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The impact of ownership structure on financial reporting quality in the east

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Abstract

Purpose – This paper aims to focus mainly on the relationship between ownership structure and earnings management of a developed and two developing economies, and is distinct from prior research.

Design/methodology/approach – Using a sample of firms from three countries (Australia, Malaysia and Pakistan), the detailed ownership evolutions for the period 2011-2013 were observed.

Findings – Overall, the authors find that in the East, ownership concentration is negatively associated with financial reporting quality. Individual ownership and group ownership were negatively associated with earnings management in Pakistan, however, not in Malaysia where the same were positively associated. Further, the result of this study indicated that state ownership is negatively associated with firm performance. Among the control variables, it was found that larger firms were negatively correlated with financial reporting, while firms with a larger board size and mature in the maneuver were coupled positively with earnings management.

Originality/value – The results highlight the highly individualized effects of blockholders and the need for research to further understand the mechanisms through which shareholders impact financial reporting quality.

Keywords Corporate governance, Ownership structure, Earnings management, Corporate ownership

Paper type Research paper

1. Introduction

Establishment of proper corporate governance mechanisms seems essential for the optimal application of resources, enhancement of responsiveness, transparency and protecting the rights of the stakeholders (Sun *et al.*, 2010; Grougiou *et al.*, 2014). The impact of optimal corporate governance mechanisms for enhancing the quality of financial reporting and accounting income is a topic widely considered for establishing the regularities and listing situations of stock exchanges around the globe. In fact, regularity agencies assume that there is a direct relationship between corporate governance and earnings quality mechanisms. Hasan and Ali Butt (2009) and Dong and Zhang (2008) indicated that ownership structure is one of the most important corporate governance characteristics of listed companies, while ownership structure directly influences firm value. Therefore, an investigation into the effect of ownership structure, as a corporate governance characteristic, is very important.

Given the intense competition in business, industry and investment, corporations need appropriate and timely investment for protecting and extending the operations (Hutchinson and Gul, 2004; Yuan and Jiang, 2010). The financial reporting should provide information

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