

**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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**THE INFLUENCE OF INSTITUTIONAL FACTORS ON THE VALUE  
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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May 2012**

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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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## LIST OF ABBREVIATIONS

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

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