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The Impact of Ownership Structure on the Quality of Financial Reporting: an empirical study on firms listed on the Egyptian Stock of Exchange.

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Abstract:

This study aims at testing the effect of ownership structure on the quality of financial reporting using a sample of 50 companies listed on the Egyptian Stock Exchange for a period of three years, 2014 - 2016. The researcher relied on three types of ownership structure: concentration ownership, Management ownership, Institutional ownership. This study measures the magnitude of discretionary accruals as a proxy for earnings management using the cross-sectional modified Jones model (1991) as an inverse indicator of the quality of financial reporting. Using the multiple regression analysis, the results of the study showed a significant negative relationship between concentration ownership and discretionary accruals as an inverse indicator of the quality of financial reporting. Thus, there is a positive and significant relationship between concentration ownership and quality of financial reporting. In addition, there is a negative but insignificant relationship between Management ownership and discretionary accruals as an inverse indicator of the quality of financial reporting. Thus, it can be said that there is a positive but insignificant relationship between Management ownership and quality of financial reporting. In addition, there is a negative relationship between institutional ownership and discretionary accruals as an inverse indicator of the quality of financial reporting. Thus, there is a positive and significant relationship between institutional ownership and quality of financial reporting.

Keywords: Ownership Structure, concentration ownership, Management ownership, Institutional ownership, quality of financial reporting, discretionary accruals.

1. Introduction

Capital markets are important for the economic sustainability of a country because they can describe and support the economy. The performance of Indonesian capital market is quite able to compete and is quite able to attract foreign investment. The indicator that can be used to assess the performance of the capital market, according to Wang (2006), chief executive of capital market supervisor and Financial Authorization (OJK), is the growing value of Composite Stock Price Index. The fluctuations of Composite Stock Price Index, which illustrate the performance of capital markets, can be influenced by several factors, including the state of the global stock markets and the financial reporting of issuers. Therefore, maintaining the stability of Indonesian capital market growth requires financial reporting that is able to describe the state of the company, resulting in positive sentiment from local and foreign investors.

In its essence, financial reporting is a description of all accounting activities of a company that can be used as a reference by internal and external parties to make decisions. The use of financial reporting will be more pronounced if it meets the qualitative characteristics of understandable, relevant, reliable, and comparable (SFAC No.2). In addition, the financial reporting will be useful if the information contained in the financial reporting can be used as a reference to predict the state of the company in the future. This will be indispensable for both internal and external users to guide the company to a better direction.

The separation between ownership and control in companies leads to fundamental conflicts between the owners and managers of the company. These conflicts arise if managers have incentives to transfer wealth to themselves at the expense of the owners, while making decisions that do not maximize the value of the company (Ali et al., 2008). However, resolving these conflicts and achieving compatibility between the owners and managers of the company faces many difficulties, perhaps the most important of which are: different attitudes towards risk, different time range of investment, and information asymmetry between owners and managers. However the ownership structure is considered one of the mechanisms for solving agency problems, the difference in this structure may affect the extent of the interests' agreement between owners and managers, which may lead to the company's management following certain practices when preparing financial reporting, in order to achieve its own interests, or achieving the interests of the company's stakeholders. This behavior obtained the quality of the accounting information included in the financial reporting, especially the accounting profits.

The financial reporting is the ultimate product of the company's accounting system. The main objective of financial reporting is to provide useful information that enables the company's stakeholders to make sound economic decisions, leading to an optimal distribution of economic resources that play an important role in the economic progress of any country. The financial reporting quality is one of the topics that have received a great deal of attention, especially after the great collapse of a large number of international companies. Investors now have doubts about the published financial statements and the extent of their sincere expression of the financial position and results of the company's business, and therefore increased interest in studying the financial reporting quality (Casey et al. 2018).

Despite the numerous studies that dealt with the relationship between the ownership structure and the financial reporting quality (e.g., Niu 2006; Alves 2011; Holtz and Neto 2014), the vast majority of them focused on advanced financial markets only, where there is a dearth of studies that have been applied in emerging financial markets like the Egyptian stock market, this is in addition to that what has been done in the emerging markets has come in some aspects with conflicting results, and some of these studies were based on comparative studies between countries, which drives the researcher to try to study that relationship in light of the focus on the Egyptian market. On the other hand, limited studies in this area have focused on examining the impact of a type of ownership structure on the financial reporting quality. For example, the Wulandari and Budiartha (2014) study examined the impact of managerial ownership on the financial reporting quality. Bao and Lewellyn (2017) examined institutional ownership, while De Sousa and Galdi (2016) focused on the relationship between ownership concentration and the financial reporting quality.

