A SYSTEMATIC REVIEW OF VALUE RELEVANCE STUDY IN ASIAN COUNTRIES

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ABSTRACT

Although value relevance studies began three decades ago in United States, the topic remains important for further exploration in countries outside United States particularly in Asia, due to its positive impact on the development of accounting science and global financial statement users, such as accounting standard-setters, capital market regulators, and investors. The research question that arises then is how to enhance the value relevance of accounting information through adoption of new accounting standard, improved measurement of firm fundamental performance, and financial reporting disclosure. The novelty of this paper lies in its systematic review of several themes in the value relevance literature, focusing on Asian countries over the past ten years (2013-2023). This review provides insights into the future research agenda, particularly for developing countries in Asia. The research method employed is a systematic review, which consists of planning, conducting, and reporting the review of 44 papers from journals indexed in the Scopus database. The first findings reveal a declining trend in the value relevance of accounting information, with new accounting standards like IFRS not fully addressing the issue. Empirical studies in China, Indonesia, and India show mixed results, while in many Middle Eastern countries, including Saudi Arabia, Kuwait, and Qatar, the decline in value relevance of earnings is more pronounced than that of book value. The second findings show that intangible investments, such as research and development capitalization and human resource expertise can enhance the value relevance of earnings and book value in China and India. Although these investments are recorded as expenses, they signal future profitability and potential returns for the investor. The third finding indicates that the disclosure of non-financial information, such as sustainability reporting awards and environmental performance ratings has the potential to enhance the value relevance of accounting information in Indonesia. The conclusion highlights the growing significance of intangible investments in China and India, alongside the importance of environmental and sustainability factors in Indonesia regarding value relevance. Consequently, enhancing the measurement and valuation of intangible assets, as well as environmental and sustainability metrics, is essential for improving the value relevance of accounting information.

Keywords: Value Relevance, Accounting Information, Asian Countries, Systematic Review.

INTRODUCTION

The value relevance of earnings refers to how well financial accounting information reflects market value or changes in the market value of equity. While research on value relevance has been conducted for over 30 years (Amir et al., 1993), this field remains significant for further investigation due to its beneficial impact on the development of accounting knowledge, especially for stakeholders such as standard-setting organizations, capital market regulators, and investors. For standard setters and capital market regulators, value relevance studies are used to evaluate the relevance and reliability of financial statements in regulated capital markets. From an investor's perspective, these studies can assist in determining whether the accounting information presented in financial statements is useful for assessing the market value of a firm's equity.

Investment activities are not confined to the capital markets of a single nation; rather, they extend to other countries, provided that these markets can yield the returns sought by investors. To address the needs of these global investors, standard setters and regulators in capital markets implement International Financial Reporting Standards (IFRS). According to Barth et al. (2012), the adoption of IFRS enhances comparability between firms in the United States and those in other countries. This improved comparability facilitates financial integration through cross-border information flow, which can, in turn, stimulate foreign investment and enhance capital mobility on a global level (Dhaliwal et

al., 2019). Furthermore, Golubeva (2020) found that a country's adoption of IFRS can lead to an increase in foreign direct investment (FDI) from multinational corporations. FDI is particularly important as the capital inflows from foreign investors can have a favourable impact on a nation's economic growth (Muhammad & Khan, 2019).

The rapid economic growth in Asia has spurred interest in the study of value relevance among investors, regulators, and standard setters, particularly since six Asian nations (China, Japan, India, South Korea, Indonesia, and Saudi Arabia) constitute significant portions of the global population and GDP within the G-20 framework. Studies indicates that the impact of accounting information on stock markets varies across countries, influenced primarily by differences in institutional and market characteristics. Factors such as the presence of weaker and less developed capital markets (Lins, 2003; Sayari & Marcum, 2018), inadequate regulatory enforcement and concentrated ownership structures (Breuer et al., 2018; Dong et al., 2020; Francis et al., 2016) contribute to heightened information asymmetry. Although the value relevance of accounting information tends to be lower in less-developed markets compared to their developed counterparts, it is anticipated that value relevance will increase as these markets progress (Čupić et al., 2023; Hellström, 2006). Consequently, improvement of accounting standards may lead to enhancement of the value relevance in these regions (Ismail et al., 2013).

