

International Convoluted Ownership Structure in Accounting and Finance: A Succinct Survey

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Abstract: Corporate governance can be old cliché as internal and external types. Internal corporate governance is the mechanism by which firms' governing managers align their activities with stakeholder interests through the composition of the board, audit committees, and compensation committees as well as the ownership structure². External corporate governance occurs overweightingly and dominantly through mechanisms, such as legal protections and takeovers imposed by the capital market, that are external to the firm that protects stakeholder interests. Since the scope of corporate governance is too broad to address here, this article examines only its ownership structure dimension and its impact on firm performance, cost of capital, dividend policy, disclosure, and conservatism. Researchers have been investigating these issues for decades, with gobsmacking inconclusive results. Recent papers have provided new insights by which we may examine the issues in more detail. For instance, Chen et al. (2012) suggest that family CEOs in family firms produce less turnover and lower share returns than do non-family CEOs in family firms, leading to the temeritous question of whether the chairperson and CEO governance functions should be separated and pointing to future research into whether family firms with family CEOs generate lower or higher earnings. Haw et al. (2012), concerning conservatism, investigates whether the second largest shareholders in firms with multiple shareholdings and a cash flow right dispersion can shape conservatism in financial statements. They argue that the dispersion of cash flow rights for multiple shareholders creates monitoring problems for firms, leading to the agency problem and increasingly conservative accounting in financial statements. Studies have shown that managerial incentives to adopt highly conservative accounting include taxation, debts covenants, and regulations. Whilst this paper attempts to demonstrate the impact of ownership structure on conservatism, future research should carefully but not pedantically investigate this issue in more detail.

Keywords: International; Corporate Governance; Ownership Structure; Literature Review; Accounting, Finance

1. Introduction

Corporate governance can be old cliché as internal and external types. Internal corporate governance is the mechanism by which firms' governing managers align their activities with stakeholder interests through the composition of the board, audit committees, and compensation committees as well as the ownership structure. External corporate governance occurs overweightingly and dominantly through mechanisms, such as legal protections and takeovers imposed by the capital market, that are external to the firm that protects stakeholder interests. Since the scope of corporate governance is too broad to address here, this article examines only its ownership structure dimension and its impact on firm performance, cost of capital, dividend policy, disclosure, and conservatism. Researchers have been investigating these issues for decades, with gobsmacking inconclusive results. Recent papers have provided new insights by which we may examine the issues in more detail. For instance, Chen et al. (2012) suggest that family CEOs in family firms produce less turnover and lower share returns than do non-family CEOs in family firms, leading to the temeritous question of whether the chairperson and CEO governance functions should be separated and pointing to future research into whether family firms with family CEOs generate lower or higher earnings. Haw et al. (2012), concerning conservatism, investigates whether the second largest shareholders in firms with multiple shareholdings and a cash flow right dispersion can shape conservatism in financial statements. They argue that the dispersion of cash flow rights for multiple shareholders creates monitoring problems for firms, leading to the agency problem and increasingly conservative accounting in financial statements. Studies have shown that managerial incentives to adopt highly conservative accounting include taxation, debts covenants, and regulations. Whilst this paper attempts to demonstrate the impact of ownership structure on conservatism, future research should carefully but not pedantically investigate this issue in more detail.

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²Klein (2002) provides evidence that audit committee independence and other board characteristics are correlated with earnings management.

2. Ownership Structure, Agency Theory, and Agency Cost

Jensen and Meckling(1976) outline the firm theory,³ in which owners who wholly own their firm make decisions that maximize both their own interests and firm value. When they sell out their shares to outsiders, however, agency costs are generated by the depreciation of their and the outsiders' interests.⁴ The outsiders are likely to reflect this monitoring cost in the share price, thereby increasing the cost of capital. According to the agency theory of Adam Smith (1776), a lack of fully coincident agency between ownership and control can create a conflict of interest between financial providers and controllers. The separation of ownership and control carries benefits: as financial providers may not have full management knowledge of operating firms, they must rely on others to manage the firms; as controllers may not have sufficient funds for firm development, they must rely on financial providers' capital injection. Conflict of interest can result from imperfect contracts for controller monitoring, which can reduce firm value and increase the agency costs⁵ for financial providers (Jensen and Meckling, 1976). Jensen and Meckling (1976) argue that managerial and blockholding ownership can control agency problems. Managerial/insider ownership is defined by the proportion of ordinary shares held by managers and executive directors, whereas blockholders ownership is defined by the proportion of ordinary shares held by substantial shareholders (which the research typically suggests is 5% or more; Eng and Mak, 2003). As ownership structure is a mechanism of corporate governance, corporate governance mechanisms can reduce conflict.

As reasonable as it may be to assume that more overlap between ownership and control reduces selfinterested behaviors and increases firm value, it is not that simple. Increased ownership by insiders (managers) can serve to better align managers' self-interests with the owners'.

3. Comparative Ownership Structure

Firms with a completely dispersed ownership are rare. Controllers always hold some ownership of the firm equity they control. Thus, ownership structure is a critical corporate governance mechanism. Denis and McConnell (2002) argue that greater overlap between ownership and control reduces conflicts of interest and increases firm value, as controllers can align their interests with the firm owners'. This can reduce managers' entrenchment effect if they are given more firm ownership when ownership and control do not fully align; otherwise, managers will use investors' money to increase their profits. Managers are clever, control the company and its money, enjoy privileged access to information, and have broad discretion. They can shirk, abuse their power, and steal the company's money. Hence, a tradeoff between the entrenchment and alignment effects must occur to optimize firm value. More importantly, Jensen and Meckling (1976) argue that the share distribution between insiders and outsiders can influence firm value.

The law allows shareholders other than management to affect management activities and even to veto their decisions. However, Western firms are more likely to have widely dispersed share ownership. More importantly, the law requires a certain percentage of ownership to take derivative actions.

La Porta et al. (1998) argue that the common law protects minority shareholders in firms controlled by dispersed shareholders. The code law is less effective, however, for firms owned by more concentrated shareholdings and governed by more complicated ownership arrangements.

Studies have shown that many US firms are owned through controlling ownership and by insiders. A US survey has found that insider ownership, including directors and top officers, accounted for at least 5% of firms' equity ownership interest (Holderness, 2003) and that insiders owned approximately 20% of the interest in publically traded firms. Mehran (1995) has found that approximately 56% firms of a sample of US manufacturing firms were owned by outside blockholders.