Moradi and Nezami (2011) also aimed to test the relationship between institutional ownership and the financial reporting quality, while the current study examines the impact of most types of ownership (ownership concentration, managerial ownership, and institutional ownership) on the financial reporting quality. Also, there is no agreement regarding measuring the financial reporting quality. Most of the previous studies in this field focused on using some indirect measures of the financial reporting quality, such as, the type of opinion in the audit report, the level of accounting conservatism, and the quality of accruals, while the researcher relies on earnings management as a reverse measure of the financial reporting quality. Consequently, the problem with this research is trying to test the impact of the ownership structure (ownership concentration, managerial ownership,

institutional ownership) on the financial reporting quality, and then answer the following questions:

Is there a relationship between the patterns of ownership structure and the financial reporting quality in Egyptian companies? What is the nature of that relationship if it exists? Does the difference in the ownership structure (ownership concentration, managerial ownership, and institutional ownership) affect the financial reporting quality?

This research aims mainly to study the impact of the ownership structure on the financial reporting quality, by identifying the most appropriate concepts used for both the ownership structure and the financial reporting quality, as well as the most important measures used in measuring each of them. The research also aims to derive a set of hypotheses that test the impact of the ownership structure on the financial reporting quality, and this will be achieved by using a sample of non-financial companies listed on the Egyptian stock market for a period of three years from 2014 to 2016.

This research derives its importance by tackling a vital and important topic which is testing the effect of the ownership structure on the financial reporting quality. This research also derives special importance due to its handling of a contemporary scientific and practical research issue, which is still of interest to academic studies. All of this comes at a time when there has been increasing interest in the need to disclose the ownership structure in Egyptian companies. Where the board of directors of the Financial Supervision Authority Decision No. (31) of 2011 dated 11/5/2011 was issued, which included adding to Article (18) of the rules for the registration and continuation of registration and write-off of securities, a new paragraph stating "Every company bound by it Egyptian shares or certificates of deposit by notifying the stock exchange and the authority periodically with a disclosure report clarifying the shareholder structure and the structure of the board of directors and the changes that occurred to them on a quarterly basis within 10 days from the end of each period.

2. Literature Review and Hypothesis Development

Several studies have examined the relationship between ownership structure and the quality of financial reports. These studies distinguished between several types of ownership. Some studies distinguished between ownership patterns in terms of the nature of the investor to: managerial ownership and institutional ownership, while other studies differentiated between ownership patterns on the basis of the degree of concentration of ownership to: an ownership structure characterized by concentration of ownership, and another structure characterized by dispersed ownership. The

researcher will analyze the relationship between the ownership structure in its various aspects and the quality of financial reports. This will be done by examining the studies that tested the relationship between ownership structure and the quality of financial reports. These studies can be classified into three groups: The first group dealt with the relationship between ownership concentration and the quality of financial reports, while the second group focused on the relationship between managerial ownership and the quality of financial reports, and the group dealt with The third and final is the relationship between Institutional Ownership and the quality of financial reports. The researcher will review these studies in the following parts, as follows:

2.1 Ownership concentration and financial reports quality

Company ownership under this type of ownership is concentrated in a small number of shareholders who own a large proportion of the company's shares. This gives them the right to oversee management in comparison to small shareholders. This may lead to less pressure on management to meet short-term earnings expectations, which is due to the concentration of major shareholders to a greater degree in the long term. On the other hand, major shareholders may use the control rights guaranteed to them to achieve private benefits, thus exerting pressure on the managers of the invested companies to report on a good financial performance for the company, which would bring them a high return on their investments. On the other hand, the presence of a number of major shareholders in the company has two opposing effects on agency problems: first, the control effect, which indicates the ability and motivation of the major shareholders to achieve control of the controlling shareholder, thus reducing agency problems. The second is the collusion effect, which can occur as a result of an alliance between the largest shareholders and other major shareholders to achieve private benefit. As a result, a difference may occur in the level of accounting conservatism in the companies' financial reports.

Previous studies dealing with the relationship between concentration of ownership and the quality of financial reports have reached mixed results. Some studies support a linear relationship, while others support a nonlinear relationship. In the context of the linear relationship, previous studies have reached inconsistent conclusions about whether this relationship is positive or negative. In the context of the positive relationship, the study of Shipper (1989) found that the concentration of ownership causes an improvement in management behavior with regard to the low quality of reports and the decrease in the quality of the report on profits, which is ultimately reflected

in the improvement of the quality of profits. In the same context, Ramsey and Blair (1993) showed that the quality of financial reporting for companies with concentration of ownership is likely to increase because the concentration of ownership provides sufficient incentive for large shareholders to monitor management, and the concentration of ownership may cause positive changes in the company by increasing control. . On the other hand, Gabrielsen et al. (2002) that major shareholders have an important role in the internal control of the company, due to their large share in the company, which drives them to influence the company's strategy. Jung and Kwon (2002) also found that profit informatics increases in light of the concentration of ownership in the hands of major shareholders, and attributed this to the hypothesis of convergence of interests, where the concentration of ownership contributes to lowering agency costs. Large shareholders maximize the value of the company and impose fewer contractual restrictions which reduce the profit management practice, thus increasing the quality and informatics of profits. This is in agreement with the study by Klein (2002) in that the ownership focus represents an active mechanism for corporate governance to control the accounting decisions of the management, which limits the ability of management to practice profit management activities, which is positively reflected in the quality of financial reports.