Enhancing the relevance of financial information can also be accomplished by accurately assessing a firm's core performance and its disclosures in financial reporting. According to (Lev & Zarowin (1999), the decrease in value relevance is attributed to shifts in the business environment. Critical intangible assets, such as technology, research and development (R&D), branding, international partnerships, and distinctive operational processes, are integral to firms' business models, yet their value is not adequately captured in traditional accounting measurements and valuations (Barach, 2017). This leads to a mismatch between reported revenues and associated costs. Furthermore, research suggests that non-financial information, including disclosures on environmental performance (Middleton, 2015) and sustainability (Lourenço et al., 2014), can serve to enhance the value relevance of accounting information by supplementing traditional financial metrics like earnings and book value.

Building on the introduction presented at the outset of this paper, the research question seeks to address issues categorized into three main areas: enhancing the value relevance of accounting information through the adoption of new accounting standards, improved measurement of fundamental firm performance, and enhanced financial reporting disclosures. This study aims to examine the contributions of these new accounting standards, refined measurements of fundamental performance, and financial disclosures in bolstering the value relevance of accounting information. Additionally, this research provides important insights for scholars by expanding their understanding of the developments in value relevance studies in Asian countries, identifying current gaps, and outlining future directions to enhance the explanatory power of financial statement information within the context of equity valuation.

LITERATURE REVIEW
Theoretical Foundation

Valuation theory is the main framework for evaluating the value relevance of earnings, positing that an asset's value is based on the present value of expected future returns, such as dividends or earnings (Ohlson, 1995). Value relevance studies connect this theory to financial statements, particularly accounting earnings, which are essential for equity valuation models and performance measures tied to a firm's market value (Dechow et al., 2010; Holthausen & Watts, 2001). Additionally, signalling theory and the efficient market hypothesis (EMH) are frequently used in conjunction with valuation theory to further explain the value relevance of accounting financial statements. The Efficient Market Hypothesis (EMH) claims that a capital market is informationally efficient when stock prices fully reflect all available information about future values (Fama, 1970).

Nevertheless, empirical evidence, such as the post earnings announcement drift (PEAD) anomaly identified by Ball & Brown (1968), shows that the market fails to process information efficiently. This anomaly can be explained by signalling theory, which highlights the information asymmetry in the market, where firm management has a deeper understanding of the firm's conditions and future prospects compared to external parties like creditors and investors (Morris, 1987). Information asymmetry can affect equity pricing, leading to mispricing or discrepancies between market price and a firm's fundamental value (Buckley et al., 2012; Buckley & Long, 2015; Ripamonti

et al., 2018). Fundamental value, defined as the present value of expected future returns according to valuation theory, aligns with market stock price in the absence of information asymmetry. However, in imperfect market conditions with future uncertainty, valuation models that can provide the best empirical predictions become more beneficial.

Empirical Models

Based on valuation theory, three basic models can be constructed for use in value relevance studies: the return-earnings model (Harris, 1991), the price-earnings model (Ohlson, 1995), and the linear information model (Barth et al., 2005).

$$R_{jt} = \gamma_{0t} + \gamma_{1t}\left[\frac{A_{jt}}{P_{jt-1}}\right] + \gamma_{2t}\left[\frac{\Delta A_{jt}}{P_{jt-1}}\right] + \varepsilon_{jt}$$

The return-earnings model explains earnings as an explanatory variable for stock returns, where R_{jt} represents the stock return of firm j at time t, A_{jt} denotes the earnings of firm j at time t, ΔA_{jt} refers to the change in earnings for firm j at time t, and P_{jt-1} is the stock price of firm j at time t.

$$P_t = y_t + \alpha_1 x_t^a + \alpha_2 v_t$$

The price-earnings model is one of the most commonly used models in value relevance studies and is also known as the residual income model (RIM). Instead of using returns and changes in earnings, Ohlson (1995) employs P_t as the stock price at time t, X^a_t as the abnormal earnings at time t, and v_t or other information outside abnormal earnings at time t.

$$AE_{it} = \omega_{10} + \omega_{11}AE_{it-1} + \omega_{12}BV_{it-1} + \omega_{13}v_{it-1} + \varepsilon_{1it}$$
$$BV_{it} = \omega_{20} + \omega_{22}BV_{it-1} + \varepsilon_{1it}$$
$$v_{it} = \omega_{30} + \omega_{33}v_{it-1} + \varepsilon_{3it}$$
$$MV_{it} = \alpha_0 + \alpha_1 AE_{it} + \alpha_2 BV_{it} + \alpha_3 v_{it} + \mu_{it}$$

The linear information model (LIM) developed by (Barth et al., 2005) is a derivative of the price-earnings model. Barth et al. (2005) divides Ohlson (1995) model into four equations, with AEit representing the abnormal earnings of firm i at time t and MVit as the stock price of firm i at time t.

