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Does municipal ownership ensure accounting quality? The role of corruption in accounting manipulation

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Abstract

Purpose – Municipally-owned enterprises (MOEs) are hybrid organisations exposed to both institutional pressures and integrity challenges. This study examines whether municipal ownership enhances accounting quality and how this relationship changes when municipal shareholders have documented corruption episodes.
Design/methodology/approach – The study analyses 685 Italian enterprises wholly or partly owned by municipalities with over 15,000 inhabitants, using a cross-sectional logistic regression to examine the relationship between municipal ownership, corruption exposure, and accounting manipulation risk.
Findings – Majority municipal ownership is associated with a lower likelihood of accounting manipulation, consistent with stronger institutional monitoring. However, there is a positive association between a greater share of the enterprise being owned by corrupt municipalities and manipulation risk. Together, results indicate that the ability of municipal ownership to reduce manipulation is contingent on institutional integrity.
Originality/value – The study advances research on hybrid organisations by showing that municipal ownership reduces accounting manipulation risk only when municipal owners are not affected by corruption. In corrupt settings, municipal ownership may reshape institutional pressures, reorienting organisational practices toward particularistic interests and increasing manipulation risk. This finding reframes municipal ownership as a conditional governance mechanism whose effectiveness depends on institutional integrity.

Keywords Municipally-owned enterprises, Corruption, Accounting manipulation, Institutional pressures, Logistic regression

Paper type Research article

1. Introduction

Municipally-owned enterprises (MOEs) are hybrid organisations enabling local governments to deliver public services using private-sector management mechanisms, in line with New Public Management (NPM) reforms (Christensen, 2015; Voorn *et al.*, 2017). They combine public value goals and market imperatives, generating complex ownership and governance structures (Clatworthy *et al.*, 2000) and an accountability gap (Grossi and Thomasson, 2015). This complexity arises from multi-layered principal–agent relationships (Bergh *et al.*, 2019) that generate overlapping political and managerial roles, creating information asymmetries and risk of accounting manipulation (Zimmerman, 1977).

From a neo-institutional perspective, publicly-owned organisations operate in environments where legitimacy depends on conformity to accountability standards (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Suchman, 1995). This heightened sensitivity to institutional pressures can reduce the likelihood of opportunistic accounting (Carpenter and Feroz, 2001; Voorn *et al.*, 2017). However, in low-integrity and corruption-prone institutional contexts, municipal ownership may instead transmit conflicting institutional logics,

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reorienting organisational practices away from public accountability and towards particularistic interests (Greenwood and Suddaby, 2006; Fligstein and McAdam, 2015), thereby increasing the risk of accounting manipulation.

Although municipal ownership is deeply analysed in literature, its implications on accounting manipulation remain contentious and not fully explored. Therefore we examine how municipal ownership influences the accounting manipulation risk in MOEs and how this relationship varies with the presence or absence of documented corruption episodes among municipal shareholders. We use a sample of 685 Italian MOEs wholly or partly-owned by at least one municipality with more than 15,000 inhabitants. Accounting manipulation risk is measured through the Beneish M-Score, and corruption is proxied by documented municipal corruption incidents. This allows us to test whether municipal ownership *per se* is associated with higher accounting quality, or the effect is conditional on the presence of corruption. We find that municipal ownership generally lowers manipulation risk by enhancing governance, but this is reversed with previous corruption, confirming that MOEs inhabit a perilous governance space (Bergh *et al.*, 2019).

By identifying corruption as a key moderator, the study reconciles prior inconsistencies on MOEs' accountability, showing that ownership alone does not guarantee accounting quality. Its effectiveness depends on absence of documented corruption episodes among municipal shareholders, an aspect that has largely been overlooked. This finding bridges insights from research on hybrid organisational accountability (Grossi and Thomasson, 2015) and the impact of corruption culture on financial reporting (Chen *et al.*, 2020). Practically, the study suggests that accountability requires both formal oversight and anti-corruption safeguards, with regulators adapting auditing and governance measures to local risk conditions.

In this paper, Section 2 contextualises MOEs as hybrid organisations and Section 3 outlines the theoretical background and hypotheses. Section 4 details the methodology. Section 5 reports the empirical results while Section 6 discusses them and highlights limitations. Section 7 concludes with implications and future research.

2. Contextualisation of MOEs as hybrid organisations

MOEs provide public services through private sector management tools (Christensen and Lægreid, 2003). This hybrid configuration generates significant external and internal complexity, reflecting the multiple forms of hybridity (Table 1).

MOEs operate in hybrid environments characterised by public authority and market competition. This juxtaposition can reshape accountability systems and increase risks of inefficiency or opportunistic behaviour (Shaoul *et al.*, 2012; Johnsen, 2021; White *et al.*, 2021; Bergh *et al.*, 2022; Butzbach *et al.*, 2022; Grabski-Walls and Ambos, 2025). It generates goal hybridity, because MOEs pursue both market-oriented objectives—profit and efficiency—and public objectives such as the provision of social services and territorial development (Grossi and Thomasson, 2015; Cappellaro *et al.*, 2020; Curran and Ozcan, 2025). Balancing these objectives creates trade-offs within organisational and decision-making levels (Logue *et al.*, 2025). Combining public and private management structures generates ambiguity in the organisational structure (Thomasson, 2009; Battilana and Dorado, 2010; Pache and Santos, 2013; Skelcher and Smith, 2015; Cornelissen *et al.*, 2021; Karré, 2023; Ciambotti *et al.*, 2025). Internally, hybridity manifests as ownership and governance structures that blur the boundaries of political and managerial accountability, weakening the separation between ownership and control (Ebrahim *et al.*, 2014; Voorn *et al.*, 2019; Okhmatovskiy *et al.*, 2021; Bacq and Aguilera, 2022; Grossi and Thomasson, 2023; Pache *et al.*, 2024). The hybrid configuration of MOEs therefore requires specific ownership–governance settings that can generate complex principal–agent relationships. This enables opportunistic or unethical behaviour, such as accounting manipulation. This study therefore aims to answer the following research question: *in what ways do the institutional characteristics of MOEs, particularly their exposure to institutional pressures and municipal corruption, influence the likelihood of accounting manipulation?*

