

Thesis:

“The Effect of IFRS Adoption on Earnings  
Informativeness in Canadian Family Firms”

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## **ABSTRACT**

In recent years, there has been a global trend of adopting International Financial Reporting Standards (IFRS). In 2011, Canada joined this trend by implementing mandatory IFRS adoption for publicly traded firms. Proponents of IFRS adoption claim that it will benefit investors by improving comparability and transparency of firms. At the same time, research on family firms has seen increasing focus. Because of family ties to the firm, family firms can exhibit different motivations, behaviours and performance than do non-family firms. In this research, I attempt to gain insight on the effects of IFRS adoption for a unique set of firms, namely publicly traded family firms by examining the effect of IFRS adoption on earnings informativeness. Although previous literature examines the economic consequences of IFRS adoption, my study is the first to my knowledge that examines IFRS adoption effects on the unique set of family firms. I run a pooled regression to examine the effects of IFRS adoption on earnings informativeness. I find that IFRS adoption by Canadian family firms is associated with a statistically significant higher level of earnings informativeness. The findings of this research could have implications for standard setters, minority shareholders of family firms, and academic researchers.

## **1. Introduction**

The purpose of this paper is to present the research that I have undertaken for my Master's thesis for the MSc. (Management) Program at the Telfer School of Management at the University of Ottawa. This thesis focuses on the effects of the adoption of International Financial Reporting Standards (IFRS) on financial reporting quality among Canadian family firms. My research bridges literature from two streams: research on family firms, and research on the economic consequences of IFRS adoption.

Family firms can be generally defined as firms in which family owners wield significant influence in how the firm conducts business (Gomez-Mejia, Cruz, Berrone, and De Castro, 2011). Family firms are the most common form of business ownership in the world. Although the percentage of total businesses varies depending on the operational definition used, estimates include 95 percent of all Middle-Eastern and Asian firms (Kets de Vries, Carlock and Florent-Treacyl, 2007). In another paper, Prencipe, Bar-Yosef, and Dekker (2014) state that 80% to 90% of all North American enterprises are family firms. In Canada, according to the Canadian Association of Family Enterprise (CAFE), 80% of businesses in Canada are family owned and those firms contribute to 45% of Canada's GDP (CAFE, 2014). Specific operational definitions of family firms can be based, among other things, on share ownership, on voting control and family members' involvement in management or board positions, but in each case it is important to consider the specific definition used when considering generalizability. Gomez-Mejia et al. (2011) note three ways in which family firms are different from non-family firms. First, the boundary between the family and the firm is not clear, leading to emotions feeding back and forth between the family and the firm. Second, the family's values can become intertwined within the firm. Third, families may cater to the well-being of their members over that of the firm. Considering these

differences, and the prominence of family firms in the economy, Gomez-Mejia et al. (2011) review the growing literature surrounding family firms. They note that in the areas of management processes, firm strategies, corporate governance, stakeholder relations, and business venturing, family firms exhibit different behaviour patterns than do non-family firms. They propose Socio-Emotional Wealth (SEW) theory as a potential framework with which to explain these differences. SEW theory posits that rather than taking a strictly (monetary) wealth maximizing view to decision making, family firms will act to preserve the family's social and emotional endowments, such as attachment to the firm and reputational considerations. This means that family firm decisions may differ from their non-family firm counterparts and non-economic considerations are more likely to be adopted by family firms as a primary decision making framework (Berrone et al., 2012). It also means that the family may extract benefits for itself at the cost of minority shareholders (Anderson and Reeb, 2003).

Gomez-Mejia and his co-authors (2011) note that the field of research on family firms is relatively new, albeit rapidly growing. They note a relative dearth of research related to family firms and accounting. Prencipe, Bar-Yosef and Dekker (2014) as well as Salvato and Moores (2010) suggest that accounting scholars should devote more attention to financial reporting issues in family firms. My research is intended to shed important insights on a typical accounting issue involving Canadian family firms following the adoption of IFRS in 2011.

The European Commission introduced IFRS in 2005 to enhance market efficiency through improved transparency and comparability (Bruggemann, Hitz, and Selhorn, 2013). As noted by Khan, Anderson, Warsame, and Wright. (2015), IFRS are spreading across the globe, being adopted by both mature and emerging economies. Understanding the effects of mandatory adoption is important first to standard setters – especially the International Accounting Standards

Board (IASB), which will be trying to evaluate the efficacy of IFRS in improving accounting quality (Ahmed, Neel, and Wang, 2013). The economic implications arising from IFRS adoption are also important to standard setters in countries that have not yet adopted IFRS, but might do so in the future (Ahmed, Neel, and Wang , 2013). In particular, the Securities and Exchange Commission (SEC) in the United States is debating whether or not to implement IFRS (Ahmed, Neel, and Wang, 2013). Analysts and other users may also be interested in the results of such studies so that they can reassess the ways in which they use accounting numbers for relevant decision making (Ahmed, Neel, and Wang, 2013). Such studies are also of use to academics, who can factor IFRS adoption effects into studies of other events.

In 2006, Canada joined the global trend of converging to IFRS when the Accounting Standards Board (AcSB) announced it would make adoption of IFRS mandatory for publically traded firms beginning in 2011, with earlier voluntary adoption possible. As with their European counterparts, the Canadian standard setters emphasized the benefits in comparability and transparency that IFRS adoption would allegedly bring. The mandatory adoption of IFRS for publicly traded companies has been noted to be a significant change (see for example, the discussion in Khan, Anderson, Warsame and Wright, 2015). Private firms were given the option of using Accounting Standards for Private Enterprises (ASPE), if they so choose.<sup>1</sup> For this study, I focus on publically listed family firms because these firms will be required to change to IFRS. In addition, disclosure requirements make the required data readily available. Several recent studies have investigated the effects of IFRS adoption in Canada. Liu and Sun (2015), for example, investigate the effect of IFRS adoption on earnings quality in Canadian firms and are unable to

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<sup>1</sup> In addition, Companies that are cross-listed with American exchanges are permitted to use US Generally Accepted Accounting Principles (GAAP) beginning in 2011 (Burnett, Gordon, Jorgensen, and Linthicum, 2015)

conclude any concrete effect. But to the best of my knowledge, my study is among the first to shed light on the effect of IFRS adoption on Canadian family firms.

Given that family firms exhibit different characteristics and behaviours from non-family firms, accounting research should focus more on this unique segment of the economy. At the same time, research on IFRS adoption has become prominent as the world shifts toward IFRS. Although some studies, like Liu and Sun (2015) have reported inconclusive results on the effects of IFRS adoption on financial reporting quality, these results could be driven by non-family firms. Since family firms have different characteristics from non-family firms, IFRS adoption may have material effects for this group that are averaged toward nil when non-family firms are included in the sample. If this is true, IFRS adoption could have implications for minority shareholders of family firms. Higher quality financial statements would represent a form of increased protection for minority investors.

Therefore, I undertake a study of the effect of IFRS adoption on the earnings informativeness of family firms in Canada. I collect return and earnings data for years before and after IFRS adoption. I run a pooled regression to test for an association between IFRS adoption on earnings informativeness. I find that IFRS adoption is associated with a statistically significantly higher level of earnings informativeness. My study contributes to the literature in two ways. First, it expands on literature on the topic of IFRS adoption by examining the effects of IFRS adoption in a unique setting, that of family firms. Second, it extends the literature on family firms by discussing family firms in the context of accounting standards. My paper is the first to my knowledge to do either of these in a Canadian setting.

The remainder of this thesis is structured as follows. Section 2 discusses previous literature, and section 3 develops my research hypothesis. Section 4 discusses data collection methods and

statistical methodology, followed by section 5 in which I discuss my empirical results and their implications. Section 6 outlines the limitations of my study as well as potential areas for future research. Section 7 concludes the thesis.