Construct of Value Relevance

Value relevance views financial statements as summary of economic events that influence a firm's equity value. Market price or stock returns serve as the ideal benchmark for evaluating the usefulness of financial statements. The degree of value relevance is measured by the R^2 in models like return-earnings (Harris, 1991), price-earnings (Ohlson, 1995), and LIM (Barth et al., 2005). The R^2 in regression analysis shows how much variation in stock returns or market price can be explained by accounting variables, such as earnings or changes in earnings. The R^2 value in the price-earnings model can become less effective in measuring the relevance of financial information due to scale effect bias, where larger firms tend to have higher stock prices and earnings. This bias can cause the R^2 value to increase over time, not because of improved performance, but due to firm size. To mitigate this issue, Gu (2007) recommends using residual dispersion as an alternative to R^2 for assessing the value relevance of financial reports.

Besides scale effect bias, another factor that can undermine the accuracy of R^2 in assessing value relevance is misspecification within the price-earnings regression model. This occurs when crucial variables, such as book value, are omitted from the model for firms with negative earnings, creating an anomaly that indicates a negative relationship between losses and stock prices. This anomaly implies that greater losses correspond to higher stock prices, leading to a lower R^2 in the price-earnings model for the negative earnings sample compared to the positive earnings sample. As a result, earnings become less useful for investors in evaluating company equity. Incorporating book value into the price-earnings model can resolve this anomaly, as it can act as a proxy for anticipated normal future earnings or as a proxy for the abandonment option (Collins et al., 1999).

RESEARCH METHOD

This study adopts a qualitative approach through a systematic review, adhering to the guidelines established by (Kitchenham, 2014). Value relevance studies assess the utility of accounting information from the viewpoint of equity investors, focusing on the association between accounting figures and firm value, grounded in empirical research based on valuation theory. Accordingly, in preparing the review, the author incorporates only empirical studies employing the return-earnings model, price-earnings model, and LIM, which cover incremental studies and changes in the value relevance of earnings and

book value over time. The review process involved a search in journals indexed in the Scopus database, specifically in the areas of business, accounting, and management. Initially, the author compiled a primary list of articles using the keywords "Value relevance" AND "Earnings" AND "Book value" for the period from 2013 to 2023.

Subsequently, only empirical studies focusing on value relevance in Asian countries and published in Scopus-indexed scientific journals were considered. Non-empirical works such as theses, case studies, book chapters, and conceptual or literature reviews were excluded from the analysis. The author initially gathered 144 papers from journals indexed in SCOPUS, covering the period from 2013 to 2023. After eliminating 1 duplicate paper, 26 literature review papers, 15 papers from non-Scopus indexed journals, and 58 papers focusing on the value relevance of accounting information in non-Asian countries, a final selection of 44 papers was made for this study. For the review process, the content of these selected articles was evaluated based on their empirical models and the outcomes in line with the research question. Additionally, the Scopus indexation of the journals was verified by cross-checking the journal entries in Schimagojr to avoid any that had been discontinued. Following the review, the selected literature was categorized into three groups, reflecting the nature of their findings to address the research question.

RESULTS
Enhancement in the value relevance of accounting information by adoption of new accounting standard.

Most research on value relevance examines how accounting metrics impact changes in market value of equity, with particular attention to earnings and book value. Acaranupong (2021) carried out a comparative analysis on the value relevance of earnings and book value in several Southeast Asian countries, while Kwon (2018) conducted a similar study in East Asian countries. Acaranupong (2021) discovered that earnings are significantly value-relevant in Indonesia, Malaysia, the Philippines, and Thailand, whereas book value was only found to be relevant in Indonesia, Singapore, and Thailand. On the other hand, Kwon (2018) determined that accounting earnings had the highest coefficient in samples from firms in Korea, Japan, and China, followed by coefficients for operating income, net cash flow, book value, and net operating cash flows. Japan had the largest book value, followed by Korea, while China's book value showed a negative figure.

