

OWNERSHIP STRUCTURE IMPACT ON EARNINGS MANAGEMENT: EVIDENCE FROM INDUSTRIAL SECTOR COMPANIES IN SRI LANKA

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Abstract

To eliminate costs arising from agency problem, entities are using various methods like issuing shares for managers, directors, etc. Through that an entity would be able to eliminate conflicts between directors and shareholders up to a certain extent. Sharing ownership with directors caused earnings management and it is manipulating the amounts in the financial statements through management judgements to mislead stakeholders about the performance of the entity. Therefore, ownership structure of an entity provides a great impact on earnings management activities inside an entity. This study considers four ownership structures namely, concentration ownership, managerial ownership, institutional ownership and foreign ownership. The purpose of this research is to find out the relationship between ownership structure and earnings management. To measure the dependent variable, earnings management, this study has taken 'Rahman and Shahrur model' or the 'Modified Jones Model' but with additional two variables as Return on Assets (RoA) and BM (book to market ratio). This study is limited to capital goods sector and all 29 companies have taken as the sample when collecting data. Data was collected from annual reports for the period from 2017-2021 (5 years) and analyzed using regression and correlation. Findings of the study will be useful for any entity in order to manage earnings management activities inside the entity.

Keywords: Agency, Earnings Management, Management Judgements, Ownership Structures