## **2. Literature Review**

### **2.1. Family Firms**

#### *2.1.1. Family Firm Characteristics*

Previous studies (Anderson & Reeb, 2003; Villalonga & Amit, 2006; Gomez-Mejia et al., 2011; Berrone et al., 2012) show several ways in which family firms differ from their non-family counterparts. For example, compared to non-family firms, they face less severe type I agency conflicts (Villalonga & Amit, 2006), in which the interests of professional managers are not aligned with those of dispersed shareholders. However, family owners maintain a strong ownership position in the firm and often hold management positions as board chair or CEO (Anderson & Reeb, 2003). As a consequence, family firms face more severe Type II agency problems, which arise when the interest of controlling shareholders conflicts with that of minority shareholders, than do non-family firms.

Family owners may also use control enhancing mechanisms to secure control over voting rights while holding a small fraction of ownership rights through dual class shares and pyramidal ownership (Ben-Amar and Andre, 2006). Villalonga and Amit (2009) examine how family block holders achieve this incongruence between control and cash flow rights that is so pervasive in family firms. Of the ways that this arises, some can be seen as value-enhancing and others are solely control-enhancing. For example, pyramidal ownership can improve security and provide strategic alliances, and block holder coalitions can enhance commitment. However, dual class

share structures and extra board representation for the family are only control enhancing. Villalonga and Amit (2009) conclude that the primary way that families create the wedge between control and cash flow rights is by using dual class shares and voting agreements.

Looking at family ownership evolution, Franks, Mayer, and Volpin (2011) investigate how family firms' ownership becomes more dispersed as firms age. They begin with an in-depth comparison of four countries, including UK, Germany, France and Italy. One of the contributions of this in-depth study lies in its inclusion of private firms. They find that family firms tend to become dispersed in the UK but not in Germany, France and Italy. The difference, the authors posit, arises from the fact that the UK has stronger investor protection, higher financial development and more active markets. Franks et al. (2011) then test the robustness of their findings by checking if they hold true in a sample of 27 countries. They find that older firms are more dispersed in countries similar to the UK, but they find no correlation between age and ownership dispersal in countries with low investor protection, financial development and market activity. They further find that in countries with high scores in the aforementioned areas, there is lower family control in industries with better investment and M&A opportunities, but again no relation in countries with low scores.

Masulis, Pham, and Zein (2011) examine family firm groups. They note that these groups can take different forms (i.e. horizontal structure or pyramid structure). They present both a country level analysis and a firm level analysis. At the country level, the authors find family business groups occur less often in economies with increased capital availability, stringent tax regulations, and restrictive takeover rules regarding partial acquisitions. At the firm level, companies at the bottom of a pyramid structure are more capital intensive and younger, riskier and

less transparent, indicating that families are taking advantage of legal risk mitigation by using corporate separation.

### *2.1.2. Accounting and Finance Studies Involving Family Firm Ownership*

#### *2.1.2.1. Financial Reporting Practices in Family Firms*

Previous accounting studies examine disclosure practices, earnings quality, audit quality as well as tax choices in family firms and report mixed evidence. Ali, Chen and Radhakrishnan (2007) examine disclosure practices of family firms compared to non-family firms in the US. They outline two types of agency problems, as I documented before. Type I agency problems arise when management is able to extract private benefits from ownership. Type II agency problems arise when owners are able to extract private benefits from other minority owners. Since family owners are often heavily involved in firm operations, they likely exhibit less Type I problems than non-family firms. However, since family owners often hold such large influence, there is more potential for Type II agency problems. If the reduction in potential Type I agency problems dominates (is dominated by) the increase in potential Type 2 agency problems, Ali et al. (2007) hypothesize that family firms will exhibit higher (lower) earnings quality and a higher (lower) propensity to disclose bad news than non-family firms. They also posit that family firms make less voluntary disclosures than non-family firms. They estimate earnings quality using measures of discretionary accruals, earnings persistence, correlation between earnings and future cash flows, and correlation between earnings and contemporaneous stock returns. They find that family firms exhibit higher earnings quality, higher chances of disclosing bad news, and less frequent voluntary disclosures than non-family firms. The authors further posit that family firms will have greater analyst following, less forecast dispersion, errors and revisions volatility, and lower bid-ask spreads than non-family firms. They present evidence supporting this hypothesis.

Chen, Chen and Cheng (2008) also compare the voluntary disclosure practices of family and non-family firms. They note that family owners are unique in that they have longer investment horizons and are active in management, implying that they will favour less disclosure, but they also have reputational concerns and undiversified holdings, which implies that they will favour more disclosure. For this reason, they set up a non-directional hypothesis to empirically test for a difference between family and non-family firms in the probability of making voluntary disclosures. Defining family firms based on family block holdings or family executive position holdings and using management forecasts to measure disclosures, they find family firms disclose less than non-family firms. Further, Chen et al (2008) find that family influence on disclosure practices dominates that of institutional block holders and insider owners.

Anderson, Duru, and Reeb (2009) examine corporate opacity in family firms compared to that of non-family firms. They conjecture that family owners' unique position of control gives them incentive to increase the firm's opacity. They present two hypotheses as to how this happens: The entrenchment hypothesis and the monitoring hypothesis. The entrenchment hypothesis proposes that family owners use their unique position in the firm to extract private benefits at the cost of other shareholders, and increase corporate opacity as a means to this end. The monitoring hypothesis proposes that given family owners' unique position in the firm, they are able to effectively monitor management, and the disclosures that would be required otherwise to allow dispersed owners to do such monitoring are no longer needed. The firm can be more opaque so as to avoid providing information on its strategic position to competitors. The authors also distinguish between founder controlled firms and descendent controlled firms. Founders likely have stronger capabilities and commitment to their firms than descendants because they (founders) build the firm, while the descendants simply enter the firm because of family ties. The authors therefore

propose that founder firms will exhibit traits consistent with the monitoring hypothesis and descendant firms will exhibit traits consistent with the entrenchment hypothesis. The authors propose that where the entrenchment (monitoring) hypothesis dominates, the firm's performance will be inferior (superior) to other firms. They create an index for measuring opacity and use Tobin's q as a proxy for performance. They find that while family firms tend to be more opaque, only transparent family firms exhibit improved performance.

Previous studies (Wang, 2006; Ding, Qu and Zhang, 2011) also examine financial reporting quality in family firms. Wang (2006) studies the earnings quality of founding family firms. He also notes the above two effects present in family firms which could affect earnings quality: the entrenchment effect, which leads to families receiving private rents to the detriment of other stakeholders, and the alignment effect whereby family owners monitor the firm more closely than other stakeholders have the ability to, from which the other stakeholders benefit. The entrenchment effect could lead to lower quality earnings while the alignment effect could lead to higher quality earnings. Wang (2006) uses three proxies for earnings quality: absolute value of abnormal accruals, earnings informativeness, and earnings persistence. He measures family firms primarily using a binary variable that is coded as one if a family member is an executive or a board member. He also uses a secondary variable that measures the fraction of common stock owned by the family. He finds that family ownership is positively correlated with earnings informativeness and negatively correlated with absolute value of abnormal accruals, and earnings persistence.

Looking at agency conflicts, Ding, Qu, and Zuang (2011) study empirically the accounting quality of Chinese family firms, as they intend to provide evidence on family firms' financial reporting from emerging economies. They outline their rationale by outlining the two types of agency problems. Because Type II agency problems tend to dominate in family firms (since family

owners have the power to monitor management and reduce Type I agency problems), and because previous studies examine environments in which legal protections mitigate Type II agency problems, Ding et al. (2011) propose to study a setting (China) in which investor protections are not as strong. Using earnings informativeness, the persistence of the transitory loss components in earnings and discretionary accruals as measures of earning quality, they find that Chinese family firms report lower quality accounting earnings than Chinese non-family firms.

Still looking at agency problems, Srinidhi, He, and Firth (2014) examine US family firm's choice on auditors. They note that family firms exhibit less Type I agency and more Type II agency problems, and that while independent boards can mitigate Type I problems it is not clear they can do the same for Type II problems. They note that a board can signal its potential to mitigate Type II problems by taking "demonstrably independent actions" (p.2305), such as choosing high quality auditors and demanding high quality, high fee audits. They find that family firms generally exhibit lower audit fees in comparison to non-family firms. They also find that family firms with stronger boards are more likely to choose specialist auditors and demand greater audit efforts. The authors also find that family ownership and board strength contribute to higher quality reported earnings.