These findings align with those of Srivastava & Muharam (2021) in India and Isaboke & Chen (2019) in China, who observed an upward trend in the relevance of earnings throughout the period of IFRS adoption. Additionally, Srivastava & Muharam, (2022) reported that the incremental improvement in the value relevance of earnings exceeded the increase observed in book value during the transition to IFRS in both India and Indonesia. However, when examining changes in the value relevance of earnings and book value over time, Chaudhry & Sam (2014) in Pakistan, Alfraih (2016) in Kuwait, Almujamed & Alfraih (2019) in Qatar, and Suwardi (2020) in Indonesia found contrasting results. They revealed that both earnings and book value experienced a declining trend in value relevance. Notably, the decline in the value relevance of earnings was more pronounced and significant compared to that of book value. This conclusion is further corroborated by Mirza et al. (2019) in Malaysia, who found that cash flows exhibit greater value relevance than either earnings or book value. The reduced importance of earnings and book value in relation to cash flows in Malaysia indicates that accrual-based earnings have become less relevant to investors in the Malaysian capital markets.

Several researchers have used IFRS as a dummy variable in price and return models to compare its contribution in improving the value relevance of accounting information. Chehade & Procházka (2024) in Saudi Arabia found that the interaction between earnings and book value with the IFRS dummy variable significantly influences stock price predictions, while cash flow is not relevant. Similarly, Ismail et al. (2013) in Malaysia showed that this interaction positively enhances the value relevance of accounting information. However, Nguyen & Dang (2023) in Vietnam found no increase in the value relevance of earnings and book value after using the IFRS dummy variable. Moreover, studies by El-Diftar & Elkalla (2019) in the Middle East and Gomes & Costa (2022) in India further suggest that the IFRS dummy variable even negatively affects the value relevance of accounting information. As for the individual standard, Tahat et al. (2016) examined the impact of IFRS 7 (financial instrument disclosure) as a dummy variable in Jordan and find that book value and earnings remained

value relevant before and after the adoption, though their explanatory power slightly declined post-implementation. Similarly, Mardini et al. (2018) studied the impact of IFRS 8 (segmental disclosure) and found that the extent of segmental disclosures was value relevant and contributed to explain variations of stock market prices in Jordan and Qatar.

Liu et al. (2014) investigates the comparative value-relevance of accounting information in China's capital markets, focusing on A-shares (domestic investors, CAS or China Accounting Standard) and B-shares (foreign investors, IAS or International Accounting Standard). The findings suggest that while both CAS and IAS provide value-relevant information, IAS is more informative for investors. In a related study, So et al. (2018) examines the value-relevance of two IAS reporting methods—proportionate consolidation (PC) and the equity method (EM), for jointly controlled entities in Hong Kong. Their results indicate that PC is less useful for investors compared to EM. In Indonesia, Ulupui et al. (2022) investigated the impact of digital corporate financial reporting technologies, such as Extensible Business Reporting Language (XBRL), on the value relevance of accounting information. Their study concluded that XBRL does not have a significant positive effect on the value relevance of accounting information. Collectively, all of these studies highlight varying and sometimes inconclusive results regarding the relevance of earnings and book value following the implementation of new accounting reporting framework and standards in Asia.

Enhancement in the value relevance of accounting information by improved measurement of firm fundamental performance.

Value relevance research examines how fundamental values, such as earnings and book value, are used to evaluate a firm's stock value. The effectiveness of the value relevance model relies on how accurately the accounting system captures the firm's financial performance through faithful representation. Harasheh et al. (2020) in Palestine compared several models, including the Dividend Discount Model (DDM), the Residual Income Model (RIM), and the Capital Asset Pricing Model (CAPM), to evaluate their relevance in equity valuation. The study found that RIM was superior in modeling equity prices, DDM excelled at estimating returns, and CAPM better explained equity variance. Other researcher like Sumiyana & Baridwan (2015) from Indonesia explored the relationship between accounting fundamentals and stock price fluctuations using a recursive simultaneous equation model. They modified RIM by introducing a recursive relationship between profitability, growth opportunities, and discount rate with earnings and book value to predict stock returns. The findings showed that accounting fundamentals have greater value relevance in the recursive simultaneous equation model than in the single equation model.

