THE EFFECT OF THE OWNERSHIP CONCENTRATION ON EARNINGS MANAGEMENT. EMPIRICAL EVIDENCE FROM THE ITALIAN CONTEXT

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Abstract

The numerous cases of business disruptions, involving opportunism and accounting fraud by shareholder, directors and managers, that have occurred in different countries over the past two decades along with institutional and context phenomena and with the rise of the 2008 financial crisis, have refocused the attention of academia, professionals and world policy makers on the disclosure processes used by companies and on corporate governance mechanisms. This paper, after a systematic description of the investigated issues – ownership structure, ownership concentrations and largest shareholders examines the relationship between ownership structure or concentrated ownership and earnings management in the Italian context, characterized by concentrated ownership and the dominance of the largest shareholder who exercises typically significant influences on management decisions directly or indirectly. Existing literature suggests, in an unequivocal way, the effect of the ownership structure on earnings management. According to some researchers, the ownership structure decreases the incentive to manage earnings. Others have the opposite opinion, they think ownership structure on earnings management provides the opportunity and incentive to manipulate earnings. Therefore, the main purpose of this paper is to analyse whether, in the Italian context, a firm's ownership structure, measured with several variables, exacerbates or alleviates earnings management. Using a sample of 300 non-financial listed Italian firms from 2011 to 2013. We find that discretionary accruals, as a proxy for earnings management, is negatively related to ownership concentration and the second largest shareholder and positively related to first largest shareholder. The study's results suggest that ownership concentration improve the quality of annual earnings, in a particular agency setting, by reducing the levels of earnings management.

Keywords: Earnings Management, Discretionary Accruals, Ownership Structure, Ownership Concentration, Controlling Shareholder

1. INTRODUCTION

The connection between corporate governance models and disclosure processes is a subject of great relevance and topical among academia, policy makers and professionals.

In particular, over the last twenty years, the number of cases of corporate insolvency, opportunism and accounting fraud by managers and/or shareholder-directors, occurred in different countries, along with other institutional and context phenomena, have directed the debate on financial communication processes on two lines of research. The first directive is functional to search for solutions that will improve the economic and financial communication processes and thus the quality of the income (e.g. Coffe, 2003). The second directive, on the other hand, is employed in searching for the reasons that induce, administrators and managers, to put in place policies for income manipulation (e.g., Demski, 2002; Ronen et al, 2006; Ronen and Yaari, 2007).

Secondary to the debate is an emerging line of study calling back into play the concept of "earnings quality" as a mere quantitative element (Onesti & Romano, 2012).

The theoretical and empirical studies, of prevailing Anglo-Saxon matrix, highlighted, particularly the contribution of the governance mechanisms - internal and external – aimed at influencing the processes for determining and communicating the accounting information, with particular reference to the quality of income.

Several studies have analyzed the mechanisms of corporate governance, that in terms of quality and efficiency, make it possible to assess the earnings quality through the identification, quantification and, where possible, the mitigation of the activities earnings management.

These studies that detect discrepancies in terms of direction and intensity of the relationship between the corporate governance variables used and the quality of the accounting information, measured by the earnings management, take as their corporate model of reference, the public company, characterized by the presence of a developed financial system, and for a high level of separation and contestability of the companies capital.

Specifically, those studies that have as a reference the problem of the type I agency (relationship between shareholders and managers), put in focus the variables that concern the Board of Directors, in terms of both structural and qualitative/quantitative composition.

The connection between earnings management and board size is not linear. On a theoretical level, on one hand, if a smaller board is more efficient, we expect to see a positive relationship between size and harmful earnings management, least of all reasons is that poor performance induces earnings management. On the other hand, since larger boards also include more independent directors, who have incentives to monitor earnings management, we expect to see a negative association between size and earnings management. Finally, if a board is just a front, then there ought to be no relationship between size and earnings management (Ronen & Yaari, 2008). Also, the empirical evidence of the association between size and earnings management is not straightforward. The relationship is positive (e.g., Abbott et al., 2004); is negative (e.g., Chtourou et al., 2001); is insignificant (e.g., Baber et al., 2005; Ferris et al., 2003).

Also with reference to the relationship between independence of the Board of Directors and earnings management the results are not compatible. In fact, directors cannot manage earnings by themselves, but they can act together with management. Therefore, on one hand, when there are better monitoring controls for earnings management, we expect to see a negative relationship between independence and earnings management (e.g., Xie et al., 2003; Vafeas, 2005). For other authors, conversely, there is no relationship between independence and earnings management (e.g., Agrawal and Chadha, 2005). Other studies have investigated the relationship between earnings management and the presence of CEO duality, that is cases in which the CEO is also the Chairman of the board (e.g., Bowen et al., 2004). Besides size, independence and CEO duality, research examined the following characteristics of the board: a) multiple directorships (e.g., Beasley, 1996; Conyon & Muldoon, 2006; Vafeas, 2005); b) the number of meetings (e.g., Xie et al., 2003); holding by directors (e.g., Lehn et al., 2005). Other studies focus on the relationship between audit committee and earnings management, with particular reference to the independence and the level of economic and financial expertise of their members (e.g., Agrawal and Chadha, 2005; DeFond et al., 2005; Zhang et al., 2006).

Equally significant and more concordant appear, on the contrary, studies on the relationship between the quality of the auditing process and earnings management (e.g., Zhou & Elder, 2004).

The empirical studies conducted over the last decade that focused on Italian companies, though still limited in quantitative terms, and definitely not in terms of quality, have analyzed several aspects of the relationship between the variables of corporate governance and the earning quality (e.g., Campa & Donnelly, 2014, Florio, 2011; Ianniello, 2015; Lippolis & Grimaldi, 2015; Mattei, 2006; Prencipe, 2006; Prencipe & Bar-Yosef, 2011; Onesti & Romano, 2010, Quagli, 2011).

The increasing number of studies on these topics have investigated and focused on Italy are attributable to both factors found in most contexts-country, such as the globalization processes and financing of their economies, cases of corporate insolvency, opportunism and accounting fraud by managers and/or shareholder-directors) and to factors specific for the Italian context, such as, innovations in provisions and regulations relating to self-governance of companies; processes of accounting harmonization, credit disintermediation and internationalization of companies, that influence in various ways the link between governance structures and earnings management.

The studies conspired to reveal the influence of corporate governance on earnings management practices have addressed, in addition to the line of research investigated so far, a second orientation, characterized by the identification of the ownership structure as the observed variable. In general, these studies have shown that, despite the diversity of institutional and context factors, the ownership structure has a significant impact on the earnings quality, through the earnings management. (Balsam et al., 2002; Chung et al., 2002; Dechow et al., 1996; Rajgopal et al., 1999; Warfield et al., 1995). In relation to this line of research and with reference to the empirical evidence regarding the Italian context, there is a deficit in the research conducted so far.

