







Q

Home ► All Journals ► Economics, Finance & Business ► Applied Economics Letters ► List of Issues ▶ Does founding family control affect earn Volume 16, Issue 2

Applied Economics Letters >

Volume 16, 2009 - Issue 2

1.131 99 Views CrossRef citations to date Altmetric Original Articles

Does founding family control affect earnings management?

Pornsit Jiraporn 🛂 & Peter J. DaDalt

Pages 113-119 | Published online: 21 Jan 2009

66 Cite this article ▶ https://doi.org/10.1080/17446540701720592



Abstract

Full Article

Because of concentrated ownership stakes, board composition and longer-investment horizons, founding-family controlled firms provide an interesting setting for examining issues relating to governance and control. Anderson and Reeb (2003a, b, 2004), find that the founding-family controlled structure results in superior stock market and accounting performance and lower cost of debt compared to their nonfamily controlled counterparts. We add to their findings by examining the relationships between founding family control and earnings management. The unique characteristics of family controlled firms could insulate these firms from pressures to manage earnings. Our results support this notion, and find that family firms are significantly less likely to manage earnings.

Notes

- ¹This is analogous to the literature on the board of directors. There is mixed evidence on the association between boards and firm performance. Thus, several studies focus on specific situations rather than on the overall firm performance. For examples, research has been conducted on the impact of boards on CEO turnover (Weisbach, 1988; Perry, 2000), on earnings management (Xie et al., 2002) and on executive compensation (Hallock, 1997; Core et al., 1999).
- ² To the extent that shareholders make poor decisions based on managed accounting numbers, earnings management can be classified as an agency cost (Davidson et al., 2004).
- ³ This proportion of family-owned firms is remarkably consistent with Anderson and Reeb (2003a,b; 2004). They find that one-third of their sample is family owned.
- ⁴ Anderson and Reeb (<u>2003a,b</u>, <u>2004</u>) make their classification of family firms available to the public. More detailed discussions about the classification can be found in their studies.
- ⁵ For instance, the Ablon family is perceived as controlling the Ogden Corporation as if they were majority owners but, in actuality, they hold merely 2% of the outstanding shares. On the contrary, at Nordstrom's, the family holds 24% of the equity to maintain control.
- ⁶ We employ the modified Jones (<u>1991</u>) model because the model has been found to have 'the most power in detecting earnings management' (Dechow et al., <u>1995</u>). In addition, Guay et al. (<u>1996</u>) state that 'only the Jones and modified Jones models appear to have the potential to provide reliable estimates of discretionary accruals.' Moreover, Bartov et al. (<u>2001</u>) find that only the Jones and modified Jones model are consistently able to detect earnings management.
- 7 This approach has been used in a large number of studies (Teoh et al., <u>1998a</u>, <u>b</u>; Davidson et al., <u>2003</u>; Xie et al. <u>2003</u>).
- ⁸ Other studies have used the same measure as a proxy for the combined effect of income-increasing and income-decreasing earnings management (Warfield et al., <u>1995</u>; Becker et al., <u>1998</u>; Bartov et al. <u>2001</u>; Klein, <u>2002</u>).

⁹ In a separate regression (data not shown), the raw DCA (not the absolute value) is used. The family firm dummy does not produce a significant coefficient.

 10 As in Anderson and Reeb ($\underline{2003a,b}$, $\underline{2004}$), the magnitude of the reduction in earnings management is computed as the coefficient of the family dummy divided by the average | DCA | for the sample = 0.017/0.047 = 0.36.

¹¹ Although the R ²s appear to be low, this should not be particularly problematic for Lev (<u>1989</u>) finds that a majority of earnings studies exhibit low R ²s. The R ²s in this study are comparable to those in other earnings studies. We also make sure that multicollinearity is not a problem. We examine the variance inflation factors (VIF) and find that none of them are higher than 2.

¹² The fixed-effect approach helps reduce the possibility that the documented relation is caused by unobservable omitted variables, i.e. the fact that the firm is family owned and the extent of earnings management may be driven by some unobservable variables that are not included in the model. The fixed-effects analysis has been found to resolve this potential problem.

Related Research Data

A Market-Based Evaluation of Discretionary Accrual Models

Source: Journal of Accounting Research

EARNINGS MANAGEMENT FOLLOWING DUALITY-CREATING SUCCESSIONS:

ETHNOSTATISTICS, IMPRESSION MANAGEMENT, AND AGENCY THEORY.

Source: Academy of Management Journal

Incentive Compensation for Outside Directors and CEO Turnover

Source: SSRN Electronic Journal

Earnings Management and the Long-Run Market Performance of Initial Public Offerings

Source: The Journal of Finance

Managerial ownership, accounting choices, and informativeness of earnings

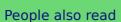
Source: Journal of Accounting and Economics

Corporate governance, chief executive officer compensation, and firm performance

Source: Journal of Financial Economics

Earnings Management During Import Relief Investigations

Source: Journal of Accounting Research



Information for Open access

Authors Overview

R&D professionals Open journals

Editors Open Select

Librarians **Dove Medical Press**

Societies F1000Research

Opportunities Help and information

Reprints and e-prints Help and contact

Advertising solutions Newsroom

Accelerated publication All journals

Books Corporate access solutions

Keep up to date

Register to receive personalised research and resources by email



Sign me up











Accessibility



Copyright © 2025 Informa UK Limited Privacy policy Cookies Terms & conditions

Registered in England & Wales No. 01072954 5 Howick Place | London | SW1P 1WG

Taylor and Francis Group