

## CHAPTER VI

### RESULTS

#### *6.1 DESCRIPTIVE STATISTICS*

Table 1, Panel A presents a summary of how the final sample was obtained. Of the 2,944 firm-years over the fiscal years 2000-2006 that are in the sample, this study eliminates 430 firm-years in the financial services and insurance sectors. This is because their financial requirements and accounting rules are different for these industries and they are more heavily regulated by Bank of Thailand and Department of Insurance. Another 295 firm-years are eliminated in the rehabilitation companies sector because their returns are not available. Additionally, 486 firm-years are eliminated because their data are not available or incomplete data in the Datastream database or the company's annual report, leaving a final sample of 1,733 firm-years (for 331 distinct firms as described in Table 1, Panel B). This study winsorizes the top and bottom 1% of the earnings per share before extraordinary items and returns to mitigate the effects of extreme observations<sup>19</sup>.

Table 1, Panel B presents the industry breakdown of the sample firms. Industries are defined in accordance with the Stock Exchange of Thailand definitions, and consist of agriculture and food, consumer products, industrials, property and construction, resource, services, and technology. Each industry contains enough observations to allow for median, differencing by industry to control for industry effects in the regressions.

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<sup>19</sup> Results do not significantly change when the regressions are run on the unwinsorized data. Additionally, winsorization at the 2% and 5% level do not significantly affect the results.

Table 2, Panel A presents a description of controlling shareholder, *FF*, and *FAM* member ownership over the fiscal years 2000-2006. Controlling shareholder firms are divided into *FF* and *FAM* firms. Among the final sample of 1,733 firm-year observations, 1,655 (95.5%) are controlling shareholder firm-year observations, 1,048 (60.5%) are *FF* firm-year observations, 607 (35.0%) are *FAM* firm-year observations. These results imply that most listed companies in Stock Exchange of Thailand (SET) are concentrated in the hands of large shareholders, for whom the minimum ownership level is defined at 10%<sup>20</sup>. On average, controlling shareholder members, *FF*, and *FAM* members own 41.0%, 42.7% and 38.2%, respectively. The average (median) controlling shareholder ownership measured by percentage of common equity is 39.0% (36.8%) in year the 2000, but this slightly increases to 42.6% (42.2%) in year the 2006. The average (median) *FF* ownership measured by percentage of common equity is 41.7% (39.5%) in the year 2000, but this slightly increases to 43.5% (42.7%) in the year 2006. The average (median) *FAM* ownership measured by percentage of common equity is 33.3% (29.6%) in the year 2000, but this slightly increased to 40.9% (38.7%) in the year 2006. The average percentage of stock owned by families in either *FF* or *FAM* firms is still relatively high after the financial crisis in 1997.

Table 2, Panel B presents number of CEO characteristic of controlling shareholder, *FF* and *FAM* firms while table 2, Panel C presents percentage of CEO characteristics of controlling shareholder, *FF*, and *FAM* firms. In Table 2, Panel C, of the controlling shareholder firms, 34.9% are run by founder CEOs in the year 2000 and 37.3% are run by founder CEOs in the year 2006. The corresponding percentage of controlling

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<sup>20</sup> The cutoffs of 10 percent is used because it provides a significant threshold of votes and most countries mandate disclosure of 10 percent, and usually even lower, ownership stakes (La Porta et al., 1993).

shareholder firms run by descendents is 17.8% in the year 2000, but this slightly decreases to 16.6% in the year 2006. In comparison, the percentage of controlling shareholder firms run by hired outsiders as CEOs is 47.4% in the year 2000, and this also slightly decreases to 46.2% in the year 2006. The average percentage of the controlling shareholder firms, 33.4%, 17.0% and 49.6% are run by founder, descendents and hired outsiders as CEOs, respectively.