Therefore, despite the limited sample size and time horizon, this research examines the relationship between corporate ownership structure and earnings management in Italy. The study's results suggest that ownership concentration improve the quality of annual earnings by reducing the levels of earnings management.

The remainder of the paper is divided into four sections. Section 2 provides the theoretical background for the study and develops the hypotheses. Section 3 outlines the research method used to test the hypotheses. It also discusses the measurement of earnings management through the estimation of discretionary accruals. Section 4 reports the present study's results. Section 5 concludes by discussing the implications of the research findings, highlighting potential limitations and considering future areas for research.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The purpose of this study is to analyze the joint effect of corporate governance mechanism (ownership structure) - such as ownership concentrated and the role of the main stakeholders – and earnings management. First, a systematic review of the subject of ownership structure is proposed, particularly on the ownership concentration and the influence of major shareholders. Subsequently, a review of the characteristics investigated on the earnings management is offered; and the research hypothesis are outlined.

2.1. Ownership structure and its dimensions

As part of the latest economic and managerial literature, the ownership structure is more useful than any other corporate governance mechanism. At a macro level, indeed, it is helpful to understand the differences in terms of competitiveness between countries' national economic system (Claessens & Fan, 2002). At a micro level, however, it plays a central role in defining the degree of effectiveness and efficiency of corporate governance structures and mechanisms and in regulating the management behavior and directing it in the processes of stock value (Zattoni, 2006). Several empirical studies have highlighted significant differences in terms of ownership structure configuration; pointed out in companies in the Anglo-Saxon context where there is high shareholders dispersion and fragmentation compared to the European ones where ownership concentration is significantly high (e.g., Faccio & Lang, 2002; Franks & Mayer, 1997; Shleifer & Vishny, 1986). However, recent studies suggest that Berle and Means' (1932) model of widely dispersed corporate ownership is not common, even in developed countries (e.g., Claessens et al., 2000, La Porta et al., 1999). In these studies, it is noted that large shareholders control a significant number of firms in many countries, including developed ones. In particular to examine ownership and control by large shareholders, La Porta et al. (1999) traced the chain of ownership to find who has the most voting rights. Analyzing a sample of 30 companies for each of the 27 country examined, they documented the ultimate controlling owners and how they achieved control rights in excess of their ownership rights through deviations from the one share - one vote rule, pyramiding, and cross-holdings. In other words, the findings suggest that ownership and control can be separated to the benefit of the large shareholders. Also Claessens et al. (2000) through the analysis of 2.980 listed firms in nine East Asian countries (including Hong Kong, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand) found significant discrepancies between ultimate ownership and control, allowing a small number of families to control firms representing a large percentage of stock market capitalization. In other words, although largely analyzed in theoretical and empirical terms, the model of the public company is slightly applied, unlike the concentrated ownership model, often due to a family unit.

With reference to the ownership structure a second dimension is noticed besides the ownership concentration, that is the managerial ownership. With the managerial ownership a convergence between shareholders and managers is expected, through a system of incentives and controls in order to reduce conflicts of interest and opportunistic behavior (e.g., Bearle & Means, 1932; Fama & Jensen, 1983; Jensen & Meckling, 1976).

In relation to the ownership concentration, as what was found on the ownership structure, the evidences resulting from theoretical and empirical studies appear to be discordant, especially with regard to the connection with the creation of corporate value. On one hand, according to some researchers this connection does not exist (e.g., Barontini & Caprio, 2005) or not verifiable (Prowse, 1992). On the other hand, even though diversification, this connection is detectable. Some researchers consider the ownership concentration an instrument for management discipline functional to safeguard the processes of value creation – Monitoring hypothesis (e.g., Shleifer e Vishny, 1986). Some others, instead, consider it as a factor that potentially brings opportunism and, then, functional to processes of value expropriation – Entrenchment hypothesis (e.g., Shleifer & Vishny, 1997). Some researchers place themselves in between these positions indicating the possibility of a non-linear effect of ownership concentrations on the processes of value creation -Monitoring & entrenchment hypothesis. Among these positions, there are those of some researchers that indicate the possibility of a non-linear effect of the ownership concentration on the processes of value creation – Monitoring hypothesis & Entrenchment hypothesis (e.g., De Miguel et al., 2004).

The level of concentration is not the only relevant element of a concentrated ownership structure. First of all, the typology of stakeholder control is relevant, or that is represented by a public or private entity, a family, a company, a foreign entity, by a State, by the management. In view of what has been shown and how useful could be for the present analysis, it seems relevant to investigate the level of ownership concentration, the level of the reference shareholders with regard to the relationship with the earnings management.

2.2. Ownership structure and earnings management

The studies designed to detect the influence of corporate governance on earnings management practices have addressed, in addition to the area of research recalled in the introduction, also a second direction, characterized by the identification of the ownership structure as observed variable.

In this area of study, a first line of research has analyzed the relationship between categories of stakeholders and earnings management. These studies suggest that, despite the diversity of institutional factors and contexts, a firm's ownership structure impact on the magnitude of earnings management and earnings quality (e.g., Balsam et al., 2002, Chung et al., 2002; Dechow et al., 1996; Rajgopal et al., 1999; Warfield et al., 1995).

Warfield, Wild and Wild (1995) state managerial ownership is positively associated with the informativeness of accounting earnings. They find evidence that the correlation between stock returns and accounting earnings is significantly greater for corporations with higher managerial ownership. They also state that the magnitude of discretionary accounting accrual adjustments is significantly

higher when managerial ownership is low. Dechow, Sloan and Sweeney (1996) find that large blockholders of shares improve credibility of a firm's financial statements by providing close scrutiny over its earnings management activity. Rajgopal, Venkatachalam and Jiambalvo (1999) find that the absolute value of discretionary accruals is negatively related to the level of institutional ownership. They find that the absolute value of discretionary accruals is negatively related to the level of institutional ownership. Balsam, Bartov and Marquardt (2002) state that institutional investors, who are sophisticated investors, are more capable of detecting earnings management than non-institutional investors because they have more access to timely and relevant information. Chung, Firth and Kim (2002) find that the institutional shareholdings inhibit managers from managing accruals to achieve desired level of earnings. In other words, the last three studies state that it is consistent with managers recognizing that institutional owners are better informed than individual investors, which reduces the perceived benefit of managing accruals. They also find that as institutional ownership increases, stock prices tend to reflect a greater proportion of the information in future earnings relative to current earnings.

