FAMILY OWNERSHIP AND THE VALUE-
RELEVANCE OF ACCOUNTING
INFORMATION

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Agency theory, book value, corporate governance, earnings, earnings management, earning quality, faithful representation, family ownership, intangible assets, relevance, reliability, resource-based view, qualitative characteristics, tobin’s q, value-relevance, valuation.
Abstract

This thesis investigates the relationship between family ownership and the value-relevance of accounting information. While the value-relevance of accounting information has been widely explored, the research in this area has focused on the traditional agency context of widely held firms, and has overlooked the distinct agency context of family ownership. To address this significant gap in the prior research, this thesis extends the value-relevance literature to consider the impact of family ownership, a distinct agency context that is the predominant business structure in the world and represents a substantial portion of listed firms.

The theoretical development of this thesis proposes that the value-relevance of accounting information is moderated by its qualitative characteristics, specifically by its faithful representation and relevance. These propositions are based on the normative theory derived from the accounting standards and from positive theories developed through research. This thesis proposes that family ownership is indirectly related to the value-relevance of accounting information, through its relationships to the two moderators faithful representation and relevance, which are operationalized as accounting information quality and unidentifiable intangible assets.

This thesis uses listed firms on the Australian Stock Exchange (ASX) to test the formulated hypotheses. The relationship between family ownership and accounting information quality is tested using established earnings management models. An experimental variable is developed to estimate unidentifiable intangible assets. This
variable and its estimation is based upon prior research in related areas that uses Tobin’s \( q \) to measure intangibility. To investigate the relationship between family-ownership and the value-relevance of accounting information, a levels based value-relevance model is used to capture the value-relevance of both earnings and book value.

This thesis finds that family ownership is positively related to the qualitative characteristics of accounting information, specifically accounting information quality and unidentifiable intangibles. The increase in information quality is in addition to the positive effects of governance mechanisms such as block holders and independent audit committees. This suggests that family-owned firms provide accounting information of higher quality, and implies that the agency benefits outweigh any potential agency costs that may arise due to family ownership. Family ownership is also positively related to the level of unidentifiable intangible assets within a firm. This supports prior research that has suggested that family ownership is related to the accumulation of unidentifiable intangible assets, such as social and human capital. Furthermore, both accounting information quality and unidentifiable intangible assets are found to be value-relevant. Firms that report accounting information of higher quality are valued more highly on their earnings, and less on their book value. Furthermore, firms that hold a large amount of unidentifiable intangible assets are valued at higher Price/Earnings and Price/Book Value multiples. This suggests that the market recognizes the omission of these unidentifiable intangible assets in financial statements. Overall, based on these findings, family ownership has a positive influence on the value-relevance of accounting information through its positive influence on accounting information quality and unidentifiable intangible assets.
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<td>Dechow and Dichev</td>
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<tr>
<td>DM</td>
<td>Decision-Making</td>
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<tr>
<td>IA</td>
<td>Intangible Asset</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>P/B</td>
<td>Price to Book Value</td>
</tr>
<tr>
<td>P/E</td>
<td>Price to Earnings</td>
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<tr>
<td>RBV</td>
<td>Resource-Based View</td>
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<tr>
<td>RI</td>
<td>Residual Income</td>
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<tr>
<td>WACC</td>
<td>Weighted Average Cost of Capital</td>
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Statement of Original Authorship

This thesis is submitted to Bond University in fulfilment of the requirements of the degree of Doctor of Philosophy. This thesis represents my own original work towards this research degree and contains no material which has been previously submitted for a degree or diploma at this University or any other institution, except where due acknowledgement is made.

Signature: ____________________________

Date: ____________________________
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