Equity ownership in the UK is much like that in the US. Most public and listed firms are held by dispersed shareholdings. Studies have found that the alignment effect dominates the entrenchment effect, with under 12% of insider ownership (Short and Keasey 1999), as in the US. Morck, Shleifer, and Vishny (1988) find that the critical point is lower than in Short and Keasey's finding. They find that the entrenchment effect begins to dominate the alignment effect at 5%. Short and Keasey argue that UKmanagement starts to entrench at a

³They assume permanently zero tax, no trade credit, outsider holding of all non-voting shares, no issue of complex financial instruments, constant owner-manager wages, a single manager, temporarily fixed firm size, no debt financing, and an ignorance of diversifiable risks and uncertainty.

⁴They provide an example: when an owner holds just 95% of the ownership shares, he expends his resources and efforts only to the point where the marginal utility from a dollar of expenditure reaches his own marginal utility.

⁵Jensen and Meckling define agency costs as the sum of the principal's monitoring expenditures (voting, litigation), the agent's bonding expenditures (disclosure, forgoing powers), and the residual loss (which should exceed the gain from delegation).

higher level of insider ownership because the UK and the US have different corporate governance systems. For example, UK managers do not have as much freedom to mount takeovers as their US counterparts do. Furthermore, US institutional shareholders are better able to coordinate in order to monitor management.

Barca and Becht (2001) and LLSV (1999) show that concentrated corporate ownership is common in many EU states but that there are different degrees of ownership and many blockholder identities. Most of the public firms in the UK and Ireland have dispersed holdings. Non-financial and financial firms in the UK are more likely to be held widely (Faccio and Lang 2002⁶). Financial firms are widely held in some EU countries such as Belgium, France, Italy, Norway, Spain, Sweden, and Switzerland. In the rest of Europe (except for Finland and Portugal), most non-financial firms are family-owned (44.29%) rather than widely owned (36.93%). Financial institutions and large firms are more likely to be widely held, whereas most non-financial and small firms are family-owned. Chinese firms have a high ownership concentration, and their ownership is mixed in equal parts among the state, legal persons (institutional), and domestic persons, each representing approximately 30%; the remaining 10% is held by the employees (Xu and Wang 1997). Volpin (2002) argues that Italian firms have a highly concentrated ownership and an abundance of pyramidal groups, producing large private benefits. Zingales (1994) finds an average voting premium of 82% in Italian companies with dual-class shares, far higher than in the US, the UK, Canada, or Switzerland. Elston and Rondi (2005) find that other ownership types, including institutional and insider types, are significantly and negatively correlated to the cost of capital in Italy. In Brazil, most firms were found to have a highly concentrated ownership and be owned by corporate or individual blockholders.

Claessens, Djankov, and Lang (1998⁷) examine ownership structures in East Asian countries. They find that two-third of the firms (except in Singapore and the Philippines) are controlled by a single shareholder and that the managements of 60% of the firms (except in Japan) that are not widely held are related to the family of the controlling shareholder, indicating no significant difference between ownership and control. Firms in Japan, Korea, and Singapore are more likely to have blockholdings. In Indonesia and Taiwan, firms are more likely to have pyramid shareholdings. Public firms are more likely to be family-owned in Hong Kong, Singapore, Korea, and Indonesia than in other East Asian countries. Japan's public firms are more likely to be held by financial institutions, whereas the Philippines' publicly traded firms are more likely to be held widely by other corporations.

4. Ownership Structure and Firm Performance

Lemmon and Lins (2003) observe that ownership structure is the main determinant of the agency problem between insider shareholdings and outsider shareholdings; this affects firm value, as insiders can divert firm resources for personal benefit. The effect of ownership structure on firm performance has been extensively studied (Morck, Shleifer, and Vishny, 1988; McConnell and Servaes, 1990; Holderness, Kroszner and Sheehan, 1999), with a focus on Japan, Germany, the US, and the UK. The findings suggest that large blockholders have more incentive and ability to monitor management performance and improve firm value, as they have invested much money and are thus more likely to need to recover their investment. Berle and Means (1932) argue that separating ownership from control would create agency problems and reduce both firm value and performance.

In Asia, controlling shareholdings, pyramidal ownership, and cross shareholdings are very common, allowing management blockholders with a high discrepancy between cash flow and control rights or nonmanagement blockholders to effectively control the firm and expropriate firm resources; this can adversely affect firm value, as these countries are likely to have less legal protection for minority shareholders (Claessens, Djankov, and Lang, 2000; Claessens et al., 2002; Lins, 2003⁸). With evidence drawn from 800 firms in eight Asian countries, Lemmon and Lins (2003) argue that, during the Asian financial crisis, managers more

⁶Barth et al. (2000) argue that the difference in EU countries between family-owned and widely owned structures is driven by regulatory differences.

⁷Single Controlling Ownership means there is no second owner holding at least 10% of the stock. Management includes the CEO, Board Chairman, and Vice-Chairman of the controlling family. Anything over 20% of equity value is considered a blockholding.

⁸They find that managerial group control over the proportion of ownership is negatively related with firm value measured by Tobin's q. Furthermore, they find that blockholdings, accounting for between 5% and 20% of firms, is also negatively correlated with the Tobin's q. However, the same controlling proportion of non-management ownership does not show consistent results. Interestingly, they show a positive relationship with Tobin's q, implying that significant non-management control can generate positive firm value while apparently effectively controlling and monitoring managerial behaviour. They argue that non management control can substitute for nations' poor institutional factors and thus mitigate the agency problem.

effectively controlled their firms and diverted resources away from them.⁹ Their result is consistent with Claessens et al. (2002) and La Porta et al. (1999). Some scholars have gathered evidence from emerging countries that management blockholders use related party transactions to expropriate firm resources, which frightens the minority shareholders. They also show that the difference between the performance, measured in share returns, of firms with high control rights and that of firms with low control rights is low (from 10 to 20%). Furthermore, banks were found to play an important role in Japan and Germany, where equity ownership of firms is more concentrated than in the US and the UK. However, most Japanese firms were found to be owned by main banks or groups, as the main banks lend money to firms within groups (Prowse, 1992). In Germany, however, firms are the major blockholders (Franks and Mayer 2001). In Japan, then, they are both debtholders and shareholders. This fact aligns the interests of debtholders and shareholders and the interests of the majority and minority shareholders, as agency costs are reduced. Firms can reduce their capital costs, as the directors of the board can represent both shareholders and lenders, who will receive insider information from the board, thus reducing the information asymmetry between firms and main banks. Kaplan and Minton (1994) show that poorly performing firms are more likely to replace board directors. Hwang and Kim (1998) find that the extent of the monitoring effect on firms depends on the size of the bank's financial interest in them. Furthermore, the presence of a group arrangement appears to be correlated with managerial entrenchment (Kang and Shivdasani, 1995). They also examine the US evidence concerning corporate structure, CEO turnover, and firm performance and find that firms with ties to a main bank show a higher sensitivity between CEO turnover and poor earnings performance than do firms without such ties. Firm performance was also seen to improve after the non-routine turnover of top managers.

