Corporate Governance and Initial Compliance with IFRS in Emerging Markets: The Case of Income Tax Accounting in Egypt.

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Abstract

The paper examines the corporate governance factors and the independent audit quality as determinants of compliance with IFRS recognition and disclosure requirements of income tax accounting in Egypt. Using the initial IFRS adoption in Egypt, the results show evidence that corporate governance factors that indicate the sophistication level of both company's management and owners (i.e., institutional ownership and foreign representation on the board) and the perceived quality of the engaged auditor improve compliance with IFRS requirements. Companies with higher levels of institutional ownership and foreign representation on the board are more likely to engage an audit firm with international affiliation and comply with IFRS recognition and disclosure requirements. The results underline the significance of professional development and regulations of local audit industries in emerging countries for actual compliance with IFRS requirements when they are officially adopted in these countries.

Keywords:

IFRS Adoption
IFRS Compliance
Corporate Governance
Audit Quality
Emerging Economy

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1. Introduction:

Corporate governance in business organizations has been a main contributing factor to their financial success and financial reporting quality. It is also a determining element in the evolution of financial reporting in emerging markets especially when they adopt and enforce new reporting regulations and standards. Prior literature on financial and accounting implications of corporate governance focused more on highly-developed countries rather than emerging economies (Mueller, 2006). Studies on developed economies have generally examined corporate governance mechanisms in their relation to financial reporting quality and firm performance including variables like independent non- executive directors (Chen and Jaggi, 2000), board composition (Haniffa and Cooke, 2002; Eng and Mak 2003), and ownership structure (Eng and Mak 2003). Other ownership structure variables were also examined including institutional ownership (Haniffa and Cooke 2002), outside ownership (Chen and Jaggi 2000), and governmental ownership (Naser et al. 2002,).

In recent years, many emerging economies have proposed national corporate governance structures that are mostly voluntary in nature (Rossouw, 2005). Some of these countries try to adopt some form of the Anglo-Saxon model of corporate governance, while others develop their own corporate governance structure. The effectiveness of corporate governance in emerging markets may be influenced by a set of factors different from those in the Anglo-Saxon countries (Lazarides and Drimpetas, 2011). Because of the increasing flow of international capital into the developing world, it is important to understand corporate governance practices in these environments and how they affect accounting standards enforcement and financial reporting quality.

Prior research suggested that the independent audit process might be employed in these markets to alleviate agency problems and support –or even replace- some corporate governance mechanisms that are traditionally examined in developed economies (Fan and Wong, 2005). However, other prior research argued that the effectiveness of corporate governance and the audit quality are positively correlated as complements. As argued by Lin and Liu (2009), the positive signal from effective corporate governance, accompanied by high- quality audit, helps to reduce the cost of capital of the firm. On the other hand, inefficient corporate governance, accompanied by low-quality audit, may enable management to reap the private benefits of weak corporate governance and less transparent financial reporting.

Prior research on financial and accounting implications of corporate governance in different emerging markets has reported mixed results. For example, in Taiwan, foreign and family ownership is found to have negative effect on financial reporting quality, while state and institutional ownership has positive effect (Klai and Omri, 2011). However, no corporate governance factors, other than the audit quality, have any effect on earnings manipulation in the Saudi market (Al-Abbas, 2009). For general financial performance, different governance variables (including board size and independence) are found to be significantly related to firm performance variables in Pakistan (Abdullah et. al., 2008), but none of these corporate governance variables (except government and foreign ownership) have any significant association with firm performance in Malaysia (Anum and Ghazali, 2010). None of the typical corporate governance factors is found significant in Kuwait (Al-shammari and Al-sultan, 2010), while board size and composition are reported as main factors for effective corporate governance in the UAE (Adawi and Rwegasira, 2011). In Malaysia, only block ownership is found to deter financial statement misstatements, while other traditional corporate governance factors have no significant effect (Abdullah et. al., 2010). In Greece, corporate governance mechanisms have no effect on earnings manipulation (Chalevas and Tzovas, 2010). In addition to financial reporting and earnings quality, corporate governance factors are found to have significant positive correlation with banks' performance and value in Taiwan (Huang, 2010), and financial distress in China (Hong-xia et. al., 2008).

The IFRS adoption and compliance are also affected by country's economic transition stage. The development of institutional mechanisms like corporate governance structures and reliable independent audit process serve to facilitate enforcement and compliance with IFRS (Hodgdon et. al., 2009). Such intertwined relation between progress of corporate governance structure, the audit quality, and IFRS compliance and enforcement in emerging countries at different economic transition stages makes it necessary to examine the relation between these factors in individual emerging economies at different transition stages. With the increasing harmonization of global financial reporting standards and the global trend for both developed and emerging economies to adopt and enforce some version of IFRS, it is critical to examine how different corporate governance factors affect the initial adoption and enforcement of IFRS in individual emerging economies. This paper examines the effect of corporate governance factors and audit quality on compliance with IFRS recognition and disclosure requirements in Egypt during the year following its full adoption of IFRS in 2006. Egypt is used as an example of a major developing economy in the Middle East and North Africa (MENA) region which is generally overlooked in prior research. The paper focuses on recognition and disclosure requirements of income tax accounting standard as an example of complex accounting standard with which compliance is affected by regulatory environment and different socioeconomic variables in the country including different corporate governance factors.

Although Egypt is considered one of the emerging economies, results of the above prior research may not necessarily apply to its financial reporting environment. Like other economies, Egypt has its different corporate governance mechanisms and financial reporting environment that might differently affect the implications for initial compliance with IFRS recognition and disclosure requirements. Over the last few decades, the business environment in Egypt has experienced significant economic changes that affected accounting and financial reporting practices. According to Gray (1988) model of cultural influences on accounting systems, accounting measures and disclosures in Egypt (as part of the Near Eastern region in Gray's model) will tend to be more conservative and less transparent. Combined with a strong central government control and a mix of public/private ownership of many companies listed on the Egyptian stock exchange, the high levels of secrecy may make the government ownership factor a unique corporate governance one in the Egyptian environment. Furthermore, the fact that it is not a common practice for Egyptian companies to cross-list in foreign stock exchanges and file with foreign regulatory agencies in accordance with some internationally-recognized accounting standards will make the international affiliation of both board members and the independent audit firm additional unique corporate governance factors to examine in the Egyptian environment. Therefore, Egypt provides a distinctive opportunity to study issues of compliance with IFRS recognition and disclosure requirements in emerging markets in transition. The Egyptian stock exchange - Cairo and Alexandria Stock Exchange (CASE) - is one of the oldest stock exchanges in the world and the first to be established in the MENA region (Fawzy, 2003; and Sourial, 2004).

