

**THE INFLUENCE OF INSTITUTIONAL FACTORS ON
THE VALUE RELEVANCE OF ACCOUNTING
INFORMATION: EVIDENCE FROM JORDAN**

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**DOCTOR OF PHILOSOPHY
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RELEVANCE OF ACCOUNTING INFORMATION:
EVIDENCE FROM JORDAN**

By

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**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
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ABSTRACT

The purpose of the study was to present empirical evidence on the value relevance of accounting information in Jordan; whether institutional factors influence this value relevance and to determine which share price proxy is more reliable in indicating value relevance. The study examines the influence of institutional factors (foreign ownership, trading volume, financial disclosure time, financial disclosure level, number of shareholders, listing status, company's age and type of industry) on the value relevance of accounting information (earnings, book value and cash flows relative to three share price proxies including average annual share price, annual closing share price and share price after a three-month period following the financial year-end) for Jordanian services and industrial companies during the period from 2004-2009. The study found that book value has the greatest value relevance and the best predictor for firm value. The value relevance of earnings and book value is greater for companies having foreign ownership, larger trading volume, larger shareholder numbers that conform to financial disclosure time, that are listed on the main board and that are older in age. Value relevance of book value is greater for companies complying with disclosure requirements and for services companies. Finally, annual closing share price proxy is more reliable in detecting the value relevance of accounting information. The findings suggest that market participants might be able to extract the firm value through the aforementioned institutional factors. The study extends the valuation model by including cash flows together with earnings and book value. The findings demonstrate that there is a shift away from earnings towards book value as the basis of firm valuation.

Keywords: Value Relevance, Accounting Information, Institutional Factors, Jordan.

ABSTRAK

Tujuan kajian ini ialah untuk menjelaskan kajian empirikal terkini tentang nilai kerelevanan maklumat perakaunan di Jordan. Kajian ini meneliti sama ada faktor-faktor institusi mempengaruhi dan menentukan proksi harga saham yang boleh dipercayai sebagai petunjuk kepada nilai kerelevanan. Kajian ini mengkaji pengaruh faktor-faktor institusi seperti pemilikan asing, jumlah dagangan, masa penzahiran kewangan, tahap penzahiran kewangan, bilangan pemegang saham, status penyenaian, usia syarikat dan jenis industri. Faktor-faktor ini mempunyai pengaruh terhadap nilai kerelevanan pendapatan, nilai buku dan aliran tunai berbanding dengan tiga proksi harga saham iaitu purata harga saham secara tahunan, harga saham yang ditutup pada setiap akhir tahun dan harga saham selepas tiga bulan berakhirnya tahun kewangan. Penelitian dilakukan terhadap syarikat-syarikat perkhidmatan dan perindustrian di Jordan dalam tahun 2004 hingga 2009. Hasil kajian juga mendapati bahawa nilai buku mempunyai nilai kerelevanan yang lebih tinggi dan merupakan faktor peramal terbaik bagi nilai firma. Kerelevanan nilai pendapatan dan nilai buku adalah lebih besar bagi syarikat-syarikat yang mempunyai pemilikan asing, jumlah dagangan yang lebih besar, bilangan pemegang saham yang lebih tinggi, menepati masa penzahiran kewangan, tersenarai dalam papan utama dan syarikat-syarikat yang telah lama ditubuhkan. Selain itu, nilai kerelevanan bagi nilai buku juga didapati lebih besar bagi syarikat-syarikat yang mematuhi arahan pendedahan dan lebih menonjol bagi syarikat-syarikat yang menawarkan perkhidmatan. Akhirnya, proksi harga saham tutup tahunan lebih boleh dipercayai dalam mengesan nilai kerelevanan maklumat perakaunan. Hasil penemuan kajian ini menggambarkan bahawa peserta pasaran mungkin dapat menyaring nilai firma melalui faktor-faktor institusi yang dinyatakan di atas. Kajian ini juga mengubah suai model penilaian dengan memasukkan aliran tunai bersama-sama dengan pendapatan dan nilai buku. Hasil kajian menunjukkan bahawa terdapat peralihan ketara daripada pendapatan kepada nilai buku sebagai asas penilaian firma.

Kata kunci: Nilai Kerelevanan, Maklumat Perakaunan, Faktor-Faktor Institusi, Jordan.

