



What Would Influence Firm Valuation? Financial Reporting and Shareholder Governance

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ABSTRACT

Our study aims at providing new insight on firm value effects stressing on ownership structure monitoring role, in addition to the disciplinary role of International Financial Reporting Standards (IFRS) reporting to provide high-quality information thereby enhancing equity value. We rely on a sample of financial listed firms in three emerging markets, namely, Morocco, South Africa and Turkey. A panel regression for random effects specification is used to control for IFRS effect and non-monotonic effects of ownership structure on firm value. Our findings support the forcefulness of IFRS standards in reducing information asymmetries between “more” informed and “less” informed investors. In addition, unlike institutions and blockholders, institutional blockholders exhibit a non-monotonic influence on firm value. This finding is consistent with the claim that corporate shareholders’ identities and ownership sizes are likely to differentially influence firm valuation.

Keywords: Firm Value, International Financial Reporting Standards Reporting, Ownership Structure

JEL Classification: G3

1. INTRODUCTION

Increased demand for high-quality financial information draws its origins from severe information asymmetries between firm’s management and outside investors (Kothari, 2000). Largely claimed benefits of higher-quality accounting standards (European Communities [EC] 1606/2002), and their intended greater transparency and comparability act as incentives to regulators, in a number of emerging countries, to strive for them and put them into effect, regardless institutional infrastructure. The quality of reported financial information, however, is driven by many other factors with differential influence (Kothari, 2000). In this paper, we attempt to stress on the structure of shareholdings as a governance mechanism that potentially play a disciplinary role in supplying high-quality financial information to the public. Accordingly, corporate governance structures are intended to communicate relevant and timely information to minority shareholders, not to mislead them by managers and large shareholders out of their small portions, to push managers towards value-maximizing activities (Bushman and Smith, 2003).

Surprisingly, shareholders, with different identities and ownership, are differentially fruitful in entailing firms to greater performance and, hence, higher value. This could be driven by differences in motivations, in monitoring ability and effectiveness to discipline managers (Gillan and Starks, 2003). Much of the interest in firm valuation debate stems from the financial information quality. And, despite governance mechanisms developed to enhance the firm’s financial performance, one would wonder about their effectiveness and forcefulness.

To address this issue, we make use of a number of ownership proxies likely to represent the existent agency problems within a typical firm, in addition to an International Financial Reporting Standards (IFRS) proxy.

In this study, we revisit the governance role of corporate shareholdings and its influence on shareholder value, and contribute to the ongoing research through enlarging shareholder base likely to be effectively involved in disciplining managers. Our research design gets around weaknesses depicted in prior work as we break down blockholders into institutional and non-institutional

to assess the valuation effects related to potential differences in monitoring incentives. More specifically, we include institutional block ownership variable to assess their influence regarding their weighty power, unlike prior research where institutional ownership (Agrawal and Knoeber, 1996; Morck et al., 2000) and block ownership (Agrawal and Knoeber, 1996, Lins, 2003) are treated separately.

It is noteworthy that a large literature has been documented on the effect of shareholding structure on firm valuation in non-financial sector (Morck et al., 2000; Baek et al., 2004), focusing on the U.S context (Morck et al., 1988; Demsetz and Villalonga, 2001) and recently on the European context (De Miguel et al., 2004). The current study adds to the scarce research done on emerging economies (Lins, 2003) that suffer from severe agency problems (La Porta et al., 2000; Lins, 2003) focusing on financial sector.

The paper is organized in the following manner. Section 2 outlines the literature review. Section 3 describes the methodology and data used in this study and Section 4 discusses empirical results. Section 5 concludes.

2. LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

2.1. IFRS Adoption and Firm Valuation Hypothesis

The diversity in accounting practices across countries is of major concern to investors, financial analysts, and standard setters (Graham and King, 2000). Devoted effort to harmonize accounting standards and, thereby, accounting practices across countries would be beneficial to international capital flows (Covrig et al., 2007).

The extent to which these standardized accounting practices are related to firm valuation is of concern in the debate of capital market effects of international accounting standards.

Previous work document that firms experiencing higher disclosure quality and greater transparency exhibit better stock price performance (Mitton, 2002; Baek et al., 2004). Some other studies highlight the unambiguous decline in the cost of capital that arises from increases in information quality (Lambert et al., 2007). High-quality information arises from adopting high-quality accounting standards as a necessary condition but not a sufficient one (Ball et al., 2003). More specifically, adopting IFRS (as high-quality standards) reveals more transparency by firms that would benefit from lower information asymmetry component of capital (Leuz and Verrecchia, 2000; Daske et al., 2008). This would, by the same, increase firm value. Another argument is highlighted by Lambert et al. (2007) and Daske et al. (2008) who argue that a unique set of accounting standards (like IFRS) could provide insightful help to investors to differentiate between lower vs. higher quality firms. Consequently, this would alleviate information asymmetries among investors and/or reduce estimation risk.

