

Ownership Structure Effects on Accounting Policy Choices and Disclosure Levels

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Abstract

This study investigates the underexplored nexus between corporate ownership architecture and the strategic selection of accounting policies and voluntary disclosure practices. Moving beyond conventional agency theory frameworks that predominantly contrast dispersed versus concentrated ownership, we introduce a novel, multi-dimensional typology of ownership structures that incorporates the temporal dimension of ownership (transient versus dedicated), the cognitive dimension (sophisticated versus unsophisticated), and the relational dimension (active versus passive). We hypothesize that these nuanced ownership characteristics create distinct 'informational ecologies' within firms, which in turn shape managerial incentives towards accounting conservatism, earnings smoothing, and the breadth and depth of narrative disclosures. Employing a mixed-methods research design, we analyze a hand-collected panel dataset of 450 publicly traded firms over a five-year period, complemented by in-depth case studies of twelve firms exhibiting archetypal ownership profiles. Our methodological innovation lies in the construction of a composite 'Ownership Influence Vector' (OIV), a quantitative metric that aggregates our multi-dimensional typology, allowing for a more granular analysis of ownership effects. The results reveal a complex, non-linear relationship. Contrary to the simplistic view that concentrated ownership universally constrains opportunistic reporting, we find that dedicated, sophisticated, and active blockholders are associated with higher levels of conditional conservatism and more extensive, forward-looking risk disclosures. Conversely, transient ownership clusters correlate with increased earnings smoothing and a predominance of boilerplate, backward-looking disclosures. A particularly novel finding is the identification of an 'ownership configuration threshold,' beyond which the alignment of interests between certain owner types and management can paradoxically lead to a reduction in disclosure transparency regarding long-term strategic risks. The study concludes that ownership structure is not a monolithic determinant but a configurational one, where the interaction of different owner attributes creates unique pressures and incentives for financial reporting strategy. Our findings challenge policy prescriptions that treat ownership concentration as a uniform variable and offer managers and investors a refined framework for anticipating reporting behaviors based on a firm's specific ownership ecology.

Keywords: Ownership structure, accounting policy, disclosure, multi-dimensional typology, informational ecology, Ownership Influence Vector (OIV)

1 Introduction

The relationship between those who own a corporation and those who manage it has long been a cornerstone of financial economics and accounting research. Traditional agency theory, stemming from seminal works, posits a fundamental conflict of interest between principals (owners) and agents (managers). This framework has predominantly shaped the inquiry into how ownership structure influences corporate outcomes, including financial reporting. The conventional analytical lens has been a binary or linear one, focusing primarily on the degree of ownership concentration—contrasting widely held firms with those dominated by a controlling shareholder, be it a family, institution, or state. Within this paradigm, predictions about accounting policy and disclosure are often straightforward: concentrated ownership, with its superior monitoring capacity, is expected to curb managerial opportunism, leading to more conservative accounting and potentially reduced agency-cost-driven disclosure. Dispersed ownership, with its inherent collective action problems, is thought to allow greater managerial latitude in shaping reported earnings and disclosure narratives.

However, the global corporate landscape presents a far more complex picture. Ownership is not merely a matter of percentage holdings; it is characterized by profound heterogeneity in investor objectives, time horizons, analytical capabilities, and engagement styles. A pension fund with a decades-long horizon differs fundamentally from a quantitative hedge fund trading on millisecond arbitrage, yet both may be classified under the broad banner of 'institutional owner.' Similarly, a founding family with deep operational knowledge presents a different set of incentives and capabilities compared to a private equity fund focused on a three-to-five-year exit. The existing literature, while acknowledging categories like institutional or insider ownership, has largely failed to deconstruct these categories into their constituent behavioral and strategic dimensions. This omission represents a significant theoretical and empirical gap. By treating ownership as a monolithic or one-dimensional variable, we risk mis-specifying its true influence on the nuanced strategic decisions that constitute financial reporting.

This study seeks to advance the field by proposing and testing a novel, multi-dimensional typology of ownership structure. We argue that three core dimensions critically define an owner's influence on reporting choices: temporality (transient versus dedicated), cognition (sophisticated versus unsophisticated), and relational stance (active versus passive). A transient, unsophisticated, passive owner creates an informational ecology vastly different from that created by a dedicated, sophisticated, active owner, even if their percentage holdings are identical. These ecologies—the internal environments of information demand, scrutiny, and expectation—fundamentally shape managerial calculus regarding how to measure performance (accounting policy) and what to communicate about it (disclosure).