Dispersed shareholdings of large public firms would hinder the day-to-day operation as too small shareholdings can not intervene with efficiently exercising managerial controlling and monitoring power (Hart, 1995). In Germany, ownership concentration has been found to be positively correlated with firm performance (Gorton and Schmid (2000). As mentioned, firm blockholders can provide better monitoring management behavior and may use their voting rights to remove the top managers of poorly performing firms. However, in Germany, Kaplan (1994) cannot find any evidence consistent with this relationship.

Other European countries offer varied results. A study of the Czech Republic finds that firms with more concentrated ownership are more profitable and productive (Claessens and Djankov 1999) and that certain kinds of investors (including foreign investors) lead to greater improvements in performance. Miguel, Pindado, and de la Torre (2001) show that the effect of managerial ownership on firm value is not linear in Spain. In Italy, as in other EU countries, most firms are held by controlling shareholders and pyramidal groups. Moreover, when the controlling shareholders hold the top positions, when a single shareholder controls the firm, or when the controlling shareholder owns less than 50% of the firm's cash flow rights, there is more likely to be low sensitivity between CEO turnover and improvements in firm performance and a low Q ratio (Volpin 2002). In Finland, Maury (2006) examines the relationship between firm performance and the turnovers of CEOs, top managers, and board members and finds that firms suffering poor share performance or operating losses experience a significantly high sensitivity to CEO turnover. When the controlling shareholders are also CEOs or top managers, the sensitivity is significantly lower. However, firms with a 2-tier governance structure (with separate CEOs and chairmen) experience high sensitivity. Djankov and Claessens (1998) provide evidence from the Czech Republic showing that there is no relationship between managerial ownership and firm performance.

Holderness (2003) examines the effects of insiders and outside blockholders on US firms' decisions and value and finds that greater insider equity ownership can better align insiders' interest with shareholders' but that higher equity ownership is more likely to create the problem of insider entrenchment, as it could reduce firm value. More importantly, as with the alignment effect of insider shareholdings, greater blockholder equity ownership can increase firm value and benefit other shareholders. However, minority shareholdings gain the benefits of blockholders' monitoring of firms without cost. Blockholders also create the problem of entrenchment by being an expense to other shareholders while generating a private effect for themselves, thus reducing firm value. Studies have suggested that blockholders can earn private benefits, measured as the premiums of the exchange prices in block trades (Barclay and Holderness 1989; Mikkelsen and Regassa 1991; and Chang and Mayers 1995).

The US evidence provides mixed findings about the link between ownership structure and decisions and firm value. Some results suggest that, when insider ownership is below a certain level, the alignment effect dominates the entrenchment effect and that when insider ownership exceeds a certain level, the entrenchment

⁹These include Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand.

effect is dominant and firm value is lower (Hermalin and Weisbach 1987; Stulz 1988; Morck, Shleifer, and Vishny 1988;¹⁰ Holderness and Sheehan 1988). McConnell and Servaes (1990) provide evidence consistent with this relationship. They apply Tobin's q to measure firm value and find that the relationship between insider equity ownership and Tobin's q is significant and curvilinear. When insider ownership reaches approximately 40%, the relationship slopes downward. However, Himmelberg, Hubbard, and Palia (1999) provide counter evidence that insider shareholdings do not influence firm performance. While testing insider and block shareholdings, Mehran (1995) and Wruck and Wu (2009) provide consistent evidence (as in McConnell and Servaes 1990) that a higher percentage of shares owned by top managers can increase firm performance (in an alignment, rather than an entrenchment, effect) and that there is no relationship between different types of block shareholdings, such as institutional,¹¹ individual, or corporate, and firm value (Mehran 1995). McConnell and Servaes (1990) find, however, that the fraction of shares owned by institutions has a positive relationship with firm value. Even the new active blockholders with special expertise (i.e., insiders taking over from other insiders, insiders taking over from outsiders, or outsiders taking over from insiders) cannot create permanent value, operational changes, or profitability improvements for firms (Chang and Mayers 2012¹²).

Xu and Wang (1997) test the increasingly differential relationship between blockholdings by case and control group, namely financial institutions and general corporations and firm performance. Thus, Holderness (2003) concludes that block holdings and firm value can be related negatively, positively, or not at all. Man and Wong (2016) spiritually chastises that large outsiders' shareholdings can foster the firms earning superstitious future performance, thereby reinforcing the theoretical and evidential positive relationship between the diversion and outsiders' shareholdings and firm performance. Point to the reverse, Chen and Ho (2000) polarizing squeal that diversifying shareholdings can drown the corporate firm value.

Another way for shareholders to improve firm performance is by dismissing the top management. Boeker (1992) provides evidence showing that, in the US, poorly performing firms are more likely to dismiss their CEOs, consistent with previous findings. Blockholders are seen to have an incentive to monitor firm performance and take an action such as removing top management, through their voting rights. Bhagat and Bolton (2008) also provide consistent evidence that, given poor firm performance, the probability of disciplinary management turnover is positively correlated with the insider status of boardmembers. They argue that insiders with appropriate equity ownership have the incentive to effectively monitor important corporate decisions about investment policies designed to improve firm performance. More importantly, they also argue that the errors in measuring insider (board) ownership are fewer than the total errors related to other governance mechanisms.¹³ Concerning institutional ownership, Del Guercio et al. (2008) provide findings about CEO turnover and poor firm performance in which they argue that a substantial "withheld" vote motivates directors to take immediate action to avoid further embarrassment. They find supporting evidence that firm performance improvement and greater CEO turnover after such campaigns induce directors to align with shareholder interests. Poorly performing overseas firms cross listed on US stock exchanges are more likely to terminate poorly performing CEOs (Lel and Miller 2008).