Finally, Chen, Chen, Cheng, and Shevlin (2010) examine the effect that family firm ownership has on tax aggressiveness in the United States. They note that family firms have a higher potential benefit from extracting rents from using tax aggressive policies, but that they also have higher costs from potential IRS penalties and from reputational losses in the event of tax lawsuits. Since it is thus unclear what the effect on tax aggressiveness of family-ownership will be, the authors undertake an empirical study of the issue. They define family firms based on family block holdings or family executive position holdings. They measure tax aggressiveness using four measures: the effective tax rate, the cash effective tax rate, and two book-tax difference measures.

They control for ROA, leverage, loss carry-forwards, foreign income, size, market to book ratio, property plant and equipment, and intangible assets. They find that family firms are less tax aggressive than non-family firms, implying that reputational and penalty concerns dominate potential wealth extraction benefits. They further find that CEO ownership also reduces tax aggressiveness.

#### 2.1.2.2. Firm Performance

Anderson and Reeb (2003) study the profitability and valuation of family firms compared to non-family firms. Their rationale for the need to study this empirically stems from competing and opposite-directional effects that family ownership can have on profitability and valuation. On the one hand, family control could lead to the expropriation of rents from minority shareholders, set sub-optimal financial goals, and hire under-qualified family members to key positions, all of which would adversely impact performance. On the other hand, family owners would be in a better position to monitor management, and would have a longer (and therefore more economically sound) investment horizon, which could improve firm performance. They measure family firm ownership based on the fraction of family ownership and the presence of founder shareholders or founder board members. They measure performance using return on assets and Tobin's  $q$ . After controlling for firm size, growth opportunities, risk, and age, board composition, CEO compensation, and large block-holders, Anderson and Reeb find that family firms outperform non-family firms. They also find that family CEOs outperform outside CEOs and that the relationship between family ownership and performance is non-linear with performance rising with increasing family ownership up to a point, and then decreasing as family ownership continues to rise.

In a similar vein, Ben Amar and Andre (2006) examine the relationship between family firm ownership and performance of acquiring firms in Canada. Their rationale for this study is

that, while similar studies on acquiring firms have been done in the US and the UK, in which most firms have dispersed ownership, Canada has many firms where voting control is disproportionate to the right to receive cash flows. Canada is unique in this respect, because it still has a legal system similar to other Anglo-Saxon countries, with the strong legal protections for minority investors that such common law countries tend to have. The authors note that concentrated ownership can provide the benefit of increased monitoring of management on the part of the concentrated owners, but that they also have the potential to expropriate wealth from minority shareholders. They undertake an event study to analyze the effect of acquisition on shareholder wealth. They control for acquiring firm size, target firm listing, acquiring firm cross-listing, cash vs. non-cash compensation, synergy potential arising from relatedness of activities and cross-border acquisitions. They find that family owned acquiring firms exhibit greater returns than non-family acquiring firms, implying that markets perceive family owners as non-wealth-expropriating. Ben Amar and Andre (2006), like Anderson and Reeb (2003), find a non-monotonic relationship between family ownership and firm performance.

#### 2.1.2.3. Financing Choices

Chen, Dasgupta, and Yu (2014) undertake a study of how family firms differ in their financing choices from non-family firms. They note the expropriation potential that is present for family owners. They also note that transparency plays a role in agency costs and posit that increased transparency can have a greater impact for family firms than for non-family firms. They identify family firms by using Business Week's (2003) classification, which is based on whether a founder or descendent is an executive or board member or the largest shareholder. They use a double propensity-score-matching (PSM) procedure to measure corporate transparency. They find

that family firms have lower debt maturity and higher leverage than non-family firms and that the effect of transparency on these items is larger for family firms.

Also looking at debt, Anderson, Mansi, and Reeb (2003) examine the relationship between founding family ownership and agency cost of debt. They note that debtholders will generally demand a higher cost of debt when the interests of debtholders and the interests of shareholders are divergent. This arises from the fact that shareholders typically get more upside than debtholders from taking on additional risks (since the interest payments the debtholder receives tend to be fixed), so debtholders demand a higher cost of capital up front (Anderson et al., 2003). This situation most often arises when ownership of the firm is dispersed and owners are diversified. Family firm owners are a special class of owner because they are undiversified and likely desire to pass their ownership stake to their descendants, and hence are unwilling to see the business fail as are debtholders. This should have the effect of lowering the agency cost of debt. On the other hand, founding families can use their control to extract private rents, which would increase the agency cost of debt. Anderson et al. (2003) test the relation between family ownership and cost of debt. They measure family ownership and control by using proxy statements and measure cost of debt by using the yield spread. They control for firm performance, risk, size, and leverage, and for the debt's duration, and find that family ownership is associated with a lower cost of debt financing. They find the effect of family ownership is non-linear in that, increasing family ownership first decreases agency cost of debt, then begins to increase cost of debt.

## 2.2. Effects of IFRS Adoption

Bruggemann et al. (2013) separate the consequences of IFRS adoption into intended and unintended based on whether or not they can fall within the objectives mentioned in the International Accounting Standards (IAS) regulation. They note that there is no conclusive

evidence of increased comparability or transparency of financial statements from IFRS, but strong evidence of capital market and macroeconomic effects. They propose to explain this apparent mismatch by pointing out an apparent underestimation of accounting effects arising from the use of measures that do not capture the full set of IFRS-based changes, and an apparent overestimation of market and macroeconomic effects arising from the concurrent implementation of other reforms. They propose future research on intended consequences relating to improved measurements of the above items, including focusing on individual countries. They also propose research on unintended consequences, such as those on taxation, compensation and lending agreements, regulations, and dividends.

### *2.2.1. Transparency and Comparability Effects*

Ahmed, Neel, and Wang (2013) note that the effects of mandatory IFRS adoption on accounting quality depend on the standard quality of IFRS compared to local GAAP and the effect of IFRS adoption on enforcement mechanisms. They define standard quality as limiting managerial discretion and income smoothing. They cite Barth et al. (2008) in noting that IFRS could improve accounting quality by eliminating certain accounting alternatives, being more difficult to circumvent due to their principles-based nature, and better reflecting underlying economics by allowing measurements such as fair value accounting. Ahmed, Neel and, Wang (2013) further cite Barth et al. (2008) in noting that IFRS could decrease accounting quality by eliminating appropriate accounting alternatives and by allowing increased managerial flexibility due to a lack of implementation guidance arising from the principles-based nature of IFRS. They therefore undertake an empirical study of the effects of mandatory IFRS adoption on accounting quality. They find an overall decrease in accounting quality as measured by income smoothing, which increased, aggressive accruals, which increased, and timely loss recognition, which

decreased. Their results are driven by firms in countries with strong legal enforcement. They caution that their study uses data from only 2 years, and that it relies on the assumption that accounting quality changes are not driven by changes in accounting properties.

Horton, Serafeim, and Serafeim (2013) note that forecast errors appear to have decreased following IFRS adoption and study whether this is a result of higher information quality and comparability arising from IFRS adoption or whether managers are better able to meet forecasts because of better chances to manipulate earnings numbers. They use a difference in difference approach using non-IFRS-adopters as a benchmark. By examining analysts that switch from following firms that follow one GAAP then IFRS, multiple GAAPs then IFRS, and one GAAP then multiple GAAPs (one of which is IFRS), Horton et al. provide evidence that mandatory IFRS adoption provides improvements in comparability that affects analyst forecasting, and that mandatory IFRS adoption provides information quality benefits that affect analyst accuracy. They find no evidence for the hypothesis that the increase in forecast accuracy is associated with greater earnings manipulation opportunities.