In the same context, Ben Slama et al. (2007) indicates that there is a positive relationship between the concentration of ownership and informatics profits for American companies, with no significant relationship between these two variables for French companies. The study by Zhong et al. (2007) that small shareholders will not pay attention to oversight, due to their inability to bear the costs of supervision due to their small share of the wealth. In the same context, Cheng and Reitenga (2009) showed that the concentration of ownership in the hands of a small number of large shareholders is consistent with the imposition of effective oversight, which helps to reduce the opportunistic behavior of management and increase the quality of the company's financial reporting.

Using a sample of 34 Portuguese companies, Alves (2012) found that profit management was significantly lower in companies with a higher concentration of ownership, due to the effective oversight hypothesis indicating that large shareholders tend to reduce the level of managerial opportunism. Using a sample of 31 Tunisian companies listed on the stock market during the period 1998-2009, Halioui and Jerbi (2012) found that ownership concentration improves the quality of accounting profits by reducing the level of profit management. A Usman and Yero (2012) study

conducted in Niger found a negative association between ownership concentration and profit management size. Using a sample of 29 companies listed on the Abu Dhabi Stock Exchange, Ellili's study (2013) concluded that the concentration of ownership negatively affects the level of voluntary benefits, and thus improves the informativeness of accounting profits and the quality of accounting information.

The study (De Sousa and Galdi (2016) examined the relationship between the concentration of ownership and the quality of profits for a sample of non-financial Brazilian companies listed in the São Paulo Stock Exchange during the period 1999-2014. The study relied on two measures of profit quality, which are profit continuity and conservatism. The study indicates that profits represent a more accurate indicator of the future performance of the company under the dispersion of ownership.

Regarding the negative relationship, Stiglitz (1985) showed that concentrated ownership may adversely affect the value of the company, due to the ability of large shareholders to exploit their position while achieving dominance at the expense of the minority shareholders. In addition, Morck et al. (1988) that concentration of ownership may cause positive changes in the company with increased control, but other mechanisms may work inversely. For example, large shareholders and managing shareholders may exploit their right of management to achieve their personal interests and exploit other shareholders. On the other hand, Donnelly and Lynch (2002) found that the concentration of offshore ownership in the United Kingdom negatively impacts accounting earnings informatics.

Using a sample of 977 companies from seven East Asian countries (Hong Kong, Indonesia, Malaysia, Singapore, South Korea, Taiwan, and Thailand), Fan and Wong (2002) found that concentrated ownership is associated with a lower level of profit informatics. The study attributed this negative relationship to two reasons, the first of which is based on the hypothesis of the effect of managerial immunity, as the concentration of ownership raises problems of agency and conflict of interests between owners and external investors. Owners tend to disclose accounting information that meets their personal interests, which may lead to the loss of credibility of declared profits to outside investors. The second reason is based on the influence of the information; From this perspective, ownership concentration allows to limit information disclosure to the public and prevent specific information from being leaked to competitors, which weakens the profit informational content that is disclosed to outside investors.

In the same vein, Firth et al. (2006) Evidence that informatics of profits decline when ownership concentration increases. This negative relationship was attributed to the hypothesis of managerial immunity. Large shareholders may influence companies to adopt accounting policies that reflect the needs and interests of owners, which reduces the quality of accounting profits. On the other hand, Ebrahimi and Aerabi (2010) showed a negative relationship between ownership concentration and quality of profits. The strategic unit hypothesis supports this negative relationship, which indicates that stake holders and managers conspire to achieve their personal interests at the expense of the value of the company and negatively affect the ability of other shareholders with regard to the quality of profits.

On the other hand, the study of Yunos et al. (2010) The effect of ownership concentration on accounting conservatism in Malaysian companies. This study found that the concentration of ownership, whether internal (includes: executive and non-executive directors), or external (includes: major shareholders independent of management, whether they are individuals or companies) encourages the existence of low levels of accounting conservatism. The study indicated that the conflict between large and small shareholders is more apparent in companies with concentrated ownership. Kammoun and Bouazizi (2011) study, using a sample of 14 Tunisian companies listed in the Tunisian stock market, also found that the relationship between ownership concentration and profit management was largely negative according to the information effect hypothesis, then this relationship became positive at a specific percentage of ownership concentration. According to the premise of managerial immunity. However, the study showed that ownership concentration is associated with a decrease in the level of profit informatics when the level of ownership concentration is low, and it is related to a higher level of profit informatics when the level of ownership concentration is high.