The remainder of the paper is organized as follows: Section 2 presents institutional background about corporate governance and financial reporting in Egypt, Section 3 develops hypotheses, Section 4 describes the sample and methodology, Section 5 analyses the study results, while Section 6 concludes the paper.

2. Institutional Background:

Among many changes in the capital market and regulatory framework over the recent decades, Egypt has made efforts to comply with internationally accepted accounting and auditing standards. The accounting profession in Egypt has evolved over time to coincide with transition stages of its economic development. Over the period of nationalization and central planning, accounting information was required for macroeconomic planning purposes. Therefore, the Central Auditing Organization (CAO) became the public organization authorized to audit public sector companies, and a Uniform Accounting System (UAS) was issued in 1966 to govern financial reporting of public sector companies. With the increase in foreign investments starting in the mid-1970s, the number of accounting firms increased and some international accounting firms returned to work in Egypt. The Permanent

Committee for Standards of Accounting and Auditing was established in May 1997. Although official responsibility for setting accounting and auditing standards was assigned to the Permanent Committee, the Egyptian Society of Accountants and Auditors in effect had the main responsibility for drafting and adopting accounting and auditing standards. The Egyptian Accounting Standards (EASs) were first introduced in 1997 (Abd-Elsalam and Weetman, 2003) when 19 Standards were issued. One year later, additional three accounting standards were issued. In 2002, Egypt started a harmonization process with International Accounting Standards (IASs) to improve and enhance quality and transparency of financial reporting. In 2006, Egypt declared full adoption of IASs –with some exceptions- and issued updated EASs (35 standards prepared according to International Standards), and a new set of EASs based on IASs was prepared and issued.

IAS 12 requires an entity to recognize deferred tax liability or asset for temporary differences between taxable income and accounting income, with certain exceptions. The standard requires deferred tax assets arising from temporary differences to be recognized when there is a reasonable expectation of realization. It also requires deferred tax assets arising from tax losses to be recognized as an asset when it is probable that taxable income will be available against which the deferred tax asset can be utilized. For measurement purposes, IAS 12 requires that current tax liabilities (assets) for current and prior periods shall be measured at the amount expected to be paid to (recovered from) taxation authorities based on tax rates (and tax laws) that have been enacted by the end of reporting period. It also requires the carrying amount of deferred tax assets to be reviewed at the end of each reporting period and reduced when it is no longer probable that sufficient taxable income will be available to allow the benefit of part or all of tax asset to be utilized. For disclosure purposes, the standard requires companies to disclose in their financial statement notes a numerical reconciliation between tax expense (income) and the product of accounting income multiplied by applicable tax rate(s), or a numerical reconciliation between the average effective tax rate and applicable tax rate. In addition, the standard requires footnote disclosures of the detailed amounts of deferred tax assets and liabilities and the amounts of deferred tax income or expense recognized in income statement with respect to each type of temporary differences. In Egypt, IAS 12 was fully translated into Arabic and became EAS No. 24 as part of the comprehensive project that translated the IASs and enacted them into law as the official and enforceable EASs in 2006. Therefore, EAS 24 embodies the same requirements of IAS 12, and public Egyptian companies are required to abide by the same recognition and disclosure requirements for their deferred taxes resulting from temporary differences between taxable and accounting income.

Tax regulations in Egypt provide corporations with different types of income tax incentives including tax holidays for corporations working in some industrial zones, accelerated deductions for some items like depreciation, and other tax deductions or treatments that create differences between accounting basis and tax basis for different assets and liabilities. The current Egyptian income tax law states that net income is determined based on the income statement prepared in accordance with the EASs, with the taxable income determined after applying rules of the tax law to net income. Although the Egyptian tax code includes many sections and articles that should result in both permanent and temporary differences between accounting income and taxable income, a significant portion of Egyptian corporations may not necessarily recognize deferred taxes in their financial statements. Some corporations justify such noncompliance by stating in their financial statement notes their belief that, due to Egyptian tax regulations and general economic and regulatory environment, the requirements of income tax accounting are simply not applicable to their situation.

On the corporate governance side, in 2001, the World Bank and the International Monetary Fund (IMF) reviewed corporate governance practices in Egypt against the Organization for Economic Co-operation and Development (OECD) principles of corporate governance. The results indicated that 62% of the principles were applied in Egypt. In addition, that assessment identified areas that need future improvement including training, awareness of regulators and private sector, the role and effectiveness of shareholders' meetings, board of directors' practices, and professional conduct of independent auditors (World Bank, 2001). In 2002, CASE has modified its listing rules to underline timely disclosure of corporate actions and encourage good corporate governance practices by listed companies (Abdel-Shahid, 2003 and Fawzy, 2003). These changes resulted in a considerable decrease in the number of listed companies especially among small and closely held ones (Mustafa, 2006). In its efforts to improve corporate governance practices, CASE also formed the Investor Relations and Corporate Governance Committee which plays a communication and advisory role with listed companies. CASE's efforts to promote transparency and corporate governance targeted mainly top companies that make up the CASE 50 index and account for 80 per cent of trading volume. Some of these initiatives were subsequently extended to CASE 100 index companies which account for the vast majority of CASE's trading (International Chamber of Commerce (ICC), 2006).

In March 2004, as a result of legislative changes, the World Bank updated its evaluation of the application of corporate governance principles in Egypt from 62% in 2001 to 82% of the OECD principles. This re-assessment indicates that Egypt is continuously improving in the area of corporate governance (World Bank, 2004). However, board responsibilities, disclosure, and transparency were identified as areas of weakness in corporate governance practices in Egypt (Fawzy, 2003; Bremer and Elias, 2007). With regard to board structure, the assessment referred to the CEO-Chairman duality issue, lack of rules that govern board members' independence, and the limited access to information that non-executive board directors have. The report recommended drafting a code of corporate governance, adopting the rule of "comply or explain", and considering the concept of "independent director". Although the current corporate governance regulations and practices in Egypt are non-mandatory in nature, it is perceived by practitioners and different users of financial statements to enhance quality of the financial reporting process (Ebaid, 2011).