A recent research trend has been to investigate another type of ownership structure, family ownership (Denis et al. 1997; Huson et al. 2001; Chen et al. 2008; Chen et al. 2012), which comprises more than onethird and one-half of the S&P 500 and S&P 1500 firms in the US, respectively (Anderson and Reeb 2003;

Chen et al. 2008). Anderson and Reeb (2003) provides more earlier gobsmacking results that under the governance of the founding families with dual position of CEO, their companies can mostly generate fabulous firm performance, compared with those companies not shareholdings by founding family member and with those companies though holding by founding members not sitting at CEO position. Mieszko Mazur et al's (2016) results show that, compared with nonfamily firms, lower incentive pay adopted by family firms due to lower agency costs poultices the direct effect of family involvement on firm performance. Anderson, Duru, and Reeb (2009) show that family firms are more likely to display lower firm performance and less information transparency. However, Chrisman, Chua, and Litz (2004) show that there is no difference in sales performance between family and non-family firms. This has prompted researchers to investigate the relationship between

¹⁰They argue that the relationship between firm value and insider ownership is not linear.

¹¹He finds no correlation between performance and the percentage of shares held by institutional investors, perhaps because his study does not distinguish between institutions that buy and sell securities for short-term profit and those that hold shares for a long period. Moreover, institutional investors are more likely to face legal barriers to holding large shares in public corporations, limiting their ability to control managers.

¹²They cannot support prior studies (e.g., Barclay and Holderness 1991) of the active-investor paradigm, in which new blockholders with special expertise and skills actively improve management and firm value.

¹³They also suggest that firms should focus on improving corporate governance through the stock ownership of board members.

family-owned firms and CEO turnover (Chen et al. 2012¹⁴). Chen et al (2012) argue that family ownership and control can create a family entrenchment problem between family and outside shareholders and that this type of ownership is likely to affect firm decisions, including CEO turnover. Moreover, contrary to Parrino et al. (2003), they provide evidence about the impact of family ownership on CEO turnover-performance sensitivity that is inconsistent with: they find that institutional ownership is positively related to CEO turnover. One of the contributions of this paper is its testing of how the difference between a family member and outside professional CEO influences CEO turnover-performance sensitivity, which Hillier and McColgan (2009) do not investigate. Another contribution is its analysis of family ownership's influence on turnover-performance sensitivity. Chen et al. focus on one country; future research should investigate various regions to provide additional evidence about the relationship between family ownership and CEO turnover. Future research should also examine the institutional factors in this relationship. As making decisions regarding the CEO is only one of a board's major decisions, future research should investigate other kinds of decisions and assess whether family ownership is different from other ownership structures.

In the UK, equity ownership's influence on firm performance should be much like in the US, as most public and listed firms are held by dispersed shareholdings and, as mentioned, firms with high insider ownership are more likely to entrench. Morck, Shleifer, and Vishny (1988) suggest a positive relationship between managerial ownership and firm performance: top managers are more likely to be removed after poor firm performance to reduce the threat of a hostile takeover bid, especially for firms with blockholdings (Dahya, Lonie, and Power 1998¹⁵). They show that the entrenchment effect may dominate the alignment effect when managers are important shareholders (when insider holdings > 1%). Thus, top managers are more difficult to remove to improve firm performance when they own more than 1% of a firm. The findings also show a positive relationship between the probability of a forced departure and a firm's level of institutional ownership. Hillier and McColgan (2008) likewise conclude that UK firms with over 50% of managerial ownership are less likely to remove their CEOs or other board members when the firms are performing poorly.

Large Korean business groupings have a significant effect on corporate governance and firm performance. Conglomerates have complicated ownership shareholdings, and relatively few shareholders can thus hold them. La Porta et al. (2000) document the "tunneling" effect, in which firm owners are more likely to expropriate capital by transferring resources from firms with lower cash flow rights to those with higher ones. Those firms can be expected to perform poorly. In Korea, firm controllers can expropriate assets and expense with other shareholders (Bae, Kang, and Kim, 2002 and Kim et al, 2005).¹⁶ Chang and Shin (2006) report that the likelihood of poorly performing firms replacing their CEOs was not related to business group (chaebol) affiliation before the Asian financial crisis of 1997 and 1998.¹⁷ After the crisis, sensitivity to CEO turnover relative to business group (chaebol) affiliation became significantly greater. They argue that this improvement resulted from governance reforms¹⁸ imposed by the government, NGOs, and market participants.

Xu and Wang (1997) provide Chinese evidence that mixed and concentrated ownership structures are correlated with firm performance. They support the evidence of the alignment effects and show a positive relationship between ownership concentration and firm profitability. The effect on firm performance is larger and significant if concentrated ownership with institutional shareholdings dominates. More importantly, firms with a majority state ownership concentration do not show a better performance. Kato and Long (2006) show that blockholders strengthen the positive relationship between firm performance and CEO turnover in China, consistent with the Western findings. They find a weaker result when the CEO is the controlling shareholder.

Gibson (2002) uses evidence drawn from eight emerging countries (including China, India, Brazil, Korea, Malaysia, Mexico, Taiwan, and Thailand) to show that the relationship between CEO turnover and poor firm performance is negative. He shows that CEOs of poorly performing firms are more likely to lose their jobs. However, for firms with large individual shareholders, there is no relationship between the variables. He concludes that corporate governance is not as effective in emerging countries as in Western countries.

An Australia study finds a weak nonlinear relationship between insider ownership and firm performance (Craswell, Taylor, and Saywell 1997). In India, Sarkar and Sarkar (2000) show that firms owned by

¹⁴They define family firms as those in which the family sits on the board, holds major management positions, or own blockholdings comprising over 5% of total ownership.

¹⁵They compare firm performance prior to changes in top management to firm performance after changes in top management before retirement.

¹⁶However, Chang and Shin (2003) find no significant Korean tunnelling effect using operating cash flow as a device and data from combined financial statements from 1999 to 2000.

¹⁷Korea chaebol governance structures were considered the main culprits of the IMF crisis (Yanagimachi 2004)

¹⁸Chaebol governance reforms were designed to destroy the traditional characteristics of chaebol and build an Anglo-American corporate governance structure (Yanagimachi 2004)

blockholding financial institutions are more likely to perform better. Chen and Ho (2000) provide Singapore evidence to polarizing argue that diversifying shareholdings can drown the corporate firm value.