This is supported by the findings of Roodposhti and Chashmi (2011) that the level of optional benefits is negatively related to the concentration of ownership in companies listed in the Iranian stock market, which means that major shareholders play an effective supervisory role. Using a sample from Chinese companies, Cullinan et al. (2012) indicates that the reservation is negatively related to the percentage of shares owned by the largest shareholders, and that this correlation is especially significant when the ownership percentage exceeds 30%. Haw et al. (2013) by examining the effect of the ownership structure characterized by multiple major shareholders on the accounting reservation, and this was done using data on the ownership structure at the corporate level from thirteen Western

European countries. These researchers found that companies with multiple major shareholders apply a higher level of accounting conservatism than companies with one large shareholder, in countries with strong protections for investors in order to alleviate agency problems. This is only achieved when there is a high probability of collusion between the two largest shareholders.

The researcher believes that many studies supported a positive relationship between ownership concentration and the quality of financial reports. As the degree of ownership concentration increases, major shareholders have strong incentives for management control to protect their investments as their willingness to bear the costs of oversight increases. This results in less pressure on management to meet short-term earnings expectations; This may lead to a decrease in the level of optional benefits.

Based on the foregoing, the first hypothesis of research in its alternative form can be derived as follows:

$H_{1:}$ There is a positive relationship between the ownership concentration and the financial reporting quality.

2.2 Managerial ownership and financial reports quality

It has targeted many studies [e.g., Ebrahim (2007); Ali et al. (2008); Apriada and Suardikha (2016)], examining the relationship between managerial ownership and the quality of financial reports. In this regard, these studies have reached mixed results regarding this relationship. On the one hand, some studies found a negative relationship between managerial ownership and the quality of financial reports, while others found a positive relationship between managerial ownership and the quality of financial reports. On the other hand, many studies agreed that there is a non-linear relationship between managerial ownership and the quality of financial reports, even if they differed between them in terms of the form of this relationship.

For example, Beasley's (1996) study aimed to test the relationship between the level of outside managerial ownership and the quality of financial reports. The study found that a high level of external ownership helps reduce the conflict of interest between management and owners. The study also found a negative and moral relationship between distortion of financial statements and external managerial ownership, as the study showed that the high level of external managerial ownership helps reduce the possibility of misrepresenting the financial statements. Using a sample of American companies during the period 2000-2004, Ebrahim (2007) study concluded that the level of managerial ownership correlates positively with

profit informatics and negatively with profit management according to the voluntary benefit scale, as the high level of management ownership leads to improving the quality of financial reports.

Sanchez-Ballesta and Garcia-Meca 2007) also concluded that, according to the influence of converging interests, the managers 'ownership of a specific share of the company's shares pushes them to gradually align their personal interests with the interests of the shareholders, and thus managerial ownership can be viewed as a mechanism to limit the opportunistic behavior of management, and thus Significant reduction in profit management activities, which improves the quality of financial reports. In the same vein, Ali et al. (2008) indicates that managerial ownership is negatively related to the level of voluntary entitlements for a sample of companies listed in the Malaysian stock market during 2002 and 2003. This is consistent with the agency theory, whereby the agency conflicts that occur as a result of separation between ownership and management decrease with the increase in the level of managerial ownership. This is in line with the findings of Banderlipe (2009) study regarding the existence of a negative relationship between managerial ownership and profit management, whereby the high level of managerial ownership reduces the opportunistic behavior by management and thus reduces profit management activities. On the other hand, Alves' study (2012) aimed to test the relationship between managerial ownership and profit quality as a measure of the quality of financial reports using a sample of 34 non-financial companies listed in the Portuguese Stock Exchange during the period 2002-2007. The study concluded that management ownership leads to improvement. The quality of earnings, thus reducing profit management and hence, improving the quality of financial reports.

Contrary to what was previously mentioned, other studies found a negative relationship between managerial ownership and the quality of financial reports. For example, Gabrielsen et al. (2002) indicated that in the Danish business environment there is a negative moral relationship between managerial ownership and profit information, and a positive but non-significant relationship between managerial ownership and the level of profit management. Jung and Kwon (2002) study also found that the moderate levels of managerial ownership can have an adverse effect on the company, as increasing the authority and influence of management within the company enables them to make accounting decisions that achieve their personal interests, and thus, influence the goal of maximizing The value of the company.