There are numerous studies, that arrived at conflicting findings, that used another research line. These studies have examined, in companies operating in one national context, the relationship between earnings management and ownership structure (e.g., Al-Fayoumi et al., 2010; Ali et al., 2010; Alves, 2013; Ghabdian et al., 2012; Guo & Ma, 2015; Kazemian & Sanusi, 2015; Lakhal, 2015; Reyna, 2012; Omoye & Eriki, 2014; Uddin ,2015).

2.3. Ownership concentration and earnings management

Taking the reference literature in consideration, this paper analyzes, within the Italian context, the relationship between ownership concentration and earnings management policies, particularly with regard to the role of ownership concentration and to the role of the first significant shareholder (1st largest shareholder or controlling shareholder) and of the second significant shareholder (2nd largest shareholder or Multiple largest shareholder).

Many studies on the relationship between ownership concentration, that measures the existence of large shareholders in one firm (Thomsen and Pedersen, 2000), and earnings management, appear strongly discordant on the type of effect that is developed. On one side, some researchers point out that the ownership concentration is negatively related to earnings management (e.g., Chen et al., 2010; Roodposhti & Chasmi, 2010; Ramsay and Blair, 1993; Zhong et al., 2007). On the other side, some researchers observe that positive relationship exists, as it induces, indeed, managers to get involved into earnings management (Abdoli, 2011; Halioui and Jerbi, 2012; McConnell and Servaes, 1990). Moreover, among the previous positions there are the indications coming from the studies of other researchers. The last ones suggest that the impact which ownership concentration has on earnings management could take of curve-linear relationship (e.g., Ding et al., 2007; McConnell and Searvaes, 1990).

Given this discussion, our hypothesis on the effect of ownership concentration on earnings management is directional and states:

H_1: *There is a negative relationship between higher ownership concentration and earnings management.*

2.4. Controlling shareholders and earnings management

Another stream of research related to ownership concentration focuses on the percentage of shares held by the first largest shareholder. The conflict of interests between large and minority shareholders (Type II agency problem) are driven by ownership concentration and generate high agency costs.

A large body of previous research has sought to understand the economic effects of the separation between ownership and voting rights of the controlling shareholder. Empirical evidence suggests that minority investors are vulnerable to expropriation problems in firms where the controlling shareholder holds control rights in excess of his/her commensurate capital investment (e.g., La Porta et al., 1999; Leuz et al., 2003; Nenova, 2000).

Leuz, Nanda and Wysoski (2003) observe in their study systematic differences in the level of earnings management across 31 countries. The analysis is based on the notion that insiders (i.e., controlling shareholders and mangers), compared to outsiders, have incentives to acquire private control benefits and then have an incentive to manipulate accounting reports in order to conceal their diversion activities. Their analysis suggests that outsider economies with relatively dispersed ownership, strong investor protection, and large stock markets exhibit lower levels of earnings management than insider countries with relatively concentrated ownership, weak investor protection, and less developed stock markets. In other words, earnings management decreases in legal protection because, when investor protection is strong, insiders enjoy fewer private control benefits and consequently incentives to mask firm performance are moderated.

The preceding discussion leads to the following hypothesis:

H_2: *There is a positive relationship between share ownership of the first shareholder and earnings management.*

2.5. Multiple Large Shareholders and Earnings Management

A further stream of research related to ownership concentration focuses on the percentage of shares held by the second largest shareholder. The various researches were conducted on the connection between multiple large shareholders, that measures the percentage of shares held by the second largest shareholder and earnings management, appear discordant on the type of effect that is developed.

From the one hand, multiple shareholders will curb on opportunistic behaviour of the first shareholder and protect the rights of minorities. They are then considered as a corporate governance device (e.g., Attig et al., 2008; Bennedsen and Wolfenzon, 2000; Bloch and Hege, 2001; Faccio et al., 2001; Maury & Pajuste, 2005). Attig, Guedhami and Mihra (2009) examine, using data for 1165 corporations from 21 countries (13 Western Europe and 8 East Asian), whether the presence of multiple

large shareholders alleviates a firm's agency costs. They find that the identity of the second largest shareholder is important in determining the risk of corporate expropriation in family- controlled firms. In particular, they observe that mainly in East Asian firms, multiple large shareholders structures exert an internal governance role in curbing private benefits and reducing information asymmetry, perhaps to sidestep deficiencies in the external institutional environment. Bennedsen and Wolfenzon (2000) suggest that control structures with multiple large shareholders may be efficient when equity holdings are evenly distributed among the controlling shareholders. Bloch and Hege (2001) show that two large shareholders refrain from extracting private benefits because they compete for corporate control by attracting minority shareholders.

From the second hand, the alternative viewpoint casts doubt on the effectiveness of shared control in producing better corporate governance (Kahn & Winton, 1998; Zwiebel, 1995). Kahn and Winton (1998) identify occurrences where large shareholders prefer to opportunistically trade on private information rather than monitor management. Zwiebel (1995) suggest that moderate-sized blockholders are prone to be working together with each other on finding appropriate divisible private benefits. Faccio et al. (2001) show that in Asia, the second-largest shareholder is acting in collusion with the controlling shareholders to extract private benefits at the expense of outside shareholders.

A third strand of literature considers both views of the role of Multiple large shareholders. Under this strand, Gomes and Novaes (2005) develop a decisional framework that suggests that concentrated control in the hands of one large investor provides better protection to minority shareholders than shared control among blockholders. However, their model also shows that sharing control increases efficiency in less protective economies.

In view of the different expectations regarding the effect of earnings management, our hypothesis is directional and states:

H3: *There is a negative relationship between share ownership of the second shareholder and earnings management.*

3. METHODOLOGY

The current section focuses on the model used for the empirical research carried out on a sample of companies listed on the Italian stock market. The objective is to determine the subsistence of the assumptions on which the research is based considering both the basis of what is present in literature and issues investigate. Therefore, with regard to the previous section have created the following structure: primarily, it entails fixing and setting the methodological choices made, specifically with regard to: a) the identification and definition of the sample and sub-samples under analysis; b) the sources used for the retrieval of data while considering the variables used; secondly, it proceeds to identifying the statistical model used for the earnings management policy and for defining the variables in the chosen model; subsequently, the regression models used for data processing are described.

3.1. Sample

This empirical research is based on the theoretical assumptions of reference and on the methodology chosen and it aims to test the level of ownership and concentration held by the major shareholders. The degree of ownership concentration held by the first and second primary shareholder and the presence and the extent of presence in terms of shareholding by institutional investors play a key-role in the implementation of the earnings management of the companies examined.

The survey takes as its target population all the companies traded on the Italian stock market in the period 2011- 2013.