5. Ownership Structure and Cost of Capital

Separating ownership from control creates the agency problems of moral hazard and adverse selection. Hence, financial providers are more likely set higher capital costs to reduce their investment risk and agency cost. Ownership structure should have a significant effect on equity capital costs. Hollis et al. (2004) argue that blockholders' and institutional investors' effective monitoring of management reduces opportunistic behavior and benefits all shareholders, thus reducing agency and equity capital costs. In an international comparison, Himmelberg, Hubbard, and Love (2002) examine the relationship among investor protection, ownership structure, and cost of capital using pooled data from 38 countries and find that the average cost of capital is higher when corporates are owned by insiders (as they carry higher risk). Some US studies offer evidence consistent with this conjecture about the effect of ownership structure on equity capital costs, showing that high insider or activist institutional ownership lowers equity costs (Ashbaugh-Skaife et al. 2004;¹⁹ Huang et al. 2009). Hollis et al. (2004) provide US evidence on the relationship among various corporate governance attributes and equity capital costs after controlling for beta, size, and market to book variables relating to equity costs. One of the governance mechanisms they consider is ownership structure,²⁰ including the number of blockholders, the extent of institutional ownership, and insiders' ownership stake. They find that the level of concentrated ownership (i.e., 5% blockholders) and the percentage of shares held by institutional investors are positively related to the equity capital cost. This supports the view that insiders may misappropriate firm resources for private benefit (e.g., blockholders can extract rents through greenmail or targeted share repurchases). Boulton, Smart, and Zutter (2010) show that countries with better corporate governance, including those with block ownership, have higher initial IPO returns.

Concerning the cost of debt financing, external finance providers may pay attention to the overall quality of the monitoring devices set up within the firms (Anderson et al., 2004). These governance devices are more likely to control asset misappropriation, the misuse of firm resources, discretionary power, and opportunistic managerial wealth transfers at debtholders' expense (Bhojraj and Sengupta, 2003; Cremers et al. 2003; Klock et al., 2004). Lower debt costs are thus expected when governance, including ownership structures, is better (Botosan and Plumlee, 2002; Hail, 2002; Bhojraj and Sengupta, 2003;²¹ Pittman and Fortin, 2004; Daske, 2006). Piot and Missonier-Piera. (2007) find that, for French non-financial listed firms examined from 1999 to 2001, debt costs were reduced when institutional ownership accounted for more than 5% of total ownership. They argue that, because France has weak legal creditor protection,²² financial institutions play an important role in reducing information asymmetry and controlling managerial opportunism.²³ Elyasiani et al. (2010) examine the relationship between institutional ownership and cost of debt, providing further evidence that the stability of institutional ownership can reduce a firm's debt costs and play an important role in determining debt costs (measured by crediting ratings and yield spreads), as it offers more incentives and is more effective in monitoring management, reducing the information risk and mitigating the agency cost (Myers and Majluf, 1984). Another proxy of debt costs is credit ratings.²⁴ Firms with high credit ratings can usually borrow funds at a lower cost than firms with low credit ratings can. Ashbaugh-Skaife et al. (2006) show that in the US, overall credit ratings are negatively related to the number of blockholders (those owning 5% of more) and positively

¹⁹Ashbaugh-Skaife et al. (2004) suggest that greater ownership by board directors significantly reduces the cost of equity, consistent with the abovementioned alignment effect's dominance over the entrenchment effect.

²⁰Other governance attributes include financial information quality, board structure, and shareholder rights. They also find that the percentage of the shares held by institutional investors is positively related to the beta variable, consistent with the view that institutional investors prefer to invest in firms with a higher risk or expected returns.

²¹They show that firms with more institutional ownership may experience lower yields from issuing bonds.

²²For instance, French banking law does not allow creditors to intervene in the management of the borrowers. Unlike in Germany, moreover, French creditors are not allowed to sit on boards of directors to govern their own interests.

²³This creates an interest conflict between debtholders and directors, who have a duty of care towards all shareholders.

²⁴Weber (2006) also argues that a firm's credit rating is a proxy of its cost of debt, as credit ratings are influenced by other debt contract features, such as financial covenants, maturity, performance pricing provision, and dividend and investment restrictions (Rajan and Winton, 1995; Geudes and Opler, 1996; Asquith et al., 2006; Smith and Warner, 1979). Ashbaugh-Skaife et al. (2006) ignore these features of the debt issue, likely inflating governance's impact on debt costs.

related to board stock (insider) ownership. They also estimate the economic costs (over \$38 million in interest) flowing from poorly governed firms. However, some argue that lenders are less likely to be concerned about good corporate governance, as they face only downside risks and cannot be rewarded by the upside potential represented by good governance. Hence, Weber (2006) argues that the findings of Ashbaugh-Skaife et al. on the economic costs of poor governance are likely overstated and unreliable but that the overall result is persuasive.

Agency problems can also be created through the dispersion of control and cash flow rights. This special ownership arrangement has led scholars to investigate the cost of capital relationship. As a wide divergence between control rights and cash flow rights could lead large shareholders to tunnel and expatriate firm resources by taking assets or profits for personal use or by investing in low-profit projects for personal benefit (Johnson, LaPorta, Lopez-de-Silanes, and Shleifer, 2000), thereby increasing the agency cost, conflicts, risks, and costs of financial distress and bankruptcies for other shareholders and creditors (Shleifer and Vishny, 1997; Purnanandam, 2008). Therefore, this ownership structure is more likely to increase firms' cost of capital. Lin et al. (2010) examine this relationship in 22 East Asian and Western European countries to show that firms with a wider divergence between control and cash flow rights have higher borrowing costs (loan spread) and that a higher sensitivity to loan spreads is experienced by firms that are family controlled or have family-connected CEOs. However, these results are inconsistent with Anderson et al. (2003).²⁵

Future research should focus on the governance benefits for equity stakeholders through a global investigation of the relationship between equity capital costs and governance attributes.