Table 1. Conceptualisation of hybridity and implications for MOEs

Type of hybridity	Main references	Source of hybridity	Implications for MOEs
Contextual hybridity	Shaoul *et al.* (2012), Johnsen (2021), White *et al.* (2021), Bergh *et al.* (2022), Butzbach *et al.* (2022), Grabski-Walls and Ambos (2025)	The hybrid institutional environment in which organisations operate, characterised by the coexistence of political authority and market competition	MOEs operate in hybrid local institutional contexts, where political and market forces interact dynamically. The balance between these forces determines the effectiveness of accountability systems and the exposure to corruption or inefficiency
Goal hybridity	Grossi and Thomasson (2015), Cappellaro *et al.* (2020), Curran and Ozcan (2025), Logue *et al.* (2025)	The simultaneous pursuit of multiple objectives, typically social, political, and economic, which may conflict or coexist within the same entity	MOEs must balance economic and financial efficiency with social service obligations and local development objectives. This generates conflicting objectives, which can lead to trade-offs between public and private value creation
Organisational hybridity	Thomasson (2009), Battilana and Dorado (2010), Pache and Santos (2013), Skelcher and Smith (2015), Quélin *et al.* (2017), Cornelissen *et al.* (2021), Karré (2023), Ciambotti *et al.* (2025)	How public and private logics are integrated within the functioning of the organisation (e.g. processes, practices, culture, and decisions)	MOEs are characterised by the coexistence of political influence and managerial autonomy. The interaction between these logics generates internal tensions that must be managed through coherent governance and accountability practices
Structural hybridity	Ebrahim *et al.* (2014), Voorn *et al.* (2019), Okhmatovskiy *et al.* (2021), Bacq and Aguilera (2022), Grossi and Thomasson (2023), Pache *et al.* (2024)	The ownership structure and governance arrangements that underpin the coexistence of public and private forces	MOEs are structurally hybrid, because their ownership and governance architectures merge public and private elements in one organisational form. This hybrid configuration blurs the formal boundaries between ownership and control, and may reduce clarity in the allocation of responsibilities and reporting mechanisms

Source(s): Authors' own work

3. Theoretical background and hypotheses

Building on the conceptualisation of MOEs as hybrid organisations, neo-institutional theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983) provides a framework for explaining how their hybrid nature intensifies institutional pressures and shapes the risk of accounting manipulation.

From a neo-institutional perspective, publicly-owned operate in environments where legitimacy must be actively constructed and maintained (Suchman, 1995; Meyer and Rowan, 1977). In the hybrid organisations context, the coexistence of multiple institutional logics increases institutional complexity (Greenwood *et al.*, 2011; Thornton, 2012), generating

ambiguity regarding priority goals and performance criteria – e.g. economic efficiency *vs* public accountability – as well as the norms and values that guide organisational action – e.g. managerial discretion *vs* procedural conformity – (Kraatz and Block, 2008). In the absence of clear evaluation standards, organisational survival depends increasingly on signalling conformity to socially accepted expectations, making legitimacy a critical resource and heightening organisations' sensitivity to institutional pressures.

Institutional legitimacy is constructed and signalled through organisational practices that demonstrate conformity to criteria of appropriateness defined within the institutional field. These criteria of appropriateness are embedded in institutional pressures that take multiple forms: coercive pressures from laws, political oversight, and transparency demands; mimetic pressures from private-sector management models; and normative pressures from professional standards and public management values (Carpenter and Feroz, 2001). The strength and direction of these institutional pressures, however, are shaped by organisational visibility within the institutional environment. Public visibility amplifies stakeholder scrutiny and increases the reputational consequences of non-conformity, thereby intensifying the institutional pressures to which organisations are exposed (Greiling and Schaefer, 2020).

In this setting, MOEs represent a relevant case of hybrid organisations characterised by high institutional complexity. Indeed, following the corporatisation processes introduced by the NPM reforms (Hood, 1995; Pollitt and Bouckaert, 2000), MOEs deliver public services through managerial practices inspired by the private sector. This coexistence of public and private logics results in complex ownership and governance structures that blur the lines between political oversight and managerial autonomy (Voorn *et al.*, 2019; Pache *et al.*, 2024). Consequently, MOEs operate in a context of heightened ambiguity, where objectives and performance criteria are more easily contested and less clearly defined. In such settings, MOEs' survival increasingly hinges on their ability to signal conformity to institutional criteria of appropriateness as a means to secure legitimacy.

The extent of municipal ownership fundamentally shapes the visibility of MOEs within their institutional field, thereby modulating the strength of institutional pressures. When municipalities hold majority ownership, organisational actions become subject to heightened public scrutiny, political accountability mechanisms, and formal oversight requirements (Voorn *et al.*, 2017). This amplified visibility creates a heightened risk of reputational damage if the organisation fails to demonstrate conformity to institutional criteria of appropriateness – specifically, transparent financial reporting, robust internal controls, and compliance with audit requirements (Greiling and Schaefer, 2020). Under these conditions, organisations have a stronger incentive to adopt accounting practices that signal institutional conformity – such as standardised, conservative financial reporting – rather than engage in opportunistic behaviour that could trigger reputational and political sanctions. Thus, majority municipal ownership, by amplifying visibility and the attendant risk of delegitimation, intensifies institutional pressures toward compliance and away from accounting manipulation.

