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EFFECT OF CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE ON EARNINGS MANAGEMENT OF BREWERY INDUSTRY

Amah Kalu Ogbonnaya[1], Michael Chidiebere Ekwe[2] and John Uzoma Ihendinihu[3]

[1]Department of Accounting, Michael Okpara University of Agriculture,Umudike,Nigeria
[2]Associate Professor of Accounting, Accounting Department, Michael Okpara University of Agriculture, Umudike, Nigeria.
[3]Professor of Accounting, Accounting Department, Michael Okpara University of Agriculture, Umudike, Nigeria.

ABSTRACT: *The purpose of this paper is to investigate the effect of cooperate governance and ownership structure on earnings management of Brewery industries. 2004to 2013 was the period used for this study .Regression technique, was used to analyses the data, the result shows that CEO and Managerial ownership have positive significant effect on Earning management, the findings also reveal that price earnings ratio, Net assets per share of firm affect Earning Management.*

KEYWORDS*:* Earnings Management, Institutional Investors, Net asset per share, Price Earnings ratio and Brewery Industries

INTRODUCTION

Financial Information can be regarded as the oil that runs modern capital markets- securities markets in particular. Information of high quality enables investors to make efficient investment decisions, as investment money can be directed where it is most productive. However, if the provisions for financial information remain unchecked, there is a good chance that the providers of such information will use it opportunistically and/or in a misleading manner to generate private gains, financial reports is so important to all users of Financial statement in making decision that the study of earnings management is expected to be very useful to them. (Al-Khabash & Al-Thuneibal 2009). Earnings management involves the manipulation of company earnings by managers towards pre determined target. This target can be motivated by a preference for more stable earnings, in which case management is said to be carrying out income smoothing. Opportunistic income smoothing can in turn signal lower risk and increase firm's market value. Schipper (1989) also defines earnings management as one of the deliberated interventions in financial reporting process to achieve personal objectives, rather than to maximize the shareholders value.

On the other hand the financial scandals of Enron and WorldCom changed the value of earning management toward an opportunistic view, with regard to this; managers manage earnings for their own private benefit rather than for the benefit of stockholders (Hao 2010). According to Nadia L (2015) institutional investors have the opportunity, resources and capacity to monitor and influence the decisions of managers, these investors can control the process of preparing financial statement and prevent managers from behaving in an opportunistic manner, through an aggressive management of earnings, thus ensuring a better quality of account information. Warfield, Wild and Wild (1995) submit that managers who own a large percentage of stock of a firm are less likely to be motivated to attaining disclosed financial statement with them.

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Therefore finance literature reveal that firm's ownership structure is considered one of the important factors limiting earnings management.

Therefore, this study examines the effect of cooperate Governance, ownership structure on earnings management for a sample of Nigeria firms registered on the Nigeria stock exchange for the period of 2004-2013.

Objective of the study

The major objective of the study is to find out the effect of corporate governance & ownership structure in earnings managements.

1. Find out whether duality of CEO has any impact on Earnings management.
2. Ascertain if Net assets value per share of the firm affects earning management.
3. Ascertain the influence managerial ownership on earnings managements.
4. Find out whether Price earnings ratio has effect on earnings managements.

Research Questions

1. What impact has CEO duality on earnings management
2. What impart has Net asset value per share in earnings management
3. Does managerial ownership have any affect earnings management
4. Is Price earnings' ratio of any effect in earnings management

Statement of Hypothesis

1. $H0_1$ CEO duality does not have significant effect on earning management
2. $H0_2$ Net Asset value per share of the firm has no significant relationship with earnings management
3. $H0_3$Managerial ownership has no significant relationship with earnings management.
4. $H0_4$ There is no significant relationship between Pricing earnings ratio and earnings management

LITERATURE REVIEW

Research on corporate governance is increasing rapidly along with the opening of large-scale financial scandals (e.g. Enron, Tyco, WorldCom Cadbury Nigeria Plc and Golden Genuine Plc.) involving accountants. These scandals represent the consequences of weak governance system . According to Iskandar and Chamlou (2000) states that the economic crisis in South East Asia and other countries occurs not only due to macroeconomic factors but also weak corporate governance in those countries, such as weak legality of accounting standards and financial inspection (auditing) that have not been established, capital markets that are still under-regulated, weak supervision of commissioners, and the neglect of the right of minorities.