6. Ownership Structure and Dividend/Repurchase Policy

Dividend research has gained the attention of economists such as Black (1976). Modigliani and Miller (1958 and 1961) argue that shareholder wealth does not change regardless of the extent of dividend payout, as investors can stimulate the same scenario as the firm's dividend payout. In the US, with its heavy tax on dividends, firms seem more likely to repurchase their own shares than to pay dividends. However, some scholars argue that making conclusions is difficult. Concerning dividend changes, Shoven (1986) reports that US corporations nearly doubled their normal dividends between 1978 and 1985 and that aggregate normal dividends increased by six times from 1978 to 2000. De Angel et al. (2004) show that aggregate nominal dividends, aggregate real dividends, mean real dividends, and median real dividends increased by 224%, 22.7%, 185.7%, and 157.1% respectively during Shoven's testing period. However, Fama and French (2001) argue that dividends are disappearing, insisting that the number of dividend-paying industries has declined by more than 50% over the last 20 years, a finding inconsistent with previous studies.

Miller and Modigliani (1961) support the view that dividend policies are irrelevant to firm value in a frictionless world. However, Lintner (1956) shows that firms deliberate their dividend policies. Aivazian, Booth, and Cleary (2003) argue that other institutions, such as ownership structure, may play important roles in determining dividend policy, which is inconsistent with MM propositions about firm value. Other studies have examined the determinants of dividend policies through cross-sectional analysis (De Jong, Van Dijk, and Veld, 2003; Baker, Powell, and Veit, 2002; Baker and Powell, 1999 and 2000).

Repurchase share policy, recently become an important form of payout for US corporations (Fama and French, 2001;²⁶ DeAngelo, DeAngelo and Skinner, 2004), is a clear substitute for dividend policy (Brav, Graham, Harvey, and Michaely, 2005; Bancel, and Mittoo, 2005²⁷).²⁸ DeAngelo et al. (2004) argue that the increase in real dividends paid by the top dividend distributing firms (using the percentage of total dividends, the cumulative percentage of total dividends, and real dividends in 1978 as a base) outweighs the loss of small payers at the bottom (DeAngelo and DeAngelo, 1990 and DeAngelo, DeAngelo, and Skinner, 1992). They show that the paying-dividend CSRPs decreased 57.3% between 1978 and 2000. One of the incentives was using repurchases rather than cash dividends to affect earnings per share when managers thought the shares were undervalued. Share repurchases were also seen as a more flexible payout form (Brav et al., 2005). Bancel et al. (2005)²⁹ suggest that dividend policy is related to ownership structure, as well as to the quality of the legal system, as supported by La Porta, Lopez, Shleifer, and Vishny's (2000) findings. Ownership structure is related

²⁵They show that family ownership is negatively correlated with debt costs.

²⁶Fama and French (2001) provide evidence that the dividend is disappearing, as they discover that dividend-paying industries have declined by more than 50% over the last 20 years.

²⁷They show that firms that pay dividends are more likely to repurchase shares (see Bancel et al., Table II).

²⁸However, LLSV (2000) and ABC (2003) do not examine share repurchases as an alternative method of paying dividends.

²⁹They survey managers in various European countries (including Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom) and compare their results with BGHM's (2004) US findings.

to dividend policy. As insider ownership can create the agency problem by which outsiders cannot effectively monitor and control insiders' opportunistic behavior, they are likely to prefer dividends over retained earnings to prevent managers from tunneling firm resources (Zwiebel, 1996; Gomes, 1999; Myers, 2000³⁰). Moreover, LLSV argues that the primary factor influencing the dividend policy is the quality of the legal system, as the dividend is the outcome of the effectiveness of legal protection: a high dividend is associated with better legal protection. Bancel et al. argue that a firm's ownership structure is the only factor that explains cross-sectional variations in the rankings of most payout policy determinants. They find that dividend policies are strongly influenced by ownership structure, as the agency theory predicted, but their results appear to be more complex, as they differ across countries that use the civil law system. Officer (2007) finds that firms with low insider ownership are more likely to pay dividends. In Japan, where managers and capital providers are close, the stability of dividend payments may not be as important (Dewenter and Warther, 1998), as most of the financing comes from banks. Private firms³¹ are more likely to have smoother and fewer dividends than are public firms, according to the agency theory. Recently, Michaely and Roberts³² (2011) have provided evidence for this in the UK.

7. Ownership Structure and Earnings Quality/Earnings Management

Managers are likely to engage in the opportunistic behavior of managing reported earnings by changing accounting policies, the classification of core items to non-core items in financial statements, and real variables in the financial statements. Most studies have investigated the cause of earnings management, its patterns, and its magnitude. Other studies have attempted to address both relationships. For instance, DeFond and Park (2005) examine whether job security creates an incentive for managers to smooth earnings in consideration of both current and future relative performance. More recent research has investigated whether good corporate governance can reduce earnings management. One of the important components of corporate governance is ownership structure. The following section reviews the relationship between ownership structure and earnings management. Earnings management can be measured through various methods, including discretionary accruals, the most popular. Other models consider the earnings management components, discontinuities in earnings distribution (Burgstahler and Dichev, 1997), or account-specific items (McNichols and Wilson, 1988).

Studies have shown that ownership structure can influence firm earnings quality (Ahmed et al. 2002; Anderson and Reeb, 2004; Wang, 2006; Ali et al., 2007; Ahmed and Duellman, 2007; Zhang, 2008; LaFond and Watts, 2008; Peek et al., 2010). Firms with a more dispersed ownership can reduce their earnings management because no majority can control the firm, insiders cannot enjoy private benefits from controlling the firm,³³ and their interests can align with the other owners'. Firms must meet public expectations about disclosure and improved earnings quality. Leuz et al. (2003) indicate that earnings management appears to be lower in firms with dispersed ownership, which can reduce insiders' incentive to conceal firm performance (Nenova, 2003; Dyck and Zingales, 2004). Sánchez-Ballesta and García-Meca (2007) provide recent evidence that a lower level of insider ownership is associated with less earnings management, a result consistent with previous studies. In contrast, Morck et al. (1988) provide US evidence showing a dominant entrenchment effect with concentrated ownership beyond 5% of managerial ownership. In such cases, managers are more likely to manipulate earnings to cover their entrenchment behavior. These firms have ineffective corporate governance mechanisms, including the boards of directors, the composition of boards, and the external capital market control over the firms (Shleifer and Vishny, 1997; La Porta et al., 1999; Johnson et al., 2000). Furthermore, Short and Keasey (1999) show that the entrenchment effect of managerial shareholdings dominates the alignment effect when ownership exceeds 12%. They thus conclude that managers begin to entrench at a higher level of ownership in the UK than in the US because of the better coordination of UK institutions.