Neo-institutional theory posits that when organisations operate under heightened institutional pressure to demonstrate legitimacy, they tend to conform to the institutional criteria of appropriateness that dominate their environment, gaining legitimacy. We therefore hypothesise:

H1. MOEs with majority municipal ownership, whether by one or several municipalities, face stronger institutional pressures toward conformity and thus demonstrate lower risk of accounting manipulation than other firms.

However, majority municipal ownership does not automatically determine institutional legitimacy. The institutional field in which MOEs operate is not neutral; it can be contested, redefined, and reoriented by powerful actors within it (Greenwood and Suddaby, 2006; Fligstein and McAdam, 2015). When one or more municipal owners have documented corruption episodes, they function as institutional actors capable of redefining the criteria of appropriateness that govern organisational action within the MOE. Rather than eliminating

institutional pressures, corruption reorients them – shifting the institutional field's definition of "appropriate" behaviour from public-sector accountability norms (transparency, compliance, professional standards) toward particularistic norms (loyalty to local interests, discretion, flexibility in reporting).

This redefinition of institutional criteria operates through multiple mechanisms. Through governance levers and social influence mechanisms – such as board appointments, auditor selection, and the framing of strategic decisions – corrupt municipalities can reshape which institutional pressures are perceived as legitimate and salient within the organisation. Because these mechanisms operate within the informal networks and personalised governance structures characteristic of MOEs (Voorn *et al.*, 2020; Ciambotti *et al.*, 2025), they are not easily countered by formal regulatory oversight. Moreover, from a neo-institutional perspective, this redefinition is not merely a weakening of institutional pressures but a reorientation of them toward alternative – and potentially conflicting – criteria of institutional appropriateness. In this reoriented institutional field, conformity to public-accountability criteria becomes delegitimising because it exposes particularistic interests; conversely, flexibility and discretion in reporting become normalised as legitimate within the corrupted organisational logic (Ashforth and Anand, 2003; Monteduro *et al.*, 2024).

The spillover of this redefined institutional logic depends not only on the presence of corrupt municipal actors but also on their influence capacity – that is, their ability to shape the institutional field through ownership leverage. Greater ownership stakes enhance a corrupt municipality's capacity to appoint allies to governance roles, frame strategic narratives, and embed alternative institutional logics into organisational routines. Under these circumstances, municipal ownership – rather than protecting against accounting manipulation (Lourenço *et al.*, 2018; Chen *et al.*, 2020) – becomes a channel through which corrupted institutional criteria are embedded and amplified, increasing the likelihood of accounting manipulation (Everett *et al.*, 2007; Erlingsson *et al.*, 2008; Bergh *et al.*, 2019; Cohen *et al.*, 2019).

We therefore hypothesise:

H2. Accounting manipulation risk in MOEs increases with the percentage of equity held by one or more municipalities with documented corruption episodes.

4. Research design

4.1 Sample and data collection

Data on the study population came from AIDA *(Analisi Informatizzata delle Aziende Italiane)*, managed by Bureau van Dijk (Moody's). AIDA integrates official financial statements from the Italian Chambers of Commerce, providing detailed and reliable data on ownership, governance, and finances for private and listed companies. It ensures international comparability and is widely used in research on Italian firms and public enterprises (e.g. Capalbo *et al.*, 2021), making it suitable for reproducible analyses of MOEs.

The initial sample of MOEs was identified through a three-step process (Supplementary appendix B): we selected all active corporations with at least one public-authority shareholder on December 31, 2023 (2,632 units). We extracted complete shareholder lists (62,421 shareholders, including both individuals and entities) and matched tax code with the MEF–SIOPE registry to identify firms with at least one municipal shareholder (1,622 units). Finally, we restricted the sample to those where at least one municipal shareholder has a resident population exceeding 15,000 inhabitants, obtaining a final population of 963 units (Table 2).

To measure corrupt municipal ownership (municipalities holding shares in a company that have experienced episodes of corruption), we used data on corruption episodes in municipalities with more than 15,000 inhabitants. These data were manually collected from annual reports published in the *Amministrazione Trasparente* section of official municipal

Table 2. Descriptive analysis of statistical population and final sample

Geographic area	Statistical population Total	Statistical population Percentage	Final sample Total	Final sample Percentage
Central Italy	239	25%	181	26%
Islands	59	6%	29	4%
North-East	255	26%	199	29%
North-West	270	28%	194	28%
South	140	15%	82	12%
Total	*963*	*100%*	*685*	*100%*

Source(s): Authors' own work

websites for municipalities with more than 15,000 inhabitants, as required by Law No. 190/2012 and Legislative Decree No. 33/2013. These reports are prepared by the *Responsabile della Prevenzione della Corruzione e della Trasparenza* (RPCT), who is legally independent from municipal political leadership and reports directly to the National Anti-Corruption Authority (ANAC). Self-disclosed data may be subject to some underreporting or heterogeneous practices, but the risk is mitigated because the episodes recorded have typically already been notified by either judicial authorities at the initiation of criminal proceedings or internal offices handling disciplinary actions, and are therefore formally documented and verifiable. After excluding municipalities with missing data, the final sample included 685 firms, whose characteristics closely mirror the initial population, ensuring representativeness (Table 2). The sample comprised joint-stock (*S.p.A.*) or limited-liability (*S.r.l.*) companies, including single-member variants (*a socio unico*) (Supplementary appendix D), both subject to uniform accounting standards under the Italian Civil Code and the Italian Accounting Standards Body (*Organismo Italiano di Contabilità, OIC*), guaranteeing consistency in the financial data used to calculate the Beneish M-Score.