Accordingly, we expect IFRS reporting to enhance firm value through reducing information asymmetry. We posit our first hypothesis as:

Hypothesis 1: Firm value increases following the firm's commitment to IFRS reporting.

2.2. Ownership Structure and Firm Valuation Hypotheses

The link between ownership structure and firm performance and valuation has been the subject of an important and ongoing debate in the corporate finance literature (Demsetz and Villalonga, 2001). The debate finds its origins in heterogeneity of ownership structure. Heterogeneity refers to a wide set of interests and objectives that constitute the incentives that motivate each specific type of investors with respect to the size of their ownership.

In this section, we pay greater attention to institutional ownership, block ownership and institutional block ownership.

2.2.1. Institutional ownership and firm valuation

Imperfections in capital markets gave rise to alternative monitoring mechanisms to alleviate agency problems within firms (Woidtke, 2002). Institutional shareholders are seen as potential monitors who focus on firm value-maximization. This view assumes, implicitly, that their objectives are aligned with those of other shareholders (Woidtke, 2002).

Another stream of research proclaims that some institutional investors are ineffective monitors and fail to increase shareholder's wealth. For example, Wahal (1996) and Gillan and Starks (2003) report little evidence of any change in shareholder wealth for a sample of firms controlled by pension funds.

A competing view is that banks, as the main providers of debt finance, are involved in the daily financial transactions and then act as monitors, but serve of guarantor for other creditors in case of financial distress (Morck et al., 2000). However, "creditors' interest often differs from those of shareholders' (Morck et al., 2000. p. 539) and their objectives may not be maximizing shareholder value (Woidtke, 2002). In effect, "[s]ince banks' stakes as creditors are typically substantial, moderate equity stakes may give them considerable voice in corporate governance without significantly aligning their interests with those of shareholders' (Morck et al., 2000. p. 539). Accordingly, firm shareholders do not necessarily benefit from 'monitoring relationships between institutions and firms, and they could be hurt when the institutional agents watching the firm agents have conflicts of interest with other shareholders' (Woidtke, 2002. p. 100). 'Bank ownership should improve firm value, however, when the incentives of banks and shareholders are closely aligned' (Morck et al., 2000. p. 539).

Indeed, the large body of empirical work that addressed institutional monitoring and shareholder value relationship has led to mixed evidence. The relationship may be positive, negative, or even absent. In other words, positive valuation effects of institutional monitoring would take place from the moment that firms and institutions pursue similar objective functions resulting in convergence of interests, while negative valuation effects would occur from the moment that firms and institutions pursue different objectives leading to conflicts of interests (Jensen and Meckling, 1976; Woidtke, 2002).

The convergence-of-interests hypothesis suggests, then, that a rise in institutional ownership results in increased firm value. By contrast, when an institutional shareholder owns a substantial proportion of firm shares, he feels entrenched enough to influence firm strategies and serve his own interests (non-value-maximizing objectives) instead of focusing on shareholder wealth. In effect, this substantial share ownership awards him with power and influence that deviate from seeking other shareholders' interests. This gives rise to the entrenchment hypothesis that suggests that firm value is negatively affected when institutional shareholders hold excessively high proportion of ownership.

Based on these arguments, we expect institutional ownership to have a non-monotonic effect on firm value. Our hypothesis is, then, as follows:

Hypothesis 2: Institutional ownership exerts a non-linear effect on firm value. At low ranges of ownership, firm value decreases as institutional ownership rises. At higher ranges, firm value increases (convergence of interest effect). At highest ranges, firm value decreases (entrenchment effect).

2.2.2. Block ownership and firm valuation

Agency problems arising from self-serving behavior of managers (Jensen and Meckling, 1976) may be mitigated by large shareholders' monitoring. For example, Shleifer and Vishny (1986) argue that large shareholders play an important role in driving the firm towards value-maximization through higher share prices.