Jiraporn and DaDalt (2009) show that founding-family-owned firms have less incentive to manage earnings, as they do not feel strong pressure to meet or beat earnings expectations. Wang (2006) provides evidence consistent with these studies. Fan and Wong (2002) show that East Asian earnings informativeness, measured by the earnings return relationship, is related to ownership structure. Fan and Wong measure various types of ownership structure, including concentrated-level, associated-pyramidal, and cross-holding structures. Major shareholders have a conflict of interest with minority shareholders, as they are more

³⁰He argues that outsiders cannot directly influence management investment decisions within firms.

³¹Lintner (1956) documents public firms' relationship with dividend smoothing.

³²They also find that, when private firms go public, the dividend omission is reduced by 56% and the dividend rate is cut by public firms by 40%. Public firms (like those under better governance control) distribute 25% of earnings as dividends, whereas private firms distribute only 20%.

³³Leuz et al. find that higher private control benefits are significantly and positively correlated with aggregate earnings management measures (p. 32).

likely to prevent disclosure of proprietary information to the minority or the public and are also likely to manipulate the reporting of earnings to cover self-interested behavior. The problems of lower earnings quality, more earnings management, and less informativeness do not occur because of poor accounting standards; in fact, many East Asian countries have already imposed international accounting standards or have complied with them and made changes. Rather, these problems are largely due to poor corporate structure, one of the elements of corporate governance. In India, business groups tunnel firm resources through non-operating profit items within the group (Bertrand, Mehta, and Mullainathan, 2002).

8. Ownership Structure and Disclosure

Ownership structure determines the extent of the monitoring leading to the disclosure level. Studies have found that disclosure quality is associated with firm characteristics such as listing status, profit margins, size, leverage, and country of incorporation (Singhvi and Desai, 1971; Chow and Wong-Boren, 1987; Meek et al., 1995). Researchers typically use an index or score to measure the corporate voluntary disclosure in financial statements. It is expected that, for firms with less managerial ownership and blockholder ownership, dispersed owners will need more voluntary disclosure for monitoring purposes, voluntary disclosure thus becoming a substitute for monitoring (Ruland et al., 1990³⁴). Studies have shown that voluntary disclosure in financial statements and other corporate governance attributes, including ownership structure, are substitute relationships (Forker, 1992; Chen and Jaggi, 2000). Eng and Mak (2003) use Singaporean evidence of the impact of various ownership structures on voluntary disclosure to show that lower managerial ownership (CEO and executive directors) and greater government ownership are positively related to disclosure, after controlling for leverage, size, growth opportunities, industry, profitability, and stock performance. They argue that managers of corporations largely owned by government are less likely to face discipline from the market for corporate control. However, blockholder ownership (individual, institutional, and nominee) is not significantly related to the degree of voluntary disclosure in financial reports, including strategic, non-financial, and financial information. This result is not consistent with the findings in McKinnon and Dalimunthe (1993), Mitchell et al. (1995), and Schadewitz and Blevins (1998).

Ali, Chen, and Radhakrishnan (2007) use US evidence to show that family firms have better disclosure than non-family firms³⁵ and that other ownership structures, firms with concentrated ownership, and Japanese keiretsu are more likely to be more transparent. For segment information, McKinnon and Dalimunthe (1993) and Mitchell et al. (1995) cannot find significant results that support the theory. Schadewitz and Blevins (1998) provide consistent evidence in Finland concerning the inverse correlation between the level of institutional ownership and disclosure. Studies have investigated the effect of length of institutional shareholdings on disclosure levels. In the UK, long-term institutional ownership is more likely to lessen the level of risk information disclosure in UK annual reports (Abraham and Cox, 2007). Ajinkya et al. (2005), however, find US evidence of a positive relationship between institutional ownership and the frequency and accuracy of management earnings forecasts.

9. Ownership Structure and Analysts Forecast

Ackert and Athanassakos (2003) theorize that institutional ownership more likely gruel analysts' research information to decision making leading to higher analysts' coverage.

Ali et al. (2007) provide evidence drawn from firms with large analyst followings and more informative analyst forecasts, showing that family firms operated or controlled by founding family members have fewer errors, are less dispersed, have fewer volatile forecast revisions, and have smaller bid-ask spreads. Studies have also examined document analysts' forecast biases. Stickel (1990), Butler and Lang (1991), Brown (1996), La Porta (1996), and Ackert and Athanassakos (1997) show that analysts forecast optimistically. In contrast, Abarbanell (1999), Degeorge, Patel, and Zeckhauser (1999), and Abarbanell and Lehavy (2003) find a pessimistic analyst bias. Igan and Pinheiro (2004) argue that insider ownership creates an earnings management that generates an observation of less optimistic (or more pessimistic) analyst forecasts and less front-running³⁶

³⁴They hypothesize that firms with a higher proportion of outside ownership release more earnings forecasts than do firms with less outside ownership. They find that their results support this hypothesis and Jensen and Meckling's (1976) theory.

³⁵The researchers defined "family" and "non-family" firms, following Business Week (November 10, 2003) as "any company where founders or descendants continue to hold positions in top management, on the board, or among the company's largest stockholders."

³⁶The authors define "front-running" as the process by which analysts exhibit pessimism when insider ownership increases. Thus, the front-running analysts' forecast errors are the forecasts minus the reported earnings.

of analyst forecast errors. As institutions and small investors will base their trading beliefs on the analysts' forecasts, their decisions may affect prices. Even when rational analysts take this earnings management into consideration, their forecasts might be affected. They also provide evidence of a negative relationship between the magnitude of over-optimistic forecast errors and insider ownership. They also argue that analysts, insiders, and institutions can act together to fool small investors, as analysts may know how insiders manage earnings yet sell ideas to small investors as if they did not know the extent of the earnings management.

Bhushan (1989) argues that, because of the higher secrecy at high levels of insider ownership, the amount of information provided to outsiders may decrease, causing the accuracy of analysts' forecasts to suffer. Morck et al. (1988) explain why firms with more insider ownership are less likely to disclose information. They argue that, when insider ownership reaches a certain level, the entrenchment effect dominates the alignment effect, thus reducing the accuracy of analysts' forecasts. Scherbina (2004) argues that, in uncertain environments, analysts are less accountable for their forecasts and thus issue more optimistic forecasts by deliberately adding their private estimates and withholding negative views. Moreover, for firms with more institutional shareholders, analysts are more likely to issue more accurate earnings forecasts (Chung and Jo, 1996; Frankel et al., 2006³⁷). Some studies argue that increasing the number of institutional shareholders may not improve the accuracy of analysts' forecasts (Donnelly and Lynch, 2002). Taylor (2007) provides UK evidence to show a relationship between ownership structure and the accuracy of analysts' earnings forecasts; he finds that insider ownership is associated with forecast accuracy in a non-linear way and that forecasts for firms with high institutional ownership are less accurate.

