

# ABSTRACT

## Three Essays on Financial Reporting Quality

This dissertation, comprising three essays, covers three distinct topics under the broad spectrum of financial reporting quality. The first essay investigates the earnings quality of private firms relative to publicly listed firms using a large data sample from India. It further explores the variations in reporting quality among private firms. This study finds that privately held firms report low quality of earnings compared to publicly listed firms. Further, our findings indicate that the earnings quality among private firms is lower when such firms are subsidiaries of publicly listed firms. This study enriches our understanding on how ownership structure influences the reporting practices of companies. It suggests that private firms tend to report low quality of earnings owing to lower demand for better quality earnings relative to their public counterparts. We posit and find that public firms meet their reporting objectives by influencing the reporting practices of their unlisted subsidiaries. Our conclusion is consistent with the argument that it is convenient for public firms to influence the reporting choices of their private subsidiaries as the latter's reporting environment is not subject to stringent regulation or monitoring.

The second essay examines the earnings management practices of firms during the time of initial public offering (IPO). Prior studies argue that **IPO** provides a conducive environment for issuers to manage earnings. Our study specifically investigates whether new issue firms engage in earnings management to influence investor demand and **IPO** valuation. Using the unique data of **IPO** subscription from India, this study documents that issuer firms manage earnings to influence investor demand, particularly the institutional investor demand. Contrary to the popular notion in the IPO-earnings management literature, this study does not find significant relation between pre-IPO earnings manipulation and IPO offer price. Our study contributes to the recent surge of debate on what motivates IPO firms to engage in earnings management prior to the public issue. Additionally, this study examines whether earnings management prior to the **IPO** is detrimental to the firm value in the long run and documents that earnings management negatively influences operating performance of issuers in the long run.

The third essay of this dissertation examines how earnings quality is affected when Indian firms expand their operations into overseas markets by way of cross-border mergers and acquisition activities. Based on the theories of global corporate governance convergence, this study posits and finds that cross-border product market internationalisation is positively associated with earnings qual-

ity of acquirer firms. Specifically, we document a reduction (increase) in earnings management (earnings quality) of acquirer firms following cross-border acquisition activities. This relationship is more pronounced when the target firms are in advanced countries having superior institutional and governance environments compared to India. Further, our return-earnings analysis shows that investors consider earnings of acquirer firms to be more informative for equity valuation in the years following cross border acquisition. Our results withstand a battery of robustness tests.

JEL Classification: M41, F23, 016, D53, G34

Keywords: Earnings quality; Earnings management; Corporate governance; Emerging markets; Private firms; Initial public offering; Investor demand; Cross-border mergers and acquisitions