A number of studies have examined financial reporting practices in the Egyptian context. While some of these studies focus on compliance with mandatory disclosure requirements (Dahawy et al 2002; Abd-Elsalam and Weetman 2003), Hassan et al (2006) address the mandatory and voluntary disclosure practices. Samaha and Stapleton (2008) examine the extent of compliance with measurement and disclosure requirements. They indicate that the adoption of IASs starting from 1997 is not sufficient to resolve the transparency problem in Egypt. Rizk et al (2008) investigate one type of voluntary disclosure, corporate social responsibility. Elsayed and Hoque (2010) examine the association between perceived international environmental factors and corporate voluntary disclosure practices in Egypt. Samaha et al. (2012) assess the extent of corporate governance disclosure and the effect of some governance characteristics on such type of disclosure. In an Egyptian context, Samaha and Dahawy (2010 and 2011) found that corporate governance mechanisms affect the Egyptian companies' general voluntary disclosures. One of the empirical papers that examined the effect of different corporate governance factors in a sample of 85 companies listed in the Egyptian Stock Exchange (Afify, 2009) has tested its relation with audit report lag. The paper reported evidence that board independence and CEO-Chairman duality have significantly affected audit report lag. However, the paper found ownership concentration to have insignificant effect on audit report lag. In a survey of Egyptian listed firms, Ebaid (2011) reported responses indicating that internal audit function in Egyptian firms has a week interaction with the independent audit process, and is considered to be a week mechanism of corporate governance in the Egyptian market.

3. Study Variables and Hypotheses Development

3.1. Board Composition Variables:

3.1.1. Board leadership (CEO-Chairman duality):

Role duality exists when the CEO is also the board chairman. Role duality creates a strong individual power base and strong leadership which may affect the effectiveness of board control. On the other hand, role duality may enable board chairman to act rapidly and to make good decisions due to better knowledge about the firm (Donaldson and Davis, 1991; Whittington, 1993; Brickley et al., 1997). Board leadership may also be affected by culture, especially in emerging markets like Egypt. Following the Hofstede's model, Egyptian culture is characterized by collectivism and large power distance (Dahawy and Conover, 2007). In Egypt, role duality is the dominant situation in companies' boards. The Egyptian Code of corporate governance recognizes this issue of dominant form of board leadership and recommends companies to separate CEO and chairman positions. The Code also states that if role duality is deemed necessary by the firm, its reasons should be clarified and a non-executive vice chairman should be appointed.

Because of mixed arguments and results regarding the effect of role duality, this study doesn't expect a specific direction of its effect on income tax compliance. Therefore, we test for the following hypothesis:

H1.1 There is association between role duality and the initial compliance with IAS12's requirements.

3.1.2. Non-executive directors:

The proportion of non-executive directors on the board is traditionally considered one mechanism for good corporate governance. Non-executive directors can play important role in monitoring management performance and limiting managerial opportunism (Fama and Jensen, 1983; Crowther and Jatana, 2005). Gul and Leung (2004) argue that boards with higher proportion of expert non-executive directors are expected to be more effective in their monitoring function and in encouraging higher levels of corporate transparency.

Prior studies on the effect of non-executive directors reported mixed results. Chen and Jaggi (2000) document a positive effect on inclusiveness of financial reporting and disclosure. Beasley (1996) and Ajinkya et al. (2005) indicate that firms with higher proportion of non-executive directors are less likely to suffer from financial statement fraud. On the other hand, Eng and Mak (2003) reported a significant negative effect on voluntary disclosure in Singapore, Haniffa and Cooke (2002) find negative but insignificant association with voluntary disclosure in Malaysia. Furthermore, Ho and Wong (2001) conclude that the ratio of independent directors has insignificant association with voluntary disclosure in Hong Kong.

It is argued that even non-executive majority boards may be controlled and influenced by insider directors. Among the many factors that threaten non-executive directors' independence are the nature of non-executive appointments (Crowther and Jatana, 2005) and their tenure (Patelli and Prencipe 2007). This criticism is especially amplified in the case of emerging economies. In Egypt, the concept of independent board member is not clearly applied in most of Egyptian public companies (Fawzy, 2003). Moreover, there are no rules governing the balance between executive and non-executive directors. In most cases, it depends on previous relationship between the candidate and board chairman or executive directors. Since most of the arguments and results of prior literature suggest that board directors' independence is a constructive governance mechanism, this study tests the following hypothesis:

H1.2 There is a positive association between the proportion of non-executive directors and the initial compliance with IAS12's requirements.

3.1.3. Founding family members on the board:

A company is classified as a family company if one of its founders or their descendants continue to hold top management positions, serve on the board, or are among the largest shareholders (Anderson and Reeb, 2003; Wang, 2006; and Ali et al, 2007). Family ownership and control is dominant among publicly traded companies around the world (Burkart et al, 2003). Founding family members usually hold important positions on both management team and board of directors (Wang, 2006). The traditional view of family companies is that family members have access to required information and incentive to run the company for their best interest. Ali et al (2007) indicate that family companies raise interesting issues about their financial reporting and disclosure practices. Chen et al (2008) also indicate that family companies tend to provide less accounting disclosures in their financial statements, partially because they have greater concerns with regard to litigation and reputation costs. Wang (2006) argues that family members have greater stake in the company than non-family executives, due to the long term and sustainable presence of family members in the company and their desire to protect family reputation. Wang (2006) provides evidence challenging the traditional view that family companies have entrenched ownership and thus greater incentives to opportunistically manage reported earnings than non-family companies. Moreover, Ali et al (2007) conclude that U.S. family companies report better quality earnings and make better financial disclosures than non-family companies. They point out that their results may not apply to companies in other countries due to institutional differences. In Egypt, a single family may have direct or indirect controlling stakes in number of companies (Sourial, 2004). Some family companies benefited from recent privatization policy, governmental incentives, and market imperfections (Youssef, 2003). Therefore, the list of most active companies in the Egyptian Exchange includes a number of family companies. This study expects that the existence of founding family members on the board improves the general corporate governance of the company with its implications for financial reporting and, therefore, we test for the following hypothesis:

H1.3 There is a positive association between the presence of family members on the board and the initial compliance with IAS12's requirements.

3.1.4. Foreign members on the board:

The presence of foreign members on the board helps to insert a different –and may be better- corporate governance style. Foreign members are often assigned to board as representatives of foreign investors. Therefore, their presence can significantly alter the ownership-control equation. It provides foreign investors with tangible direct representation that can be leveraged to influence the firm's strategic direction (Ramaswamy and Li, 2001). More specifically, Anglo-Saxon board members play special role with respect to monitoring companies in emerging economies (Oxelheim and Randoy, 2001). Foreign directors usually possess unique knowledge and understanding of various overseas strategic market areas in which the firm may be interested in (Ramaswamy and Li, 2001). Furthermore, their existence is expected to reduce managerial entrenchment.