When the sample of CS is divided into *FF* and *FAM*, Table 2, Panel C of the *FF* firms shows that 40.4% are run by founder CEOs in the year 2000 and this increases to 46.5% in the year 2006. The corresponding percentage of *FF* firms run by descendents is 21.2% in the year 2000, but this slightly decreased to 21.0% in the year 2006. In comparison, the percentage of *FF* firms run by hired outsiders as CEOs is 38.5% in the year 2000, and this decreases to 32.5% in the year 2006. The average percentage of the *FF* firms, 41.5%, 21.5% and 37.0% are run by founder, descendents and hired outsiders as CEOs, respectively.

Of the *FAM* firms, 22.9% are run by founder CEOs in the year 2000 and this slightly decreased to 21.1% in the year 2006. The corresponding percentage of *FAM* firms run by descendents is 10.4% in the year 2000, but this slightly decreased to 8.8% in the year 2006. In comparison, the percentage of *FAM* run by hired outsiders as CEOs is 66.7 in year 2000 and this increases to 70.2% in the year 2006. The average percentage of the *FAM* firms, 19.3%, 9.4% and 71.3% are run by founder, descendents and hired outsiders as CEOs, respectively.

The percentage of *FF* firms run by founders and their descendants is higher than the percentage of firms run by outsider CEOs. In a competitive market, this phenomenon might be explained by the fact that founders and descendants as CEOs possess special expertise and better knowledge of the firm's business activities. On the other hand, the percentage of *FAM* firms run by founders and their descendants is less than the percentage run by outsider CEOs. This implies that, founders and descendants as CEOs in *FAM* firms who take over firms from other families, might have no expertise or knowledge of the firm's business activities. Therefore, *FAM* firms usually seek to engage outside CEOs, who have more expertise, to run in their business.

Table 2, Panel D presents a description of controlling shareholder, *FF*, and *FAM* firms which are politically connected.<sup>21</sup> Of the controlling shareholder firms, 14.6% are politically connected in the year 2000 and this slightly increases to 15.2% in the year 2006. Of *FF* firms, 8.9% are politically connected in the year 2000 but this decreases to 6.1% in the year 2006. Of *FAM* firms, 5.7% are politically connected in year 2000 but this increases to 7.9% in the year 2006.

Table 3 presents the descriptive statistics on the dependent and independent variables used in the conservatism analyzes. Table 3 reports the descriptive statistics on *EPS* (earnings per share before extraordinary items divided by beginning of period price), *R* (stock return for firm *i* from 10 months before the financial year-end to 2 months after the financial year-end), *RD* (an indicator variable equal to one if *R* is

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<sup>21</sup> Controlling shareholders (*CS*) are either controlling shareholder members on the board of directors or in the top management and directly or indirectly own more than 10% of outstanding shares at the beginning of the fiscal year. Founding family (*FF*) members are either founding family members on the board of directors or in the top management of the company and directly or indirectly own more than 10% of outstanding shares at the beginning of the fiscal year. Family firm (*FAM*) members are either family firm members on the board of directors or in the top management of the company and directly or indirectly own more than 10% of outstanding shares at the beginning of the fiscal year.

negative, zero otherwise), *OWN* (the percentage of share held by the largest shareholder members at the beginning of the fiscal year), *DUAL* (dummy variable equal to one if the CEO is chairman of the boards, zero otherwise). *BRDSIZE* (number of directors on the board at the year-end), *IND* (number of independent audit committee divided by total board size), *BIG4* (dummy variable coded 1 if the firm's auditor is a big-four firm, zero otherwise), *LEV* (total debts divided by total assets at the beginning of the fiscal year), *PINST* (institutional share ownership as a percentage of the total number of outstanding shares at the beginning of the fiscal year), *SIZE* (market value of equity divided by total assets at the beginning of the fiscal year), *RISK* (dummy variable coded 1 if the firm is an a technology industry, zero otherwise), *MTB* (market-to-book ratio at the beginning of the fiscal year) and *POL* (dummy variable coded one if controlling shareholder members are member of parliament or a minister or the head of state, zero is otherwise).