4.2 Variables

4.2.1 Dependent variable. The dependent variable, *MscoreIt_bin*, is a binary adaptation of the Beneish M-Score model (Beneish, 1999, 2001), which assesses the likelihood of earnings manipulation. The original Manipulation Score (M-Score) consists of an intercept and eight variables designed to capture anomalies in financial statements that may indicate earnings manipulation or a predisposition to engage in such practices. We used a revised version tailored to Italian national accounting standards and regulatory features, because the original Beneish M-Score gives a high rate of false positives and predictive power below 47% when applied to Italian listed companies (Corsi *et al.*, 2015). This reflects the dominance of small and medium companies in Italy, which adhere to Civil Code and national standard setters of the OIC. The resulting model modifies the structure, number of variables, and weights. The adapted formula for Italian firms is:

$$MscoreIt = -62273 + 0.448DSRI + +0.1871\text{GMI} + 0.2001\text{AQI} + 0.2819\text{DEPI} + 0.6288\text{LVGI}$$

The variable weights are estimated using maximum likelihood analysis comparing a sample of manipulative firms and a control group of non-manipulative firms.

DSRI, GMI, AQI, DEPI, and LVGI are constructed from statutory items as:

$$\text{DSRI (Days' Sales in Receivable Index)} = \frac{\frac{Receivables_t}{Sales_t}}{\frac{Receivables_{t-1}}{Sales_{t-1}}}$$

$$\text{GMI (Gross Margin Index)} = \frac{\frac{Sales_{t-1} - COGS_{t-1}}{Sales_{t-1}}}{\frac{Sales_t - COGS_t}{Sales_t}}$$

$$\text{AQI (Asset Quality Index)} = \frac{\frac{(1 - Current\ assets_t + PPE_t)}{Total\ assets_t}}{\frac{(1 - Current\ assets_{t-1} + PPE_{t-1})}{Total\ assets_{t-1}}}$$

$$\text{DEPI (Depreciation Index)} = \frac{\frac{Depreciation_{t-1}}{PPE_{t-1} + Depreciation_{t-1}}}{\frac{Depreciation_t}{PPE_t + Depreciation_t}}$$

$$\text{LVGI (Leverage Index)} = \frac{\frac{Total\ debt_t}{Total\ assets_t}}{\frac{Total\ debt_{t-1}}{Total\ assets_{t-1}}}$$

We computed *MscoreIt* (2022) using two consecutive fiscal years (2021–2022) because all components are change indices comparing year *t* to *t*–1. To limit simultaneity, all predictors (independent and controls) were for 2021. Only firms with complete statements for both years were used. The cut-off value for *MscoreIt* was set at −4.14 (Corsi *et al.*, 2015). Our binary dependent variable *MscoreIt_bin* takes the value of 1 if *MscoreIt* > −4.14, indicating a high risk of earnings manipulation, and 0 otherwise, signifying a low risk of manipulation.

4.2.2 Independent variables. We captured two distinct facets of municipal ownership. The first independent variable is Municipal Majority Ownership (*MunMajority_own*), a binary variable with a value of 1 if the aggregate municipal equity stake exceeds 50%, whether one or several municipalities, and 0 otherwise. When municipalities own larger stakes, formal oversight and public visibility (Greiling and Schaefer, 2020) enhance monitoring and reduce managerial discretion. Political and media scrutiny, along with compliance regimes (e.g. internal auditors, National Audit Institution, ANAC), also decrease incentives for earnings manipulation. State ownership may also introduce soft budget constraints and political goals that weaken efficiency and reporting quality (Capalbo *et al.*, 2014; Cheng *et al.*, 2015). We therefore expect a negative association between *MunMajority_own* and manipulation risk.

Our second independent variable is Corrupt Municipal Ownership (*CorruptMun_own*), a continuous variable measuring the percentage of company ownership held by municipalities where corruption episodes occurred in the reference period under the national transparency framework (Law No. 190/2012, Legislative Decree No. 33/2013). Municipalities are coded as corrupt using a conservative binary rule (1 = at least one disclosed episode of any type or severity; 0 otherwise). For firms with multiple municipal owners, *CorruptMun_own* is the sum of shares held by municipalities coded as corrupt. This approach reduces sensitivity to differences in reporting intensity but preserves municipal comparability. This variable captures the extent to which municipal ownership is weakened by corruption, reflecting the influence of a corrupt institutional environment (Lourenço *et al.*, 2018) and relational and governance channels that produce spillover effects (Xu *et al.*, 2019) on the risk of accounting manipulation. We therefore expect a positive association between *CorruptMun_own* and manipulation risk. Data on corruption incidents are available only for municipalities exceeding 15,000 inhabitants, so *CorruptMun_own* captures exposure to medium-to-large municipal owners operating in corruption-tainted institutional environments.

4.2.3 Control variables. We included a series of control variables to account for other factors that may influence earnings manipulation risk, capture firm-level heterogeneity, and mitigate confounding effects in the relationship between municipal ownership, corruption, and earnings manipulation risk. Organisational size (*org_size*) is measured by the total number of employees in the firm. Larger entities attract greater auditor attention and face higher visibility and reputational costs, which are typically associated with lower manipulation risk (Dechow and Dichev, 2002; Myers *et al.*, 2003). Geographic location (*geo_code*) is a categorical variable indicating the firm's location in different Italian macro-areas (North-West, North-East, Centre, South, and Islands). Macro-area fixed effects capture institutional and enforcement heterogeneity across territories (audit intensity, local government capacity) relevant to reporting practices (Nam *et al.*, 2012). We also included two-digit industry dummies (2017 NAICS classification) to account for sector-specific reporting environments, technological structures, and economic models. Dichev *et al.* (2013) found that about half of earnings quality is determined by innate factors such as business model, industry, and macro-economic conditions. Controlling for industry membership therefore avoids misattributing these structural differences to ownership or governance effects.

4.3 Model specification

We used a logistic regression model to investigate the relationship between municipal ownership, corruption, and accounting manipulation risk. This is appropriate because our dependent variable, *MscoreIt_bin*, is binary. Logistic regression estimates the probability of an event occurring as a function of multiple predictors, using a non-linear transformation that ensures predicted probabilities remain bounded between 0 and 1.