Dawar Varun (2014) used the LIM in India to study earnings persistence and found that accruals and cash flow components of earnings lack persistence and relevance in predicting abnormal earnings in the next period. This indicates that investors often focus only on overall earnings, overlooking the individual effects of accruals and cash flows in their investment decisions. Consequently, this earnings fixation may encourage managers to engage in earnings management to beat earnings targets to achieve favourable market reactions. Hassan et al. (2016) studied the relationship between discretionary accruals (a proxy for earnings management) and the value relevance of earnings and book value among underinvestment firms in Malaysia. The study found that while earnings management generally enhances the value relevance of accounting information, this positive relationship is weaker in underinvestment firms, indicating that underinvestment can diminish the value relevance of accounting information. Murwaningsari et al. (2015) in Indonesia reported conflicting results, indicating that discretionary accruals have a significantly negative impact on the value relevance of earnings. The study noted that managers often use accounting methods, like recognizing unrealized gains or losses from speculative financial derivatives, which promote earnings management. However, the lack of faithful representation of earnings due to opportunistic discretionary accruals can result in inaccurate normal earnings estimates, leading to discretionary accruals having no impact on the value relevance of earnings.

Technological advancements significantly impact the value relevance of accounting information in firms. Wang & Fan (2014) in China found that firms that capitalize on their R&D investments generally have higher stock prices and returns, whereas those that expense their R&D costs tend to see lower stock prices and returns. This insight aids corporate managers, R&D policymakers, and investors by providing essential information for assessing a firm's innovation potential and future

growth. Supporting Wang's findings, Bin Khidmat et al. (2019) emphasizes that R&D and Free Cash Flow (FCF) are also important for value in Chinese A-listed firms, positively affecting the value relevance of earnings and book value. The study suggests that the information content is greater during a firm's mature stage compared to growth or stagnation phases. For Chinese investors, considering R&D, FCF, and the firm's life cycle stage is crucial, as the market tends to favour stocks with effective R&D and FCF investments.

Kumari & Mishra (2020a) in India used the LIM to assess the value relevance of aggregate versus disaggregated earnings (accruals and cash flow), finding that all three variables can explain stock prices. However, disaggregated earnings were found to outperform aggregated earnings in equity valuation and earnings forecasting, with higher adjusted R^2 values across most industries. In a follow-up study by (Kumari & Mishra, 2020b), the focus shifted to the value relevance of earnings components in firms with varying levels of intangible assets. The findings also showed that disaggregated earnings were more effective than aggregated earnings in explaining market equity values and earnings persistence. Moreover, disaggregated earnings had greater explanatory power incrementally in firms with high intangible intensity. Additionally, in such firms, the incremental value relevance of accruals surpassed that of cash flows, whereas the opposite was true for firms with low intangible intensity. Intellectual capital is another crucial intangible asset in the era of knowledge-based economy. Alfraih (2017) showed that greater intellectual capital disclosure positively influences firm's market value in Kuwait. This evidence suggesting that investors value intellectual capital disclosure and incorporate it into their assessments.

Researchers have explored whether the value relevance of earnings and book value in predicting a firm's equity value shifts during times of financial uncertainty, such as during macroeconomic crises. Eugenio et al. (2019) studied the impact of the 2008 global financial crisis on six Asian countries (Singapore, Malaysia, Hong Kong, Indonesia, Philippine, and Taiwan). His findings showed that during the crisis, book value maintained its incremental value relevance, while the relative value relevance of earnings increased but was not statistically significant. On the other hand, book value's relative value relevance rose, and no incremental relevance was found for earnings during the crisis. These results differ from (Almujamed & Alfraih, 2019a) study in Kuwait, which found that while earnings' value relevance was negative and significant in the post-crisis period, the decline was not statistically significant. However, book value's relevance significantly decreased, suggesting that the overall drop in value relevance after the crisis was primarily due to book value. In summary, Eugenio et al. (2019) found that book value remained important during the crisis in Asia, while Almujamed & Alfraih (2019a) observed a significant decline in book value relevance post-crisis in Kuwait.

Enhancement in the value relevance of accounting information through financial reporting disclosure.

Financial statements are formal records of the financial position and activities of a business entity, consisting of the income statement, balance sheet, statement of changes in equity, cash flow statement, and notes to the financial statements. In contrast, financial reporting covers a broader scope, involving not only the preparation of financial statements but also the entire process of disclosing financial information to stakeholders, both internal (management and employees) and external (investors, regulators, and creditors). While financial statements focus solely on recognizing expenses and revenues that affect changes in equity value, externalities such as environmental costs are generally not included in these reports. As a result, firms might undertake activities that harm society, future generations, or the environment without incurring any repercussions unless specific legal frameworks are enforced to govern such conduct.