The presence of foreign members on the board may signal the company's ability to deal with international markets with better financial disclosure and transparency. Moreover, companies with foreign directors may disclose more information to signal the managerial capabilities that distinguish them. Carey (1994) indicates that foreign members possess the social capital and networks of connections with key stakeholders. Because of cultural differences, foreign members may also have different insights with regard to financial reporting and stakeholders' information needs. Foreign members are defined in this study to mean non-Arab members. Although there may be Arab, other than Egyptian, members on companies' board, the study does not classify them as foreign members due to relative similarity in both culture and general financial reporting framework. We expect that foreign members' representation on Egyptian companies' boards will have a positive effect on their compliance with financial reporting regulations especially those with international basis. Therefore, the study tests the following hypothesis:

H1.4 There is a positive association between the presence of foreign members on the board and the initial compliance with IAS12's requirements.

3.1.5. Board size:

Large board size may have a negative impact on board effectiveness due to communication and coordination issues associated with larger groups. Oversized boards may have lower levels of motivation and satisfaction due to lack of participation in their decision-making. Therefore, larger boards are generally ineffective in conducting discussions or strategic decision making including financial reporting and disclosure policy (Goodstein et al, 1994). For example, Yermack (1996) reported higher market valuation of companies with small boards, and Haniffa and Hudaib (2006) concluded that board size had a significant negative relationship with market performance.

Alternatively, increased board size may increase board's diversity of expertise (including financial reporting expertise) and representation of independent directors. Consequently, it can improve financial reporting quality. In addition, larger boards make it more likely to represent views of different stakeholders. Part of the prior research provides evidence in favor of larger board size. For example, Beasley and Salterio (2001) and Klein (2002) argue that limited board size will also limit the number of independent directors available to serve on audit committee, and they report evidence that audit committee independence increases in board size. However, other studies conclude that board size is not associated with accounting disclosure level (Arcay and Vazquez, 2005; Cheng and Courtenay, 2006). In Egypt, the board must include an odd number of directors with minimum of three members. Board members must be shareholders or representatives of participating companies with the exception of up to two members who are chosen as experts in the field (Fawzy, 2003). Therefore, board size is expected to vary between Egyptian companies. Because of the above mixed arguments and results, we don't expect a specific direction for the effect of board size on the Egyptian companies' financial reporting compliance, and we test the following hypothesis:

H1.5 There is association between board size and the initial compliance with IAS12's requirements.

3.2 Ownership Structure Variables:

3.2.1 Governmental ownership:

Companies with higher government ownership may have more access to government funding and capital and, therefore, less incentive to disclose information in their financial reporting. On the other hand, these companies are usually in the public eye and may come under more pressure to disclose more information. Prior studies reported mixed results regarding the implications of government ownership. Eng and Mak (2003) reported positive effect on financial disclosure. Suwaidan (1997) also presented evidence of positive effect on financial disclosure levels in Jordanian listed companies. Luo et al (2006) concluded that government ownership affects the association between accounting disclosure and current returns and future earnings. However, Naser et al (2002) reported no significant association.

We argue that the lack of financial reporting transparency in Egypt will be even more amplified in companies with higher government ownership. Therefore, we expect that these companies will have less incentive to comply with recognition and disclosure requirements and we test the following hypothesis:

H2.1 There is a negative association between governmental ownership and the initial compliance with IAS12's requirements.

3.2.2 Institutional ownership:

Institutional investors are more sophisticated and have more technical expertise to effectively monitor managers (Guan et. al., 2007). The relationship between institutional ownership and financial reporting was examined in prior studies with mixed results. McKinnon and Dalimunthe (1993) and Mitchell et al. (1995) examined disclosure of segment information and provide weak evidence of the positive relation between ownership diffusion and disclosure. Barako et al (2006) found positive association between institutional ownership and disclosure levels in Kenya. Guan et al (2007) documented positive association between institutional ownership and disclosure. On the other hand, Schadewitz and Blevins (1998) provided evidence of negative association between institutional ownership and financial disclosure.

In Egypt, there has been a noticeable increase in institutional ownership due partially to large privatization transactions that were mainly conducted with financial institutions (Abdel Shahid, 2003). This paper argues that institutional owners' sophistication provides effective monitoring mechanism on the financial reporting policy. Therefore, we expect a positive correlation between institutional ownership and compliance with income tax accounting requirements and test the following hypothesis:

H2.2 There is a positive association between institutional ownership and the initial compliance with IAS12's requirements.

3.3 Independent Audit Quality:

In addition to traditional corporate governance mechanisms related to board composition and ownership structure, this study examines the effect of independent audit quality as a complementary component (and sometimes a suggested replacement) of corporate governance (Bedard and Johnstone 2002; and Cohen et al 2004). As mentioned before, prior literature suggested different levels of both integral and trade-off relations between traditional corporate governance mechanisms and audit quality, and that audit quality may be the first and most effective monitoring mechanism on management's compliance with enacted financial reporting requirements. Therefore, this study expects higher levels of compliance with recognition and disclosure requirements of income tax accounting when the company is audited by a local accounting firm with international affiliation and tests the following hypothesis:

H3 There is a positive association between independent audit quality and the initial compliance with IAS12's requirements.

4 Study Sample and Methodology:

Our sample includes public Egyptian companies listed in the Egyptian Exchange with financial statements available for the fiscal year 2007 either through Egypt for Information Dissemination (EGID) database or by directly contacting the Egyptian Financial Supervisory Authority (EFSA) to obtain copies of financial statements. Fiscal year 2007 was the first year after the full adoption and enactment of translated IAS in Egypt in 2006. Financial statements of sample companies were obtained as PDF files (mostly in Arabic) and required data was extracted and coded manually. Although the number of companies traded in the Egyptian Stock Exchange during

2007 was around 337, we were able to obtain scanned PDF financial statements for only 171 companies including 30 banks and other financial institutions, which were excluded from the sample due to their special financial reporting requirements. Out of the remaining 141 financial statements, 25 did not have the necessary information to estimate some of the study variables. Therefore, the number of companies with data available to construct study variables was 116 from 14 different industry sectors[1]. Because of the secrecy culture that overshadows circulation of business information in Egypt (see Dahawy et al, 2002), all prior empirical research using Egyptian data was based on relatively small samples. For example, Elbannan (2011) used a sample of 141 firms, Ragab and Omran (2006) used a sample of 59 most active firms, and Abd-Elsalam and Weetman (2003) used a sample of 72 nonfinancial firms. Table (1) shows the sample companies distribution between different industrial sectors along with the number and percentage of companies reporting deferred income tax in their financial statements for year 2007.