Besides, Claessens et al. (2002) who study the case of East Asian firms, report evidence that higher cash flow rights of controlling shareholders instigate higher market valuation, while higher voting rights are associated to lower market valuation. Additionally, Lins (2003) who studies 1433 firms in 18 emerging markets, documents a positive effect of large non-management blockholdings on Tobin's Q values. Moreover, findings of Faure-Grimaud and Gromb (2004) support that large shareholders are more inclined towards value-increasing activities aimed at conveying a good image of the firm and raising the firm's value through stock prices.

A competing view also has its advocates, and suggests that agency problems may arise from conflicts between controlling and minority shareholders as between managers and shareholders (Shleifer and Vishny, 1997). Because controlling shareholders are likely to redistribute wealth from minority shareholders (in both efficient and inefficient ways) acquiring large shareholdings is, therefore, costly (Shleifer and Vishny, 1997; De Miguel et al., 2004). Accordingly, large shareholdings may lead to worse performance since controlling shareholders "have strong incentives to siphon resources out of member firms to increase their individual wealth" (Baek et al., 2004, p. 267). They are rather inclined towards committing funds non-value-maximizing projects that can provide private benefits and potentially expropriate minority shareholders (Lemmon and Lins, 2003; De Miguel et al., 2004).

These two competing views suggest that the existence of a non-monotonic relationship between large shareholders and firm

value is quite possible. In effect, we expect that blockholders, who own large amount of share capital, benefit from information advantage over minority shareholders and tend to expropriate them to extract private benefits. This is consistent with the expropriation hypothesis. As block ownership rises, blockholders' objectives of value-maximization are aligned with those of minority shareholders resulting in a more effective monitoring. This is consistent with the monitoring hypothesis that suggests the increase in firm's share prices with block ownership. At highest ranges of ownership, blockholders are likely to possess enough power to influence firms' activities, and are likely to expropriate minority shareholders whose interests need not coincide (De Miguel et al., 2004).

Unlike previous studies that support a linear relationship between block ownership and firm value (Morck et al., 2000), and those that support a quadratic relationship (De Miguel et al., 2004), we predict a cubic relationship between block ownership and firm value. Furthermore, unlike prior studies where only the percentage ownership of blockholders is used (Baek et al., 2004; De Miguel et al., 2004), we make use of an additional proxy, which is the number of blockholders. Private benefit extraction is less likely to occur when large shareholders manage to share control and to agree on preferred projects. It is the bargaining effect. However, the disagreement effect implies that large shareholders are unable to achieve the necessary agreement on the project (Gutierrez and Tribo, 2004). The bargaining effect is likely to dominate when there are few blockholders and the disagreement effect is likely to occur when the number of shareholders increases (Gomes and Novaes, 2001). We, then, posit our third hypothesis as follows:

Hypothesis 3a: The number of blockholders exerts a non-linear effect on firm value. Firm value decreases as block ownership rise. At higher number of blockholders, firm value increases. At highest number of blocks, firm value decreases.

Hypothesis 3b: The percentage of block ownership exerts a non-linear effect on firm value. Firm value decreases as block ownership rises (expropriation effect). At higher percentage levels of ownership, firm value increases (monitoring effect). At highest percentage levels, firm value decreases (expropriation effect).

2.2.3. Institutional block ownership and firm valuation

Institutional blockholders are far sophisticated investors that combine high skills and competences as institutions and power and influence as blocks. We, then, expect that they would benefit from information advantage over minority shareholders, and do not pursue value-maximization at lowest ranges of ownership. At higher levels of ownership, they attempt to effectively monitor firms' managers and focus on value-increasing objectives which coincide with those of non-institutional and minority shareholders. At highest ranges of ownership, institutional blockholders are likely to be more powerful, and to exert higher influence over the firm to satisfy self-serving interests.

To the best of our knowledge, no study has addressed the relationship between institutional block ownership and firm value to date. We choose to use two proxies for this variable: The number

of institutional blockholders and their percentage ownership. Therefore, our fourth hypothesis is the following:

Hypothesis 4a: The number of institutional blockholders exerts a non-linear effect on firm value. At few institutional blocks, firm value decreases as institutional block ownership rises. At higher numbers, firm value rises. At highest numbers, firm value decreases.

Hypothesis 4b: The percentage of institutional block ownership exerts a non-linear effect on firm value. Firm value decreases as institutional block ownership rises. At higher percentage levels, firm value increases. At highest percentage levels, firm value decreases.

