Guest editorial

Special issue of review of accounting and finance: financial markets, large shareholders, and corporate governance

1. Introduction and overview

Financial markets and large shareholders have important value implications such as effects on corporate governance, financial decisions and accounting policies, among others. In theory, the financial markets can generate information that enhances managerial incentives and large shareholders' monitoring activities (Diamond and Verrecchia, 1982; Holmström and Tirole, 1993; Maug, 1998; Faure-Grimaud and Gromb, 2004). Empirically, there is evidence supporting the real effects of financial markets on various corporate decisions and governance mechanisms (Edmans, 2009; Fang *et al.*, 2009; Edmans *et al.*, 2013, etc.).[1] Motivated by the ever-changing financial markets and emergence of new research areas in accounting and finance, this special issue of *Review of Accounting and Finance* sets out to provide new research and findings on the nexus between financial markets and institutions, different types of large shareholders and corporate governance.

2. Summary of articles, new insights and contributions

In this special issue of *Review of Accounting and Finance*, there are four papers covering different research areas of accounting and finance. Each paper provides an interesting exposition, unique setting, new insights and findings, and importantly, contributions to the literature and practice in the areas of financial markets, large shareholders and corporate governance, among others.

The special issue starts with the first set of papers that look at how corporate governance interacts with different types of corporate decisions in accounting and finance. The paper titled "Voluntary hedging disclosure and corporate governance" by Seth Hoelscher examines how corporate governance affects a firm's information environment through voluntary changes in hedging disclosures. Using the unique setting of oil and gas firms with a homogenous exposure to market risks, this study combines hand-collected changes in hedging voluntary disclosures and hand-collected derivative position data to investigate the interaction of corporate governance and voluntary disclosure. The study uses voluntary hedging announcements as an empirical setting to address the self-selection bias associated with voluntary disclosure studies. Overall, the study provides new insights and findings that poorly governed firms are more likely to increase voluntary disclosure of hedging changes, supporting the *substitution hypothesis* (i.e. governance and voluntary disclosure serve as substitutes). The results also reveal that large shareholders (i.e. greater institutional ownership) have the ability to influence a firm's information environment through the mechanism of disclosure policies. Motivated by the prevalence of hedging activities in firms, this study contributes to the literature and practice by uncovering the links between corporate governance and information (disclosure) environment.

The paper titled "Fair value, corporate governance, social responsibility disclosure and banks' performance" by Yi Zhang, Gin Chong and Ruixin Jia examines the interplay of various corporate disclosures and the information content of corporate disclosures on firm performance. This paper uses the setting of US listed banks to

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examine the interactions between mandatory disclosures (fair value measurement) and voluntary disclosures (corporate governance and social responsibility issues), as well as their relations with firm performance. Overall, the study provides new insights and findings that firms with a higher social responsibility disclosure score and stronger corporate governance are less likely to use fair value measurements to manage their earnings; however, mandatory disclosures have a more significant relation with firm performance than voluntary disclosures. Motivated by the multitude of corporate disclosures to the policymakers and financial market investors, this paper contributes to the literature by extending the existing study of banks' fair value measurements and highlighting the interrelations between mandatory disclosures and voluntary disclosures using corporate social responsibility. The findings also highlight the effect of corporate governance on corporate decisions through the setting of diverse corporate disclosures.

The special issue features the second set of papers that provide in-depth analysis of corporate governance and related issues using unique corporate and industry settings. The paper titled "Active fund managers and earnings management at portfolio companies" by Javeria Farooqi, Surendranath Jory and Thanh Ngo examines the empirical relations between the types of mutual funds and the level of earnings manipulation at the companies that comprise their stock portfolios. The study provides an interesting setting of active vs. passive mutual funds to assess the extent of earnings quality at their portfolio firms. The findings show that the portfolio firms held by active fund managers (i.e. with high active share and tracking error measures) are associated with lower levels of earnings manipulation. The findings reveal that the inverse relationship between fund shareholdings and earnings management at their portfolio firms is dependent upon the activeness of fund managers who dynamically manage their exposures to systematic and stock-specific risks. Overall, the study provides new insights on understanding how financial market investors (such as actively managed funds) perform stock selection based on the quality of corporate decisions (such as earnings management). It contributes to the literature by providing new evidence on the relations between actively managed equity funds and their portfolio firms' earnings management.

While the papers discussed above covers various topics related to firm-level decisions and governance, this special issue also contains another line of research that focuses on the fundamental characteristics of large investors at the financial market-level. The paper titled "Destabilizing momentum trading and counterbalancing contrarian strategy by large trader groups" by Jang-Hyung Cho, Robert Daigler, YoungHa Ki and Janis Zaima examines trading strategies employed by large trader groups and the effects of their trading strategies on directional price changes and volatility. This study applies a unique setting of the interest rate futures markets (wherein the trades by non-clearing member firms in the futures market were explicitly separated from institutional traders) to study trading strategies adopted by large distinct trading groups and the large traders' effects on volatility. The findings show that both momentum and contrarian strategies can coexist among large trader groups, e.g. individual traders use the momentum strategy and are not necessarily noise traders; in contrast, market makers and institutional traders use the contrarian strategies. The findings also reveal that momentum strategy adopted by the individual traders is associated with excessive volatility whereas contrarian strategy is associated with lower volatility. Overall, this study sheds light on understanding the characteristics, strategies and implications of heterogeneous large investors in the financial markets.

3. Concluding remarks and future directions

This special issue of *Review of Accounting and Finance* provides a collection of research papers from accounting and finance that cover different perspectives on Financial Markets, Large Shareholders, and Corporate Governance. While the main goal of this special issue is to advance the knowledge and practice in these research areas, future research may continue to explore any emerging issues (changes in regulations, industries, global financial markets, technologies, etc.) that affect the intricate interrelations between financial markets and institutions, heterogeneous investors and corporate governance mechanisms. Future research may also look for new settings, innovative methodologies, and other applications that can recognize the multiparadigmatic nature of accounting and finance.

Last but not the least, this special issue is impossible without the contributions and support from our colleagues. We thank all of the authors who have submitted or contributed their work to this special issue of *Review of Accounting and Finance*. We thank the Editor-in-Chief, Professor Janis Zaima, for her invaluable support to *Review of Accounting and Finance* and the development of this special issue. We also thank our current Co-Editor-in-Chief, Professor Jennifer Ho, for her support to this special issue. We thank all of our reviewers and RAF editorial advisory board members who have provided their expert reviews and helpful comments to the papers submitted to this special issue. We thank the colleagues from Emerald Publishing for all of their help and support.

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Note

1. See also Edmans (2014) for an excellent survey of blockholders (large shareholders) and corporate governance.

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Further reading

Cho, J., Daigler, R., Ki, Y. and Zaima, J. (2019), "Destabilizing momentum trading and counterbalancing contrarian strategy by large trader groups", *Review of Accounting and Finance*, Vol. 19 No. 1.

Farooqi, J., Jory, S. and Ngo, T. (2019), "Active fund managers and earnings management at portfolio companies", *Review of Accounting and Finance*, Vol. 19 No. 1.

Hoelscher, S. (2019), "Voluntary hedging disclosure and corporate governance", *Review of Accounting and Finance*, Vol. 19 No. 1.

Zhang, Y., Chong, G. and Jia, R. (2019), "Fair value, corporate governance, social responsibility disclosure and banks' performance", *Review of Accounting and Finance*, Vol. 19 No. 1.