Ahmed, Chalmer, and Khelif (2013) undertake a meta-analysis of studies that investigate the association between IFRS adoption and value relevance of book value of equity and earnings, discretionary accruals, and analyst forecast accuracy. They note that meta-analyses in the accounting literature are heretofore rare. A meta-analysis is a statistical technique that, if properly undertaken, can combine other studies in the extant literature in order to make more powerful conclusions regarding topics about which individual papers may disagree. They find evidence that IFRS adoption improves the value relevance of earnings, and that IFRS adoption increases forecast accuracy. They find no evidence that IFRS adoption reduces discretionary accruals nor that IFRS adoption improves the value relevance of book value of equity.

Balakrishnan, Li, and Yang (2014) study the effect of mandatory IFRS adoption on voluntary disclosure. They note three ways in which IFRS adoption could affect voluntary disclosure levels. The first, the confirmatory role of mandatory reporting, arises from the fact that higher quality mandatory reports could verify, after the fact, management's voluntary disclosures. This role predicts the possibility of either an increase or a decrease in the level of voluntary disclosure. The second channel, higher investor demand, arises from the fact that institutional investment increases following IFRS adoption and from the fact that firms with a large portion of institutional investors tend to voluntarily disclose more. This channel is expected, therefore, to drive increased voluntary disclosure following IFRS adoption. The third channel, heightened litigation risk, arises from the fact that principles based standards and fair value oriented standards, both of which IFRS are, could lead to increased litigation against management for withholding information. This means that managers could try to mitigate this risk with increased disclosures. Since not all of the channels are guaranteed to have the same directional effect on voluntary disclosures arising from IFRS, the authors resolve this question empirically. Using a difference-in-difference approach in which non-adopters are used as a benchmark, Balakrishnan et al. (2014) find that IFRS adoption leads to greater disclosures. They further find that this is driven by the confirmatory role of mandatory reporting and higher investor demand, but not by heightened litigation risk. They also find that labour unions, equity markets, government, and lenders all contribute to the association between IFRS adoption and increased management forecasts.

Khan et al. (2015) use an event study methodology to examine the effect of IFRS adoption in Canada on the information content of earnings announcements. Noting that if earnings announcements become more informative, a greater number of investors will update their expectations which will increase return volatility and trading volume, they hypothesize that "The

abnormal return volatility and abnormal volume for the annual earnings announcements of TSX firms and TSXV firms are higher in the post IFRS time period than in the pre-IFRS time period” (p. 284). After controlling for size, analyst coverage, institutional ownership, and extractive industry membership they find support for this hypothesis. They also perform a robustness check around whether the pre-IFRS estimation period was affected by the aftermath of the 2008 recession.

Liu and Sun (2015) note that IFRS adoption may increase earnings quality if the lower number of allowable accounting treatments leads to a better reflection of companies’ economic situations. Conversely, IFRS adoption could decrease earnings quality if the principles based approach allows managers the flexibility to manage earnings. They therefore set up a null hypothesis: “The mandatory adoption of IFRS did not significantly affect the earnings quality of Canadian firms” (p. 257). They use five measures of earnings quality. The first is the Jones (1991) model of discretionary accruals, with which they detect no significant effect of IFRS adoption on earnings management. The second is performance-matched discretionary accruals, with which they again detect no significant effect of IFRS adoption on earnings management. The third is small positive earnings occurrences. Here again, the authors find no significant result. The fourth measure is earnings persistence, in which they find a statistically significant increase, indicating improved earnings quality post IFRS adoption. The fifth is a long window earnings response coefficient. They find a statistically significant increase, which also indicates higher post-IFRS earnings quality. Overall, Liu and Sun’s (2015) results are mixed and cannot be interpreted as definitive evidence that earnings quality has improved following mandatory IFRS adoption in Canada.

### *2.2.2. Market Effects*

Li (2010) studies the effect of mandatory IFRS adoption on the cost of equity capital for firms in the European Union (EU). She notes that IFRS are increasingly being adopted, and that such adoption is thought by proponents to have positive effects. She quotes Tweedie (2006) who says adoption will “reduce the cost of capital and open new opportunities for diversification and improved investment returns”. She notes that IFRS may reduce cost of capital because of increased transparency and because of increased comparability. She further notes that although prior research (e.g. Leuz and Verrachia, 2000, and Barth et al., 2008) finds support for cost of equity capital reductions for voluntary adopters, there may be self-selection factors that render such findings non-generalizable to mandatory adoption. She performs a regression using as the dependent variable an average of cost of equity capital following Claus and Thomas (2001), Gebhardt et al. (2001), Gode and Mohanram (2003), and Easton (2004). Li (2010) uses as variables the type of adopter (mandatory vs voluntary), pre- vs. post-adoption period, and the interaction between the two aforementioned variables. After controlling for private placements, over the counter markets, exchange trading, inflation, size, return variability, leverage, industry and country, she finds a statistically significant decreasing effect of mandatory IFRS adoption on the cost of capital. The results hold even when bid-ask spread replaces cost of equity capital as the dependent variable, when countries with only voluntary adopters are excluded from the sample, and when self-selection bias is controlled for. Li (2010) cautions that only benefits are considered in her study, and that costs should also be considered before concluding the existence of a net benefit.

### **3. Hypothesis Development**

Given the economic importance of family firms in several countries around the world, Prencipe et al. (2014) argue that accounting issues in these firms are currently understudied in

accounting research and urge accounting scholars to devote more attention to financial reporting issues within family firms. Bruggeman et al. (2013) encourage researchers to take up studies that examine IFRS adoption effects in single countries. Therefore, a paper that addresses both these issues by looking at the effects of IFRS adoption for family firms in Canada would be a potentially significant contribution. Especially important in this case is the fact that any effects of IFRS adoption that are unique to family firms could get averaged out to statistically insignificant levels in studies that include them with a large number of non-family firms. These effects could be of consequence for investors in family firms even though they aren't detected in the broader set of all firms.

[Insert Table 1]

Ta (2014) discusses numerous difference between IFRS and domestic GAAPs. For example, IFRS is are more fair value based than are US and Canadian GAAPs. Also, IFRS allow a greater degree of capitalization of R&D costs than do Canadian and US GAAP. For a further discussions of these differences, see Ta (2014).

A recent study that further illuminates why this area is important is Hong (2013). Hong describes what can occur in companies in which managers and controlling shareholders become entrenched as a result of cash flow rights being separated from voting rights (as occurs in family firms). She notes that in such cases, entrenched managers and controlling owners can extract private benefits by “exploiting corporate cash reserves, making value decreasing capital expenditure decisions, or diverting proceeds from new equity issuances” (Hong, 2013, p1293; Jensen and Ruback, 1983; Shleifer and Vishny, 1997; Masulis et al., 2009; Gompers et al., 2009). Hong points out that such entrenched individuals might be punished by minority shareholders if these activities are discovered, and therefore they may employ tactics, such as earnings

management to hide such activities. She notes that proponents of IFRS claim that adoption will help protect minority shareholders. This is because IFRS are purported to increase disclosure and comparability which will decrease information asymmetry between minority and controlling shareholders. For example, IFRS go beyond most old domestic GAAPs by requiring firms to disclose information on the name of the ultimate controlling party, reducing anonymity (Hong, 2013). This will mitigate controlling owners' incentive to engage in expropriation activities as identification could lead to negative reputational effects. In addition, IFRS require new disclosures in the case of related party transactions; the nature of the related party relationship, as well as transaction and outstanding balance information must be disclosed, mitigating the expropriation of assets at non-market prices by controlling owners (Hong, 2013). Expropriation by managers is also constrained by IFRS-mandated disclosures on employee benefits which reduce the likelihood of excessive compensation. As a consequence, minority shareholders will be in a better position to monitor controlling shareholders and limit their ability to extract wealth from minority shareholders. As a result of these effects, the risks of expropriation by controlling shareholders and managers at the expense of minority shareholders should be expected to decrease following the adoption of IFRS. In other words, the benefit of controlling voting rights in these firms should decrease after IFRS adoption. Hong (2013) seeks to test this proposition empirically by examining the effect of IFRS adoption on voting premiums for dual class shares. She selects firms that have dual-class shares, both classes of which are traded on a stock exchange. Further, the inferior shares must not be able to be converted into superior voting shares, neither class can be entitled to a fixed dividend, and neither class of share can be redeemable or callable at the firm's option at a set price (Hong, 2013). She measures the voting premium as the "market price of a voting right divided by the market price of a cash flow right" (p1294). Using a sample period from 2002 to 2007, she finds

a statistically significant decrease in the voting premium, indicating that mandatory IFRS adoption benefits minority shareholders.