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TABLE OF CONTENTS

PERMISSION TO USE	ii
ABSTRACT	iii
ABSTRAK	iv
ACKNOWLEDGMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	xiii
LIST OF FIGURES	xvi
LIST OF APPENDICES	xvii
LIST OF ABBREVIATIONS	xxi
 CHAPTER ONE: INTRODUCTION	
1.0 Introduction	1
1.1 Background of the study	8
1.2 Problem statement	11
1.3 Research questions	15
1.4 Research objectives	16
1.5 Significance of this study	17
1.6 Scope of the study	19
1.7 Organization of the thesis	21

CHAPTER TWO: LITERATURE REVIEW

2.0	Introduction	22
2.1	Accounting practice and capital market in Jordan	23
2.2	Value relevance of earnings, book value, and cash flows	26
2.2.1	Earnings	27
2.2.2	Book value of equity	32
2.2.3	Cash flows from operation	34
2.3	Economic factors and value relevance	38
2.3.1	Foreign ownership	38
2.3.2	Trading volume	42
2.4	Corporate governance and value relevance	45
2.4.1	Financial disclosure time	46
2.4.2	Financial disclosure level	50
2.5	Company's characteristics and value relevance	55
2.5.1	Shareholders number	56
2.5.2	Listing status	58
2.5.3	Company's age	60
2.6	Type of industry and value relevance	62
2.7	Share price proxies and value relevance	64
2.7.1	Average annual Share price	66
2.7.2	Annual closing share price	67
2.7.3	Share price after a three-month period following the financial year-end (ATM-share price)	67

2.8	Control variables	68
2.8.1	Company's size	68
2.8.2	Leverage	70
2.9	Theoretical framework	73
2.9.1	Valuation theory	73
2.9.2	Efficient market hypotheses (EMH)	77
2.9.3	Foreign investments theory	79
2.9.4	Trading volume theory	81
2.9.5	Litigation cost hypothesis	82
2.9.6	Agency theory	84
2.9.7	Shareholders theory	85
2.9.8	Capital market structure theory	87
2.9.9	Firm life cycle theory	88
2.9.10	Business entity approach	90
2.9.11	Firm size theory	91
2.10	Conceptual framework	92
2.11	Summary	94

CHAPTER THREE: HYPOTHESES DEVELOPMENT AND RESEARCH

METHOD

3.0	Introduction	95
3.1	Hypotheses development	95
3.1.1	Value relevance of earnings, book value, and cash flows: H1	97

3.1.2	Economic factors and value relevance: H2	98
3.1.3	Corporate governance and value relevance: H3	100
3.1.4	Company's characteristics and value relevance: H4	103
3.1.5	Type of industry and value relevance: H5	106
3.1.6	Share price proxies and value relevance: H6	108
3.2	Operational definitions	112
3.3	Research strategy	113
3.4	Research design	114
3.4.1	Research design approach	114
3.4.2	Research design steps	116
3.5	Measurement of variables	118
3.5.1	Independent variables (IVs)	119
3.5.2	Dependent variables (DVs)	119
3.5.3	Control variables	120
3.6	Data collection	122
3.6.1	Sampling	122
3.6.2	Data description	124
3.6.3	Data collection procedure	125
3.7	Technique of data analysis	125
3.7.1	Test of data and variables quality	126
3.7.2	Descriptive analysis	127
3.7.3	Multiple regression analysis	127
3.7.4	Multi regressions outputs	143

3.8	Summary	146
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CHAPTER FOUR: FINDINGS

4.0	Introduction	148
4.1	Research sample	149
4.2	Pre-tests for the data and variables quality	152
4.2.1	Normality test	152
4.2.2	Linearity test	163
4.2.3	Homoscedasticity test	166
4.2.4	Correlation test	166
4.2.5	Multicollinearity test	169
4.3	Descriptive statistics	173
4.3.1	Frequency and percentage distribution	173
4.3.2	Line graph	174
4.3.3	Statistical measures	176
4.4	Multiple regression analysis	180
4.4.1	Value relevance of earnings, book value, and cash flows: H1	181
4.4.2	Value relevance influenced by economic factors: H2	184
4.4.3	Value relevance influenced by corporate governance: H3	191
4.4.4	Value relevance influenced by company's characteristics: H4	199
4.4.5	Value relevance influenced by type of industry: H5	210
4.4.6	Value relevance relative to share price proxies: H6	214
4.5	Summary	216