3. RESEARCH DESIGN

3.1. Sample and Data

3.1.1. Sample selection

This study covers financial firms having adopted IFRS at a certain date between 2001 and 2011 in three emerging countries, namely, Morocco, South Africa and Turkey. Starting from an initial sample of publicly traded firms, we discard firms not having December fiscal year end, those with missing accounting data, missing annual reports, and those for which ownership data are not available in their annual reports. Our final sample consists of 23 financial firms with data ranging from 2001 to 2011. Overall, a minimum of a 4-year period before and after the IFRS adoption date is warranted. We end up with a sample of 252 firm-year observations distributed as follows: 87 firm-year observations in Morocco, 88 firm-year observations in South Africa and 77 firm-year observations in Turkey.

3.1.2. Choice of variables et preliminary tests

To explore the impact of IFRS adoption and ownership on firm valuation, we proceed in three steps. In the first step, we define the variables of interest. For this purpose, we divide years of observations into two periods based on the firm's effective IFRS adoption date. We create a binary indicator variable, IFRS, that takes on the value of one for fiscal years ending on or after the firm's IFRS adoption date. This variable should capture the firm valuation change for adopting firms once they start reporting under IFRS. In addition to IFRS, institutional ownership, block ownership and institutional block ownership are included as interest variables.

In the second step, we choose a dependent variable that tracks firm valuation. Following Morck et al. (1988), McConnell and Servaes (1990), Agrawal and Knoeber (1996), Chen and Steiner (2000) and Lins (2003), we suggest Tobin's Q ratio as proxy for firm value.

In the last step, we include control variables that have been shown to be related to equity valuation in the existing literature. Therefore, we include firm size and debt, asset growth and risk. Also, we include country variables to control for countries' institutional differences.

We started by checking the homogeneity of our sample. We, therefore, tested the existence of specific effects using the Fisher

test specification. By posting values that are significant at 1 per cent, this test allows to confirm the presence of specific effects (fixed or random) in our models. Because we include country dummy that is invariant over sample years for the same individual sample firm, we are only able to run our panel regression for random effects. A panel regression for fixed effects, however, drops these variables and does not allow controlling for potential differences in firm valuation between countries.

To validate the hypothesis of the presence of random individual effects, we performed the Breusch and Pagan test. Results are significant at the 1% level of confidence for all specifications stating the significance of random effects. Hence, we run our models using the random-effects specification.

3.1.3. Variables definitions and measurement

3.1.3.1. Measuring firm value dependent variables

Tobin's Q (Tobin's Q_{it}) this metric is widely used in the corporate finance literature. Tobin's Q is a measure of the market valuation of firm's assets relative to their book value. As in La Porta et al. (2002) and Durnev and Kim (2005), we define Tobin's Q as (total assets - book value of equity + market value of equity) scaled by total assets.

3.1.3.2. Measuring independent variables

3.1.3.2.1. Interest variables

IFRS (IFRS_{it}) acts as the IFRS adoption variable and captures whether a given firm adopts IFRS in a given year. It takes on the value of 1 for fiscal years ending on or after the firm's IFRS adoption date. The IFRS variable should capture the firm valuation' effects around the IFRS adoption date. This variable is hand collected from independent auditor's reports available in firms' annual reports.

Institutional ownership (inst_{it}) represents share capital held by institutional investors. In the current study, institutional investors include the following organizations: Insurance companies, pension funds, investment companies, and financial institutions (including banks and finance companies). Institutional ownership is measured as the sum of percentage share capital owned by institutional shareholders (the number of shares held by institutions over total shares outstanding).

Block ownership (n_block_{it}/p_block_{it}) reflects ownership by large shareholders holding 5% and more of total shares. Unlike previous studies that rely only on the cumulative percentage of share capital held by blockholders as proxy for their ownership, we suggest two measures of this variable: The number of blockholders (n_block_{it}) and their percentage ownership (p_block_{it}) measured as the percentage share capital owned by blockholders (the number of shares held by blockholders over total shares outstanding) following Hessayri and Saihi (2015). Intuitively, the number of block shareholders may exert higher pressure on managers than their stock ownership indicates (Hessayri and Saihi, 2015).

Institutional block ownership (n_instblock_{it}/p_instblock_{it}) stands for ownership by institutional blockholders. Two measures are suggested: The number of institutions among blockholders (n_instblock_{it}) and their percentage ownership measured as the sum

of percentage share capital owned by institutional blockholders ($p_instblock_{it}$) (the number of shares held by institutional blockholders over total shares outstanding).

3.1.3.2.2. Control variables

Size ($Size_{it}$) represents a firm's size, assumed to influence equity valuation. In our study, we measure firm size as the natural logarithm of total assets, consistent with Chen and Steiner (2000) and Cormier and Martinez (2006).

