Managerial ownership, accounting choices, and informativeness of earnings

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Abstract

This article hypothesizes that the level of managerial ownership affects both the informativeness of earnings and the magnitude of discretionary accounting accrual adjustments. The hypothesis draws on the theory of the firm, and exploits: (1) separation of ownership from control of economic decisions, (2) the extent and consequences of accounting-based contractual constraints, and (3) managers' incentives in selecting and applying accounting techniques. Results show managerial ownership is positively associated with earnings' explanatory power for returns and inversely related to the magnitude of accounting accrual adjustments. Moreover, ownership is less important for regulated corporations, suggesting regulation monitors managers' accounting choices.
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