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Such a condition also indicates that good corporate governance has not only a positive result for stakeholders but also for the wider community in the form of national economic growth. The financial institutions of the world such as World Bank and International Monetary fund are becoming interested in the enforcement of corporate governance in various countries of the world because they assume that corporate governance is an essential part of an efficient market system. Good corporate governance development efforts aimed at encouraging the optimization of allocating a use of company resources for growth and prosperity of the owners of the company intact *(Hadi silat 2009).*

In this case, corporate governance is essentially a matter of controlling the behavior of top corporate executives to protect the interest of company owners (shareholders). These problems arise because of the separation between owners and company management. The owners of the company as suppliers of capital can delegate their authority of the management of the company to professional manager.

As a result the authority to use corporate is a resource is entirely in the hands of the executive. Shareholders expect management to act in a professional way, to manage the company. Any decision taken should be based in the interest of shareholders and existing resources used solely for the sale of growth (value) of the forms. (*Hadi Silat 2009).*

The decisions taken by management are not solely for the benefit of the company but also for the interest of executives. In many cases decision and actions taken here will often became the benefits but also harms for the corporate executives. In other words, management has an agenda which is different from the interest of the owners.

The use of creative accounting, business failures, limited roles of auditors the absence of a clear relationship between compensation and the performance of the system emphasis on performance (accounting profit), and the expense of short-term long-term economic profit and so on (Keasey and Wright 1997) are some example of the behavior deviations manager.

Corporate governance is the means mechanism and structures that serve as control over self-serving behavior of managers (*shortel al. 1990).* The management of the companies that are open (transparent) and accountable can present the occurrence of self-serving behavior. As revealed by Keasey and Wright (1997) that the corporate governance is a key element that concern the enhancement of corporate performance via the supervision or monitoring of management performance and ensuring the accountability of management to shareholders and often shareholders and other shareholders.

Thus, good corporate governance can be defined as an interaction between structures and mechanisms which ensure control and accountability, but still encourage efficiency and performance of the company (*salowe 2002).*

Arifin (2003) found that the public companies in Indonesia, family controlled financial institutions or state or agency problems are better than a public company by or without the main controller.

In family controlled firms a smaller agency problem in due to reduced conflicts between principal and agent. In family ownership were efficient, the family holdings in companies with high earnings management which in opportunistic may be restricted than public companies. (Kim & Yi 2004) found that the magnitude of earnings management is higher for companies that have affiliate group than those that do not have group or no application.

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It is often said that the larger the company, the better the information available to investors in making investment decisions with respect to the shares of the company. Albrecht and Richardson (1990) and Lee & Choi (2002) found out that larger firms have less impetus to do profit smoothing than small firms because large firms are seen as more critical by outsides, the expected size of the company can affect the amount of earnings management is higher, the company's earning management is also better, but if the efficient management of the greater profit of the company size, the higher the earnings management in (positively related).

Dechow et al(1996) in his research shows that companies manipulate earnings are more likely to have a board dominated by management and are more likely to have major directors who concurrently become commissioner. Chtourou et al (2001) and Wedain (2004) found that the independent board would restrict earnings management activities

Theoretical Frame Work

Osma & Noguer (2005) investigated whether corporate governance mechanisms are effective in constraining earnings manipulation for Spanish companies during the period 1999-2001. They analyzed the association between earnings management and two key aspect of corporate governance: board composition and the existence of board monitoring committees. The result shows that composition significantly determines earnings manipulation practices.

The result of AI-Abbas et al (2009) provides no evidence against corporate governance factors militate against earrings management in Saudi environment. However, audits firms' size negatively relates to abnormal accords which indicate that auditing firm's size is an important factor with regard to the extent of earnings management.

De Angelo (1981) argues that auditor's size is a proxy for auditor reputation and audit quality. She reasons that brand-name auditors (i.e. Big 5 auditors) are better able to detect material misstatement in financial statements and were willing to report what they find than are other auditors (i.e. Non- Big5 auditors).

Noveman et al (2005) and Kam (2007) find that outside directors do not reduce the incidence of earnings management. The findings of Rajgopal, Venkatachalam and Jiambalvo (2002), Jiaporn and Gleason (2007), Koh (2005) and Mashayehi (2005) argued that institutional share ownership may have implications for earnings management as they are able to influence the company's management. The result indicates that institutions with large shareholderings play an active role in monitoring managerial opportunities in managing the reported earnings. In the works of Jaggi et al (2009) it find out that corporate boards provide effective monitoring of earnings management which suggests that despite differences in institutional environments corporate boards independence is important to ensure high quality financial reporting.