The mean (median) *EPS* value is -0.309 (0.085). Note that the *EPS* distribution is left skewed, consistent with accounting conservatism. The average return (*R*) is 30.6%. The descriptive statistics on the negative return indication variable, *RD*, indicate that approximately 41.0% of the sample exhibits a negative return over the period. Mean ownership (*OWN*) at the beginning of the fiscal year is 39.36%<sup>22</sup>. It exhibits considerable skewness in that the median ownership is 37.07%. The 90<sup>th</sup> percentile value, 66.11%, indicates that, in a portion of the sample, *OWN* have relatively larger ownership stakes. About 26.9% of the sample are firms where the CEO is also chairman of the board (*DUAL*). The average size of board of directors (*BRDSIZE*) is

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<sup>22</sup> Wang (2006) reports that for the period, 1994-2002 S&P 500 indices, family firms had on average 10.35% of common stock. This implies that listed companies in Stock Exchange of Thailand have ownership concentrated in hands of large shareholder members.

11.31. The average number of independent directors (*IND*) is about 27.3% of the reported board of directors. About 60.9% of the firm's auditors have a big-four firm as auditors (*BIG4*). The average firm finances about 35.2% of its reported assets with debts (*LEV*). The average institutional share ownership as a percentage of the total number of outstanding share at the beginning of the fiscal year (*PINST*) is 2.38%. The market value of equity divided by total assets at the beginning of the fiscal year (*SIZE*) is 1.01 times. About 13.9% of the sample belongs to high-litigation-risk industries (*RISK*). The market-to-book ratio at the beginning of the fiscal year (*MTB*) is 2.83 times. Politically connected, *POL*, approximately 14.5% of the sample belongs to politically connected firms which are related to the parliament or a minister or the head of state.

Table 4 reports the correlation matrix for the variables. The upper right-hand portion of the tables presents Pearson product moment correlation, while the lower left hand portion presents the Spearman rank-order correlation. To facilitate discussion, this study focuses on the Pearson correlations; the Spearman rank-order correlations are generally consistent with the Pearson correlation. *OWN* exhibits a significantly positive (Pearson) correlation with *DUAL*, *IND* and *BIG4* and negative correlation with *BRDSIZE*, *PINST*, *RISK* and *POL*. *EPS* is positively correlated with *R* (0.40) and negative correlated with *RD* (-0.67), indicating that reported earnings reflect at least a portion of the information reflected in returns. In addition, *BRDSIZE* exhibits a significantly negative (Pearson) correlation with *IND* (-.70). However, a variance inflation factor (hereafter, VIF) without interaction terms is tested to detect multicollinearity (results not reported). As a rule of thumb, a VIF greater than ten suggests that the regressor variables are highly correlated (Myers, 1990; Montgomery

et al., 2001). This study finds that the VIFs of the regressor variable in each model do not exceed the cut-off point (ten), suggesting that multicollinearity among the regressor variables is not strong in this data set<sup>23</sup>.

## 6.2 RESULTS RETURNS WITHOUT OWNERSHIP CHARACTERISTICS

The first part of this study concentrates on the impact of losses on the cross-sectional regression of earnings regressed on contemporaneous returns in the years 2000-2006 obtained using Model (1). The slope coefficient  $R$  from regression (1), as shown in Table 5, is significantly positive. The addition of dummy variables in the regression in Table 5 divides the sample into two subgroups depending on whether the change in return is positive and negative over the period 2000-2006. The incremental response to bad news relative to good news, as measured by the coefficient of  $R*RD$ , is significantly positive for the pooled sample.

A second measure,  $(R+RD)/R$  or  $(.060+1.196)/0.060$ , which assesses the sensitivity of earnings to bad news relative to good news, shows greater variation compared to the ranking based on the  $RD$  coefficient. As a result, earnings are about 20.9 times more sensitive to bad news than good news. Adjusted  $R^2$  from separate regressions on positive and negative returns indicates that earnings reports are more timely in reporting publicly available bad news than good news. In the analysis presented above, the results indicate that financial reporting is generally conservative in that it defers recognition of good news and accelerates the recognition of bad news.