In the same context, and using a sample of Australian companies, Koh (2003) examined the relationship between managerial ownership and profit management practices, during the period from 1993 to 1997. The study found a positive relationship between managerial ownership and profit management, as the high level of ownership Managerial encourages management to manage profits. This is consistent with the study of Peasnell et al (2005) that the rise in managerial ownership drives management to practice profit management activities to maximize its personal interests. Using a sample of companies listed on the Taiwan stock market over the period from 1997 to 2004, Yang et al. (2008) indicates a positive relationship between voluntary benefits and the index of total managerial ownership; Which includes the ownership of each of the executives and board members from abroad, and the ownership of major shareholders who own more than 5% of the shares, or shareholders among the ten largest owners of the company. These researchers also found a positive relationship between voluntary benefits and foreign ownership by both board members and major shareholders.

In support of the findings of Yang et al. (2008) of the existence of a negative relationship between managerial ownership and the quality of financial reports. Several studies [e.g., Al-Fayoumi et al. (2010); Charfeddine et al. (2013)], indicates that managerial ownership is associated with higher levels of profit management. In the same context, Apriada and Suardikha (2016) study concluded that managerial ownership has a significant negative impact on the quality of financial reports, as it showed that poor supervision and control in light of high levels of managerial ownership can reduce the quality of financial reports.

González and García-Meca (2014) study also found that the relationship between internal managerial ownership and voluntary benefits is non-linear. When the level of internal managerial ownership rises, profit management practices tend to decrease but when internal managerial ownership reaches or exceeds a certain threshold (14.1%), the opposite occurs and profit management begins to rise.

And based on the influence of convergence of interests, which indicates that with the increase in the level of managers ’ownership of the company's shares, they have higher incentives to bias the interests of the shareholders. As the higher level of managerial ownership leads to a greater degree of compatibility between managers and owners. The researcher supports the existence of a positive relationship between managerial ownership and the level of quality of financial reports Based on the foregoing, the second hypothesis can be derived as follows:

$H_{2:}$ There is a positive relationship between the managerial ownership and the financial reporting quality.

2.3 Institutional Ownership and financial reporting quality

It has targeted many studies (e.g., Bushee (2001); Charitou et al. (2007); Apriada and Suardikha (2016); Bao and Lewellyn (2017)], Examining the relationship between Institutional Ownership and financial reporting quality. In this regard, these studies have reached mixed results regarding this relationship. On the one hand, some studies found a positive relationship, while others found a negative relationship. On the other hand, many studies agreed on the existence of a non-linear relationship between Institutional Ownership and the quality of financial reports, even if they differed between them in terms of the form of this relationship. The positive relationship between institutional ownership and the quality of financial reports can be explained through agency theory, which means that Institutional Ownership can improve supervision and control by management in a way that makes work within the company proceed in a way that reduces the conflict of interest between shareholders and managers.

In the same context, Charitou et al. (2007) that institutional ownership has a positive impact on the behavior and performance of the company, through its role in limiting the ability of management to practice profit management activities. This is due to the long-term focus of institutional investors. The study also found that with the increase in the level of corporate ownership, the quality of profits improves, as profits in this case enjoy a higher level of reliability and reliability. MoradzadehFard et al. (2009) also found that there is a negative and significant relationship between Institutional Ownershipand profit management.

In the Tunisian environment, Njah and Jarboui (2010) study found that Institutional Ownershipreduces some profit management practices. Kammoun and Bouazizi (2011) also found a negative significant relationship between institutional ownership and profit management. In addition, the study found a positive moral relationship between Institutional Ownershipand profit informatics for Tunisian companies, as institutional investors adopt an active behavior in order to reduce manipulation of accounting information and improve the suitability and informatics of accounting profits. In addition, Hashim and Devi (2012) study found a positive relationship between Institutional Ownershipand quality of entitlements in Malaysia, thus, confirming the effective oversight hypothesis. The presence of institutional ownership not only improves governance practices, but also contributes to improving the quality of

accounting information by limiting profit management activities. This is supported by the findings of Wulandari and Budiartha (2014) that according to agency theory, institutional investor oversight can represent an important mechanism of corporate governance. Institutional ownership plays an effective role in monitoring management and enhancing the relevance of information in the capital markets, thus, it contributes to reducing the opportunistic behavior of management and reducing agency costs.

Apriada and Suardikha (2016) also pointed out that the high level of Institutional Ownershipleads to strengthening external control over management. Using a sample of 1,200 companies operating in 24 emerging markets listed in the International Monetary Fund in 2012, the Bao and Lewellyn (2017) study targeted a test. The relationship between ownership structure and profit management in emerging markets from the perspective of agency theory. The study concluded that organizational quality strengthens the negative relationship between Institutional Ownershipand profit management. Institutional ownership also contributes to alleviating agency problems and reducing agency costs that appear as a result of conflict between management interests And owners, which helps reduce misstatements in financial reporting and profit manipulation.