Insert Table (1) Here

We investigated financial statements and disclosure notes of study sample companies to analyze their recognition and disclosure of deferred income tax according to both the IAS 12 and its equivalent EAS 24 in Egypt. According to the two standards, changes in deferred tax balances are generally recognized in income statement. Deferred tax expense (or benefit) is the change during the year in an entity's deferred tax liabilities and assets recognized in the statement of financial position. Both IAS 12 and EAS 24 (Paragraph 58) require that current and deferred tax shall be recognized as income or an expense and included in profit or loss for the period. We examined the income statement of each company to determine if the company has recognized deferred income tax expense (benefit) in addition to current income tax expense (benefit)[2].

We also examine all financial statement disclosure notes to design a deferred income tax disclosure index for sample companies that have already recognized deferred income tax expense (benefit) during the year. For companies that didn't recognize any deferred income tax expense (benefit) during the year, we also examined their disclosure notes for any explanations or justifications for their deferred tax non-recognition. Based on

[1] None of the study sample companies is cross-listed in a foreign stock exchange and required to file accounting reports with foreign regulatory agency such as the SEC.

[2] Even when deferred tax expense (benefit) is not clearly stated on the face of the income statement, we examine both the statement of financial position and disclosure notes for any indication of deferred tax recognition during the study year. In almost all cases, deferred tax expense (benefit) was stated on the face of the income statement.

disclosure requirements of IAS 12 and EAS 24 in Egypt, and some general disclosure practices of public Egyptian companies, the following disclosure items were used to construct the disclosure index (DISC) used in the study:

- Disclosure of the general policy of deferred income tax accounting as part of the accounting policies footnote. This disclosure note is usually the standard language mentioned in the IAS 12 standard and its equivalent EAS 24 in Egypt. For a typical Egyptian corporation, it is usually the Arabic translation of this paragraph as stated in IAS 12.

  "Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax recognized is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized."

- Disclosure of different types of temporary differences between accounting income and taxable income that result in deferred income tax as required by IAS 12 standard and its equivalent EAS 24 in Egypt,

- Disclosure of detailed amounts of deferred income tax from different types of temporary differences including changes from the beginning to the end of the fiscal year as required by IAS 12 standard and its equivalent EAS 24 in Egypt,

- Disclosure of the reconciliation between the average effective tax rate and the applicable tax rate as required by IAS 12 standard and its equivalent EAS 24 in Egypt,

- Disclosure of the tax position of the company as of the end of the fiscal year in terms of the company's standing with tax authorities with regard to income and other different taxes including sales tax. This is a common disclosure practice by Egyptian companies in which the company will disclose the years that are completely settled with tax authorities and the years that are still open because tax authorities did not process the tax return yet or because there is an ongoing procedural disagreement or court challenge between the company and authorities with regard to some particular year(s).

To construct the DISC variable, each one of the above disclosure items was assigned an equal weight resulting in a disclosure index that ranges from zero (none of the five items disclosed) to five (all the five items disclosed)[3]. We used this un-weighted scoring method that gives the same weight to each disclosure item following Abd-Elsalam and Weetman (2003), especially with Dunn and Mayhew (2004) reporting similar results using both weighted and un-weighted disclosure score. Table (2) provides the number and percent of deferred tax recognition sample companies that disclosed each of the five disclosure items in their notes.

Insert Table (2) Here

[3] Since almost all sample companies automatically include the last common practice disclosure item in their notes, study results are not affected by excluding this item from measurement of the disclosure index DISC.

Because this study examines companies' compliance with income tax accounting requirements, we use a dichotomous variable (DTR) that takes 1 if the sample company recognized deferred income tax expense (benefit) during the year, and 0 otherwise.

Prior research used different proxies including audit firm size (DeAngelo 1981). Papers that empirically tested the audit quality in developing countries have either used the big international audit firms as proxy for audit quality (i.e., Abd-Elsalam and Weetman 2003, Glaum and Street 2003) or the big-plus-two method that includes BDO and Grant Thornton (i.e., Dunn and Mayhew 2004, Hodgdon et al 2009). This study is following this brand-name approach for audit quality by using a dichotomous variable (AUDQ) that takes 1 if the sample company is audited by local Egyptian auditing firm that is associated with international foreign accounting firm (including the big four) which is perceived by the market to provide better audit quality. Those brand name local accounting firms and their international affiliations are listed in table (3). Therefore, the variable AUDQ takes 1 if the sample company's auditor (or at least one of the auditors when the company is audited by more than one) is one of those six accounting firms, and 0 otherwise.

Insert Table (3) Here

Since Singhvi and Desai (1971), accounting literature has reported evidence that companies' adequate compliance with disclosure requirements is a function of their size, profitability, in addition to audit quality. For example, Glaum and Street (2003) controlled for size and profitability. Similarly, prior empirical research on determinants of accounting recognition and disclosure practices by Egyptian corporations has also controlled for company's profitability and size (i.e. Hassan et al, 2006). To control for profitability effect, we include the explanatory variable (PROFIT) measured by net income divided by net sales. To control for size effect, the study uses the variable (SIZE) as measured by the natural logarithm of company's net sales. Net sales may be better proxy for company's size than total assets since many Egyptian companies have slow and non-operating assets on their balance sheets including receivables, inventory, and fixed assets.

In addition to the Univariate analysis including non-parametric correlation coefficients and ANOVA, the study uses regression analysis to test the effects of corporate governance and audit quality on compliance with both deferred tax recognition and disclosure requirements. The following two regression models were first estimated for the study sample:

$$\begin{aligned} DTR = \alpha + \beta_1 DUAL + \beta_2 IND + \beta_3 FAMILY + \beta_4 FOREIGN + \beta_5 BSIZE + \\ + \beta_7 GOV + \beta_8 INST + \beta_9 AUDQ + \beta_{10} PROFIT + \beta_{11} SIZE + \varepsilon \end{aligned} \tag{1}$$

$$DISC = \alpha + \beta_1 DUAL + \beta_2 IND + \beta_3 FAMILY + \beta_4 FOREIGN + \beta_5 BSIZE + \beta_7 GOV + \beta_8 INST + \beta_9 AUDQ + \beta_{10} PROFIT + \beta_{11} SIZE + \varepsilon \qquad (2)$$

Where the explanatory corporate governance variables in the models are:

- Board composition variables:
  - *DUAL*: Is a dummy variable for CEO-Chairman role duality which takes 1 if the CEO is also the board chairman, and 0 otherwise,
  - *IND*: Is the percentage of non-executive directors on the board,
  - *FAMILY*: Is a dummy variable for founding family members which takes 1 if the board has at least one founding family member, and 0 otherwise,
  - *FOREIGN*: Is a dummy variable for foreign member on the board which takes 1 if the board has at least one foreign member, and 0 otherwise,
  - *BSIZE*: Is the board size measured by the total number of board members,
- Ownership structure variables:
  - *GOV*: Is the government ownership variable measured by percentage of company's stocks owned by the government,
  - *INST*: Is the institutional ownership variable measured by percentage of company's stocks owned by financial institutions,
- Other model variables are as defined before in the text.