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<sup>23</sup> This study tests linear regression assumptions and shows that all data sets do not violate the linear regression assumptions. i) *Darbin-Watson* coefficient value is between 1.5 and 2.5 and run tests confirm that an autocorrelation problem does not exist, ii) *White's tests* are investigated to ensure there are no heteroscedasticity problems, iii) Based on the *Central Limit Theorem*, the distribution of residuals in a large sample size is normal. A general rule accepts a sample size of 30 or more as large (Dielman, 2005). The sample size of this study is 1,733, which far larger than 30, so the assumption of normal distribution of residuals is justified, iv) the mean value of residuals is zero and v) *Variance Inflation Factors* (VIF) are lower than 10 indicating no multicollinearity problem among variables.

### 6.3 RESULTS WITH OWNERSHIP CHARACTERISTICS

#### 6.3.1 Results with ownership using dummy variable

Tables 6, 7 and 8 report the cross-sectional regression of earnings regressed on contemporaneous returns in the years 2000-2006 for controlling shareholder (*CS*), founding family (*FF*) and family (*FAM*) member ownership, respectively. Table 6 presents results using dummy variable ownership by controlling shareholder members while Tables 7 and 8 present results using dummy variable ownership by divided *CS* member ownership into *FF* and *FAM* member ownership groups, respectively.

Table 6, column (i) presents the OLS regression results without control variables. Column (ii) presents the regression in column (i) augmented by corporate governance control variables. Column (iii) presents the regression in column (i) augmented by firm characteristics control variables. Column (iv) presents the regression in column (i) augmented by the corporate governance and firm characteristics control variables. The coefficients of  $R*OWN(dummy)$  and  $R*RD*OWN(dummy)$  are not significant in all four columns. The results suggest that that no relationship between *CS* member ownership and asymmetric timeliness are found.

Turning to the corporate governance control variables, for the independent directors variable (*IND*), the coefficients of  $R*IND$  are not significant in columns (ii) and (iv). The coefficient of  $R*RD*IND$  is significantly positive in column (iv) but insignificant in column (ii). The significantly positive coefficient of  $R*RD*IND$  indicates that firms with more independent directors (*IND*) are more asymmetrically timely in recognizing bad news. It implies that more independent directors lead a firm to exhibit conservatism, which is consistent with other studies.

With respect to firm characteristics control variables, leverage ( $LEV$ ), the coefficients of  $R*RD*LEV$  are significantly negative in columns (iii) and (iv). These results indicate that firms with greater leverage ( $LEV$ ) are less asymmetrically timely in recognizing bad news. These findings are inconsistent with previous research. It can be explained that the operations of the listed companies in SET experienced and influenced by the economic conditions in Thailand and the Asia Pacific Region during the year 1997-2002. Most of the listed companies in SET had been experiencing significant cash flow problems which, coupled with the devaluation of Thailand's currency, had resulted in a substantial increase in the amount of the company's foreign debt as stated in Baht, and a substantial decrease in shareholders' equity. Events of default have occurred on all debts, which enable lenders to declare their debts due and payable, and to demand immediate payment due to the listed companies were unable to maintain certain ratios as described in loan agreement (e.g. current ratio, debt to equity ratio, etc.). However, none of the lenders has yet exercised rights to accelerate repayment at that time. After the financial crisis, firms with greater debts (high leverage) might have more incentive and capability to avoid defaults the schedule of debt and interest repayment by using less conservative.

The coefficients of  $R*RD*SIZE$  are significantly negative in columns (iii) and (iv), which is consistent with Basu et al. (2001). Basu et al. (2001) show that, large firms are often less conservative than small ones. There are several possible explanations. First, this apparent size anomaly is a natural consequence of market efficiency, since small firms are more risky in terms of the market value of equity. Second, small firms tend to be less diversified than large ones. Their returns are more volatile, making them more likely to have material economic impairments and therefore exposing their

managers to greater legal liability risk. This could translate into more or bigger writedowns being required for small firms as managers try to reduce their legal liability exposure, which could explain the greater asymmetry for small firms. This study fails to find evidence that firms in high-litigation-risk industries and with high market-to-book ratios exhibit greater conservatism.

