

# Chapter 15

## The Value Relevance of Financial and Non- Financial Information: Evidence from Recent Academic Literature

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### **ABSTRACT**

*Value-relevance research is an important domain of modern capital market research. Accounting researchers have used the value-relevance research framework in many ways with the aim of measuring whether accounting information has a predicted association with equity market values. One of the most widely used models in value-relevance research is a modification of the Ohlson (1995) market valuation model in which the market value of a firm's equity is presumed to be a function of its book value of equity and abnormal earnings. Furthermore, using the Ohlson (1995) model, accounting researchers have documented the value relevance of different types of financial and non-financial information. Drawing on a selected number of recently published studies that have documented the value relevance of different types of financial and non-financial information, this chapter reviews and integrates recent findings, highlighting challenges and providing future directions for further research in this area.*

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## INTRODUCTION

Over the last four decades, value-relevance research has played an important role in understanding the valuation impact of various types of financial information. If any accounting information has a predicted association with equity market values, it is referred to as value relevant (Barth, Beaver, & Landsman, 2001); that is, value relevance is the ability of accounting numbers to explain the underlying differences in stock prices in capital markets. The seminal studies of Ball and Brown (1968) and Beaver (1968), in which they documented accounting income numbers as being informative for valuation, mark the beginning of capital market-related valuation research in accounting. Since then, many studies have documented the various valuation impacts of financial information. The valuation implications of non-financial information also originated a long time ago. Prior research includes studies examining the customer market penetration in the wireless communication industry (Amir & Lev, 1996); the citations of the patent application in the science and technology-based firms (Deng, Lev, & Narin, 1999); web usage in the valuation of internet stocks (Rajgopal, Venkatachalam, & Kotha, 2003); non-financial performance in the airline industry (Behn & Riley, 1999); and environmental performance (Barth and McNichols, 1994; Hughes, 2000; Johnston, Sefcik, & Soderstrom, 2008). According to Barth et al. (2001), the 'value relevance' terminology was first used by Amir, Harris, and Venuti (1993), with this followed by a formal valuation model developed by Ohlson (1995) which, to date, is the model predominantly used for value-relevance research.

This chapter uses an integrative approach to discuss the findings of recent value-relevance studies on financial and non-financial information and highlights the importance of integration between financial and non-financial information in valuation research. Prior survey articles have mainly focused on analyzing valuation research in different time periods focusing on either financial or non-financial information. An integrated discussion on the valuation implications of both financial and non-financial information is important as the business world has witnessed a proliferation of non-financial disclosures. Furthermore, the traditional form of reporting is also being challenged as new forms of reporting emerge (e.g., integrated reporting and the use of extensible business reporting language [XBRL]). Although an alternative form of reporting<sup>1</sup> has been introduced as mandatory in some countries, the traditional form is followed by the majority of countries. In consideration of this changing environment, this chapter reviews the recent value-relevance academic literature as the basis for responding to the key question of how the usefulness of financial and non-financial information could be increased.

Value-relevance research provides important evidence about the type of information that is related to the firm's market value. Despite an extensive amount of

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