CHAPTER FIVE: DISCUSSION

5.0	Introduction	218
5.1	Value relevance of earnings, book value, and cash flows: H1	219
5.2	Value relevance influenced by economic factors: H2	221
5.2.1	Value relevance influenced by foreign ownership: H2-1	222
5.2.2	Value relevance influenced by trading volume: H2-2	224
5.3	Value relevance influenced by corporate governance: H3	226
5.3.1	Value relevance influenced by financial disclosure time: H3-1	226
5.3.2	Value relevance influenced by financial disclosure level: H3-2	228
5.4	Value relevance influenced by company's characteristics: H4	231
5.4.1	Value relevance influenced by shareholders number: H4-1	231
5.4.2	Value relevance influenced by listing status: H4-2	233
5.4.3	Value relevance influenced by company's age: H4-3	235
5.5	Value relevance influenced by type of industry: H5	237
5.6	Value relevance relative to share price proxies: H6	240
5.7	Control variables	243
5.8	Summary	244

CHAPTER SIX: CONCLUSIONS, CONTRIBUTIONS, AND SUGGESTION

FOR FUTURE RESEARCH

6.0	Introduction	246
6.1	Conclusions	246
6.2	Contributions	253

6.2.1	Practical contributions	253
6.2.2	Contributions to regulatory bodies	255
6.2.3	Contributions to academia	256
6.3	Limitations of this study	257
6.4	Suggestions for future research	258
6.5	Summary	260
References		261
Appendices		286

LIST OF TABLES

No.	Title	Page
2.1	Value Relevance of Earnings, Book Value, and Cash Flows in Prior Studies	30
2.2	Percentage of Foreign Ownership in Amman Stock Exchange Sectors	40
2.3	Percentage of Jordanian Firms' Compliance to Disclose Periodic Financial Statements	49
2.4	Percentage of Reporting Quality Defects in Amman Stock Exchange	54
2.5	Research Gap Relative to Prior Studies	72
3.1	Research Objective, Questions, and Hypotheses	110
3.2	Different Measurements for Share Prices in Prior Studies	120
3.3	Research Populations' Frequency and Percentage According to Amman Stock Exchange Sectors	123
3.4	Research Companies' Sample Frequency According to Amman Stock Exchange Sectors and Boards	125
3.5	The Predicted Sign for each Hypothesis	147
4.1	Research Technical Records	150
4.2	Variables and Observations Frequency within Research Period	151
4.3	The Statistics of Skewness and Kurtosis Values for Research Raw Data	153
4.4	Correlation between Earnings, Book Value, and Cash Flows Simultaneously and Dependent Variables Raw Data	154
4.5	Transformation Rule	155

4.6	Skewness and Kurtosis Values for Research Variables after Transformation	156
4.7	Identification Diagnostic (ID) of Outliers and Extreme Points	162
4.8	Investigating Outliers' Points	163
4.9	R Values Description	167
4.10	Correlation Test between Earnings (E), Book Value (BV), and Cash Flows (CF) and Share Price Proxies	168
4.11	Multicollinearity Test by Tolerance and Variance Inflation Factors (VIF)	170
4.12	Multicollinearity Test by Correlations	171
4.13	Research Sample Size Description	174
4.14	Descriptive Measures	177
4.15	The Value Relevance of Earnings, Book Value, and Cash Flows Relative to Share Price Proxies	182
4.16	The Influence of Foreign Ownership on the Value Relevance of Earnings, Book Value, and Cash Flows Relative to Share Price Proxies	185
4.17	The Influence of Trading Volume on the Value Relevance of Earnings, Book Value, and Cash Flows Relative to Share Price Proxies	189
4.18	The Influence of Financial Disclosure Time on the Value Relevance of Earnings, Book Value, and Cash Flows Relative to Share Price Proxies	192
4.19	The Influence of Financial Disclosure Level on the Value Relevance of Earnings, Book Value, and Cash Flows Relative to Share Price Proxies	196
4.20	The Influence of Shareholders Number on the Value Relevance of Earnings, Book Value, and Cash Flows Relative to Share Price Proxies	200

4.21	The Influence of Listing Status on the Value Relevance of Earnings, Book Value, and Cash Flows Relative to Share Price Proxies	204
4.22	The Influence of Company's Age on the Value Relevance of Earnings, Book Value, and Cash Flows Relative to Share Price Proxies	207
4.23	The Influence of Type of Industry on the Value Relevance of Earnings, Book Value, and Cash Flows Relative to Share Price Proxies	211
4.24	Summary of Pooled Regression Analysis Relative to Share Price Proxies	215
5.1	Summary of Findings	245

Note: All tables are self developed.