The primary goal of the analysis is to determine the time span 2011-2013, and therefore identify the two sets of reasons. In the first place, to carry out a survey truly updated and, secondly, "neutral" as possible. Particularly as regard to the dependent variables and the control ones, the effected resulting from the introduction and the application of the international accounting standards for the quoted companies, starting from 2005.

Specifically, in order to guarantee greater consistency and representativity of the investigated phenomena, financial companies, banks, insurance companies and public services, were excluded in the analysis data. We did this because their main characterization in terms of governance structures, as result of an articulate legislation and regulation, would inevitably "influenced" the analysis (Klein, 2002; Peasnell et al., 2005). Moreover, the foreign companies listed on the Italian stock exchange and the companies for which, both the information concerning the governance variables and the information referring to the accounting variables was not available for the entire time frame of reference, were excluded. Finally, in order to eliminate disclosures that could affect the statistical validity of the analysis, those companies whose reference values are significantly different from the average of the other observations (outliers) are excluded from the sample.

In conclusion, therefore, the selected sample is composed of 300. The extent of the companies observation, unlike the goal of the analysis, also covers the financial year 2010 going then from 2010 to 2013.

Such distinction has a great importance with reference to the estimation model and the dependent variables. In other words, while for the independent variables and the control variables there is coincidence between the extent of the observation and the scope of the analysis, as regard to the dependent variable, it is necessary to observe the trend of the components that are part of it also for the year 2010.

After having identified the overall sample, in order to go deep into the scope of the observation and the associated underlined phenomena, it proceeded to the definition of two sub-samples, making a distinction between companies that have or do not the characters of "familiarity".

For the purpose of the present research, as defined by Corbetta and Minichilli (2005), a company is a “family company” if one or several families, hold directly and / or indirectly, at least 50% of the capital or, although not having the above share capital, have main control on it. On the contrary, a

company is considered "non-family", if this condition is not fulfilled.

This further analysis, between family and non-family companies, as previously pointed out, can be investigated in terms of effects on earnings management policies. In other words, the effect of the prevalence of the family, can be of a dual nature, depending on the prevalence of the alignment effect or of the entrenchment effect. More specifically, according to the presence or absence of condition imposed, for the time span 2011-2013, 159 family companies for 141 non-family members are counted.

Subsequently, to the above distinction between "family" and "non family" companies it has been proceeded to data collection with reference to both data of the ownership structure and data of economic and financial variables. Data on the ownership structures have been extracted from the "Shareholders" and "Significant Equity" section of the Consob archive. With reference to the economic and financial variables, however, the information was manually drawn from the financial statements published in the "Investor Relations" website section of the surveyed company's.

The collected data have been subject to review separated in 4 steps. First, it proceeded to the identification of the variables (dependent, independent and control) of the proposed analysis model. Secondly it proceeded at first to validate the assumptions of the model Defond and Park (2001) and later to estimate the earnings management parameter required by that model. Subsequently, it proceeded to a merely descriptive analysis of the variables previously identified. Finally, to test the relationship between the earnings management identified and estimated variable (dependent variable) and the other variables (independent and control) a correlation analysis was carried out at first, and subsequently three models of linear regression analysis were developed.

3.2. Earnings management Proxy

For the purpose of verifying the earnings management policies, possibly pursued, the model DeFond and Park (2001) was used, with a proxy, i.e., the model of *abnormal working capital accruals*, based on an estimate of discretionary components of working capital (working capital accruals).

On the basis of the assumption that each company is able to conduct its business with sufficient access to working capital, proportional to sales, DEFOND and Park point out, the bidirectional ratio which ties the amount of working capital with the amount of sales.

The difference between the circulating capital as in the financial statements and the "expected" or considered "normal" capital, quantified by the estimate parameter defined, identifies the portion of the accrual in the capital (discretionary accrual) which is expected to be written off against profits in following financial years (e.g., DeFond & Park, 2001).

Specifically, DeFond & Park (2001) empirical abnormal accruals proxy is:

$$AWCA_t = WC_t - [(WC_{t-4} / S_{t-4}) x S_t]$$

where: t is a year-quarter, t-1 refers to the prior quarter, t-4 refers to the same quarter in the prior year; $AWCA_t$ is the abnormal working capital accruals in the current quarter; WC_t, is the working capital in the current quarter where working capital is computed as (current assets – cash and short-term investments) – (current liabilities – short-term debt); WC_{t-4}, is the working capital in the same quarter last year; S_t, is the sales in the current quarter; S_{t-4}, is the sales in the same quarter last year.

With regard to this survey, it started from the base model proposed by Defond and Park, to a proxy of that, to reach a better representation of the phenomena studied, with regard to the institutional context of reference (Ianniello, 2015; Marra et al., 2011) and to the available economic-financial data.

In other words, for the purpose of a more accurate estimate, we have chosen to modify the period under observation. In fact, instead of relating sales to working capital on a quarterly basis, it proceeded with the processing considering the same quantities but on an annual basis.

Therefore, the proxy of the abnormal working capital accrual estimation model used in this research to verify the presence of earning management policies, assumes the following configuration:

$$AWCA_t = WC_t - [(WC_{t-1} / S_{t-1}) x S_t]$$

where: t refers to the current year, t-1 refers to the prior year; $AWCA_t$ is the abnormal working capital accruals in the current year; WC_t, is the working capital in the current year where working capital is computed as (current assets – cash and short-term investments) – (current liabilities – short-term debt); WC_{t-1}, is the working capital in the prior year; S_t, is the sales in the current year; S_{t-1}, is the sales in the prior year.

Ultimately, always trying to define an analysis model, as much as possible free from constraints and constraints, it was decided to consider the abnormal working capital accrual in absolute values, since, like other similar surveys (Ianniello, 2015; Warfield et al, 1995), it does not identify the objective for which the management has set up a particular policy to manipulate the accounting data, but rather detects the use or not of the policy itself.

Ultimately, the configuration of the Earnings Management just described was laid as the dependent variable in the context of the model of analysis (within the correlation and regression models).

3.3. Variables of Ownership Characteristics - Proxies

As stated earlier, the main purpose of this research is to examine whether ownership concentration influences earnings management. According Short (1994) and Pedersen and Thomsen (2003) we propose that an appropriate measure of ownership structure must include not only the distribution of ownership shares (i.e., ownership concentration), but also the identities of the relevant owners. Thomsen and Pedersen (2000) states that potential owners differ in terms of wealth, costs of capital, competence, preferences for on-the-job consumption, and non-ownership ties to the firm. These differences affect the way they exercise their ownership rights and therefore have important consequences for firm performance. Therefore, in the identification of the ownership structure

variables according Pedersen and Thomsen (2003), we treat ownership concentration and owner identity as separate, but dependent dimensions of ownership structure. Owner identity determines the preferences and goals of the owners whereas ownership concentration determines their power and incentives to enforce these goals.

