Montague – CTE Scholar

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Department of Accounting

Case Development: How does ownership structure affect financial reporting?

Case 1: Dual-class ownership structure and financial reporting conservatism

Why is this topic important?

1. Dual class firms are fairly common in the U.S.
2. Dual class ownership represents a unique type of ownership structure.
3. This type of ownership structure enhances insiders' control
4. Insiders have incentives to report less conservative financial information in order to expropriate wealth from minority shareholders

Data:

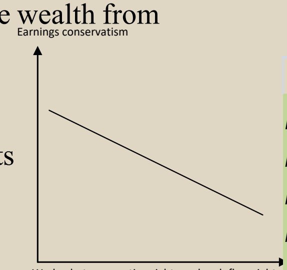
1. Dual-class data are from Gompers et al. (2009)
2. Family firms are collected from corporate proxy disclosure
3. Other data are from the commercial databases.

Findings:

Dual-class firms are less conservative in financial reporting. Opaque information environment may help insiders expropriate wealth from minority shareholders.

Implications:

A wholesale abolishment of dual-class ownership structure? Yes, based the results from this study.



Students' learning objectives:

1. Why do corporate governance and ownership structure matter in financial reporting?
2. Why is high quality financial reporting and disclosure important?
3. Why and how do the incentives of the preparers' financial statements affect the quality of financial reporting and disclosure?

The cases will be used as a part of the teaching of intermediate accounting – corporate disclosures.

Case 2: Founding family ownership, dual-class shares and earning management - in process

Why is this topic important?

1. More than 35% S&P 500 companies are family-owned businesses.
2. Family firms report higher quality accrual-based financial information relative to non-family firms.
3. Structuring transactions is another means of earnings management Are family firms more likely to manage earnings through structuring transactions such as channel stuffing?

co_conm	co_tic	fyear	f_fam	Dual?	ffm Share	Total SH	ffam%	insider_shr	ly 5pct_shr	nonfam_5p	FM1	FM2	FM3	FM4
ADOBE SYSTEMS INC	ADBE	2006	1	0	2,886,275	601,307,315	0.48	10,427,595	0	12.64	John E.	Charles M. Geschke		
ADOBE SYSTEMS INC	ADBE	2007	1	0	2,933,756	587,927,044	0.499	10,018,029	0	19.81	John E.	Charles M. Geschke		
ADOBE SYSTEMS INC	ADBE	2008	1	0	2,755,091	551,018,166	0.5	7,928,491	0	11.8	John E.	Charles M. Geschke		
AFFILIATED COMPUTER SERVICE	ACS	2003	1	1	2,656,269	126,488,989	2.1	3,813,762	0	19.33	Darwin Denson			
AFFILIATED COMPUTER SERVICE	ACS	2004	1	1	2,595,352	121,847,530	2.13	3,319,836	0	15.27	Darwin Denson			
AFFILIATED COMPUTER SERVICE	ACS	2005	1	1	2,349,030	119,049,235	1.97	5,086,150	0	17.58	Darwin Denson			

Data collection: proxy statements of S&P 500 firms2003-2008

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