LIST OF FIGURES

No.	Title	Page
2.1	Conceptual Framework	93
3.1	Research Design Steps	117
4.1	Research Sample Path	151
4.2	Normality Test for Dependent Variables	157
4.3	Outliers Test for Earnings and Share Price Proxies Relationship	159
4.4	Outliers Test for Book Value, and Share Price Proxies Relationship	160
4.5	Outliers Test for Cash Flows and Share Price Proxies Relationship	161
4.6	Linearity Test Results of Earnings, Book Value, and Cash Flows and Share Price Proxies	165
4.7	Checking Regression Assumptions	172
4.8	Line Graph for Research Share Price Proxies and Earnings, Book Value, and Cash Flows	175
4.9	Descriptive Statistics Flowchart	179

Note: All figures are self developed.

LIST OF APPENDICES

No.	Title	Page
1	Trading Volume of Amman Stock Exchange Sectors for Research Period (2004-2009)	286
2	Requirements for Companies to be Listed on Amman Stock Exchange Main and Second Boards	287
3	Type of Industry According to Companies' Activities in Amman Stock Exchange	288
4	Example of Yearly Bulletin Information of Amman Stock Exchange	289
5	Variables Measurement	290
6	Variables Measurement in Prior Research	291
7	List of Jordanian Companies (Research Sample)	292
8	Yearly and Pooled Regressions: The Value Relevance of Earnings, Book Value, and Cash Flows (H1)	294
9	Yearly and Pooled Coefficients Trend: The Value Relevance of Earnings, Book Value, and Cash Flows (H1)	297
10	Yearly and Pooled R^2 Trend: The Value Relevance of Earnings, Book Value, and Cash Flows (H1)	298
11	Yearly and Pooled Regressions: The Influence of Foreign Ownership on the Value Relevance of Earnings, Book Value, and Cash Flows (H2-1)	299
12	Yearly and Pooled Coefficients Trend: The Influence of Foreign Ownership on the Value Relevance of Earnings, Book Value, and Cash Flows (H2-1)	302

13	Yearly and pooled R^2 Trend: The Influence of Foreign Ownership on the Value Relevance of Earnings, Book Value, and Cash Flows (H2-1)	303
14	Yearly and Pooled Regressions: The Influence of Trading Volume on the Value Relevance of Earnings, Book Value, and Cash Flows (H2-2)	304
15	Yearly and Pooled Coefficients Trend: The Influence of Trading Volume on the Value Relevance of Earnings, Book Value, and Cash Flows (H2-2)	307
16	Yearly and Pooled R^2 Trend: The Influence of Trading Volume on the Value Relevance of Earnings, Book Value, and Cash Flows (H2-2)	308
17	Yearly and Pooled Regressions: The Influence of Financial Disclosure Time on the Value Relevance of Earnings, Book Value, and Cash Flows (H3-1)	309
18	Yearly and Pooled Coefficients Trend: The Influence of Financial Disclosure Time on the Value Relevance of Earnings, Book Value, and Cash Flows (H3-1)	312
19	Yearly and Pooled R^2 Trend: The Influence of Financial Disclosure Time on the Value Relevance of Earnings, Book Value, and Cash Flows (H3-1)	313
20	Yearly and Pooled Regressions: The Influence of Financial Disclosure Level on the Value Relevance of Earnings, Book Value, and Cash Flows (H3-2)	314
21	Yearly and Pooled Coefficients Trend: The Influence of Financial Disclosure Level on the Value Relevance of Earnings, Book Value, and Cash Flows (H3-2)	317
22	Yearly and Pooled R^2 Trend: The Influence of Financial Disclosure Level	