Although Hong (2013) does not explicitly study family firms, Villalonga and Amit (2009) conclude that family firms often achieve control for the family owners by using dual-class shares. Therefore, the results of Hong imply that private benefits of control that family owners may experience are in fact reduced by the extended disclosures that mandatory IFRS impose on firms. Given this, I expect that reported earnings should be more closely associated with stock returns for a given firm. In addition, if as mentioned in Hong above, entrenched owners hide their expropriation activities using earnings management, and private benefits of control are decreased by IFRS, then this is indirect evidence that earnings management may be reduced under IFRS. Decreased earnings management would also imply improved earnings informativeness. If this is true, the earnings informativeness of family firms should improve post-IFRS adoption. In this thesis, I will test this empirically and set up my research hypothesis as follows:

**H1:** Earnings of family firms in Canada will be more informative after mandatory IFRS adoption.

This will contribute both to enhancing our limited knowledge of accounting issues in family firms (which I define for the purpose of this thesis as firms whose shares are held 10% or more by the founder's family) and our understanding of the effects of IFRS adoption in Canada. Liu and Sun (2015) find inconclusive evidence as to whether IFRS adoption improved earnings quality in Canada. However, they do not distinguish between family and non-family firms. A failure to reject my hypothesis would imply that even though there is no statistical effect on Canadian firms as a whole, the unique nature of family firms means that IFRS adoption has unique effects for this subset of publically traded firms.

## **4. Data Collection and Methodology**

I collect all financial data from the Bloomberg terminals, which offer a vast set of data on all dependent and control variables, as well as the earnings information which will be used to construct the interaction term, as discussed below. Data are then exported to Microsoft Excel in which they can be organized for export into SPSS for statistical analysis.

### 4.1. Sample Collection

For each firm in my sample, I pull data for each fiscal year from 2007-2014. This gives me four years of data before and after IFRS adoption. My sample will consist of Canadian family firms listed on the Toronto Stock Exchange (TSX) included in the TSX/S&P index. Similar to previous studies such as Smith and Amoako-Adu (1999), Faccio and Lang (2002), and Maury (2006), I define family firms as those in which the founder or a member of her family by either blood or marriage is the largest shareholder of the firm. I rely on the 10% threshold for family control because the Toronto Stock Exchange requires the disclosure of the identity of any shareholder holding 10% and more of the outstanding shares. I will use 2009 as a starting point and will assume that if a firm met (did not meet) the criteria in 2009, it will continue to meet (not meet) the criteria in all other years. This list of family firms has 43 firms. However, for 11 firms, financial data is not available for all years due to mergers and acquisitions. I also dropped one additional firm because it switched to US GAAP (rather than IFRS) during the study period and another one with negative book value of equity. This leaves 30 firms as a final sample for my study.

## 4.2. Variables

[Insert Table 2]

Following Francis, Schipper and Vincent (2005) and Wang (2006), I will measure earnings informativeness by setting up a regression with return as the dependent variable and earnings as the independent variable. The dependent variable, return will be firm  $j$ 's stock return for year  $t$ . The independent variable, Earnings will be firm  $j$ 's accounting earnings for year  $t$ . Next, I will include a dummy variable for whether each firm year takes place before (0) or after (1) IFRS adoption.

I follow the approach of prior literature (e.g. Francis et al., 2005) in selecting my variables. Francis et al. examine earnings informativeness and dividend informativeness for dual-class firms compared to single class firms. They perform regressions with return as the dependent variable while differentiating between firms that separate cash flow rights from voting rights and those that do not. My empirical model is based on their model (1a) explained on page 345. While their study examines earnings informativeness when there is a separation of cash flow rights from voting rights, my thesis focuses on the effect of IFRS adoption. Therefore, I replace their treatment variable for separation of cash flow from voting rights with my treatment variable for whether or not IFRS were adopted.

As defined in Francis et al. 2005, Loss, is a dummy variable that is 0 if earnings in year  $t$  are positive and 1 if earnings in year  $t$  are negative. Size is the log of firm  $j$ 's sales in year  $t-1$ . MB is firm  $j$ 's market to book ratio at the end of year  $t-1$ . Leverage is the firm's debt to total asset ratio at the end of year  $t-1$ . Dividends is dividends paid in year  $t$  scaled by the market cap in year  $t-1$ . Although Francis et al. (2005) control for institutional ownership, data on this variable was, to my

knowledge, unavailable in Bloomberg, and is therefore not included as a control. I add a control for industry in order to account for Canada's unique resource based economy.

### 4.3. Model

Based on the above discussion, my baseline model is:

$$\text{Return}_{j,t} = a + B_1\text{Earnings}_{j,t} + B_2\text{Earnings}_{j,t}*\text{IFRS}_{j,t} + B_3\text{Earnings}_{j,t}*\text{Loss}_{j,t} + B_4\text{Earnings}_{j,t}*\text{Size}_{j,t} + B_5\text{Earnings}_{j,t}*\text{MB}_{j,t} + B_6\text{Earnings}_{j,t}*\text{Leverage}_{j,t} + B_7\text{Earnings}_{j,t}*\text{Dividend}_{j,t} + B_8\text{Earnings}_{j,t}*\text{Industry}_j + e$$

The variables in the model are defined as in Table 2 above. The coefficient  $B_2$  for the interaction term  $\text{Earnings}*\text{Post\_IFRS}$  will be key, as it will indicate the association or lack thereof that IFRS adoption has with earnings informativeness of family firms. Although I drop Francis et al.'s treatment variable of separation of control from cash flow rights, I continue their practice of using inferior shares (in terms of voting rights) for my calculations. This is consistent with the fact that my research will have implications for the decisions of minority shareholders.

## **5. Results**

### 5.1. Sample Description

I begin with a sample of 43 firms which were identified as being family firms in 2009. These firms are firms which are held by a shareholder or his immediate family to at least 10% control. Family firm ownership status is assumed to be sticky (Bozec and Laurin, 2008; Haw et al., 2004; Warfield et al., 1995), so no further analysis is done concerning whether these firms

were family firms in the other years studied. Of the 43 firms, 13 were dropped from the sample for the reasons detailed in Table 3, Panel A

[Insert Table 3]

Table 3, Panel B provides a breakdown of my sample firms by industry. As the greatest number of firms fall in the “consumer discretionary” industry, I use this industry as my default industry when controlling for industry in my regressions in section 5.3. Of the 9 industries in Table 3B, firms from two of them, Energy and Materials, combine to comprise 33% of my sample. This is consistent with Canada’s economy being a resource based economy.

Of the 30 companies in the sample, all but 2 were audited by big-four accounting firms at the beginning of the sample period.. Therefore, I consider audit firm quality to be rather homogenous in my sample, and thus audit firm quality is not controlled for in my regression model.

Of the 30 companies in the sample, only two were cross-listed with the New York Stock Exchange during my sample period, and one of those was only for a few months at the beginning of the sample period. I therefore consider my sample to be homogenous enough in this respect that I do not consider cross-listing as an additional control in my regression analysis.

Finally, although Canadian firms had the option to voluntarily adopt IFRS early, an examination of my sample revealed that no firms in my sample adopted IFRS early. This homogeneity rules out the possibility for self-selection bias that would be carried with early adopters.

## 5.2. Univariate Results

In this section I will present the descriptive statistics and bivariate correlation coefficients.

