Does accounting comparability alleviate the informational disadvantage of foreign investors?[1]

Yogesh Chauhan [*], Surya B. Kumar

Department of Finance and Accounting, Indian Institute of Management Raipur, GEC Campus, Raipur, 492015, India

ARTICLE INFO	ABSTRACT
	The paper examines the benefits of financial accounting comparability for an emerging market. We document the benefits in the form of foreign equity investments. Our empirical results find that foreign investors prefer to invest in firms showing more accounting comparability. Our results also reveal that the benefits of accounting comparability are more prominent when firms have less visibility, operate in a less competitive industry, and have stock prices that reflect a lower level of firm-specific information. We further find that the effect of accounting comparability is lower for domestic mutual fund ownership. Overall, our study suggests that accounting comparability can complement a poor information environment concerning emerging market firms.

1. Introduction

Financial statement comparability is a unique qualitative feature of accounting information that enables investors to identify and understand similarities and differences in financial statements across firms (Financial Accounting Standards Board (FASB), 2010). Regulators, therefore, frequently consider accounting comparability as a required characteristic of financial reporting for efficient investment decision-making (FASB, 2010). Recent academic studies also document the benefits of accounting comparability for various outcomes. For instance, De Franco, Kothari, and Verdi (2011) show that the availability of information about comparable firms enhances the quality and quantity of information available about the firm, which in turn lowers the cost of acquiring information. Young and Zeng (2015) show that accounting comparability improves valuation accuracy. Kim, Li, Lu, and Yu (2016) find that accounting comparability reduces expected stock prices crash risk.

Despite the importance of accounting comparability stated by policy makers[2] and academic studies, empirical studies on the benefits of comparability are not only limited, but also restricted to U.S. and European markets[3] (De Franco et al., 2011; DeFond, Hu, Hung, & Li, 2011; J.-B.; Kim et al., 2016; Young & Zeng, 2015). Our study is the first to extend and examine the benefits of accounting comparability for an emerging market. We quantify the benefit of accounting comparability in the form of foreign equity ownership. The topic of attracting foreign investors to emerging market firms has been always interesting to policy makers and managers, since foreign investors not only bring new capital, but also encourage better governance for emerging market firms (Ferreira & Matos, 2008; Gillan & Starks,

2003; Jeon & Ryoo, 2013; Wu, Shen, & Lu, 2015). The resulting demand from global investors can also improve stock liquidity and can allow emerging market firms to participate efficiently in the global market (Aggarwal, Klapper, & Wysocki, 2005; Jeon & Moffett, 2010; Lee & Chung, 2018).

Prior studies argue that foreign investors underinvest in firms having a poor information environment, such as low visibility and lower credibility of financial information (Ahearne, Griever, & Warnock, 2004; Bradshaw, Bushee, & Miller, 2004). The intuition is that a poor information environment restricts them to acquiring reliable information at lower costs, which in turn requires, *ex-ante,* more effort to evaluate a firm's performance and, *ex-post,* extensive monitoring (Brennan & Cao, 1997; Choe, Kho, & Stulz, 2005; Kang & Stulz, 1997b; Lee & Cho, 2016; Leuz, Lins, & Warnock, 2008). As a result, they do not expect to earn fair returns from their investments. Emerging market firms pose further challenges to foreign investors, because poor information flows from firms to outsiders and low analyst coverages create barriers to information acquisition, thereby adding to their cost of investing.

We expect that accounting comparability is likely to facilitate foreign investors' use of information from comparable firms as an additional input to deduce a firm's valuation, which in turn improves valuation accuracy and thus the return on investments. We also expect, since accounting comparability lowers information asymmetry between managers and foreign investors, that it may facilitate their monitoring of firms. Advancing this view, we hypothesize that foreign investors may exhibit a preference for firms showing greater accounting comparability.

Our research setting is India, an emerging market economy that has been experiencing significant deregulation since 1991. Two special features of the Indian market can pose challenges to foreign investors in information gathering and processing about a firm. First, business group firms, because of cross-holding among affiliated firms, are usually alleged to suffer from a greater lack of transparency than standalone firms. This is true because controlling owners can often transfer funds across group firms with negligible external monitoring (Khanna & Palepu, 1999). Chang, Khanna, and Palepu (2000) also find that analysts' forecast accuracy is lower for business group firms compared to standalone firms.