Thus, in relation to ownership concentration, its following seven variables are examined: OWN CONC a measure of the sample companies' ownership concentration. Is measured as the sum of the shares held by shareholders who are in possession of at least 2% of ordinary shares of the company; NO OWN CONC is measured as the sum of the shares held by shareholders who are not in possession of at least 2% of ordinary shares of the company; 1st Largest Shareholder is measured of the number of shares held by the first shareholder who own at least 2% of ordinary shares of the company; 2nd Largest Shareholder is measured of the number of shares held by the second shareholder who own at least 2% of ordinary shares of the company; 3rd Largest Shareholder is measured of the number of shares held by the third shareholder who own at least 2% of ordinary shares of the company; 4th Largest Shareholder is measured of the number of shares held by the fourth shareholder who own at least 2% of ordinary shares of the company; 5th Largest Shareholder is measured of the number of shares held by the fifth shareholder who own at least 2% of ordinary shares of the company.

The secondary purpose of this study is to examine whether institutional ownership influences earnings management. Thus, in relation to institutional ownership, its following two variables are examined: 1) INS INV is measured as un indicator variable taking the value 1 if there are institutional investors who own stocks of the firm, and 0 otherwise; 2) OWN INS INV is measured as the sum of the number of shares held by institutional investors.

3.4. Control variables

When examining the relationship between ownership structure and earnings management, it is necessary to control for other factors that may also influence earnings management. ROA – return on assets, calculated as the ratio of operating income to lagged total assets; ROE – return on equity, calculated as the ratio of operating income to lagged total assets; ROI – return on investments, calculated as the ratio of operating income to lagged total assets.

3.5. Regression Models

Formally, the regression models used to test the hypotheses are performed on the entire sample, and are structured as follows:

$$AWCA_{i}t = \beta_0 + \beta_1 FAM50 + \beta_2\ OWNCONC_t + \beta_3\ ROA_t + \beta_4\ ROE_t + \beta_5\ ROI_t + u_t \quad (1)$$

$$AWCA_{i}t = \beta_0 + \beta_1 FAM50 + \beta_2\ 1st\ LARGEST_t + \beta_3\ ROA_t + \beta_4\ ROE_t + \beta_5\ ROI_t + u_t \quad (2)$$

$$AWCA_{i}t = \beta_0 + \beta_1 FAM50 + \beta_2\ 2st\ LARGEST_t + \beta_3\ ROA_t + \beta_4\ ROE_t + \beta_5\ ROI_t + u_t \quad (3)$$

where: the subscripts "i" and "t" – represent firm and year, respectively; AWCA – represent the abnormal working capital accruals in the current year; FAM 50 – a dummy variable designating the company type (family-controlled = 1, non-family-controlled = 0); 1) OWN CONC a measure of the sample companies' ownership concentration. Is measured as the sum of the shares held by shareholders who are in possession of at least 2% of ordinary shares of the company 3) 1st LARGEST Shareholder is measured of the number of shares held by the first shareholder who own at least 2% of ordinary shares of the company; 4) 2nd LARGEST Shareholder is measured of the number of shares held by the second shareholder who own at least 2% of ordinary shares of the company; ROA – return on assets, calculated as the ratio of operating income to lagged total assets; ROE – return on equity, calculated as the ratio of operating income to lagged total assets; ROI – return on investments, calculated as the ratio of operating income to lagged total assets

4. EMPIRICAL RESULTS. ANALYSES AND DISCUSSION

Finally, in this section the results of the analysis conducted are examined and the research hypotheses are verified by studying the correlation and the regression model, but first we can find the results of the descriptive statistics (4.1). Subsequently the results of the correlation are presented (4.2) and then the results of the multivariate regression models are described (4.3).

4.1. Descriptive statistics

The present analysis consists of, for the entire period of the analysis, both the overall survey of the entire sample (Table 1 - Panel A) and the surveys concerning the sub-sample of family firms (Table 1 - Panel B) and the sub-sample of non-family businesses (Table 1 - Panel C). Table 1 presents the descriptive statistics of variables used for the Pearson Correlation matrix and partly for the multivariate analysis. The descriptive are calculated both for the empire sample of 300 observation (Panel A) and separately for each of the two subsamples of family and non-family controlled observations (Panel B and C, respectively).

From Table 1, we can see that Italian listed firms have a high level of ownership concentration, while the presence of institutional investors is lower and that the "family" companies represent 53% of the total while the non-family the remaining 47%. This aspect detects what has been recently reported in other empirical investigations, directly or indirectly related to, the family connotation of the Italian companies (e.g., Campa & Donnelly, 2014; Prencipe & al., 2011). From Table 1, with regard to the dependent variable (AWCA) it is noted that, compared to the average value 0.16 for the whole sample, the sub-sample of family-controlled companies (shows a value of 0,15, while the non-family-controlled companies a value of 0,18.

As far as the level of ownership concentration (OWN CONC), it is observed a fairly high level among the investigated companies (representing 65.09%), with a level of just over 69% in family-controlled companies, compared to a level of just over 60% in

non- family-controlled companies. In the same way extremely high is the level of share ownership detained by the major shareholders In relation to the first shareholder (1st Largest), there is a fairly high average value of 46% for the whole sample, compared to 56% detectable in the sub-sample of family-controlled companies, compared to 34.56% for the sub-sample of non-family-controlled companies.

Regarding the others major shareholders it is observed, unlike what is noticed for the performance of OWN CONC and (1st Largest), an average value of the shares held, higher in the non-family-controlled companies compared to the family-controlled companies. Limited is the importance of shares held by non-reference shareholders (NO OWN CONC), especially in the context of family-controlled companies where there is an average value of 30.62%, against 39.79% shown in non-family-controlled companies. Finally, the role of institutional investors found in 57% of the firms of the sample is limited, with a presence, in terms of the ownership of shares equal to 4.70%. Equally significant, with regard to the two sub-samples, appears the average value of share ownership equal to 5.22% in non-family-controlled companies, compared to a value equal to 3.37% in family-controlled companies. Finally, with regard to the average performance of the control variables, it is noted, that the family-controlled companies, with reference to the Return on Asset (ROA), the Return on Equity (ROE) and Return on Investment (ROI), achieve better performance than the non-family ones.