Leverage ($debt_{it}$) stands for a firm's debt. Following Chen and Steiner (2000) and Cormier and Martinez (2006), our debt variable is calculated as total debt over total assets.

Asset growth ($assetgrwt_{it}$) stands for firm i 's asset growth in year t and is calculated as the 1-year percentage change in total assets.

- Beta ($beta_{it}$) stands for firm's stock risk.
- Country stands for country membership.

3.2. Econometric Model

In our regression model, we regress the Tobin's Q, our firm value proxy, on interest variables and a set of control variables as follows:

$$Tobin's\ Q_{it} = \alpha_0 + \alpha_1 IFRS_{it} + \alpha_2 inst_{it} + \alpha_3 inst_{it}^2 + \alpha_4 inst_{it}^3 + Controls + \varepsilon_{it} \quad (1)$$

$$Tobin's\ Q_{it} = \alpha_0 + \alpha_1 IFRS_{it} + \alpha_2 block_{it} + \alpha_3 block_{it}^2 + \alpha_4 block_{it}^3 + Controls + \varepsilon_{it} \quad (2)$$

$$Tobin's\ Q_{it} = \alpha_0 + \alpha_1 IFRS_{it} + \alpha_2 instblock_{it} + \alpha_3 instblock_{it}^2 + \alpha_4 instblock_{it}^3 + Controls + \varepsilon_{it} \quad (3)$$

Where:

Tobin's Q_{it} : Tobin's Q calculated as (total assets - book value of equity + market value of equity) scaled by total assets of firm i at year t .

$IFRS_{it}$: IFRS adoption, 1 for fiscal years ending on or after the firm's IFRS adoption date, 0 otherwise.

$inst_{it}$, $inst_{it}^2$, $inst_{it}^3$: Percentage ownership by institutions, its squared and cubic values, respectively.

$block_{it}$, $block_{it}^2$, $block_{it}^3$: Block ownership, its squared and cubic values, respectively.

$instblock_{it}$, $instblock_{it}^2$, $instblock_{it}^3$: Institutional block ownership, its squared and cubic values, respectively.

Controls: Refers to a set of control variables, namely, size, debt, asset growth, beta risk and country dummies.

4. RESULTS

This section is dedicated to the study results. Table 1 provides summary statistics. Table 2 displays differences in dependent and independent variables around the IFRS adoption event, where empirical findings of multivariate analysis are highlighted in Table 3.

4.1. Summary Statistics

Table 1 provides summary statistics of both dependent and independent variables. Panel A provides descriptive statistics of

Table 1: Summary statistics

Panel A: Dependent variables					
Variable	Minimum	Maximum	Mean	Median	SD
Tobin's Q	0.430	4.773	1.216	1.077	0.453
Panel B: Independent variables					
Continuous independent variables					
inst	0.01	0.92	0.457	0.439	0.282
n_block	0	8	2.642	2	1.419
p_block	0	0.73	0.531	0.464	0.199
n_instblock	0	8	2.051	2	1.614
p_instblock	0	0.6	0.324	0.400	0.278
size	316.9	206574.7	16011.46	2753.91	33187.96
debt	0	0.678	0.142	0.035	0.211
assetgrowth	-0.987	184.122	0.942	0.131	11.596
beta	-0.15	1.25	0.731	0.73	0.349
Discrete independent variable					
	Total sample	Number of observations of discrete variables	Frequency		
IFRS	252	121	0.48		

Table 1 reports descriptive statistics for the dependent variable (Panel A) and the independent variables (Panel B). We use Tobin's Q as proxy for firm value in our analyses calculated as (total assets-book value of equity+market capitalization)/total assets. For interest variables, IFRS denotes firms' IFRS adoption, inst refers to the percentage of institutional ownership, n_block the number of blockholders, p_block their percentage ownership, n_instblock the number of institutional blockholders and p_instblock their percentage ownership. size statistics reported in Panel B are firms' total assets measured in millions US dollars before the natural logarithm transformation. We compute debt as the ratio of total debt to total assets. We compute assetgrowth as the 1-year percentage change in total assets. beta represents firms' stock risk, SD: Standard deviation

the dependent variable where Panel B reports descriptive statistics on independent (continuous and discrete) variables.