The model in equation (1) above is estimated as Logistic regression model to estimate and analyze the probability that a sample company will recognize deferred income taxes given the explanatory variables under consideration. The model in equation (2) is estimated using only the subsample of companies that have recognized deferred income tax for the study year. Because the dependent variable DISC is an ordinal variable, equation (2) is estimated using the Ordinal Logistic Regression. Data sets with ordinal dependent variable may not satisfy the strict statistical assumptions of traditional OLS regression including normality of variables and linearity of relationships (Neter et. al. 1996 and Hair et. al. 1998) and, therefore, an Ordinal Logistic Regression model may better reflect the statistical relationships between test variables.

5 Results and Analysis:

5.1 Basic Analysis:

Table (4) shows the basic descriptive statistics of the study variables and results of univariate t-tests for differences in the means of subsamples of the two variables DTR and DISC based on the medians of different explanatory variables. We used the medians of the explanatory variables to run those mean comparison tests since descriptive statistics show skewed distribution for some of the explanatory variables. For the DTR variable, the univariate tests in Table (4) combined with the correlation coefficients reported in Table (5) show that study companies are more likely to recognize deferred taxes when they are audited by a high-quality audit firm, have higher institutional ownership, and when they are larger in size. Table (5) also shows a significant positive correlation between board size and deferred tax recognition. The tests show that all other corporate governance factors have no significant effect on the DTR variable. For the disclosure variable (DISC), Tables (4) and (5) results show that the companies recognizing deferred taxes are more likely to comply with disclosure requirements with the audit quality, institutional ownership, both family and foreign ownership, and the profitability of the firm. However, compliance with disclosure requirements is significantly lower with the increase in government ownership. Tests of other corporate governance factors are insignificant.

The correlation coefficients in Table (5) suggest an integration relationship between institutional relationship, both foreign and family representation on the board, and the audit quality. The table shows significant positive correlation between audit quality and the individual variables of institutional ownership and both foreign and family representation on the board. Such integration suggests that companies with higher percentage of the more sophisticated institutional ownership and more representation of foreign and family members on the board are more likely to engage high-quality audit firm and –ultimately- will be more likely to comply with the IFRS financial reporting requirements.

Insert Table (4) Here

Results of estimating the logistic regression model in equation (1) are reported in Table (6). The table shows a significant positive coefficient of AUDQ indicating that companies with independent auditor with international affiliation are more likely to comply with recognition requirements of the deferred taxes. Among other corporate governance variables, government ownership (GOV) has negative and significant coefficient indicating a lower probability of compliance. Contrary to the study expectations, the founding family representation on the board has negative and significant coefficient. This inconsistent result may be caused by some econometric issues addressed later in the additional analysis.

Insert Table (5) Here

Insert Table (6) Here

Eq. (2) is estimated using only sample companies that recognized deferred taxes in their financial statements and its results are shown in Table (7). Once again, the AUDQ variable is significantly positive confirming the results that the audit quality represented by the auditor's international affiliation is a determining factor for companies' compliance. In addition to AUDQ, and consistent with the study's expectations, the coefficients of some ownership variables (INST), and board composition variables (FAMILY, and FOREIGN) are significantly positive in their relation with the disclosure level. The three variables are indication of the sophistication level of company's shareholders and board members. Highly sophisticated ownership and board members with some international affiliation are more likely to engage high quality independent auditor and compel management to comply with new financial reporting requirements like the IFRS.

Insert Table (7) Here

Overall, results of the basic analysis generally highlight the significance of international affiliation of the company in general, and its independent auditor in particular, in determining its compliance with recognition and disclosure requirements of newly adopted financial reporting standards like the IFRS. Results also show that government involvement and ownership in the company is associated with lower levels of compliance.

5.2 Additional Analysis:

Table (5) above shows significant correlation coefficients between the audit quality variable (AUDQ) and corporate governance variables like institutional ownership and both family and foreign representation on the board. The table also shows significant correlation coefficients among the corporate governance variables. This may indicate that AUDQ and other corporate governance variables are not totally exogenous variables but may be endogenously determined and affect each other before their exogenous effect on DTR and DISC. Such endogeneity may explain some of the conflicting and inconsistent results in the basic analysis above in terms of the sign and significance level of some variable coefficients. For example, the inconsistent significant negative coefficient of FAMILY in the DTR model turned into a significant and positive coefficient in the DISC model.

To alleviate this problem and check for the validity of the basic analysis results above, we apply a simultaneous equations model analysis similar to the one used in Zhou (2007) by estimating a series of two-stage regression models for both DTR and DISC as explained below:

$$DTR\ (or\ DISC) = \alpha + \beta_i \widehat{EX}_i + PROFIT + SIZE + \varepsilon \qquad (3)$$

$$\widehat{EX}_i = \alpha + \sum_{i=1}^{n-1} \beta_i EX_i + \varepsilon \qquad (4)$$

Where:

EX: refers to one of the explanatory variables used in the study (AUDQ and all other corporate governance variables), and

i = 1, 2… n is the total number of these explanatory variables including AUDQ.

The model in equation (4) is estimated first for each one of the n explanatory variables using the remaining n-1 variables as instrumental variables to predict EX_i. Then, the standardized predicted values of this explanatory variable ($\widehat{EX}_i$) are used in equation (3) to estimate the endogenous variables DTR and DISC. In estimating the model in equation (3), we continue to use the Logistic regression model for DTR and the Ordinal logistic regression model for DISC (using only sample observations with DTR=1) as explained before.

The results of this additional analysis are presented in Table (8). Panel (A) of Table (8) presents the coefficients of estimating equation (4) for each explanatory variable using the remaining corporate governance and audit quality measures as instrumental variables. Panel (A) shows a significant negative association between institutional ownership and both government ownership and the founding family representation on the board, and a significant positive association between institutional ownership and the foreign representation on the board. Institutional ownership in Egypt tends to be in privately-owned companies funded by local or foreign investors. Panel (A) also shows a significant positive association between the foreign representation on the board and audit quality indicated by the international affiliation of the auditor.