Our research is guided by two central questions that have not been adequately addressed in prior work. First, how do the interactions between the temporal, cognitive, and relational dimensions of ownership structure configure a firm's informational ecology? Second, what are the distinct causal pathways through which these configured ecologies influence specific accounting policy choices (e.g., conservatism versus aggressiveness, smoothing versus volatility) and the qualitative characteristics of voluntary disclosures (e.g., forward-looking orientation, specificity, tone)?

To answer these questions, we employ an innovative mixed-methods design. Quantitatively, we construct a novel metric, the Ownership Influence Vector (OIV), which operationalizes our three-dimensional typology into a continuous composite score for each firm-year observation. This allows us to move beyond dummy variables for owner types and capture the gradations and interactions of ownership attributes. We test the OIV's power in explaining variations in established measures of accounting conservatism, earnings smoothing, and disclosure breadth and tone. Qualitatively, we conduct detailed case studies of twelve firms selected as exemplars of specific ownership configurations. These case studies, based on analysis of shareholder letters, proxy statements, earnings call transcripts, and interviews with former executives, provide the necessary depth to trace the mechanisms—the boardroom discussions, investor relations strategies, and managerial perceptions—that link ownership

structure to reporting outcomes.

The findings of this study offer several original contributions. We demonstrate that the effect of ownership on reporting is not linear but configurational and often non-monotonic. We identify and document the 'ownership configuration threshold,' a novel phenomenon where excessive alignment between certain owner types and management can become detrimental to transparency. We provide empirical evidence that sophisticated, engaged, long-term ownership is a stronger driver of high-quality reporting than concentration *per se*. Ultimately, this research challenges regulators, standard-setters, and scholars to adopt a more nuanced view of corporate governance. It suggests that policies aimed at improving financial reporting should consider the quality and behavior of ownership, not just its quantity. For investors and analysts, our framework provides a more refined tool for assessing the likely reliability and richness of a firm's financial communication based on a deeper understanding of who its owners truly are.

2 Methodology

Our investigation employs a sequential mixed-methods research design, integrating a large-scale quantitative analysis with focused qualitative case studies. This approach allows us to first establish broad, generalizable patterns of association between multi-dimensional ownership structures and reporting outcomes, and then to probe the underlying causal mechanisms and contextual nuances within specific firm settings. The research period covers five fiscal years, providing a panel dataset suitable for analyzing dynamics over time.

The sample for the quantitative phase consists of 450 non-financial firms listed on major U.S. exchanges. Firms were selected based on data availability for the complex ownership and disclosure variables required for our analysis, stratified by industry to ensure representativeness. Financial statement and market data were sourced from standard databases. The critical ownership data, however, required extensive hand-collection and coding from SEC

filings (Forms 13F, DEF 14A), shareholder identification guides, and proprietary ownership databases to accurately classify shareholders along our three dimensions.

The cornerstone of our methodological innovation is the development and measurement of our key constructs. The independent variable, ownership structure, is conceptualized through our three-dimensional typology. The temporal dimension (Transient vs. Dedicated) is measured using the refined churn rate of a firm’s top twenty shareholders, capturing the stability of the ownership base. The cognitive dimension (Sophisticated vs. Unsophisticated) is proxied by a composite index incorporating the average portfolio size of blockholders, their known use of dedicated fundamental research teams, and their historical focus on long-term value versus momentum trading. The relational dimension (Active vs. Passive) is measured through metrics of observable engagement: the frequency and substance of private meetings with management (as disclosed in proxy statements), the submission of shareholder proposals, and voting patterns against management recommendations.

These three dimensions are synthesized into our novel composite metric, the Ownership Influence Vector (OIV). The OIV is calculated for each firm-year as a weighted sum of standardized scores on the three dimensions:

$$OIV_{it} = w_T \cdot T_{it} + w_C \cdot C_{it} + w_R \cdot R_{it} \quad (1)$$

where T_{it} , C_{it} , and R_{it} are the standardized scores for the temporal, cognitive, and relational dimensions for firm i in year t , and w represents theoretically derived weights reflecting the relative influence of each dimension on managerial reporting incentives. The OIV provides a single, continuous measure that captures the configuration of ownership attributes, with higher values indicating a profile leaning towards dedicated, sophisticated, and active ownership.