Table 1. Descriptive Statistics for Dependent and Main Explanatory Variables

	N	*Mean*	*Median*	*SD*	*Range*	*Min*	*Max*	*p25*	*p50*	*p75*
Panel A: All sample companies (N=300)										
AWCA	300	0,16	0,08	0,19	0,81	0,00	0,81	0,04	0,08	0,23
OWN CONC	300	65,07	67,22	14,56	77,39	16,98	94,37	57,82	67,22	74,87
1st LARGEST	300	46,10	51,67	18,37	82,72	5,77	88,49	30,05	51,67	58,95
2nd LARGEST	282	9,36	7,50	6,65	32,52	2,01	34,53	4,95	7,50	12,14
3rd LARGEST	243	5,67	4,35	4,24	19,94	2,00	21,94	2,56	4,35	7,37
4th LARGEST	171	6,48	3,55	7,43	40,43	2,00	42,43	2,48	2,48	7,47
5th LARGEST	108	5,27	2,68	5,94	30,00	2,00	32,00	2,05	2,68	5,87
NO OWN CONC	300	34,93	32,78	14,56	77,39	5,63	83,02	25,13	32,78	42,18
INS INV	297	0,57	1,00	0,50	1,00	0,00	1,00	0,00	1,00	1,00
OWN INS INV	297	4,25	2,11	5,59	26,21	0,00	0,00	0,00	2,11	6,70
ROA	300	2,22	1,13	4,52	25,15	-9,12	16,03	-0,35	1,13	4,99
ROE	300	4,70	4,50	8,24	37,34	-12,93	24,41	-0,20	4,50	10,60
ROI	300	3,46	1,89	6,85	33,49	-13,88	19,61	-0,64	1,89	7,65
Panel B: Family-controlled companies (N=159)										
AWCA	159	0,15	0,07	0,18	0,81	0,00	0,81	0,04	0,07	0,21
OWN CONC	159	69,38	68,30	7,96	35,05	54,80	89,85	63,56	68,30	75,01
1st LARGEST	159	56,33	56,60	9,27	48,38	25,90	74,28	52,46	56,60	62,08
2nd LARGEST	150	7,35	5,09	5,66	32,52	2,01	34,53	3,52	5,09	10,03
3rd LARGEST	120	10,03	3,08	3,50	15,90	2,00	17,90	2,15	3,08	5,00
4th LARGEST	81	3,62	2,72	2,68	12,91	2,00	14,91	2,08	2,72	4,40
5th LARGEST	42	3,65	2,13	3,30	11,79	2,01	13,80	2,04	2,13	3,44
NO OWN CONC	159	30,62	31,70	7,96	35,05	10,15	45,20	24,99	31,70	36,44
INS INV	156	0,58	1,00	0,50	1,00	0,00	1,00	0,00	1,00	1,00
OWN INS INV	156	3,37	2,09	3,98	17,24	0,00	17,24	0,00	2,09	5,07
ROA	159	2,65	1,22	4,60	21,26	-5,23	16,03	-0,24	1,22	4,98
ROE	159	5,80	5,57	8,84	37,04	-12,63	24,41	0,03	5,57	12,61
ROI	159	3,93	2,09	6,73	29,57	-9,96	19,61	-0,31	2,09	7,52
Panel C: Non family-controlled companies (N=141)										
AWCA	141	0,18	0,10	0,21	0,78	0,00	0,78	0,04	0,10	0,30
OWN CONC	141	60,21	59,11	18,42	77,39	16,98	94,37	49,47	59,11	74,78
1st LARGEST	141	34,56	30,00	19,31	82,72	5,77	88,49	17,79	30,00	50,03
2nd LARGEST	132	11,63	10,05	7,02	31,24	2,12	33,36	6,69	10,05	14,74
3rd LARGEST	123	6,92	5,03	4,56	19,92	2,02	21,94	3,69	5,03	9,46
4th LARGEST	90	9,05	6,70	9,26	40,42	2,01	42,43	2,81	6,70	12,10
5th LARGEST	66	6,31	4,11	7,02	30,00	2,00	32,00	2,05	4,11	6,57
NO OWN CONC	141	39,79	40,89	18,42	77,39	5,63	83,02	25,22	40,89	50,53
INS INV	141	0,55	1,00	0,50	1,00	0,00	1,00	0,00	1,00	1,00
OWN INS INV	141	5,22	2,71	6,86	26,21	0,00	26,21	0,00	2,71	7,51
ROA	141	1,74	0,95	4,43	22,73	-9,12	13,61	-0,71	0,95	5,13
ROE	141	3,47	4,35	7,42	29,02	-12,93	16,09	-0,38	4,35	8,75
ROI	141	2,93	1,41	7,03	32,14	-13,88	18,26	-1,01	1,41	1,41

4.2. Correlation analyses

The correlation coefficients between variables in regression analyses are arranged in Tables 2, 3 and 4. In order to assess whether the monitoring mechanisms of the management activities are less effective in "Family-controlled companies" than those identified in "non-family-controlled companies", three Pearson Correlation Matrix have been developed. A Person correlation matrix for the sample is presented in Table 2. First, we may observe that the earnings management variables of discretionary accruals (AWCA) is negatively correlated with the FAM 50, OWN CONC, 1st Largest, 3rd Largest, 4th Largest, 5th Largest, INS INV and OWN INS INV. It's positively correlated with the 2nd Largest and NO WON CONC. Second, it is interesting to note that the signs of the correlation coefficients are consistent with our hypotheses except for those concerning statistical significance, detected only with OWN CONC (correlation = -,200, p<.05), NO OWN CONC (correlation = ,200, p<.05), and INS INV(correlation = -,257, p<.05),

A Pearson correlation matrix for the sample "Family-controlled companies" is presented in Table 3. First, we may observe that AWCA is positively correlated with the NO OWN CONC. It's negatively correlated with the OWN CONC, 1st Largest, 2nd

Largest, 3rd Largest, 4th Largest, 5th Largest, INS INV and OWN INS INV. Second, it is interesting to note that the signs of the correlation coefficients are consistent with our hypotheses except for those concerning statistical significance, detected only with INS INV (correlation = -,311, p<.05).

A Pearson correlation matrix for the sample "Non-family-controlled companies" is presented in Table 4. First, we may observe that AWCA is negatively correlated with the OWN CONC, 3rd Largest, 4th Largest, INS INV and OWN INS INV. It's positively correlated with the 1st Largest, 2nd Largest, 5th Largest and NO OWN CONC. Second, it is interesting to note that the signs of the correlation coefficients are consistent with our hypotheses except for those concerning statistical significance. In all the three samples, also, we may observe that the AWCA is negatively correlated with the control variables (ROA, ROE and ROI).

From this analysis, it is possible to detect some interesting differences in the correlation between specific variables within the two sub-samples. This circumstance allows to evaluate the different effect that the characteristics of the ownership concentration and of the institutional ownership have on the practices of earnings management in the two subsamples. Particularly in both sub-samples, the measurement of earnings management (AWCA) is negatively correlated with the ownership concentration (OWN CONC). This correlation coefficient is equal to -,237 for family-controlled companies and to -,180 for non- family-controlled companies. Moreover, in both sub-samples, equally negatively correlated with AWCA are the variables OWN CONC, 3rd Largest, 4th Largest CO, INS INV and OWN INS INV. The dependent variable (AWCA), instead, is positively correlated with NO OWN CONC.