Based on the foregoing, the third hypothesis can be derived as follows:

$H_{3:}$ There is a positive relationship between the institutional ownership and the financial reporting quality.

3. Research design

3.1 Data and sample selection

To test the research hypotheses, an empirical study was conducted on a sample of 50 non-financial companies listed on the Egyptian stock exchange, belonging to 13 sectors over a period of three years from 2014 to 2016. The researcher relied on obtaining the necessary data to conduct the application study on the financial reporting obtained from the Misr Company for the dissemination of information.

3.2 variables

The study variables were measured and described as follows:

- **Ownership structure**

It is possible to distinguish between two types of ownership structure according to the extent of the presence of an investor who possesses a significant proportion of the company's shares: The first is an ownership structure characterized by the concentration of ownership, and the second is an ownership structure characterized by the dispersion of ownership. On the

other hand, it is possible to distinguish between the types of ownership according to the personality of the investor, as it is possible to distinguish between two types of ownership: managerial ownership and institutional ownership. Therefore, the following types of ownership will be distinguished:

a. **Ownership concentration** (ownership of major shareholders) (CON): It is measured by the ratio of shares held by major shareholders to total issued shares. Studies differed regarding the determination of this percentage, which ranged between 2% and 20%, but many studies used the ownership rate of 5% or more of the issued shares as a measure of the ownership concentration. The researcher will use the ownership percentage of 20% or more as a measure of the ownership concentration. Accordingly, companies whose ownership structure includes shareholders who hold 20% or more of the company's shares are companies with concentrated ownership, while companies without a shareholder who owns 20% of the company's shares are divided into ownership.

B. **Managerial ownership** (MAN): measured by the ratio of shares owned by members of the board of directors, whether executive or non-executives, to total issued shares (Hutchinson and Leung 2007; Teshima and Shuto 2008; Yang et al. 2008).

C. **Institutional ownership** (INV): refers to the ownership of financial institutions, which includes: banks, insurance companies, and investment funds. The ratio of institutional ownership is measured by the ratio of shares owned by financial institutions to total issued shares (Koh, 2003).

- **Financial reporting quality (FRQ)**

The researcher will use the Modified Jones (1991) model to estimate the discretionary accruals as a reverse indicator of the financial reporting quality. Estimating the level of discretionary accruals according to this model passes through three steps: (1) calculating total accruals, (2) estimating non- discretionary accruals, (3) estimating discretionary accruals, as follows:

First: Calculating Total Accruals (TA)

The researcher will use the cash flow approach to calculate the total accruals, as follows:

$TA_{it} = (NI_{it} - OCF_{it}) / A_{it-1}$ (1)

Where:

TA_{it} Total accruals of company i for year t.

NI_{it} Net income before extraordinary and special items (activity income) of company i for year t.

OCF_{it} cash flows from i's operations for year t.

Ait-1 Total assets of the company i at the end of year t-1 (beginning of year t).

Second: Estimating Non- discretionary accruals (NDA)

Non- discretionary accruals refer to the adjustments that the management makes to the company's cash flows, imposed by the authorities concerned with setting accounting standards. These accruals are due to the company's regular transactions in the current period. Non- discretionary accruals are estimated, as follows:

1. Use the following regression model to estimate the parameters that will be used to estimate non- discretionary accruals

$TA_{it} = a_1 (1 / A_{it-1}) + a_2 (\Delta REV_{it} / A_{it-1}) + a_3 (PPE_{it} / A_{it-1}) + \varepsilon_{it}$ (2)

Where:

TAit Total accruals of company i for year t.

ΔREV_{it} Change in revenue for company i for year t (revenue for year t - revenue for year t-1).

PPE_{it} is the firm's total fixed assets i at the end of year t.

A_{it-1} Total assets of the company i at the end of year t-1 (beginning of year t).

a_1, a_2, a_3 the estimated values of the model parameters, which will be used to estimate the non- discretionary accruals of the model that will be subject in the next step.

ε_{it} represents residuals that denote the optional component of total accruals.

2. Estimating non- discretionary accruals as follows:

$NDA_{it} = \alpha_1 (1 / A_{it-1}) + \alpha_2 [(\Delta REV_{it} - \Delta REC_{it}) / A_{it-1}] + \alpha_3 (PPE_{it} / A_{it-1})$ (3)

Where:

NDA_{it} non- discretionary accruals of company i for year t.

ΔREC_{it} change in receivables balance of company i for year t (net receivables balance at year end t - net receivables balance at year end t-1).

α_1, α_2, α_3 are company-specific parameters obtained from the previous regression model in Step 1 (Equation 2).