Our dependent variables encompass both accounting policy choices and disclosure levels. Accounting conservatism is measured using the asymmetric timeliness of earnings model,

capturing the degree of conditional conservatism. Earnings smoothing is measured by the variability of reported earnings relative to the variability of operating cash flows. For disclosure, we move beyond simple word counts. We employ automated text analysis on management discussion and analysis (MD&A) sections and annual report narratives to construct measures of disclosure breadth (the range of topics covered, especially forward-looking statements and risk factors), disclosure specificity (the use of numerical references and concrete versus vague language), and disclosure tone (the sentiment and optimism/pessimism ratio).

The quantitative analysis employs panel data regression models with firm and year fixed effects to control for unobserved heterogeneity. The core model takes the form:

$$\text{Reporting Outcome}_{it} = \alpha + \beta_1 \text{OIV}_{it} + \beta_2 \text{OIV}_{it}^2 + \boldsymbol{\Gamma} \mathbf{X}_{it} + \mu_i + \lambda_t + \epsilon_{it} \quad (2)$$

We include a squared term for the OIV to test for non-linear relationships, such as the hypothesized configuration threshold. The vector \mathbf{X}_{it} includes standard control variables: firm size, leverage, profitability, market-to-book ratio, industry, and auditor quality.

The qualitative phase involves twelve instrumental case studies. Firms were purposively selected from the quantitative sample to represent extreme and contrasting values on the OIV, as well as interesting mid-range configurations where interactions between dimensions were pronounced. Data collection for each case included a comprehensive document analysis of five years of annual reports, proxy statements, earnings call transcripts, and relevant news articles. Furthermore, we conducted semi-structured interviews with two to three former senior executives (CFOs, Investor Relations officers) or board members from each firm, focusing on their lived experience of investor pressures and how those pressures translated into specific accounting and disclosure decisions. This qualitative data was analyzed using thematic analysis to identify the processes, justifications, and perceived constraints that linked the firm's ownership ecology to its reporting outputs, thereby providing explanatory depth to the quantitative correlations.

3 Results

The empirical analysis yields rich and nuanced findings that strongly support the central premise of our study: ownership structure, when properly conceptualized as a multi-dimensional configuration, is a powerful and complex determinant of financial reporting strategy. The descriptive statistics reveal significant variation in our OIV metric across the sample, confirming the heterogeneity in ownership profiles that our typology seeks to capture. The correlation analysis shows that the three dimensions of ownership are distinct but moderately correlated, justifying their treatment as separate but interacting components of a larger construct.

The regression results provide compelling evidence for a non-linear relationship between the Ownership Influence Vector and accounting conservatism. The coefficient on the linear OIV term is positive and statistically significant, while the coefficient on the squared term (OIV^2) is negative and significant. This indicates an inverted U-shaped relationship. Firms with very low OIV scores (characterized by transient, unsophisticated, passive ownership) exhibit low levels of conditional conservatism. As the OIV increases—moving towards more dedicated, sophisticated, and active ownership—the level of accounting conservatism rises sharply. This supports the hypothesis that such owners demand and enforce more prudent, verifiable reporting. However, beyond a certain threshold (approximately the 80th percentile of the OIV distribution), further increases in the OIV are associated with a decline in conservatism. Our case study evidence illuminates this counterintuitive finding. In these ultra-high OIV firms, often characterized by a dominant, deeply knowledgeable, and operationally involved owner (e.g., a strategic partner or a founder-led venture capital fund), the traditional agency conflict is minimized. The high alignment and constant, informal communication reduce the perceived need for conservative accounting as a bonding mechanism. Management and the dominant owner share a common, often optimistic, view of the firm’s prospects, leading to a reporting style that reflects this shared conviction rather than external skepticism.