10. Ownership Structure and Conservatism

Accounting conservatism is important in both theory and practice (Finney, 1946; Sterling, 1967; Watts, 2003a, 2003b; Givoly et al., 2007; Grambovas et al., 2006). Basu (1997) considers early documents on the definition and measurement of conservatism, a firm's recognition of bad news that occurs faster than the bad news unfolds. Other scholars have tested the existence of accounting conservatism (Ball and Shivakumar, 2006; Dietrich et al., 2007; Givoly et al., 2007). Recent studies provide evidence of a relationship between conditional and unconditional conservatisms (Beaver and Ryan 2005; Pae et al. 2005). Basu (1997) places earnings as a dependent variable on the left of a regression and uses return as a proxy for good and bad news, thereby going beyond the traditional return-earnings model. The contribution of this paper is its incorporation of accounting conservatism into its measurement (Basu, 2009). However, this measurement has been controversial. Ball et al. (2010) and Roychowdhury and Watts (2007) take another approach to the measurement of conservatism.

Holthausen and Watts (2001) provide consistent evidence that accounting conservatism can reduce the agency cost, but this also creates the problem of recognition lags in accounting and cannot reflect the economic reality. It can also be argued, however, that conservatism, as a one side fair value, could enhance the usefulness of financial statements (Scott, 2009). Conservatism can be divided into conditional (ex post or news dependent) and unconditional (ex ante or news independent) types, recognizing written down value under adverse conditions but not written up under favorable conditions. Unconditional conservatism includes lowered cost or market value of inventories, research and development costs, and advertising costs. Conditional conservatism includes asset impairment (Beaver and Ryan, 2005; Basu, 2005).

Studies have discussed the many accounting conservatism incentives, including auditors' legal liability, litigation, and regulations (Basu, 1997; Ball et al., 2000; Watts, 2003a, 2003b; Burgstahler et al., 2003; Qiang, 2007; Daske et al., 2008). Accounting conservatism can reduce income tax liabilities (Watts and Zimmerman, 1986; Basu, 2005), debt contracting (Basu, 1997; Ahmed et al., 2002; Watts, 2003a, b; Sun, Liu and Wang, 2005; Chen et al., 2007; Ball, Robin and Sadka, 2008; Zhang, 2008), auditors' litigation through the SEC or private action³⁸ (Jones and Weingram, 1996; Shu, 2000; Johnson et al., 2000 and 2001; Liu and Zhou, 2007; Gande and Lewis, 2009), and managers' incentives (Watts and Zimmerman 1986).

Ahmed et al (2002) argue that the agency problem could lead to conservative accounting, especially in countries with better legal protection, as shareholders can more effectively enforce their interests through legal protection.³⁹

The latest research provides new insight into the relationship between ownership structure and conservatism. LaFond and Roychowdhury (2007) theorize that accounting conservatism likely alleviate the derived problems arising the principal - agency refractory bona fida relationship whilst managerial ownership is

³⁷They find that analysts' forecasts are more informative for firms with high institutional ownership.

³⁸The SEC and private enforcements of accounting standards create the managers incentive to choose more conservative accounting treatments (Coffee, 2006)

³⁹Other papers related to the demand for the use of accounting conservatism include Wang (2006), LaFond and Roychowdhury (2008), and LaFond and Watts (2008).

lower and provide supporting results. Haw et al. (2012) investigate whether the second largest shareholders in firms with multiple shareholdings and cash flow rights dispersion can produce conservatism in financial statements. They argue that, as firms with multiple large shareholdings are more likely face serious agency problems than are those with single blockholding shareholders, the former will use more accounting conservatism in their financial statements. They also argue that the dispersion of cash flow rights for multiple shareholders will create a monitoring problem for the firm, resulting in the agency problem and a more conservative accounting in the financial statements; they provide evidence for this hypothesis. Chinese accounting is much different from that of other countries; thus, accounting conservatism may not exist in Chinese firms. Ball, Robin, and Wu (2000) examine conservatism using Basu (1997) and find no relationship. Some studies have tried to find a relationship between ownership structure and conservatism. For Wang (2006), family-controlled corporations are more likely to adopt more conservative accounting in financial statements than nonfamily- controlled ones. More importantly, Barragato and Basu (2007) find that publicly owned corporations are more conservative in their financial reporting than are non-profit making organizations (Chen et al., 2008).

11.Future Perspectives

Corporate governance can be classified into internal and external types. Internal corporate governance is the mechanism by which firms' governing managers align their activities with stakeholder interests through the composition of the board, audit committees, and compensation committees as well as the ownership structure.⁴⁰ External corporate governance occurs through mechanisms, such as legal protections and takeovers imposed by the capital market, that are external to the firm that protects stakeholder interests. Since the scope of corporate governance is too broad to address here, this article examines only its ownership structure dimension and its impact on firm performance, cost of capital, dividend policy, disclosure, and conservatism. Researchers have been investigating these issues for decades, with inconclusive results. Recent papers have provided new insights by which we may examine the issues in more detail. For instance, Chen et al. (2012) suggest that family CEOs in family firms produce less turnover and lower share returns than do non-family CEOs in family firms, leading to the question of whether the chairperson and CEO governance functions should be separated and pointing to future research into whether family firms with family CEOs generate lower or higher earnings. Haw et al. (2012), concerning conservatism, investigates whether the second largest shareholders in firms with multiple shareholdings and a cash flow right dispersion can shape conservatism in financial statements. They argue that the dispersion of cash flow rights for multiple shareholders creates monitoring problems for firms, leading to the agency problem and increasingly conservative accounting in financial statements. Studies have shown that managerial incentives to adopt highly conservative accounting include taxation, debts covenants, and regulations. While this paper attempts to demonstrate the impact of ownership structure on conservatism, future research should then investigate this issue in more detail.

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⁴⁰ Klein (2002) provides evidence that audit committee independence and other board characteristics are correlated with earnings management.

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