Ultimately, not consistent correlations are found with regard to the variables 1st Largest and 2nd Largest. In fact, with respect to AWCA those variables are positively correlated in the sub-sample "Non family-controlled companies» and negatively correlated in the sub-sample "family-controlled companies".

The next part of this section reports the results of the multivariate analyses for a better test of the hypotheses.

Table 2. Pearson Correlation Matrix - All Sample Companies (N = 300)

		-1	***-2***	***-3***	***-4***	***-5***	***-6***	***-7***	***-8***	***-9***	***-10***	***-11***	***-12***	***-13***
AWCA	***-1***	1	-,200*	-0,023	0,015	-0,072	-0,173	-0,060	,200*	-,257*	-0,136	-,201*	-0,187	-0,192
OWN CONC	***-2***	-,200*	1	,566**	,244*	,306**	0,086	0,226	-1,000**	0,000	-0,038	0,145	0,099	0,126
1st LARGEST	***-3***	-0,023	,566**	1	-,369**	-,407**	-,553**	-,393*	-,566**	-0,124	-,222*	-0,023	0,102	-0,050
2nd LARGEST	***-4***	0,015	,244*	-,369**	1	,519**	0,135	,373*	-,244*	-0,101	0,091	-0,012	-,226*	-0,031
3rd LARGEST	***-5***	-0,072	,306**	-,407**	,519**	1	,388**	,448**	-,306**	-0,022	0,149	0,076	0,015	0,129
4th LARGEST	***-6***	-0,173	0,086	-,553**	0,135	,388**	1	0,137	-0,086	0,103	0,113	0,073	-0,018	0,125
5th LARGEST	***-7***	-0,060	0,226	-,393*	,373*	,448**	0,137	1	-0,226	-,482**	-0,209	0,140	-0,321	0,200
NO OWN CONC	***-8***	,200*	-1,000**	-,566**	-,244*	-,306**	-0,086	-0,226	1	0,000	0,038	-0,145	-0,099	-0,126
INS INV	***-9***	-,257*	0,000	-0,124	-0,101	-0,022	0,103	-,482**	0,000	1	,669**	0,159	0,189	0,151
OWN INS INV	***-10***	-0,136	-0,038	-,222*	0,091	0,149	0,113	-0,209	0,038	,669**	1	0,085	0,062	0,129
ROA	***-11***	-,201*	0,145	-0,023	-0,012	0,076	0,073	0,140	-0,145	0,159	0,085	1	,602**	,957**
ROE	***-12***	-0,187	0,099	0,102	-,226*	0,015	-0,018	-0,321	-0,099	0,189	0,062	,602**	1	,643**
ROI	***-13***	-0,192	0,126	-0,050	-0,031	0,129	0,125	0,200	-0,126	0,151	0,129	,957**	,643**	1

**, ** are significant at the 5% and 1% levels, respectively*

Table 3. Pearson Correlation Matrix - Family-controlled companies (N = 159)

		-1	***-2***	***-3***	***-4***	***-5***	***-6***	***-7***	***-8***	***-9***	***-10***	***-11***	***-12***	***-13***
AWCA	*-1*	1	-0,180	0,043	0,029	-0,057	-0,307	0,110	0,180	-0,203	-0,140	-0,182	-0,136	-0,172
OWN CONC	***-2***	-0,180	1	,590**	,430**	,428**	0,227	0,357	-1,000**	-0,039	-0,021	0,056	0,003	0,058
1st LARGEST	***-3***	0,043	,590**	1	-0,013	-0,207	-,411*	-0,245	-,590**	-0,271	-0,163	-0,171	-0,014	-0,185
2nd LARGEST	***-4***	0,029	,430**	-0,013	1	,491**	-0,095	0,358	-,430**	-0,014	0,042	-0,174	-,343*	-0,169
3rd LARGEST	***-5***	-0,057	,428**	-0,207	,491**	1	0,262	,439*	-,428**	-0,032	0,086	0,152	-0,049	0,196
4th LARGEST	***-6***	-0,307	0,227	-,411*	-0,095	0,262	1	0,017	-0,227	0,161	0,031	0,056	0,013	0,093
5th LARGEST	***-7***	0,110	0,357	-0,245	0,358	,439*	0,017	1	-0,357	-,674**	-0,281	0,167	-,459*	0,214
NO OWN CONC	***-8***	0,180	-1,000**	-,590**	-,430**	-,428**	-0,227	-0,357	1	0,039	0,021	-0,056	-0,003	-0,058
INS INV	***-9***	-0,203	-0,039	-0,271	-0,014	-0,032	0,161	-,674**	0,039	1	,691**	,370*	,474**	,356*
OWN INS INV	***-10***	-0,140	-0,021	-0,163	0,042	0,086	0,031	-0,281	0,021	,691**	1	0,186	0,265	0,249
ROA	***-11***	-0,182	0,056	-0,171	-0,174	0,152	0,056	0,167	-0,056	,370*	0,186	1	,684**	,954**
ROE	***-12***	-0,136	0,003	-0,014	-,343*	-0,049	0,013	-,459*	-0,003	,474**	0,265	,684**	1	,673**
ROI	***-13***	-0,172	0,058	-0,185	-0,169	0,196	0,093	0,214	-0,058	,356*	0,249	,954**	,673**	1

**, ** are significant at the 5% and 1% levels, respectively*

Table 4. Pearson Correlation Matrix - Non-family-controlled companies (N = 141)

