory effectiveness. The results provide empirical justification for strengthening company secretaries' commercial training through CPD programmes and institutional frameworks led by the CCM and professional bodies such as MAICSA, MIA, and MACS. Embedding these competencies within succession planning and board evaluation practices can enhance oversight integrity, mitigate REM risks, and promote sustainable corporate accountability.

In summary, this study contributes theoretically by refining the governance–succession nexus, empirically by validating the strategic importance of company secretaries in mitigating REM, and practically by informing policy reforms aimed at institutionalizing professional governance capabilities within Malaysian PLCs.

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