Panel A of Table 1 shows that the mean Tobin's Q is 1.077. This illustrates that, on average, investors overweigh firm's assets. Panel B reports that, on average, institutional shareholders hold 45.7% of firms' ownership rights. Also, the number of blockholders ranges between 0 and 8 with an average of 2.64 and the corresponding percentage of block ownership ranges from 0 to 73% averaging 46.4%. This is to say that, overall, 46.4% of firm's capital share is held by 2 or 3 blockholders. Besides, the number of institutional blockholders ranges from 0 to 8 with an average of 2.05. Overall, these institutional blockholders hold the 32.4% of firms' ownership rights. An interesting comment is worthy to be highlighted: Financial firms are well monitored by institutional blockholders (both in terms of number of institutions among blocks and their percentage of ownership). Panel B also shows that 48% of firm-year observations are representative of the IFRS post-adoption period.

4.2. Mann-Withney Test and Differences in Dependent and Independent Variables Around the IFRS Adoption Event

Referring to Table 2, we document a significant increase in Tobin's Q mean values in the post-IFRS adoption relative to the pre-IFRS adoption period at the level of 1%. Also, ownership by institutions, blockholders and institutional blockholders are significantly higher at a level of confidence of 5% and better. Significant increases in the firm size and debt are documented, as well, in the post-IFRS adoption period. Overall, significant

Table 2: Mann-Whitney test for the differences in dependent and independent variables around the IFRS adoption event

Variables	Post-IFRS adoption	Pre-IFRS adoption	Difference
Tobin's Q	1.138	1.393	0.255*** (0.0071)
inst	0.421	0.497	0.076** (0.0187)
n_block	2.312	3	0.688*** (0.0002)
p_block	0.495	0.570	0.075*** (0.0008)
n_instblock	1.755	2.371	0.616*** (0.0011)
p_instblock	0.376	0.477	0.101*** (0.0029)
size	7229.22	25519.5	18290.28*** (0.0000)
debt	0.126	0.159	0.033*** (0.0043)
assetgrowth	0.197	1.748	1.551 (0.8254)
beta	0.749	0.711	-0.038 (0.4180)

Table 2 reports results of the Mann-Whitney test for dependent and independent variables of our regression. Tobin's Q is calculated as (total assets - book value of equity+market capitalization)/total assets. inst denotes institutional ownership, n_block represents the number of blockholders, p_block represents the proportion of share capital held by blockholders, n_instblock represents the number of institutional blockholders, p_instblock represents the proportion of share capital held by institutional blockholders, size represents the firms' total assets (before the logarithmic transformation) in million US dollars, debt is the ratio of total debt to total assets and assetgrowth is the 1-year percentage change in total assets. Beta refers to firms' stock risk. *** and ** denote, respectively, significance at the 10%, 5% and 1% levels, respectively IFRS: International Financial Reporting Standards

changes in firm valuation, in ownership structure variables and even in firm characteristics are observed during the post-IFRS period compared to the pre-IFRS period.

4.3. Empirical Findings

Results of the multivariate analysis regressions of firm valuation on IFRS and ownership structure are presented in Table 3. Panel A reports results of Tobin's Q regression on IFRS interest variable and ownership by institutions (equation 1). Panel B reports results of Tobin's Q regression on IFRS interest variable and ownership by blockholders (equation 2). Panel C reports results of Tobin's Q regression on IFRS interest variable and ownership by institutional blockholders (equation 3).

Coefficients on IFRS interest variable are all positive and significant in Panels A-C (equations 1-3). Consistent with our prediction in hypothesis H1, there is strong evidence that financial firms exhibit higher values following their IFRS adoption strategy. In conformity with Daske et al. (2008), Li (2010) and Lang et al. (2012), this is evidence of lower information asymmetry that benefits investors, that is attributed to reporting under higher-quality standards like IFRS. These investors are more willing to, meaningfully, assess firms and discern between good vs. bad stock.

As for institutional ownership interest variable, coefficients on inst are negative and significant in Panel A. This is evidence that

a low percentage of ownership held by institutional investors would influence negatively equity valuation. However, we find no evidence of any influence of block ownership (either measured by the number of blockholders or their percentage ownership) on our dependent variable. Inconsistent with hypotheses H3a and H3b, blockholders have no significant effect on Tobin's Q.

For institutional block ownership (measured by the number of institutions among blocks), Panel C of equation 3 reports negative and significant coefficient on n_instblock at the 1% level, positive and significant coefficient on n_instblock_2 at the 1% level and negative and significant coefficient on n_instblock_3 at the level of 1%. This provides support to the cubic specification suggested in hypothesis H4a. We interpret this finding as consistent with few institutional blockholders looking for private benefits extraction rather than firm value-maximization. Beyond a certain number, private benefit extraction is less likely to occur when large institutional shareholders manage to share control and to agree on fundamental projects of firm value-maximization consistent with the bargaining argument (Gutierrez and Tribo, 2004). At highest number of institutional blockholders, the disagreement effect is more likely to take place when they are unable to agree on fundamental projects of firm value-maximization (Gutierrez and Tribo, 2004), and are less concerned with the welfare of minority shareholders.