Logistic models are particularly suitable here because they do not assume a linear relationship between predictors and the dependent variable (Hosmer *et al.*, 2000). They also allow a direct interpretation of coefficients in terms of odds ratios, which quantify how changes in ownership and institutional characteristics affect the likelihood of earnings manipulation. The method is robust to non-normal error distributions and heteroskedasticity, which are common in firm-level data. The models are estimated by maximum likelihood, and all standard errors are computed in their robust (heteroskedasticity-consistent) form.

The general form of the logistic regression model is:

$$log\frac{P(Y=1)}{1-P(Y=0)} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_k X_k + \varepsilon$$

where $P(Y=1)$ is the probability that an organisation is classified as having a high risk of manipulation, β_n are the coefficients to be estimated, and ε denotes the error term.

Two main specifications were estimated. The baseline model included only the two key independent variables (municipal majority ownership and corruption). The extended model added control variables to account for heterogeneity that might confound the relationship between ownership and accounting manipulation risk. Table 3 summarises all the study variables with their operational definitions, theoretical rationale, expected sign, and key references.

5. Findings

Descriptive statistics (Table C.1 – Supplementary appendix C) show that on average approximately 17% of MOEs show a high risk of accounting manipulation (*MscoreIt_bin = 1*). The mean value of *CorruptMun_own* is 8.6%, with a large standard deviation (25.7), indicating that most companies are owned by non-corrupt municipalities but corruption exposure varies substantially across the sample. Approximately three-quarters of MOEs had majority municipal ownership, confirming the structural weight of local government

Table 3. Variables and their theoretical rationale

Construct	Variable	Timing	Exp. Sign	Theoretical rationale	Key references
Earnings manipulation risk (DV)	MscoreIt_bin	Δ 2021–2022	n/a	Beneish's model adapted to the Italian accounting environment (OIC); two-year structure captures financial changes	Beneish (1999, 2001), Corsi *et al.* (2015)
Municipal majority ownership	MunMajority_own	2021	–	Larger public ownership strengthens formal oversight, transparency, and reputational monitoring, reducing discretionary reporting	Greiling and Schaefer (2020), Capalbo *et al.* (2014), Cheng *et al.* (2015)
Corrupt municipal ownership	CorruptMun_own	2021	+	Corruption undermines institutional quality, weakens monitoring and internal controls, and increases manipulation incentives	Lourenço *et al.* (2018), Xu *et al.* (2019)
Size	org_size	2021	–	Larger firms face stronger visibility and audit scrutiny, leading to higher reporting quality	Dechow and Dichev (2002), Myers *et al.* (2003)
Geography	geo_code	2021	n/a	Regional heterogeneity in audit intensity and administrative capacity affects reporting quality	Nam *et al.* (2012)
Industry	sector_NAICS	2021	n/a	Industry sector is a major innate determinant of earnings quality; controlling for it prevents spurious inferences	Dichev *et al.* (2013)

Source(s): Authors' own work

participation in corporate capital. Organisational size varies widely (mean = 191 employees; SD = 694), reflecting the coexistence of small local utilities and large multi-municipal corporations. The sample is geographically balanced, with slightly more in the North-East (28.9%) and North-West (28.5%). The main sectors are Administrative and Support Services (27%), Transportation and Warehousing (17%), Utilities (17%), and Retail Trade (14%), fitting the typical domains of municipal service provision.

Pairwise correlations among the continuous and binary variables (Table C.2 – Supplementary appendix C) indicate that *MscoreIt_bin* has a negative correlation with municipal control ($r = -0.14$, $p < 0.001$) and a positive correlation with corrupt municipal ownership ($r = 0.05$, ns). This suggests that stronger public oversight mitigates manipulation risk, but corruption exposure tends to increase it. Low correlations (below 0.30) among independent and control variables suggest no multicollinearity issues.

These descriptive results provide preliminary confirmation of the hypotheses: majority municipal ownership reduces manipulation risk, and corruption among municipal shareholders heightens it. We initially estimated a logistic regression model including only the two main predictors (Table 4).

We then extended the model by adding control variables that account for the effects of size, geographic region, and industry sector (Table 5).

These results provide strong empirical support for the impact of municipal ownership and corruption on accounting manipulation risk. Municipal ownership is negatively associated

Table 4. Logistic regression results (baseline model)

Variable	Odds ratio	Std. Error	*z*	*p*-value	95% CI lower	95% CI upper
MunControl_own	0.4234	0.0932	−3.90	0.000	0.2750	0.6519
CorruptMun_own	1.0075	0.0037	2.03	0.042	1.0003	1.0148
_cons (Intercept)	0.3427	0.0588	−6.25	0.000	0.2449	0.4796

Note(s): Model statistics: Number of observations = 685. LR χ^2 (2) = 16.41 ($p < 0.001$). Log likelihood = −303.36, Pseudo $R^2 = 0.0263$

Source(s): Authors' own work

Table 5. Logistic regression results (extended model with controls)