The increase in explanatory power appears marginal as indicated by an only slight increase with adjusted  $R^2$  ranging from 0.4775 in column (i) to 0.5126 in column (iv)).

Table 7 reports the cross-sectional regression of earnings regressed on contemporaneous returns in the years 2000-2006 for founding family (*FF*) member ownership. Table 7 presents the regressions similar to those in Table 6 except that Table 7 uses *FF* as the independent variable. The coefficients of  $R*OWN(dummy)$  are not significant in all four columns, while the coefficients of  $R*RD*OWN(dummy)$  are significantly positive in all four columns. These results suggest that, as *FF* firms' earnings reports become more asymmetrically timely in recognizing bad news but earnings reports are not timely in recognizing good news.

Turning to the corporate governance control variables, only the coefficient of  $R*RD*IND$  is marginally positive significant in column (iv) but insignificant in column (ii).

For firm characteristics control variables, the significant negative coefficients of  $R*RD*LEV$  and  $R*RD*SIZE$  are significantly negative in columns (iii) and (iv) which are similar to those in Table 6.

The increase in explanatory power appears marginal as indicated by an only slight increase with adjusted  $R^2$  ranging from 0.4794 in column (i) to 0.4993 in column (iv).

Table 8 reports the cross-sectional regression of earnings regressed on contemporaneous returns in the years 2000-2006 for family (*FAM*) member ownership. Table 8 presents the regressions similar to those in Table 6 except that Table 7 uses *FAM* as the independent variable. The coefficients of  $R*OWN(dummy)$  are not significant in all four columns, while the coefficients of  $R*RD*OWN(dummy)$  are significantly negative in all four columns. These results suggest that as *FAM* firms earnings reports become less timely in recognizing bad news but earnings is not timely in recognizing good news. For example, stock price of *FAM* firm falls down when *FAM* firm is sued for breaches of law. However, *FAM* firm argues that the outcome of the litigation cannot presently be determined since the court case has not been finalized; therefore, no provision has been made in the financial statements at the balance sheet date.

Turning to the corporate governance control variables, only the coefficient of  $R*RD*IND$  is significantly positive in column (iv) which is consistent with Table 6.

For firm characteristics control variables, the significant negative coefficients of  $R*RD*LEV$  and  $R*RD*SIZE$  are significantly negative in columns (iii) and (iv) which are similar to those in Table 6.

The increase in explanatory power appears marginal as indicated by an only slight increase with adjusted  $R^2$  ranging from 0.4772 in column (i) to 0.4975 in column (iv).

Table 9 summarizes and shows a summary of comparative results based on column (iv) in Tables 6, 7 and 8. Column (iv) *CS*, this study finds no relation between *CS* member ownership and asymmetric timeliness. Column (iv) *FF*, the coefficient of  $R*RD*OWN$  is significantly positive. These results suggest that, as *FF* firms' earnings reports become more asymmetrically timely in recognizing bad news but earnings reports are not timely in recognizing good news. However, in column (iv) *FAM*, the coefficient of  $R*OWN$  is also not significant, while the coefficient of  $R*RD*OWN$  is significantly negative. These results suggest that as *FAM* firms earnings reports become less timely in recognizing bad news but earnings are not timely in recognizing good news.

### 6.3.2 Result with ownership using scales decile rank

So far, this study has used measures of the type of ownership as dummy variable for *CS*, *FF* and *FAM* member ownership as described in Tables 6, 7 and 8, respectively. Tables 10, 11 and 12 report similar analysis as in the tables 6, 7 and 8, respectively, but use percentage of ownership members and scaled decile rank of percentage of shares held by *CS*, *FF*, and *FAM* members. For every year, firms are partitioned into 10 equal groups based on the percentage of ownership by *CS*, *FF* and *FAM* members. The scaled decile rank is determined by first ranking observations each year into 10 groups from zero to nine, and then scaling the ranking by nine so that the rank variable falls within the zero-to-one interval. High rank means high ownership.