[Insert Table 4]

Table 4 presents the descriptive statistics for my sample. For each variable, there are 210 firm-year observations: 7 yearly observations for each of the 30 firms. The seven yearly observations consist of 4 pre-adoption years and 3 post adoption years. The year of transition is excluded, but will be included as part of robustness testing (see Section 5.4). The 12-month returns and 15-month returns have nearly the same minimum, but noticeably different maximums. This implies that 15-month returns are differently skewed than 12-month returns, which could explain the slight differences in mean between the two. In 17 percent of the firm-years, losses are observed. For the purposes of descriptive statistics, Earnings, Revenue and Dividends Paid are unscaled, and are not included in the regressions presented in section 5.3. The other variables will be scaled as per the variable definitions for the regression model in Tables 5 and 6. Average revenue is 8,431 million, average continuous income is 321 million, and average dividends paid is 141 million. Average long term debt/assets is 22.7%.

[Insert Table 5]

Table 5 presents bivariate correlation coefficients. As might be expected the two types of returns are significantly correlated. However, there is some significant correlations between each of the returns, and earnings and Earnings\_IFRS. In addition, the control variables are generally not correlated with the dependent variable. Size and Loss are somewhat correlated with Earnings, but this is not surprising because revenue and earnings are both income statement numbers, and loss

is based on earnings. Overall, I do not consider multi-collinearity a concern, based on the results of Table 5.

### 5.3. Multivariate Results

In this section I present the results of pooled regressions of my model, using 15-month return and 12-month return as dependent variables in separate analyses. The results of my main regression, which uses 15-month return are presented in Table 6A. This model is shown to be statistically significant at the 1% level, the adjusted R squared is 19.2% and the F-statistic is 4.321.

[Insert Table 6A]

Highlighted in bold is the information for the Earnings\*IFRS interaction variable coefficient. This coefficient is positive and significant at the 1% level. This supports my hypothesis and implies that IFRS adoption is associated with increased earnings informativeness for Canadian family firms. The coefficients for Earnings\*Loss and Earnings\*Leverage are also significant. This follows the results of Francis et al. (2005) in the case of Earnings\*Loss, but diverges from their results in the case of Earnings\*Leverage. The coefficients for Earnings and Earnings\*Dividends are statistically insignificant. In Francis et al. (2005), the coefficient for Earnings is statistically significant, but the coefficient for Earnings\*Dividends is insignificant. The above discrepancies may be due to unique characteristics of family firms and the Canadian context. Although interesting, I leave this discussion to future research. Although my results on the Earnings\*Dividends coefficient is similar to that of Francis et al., it is different from Hong (2013), who does find a significant correlation. This may be due to the fact that the samples are drawn from different countries.

[Insert Table 6B]

I also present a secondary regression using 12 month returns as a robustness check. The results of this regression are shown in Table 6B. Again the model as a whole is shown to be significant at the 1% level. The adjusted R-squared is 14.1% and the F-statistic is 3.285. Within this model, the coefficient of the interaction of interest (i.e. Earnings \* IFRS) is positive and significant at the 5% level. Although this is not as strong of an association as I find in my main results, it does still support my hypothesis. The significance levels for the other variables remain similar.

#### 5.4. Additional Tests

In this section, I undertake some additional robustness tests to confirm the veracity of my above results. First, in order to mitigate the relatively small number of firm years, I add sample data for all 2011 firm years and re-run the regression including 2011 in the post-adoption period. The results (untabulated) do change slightly from the original analysis. The models as a whole remain significant at the 1% level, and the coefficient for my variable of interest remains significant at the 5% using 15-month return as the dependent variable. The significance level moves outside of the 10% level for the coefficient when using 12 month return as the dependent variable, but only by a small margin, as the level is 10.2%.

Second, I control for potential effects of the great recession. Given the uncertainty that permeated the market at the time, it is possible that earnings informativeness of GAAP at that time are not as strong as it would otherwise have been. In such a case, my results could show an increase in earnings informativeness that is driven by the post-IFRS period occurring after the financial crisis, and not because IFRS being intrinsically better for earnings informativeness. I control for this by removing all 2008 data from my sample and re-running the regression. Again, the results (untabulated) do not materially change from the original analysis, with model significance at the

1% level, and 15-month return significant at the 5% level, and 12-month return significant at the 10% level.

Third, in order to control for fixed year effects, I add a variable for year to the regression. In these results (also untabulated), the models as a whole remain significant at the 1% level. The coefficient for the variable of interest using 15-month return as the dependent variable remains significant at the 1% level, and it remains significant at the 5% level when using 12-month return as the dependent variable.

Taken as a whole, these results show that my model is generally robust and that IFRS adoption is positively associated with an increase in earnings informativeness for Canadian family firms. Although this is different from the results of Liu and Sun (2015), who find inconclusive results when examining earnings quality, they do not study family firms per se. Given the findings of Hong (2013), it is possible that minority shareholders of family firms could see greater information benefits from IFRS adoption than do shareholders of non-family firms. Since this effect could be averaged out towards nil in Liu and Sun's results, I expand their findings by examining the effects of IFRS adoption for the unique subset of publicly traded firms that is family firms.

## **6. Limitations and Areas for Future Research**

This research is subject to several limitations. Firstly, the sample size of only 30 firms approaches the lower limit for what can be considered statistically valid. This is somewhat mitigated by the fact that 7 firms-years are used, providing a total observations to 210. Future research will be able to take advantage of information on additional firm-years becoming available with the passage of time, and increase the number of firm-year observations used. In addition,

future research might attempt to use partial data from firms which were dropped from my sample for incomplete data (as shown in Table 2A) and use a process of company matching to construct additional sets of firm-years.

Earnings informativeness is just one facet of the larger construct of earnings quality (Dechow, Ge and Schrand, 2010). While I believe this study to be an important contribution to the literature on the effects of IFRS adoption and family firms, future studies could examine broader areas of earnings quality to confirm my findings. This would have implications for investors in family firms.

As noted by Li (2010), studies on IFRS adoption focus on the benefits of IFRS adoption and do not consider the costs. This paper falls into that category; I consider a potential benefit in increased earnings informativeness but do not consider costs. Standard setters and other stakeholders should consider both benefits and costs when evaluating IFRS adoption. Future research could examine the costs of IFRS adoption and attempt to formulate a framework for comparing them with benefits.

As noted in section 1.1, there are numerous ways to define family firms. I use the 10% threshold in this paper, but future research should take this definition into account when considering generalizability. Future research could do further tests to see if similar tests using differing definitions of family firms yield similar results.

In this paper, I assume that family ownership and control is sticky over time. Previous studies (Bozec and Laurin, 2008; Haw et al., 2004; Warfield et al., 1995) rely on such an assumption to examine the effects of ownership structure on firm value and earnings quality. Future research could examine this issue in more depth.

Similarly, my study uses a binary definition of family firms, with all family firms assumed to be homogenous in terms of the characteristics that lead to their being classified as family firms. For example, my definition uses a threshold of 10% family ownership. However, the actual levels of family ownership could vary. In addition there are other criteria by which family firm status can be evaluated, such as the existence of family members on the board of directors or in top management positions (Berrone et al., 2012; Miller et al., 2007). Future research could treat family firm ownership not as binary, but as falling on a spectrum. Another measure future research could use is the degree of cash flow separation from voting rights.

Additionally, my study uses raw return as the dependent variable. While this is consistent with the literature such as Francis et al. (2005), it does retain a risk of other unrelated contemporary macro-economic factors affecting the results. Although my sensitivity tests provide some evidence that this is not the case, another approach for future research could be to formulate a model that calculates an a priori expected return and use it to calculate abnormal return which replaces raw return as the dependent variable.

Although I am confident in the specification of my model, it does not include a common variable that is used in prior studies (Francis et al., 2005): institutional ownership. I have excluded it for data unavailability. However, future studies of this topic could include it in their analyses in addition to other control variables (such as analyst coverage and audit quality) and test for their effect on earnings informativeness.

