ABSTRACT

Title of Dissertation	The Effect of Accounting Standards versus Institutional Features on Value Relevance of Accounting Information: European Union Setting
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While there is worldwide effort to harmonize accounting standards, with the objective to enhance the usefulness of accounting information, this effort is challenged on the ground that institutional factors, which influence the level of investor protection and, in turn, affect the incentives of financial report preparers, remain unchanged and vary across countries.

This dissertation examines the effect of accounting standards and institutional factors, i.e. legal and market factors, on value relevance of earnings and book value of equity. Focusing on the European Union setting, pooled data analysis provides some evidence of improvement in value relevance, particularly on earnings, from before-announcement-of-IFRS-requirement period (years 1999-2001) to after-IFRS-adoption period (years 2005-2007).

Country analysis on each of the six dominant countries in the sample indicates that the effect of IFRS adoption on value relevance of accounting information varies across different countries. The variation is attributed to different degree of investor protection, which is the main rationale underlying the importance of institutional factors – legal and market – in shaping the incentive of financial report preparers. The findings show that the countries with high investor protection exhibit greater improvement in value relevance of earnings than those with weak investor protection. Country cluster analysis also confirms the importance of investor protection. The results indicate that the countries with high local accounting standard deviation from IFRS and with strong investor protection mechanisms tend to benefit most from the adoption of IFRS, since these countries can effectively improve their accounting practices, without concern on accounting manipulation. On the other hand, the results indicate that, without strong investor protection, the countries with high accounting standard deviation will not benefit from adopting IFRS. In the extreme circumstance when investor protection is very poor, value relevance of accounting information may deteriorate after adopting IFRS. Since IFRS is fair-value oriented and requires greater judgment, without strong investor protection to penalize accounting manipulation, the management has incentive to use this increasing discretion for their own benefits.

Furthermore, focusing on the after-IFRS-mandatory adoption period (years 2005-2007) enables the analysis to examine the effect of institutional factors on value relevance, while holding accounting standard constant. The results show that market factors, i.e. the importance of equity markets and ownership concentration, have significant influence on the value relevance of earnings.