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Founder ownership and earnings management: evidence from Indian IPOs

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Abstract

The present study investigates the role of founders/insiders on the earnings management practices of firms in an emerging market. We use Indian firms' data where founders hold a significant percentage of shares post-Initial Public Offerings (IPO). We chose the IPO setting since it provides greater opportunity and incentives for the firm to manage earnings. Our study, contrary to the entrenchment effect reported in other markets, concludes that higher founder ownership around IPOs reduces accrual and real earnings management practices of Indian firms. Additionally, our study documents that the negative relationship between founder ownership and earnings management holds for subsequent years of IPO where firms have greater incentive to manage earnings in anticipation of lockup expiration.

Keywords: Earnings management; Emerging market; Financial Reporting; Founder ownership; Initial Public Offering

JEL Classification: M40; M41; G32