Table 10, results are similar to those in Table 6, excepts that the coefficients of  $R*RD*OWN(rank)$  are significantly positive in all four columns. Turning to the corporate governance and firm characteristics control variables as described in Table

10, these results are similar to those in Table 6. Concentrating on Table 11, the coefficients of  $R*RD*OWN(rank)$  are significantly positive in all four columns which are similar to those in Table 7. Turning to the corporate governance and firm characteristics control variables as described in Table 11, these results are similar to those in Table 7. Therefore, tables 10 and 11 results suggest that, as *CS* and *FF* member ownership increases, earnings reports become more asymmetrically timely in recognizing bad news but earnings report are not timely in recognizing good news.

With respect to Table 12, the coefficients of  $R*RD*OWN(rank)$  are also significantly negative in all four columns which are similar to those in Table 8. Turning to the corporate governance and firm characteristics control variables as described in Table 12, these results are similar to those in Table 8. These results suggest that as *FAM* member ownership increases, earnings reports become less timely in recognizing bad news but earnings reports are not timely in recognizing good news.

Table 13 summarizes and shows a summary of comparative results based on column (iv) in Tables 10, 11 and 12. Columns (iv) *CS* and *FF*, the coefficients of  $R*RD*OWN$  are significantly positive. These results suggest that, as *CS* and *FF* member ownership increases, earnings reports become more asymmetrically timely in recognizing bad news but earnings reports are not timely in recognizing good news. However, in column (iv) *FAM*, the coefficient of  $R*OWN$  is also not significant, while the coefficient of  $R*RD*OWN$  is significantly negative. These results suggest that as *FAM* member ownership increases, earnings reports become less timely in recognizing bad news but earnings is not timely in recognizing good news.

In summary, the results in Tables 8 and 12 indicate that high levels of *FAM* ownership are associated with less conservative earnings reports, consistent with less conservative as the entrenchment effect, which is consistent with H<sub>1b</sub>. It implies that, *FAM* firms might have more incentive and capability to manipulate earnings (less conservative) in order to expropriate value from minority shareholders such as related parties transactions (Anderson and Reeb, 2003). In contrast, the results in Tables 7 and 11 show that *FF* firms are associated with more conservative earnings reports. *FF* member owners are more likely to forgo short-term benefits from being less conservative in reporting earnings because of the incentive to pass on their business to future generations and to protect the family's reputation. Accordingly, it implies that, *FF* member owners are less likely to be less conservative in reporting earnings because it potentially could damage the family's reputation, wealth, and long-term firm performance.

### 6.3.3 Results with ownership level

This study has used measures of the type of ownership in *CS*, *FF* and *FAM* members as dummy variable as described in Tables 6, 7 and 8, respectively, and percentage of ownership members (scaled decile rank of percentage of shares held by *CS*, *FF* and *FAM* members) as described in Tables 10, 11 and 12, respectively. Tables 14, 15 and 16 report similar analysis as in the Tables 10, 11 and 12, respectively, but Tables 14, 15 and 16 classifies ownership into 3 levels, ownership 10%-20%, more than 20%-50%, and more than 50%.

Tables 14, 15 and 16 report the cross-sectional regression of earnings regressed on contemporaneous returns in the years 2000-2006 for controlling shareholder (*CS*), founding family (*FF*) and family (*FAM*) member ownership, respectively. Table 14 presents results using ownership levels by *CS* members while Tables 15 and 16 present results using ownership levels by divided *CS* member ownership into *FF* and *FAM* members, respectively.

Table 14 shows no relation between controlling shareholder membership level and asymmetric timeliness except that the coefficients of  $R*RD*OWN>50\%$  are significantly positive in all four columns. The results suggest that *CS* member ownership who owns share more than 50%, earnings reports become more timely recognizing bad news.

In Table 15 shows that the coefficients of  $R*RD*OWN>50\%$  and  $R*RD*OWN>20-50\%$  are significantly positive in all four columns. However, Table 15 finds that the coefficients of  $R*RD*OWN10-20\%$  are significantly negative in columns (iii) and (iv). The results suggest that, for *FF* members who own more than 20%-50% and more than 50% of the outstanding shares of a firm, earnings reports become more asymmetrically timely recognizing bad news. On the other hand, when *FF* ownership is between 10% and 20%, earnings reports become less asymmetrically timely recognizing bad news.