Earnings management and ownership structure.

In corporation management and ownership are separated. This brings about what is called agency problem. According to the theory sometimes managers do not want to act on behalf of shareholders to maximize their values. Therefore, it becomes essential to monitor decisions of managers to make sure shareholders values are increased and disclosed financial statements are accurate and transparent. (Alves, 2011, Bushman & Smith 2003; Chen, Jean & Haitgo, 2012; Dechow et al 1996). Following this research the ownership structure impact on earnings management, it has two types of ownership structure;

Managerial ownership and institutional ownership: According to Jensen and Meckling (1976), separation of management and ownership is a corporation lead to agency problems that reduce the firm's value due to agency conflicts. It also suggests if managers do not have a high level of shares in the firm, they may not act most likely on behalf of shareholders. A higher level of managerial ownership is considered as one of the important incentives to motivate managers (Warfield et al 1995). Thus, lower managerial ownership has greater an incentive to manage accounting ownership has greater incentives to manage accounting numbers to relieve or relax the behavioral constraints imposed in accounting – based contractors.

According to agency theory managerial shareholdings encourage managers bear a population of the wealth effect as a shareholder. As a result, CEO's stock ownership can lead to a convergence of interest between managers and shareholders (*Sandra Alves 2012).* It can be expected when managerial ownership increases the incentives to altering earning will reduce. On the other hand, the entrenchment hypothesis by Stutz (1988) suggests that manages own a large level of ownership may manipulate earnings managements to maximize their own personal objective (Cheng & Warfield, 2005; Healy, 1985; Horthousen et al, 1995).

Warfield et al (1995) examines the managerial ownership effect on earnings management ownership effect on earnings management. The findings suggest that the relation between those two variables is a statistically negative.

Gabricelsen Jettrey and Thomas (2002) also reveal that the ownership structure found in different countries including Denmark, deviates from the US ownership configuration and the findings indicate that managerial ownership effect on earnings management is a negatively significant. Sanchez-Ballcsta and Garcia Meca (2007) by using panel data approach to investigate the relationship among ownership structure, discretionary accruals and the in formativeness of earnings for Spanish non-financial firms for the period 1999-2002 also suggest the relationship in a non-linear between insiders ownership and discretional accruals and between insider ownership and earnings.

The study conducted by Yang, Lai and Tan (2005) in the firms quoted in the Taiwanese stock market for a period 1997-2004 suggest that the relation between earnings management and ownership is positively significant, while Gulzar and Wang (2011) find the relation between earnings management and managerial ownership is negatively significant on Chinese firms.

Earnings management & institutional ownership.

Small shareholders would not be interested in monitoring because they would bear all the cost, but why share a small population of the benefit. Previous studies suggest that a high level of institutional ownership can play a crucial role in corporate governance mechanism (Alves 2011). Koh (2003) investigates the relation between firms aggressive earnings management strategies and institutional ownership in Australia, it found out that there is a positive relation existing at the lower institutional ownership, it means that institutional investors provide incentives for managers to manage earnings, and on the other hand there is a negative relation found at the higher population of institutional ownership indicates institutional investors monitoring in one of the factors limiting managerial accounts discretion.

Al-Fayonmi, Abuzayed and Alexander (2010) examine the institutional investor's effects on discretionary accruals in Nigeria manufacturing firms registered on the Nigeria stock exchange for a period of 2008-2010. The empirical result reveals that institutional investor's effect is positively significant in earnings management in Nigeria manufacturing companies.

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The study conducted by Jouber and Fakhfall (2012) shows that some of the strong earnings factors are CEO stock ownership independent monitoring and institutional investor's property in both French and Canadian structures. On the other hand Yang et al (2009) examine the external directors and institutional shareholders roles in limiting earnings management activities in Malaysian companies. The finding shows that the relation between earnings management and institutional ownership is insignificant. Emamgholipour, Bageni, Mansourning and Arabi (2013) examine the relationship between earnings management and institutional investors on registered firms on the Tehran stock exchange by examining a sample of 700 companies for the period 2006 –2010. The findings show that a positive and significant relationship between earnings management and institutional investors. This suggests that increasing the ownership level of institutional shareholders increases the possibility earning management.