And the rest of the variables as above.

Third: Estimated discretionary accruals (DA)

The discretionary accruals represent the adjustments that the management makes to the company's cash flows, based on its personal judgment to achieve specific goals, which are made within the framework of

the flexibility in accounting standards. Therefore, the discretionary accruals reflect the change in accruals arising from the accounting decisions taken by management, which represents intentional interference in the financial reporting process.

Discretionary accruals are estimated by the difference between total and non- discretionary accruals, as follows:

$DA_{it} = TA_{it} - NDA_{it}$ (4)

$DA_{it} = TA_{it} - \{ \alpha_1 (1 / A_{it-1}) + \alpha_2 [(\Delta REV_{it} - \Delta REC_{it}) / A_{it-1}] + \alpha_3 (PPE_{it} / A_{it-1}) \}$

Where:

DA_{it} discretionary accruals of company i for year t.

And the rest of the variables as above.

Control variables

The researcher relied on a set of control variables, which is considered one of the most important variables that have been used by many previous studies (e.g., Chen et al. 2010; Harjoto 2011; Huang 2014). These variables are as follows: -

- **Firm Size**: The size of the company will be measured by the natural logarithm of the total assets at the end of the year.
- **Leverage Financial Ratio**: It will be measured by the ratio of total debt to total assets.
- **Growth rate**: measured by the change in total assets divided by total assets at the beginning of the year.
- **Industry type**: An indication of the sectors that the sample companies belong to, according to the Egyptian stock exchange classification. It was measured by a dummy variable that takes the value (1) if the company belongs to the industrial sector, and takes the value (zero) if the company belongs to a sector other than the industrial sector.
- **Return on equity**: measured by net profit divided by the book value of equity at the end of the year.

3.3 Regression model

The following regression equation is embraced to examine the proposed hypotheses between ownership structure and the Quality of Financial Reporting:

$$\mathbf{FRQ = \beta_0 + \beta_1 CON + \beta_2 MAN + \beta_3 INV + \beta_4 Size + \beta_5 Lev + \beta_6 Growth + \beta_7 industry + \beta_8 ROE + \varepsilon}$$

Where:

- (FRQ): Financial Reporting Quality.

- (CON): Concentrated Ownership.
- (MAN): Managerial Ownership.
- (INV): Institutional Ownership.
- Size: Firm Size.
- Lev: Financial Leverage.
- Growth: Growth Rate.
- Industry: Industry Type.
- (ROE): Return On Equity.
- ε : Error term.

4. Empirical results and discussion

4.1 Descriptive statistics

Table 1 presents the sample descriptive statistics for the variables used in this research. Table 1 presents the mean value, minimum, maximum, median, standard deviation of the variables.

Table 1: Summary of Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CON	150	.000000000	.939200000	.33876402881	.295799748847
MAN	150	.00000000	.67584339	.0818788676	.14503261199
INV	147	.000000000	.509340630	.07926485397	.112187693696
DA	150	.00076672	.19276557	.0484890282	.04312001120
Valid N (list wise)	147				

The results showed that the arithmetic average of each of the concentration of ownership, managerial ownership, and institutional ownership of the sample companies for the combined study period amounted to 0.3388, 0.0819, and 0.0793 respectively. This indicates a decrease in the percentage of both managerial ownership and institutional ownership in general, while the same statistics indicate an increase in the percentage of ownership concentration in the sample companies during the study period. In addition, there is a big difference between the highest and lowest value of

the three types of ownership. Therefore, the standard deviation of the three types of ownership was 0.2958, 0.1450, and 0.1122, respectively, which is higher than the same average for both managerial and institutional ownership, indicating that there is a large dispersion between the sample companies in this regard. Descriptive statistics in Table (2) indicate that the arithmetic average of the optional benefits of the sample companies amounted to 0.0485, which means that the sample companies on average make a deliberate impact on profits. In addition, there is a big difference between the maximum value of the optional benefits and their minimum value. Therefore, the standard deviation of the optional benefits was 0.0431, indicating that there is a large dispersion between the sample companies in this regard.