Variable	Odds ratio	Std. Error	z	*p*-value	95% CI lower	95% CI upper
MunControl_own	0.4199	0.1003	−3.63	0.000	0.2629	0.6707
CorruptMun_own	1.0087	0.0040	2.18	0.029	1.0009	1.0167
org_size	0.9986	0.0006	−2.30	0.022	0.9973	0.9998
geo_code						
Center	1.1126	0.3208	0.37	0.711	0.6322	1.9580
Islands	1.4506	0.7387	0.73	0.465	0.5346	3.9358
Northeast	0.8165	0.2377	−0.70	0.486	0.4614	1.4448
South	1.0772	0.4046	0.20	0.843	0.5159	2.2492
sector_NAICS						
Administrative and Support and Waste Management	0.3319	0.2156	−1.70	0.090	0.0928	1.1860
Arts, Entertainment, and Recreation	0.5826	0.4720	−0.67	0.505	0.1190	2.8515
Construction	0.5435	0.4114	−0.81	0.421	0.1232	2.3965
Educational Services	0.4729	0.6336	−0.56	0.576	0.0342	6.5340
Health Care and Social Assistance	0.1649	0.2030	−1.46	0.143	0.0147	1.8406
Management of Companies and Enterprises	1.256	1.0185	0.28	0.779	0.2563	6.1551
Manufacturing	0.8502	0.9141	−0.15	0.880	0.1033	6.9935
Other Services (except Public Administration)	0.2230	0.2746	−1.22	0.223	0.0199	2.4921
Professional, Scientific, and Technical Serv	0.3639	0.2983	−1.23	0.218	0.0729	1.8145
Real Estate and Rental and Leasing	0.3771	0.2861	−1.29	0.199	0.0852	1.6688
Retail Trade	0.2370	0.1647	−2.07	0.038	0.0607	0.9256
Transportation and Warehousing	0.4364	0.2893	−1.25	0.211	0.1190	1.6007
Utilities	0.2890	0.1968	−1.82	0.068	0.07606	1.098
_cons (Intercept)	1.1048	0.7526	0.15	0.884	0.2907	4.1987

Note(s): Model statistics: Number of observations = 678. LR $\chi^2(20)$ = 41.72 ($p = 0.003$). Log likelihood = −287.82, Pseudo $R^2 = 0.0676$

Source(s): Authors' own work

with a positive outcome of *MscoreIt_bin* (OR = 0.4199, $p < 0.001$), indicating that publicly-controlled entities are significantly less likely to engage in accounting manipulation, and supporting H1. Higher levels of corruption, representing less functional governance mechanisms, increase the probability of a positive *MscoreIt_bin* score (OR = 1.0087, $p < 0.05$). This suggests that the risk of accounting manipulation arises significantly when municipalities with a history of corruption hold a greater ownership share in MOEs. This finding supports H2, indicating that corruption within public ownership structures can weaken financial oversight and promote opportunistic behaviour. To further analyse the impact of

corrupt municipal ownership on the accounting manipulation risk, we calculate predictive margins by varying corruption levels from 0% to 100% (Figure 1).

This confirms that the probability of accounting manipulation by the MOE increases as the share of capital owned by municipalities with corruption episodes (*CorruptMun_own*) increases. When no capital is owned by corrupt municipalities, the probability of accounting manipulation is around 16%. The probability increases to more than 22% at 50% ownership, and nearly 30% at 100% ownership. The effect is statistically significant ($p < 0.001$) and gradually increases.

Geographic location and sector are not statistically significant, but the relationship with organisation size is noteworthy. The odds ratio for organisation size (*org_size*) is 0.9986, slightly below 1 and statistically significant ($p < 0.05$). This indicates that larger organisations are less likely to engage in accounting manipulation. These organisations are subject to more public scrutiny and highly dependent on institutional legitimacy for long-term survival, and accounting manipulation is probably too great a reputational and institutional risk (DiMaggio and Powell, 1983).

The pseudo-R^2 values for our baseline and extended specifications are relatively low (0.026 and 0.068). This is typical for logistic regression models and less informative than the R^2 in ordinary least squares (OLS) models (Hosmer *et al.*, 2000, p. 167). Model performance is better assessed by jointly considering calibration and discrimination, using goodness-of-fit measures designed for logistic regressions (Hosmer *et al.*, 2000, p. 163). The extended logit model shows acceptable discriminative capacity (area under the curve [AUC] = 0.679, standard error [SE] = 0.027, 95% confidence interval [CI] = 0.627–0.731) and reasonable calibration (Brier = 0.132), passing the Hosmer–Lemeshow goodness-of-fit test ($\chi^2(8) = 4.52$, $p = 0.808$) (Supplementary appendix A). The effect sizes show that municipal ownership is associated with a lower manipulation risk (odds ratio = 0.42), and increasing corrupt municipal ownership from 0% to 100% raises the predicted probability from about 16% to 30% (+14% points). Overall, the model performs well, balancing calibration and discrimination.

Several robustness checks ensure that our empirical results are not model-specific or sensitive to sample variations (Supplementary appendix F). Re-estimation of the baseline model with a probit specification, a cluster-robust logit model and a penalised (Firth) logit model produce consistent findings for the main predictors, with the *MunMajority_own* and *CorruptMun_own* coefficients consistent with the logit results. Results also remain stable using alternative M-Score thresholds. Model-fit diagnostics and robustness checks suggest that the findings are consistent across different functional forms and estimation methods.

Corrupt Mun_own	Predicted Probability	Std. Error
0%	15,99%	0.0143
10%	17,12%	0.0141
20%	18,30%	0.0158
30%	19,55%	0.0194
40%	20,85%	0.0244
50%	22,22%	0.0306
60%	23,64%	0.0375
70%	25,12%	0.0452
80%	26,66%	0.0535
90%	28,26%	0.0623
100%	29,91%	0.0716

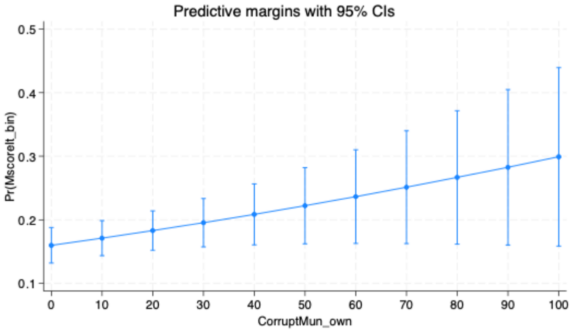

Figure 1. Predictive Margins of Corruption on MscoreIt_bin. Source: Authors' own work

The Beneish M-Score may be less informative for in-house MOEs, because these firms are fully publicly-owned and primarily serve their parent municipalities, operating under stricter administrative control. We construct a conservative proxy, identifying in-house MOEs as those with approximately 100% public capital (≥99%), and perform additional robustness checks (Supplementary appendix E). Pearson χ^2 test ($\chi^2 = 1.26$, $p = 0.262$) and a Wilcoxon rank-sum tests ($z = 1.12$, $p = 0.26$) showed no significant differences in manipulation risk between in-house and other MOEs. Adding the in-house indicator and its interaction with corrupt municipal ownership to the regression give no significant effects, and the main variables (*CorruptMun_own* and *MunMajority_own*) remain significant and as expected. The presence of in-house providers therefore does not affect the robustness or interpretation of the main results.