Al-Abbas (2009) also documents that there is a significantly relation exist between earnings management and institutional ownership in the companies listed in Saudi Arabian stock market.

Theoretical Framework.

The debate about corporate governance is typically traced way back to the early 1930s and the publication of Berle and Means. They noted that with the separation of ownership and control, and wide dispersion of ownership there was effective of corporate managers. This idea was further refined in what has come to be known as Agency Theory. In line with classic writers such as Jenesen and Mecking, Fama and Aichian and Demsetz offered a verity of explanations of the dilemmas faced by the "principal" who employs an "agent" to act on his or her behalf. As applied to corporate governance the theory suggest a fundamental problem for absent or distant owners/shareholders who employ professional executives to act on their behalf. In line with neo-classical economies the root assumptions informing this theory is that the agent is likely to be self interested and opportunistic. (The assumption of owner/shareholder property right obviates any need to think about the principals motives.)This raises the prospect that the executive as agent, will serve their own interest rather than those of the owner principal will have to incur agent cost, cost that arise from the necessity of creating incentive that align the interest of the executive with those of the shareholders and cost incurred by the necessity of monitoring executive conduct to prevent the abuse of owners interest.

RESEARCH METHOD

The data for this study were collected from 2004-2013annual report of Brewing companies, but only two prominent brewing that their data run from 2004 -2013 were used as others did not have enough date. The companies chosen are generally actively traded and large in size. Given their high volume of trade it is thus appropriate to assume that these companies attract the interest of investors. The multiple regression was used to analyze the effect of cooperate governance and ownership structure on earnings management of brewing industry.

The formulation of the multiple regression models is as follows

$$\text{Earnings}=\beta_0 +\beta_1\text{ceo}+\beta_2\text{nap}+\beta_3\text{mg.own}+\beta_4\text{per}$$

Earning- Profit
CEO-Chief Executive duality
NAP-Net asset present value

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Mag.Own. –Managerial ownership
PER- Price earnings Ratio

RESULTS AND DISCUSSION

Dependent Variable: EM
Method: Least Squares
Date: 03/15/16 Time: 21:10
Sample: 1 20
Included observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CEO	0.411176	0.154411	2.662878	0.0159
C	2.820000	0.142360	7.906880	0.0058

R-squared	0.382609	Mean dependent var	7.169500
Adjusted R-squared	0.342754	S.D. dependent var	0.283354
S.E. of regression	0.246574	Akaike info criterion	0.132329
Sum squared resid	1.094376	Schwarz criterion	0.231903
Log likelihood	-267.6705	F-statistic	7.090918
	1.988567	Prob(F-statistic)	0.001851

Ho$_1$ CEO Duality do not have significant effect on earnings management.

The value for the coefficient for CEO is 0.411176, while the constant intercept, c is 2.820000. The value of 2.820000 for c represents what EM will be without CEO. The value 0.411176 implies that holding all other factors constant, a unit increase in CEO will lead to 0.411176 increases in EM. R^2 tells the percentage variation in EM explained by CEO. By implication, the value of 0.382609 means that about 38% of total variation in EM is as a result of changes in CEO, while 62% is unexplained. This remaining percent could be caused by other factors or variables not built in the model. Since the Durbin- Watson statistic is near 2, there is no evidence of first-order autocorrelation. The estimated F-value is significant at 1% level (because the p value is zero) we can strongly reject the null hypothesis that the CEO duality does not have significant effect on earning management. We therefore conclude that CEO duality have a significant effect on earning management

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Dependent Variable: EM
Method: Least Squares
Date: 03/15/16 Time: 21:39
Sample: 1 20
Included observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NAVPS	3.022823	0.023306	0.979280	0.0034
C	1.017552	0.421426	2.736597	0.0027

R-squared	0.450582	Mean dependent var	23.81850
Adjusted R-squared	0.432163	S.D. dependent var	0.944314
S.E. of regression	0.945335	Akaike info criterion	2.820085
Sum squared resid	16.08585	Schwarz criterion	2.919658
Log likelihood	-362.0085	F-statistic	0.958989
Durbin-Watson stat	2.243293	Prob(F-statistic)	0.010421

HO2 Net asset value per share of the firm has no significant relationship with earnings management.