Insert Table (8) Here

Panels (B) and (C) of Table (8) show a more consistent results than those presented in Tables (6) and (7) above. Panel (B) shows that deferred tax recognition was significantly affected by the institutional ownership and the foreign representation on the board. This result indicates that the sophistication levels of both ownership and management teams are the critical determinants of compliance with deferred taxes recognition requirements. Although the audit quality variable coefficient is positive, it is not significant at the regular levels. As mentioned before, the audit quality factor may not be entirely an exogenous factor, and its effect on financial reporting may be mediated by other corporate governance factors. Panel (B) also shows that big companies in general tend to comply with deferred taxes recognition requirements. The coefficient of the variable SIZE is positive and significant in most of the models.

Panel (C) shows the results of estimating the Ordinal regression version of equation (3) using the DISC variable. It shows that the level of compliance with disclosure requirements is a function of institutional ownership, foreign representation, and audit quality. The coefficients of these three variables are positive and significant at less than 1% level. As expected, the results also show that government ownership negatively and significantly affect the disclosure level. Panel (C) also shows some conflicting results for the firm size compared with the results in Panel (A). The coefficient of the SIZE variable turns negative and is significant only in the FOREIGN and AUDQ models. One explanation of this result is that, among the companies recognizing deferred taxes, the government-owned companies tend to be the largest while the privately-owned companies are smaller with more representation of sophisticated ownership, management, and higher probability of engaging an auditor with international affiliation.

5.3 Sensitivity Analysis:

The simultaneous equations analysis presented above based on series of separate two-stage regression models allows us to continue using the Logistic regression model for DTR and the Ordinal logistic regression model for DISC in equation (3) above. However, we recognize that (compared with the two-stage least squares regression model as directly estimated by a statistical software package using selected instrumental variables) such model of two separate steps may lead to inaccurate estimates of the standard error and, therefore, inaccurate measures of the significance levels of model coefficients. As an additional test for the sensitivity of our results to the technique employed in estimating the two-stage regression models, we also estimate the model in equation (3) above directly by using one corporate governance variable at a time as a predictor for the dependent variable (DTR or DISC) with all other corporate governance variables (in addition to the control variables PROFIT and SIZE) as instrumental variables. The results of this additional sensitivity analysis are presented in Table (9). In general, the results of this direct estimation of the two-stage model are very similar to those of our original model with the exception of more significant coefficients for the variables IND, FOREIGN, and AUDQ in the DTR model.

Taken together, the results of our empirical tests provide support for only some of our study hypotheses. For the board composition hypotheses, the results support our expectation in H1.4 of positive effect of foreign membership on IFRS compliance. However, we only found some support for H1.1 since only some models showed significant negative correlation between CEO-chairman duality and IFRS compliance. The empirical results are not providing any support for a significant effect of independent directors, family membership, or board size (Hypotheses H1.2, H1.3, and H1.5). For both the ownership structure hypotheses (H2.1 and H2.2) and the audit quality hypothesis (H3), the empirical results offer consistent support for our expectation that both institutional ownership and independent audit quality significantly improve IFRS compliance while government ownership negatively affects the Egyptian companies' compliance with IFRS requirements. Our results of the positive effect of international affiliation and the negative effect of government ownership on financial reporting quality and IFRS compliance in the Egyptian environment are not consistent with recent results reported for other developing countries (i.e. Klai and Omri, 2011 for Taiwan). This highlights the importance of examining the unique and different characteristics of individual countries and implications for their companies' financial reporting quality and compliance with accounting regulations.

The chart below summarizes the results of our empirical tests:

Chart (1): Summary of the Study Results

Corporate Governance Factor	Expected Relation with Compliance	Study Results Provide:		
		Support	Some Support	No Support
CEO-Chairman duality	?		√	
Non-executive directors	+			√
Founding family members	+			√
Foreign members on the board	+	√		
Board size	?			√
Governmental ownership	-	√		
Institutional ownership	+	√		
Independent Audit Quality	+	√		

6 Conclusion:

We examined the effect of some corporate governance factors related to company's ownership and board composition in addition to the audit quality on compliance with IFRS requirements in emerging economies using Egypt as an example of emerging economy and income tax accounting as a case study. Results show that compliance with recognition and disclosure requirements of income tax accounting during the initial IFRS adoption in Egypt is significantly affected by measures of ownership sophistication levels and international affiliations of both the independent auditor of the company and its board of directors. Companies audited by an audit firm with international affiliation or that have foreign members serving on the board are more likely to recognize deferred taxes in their financial statements and comply with related disclosure requirements. Results also show that institutional ownership enhances compliance with recognition and disclosure requirements among Egyptian companies. In addition, results show that government ownership has negative effect on the compliance level.

Results of the study highlight the significance of the sophistication level of management, owners, and independent auditor on IFRS compliance in emerging economies. The study also underlines the integration effect between management and ownership sophistication levels, the independent audit quality, and their ultimate effect on IFRS compliance. Companies with more sophisticated management and owners are more likely to engage a high-quality auditing firm with international affiliation. Ultimately, such integration leads to better compliance with IFRS requirements. The results emphasize the importance of training, professional development, and audit industry regulations in emerging countries for their adoption of IFRS to be effective in achieving the objective of international harmonization of accounting standards.

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Table (1)
Sample Distributions between Industrial Sectors

Industry Sector	**Companies**	**Companies with Deferred Taxes in I/S**	**Percent**
Basic Resources	13	5	38%
Chemicals	8	5	63%
Construction	17	8	47%
Food	13	8	62%
Healthcare	7	5	71%
Industrial	15	9	60%
Oil and Gas	1	0	0%
Personal Services	6	5	83%
Real Estate	17	11	65%
Retail	4	3	75%
Technology	1	1	100%
Telecommunications	3	3	100%
Travel	8	3	38%
Utilities	3	3	100%
Total	**116**	**69**	**59%**

Table (2)
Disclosures of the Deferred Tax Recognition Sample (69 Companies)

Disclosure Type	**Number**	**%**
Standard language in the accounting policies note	55	80%
Types of temporary differences	43	62%
Detailed amount of deferred taxes and their changes	45	65%
Reconciliation between tax rates	18	26%
Disclosed the company’s income tax position	64	93%