4.2 The regression test

Table 2: Model Summary

Coefficients[a]

Model		Standardized Coefficients		
		Beta	T	Sig.
1	(Constant)		5.948	.000
	CON	- 1.68	- 2.276	.024
	MAN	- 0.79	- 0.949	.344
	INV	- 0.164	- 1.986	.049
	SIZE	- 0.387	- 4.677	.00000
	GROWTH	- 0.79	0.688	0.493
	LEV	- 0.37	- 0.466	0.624
	INDUSTRY	0.38	1.094	0.276
	ROE	- 0.106	- 1.36	0.176

a. Dependent Variable: DA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0 1	.461[a]	.212	.167	.03959518570

a. Predictors: (Constant), ROE, SIZE, INDUSTRY, INV, LEV, MAN, GROWTH, CON

ANOVA [b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.058	8	.007	4.650	.000[a]
	Residual	.216	138	.002		
	Total	.275	146			

a. Predictors: (Constant), ROE, SIZE, INDUSTRY, INV, LEV, MAN, GROWTH, CON

b. Dependent Variable: DA

The results of the statistical analysis of the regression model show that the modified coefficient of determination (R2 Adjusted) reached (0.167). With regard to the significance of the regression model, the calculated value of (F) was (4.650), which is significant at the level of significance 0.000. This indicates that the model as a whole has a high statistical significance. As for the first hypothesis, which indicates a positive relationship between ownership concentration and the quality of financial reports. The results of the statistical analysis indicate that there is a negative and significant relationship between ownership concentration and voluntary benefits as a reverse indicator of the quality of financial reports. The value of the coefficient of the model (1) for the concentration of ownership was negative and significant, as the value of the t-test was equal to -2.276, with a significant level of 0.024. Accordingly, the first hypothesis is supported. Thus, it can be said that there is a positive and moral relationship between the concentration of ownership and the quality of financial reports.

Regarding the second hypothesis, which indicates a positive relationship between managerial ownership and the quality of financial reports, the results of the statistical analysis indicate the existence of a negative but non-significant relationship between managerial ownership and voluntary benefits as an inverse indicator of the quality of financial reports. The value of the model coefficient (2) for the level of managerial ownership was negative and significant, where the value of the t-test was equal to -0.949, with a significant level of 0.344. Consequently, the second assumption is not supported. Thus, it can be said that there is a positive, but not significant, relationship between managerial ownership and the quality of financial reports. As for the third hypothesis, which indicates a positive relationship between institutional ownership and the quality of financial reports, the results of statistical analysis indicate the existence of a negative and significant relationship between institutional ownership and voluntary benefits as an inverse indicator of the quality of financial reports. The value

of the model coefficient (3) for the level of institutional ownership was negative and significant, where the value of the t-test was -1.986 with a significant level of 0.049. Accordingly, the third hypothesis is supported. Thus, it can be said that there is a positive and moral relationship between institutional ownership and the quality of financial reports.

With regard to control variables, the results of statistical analysis indicate a positive and significant impact of the size of the company on the quality of financial reports. The existence of a positive, but non-significant, effect of leverage and return on equity on the quality of financial reports. On the other hand, the results of the statistical analysis indicate that there is a negative but not significant effect of the growth rate and the type of industry on the quality of financial reports.

4.3 Research results

The most important search results can be crystallized as follows:

- There is a significant negative relationship between ownership concentration and discretionary accruals as an inverse indicator of the financial reporting quality, and therefore it can be said that there is a significant positive relationship between the ownership concentration and the financial reporting quality.
- The existence of an insignificant negative relationship between managerial ownership and discretionary accruals as an inverse indicator of the financial reporting quality, and therefore it can be said that there is an insignificant positive relationship between managerial ownership and the financial reporting quality.
- There is a significant negative relationship between institutional ownership and discretionary accruals as an inverse indicator of the financial reporting quality, and therefore it can be said that there is a significant positive relationship between institutional ownership and the financial reporting quality.

5- Research Recommendations:

Based on the findings of the research in both theoretical and practical aspects, the following recommendations can be made:

- The necessity of expanding the disclosure of the ownership structure, in order to analyze this structure and determine the personality of the controlling shareholders to understand how to confront the agency's problems through corporate governance mechanisms, in addition to disclosing the transactions of major shareholders, as well as members of the company’s board of directors and employees.

- The need for legislative and regulatory bodies associated with the capital market to pay attention to issues related to the rights of small shareholders, and work to limit the role that large shareholders can play in choosing accounting policies that may achieve their self-interest.
- The necessity for the Securities Market Authority and professional organizations and those interested to spread awareness of the importance of preparing high-quality financial reporting, in a way that helps to show the true image of the company, and in what way it can obtain the necessary funding to take advantage of profitable investment opportunities.

6- Research Limitations

The research is limited to studying the effect of the ownership structure on the financial reporting quality for non-financial companies listed in the Egyptian stock market. The study sample will be limited to companies listed in the Egyptian stock market, after excluding financial institutions because they are subject to rules of disclosure, transparency and oversight, during a period of three years from 2014 to 2016. The research is also limited to studying three patterns of ownership structure: ownership concentration, managerial ownership, and institutional ownership, without exposure to other types of ownership. Also, the research is limited to using earnings management as a measure of the financial reporting quality without exposure to other standards. Finally, the generalization of the research results will be in light of those limits and the sample on which the research will be conducted.

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