		-1	**-2**	**-3**	**-4**	**-5**	**-6**	**-7**	**-8**	**-9**	**-10**	**-11**	**-12**	**-13**
AWCA	-1	1	-,237	-,014	-,061	-,163	-,001	-,338	,237	-,311*	-,177	-,210	-,219	-,204
OWN CONC	**-2**	-,237	1	,099	,387**	,665**	,572**	,331	-1,000**	,056	,144	,278*	,169	,241
1st LARGEST	**-3**	-,014	,099	1	-,643**	-,507**	-,767**	-,813**	-,099	-,010	-,132	-,003	,081	-,002
2nd LARGEST	**-4**	-,061	,387**	-,643**	1	,454**	,668**	,556*	-,387**	-,196	,029	,215	-,071	,167
3rd LARGEST	**-5**	-,163	,665**	-,507**	,454**	1	,789**	,580*	-,665**	,015	,167	,057	,165	,092
4th LARGEST	**-6**	-,001	,572**	-,767**	,668**	,789**	1	,661*	-,572**	-,067	,130	,199	,071	,255
5th LARGEST	**-7**	-,338	,331	-,813**	,556*	,580*	,661*	1	-,331	-,271	-,170	,087	-,058	,134
NO OWN CONC	**-8**	,237	-1,000**	-,099	-,387**	-,665**	-,572**	-,331	1	-,056	-,144	-,278*	-,169	-,241
INS INV	**-9**	-,311*	,056	-,010	-,196	,015	-,067	-,271	-,056	1	,732**	-,027	-,030	-,044
OWN INS INV	**-10**	-,177	-,144	-,132	,029	,167	,130	-,170	-,144	,732**	1	-,007	-,134	-,012
ROA	**-11**	-,210	,278*	-,003	,215	,057	,199	,087	-,278*	-,027	-,007	1	,537**	,962**
ROE	**-12**	-,219	,169	,081	-,071	,165	,071	-,058	-,169	-,030	-,134	,537**	1	,623**
ROI	**-13**	-,204	,241	-,002	,167	,092	,255	,134	-,241	-,044	-,012	,962**	,623**	1

**, ** are significant at the 5% and 1% levels, respectively*

4.3. Multivariate Results

In order to test the hypotheses various regression analysis were made (Table 5), where the measure of the earnings management (AWCA) was used as the dependent variable. Moreover there were also taken into account the control variables most used in the reference literature (ROA, ROI and ROE). The variables have been previously defined and with reference to the assumptions made we would expect a negative coefficient for OWN CONC (Model 1) and for the 2nd LARGEST (Model 3) and a positive coefficient for the 1st largest (Model 2).

With reference to the sign of the coefficient FAM50, it is highlighted how it is negative in Models 2 and 3 and positive in Model 1. These evidences are inconsistent. They seem to suggest, with reference to the Model 1, that the earnings management practices tend to be used in family-controlled companies more than in non-family businesses. Considering the models 2 and 3, we can notice indications of opposite meaning. However, since the coefficient is not statistically significant, there is not the opportunity to set out clearly if the family ones are actually more inclined to the accounting handling practices, compared to the Non family-controlled companies. This result is not, however, of crucial importance since the main goal of our research is to examine whether the corporate governance mechanisms have an impact on the earnings management level.

Table 5 (Model 1), presents the results of the estimate of Equation 1. The coefficient of our main test variable (OWN CONC) is negative but statistically insignificant. This result supports Hypothesis 1 and coincides with the evidences of different empirical analysis, that although relating to different country contexts and models of corporate governance, states that concentrated ownership provides block holders with the incentives and power in monitoring firms to improve quality decisions, implying less opportunity for earnings management (Alves, 2012; Chen et al., 2008; Firth et al., 2007; Yeo et al., 2002).

Model 2 in Table 5 presents the results of the estimate of Equation 2. The coefficient of our main test variable (1st LARGEST) is positive but statistically insignificant. This result supports Hypothesis 2, and coincides with previous research that suggests two directions. First, that minority investors are vulnerable to expropriation problems in firms where the controlling shareholder holds control rights in excess of his/her commensurate capital investment (e.g., Classens et al., 2000; La Porta et al., 1999; Leuz et al., 2003; Nenova, 2000). Second, that insiders, compared to outsiders, have incentives to acquire private control benefits and then have an incentive to manipulate accounting reports in order to conceal their diversion activities (Leuz, Nanda and Wysosk, 2003).

Model 3 in Table 5 presents the results of the estimate of Equation 3. First, the coefficient of our main test variable (2nd LARGEST) is negative but statistically insignificant. This result coincides with the evidences of previous studies (e.g., Attig et al., 2008; Bennedsen and Wolfenzon, 2000; Bloch and Hege, 2001; Faccio et al., 2001; Maury & Pajuste, 2005). These studies suggest that multiple shareholders will curb on opportunistic behaviour of the first shareholder and protect the rights of minorities.

Table 5. Regression on Earnings Management (AWCA) with Individual Ownership Characteristics (OLS) - All Sample Companies (N = 300)

	Model 1			*Model 2*			*Model 3*		
	Exp. Sign	***Coefficients***	***t-value***	***Exp. Sign***	***Coefficients***	***t-value***	***Exp. Sign***	***Coefficients***	***t-value***
Constant			3,813			3,450			3,450
FAM 50	-	,013	,127	-	-,050	-,399	-	-,055	-,494
OWN CONC	-	-,176	-1,672						
1st LARGEST				+	,018	,141			
2nd LARGEST							-	-,027	-,235
ROA	?	-,182	-,525	?	-,217	-,616	?	-,266	-,747
ROE	?	-,109	-,835	?	-,109	-,417	?	-,106	-,741
ROI	?	,074	,205	?	,091	,806	?	,108	,291

5. CONCLUDING REMARKS AND FUTURE RESEARCH DIRECTIONS

This paper, using a recent sample of Italian listed firms from 2011 to 2013, examines the relationship in Italian listed firms between earnings management and three different ownership concentration characteristics (ownership concentration, 1st and 2nd largest shareholders).

Specifically, our research has empirically documented three pieces of evidence. First, ownership concentration provides blockholders with the incentives and power in monitoring firms to improve quality decisions, implying less opportunity for earnings management (Model 1). Second, with reference to the relationship between the first significant shareholder (1st largest shareholder) and earnings management, minority investors are vulnerable to expropriation problems in firms where the controlling shareholder holds control rights in excess of his/her commensurate capital investment. This paper also remarks that insiders, compared to outsiders, have incentives to acquire private control benefits and then have an incentive to manipulate accounting reports in order to conceal their diversion activities (Model 2). Third, with reference to the relationship between the second significant shareholder (2nd largest shareholder) and earnings management, multiple shareholders will curb on opportunistic behaviour of the first shareholder and protect the rights of minorities (Model 3).

This paper is not free of limitations. First, while the decision to focus on a single country helps to isolate the envisaged relationships from the effects of different institutional settings, to a certain extent, it may limit the possibility of generalizing the results to other contexts. Second, the sample used and the period of observation might seem limited.

However, these limitations stem from the need to isolate the investigated relationships within a single country.

We believe that there is significant room for research on the relationships between ownership concentration features and earnings management attributes. It would be interesting, for example, to see whether other types of dominant shareholders (3rd, 4th and 5th largest shareholder) show different levels of inclination towards earnings management, or whether our conclusions may apply to settings characterized by different stages of development of financial markets. Also, it would be of interest to examine in depth the effect of various degrees of 'familiness' on earnings management, using appropriate research tools. Furthermore, it would be interesting, to see the relationship between both institutional ownership and managerial ownership and earnings management. We leave these and other potentially interesting questions for future research.

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