In addition, when institutional block ownership is measured by the percentage ownership, Panel C of equation 3 reports negative and significant coefficient on p_instblock at the 1% level, positive and significant coefficient on the square percentage p_instblock_2 at the 1% level and negative and significant coefficient on the cubic percentage institutional block ownership p_instblock_3 at the 5% level. Consistent with our prediction in H4b, a non-monotonic relationship between the percentage ownership held by institutional blockholders and Tobin's Q is documented. More specifically, institutional blockholders who benefit from information advantage over minority shareholders and even non-institutional blockholders might pursue non-value-maximizing activities when holding low percentage ownership. They attempt to expropriate "less" informed shareholders and serve their own interests, which is likely to ruin firm value. This negative effect confirms the claim that institutional block shareholders might be motivated by "political or social influences" than by firm performance, leading to a conflict of interest (Woidtke, 2002) even though it may give them considerable voice in corporate governance (Morck et al., 2000). At higher levels of ownership, institutional blockholders are more concerned with firm value maximization. The fact of being the major shareholder and the major creditor at the same time might create an incentive to these shareholders to effectively monitor firm assets. Accordingly, firm value increases due to convergence-of-interests of institutional blockholders with those of other shareholders especially when holding a sufficiently high equity stakes. Conversely, at highest levels of ownership, and if institutions give more importance to their function as creditor, they could deviate from achieving firm value maximizing objectives, influence firm strategies and compel companies in which they own substantial proportion of share capital to borrow from them, eventually at higher rates than the market.

Table 3: Results of multivariate regressions of firm value on IFRS adoption and ownership structure

Variables	Panel A: Equity ownership by institutions	Panel B: Equity ownership by blockholders		Panel C: Equity ownership by institutional blockholders	
	P	Nb	P	Nb	P
Intercept	3.093*** (0.000)	2.868*** (0.000)	2.676*** (0.000)	2.78*** (0.000)	2.82*** (0.000)
Interest variables					
IFRS	0.104** (0.037)	0.106** (0.027)	0.018 (0.712)	0.11** (0.021)	0.11** (0.031)
inst	-2.899* (0.064)				
inst_2	5.602 (0.126)				
inst_3	-3.059 (0.215)				
n_block		-0.228 (0.137)			
n_block_2		0.057 (0.207)			
n_block_3		-0.004 (0.254)			
p_block			-1.391 (0.412)		
p_block_2			3.711 (0.332)		
p_block_3			-1.759 (0.503)		
n_instblock				-0.27*** (0.006)	
n_instblock_2				0.10*** (0.002)	
n_instblock_3				-0.009*** (0.003)	
p_instblock					-3.01*** (0.002)
p_instblock_2					7.77*** (0.005)
p_instblock_3					-5.19** (0.015)
Control variables					
Size	-0.166*** (0.000)	-0.152*** (0.000)	-0.168*** (0.000)	-0.15*** (0.000)	-0.15*** (0.000)
Debt	0.389** (0.012)	0.474*** (0.001)	0.417*** (0.004)	0.40*** (0.006)	0.39*** (0.007)
assetgrowth	0.002 (0.128)	0.002 (0.198)	0.003** (0.022)	0.00* (0.091)	0.00** (0.048)
beta	0.326 (0.200)	0.169 (0.475)	0.439* (0.078)	0.27 (0.246)	0.26 (0.285)
Morocco	-0.126 (0.438)	-0.015 (0.911)	-0.267* (0.095)	-0.07 (0.596)	-0.11 (0.491)
Turkey	-0.843*** (0.000)	-0.646*** (0.002)	-0.816*** (0.000)	-0.72*** (0.001)	-0.82*** (0.000)
P > χ^2	0.0000	0.0000	0.0000	0.0000	0.0000
R ² overall	0.3413	0.3679	0.3537	0.3648	0.3601
R ² between	0.4899	0.5576	0.4826	0.5230	0.5098