This framework can be seen in Integrated reporting (IR) that has gained momentum since the International Integrated Reporting Framework (IIRF) was introduced by the International Integrated Reporting Council (IIRC) in 2013. This framework identifies eight key elements of IR: organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook, and basis of presentation. Cooray et al. (2020) uses enlightened stakeholder theory to highlight the significant role of stakeholders in enhancing shareholder value through IR while Jaffar et al. (2023) applies agency theory to explain that higher Bumiputera Corporate Equity Ownership (BCOE) in IR will reduces agency costs, thereby increasing the value relevance of accounting information. Cooray et al. (2020) found that greater IR adoption enhances the

value relevance of earnings and book value in Sri Lanka. However, Jaffar et al. (2023) found that five of the eight IR elements (governance, business model, risks and opportunities, strategy and resource allocation, and performance) do not significantly improve the value relevance of accounting information in Malaysia.

Beside IR, another reporting framework used in value relevance studies is sustainability reporting. Sustainability reporting follows the Global Reporting Initiative (GRI) standards, which were initiated by the Ceres organization in 1997. GRI became independent in 2002 when it released its first sustainability reporting guidelines. Key trends identified at the time included increasing globalization, the search for new global governance models, and the growing role of emerging economies like Brazil, India, and South Africa. Sutopo et al. (2018) used signalling theory to explain that the Sustainability Reporting Award (SRA), awarded by the National Center for Sustainability Reporting (NCSR) in Indonesia, can provide a positive signal regarding a firm's value to investors. The result reveals that there is positive relationship between earnings with stock prices and return, which is stronger for SRA firms compared to non-SRA firms. This indicates that the value relevance for SRA firms exceeds that of their non-SRA counterparts in Indonesia.

The positive signals from SRA firms are also reinforced by Sarumpaet et al. (2017) study, which found that firms with superior environmental performance ratings have higher value relevance than those with inferior ratings in Indonesia, highlighting the value of non-financial information. Environmental factors are closely linked to sustainability reports and sustainable development goals, aligning with the triple bottom line concept that integrates economic, environmental, and social performance in financial reporting. According to Savitri & Abdullah (2023), firms that effectively enhance their business processes while reducing environmental impact can boost profitability and receive greater community support. This presents a positive signal for investors thus enhances the value relevance of accounting information.

In addition to environmental factors, the other non-financial information discussed in in this paper includes ownership concentration, institutional ownership, corporate governance, and management earnings forecasts. Pathirawasam (2013) explains that concentrated ownership positively impacts firm value by reducing conflicts of interest, while Omran & Tahat (2020) and Krismiaji & Surifah (2020) highlight that institutional ownership and corporate governance serve as effective monitors thus reducing agency costs. Pathirawasam (2013) then found that firms with high ownership concentration in Sri Lanka have greater value relevance, while Omran & Tahat (2020) noted that institutional ownership enhances value relevance of accounting information in Kuwait. However, Krismiaji & Surifah (2020) in Indonesia found inconsistent results as board size increases value relevance of earnings, but board independence, audit committee independence, and management ownership reduce it. The results align with Akmalia & Hafiza (2014) which identified a negative relationship between corporate governance quality (measured by the Malaysia Corporate Governance index) and stock prices in Malaysia.

Lee & Lee (2013) found that in Taiwan's capital market, earnings and book value audited by Big 4 firms explain more stock return variability than those audited by non-Big 4 firms, highlighting the impact of audit quality on value relevance. Similar results were observed by Alfraih (2016a) in Kuwait and Abdollahi et al. (2020) in Iran. Alfraih (2016a) showed that audit quality significantly enhances the value relevance of accounting measures, with firms in Kuwait audited by two Big 4 firms having more relevant earnings and book values than those audited by one Big 4 and one non-Big 4 firm or two non-Big 4 firms. Abdollahi et al. (2020) confirmed that auditor size and audit reports positively affect the relevance of earnings and book value in Iran, as higher audit quality improves the transparency and reliability of financial information. In addition to the audit opinion and audit firm size, the Management Earnings Forecast (MEF) included in financial reporting also affects the value relevance of accounting information. Dong et al. (2021) explored how voluntary MEF contribute to the value relevance of earnings in China, using signalling theory as the framework. Managers are motivated to issue earnings forecasts to send positive signals to investors, which helps align with the market's high expectations of the firms. When actual earnings match these forecasts, voluntary MEF can strengthen the value relevance of accounting earnings. Dong et al. (2021) discovered that firms disclosed voluntary MEF demonstrate higher earnings value relevance than those that do not disclosed such forecasts in their financial reporting.