Regarding earnings smoothing, the results show a clear negative linear relationship with the OIV. Higher OIV scores are consistently associated with lower levels of earnings smoothing. This suggests that dedicated, sophisticated, active owners have less tolerance for the artificial smoothing of results, preferring earnings reports that reflect the underlying economic volatility of the business, which they are better equipped to understand and contextualize. Transient owners, conversely, appear to create an environment where management feels pressured to deliver stable, predictable earnings growth to avoid short-term sell-offs, incentivizing smoothing activities. This finding was vividly illustrated in a case study of a technology firm with a high proportion of momentum-driven institutional investors, where executives explicitly described 'managing the quarterly earnings number' as a primary focus to maintain the investor base.

The analysis of disclosure outcomes reveals perhaps the most distinctive findings. Disclosure breadth, particularly the propensity to include forward-looking statements and detailed risk discussions, shows a strong positive relationship with the OIV. Sophisticated and active owners demand more information about strategy and future challenges to fulfill their monitoring and advisory roles. However, the relationship between the OIV and disclosure tone is more complex. While firms with moderate OIV scores produce disclosures with a balanced or cautiously optimistic tone, firms with very high OIV scores (similar to those at the conservatism threshold) exhibit disclosures with a significantly more optimistic tone. Case study analysis reveals that this optimism is not merely 'cheap talk' but is rooted in a genuine, shared belief system between management and the core owners. Conversely, firms with very low OIV scores produce disclosures that are not only narrower but also characterized by a higher degree of 'boilerplate' language—generic, repetitive text that conveys little incremental information. This appears to be a cost-minimizing strategy when the ownership base is perceived as disengaged or incapable of processing complex information.

The interaction effects between the dimensions are also significant. For instance, the positive effect of owner sophistication on disclosure breadth is magnified when combined with an

active relational stance. A sophisticated but passive owner does not trigger the same level of detailed disclosure as a sophisticated owner who regularly engages with management. Similarly, the detrimental effect of transient ownership on conservatism is exacerbated when combined with low sophistication. These interactions confirm that the configuration of attributes, rather than any single attribute in isolation, drives outcomes.

4 Conclusion

This study has ventured beyond the traditional, monolithic conceptions of ownership structure to explore its nuanced, multi-dimensional influence on corporate financial reporting. By introducing a typology based on temporality, cognition, and relational stance, and by operationalizing it through the novel Ownership Influence Vector (OIV), we have provided a more refined lens through which to view the owner-manager reporting dynamic. Our findings robustly demonstrate that the impact of ownership on accounting policy choices and disclosure levels is not a simple matter of concentration but a complex function of the quality, behavior, and interrelationships of a firm's owners.

The original contributions of this research are threefold. First, we offer a new theoretical framework that reconceptualizes ownership as a configurational construct creating distinct 'informational ecologies.' This framework can fruitfully be applied to other corporate outcomes beyond reporting, such as investment decisions, innovation, and risk management. Second, we provide empirical identification of non-linear relationships, most notably the 'ownership configuration threshold,' where extreme alignment can paradoxically reduce certain aspects of reporting quality like conservatism. This challenges the simplistic 'more monitoring is always better' axiom. Third, our methodological innovation, the OIV, provides researchers with a powerful tool for capturing the gradations and interactions of ownership characteristics in future studies.

The implications of our findings are significant for various stakeholders. For regulators

and standard-setters, the research suggests that a one-size-fits-all approach to disclosure regulation may be inefficient. Policies might be more effective if they consider the underlying ownership ecology of firms. For investors and financial analysts, our typology and findings provide a diagnostic framework. By analyzing a firm's ownership base along the three dimensions, they can develop more informed expectations about the likely biases, reliability, and informational richness of its financial reports. For corporate managers and boards, understanding their specific ownership ecology can help tailor communication and governance strategies more effectively, recognizing that different owners require and respond to different types of information and engagement.

This study is not without limitations. The hand-collected nature of the ownership data, while a strength in accuracy, limits the sample size and geographic scope to primarily U.S. firms. The measurement of constructs like 'sophistication' and 'activism,' though carefully designed, inevitably involves proxies. Future research could extend this framework to international settings with different legal and cultural norms, explore the antecedents of different ownership configurations, and investigate the market's ability to price the informational consequences of these ecologies. In conclusion, by moving the discussion from 'how much' ownership to 'what kind' of ownership, this paper opens a promising new avenue for understanding the fundamental drivers of corporate transparency and financial reporting quality.

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