Table 16 shows that the coefficients of  $R*RD*OWN>20-50\%$  and  $R*RD*OWN10-20\%$  are significantly negative in all four columns. These results suggest that when *FAM* ownership is between 10% and 20%, and more than 20%-50%, earnings reports become less asymmetrically timely recognizing bad news.

Turning to the corporate governance and firm characteristics control variables in Tables 14, 15 and 16, these results are similar to those in Table 6.

Table 17 summarizes and shows a summary of comparative results based on column (iv) in Tables 14, 15 and 16. Column (iv) *CS* finds no relation between controlling shareholder membership level and asymmetric timeliness except that the coefficient of  $R*RD*OWN>50\%$  is significantly positive. In column (iv) *FF*, the coefficients of  $R*RD*OWN>50\%$  and  $R*RD*OWN>20-50\%$  are significantly positive. However, column (iv) *FF* finds that the coefficient of  $R*RD*OWN10-20\%$  is significantly negative. To the contrary, the coefficients of  $R*RD*OWN>20-50\%$  and  $R*RD*OWN10-20\%$  in column (iv) *FAM* are significantly negative. These results suggest that when *FAM* ownership is between 10% and 20%, and more than 20%-50%, earnings reports become less asymmetrically timely recognizing bad news. In summary, the results in Table 17 show that high level of ownership of firms by *CS* and *FF* members are strongly associated with more conservative earnings reports. In contrast, low levels of ownership by *FF* members are less associated with conservative earnings reports. Moreover, low and medium ownership by *FAM* members are less associated with conservative earnings reports, where *FAM* firms have more incentive and capability to manipulate earnings (less conservative) in order to expropriate value from minority shareholders.

#### 6.4 RESULTS WITH CEO CHARACTERISTICS

Tables 18, 19 and 20 report the cross-sectional regression of earnings regressed on contemporaneous returns in the years 2000-2006 for CEO characteristics in *CS*, *FF* and *FAM* firms, respectively. Table 18 presents results CEO characteristics in *CS* firms while Tables 19 and 20 present results CEO characteristics by divided CEO characteristics in *CS* into CEO characteristics in *FF* and *FAM*, respectively.

Table 18 shows that the coefficients of  $R*RD*F\_CEO$  and  $R*RD*H\_CEO$  are significantly positive in columns (i) and (iii) and the coefficient of  $R*RD*D\_CEO$  is significantly positive in column (iii). Table 19 shows that the coefficients of  $R*F\_CEO$ ,  $R*D\_CEO$  and  $R*H\_CEO$  are not significant in all four columns while the coefficients of  $R*RD*F\_CEO$ ,  $R*RD*D\_CEO$  and  $R*RD*H\_CEO$  are significantly positive in all four columns and the coefficients of  $R*RD*D\_CEO$  are significantly positive except for column (i). These results suggest that when the CEOs of *FF* firms are founders, descendants or hired outsiders, earnings reports become more asymmetrically timely in recognizing bad news. Table 20 shows that the coefficients of  $R*F\_CEO$ ,  $R*D\_CEO$  and  $R*H\_CEO$  are not significant, while only the coefficient of  $R*RD*D\_CEO$  is significantly negative in all four column. These results suggest that when family firm CEOs are descendants, earnings reports become less timely in recognizing bad news.

Turning to the corporate governance and firm characteristics control variables in Tables 18, 19 and 20, these results are similar\* to those in Table 6.