CONCLUSION, LIMITATION, SUGGESTION

Conclusion

This study reviews the development of literature on the value relevance of accounting information in Asian countries over a ten-year period (2013-2023). The review findings indicate that accounting information, encapsulated in earnings and book value, significantly influences stock prices and returns, although it shows a declining trend. This suggests that financial statements remain relevant and reliable sources of information for investors in equity valuation. However, given the decreasing trend in earnings value relevance, enhancements are required to improve it. These enhancements can be achieved through the adoption of new accounting standards, refinement of accounting measures of corporate financial performance, and improvements in financial reporting disclosures.

The adoption of new accounting standards to improve the value relevance of accounting information, such as IFRS, in South Asia (India and Pakistan) and Southeast Asia (Indonesia, Malaysia, Vietnam), has produced inconclusive results. However, studies in the Middle East (Kuwait, Qatar, Saudi Arabia) indicate that, following IFRS adoption, book value plays a more significant role than earnings. This shift toward book value in equity valuation is due to IFRS's emphasis on fair value measurement and an asset-liability approach, which prioritizes the balance sheet over the income statement. In stable economic conditions in the Middle East, IFRS adoption has enhanced the value relevance of book value more than earnings. However, this trend changes during global financial crises: in Southeast Asia, the value relevance of earnings declines, while book value remains stable; in the Middle East, both earnings and book value relevance drop, with book value being the primary contributor to this decline. This suggests that IFRS's focus on fair value and the asset-liability model may introduce greater volatility in regions like the Middle East, where economic fundamentals are less resilient during crises.

Another significant financial fundamental factor identified in this literature review is intangible investment, particularly among firms in China and India. Intangible investment involves a firm's allocation of resources toward developing or acquiring non-physical assets, such as R&D, employee training, brand building, software, and intellectual property. These investments aim to create assets that drive long-term growth and enhance competitive advantage. Findings from the systematic review show that Chinese firms investing in R&D and capitalizing its value exhibit greater value relevance in both earnings and book value compared to firms that expense R&D. Similar outcomes are observed in India, where disaggregating earnings into accrual components enhances the value relevance of financial statement information in firms with high intangible intensity. This implies that accrual-based accounting provides value relevant information for investors in valuing high intangible intensity firms in India.

In addition to IFRS and intangible investments, disclosing non-financial information related to sustainability and good governance within the financial reporting framework also plays a role in improving the value relevance of earnings and book values. Findings from a systematic review suggest that environmental performance ratings and the Sustainability Reporting Award (SRA) can increase value relevance in Indonesia, as such achievements strengthen a firm's reputation, making it more appealing to investors and customers who prioritize sustainable business practices. Indonesian firms that have received the SRA have demonstrated a strong commitment to transparency in environmental, social, and governance (ESG) practices, encouraging other firms to adopt sustainable business practices that align with international standards like the Global Reporting Initiative (GRI) and the United Nations Sustainable Development Goals (SDGs).

Limitation

One limitation of this systematic review is the sample selection, which consists solely of papers published in SCOPUS-indexed journals. Although the author chose to include only empirical studies from these sources to ensure the quality of the review's findings, this approach may be restrictive. This selection limits the number of papers included in the sample and concentrates on three main themes that, while derived from reputable journals, offer limited diversity.

Suggestion

Our systematic review findings carry substantial implications for scholars, accounting standard setters, and regulators by underscoring the significance of intangible investments and sustainable business practices. With intangible assets expected to play an increasingly pivotal role in the economy, this trend highlights the need for ongoing refinement of accounting standards and regulations to more

accurately reflect the value and impact of intangible investments. Additionally, the focus on sustainable business practices is increasingly relevant for policymakers as firms shift toward proactive strategies that emphasize green financing, carbon reduction, and corporate social responsibility (CSR). Firms are not only meeting compliance standards but are actively integrating sustainability into their core strategies, aligning with Indonesia's environmental goals, including greenhouse gas reduction targets. This shift serves as an inspiration for broader industry participation in sustainable business practices and reporting.

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