This paper provides evidence that IFRS adoption has an effect on earnings informativeness for Canadian publically traded family firms. Combined with the evidence from Liu and Sun (2015) that there were inconclusive effects on all firms, this implies that IFRS adoption had greater effects on family firms than non-family firms. Future research could study this directly. Increased earnings

informativeness also implies improved comparability, which in turn could lead to lower costs of capital for Canadian family firms. Future research could study this empirically.

## **7. Conclusion**

This paper examines the effect of IFRS adoption on earnings informativeness in family firms that are publically traded in Canada. Specifically, I study a set of firms which are at least ten percent family-owned and analyze earnings informativeness in the pre- and post-IFRS adoption periods. My research sheds light on both the consequences of IFRS adoption in Canada and on the unique nature of family firms. On one hand, it contributes to literature on IFRS adoption by showing evidence for an effect on a notable subset of companies. On the other hand, it contributes to literature on family firms by examining the accounting nature of this unique subset of publically traded firms. My findings are consistent with the evidence for private benefits of control found by Hong (2013), and extend the work of Liu and Sun (2015), but showing that their inconclusive result with regards to the effects of IFRS on earnings quality may be driven by the large number of non-family firms in their sample. This is an important contribution to family firm literature, as it highlights a difference between family firms and non-family firms.

I run a pooled regression that uses raw returns as the dependent variable, earnings as an independent variable, IFRS adoption as a treatment variable, and various control variables that are prevalent in prior literature. My results show a statistically significant positive coefficient for the interaction variable Earnings\*IFRS. This implies that earnings informativeness in Canadian family firms increased in the years after IFRS were adopted in Canada. The results are significant when using both 15-month and 12-month return as the dependent variable. Further, I run sensitivity tests around the effect of the transition year, and the year of the great recession, and fixed year effects and find no major changes to my significance levels.

My results have implications for investors in family firms, standard setters, and for regulators in countries that are still considering IFRS adoption. For example, based on these results, standard setters and regulators might consider adopting additional measures to increase transparency. Furthermore, standard setters in countries such as the United States that have yet to adopt IFRS, can take results such as mine into account. As well, minority shareholders in family firms could have increased confidence that their interests are protected. Finally, as noted in section 6, my results offer areas that warrant further studies by the academic community.

**Table 1: IFRS-GAAP Comparison**

<b><u>IFRS</u></b>	<b><u>Canadian and US GAAPs</u></b>
Allow capitalization of R&D expenditures	Allow capitalization of R&D expenditures in limited circumstances only
Greater reliance on fair value accounting	Lesser reliance on fair value accounting
Lack implementation guidance for extractive and insurance industries	N/A

A summary of contrasts between IFRS and Canadian and US GAAPs based on Ta (2014). For a more detailed discussion, see Ta (2014).

**Table 2: Variable Definitions**

<b>Variable</b>	<b>Definition</b>
15-Month Return <sub>j,t</sub>	Firm j's 15-month cumulative raw return for the period from the end of fiscal year t-1 to three months after the end of fiscal year t
12-Month Return <sub>j,t</sub>	Firm j's 12-month cumulative raw return for the year from three months after the end of fiscal year t-1 to three months after the end of fiscal year t
Earnings <sub>j,t</sub>	Firm j's continuous income in fiscal year t scaled by market cap at the end of fiscal year t-1
IFRS <sub>j,t</sub>	1 if fiscal year t occurs after IFRS adoption, 0 otherwise
Loss <sub>j,t</sub>	1 if earnings in fiscal year t are negative, 0 otherwise
Size <sub>j,t</sub>	Log of firm j's revenues in fiscal year t-1
MB <sub>j,t</sub>	Firm j's market to book ratio at the end of fiscal year t-1
Leverage <sub>j,t</sub>	Long term debt to total assets in year t-1
Dividends <sub>j,t</sub>	Dividends paid by firm j in fiscal year t scaled by market cap at the end of fiscal year t-1

**Table 3: Sample Description**

<b>Panel A: Sample Selection</b>		
Original Sample of Family Firms		43
Less: Acquisitions/Mergers		6
Delisted due to company request		2
Publically listed after start of sample period		2
Change in fiscal year-end during sample period		1
Firm switched to US GAAP instead of IFRS		1
Firm had negative book value of equity during sample period		1
Final Sample Size		30
<b>Panel B: Sample by Industry</b>		
	Companies	Percentage
Consumer Discetionary	6	20%
Consumer Staples	5	17%
Energy	6	20%
Industrials	2	7%
Information Technology	2	7%
Materials	4	13%
Telecommunications Services	1	3%
Utilities	2	7%
Financials	2	7%
Total Sample Size	30	100%

**Table 4: Descriptive Statistics**

Variable	N	Minimum	Maximum	Mean	Std. Deviation
15-month Return	210	-0.900	4.146	0.136	0.527
12-Month Return	210	-0.809	6.267	0.165	0.630
Earnings (unscaled)	210	-1260.000	3754.000	311.971	557.507
Market Cap	210	240.198	37854.940	5330.549	6610.437
Earnings (scaled)	210	-1.488	0.388	0.038	0.144
IFRS	210	0.000	1.000	0.429	0.496
Loss	210	0.000	1.000	0.176	0.382
Revenue (unscaled)	210	71.643	35543.400	8042.379	9144.727
Size	210	7.855	10.551	9.589	0.595
MB	210	0.270	6.405	2.077	1.267
Leverage	210	0.000	55.181	22.025	14.406
Dividends Paid (unscaled)	210	0.000	1469.000	142.948	241.917
Dividends (scaled)	210	0.000	0.159	0.021	0.019
Valid N (listwise)	210				

This table reports descriptive statistics for the sample of 210 firm years (30 firms, 7 years: 2007-2010, 2012-2014). 15-Month Return is Firm  $j$ 's 15-month cumulative raw return for the period from the end of fiscal year  $t-1$  to three months after the end of fiscal year  $t$ . 12-Month Return is Firm  $j$ 's 12-month cumulative raw return for the year from three months after the end of fiscal year  $t-1$  to three months after the end of fiscal year  $t$ . Earnings (unscaled) is the continuous income of firm  $j$  in year  $t$  in millions of dollars. Market Cap is firm  $j$ 's market cap at the end of fiscal year  $t-1$  in millions of dollars. Earnings (scaled) is continuous income divided by market cap, and is the Earnings used in the regressions presented in Section 5.3. IFRS is 1 if fiscal year  $t$  occurs after IFRS adoption, 0 otherwise. Loss is 1 if firm  $j$ 's earnings in fiscal year  $t$  are negative, and 0 otherwise. Revenue (unscaled) is the revenue of firm  $j$  in fiscal year  $t-1$ . Size is the log of revenues. MB is firm  $j$ 's market to book ratio at the end of fiscal year  $t-1$ . Leverage is firm  $j$ 's long term debt to total assets ratio in year  $t-1$ , shown as a percentage. Dividends Paid are unscaled dividends paid by firm  $j$  in fiscal year  $t$  in millions of dollars. Dividends (scaled) is Dividends Paid divided by market cap, and is the Dividends used in the regressions presented in Section 5.3.