	on the Value Relevance of Earnings, Book Value, and Cash Flows (H3-2)	318
23	Yearly and Pooled Regressions: The Influence of Shareholders Number on the Value Relevance of Earnings, Book Value, and Cash Flows (H4-1)	319
24	Yearly and Pooled Coefficients Trend: The Influence of Shareholders Number on the Value Relevance of Earnings, Book Value, and Cash Flows (H4-1)	322
25	Yearly and Pooled R^2 Trend: The Influence of Shareholders Number on the Value Relevance of Earnings, Book Value, and Cash Flows (H4-1)	323
26	Yearly and Pooled Regressions: The Influence of Listing Status on the Value Relevance of Earnings, Book Value, and Cash Flows (H4-2)	324
27	Yearly and Pooled Coefficients Trend: The Influence of Listing Status on the Value Relevance of Earnings, Book Value, and Cash Flows (H4-2)	327
28	Yearly and Pooled R^2 Trend: The Influence of Listing Status on the Value Relevance of Earnings, Book Value, and Cash Flows (H4-2)	328
29	Yearly and Pooled Regressions: The Influence of Company's Age on the Value Relevance of Earnings, Book Value, and Cash Flows (H4-3)	329
30	Yearly and Pooled Coefficients Trend: The Influence of Company's Age on the Value Relevance of Earnings, Book Value, and Cash Flows (H4-3)	332
31	Yearly and Pooled R^2 Trend: The Influence of Company's Age on the Value Relevance of Earnings, Book Value, and Cash Flows (H4-3)	333
32	Yearly and Pooled Regressions: The Influence of Type of Industry on the Value Relevance of Earnings, Book Value, and Cash Flows (H5)	334
33	Yearly and Pooled Coefficients Trend: The Influence of Type of Industry	

	on the Value Relevance of Earnings, Book Value, and Cash Flows (H5)	337
34	Yearly and Pooled R^2 Trend: The Influence of Type of Industry on the Value Relevance of Earnings, Book Value, and Cash Flows (H5)	338
35	Joint F Test and Cramer Test	339

LIST OF ABBREVIATIONS

AGE	Company's Age
AP	Average Annual Share Price
ASE	Amman Stock Exchange
ATM-share price	Share Price after Three Months Period Following the Financial Year-End
BV	Book Value of Equity
CF	Cash Flows from Operation
CP	Annual Closing Share Price
CSRSC	Concept and Standards Research Study Committee
DLVL	Disclosure Level
DTIM	Disclosure Time
DVs	Dependent Variables
E	Earnings
EMH	Efficient Market Hypotheses
FASB	US Financial Accounting Standards Board
FORN	Foreign Ownership
FS	Financial Statements
IAS	International Accounting Standards
ID number	Identification Diagnostic Number
IFRS	International Financial Reporting Standards
IND	Industrial Companies

IVs	Independent Variables
JCB	Jordan Central Bank
JSC	Jordan Securities Commission
LEVRG	Company's Leverage
LSTUS	Listing Status
MNCs	Multinational Companies
MTI	Minimum Trading Unit
ONS	Office for National Statistics in UK
SHRHNO	Shareholders Number
SIZE	Company's Size
SRV	Services Companies
TRDV	Trading Volume
TYIND	Type of Industry

CHAPTER ONE

INTRODUCTION

1.0. Introduction

The relationship between the market values of equity and the information disclosed in financial statements (hereafter, FS) has been examined more than 40 years back starting with Ball and Brown (1968). The ability of FS to summarize information that reflects the changes in stock values can be considered as relevant information. Value relevance, as relationship between accounting information and market values (Barth et al., 2001), is defined as the power of specific accounting information to explain the variance in share price where greater explanatory power indicates greater value relevance (Anandarajan and Hasan, 2010). Many studies provide definitions closely related to the above meaning (Beaver, 1968; Ohlson, 1995; Barth, 2000). The common denominator in these definitions is that accounting information is considered as value relevant if it has a significant relationship with market values (Barth et al., 2000). The term value relevance has been used in literature to extract the incremental information or the explanatory power of FS in the equity market by examining the relationship between accounting information and share prices.

To indicate the relevant information, accounting information and share price relationship has been tested in prior research. It was found in the empirical research that earnings and book value can be used to predict firm value. In particular, the relationships between earnings, book value and a combination of both with share price have been examined and

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