6. Discussion

The study confirms the effect of municipal ownership on the risk of accounting manipulation in MOEs. Our findings show that majority municipal ownership is associated with a lower risk of accounting manipulation, supporting the disciplining role of public ownership. From a neo-institutional perspective, this effect operates primarily through the intensification of institutional pressures that constrain MOEs' behaviour. Institutional complexity generates ambiguity regarding goals and performance criteria, emphasising the need for legitimacy and making MOEs particularly responsive to institutional pressures. In this context, majority municipal ownership further reduces this ambiguity by anchoring organisations more firmly in the legitimacy logics, procedural compliance, and accountability. Consequently, MOEs with majority municipal ownership face stronger institutional pressures, discouraging accounting manipulation (Burgstahler and Dichev, 1997; Wang and Yung, 2011; Capalbo *et al.*, 2014).

However, this equilibrium is fragile. In low-integrity contexts (Shleifer, 1998), the same structures may produce the opposite effect. In highly politicised or corrupt local governments, these institutional pressures can be neutralised or circumvented. Ownership by municipalities with a history of corruption increases the risk of accounting manipulation not by weakening institutional pressures, but by redefining them—shifting the field's definition of "appropriate" organisational behaviour from public accountability norms toward particularistic interests and discretion (Greenwood and Suddaby, 2006; Fligstein and McAdam, 2015). Corrupt municipal ownership may actively shape the management and organisational practices of MOEs through the redefinition and diffusion of institutional logics. A corrupt municipal owner can exert influence through informal networks and governance levers, embedding alternative criteria of appropriateness that influence the behaviour of other stakeholders (e.g. other owners, managers). Through coalition dynamics, the municipal owner can align the interests of shareholders, managers, and politically engaged actors with its own opportunistic interests, creating implicit networks of mutual tolerance or mutual benefit. It can also control appointments and political connections (Faccio, 2006), and influence the composition of boards of directors and audit committees, promoting more permissive attitudes to accounting manipulation. MOEs can be transformed from accountability-enabled organisations into vehicles for patronage, rent extraction, and concealment of inefficiencies (Erlingsson *et al.*, 2008; Bergh *et al.*, 2019) when their boards of directors are appointed by a corrupt municipal owner, and become instruments for promoting political or personal objectives. Corrupt ownership also operates through normative and cultural transmission (Ashforth and Anand, 2003; Monteduro *et al.*, 2024). Corrupt practices can spread within an organisation through peer influence, imitation, and social learning. When a politically-engaged owner legitimises or tacitly rewards opportunistic behaviour, it alters the "tone at the top" of the organisation, normalising unethical routines and reducing moral barriers to manipulation.

These findings are particularly relevant given the distinctive institutional characteristics of the MOE sector. Positioned at the intersection of public accountability and market logics, MOEs face multiple and competing institutional pressures (Grossi and Thomasson, 2015;

Voorn *et al.*, 2019) that amplify both the disciplining role of municipal ownership in high-integrity contexts and its corrupting potential when integrity is weak. Their hybrid nature makes accounting practices especially salient as signals of legitimacy, highlighting that the governance challenges identified are intrinsic to the institutional complexity of the sector and render MOEs a critical setting for examining the interplay between ownership, institutional integrity, and accountability.

Our conclusions are consistent with previous studies demonstrating that public ownership can reduce opportunism only through a good governance system including rigorous supervision, regulatory compliance, and greater public accountability (e.g. Xu and Wang, 1999; Fan *et al.*, 2007; Renders and Gaeremynck, 2012; Capalbo *et al.*, 2014; Nguyen *et al.*, 2017). For municipal ownership to function effectively as a disciplinary mechanism, good formal local governance structures are necessary to prevent corruption. These must also be substantively effective (Grossi and Thomasson, 2015; Bergh *et al.*, 2019; Voorn *et al.*, 2020). This translates into concrete monitoring, reporting and accountability mechanisms, particularly in corruption-prone municipalities. We use a risk-based framework to connect the degree of accounting manipulation risk to specific governance and audit tools for MOEs with different levels of risk exposure (Table 6).

This study has some limitations. First, the cross-sectional design constrains causal inference between municipal ownership, corruption, and accounting manipulation. Second, while the empirical model identifies significant differences in manipulation risk and performs adequately in predicting rare events, the explanatory power of cross-sectional logit models remains inherently limited. Third, although based on consolidated indicators and verified sources, the measures of accounting manipulation and municipal corruption may not fully capture the multidimensional nature of these phenomena, due to both the complexity of financial misreporting and potential underreporting in official corruption data. Finally, the focus on medium- and large-sized municipalities may limit the generalisability of the findings.

Building on the insight that municipal ownership operates through heterogeneous institutional logics rather than uniform governance effects, the study opens avenues for future research. Longitudinal analyses could examine how ownership, corruption, and accounting manipulation interact over time within MOEs. Further research could also investigate moderating factors—such as audit mechanisms, board characteristics, regulatory frameworks—to better explain how institutional pressures shape financial reporting practices. Moreover, extending the analysis to smaller municipalities and conducting comparative studies across different municipal sizes would enhance external validity. Finally, future work could adopt alternative or complementary indicators of financial misreporting, including judicial records, audit outcomes, and perception-based measures.