The value for the coefficient for NAVPS is 3.022823, while the constant intercept, c is 1.017552. The value of 1.017552 for c represents what EM will be without NAVPS. The value 3.022823implies that holding all other factors constant, a unit increase in NAVPS will lead to 3.022823 increases in EM. R^2 tells the percentage variation in EM explained by NAVPS. By implication, the value of 0.450582 means that about 45% of total variation in EM is as a result of changes in NAVPS, while 55% is unexplained. This remaining percent could be caused by other factors or variables not built in the model. Since the Durbin- Watson statistic is near 2, there is no evidence of first-order autocorrelation. The estimated F-value is significant at 5% level (because the p value is 1%) we can strongly reject the null hypothesis that Net Asset value per share of the firm has not significant relationship with earnings management. We therefore conclude that Net Asset value per share of the firm has a significant relationship with earnings management.

Dependent Variable: EM
Method: Least Squares
Date: 03/15/16 Time: 21:44
Sample: 1 20
Included observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MO	7.641258	2.908711	2.627026	0.0101
C	3.484806	0.412894	3.133644	0.0000

R-squared	0.477145	Mean dependent var	23.81850
Adjusted R-squared	0.456987	S.D. dependent var	0.944314
S.E. of regression	0.824864	Akaike info criterion	2.547444
Sum squared resid	12.24723	Schwarz criterion	2.647017
Log likelihood	-284.7444	F-statistic	2.901264
Durbin-Watson stat	1.992104	Prob(F-statistic)	0.000589

Ho3 Managerial ownership has no significant relationship with earnings management

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The value for the coefficient for MO is 7.641258, while the constant intercept, c is 3.484806. The value of 3.484806 for c represents what EM will be without MO. The value 7.641258 implies that holding all other factors constant, a unit increase in MO will lead to 7.641258 increases in EM. R^2 tells the percentage variation in EM explained by MO. By implication, the value of 0.477145 means that about 48% of total variation in EM is as a result of changes in MO, while 52% is unexplained. This remaining percent could be caused by other factors or variables not built in the model. Since the Durbin- Watson statistic is near 2, there is no evidence of first-order autocorrelation. The estimated F-value is significant at 1% level (because the p value is zero) we can strongly reject the null hypothesis that Managerial ownership has no significant relationship with earnings management. We therefore conclude that Managerial ownership has a significant relationship with earnings management.

Dependent Variable: EM
Method: Least Squares
Date: 03/15/16 Time: 21:51
Sample: 1 20
Included observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PER	3.031317	0.030163	0.138266	0.0129
C	1.151893	0.706756	4.269219	0.0000

R-squared	0.556505	Mean dependent var	23.81850
Adjusted R-squared	0.544088	S.D. dependent var	0.944314
S.E. of regression	0.942382	Akaike info criterion	2.813827
Sum squared resid	15.98550	Schwarz criterion	2.913400
Log likelihood	-261.3827	F-statistic	1.007996
Durbin-Watson stat	2.391081	Prob(F-statistic)	0.000293

Ho4 There is no significant relationship between Price earnings ratio and earnings management,

The value for the coefficient for PER is 3.031317, while the constant intercept, c is 1.151893. The value of 1.151893 for c represents what EM will be without PER. The value 3.031317 implies that holding all other factors constant, a unit increase in PER will lead to 3.031317 increases in EM. R^2 tells the percentage variation in EM explained by PER. By implication, the value of 0.556505 means that about 56% of total variation in EM is as a result of changes in PER, while 44% is unexplained. This remaining percent could be caused by other factors or variables not built in the model. Since the Durbin- Watson statistic is near 2, there is no evidence of first-order autocorrelation. The estimated F-value is significant at 1% level (because the p value is zero) we can strongly reject the null hypothesis that there is no significant relationship between Pricing earnings ratio and earnings management. We therefore conclude that there is a significant relationship between pricing earnings ratio and earnings management.

CONCLUSION

The main purpose of this paper is to show how Corporate governance and ownership structure on Earnings management of Brewery industry in Nigeria.

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Base on the sample of brewery used and the period covered, it shows that CEO has an impact on earnings management of firms, so also do institutional investors affect earnings management of firms. This is in line with the work of Sayim Mustata et al (2014). The studies also reveal that Net asset per share, and Price Earnings ratio has positively statistically significant effect on Earnings Managements.

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