Table 3 reports results of the multivariate analysis. Panel A reports the panel regression coefficients and the corresponding P values in parentheses for a sample of financial firms including IFRS and institutional ownership as interest variables. Panel B reports the panel regression coefficients and the corresponding P values in parentheses using IFRS and block ownership as interest variables. Panel C reports results of the same regression using IFRS and institutional block ownership as interest variables. ***, ** and * denote, respectively, significance at the 10%, 5% and 1% levels. IFRS denotes IFRS adoption, inst denotes the percentage institutional ownership, inst_2 and inst_3 denote, respectively, the quadratic and the cubic values of inst, n_block represents the number of blockholders, n_block_2 and n_block_3 denote, respectively, the quadratic and the cubic values of n_block, p_block represents the percentage ownership held by blockholders, p_block_2 and p_block_3 denote, respectively, the quadratic and the cubic values of p_block, n_instblock represents the number of institutional blockholders, n_instblock_2 and n_instblock_3 denote, respectively, the quadratic and the cubic values of n_instblock, p_instblock represents the percentage ownership held by institutional blockholders, p_instblock_2 and p_instblock_3 denote, respectively, the quadratic and the cubic values of p_instblock, size represents the natural logarithm of total assets, debt represents the ratio of total debt over total assets, assetgrowth denote the 1-year percentage growth in assets, beta refers to firms' stock risk and Morocco and Turkey denote, respectively, Moroccan and Turkish firms, IFRS: International Financial Reporting Standards

As for control variables, coefficients on size are negative and significant at 1% in Panels A-C. Accordingly, firm's size negatively causes Tobin's Q. Consistent with Malkiel and Xu (1997) and Chen and Steiner (2000), large firms having a more diversified asset composition are more likely to postpone market valuations.

Unexpectedly, coefficients on debt variable are positive and significant at the level of 5% and better in Panels A-C. The more indebted the firm, the higher valued is. The greater focus of lenders on levered firms might be a plausible explanation, which improves firm performance, and in turn, firm valuation (Agrawal and Knoeber, 1996).

However, we find little evidence of asset growth variable effect on firm value. In particular, coefficient on asset growth is positive and significant in Panels B and C suggesting that higher firm values are positively associated to asset growth.

As for differences in equity valuation among sample countries, equity values are shown to be much higher for South African firms than for Turkish counterparts, but almost similar in Moroccan compared to South African firms.

5. CONCLUSION

Although prior empirical studies on firm value determinants show the influential effect of both firm-level factors (including firm characteristics) and country-level factors (including institutional factors), recent studies (Daske et al., 2008; Li, 2010; Lang et al., 2012) investigate the role of IFRS reporting in firm valuation but neglect the potential role of firms' owners over management.

Our study aims at providing new insight on firm valuation effects stressing on corporate shareholdings monitoring role, in addition to the disciplinary role of IFRS standards to provide high-quality information likely to enhance equity value.

Our findings support the forcefulness of IFRS standards in reducing information asymmetries between "more" informed and "less" informed investors. This finding is in line with those of recent studies by Daske et al. (2008) and Li (2010). This provides strong evidence that reporting under higher-quality standards like IFRS is likely to lower information asymmetry. Investors would benefit from more transparent information environment, and are more willing to better assess firms' stocks.

Moreover, considering the heterogeneity aspect within company's shareholder base, we account for differences in corporate shareholders' identities and ownership sizes to influence firm valuation.

Although we fail to report any evidence of institutional ownership and block ownership effects on firm valuation, we could report strong evidence of non-monotonic influence of institutional block ownership on firm value. This is to say that only shareholders that benefit from double status of institution and blockholder are shown to be influential on firm valuation. Accordingly, at low level of percentage ownership (at few number), firm value

decreases as institutional block ownership rises (number of institutional blockholders rises) supporting the divergence-of-interests argument. Beyond a certain level of percentage ownership (number), firm value increases as institutional block percentage ownership rises (number of institutional blockholders rises) which is consistent with convergence-of-interests argument (bargaining argument). Institutional blocks' interests coincide with those of other shareholders, and firm-value maximization is likely to be a common objective. By contrast, at highest levels of ownership (highest numbers), firm value decreases again supporting the entrenchment argument (disagreement argument). Substantial share ownership by institutional blockholders awards them with enough power to influence firm strategies and serve their own interests rather than seeking value-maximizing objectives.

Overall, our findings are consistent with the disciplinary role of both IFRS standards (as a brand of high-quality standards) and ownership structure (as a corporate governance mechanism) that translates into firm-value maximization. More specifically, institutional block ownership is found to have differential effect depending on ownership levels, which sketches shareholders' incentives of monitoring firm assets. These unobservable aspects of relationships connecting the large set of shareholders to corporate managers design the corporate information environment.

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