Table (3)
Brand Name Audit Firms and their International Affiliation

Local Firm	**International Affiliation**
Mansour & Co.	PWC
Hazem Hassan	KPMG
Hafez Ragheb Allied	E&Y
Saleh, Barsoum, Abdel Aziz & Co	Delliote
Shawky & Co.	Mazars
Hegazey & Co.	Crowe Horwath International

Table (4)
Descriptive Statistics and Univariate t-tests

Variable	Mean	Median	S.D	DTR Mean Test			DISC Mean Test		
				> Median	< Median	t-value	> Median	< Median	t-value
DTR	.59	1	.49						
DISC	3.35	4	1.35						
INST	.36	.23	.36	.69	.50	2.10**	3.64	2.97	2.05**
GOV	.19	.0008	.31	.59	.60	-.19	2.97	3.71	-2.37**
BSIZE	7.17	7	2.59	.66	.52	1.50	3.17	3.63	-1.40
DUAL	.68	1	.47	.61	.57	.41	3.21	3.67	-1.31
IND	.71	.76	.15	.60	.59	.19	3.20	3.50	-.92
FAMILY	.42	.00	.50	.53	.64	-1.20	3.69	3.14	1.67*
FOREIGN	.39	.00	.49	.60	.59	.09	4.00	2.93	3.47***
AUDQ	.50	.50	.50	.72	.47	2.92***	3.83	2.59	4.15***
PROFIT	.21	.12	.24	.63	.64	-.13	3.68	3.00	2.11**
SIZE	19.03	19	2.13	.70	.42	3.11***	3.20	3.74	-1.49

Table (5)
Correlation Coefficients

Variable	INST	GOV	BSIZE	DUAL	IND	FAMILY	FOREIGN	AUDQ	PROFIT	SIZE
DTR	.190**	-.025	.172*	.038	.120	-.112	.008	.263***	-.048	.271***
INST		-.203**	.037	-.147	.127	-.275***	.395***	.231**	.063	.172*
GOV			.244***	.137	.260***	-.413***	-.151	-.149	.076	.268***
BSIZE				-.81	.516***	.003	.071	-.006	.138	.352***
DUAL					.251***	-.126	-.138	-.092	-.112	-.114
IND						-.151	.094	.044	-.002	.138
FAMILY							.107	.157*	-.083	-.015
FOREIGN								.301***	.075	.157*
AUDQ									.029	.327***
PROFIT										-.044
DISC	.297***	-.387***	-.080	-.151	-.082	.206*	.411***	.442***	.227*	-.139

Table (6)
Logistic Regression Estimates for Equation (1)

Variable	Coefficient	Wald Statistic	P-value
Constant	-2.225	.711	.399
INST	-.225	.056	.813
GOV	-2.085	4.030**	.045
BSIZE	.131	1.398	.237
DUAL	.341	.439	.508
IND	-.017	.000	.983
FAMILY	-1.264	3.705**	.05
FOREIGN	-.448	.684	.408
AUDQ	1.335	6.178***	.01
PROFIT	-.691	.529	.467
SIZE	.126	.803	.370
N	116		
Chi-Square	22.050**		.015
R-Square	.26		
Percentage Correct	73%		

*** Significant at < 1% level
** Significant at < 5% level
* Significant at < 10% level
Dependent Variable DTR

Table (7)
Ordinal Regression Estimates for Equation (2)

Variable	Coefficient	Wald Statistic	P-value
INST	2.309	6.487***	.01
GOV	.517	.149	.70
BSIZE	.035	.094	.759
DUAL	-.166	.094	.759
IND	.031	.000	.986
FAMILY	1.607	5.600**	.018
FOREIGN	1.518	7.204***	.007
AUDQ	1.520	6.304***	.01
PROFIT	1.048	.735	.391
SIZE	-.356	6.284***	.01
N	69		
Chi-Square	40.039***		.000
R-Square	.45		

*** Significant at < 1% level
** Significant at < 5% level
* Significant at < 10% level
Dependent Variable DISC

Table (8)
Two-Stage Regression Model for DTR and DISC Variables

Panel A: Estimates of the Instrumental Variable Coefficients Using Equation (4)								
$\widehat{EX}_i = \alpha + \sum_{i=1}^{n-1} \beta_i EX_i + \varepsilon$								
	INST	GOV	BSIZE	DUAL	IND	FAMILY	FOREIGN	AUDQ
INST		-.511***	.027	-.199	.054	-.570***	.388***	.179
GOV	-.488***		.174	-.062	.015	-.560***	.009	-.104
BSIZE	.020	.132		-.197*	.482***	.079	.022	.002
DUAL	-.119	-.039	-.163*		.233***	-.102	-.060	-.016
IND	.041	.012	.500***	.293***		-.070	.091	.017
FAMILY	-.533***	-.549***	.103	-.161	-.087		.197*	.143
FOREIGN	.267***	.006	.021	-.069	.084	.144*		.185*
AUDQ	.111	-.067	.002	-.017	.014	.094	.167*	
Panel B: Estimates of the Logistic DTR Model in Equation (3)								
$DTR = \alpha + \beta_i \widehat{EX}_i + PROFIT + SIZE + \varepsilon$								
INST	.560***							
GOV		-.114						
BSIZE			-.056					
DUAL				-.020				
IND					.313			
FAMILY						.125		
FOREIGN							.422*	
AUDQ								.203
PROFIT	-.659	-.534	-.539	-.552	-.673	-.528	-.639	-.579
SIZE	.203*	.207**	.217**	.208*	.161	.219**	.153	.199*
Chi-Square	11.457***	5.037	4.826	4.759	6.715*	5.104	8.359**	5.657
R-Square	.139	.063	.060	.060	.083	.064	.103	.070
% Correct	67%	61%	60%	61%	65%	59%	65%	64%
Panel C: Estimates of the Ordinal Logistic DISC Model in Equation (3)								
$DISC = \alpha + \beta_i \widehat{EX}_i + PROFIT + SIZE + \varepsilon$								
INST	.680***							
GOV		-1.228***						
BSIZE			.031					
DUAL				-.715***				
IND					-.081			
FAMILY						.322		
FOREIGN							1.331***	
AUDQ								1.696***
PROFIT	.424	2.328**	1.017	.668	1.107	1.125	1.194	1.225
SIZE	-.106	-.109	-.069	-.124	-.054	-.071	-.236**	-.251**
Chi-Square	9.356**	23.064***	1.470	9.863**	1.573	3.357	26.988***	33.084***
R-Square	.135	.303	.023	.142	.024	.051	.345	.406

*** Significant at < 1% level
** Significant at < 5% level
* Significant at < 10% level