7. Conclusions

Contrary to views of public shareholders as intrinsically weak, our results show that municipalities can act as effective owners, deterring accounting manipulation. However, corruption undermines this control, turning institutional pressures into formalities. Municipal ownership is therefore not inherently protective or risky but contingent on the broader institutional context. When municipal ownership is not affected by corruption, it reduces the risk of accounting manipulation. Where corruption is present, it may amplify the risk of accounting manipulation. Our findings suggest that strengthening MOE governance is essential, especially in politically-exposed or corruption-prone contexts. Effective control should prioritise substance over form, relying on merit-based board selection and robust audit mechanisms to curb opportunism and enhance accountability.

Our research provides useful theoretical and practical insights for the development of institutionally sensitive strategies to improve the accountability and performance of MOEs. Theoretically, this study contributes to the literature on public ownership, hybrid organisations, and MOE accountability by challenging the assumption that municipal

Table 6. Risk-based governance tools to mitigate accounting manipulation in MOEs

Level of accounting manipulation risk	Institutional context of reference	Recommended tools	Impact on accounting manipulation risk
Low	Strong institutional pressures unfavourable to accounting manipulation connected to the presence of majority municipal ownership Absence of corruption	Corporate governance code established by regulatory standards; periodic audits by external auditors	Adopting corporate governance codes inspired by established regulatory standards, with clear assignment of roles and responsibilities, creates documented and traceable accountability. This reduces the risk of manipulation due to discretionary interpretations. Periodic audits by external auditors selected through a public tender ensure the independence and public visibility of controls, strengthening stakeholder trust and discouraging opportunistic behaviour. Self-assessment or independent review of the board of directors' effectiveness in overseeing accounting processes introduces a culture of continuous improvement and increases oversight of compliance with accounting principles
Medium	Low institutional pressures against accounting manipulation related to the presence of minority municipal ownership. Absence or modest presence of corruption	Transparent appointments and independence criteria; risk and control committees; mandatory rotation of auditors and financial managers	Following selection procedures based on documented merit, independence, and industry expertise reduces the risk of political capture and ensures technical expertise in overseeing accounting processes. The creation of risk management committees separate from operational management, with periodic reporting requirements to the board, strengthens the ability to identify and prevent manipulation by leveraging discretion and asymmetric information. Implying term limits on mandates to prevent familiarity and corruption maintains independence and the renewal of controls, limiting the opportunistic adaptation of accounting practices

(*continued*)

Table 6. Continued

Level of accounting manipulation risk	Institutional context of reference	Recommended tools	Impact on accounting manipulation risk
High	Weakened institutional pressures against accounting manipulation. Significant presence of corruption	Dual control layer and external oversight; revision of the remuneration policy; integrated digital reporting and continuous monitoring; revision of board composition	Establishing a dual level of audit (internal + Court of Auditors/ANAC or other public authority) with real-time reporting strengthens controls and creates a multilevel accountability chain, compensating for local weaknesses. Limiting the variable component tied to short-term or political objectives and introducing clawback clauses for fraudulent reporting realigns incentives towards long-term objectives and the quality of accounting information. Automated information systems for financial flows, reporting dashboards, and mandatory audit trails reduce reporting times and opportunities for manipulation, improving the traceability of accounting records. The introduction of independent members appointed by external bodies ensures plurality of interests and prevents the concentration of power in the hands of corrupt or politicised shareholders

Source(s): Authors' own work

ownership exerts a uniform disciplining effect on organisational behaviour. The findings reconceptualise public ownership as a contingent institutional arrangement whose governance effects depend on the integrity of ownership institutions, rather than as an inherently accountability-enhancing mechanism. In doing so, the study advances institutional theory by showing how municipal ownership operates as a channel through which institutional logics are transmitted to MOE practices, shaping accounting behaviour through legitimacy-oriented or opportunistic dynamics depending on the institutional context. Moreover, the study contributes to the hybrid organisation literature by framing hybridity as a multilevel and transformative process, in which MOEs act as arenas where public and private logics are actively negotiated and reconfigured through governance and ownership arrangements. In this context, a clear vision of the municipal owner's mission is therefore essential to balance social and economic goals (Grossi and Thomasson, 2015), and enable it to act as a "responsible public owner" capable of transcending political influence and opportunism (Pargendler *et al.*, 2013; Bergh *et al.*, 2019; Capalbo *et al.*, 2021). Finally, by linking institutional integrity,

organisational reputation, and accounting manipulation, the study enriches existing theories of accountability, demonstrating that informal mechanisms—such as reputation, legitimacy, and public oversight—can effectively limit opportunistic behaviour, but remain fragile in the presence of systemic corruption. This insight contributes to ongoing debates on the limits of formal accountability mechanisms and emphasises the need to theorise accountability as an institutional outcome rather than a purely technical or normative construct.

Practically, the study offers relevant implications for policymakers, regulators, and municipal administrations, particularly in the context of increasing regulatory emphasis on transparency, accountability, and non-financial reporting, including the implementation of the Corporate Sustainability Reporting Directive (CSRD). The findings suggest that enhanced reporting and disclosure requirements, while necessary, are insufficient on their own to curb accounting manipulation in MOEs operating in low-integrity environments. Effective reporting must therefore be complemented by governance safeguards at the ownership level, such as independent or dual audit systems, strengthened external oversight, and careful scrutiny of board composition and appointment processes. In municipalities with higher corruption risks, priority should be given to dual auditing, external oversight, and continuous monitoring mechanisms, while in other contexts the adoption of governance codes and regular external audits can help mitigate manipulation risks. Overall, the study underscores the need for institutionally sensitive reporting frameworks that align transparency requirements with robust governance and oversight structures.

Supplementary material

The supplementary material for this article can be found online.

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