**Table 5: Bivariate Correlations**

		15-Month Return	12-Month Return	Earnings	IFRS	Loss	Size	MB	Leverage	Dividends
15-Month Return	Pearson Correlation	1	.844***	.246***	.079	-.166**	-.117*	-.197***	-.036	.077
	Sig. (2-tailed)		.000	.000	.257	.016	.092	.004	.608	.264
	N	210	210	210	210	210	210	210	210	210
12-Month Return	Pearson Correlation	.844***	1	.120*	-.030	-.010	-.023	-.198***	.012	.019
	Sig. (2-tailed)	.000		.082	.668	.883	.742	.004	.865	.786
	N	210	210	210	210	210	210	210	210	210
Earnings	Pearson Correlation	.246***	.120*	1	-.042	-.600**	.141**	.076	.033	.120*
	Sig. (2-tailed)	.000	.082		.543	.000	.041	.274	.631	.084
	N	210	210	210	210	210	210	210	210	210
IFRS	Pearson Correlation	.079	-.030	-.042	1	-.022	.088	.024	-.018	.189***
	Sig. (2-tailed)	.257	.668	.543		.755	.202	.728	.793	.006
	N	210	210	210	210	210	210	210	210	210
Loss	Pearson Correlation	-.166**	-.010	-.600***	-.022	1	-.200***	-.114*	-.055	-.032
	Sig. (2-tailed)	.016	.883	.000	.755		.004	.099	.431	.641
	N	210	210	210	210	210	210	210	210	210
Size	Pearson Correlation	-.117*	-.023	.141**	.088	-.200***	1	-.089	.171**	.102
	Sig. (2-tailed)	.092	.742	.041	.202	.004		.200	.013	.142
	N	210	210	210	210	210	210	210	210	210
MB	Pearson Correlation	-.197***	-.198***	.076	.024	-.114*	-.089	1	.132*	-.101
	Sig. (2-tailed)	.004	.004	.274	.728	.099	.200		.056	.145
	N	210	210	210	210	210	210	210	210	210
Leverage	Pearson Correlation	-.036	.012	.033	-.018	-.055	.171**	.132*	1	.106
	Sig. (2-tailed)	.608	.865	.631	.793	.431	.013	.056		.127
	N	210	210	210	210	210	210	210	210	210
Dividends	Pearson Correlation	.077	.019	.120	.189***	-.032	.102	-.101	.106	1
	Sig. (2-tailed)	.264	.786	.084	.006	.641	.142	.145	.127	
	N	210	210	210	210	210	210	210	210	210

\*\*\*. Correlation is significant at the 0.01 level (2-tailed).

\*\*. Correlation is significant at the 0.05 level (2-tailed).

\*. Correlation is significant at the 0.10 level (2-tailed).

This table reports bivariate coefficients for the sample of 210 firm years (30 firms, 7 years: 2007-2010, 2012-2014). 15-Month Return is Firm  $j$ 's 15-month cumulative raw return for the period from the end of fiscal year  $t-1$  to three months after the end of fiscal year  $t$ . 12-Month Return is Firm  $j$ 's 12-month cumulative raw return for the year from three months after the end of fiscal year  $t-1$  to three months after the end of fiscal year  $t$ . Earnings is firm  $j$ 's continuous income in year  $t$  divided by market cap at the end of year  $t-1$ . IFRS is 1 if fiscal year  $t$  occurs after IFRS adoption, and 0 otherwise. Loss is 1 if firm  $j$ 's earnings in fiscal year  $t$  are negative, and 0 otherwise. Size is the log of firm  $j$ 's revenues in fiscal year  $t$ . MB is firm  $j$ 's market to book ratio at the end of fiscal year  $t-1$ . Leverage is firm  $j$ 's long term debt to total assets ratio at the end of year  $t-1$ . Dividends Paid are unscaled dividends paid by firm  $j$  in fiscal year  $t$  in millions of dollars. Dividend is dividends paid by firm  $j$  in year  $t$  divided by firm  $j$ 's market cap, at the end of year  $t-1$ .

**Table 6A: Regression Results (15-Month Return)**

Variable	Standardized Beta Coefficient	t	Significance
(Constant)		-0.792	.429
Earnings	1.134	.482	.630
<b>Earnings*IFRS</b>	<b>.437</b>	<b>2.864</b>	<b>.005 ***</b>
Earnings*Loss	-.793	-3.094	.002 ***
Earnings*Size	-1.796	-.793	.429
Earnings*MB	.240	1.757	.081 *
Earnings*Leverage	.682	3.694	.000 ***
Earnings*Dividends	-.105	-1.046	.297
Earnings*ConsumerStaples	.113	1.468	.144
Earnings*Energy	.380	1.282	.202
Earnings*Industrials	.135	1.808	.072 *
Earnings*IT	.371	3.398	.001 ***
Earnings*Materials	.364	3.544	.000 ***
Earnings*Telecommunications	-.122	-1.723	.087 *
Earnings*Utilities	-.041	-.590	.556
Earnings*Financials	.188	1.926	.056 *
Adjusted R-Squared			.192
F-Statistic			4.321
Model Significance			.000 ***

\*\*\* Significant at the 1% level

\*\* Significant at the 5% level

\* Significant at the 10% level

This table presents the results of a pooled regression using 15-month return as the dependent variable. Earnings is Firm j's continuous income in fiscal year t scaled by market cap at the end of fiscal year t-1. IFRS is 1 if fiscal year t occurs after IFRS adoption, 0 otherwise. Loss is 1 if earnings in fiscal year t are negative, and 0 otherwise. Size is the log of firm j's revenues in fiscal year t-1. MB is firm j's market to book ratio at the end of fiscal year t-1. Leverage is firm j's long term debt to total assets in year t-1. Dividends is the dividends paid by firm j in fiscal year t scaled by market cap at the end of fiscal year t-1. ConsumerStaples is 1 if firm j is in the Consumer Staples industry, and 0 otherwise. Energy is 1 if firm j is in the Energy industry, and 0 otherwise. Industrials is 1 if firm j is in the Industrials industry, and 0 otherwise. IT is 1 if firm j is in the IT industry, and 0 otherwise. Materials is 1 if firm j is in the Materials industry, and 0 otherwise. Telecommunications is 1 if firm j is in the Telecommunications industry, and 0 otherwise. Utilities is 1 if firm j is in the Utilities industry, and 0 otherwise. Financials is 1 if firm j is in the Industrials industry, and 0 otherwise.

**Table 6B: Regression Results (12-Month Return**

Variable	Standardized Beta Coefficient	t	Significance
(Constant)		.736	.463
Earnings	-0.507	-0.209	.835
<b>Earnings*IFRS</b>	<b>.300</b>	<b>1.906</b>	<b>.058 **</b>
Earnings*Loss	-.629	-2.381	.018 **
Earnings*Size	-0.895	-.383	.702
Earnings*MB	-.029	-.202	.840
Earnings*Leverage	1.022	5.366	.000 ***
Earnings*Dividends	-.046	-.441	.660
Earnings*ConsumerStaples	.145	1.814	.071 *
Earnings*Energy	.873	2.852	.005 ***
Earnings*Industrials	.166	2.160	.032
Earnings*IT	.473	4.206	.000 ***
Earnings*Materials	.464	4.379	.000 ***
Earnings*Telecommunications	-.079	-1.087	.278
Earnings*Utilities	-.054	-.747	.456
Earnings*Financials	.311	3.098	.002 ***
Adjusted R-Squared			.141
F-Statistic			3.285
Model Significance			.000 ***

\*\*\* Significant at the 1% level

\*\* Significant at the 5% level

\* Significant at the 10% level

This table presents the results of a pooled regression using 12-month return as the dependent variable. Earnings is Firm j's continuous income in fiscal year t scaled by market cap at the end of fiscal year t-1. IFRS is 1 if fiscal year t occurs after IFRS adoption, 0 otherwise. Loss is 1 if earnings in fiscal year t are negative, and 0 otherwise. Size is the log of firm j's revenues in fiscal year t-1. MB is firm j's market to book ratio at the end of fiscal year t-1. Leverage is firm j's long term debt to total assets in year t-1. Dividends is the dividends paid by firm j in fiscal year t scaled by market cap at the end of fiscal year t-1. ConsumerStaples is 1 if firm j is in the Consumer Staples industry, and 0 otherwise. Energy is 1 if firm j is in the Energy industry, and 0 otherwise. Industrials is 1 if firm j is in the Industrials industry, and 0 otherwise. IT is 1 if firm j is in the IT industry, and 0 otherwise. Materials is 1 if firm j is in the Materials industry, and 0 otherwise. Telecommunications is 1 if firm j is in the Telecommunications industry, and 0 otherwise. Utilities is 1 if firm j is in the Utilities industry, and 0 otherwise. Financials is 1 if firm j is in the Industrials industry, and 0 otherwise.

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