Table 21 summarizes and shows a summary of comparative results based on column (iv) in Tables 18, 19 and 20. Column (iv) *CS* finds no relation between CEO characteristics and asymmetric timeliness. Column (iv) *FF*, the coefficients of  $R^*F\_CEO$ ,  $R^*D\_CEO$  and  $R^*H\_CEO$  are not significant while the coefficients of  $R^*RD^*F\_CEO$ ,  $R^*RD^*D\_CEO$  and  $R^*RD^*H\_CEO$  are all significantly positive. In column (iv) *FAM*, the coefficients of  $R^*F\_CEO$ ,  $R^*D\_CEO$  and  $R^*H\_CEO$  are not significant, while only the coefficient of  $R^*RD^*D\_CEO$  is significantly negative. In summary, the results in Table 21 show that *FF* CEOs (founders and descendants) are associated with more conservative earnings reports because they can enhance firms' wealth, possess special expertise (Morck et al., 1998) and have intentions of long-term presence (Anderson and Reeb, 2003). Hired outsiders as CEOs in *FF* firms are also associated with more conservative earnings reports because hired outsider CEOs closely work with the Chairman (usually the founder or a descendant) and the board of directors who would like to ensure strategies and policy decisions are followed to achieve goals. Outside CEOs are often required to justify their actions to shareholders and to the board of directors, consequently, *FF* firms initiate numerous formal reporting procedures to keep a close eye on outside CEOs. Therefore, *FF* firms, being more effective monitors can reward their outside CEO based on information about outside CEOs efforts obtained through direct monitoring. However, the results in Table 21 also show that descendant CEOs in *FAM* firms are associated with less conservative earnings reports which are consistent with  $H_{3b}$ . It implies that, descendant CEOs prevent more competent and talented professional executives from running the firm and descendant CEOs might also perform poorly (Shleifer and Vishny, 1997). Therefore, descendant CEOs might manipulate earnings by using less conservative accounting, reporting in high earnings. Descendant CEOs may have greater incentive

to do so in order to maximize their private benefit, by engaging excessive compensation and related parties transaction (Anderson and Reeb, 2003).

### 6.5 RESULTS WITH POLITICALLY CONNECTED FIRMS

As described in the previous tables, such tables have used measures of the type of ownership by using dummy variables, scaled decile rank of percentage of shares, ownership level and CEO characteristics. This study measures the association between accounting conservatism and politically connected (*POL*) firms in *CS*, *FF* and *FAM* firms. *POL* firms are defined as *CS*, *FF* and *FAM* firms where one of the company's major shareholders or top directors is a member of parliament or a minister or the head of state. It also includes government or state owned firms as politically connected firms. Tables 22, 23 and 24 report the cross-sectional regression of earnings regressed on contemporaneous returns in the years 2000-2006 for *CS*, *FF* and *FAM* firms with political connections, respectively.

Table 22 presents results for *CS* firms with political connections while Tables 23 and 24 present results for political connections by divided *CS* firms with political connections into *FF* and *FAM* firms with political connection, respectively. Tables 22 and 23 show that the coefficients of  $R*POL$  are not significant in all four columns, while the coefficients of  $R*RD*POL$  are significantly negative in all four columns. These results suggest that, when controlling shareholders and *FF* firms are politically connected, earnings reports become less timely in recognizing bad news. On the other hand, results in Table 24 show no significance in the coefficients of  $R*POL$  and  $R*RD*POL$  in all four columns.

Turning to the corporate governance and firm characteristics control variables in Tables 22, 23 and 24, these results are similar to those in Table 6.

Table 25 summarizes and shows a summary of comparative results based on column (iv) in Tables 22, 23 and 24. The summarized results in Table 25 show that controlling shareholder and *FF* firms which are directly connected to a politician are associated with less conservative earnings reports which are consistent with  $H_{5a}$ . Politically connected firms may sometimes be able to have influence or power of preferment to members of the government and/or regulatory bodies to avoid or minimize scrutiny or compliance with relevant laws. Generally, politically connected firms typically derive gain from their connections over and above the power they make. The nature of their power and gains may create additional incentives to expropriate, or at least to hide information from the firm's minority shareholders. In addition, if politicians provide protection to politically connected firms, connected firms might care less about accounting conservatism. That is, perhaps due to political pressures and intervention, politically connected firms do not face the same consequence (i.e. net losses) as their non-politically connected peers. In either case, political connection will be associated with less conservatism.