Second, concentrated ownership by founding family members in Indian firms is favorable for entrenchment and offers controlling owners both incentives and opportunities to extract personal benefits at the expenses of outside investors (Bertrand, Mehta, & Mullainathan, 2002; Rafael; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). In such an environment, the controlling owners have incentives to reveal less firm-specific information to outside investors to hide their misdeeds (Fan & Wong, 2005; J.; Kim & Yi, 2006). It consequently increases the information acquisition cost to outside investors. Lang, Lin and Miller (2004) also show that analysts are less likely to follow firms having concentrated ownership. Overall, institutional features of the Indian market are more likely to create barriers to foreign investors in collecting and processing information. Therefore, we argue that increased accounting comparability may provide a (partial) relief to foreign investors for analyzing Indian firms.

To test our Hypothesis, we consider various firm-specific measures of accounting comparability. We particularly employ De Franco et al.'s (2011) measures that define comparability as the difference between two firms' accounting systems while mapping economic events to accounting numbers. Using Indian firms' data over the period of 2003–2016, we find that accounting comparability indeed attracts foreign investors. For economic significance accounting comparability explains approximate 6.25% of difference of foreign investments in top decile firms and bottom decile firms, after controlling for various cross-sectional differences across firms, including earnings quality and firm invariant heterogeneity. We confirm our results by using Barth et al.'s (2012) measure of accounting comparability. We also show that not only foreign equity investments, but also the number of foreign investors increases with accounting comparability. Our result, therefore, highlights the importance of accounting comparability to attracting foreign investors. We confirm our main result after controlling for endogeneity issues by various methodologies.

In order to substantiate our main Hypothesis—i. e., accounting comparability alleviates the informational disadvantage of foreign investors—we further consider that comparability-foreign investment relationship would vary with firms' information environment. We find that the positive effect of accounting comparability is stronger for firms having lower visibility to market participants (non-index firms) and for firms that are operating in a less competitive industry. We further find that the benefit of accounting comparability is more pervasive for firms whose stock prices reveal less firm-specific information.

To corroborate with previous studies that suggest foreign investors face an informational disadvantage relative to domestic investors, we find that accounting comparability is not related to domestic mutual fund ownership. This is consistent with the rationale that domestic investors' better access to value-relevant information channels, such as manager and insiders, makes accounting comparability less valuable to them.

Overall, our study highlights the benefit of accounting comparability to attract foreign investors. Our study is important to managers and policy makers because it addresses the timely issue of the importance of accounting comparability. Most countries, especially emerging market countries, are in the process of the adoption of international accounting standards, such as the IFRS, to increase accounting comparability (Tweedie, 2008). Our study documents the benefit of accounting comparability, particularly for an emerging market.

Our study contributes to the literature in three ways. First, we add to the small but growing literature that examines the benefits of accounting comparability. Previous studies document the benefits of accounting comparability in the form of improved analyst forecasts (De Franco et al., 2011), increased debt market participations (S. Kim, Kraft, & Ryan, 2013), decreased expected crash risk, lowered cost of equity (Siqi, 2010), more efficient pricing of peer firms' earnings news (Campbell & Yeung, 2012), and improved acquirers' acquisition-investment decisions (C. Chen, Young, & Zhuang, 2012). We clarify the benefits of accounting comparability while attracting foreign investors. Our paper is very close to the study by DeFond et al. (2011), who find that accounting comparability improves foreign mutual fund participation in European Union countries. Nevertheless, we provide evidence for an emerging market context where information flows and analyst coverage are limited, and we, therefore, expect foreign investors would benefit more from accounting comparability.

Second, we complement studies by La Porta et al. (2000; Porta, Lakonishok, Shleifer and Vishny, 1997; 1998) who show a positive impact of stronger investor protection laws, high enforcement, and high quality on market development. Bradshaw et al. (2004) demonstrate how information acquisition costs can affect foreign firms, resulting in a home bias. Our study suggests that emerging market firms may partially complement weak investor protection by improving accounting comparability in order to attract foreign investors.

Finally, we contribute to the literature that examines firm-level factors in attracting foreign investments (Aggarwal et al., 2005; Ferreira & Matos, 2008; Kang & Stulz, 1997a; Leuz et al., 2008). For Indian firms, Chauhan and Kumar (2017) find that foreign investors underinvest in firms having greater founder ownership. Our study reports that foreign investors invest more in firms with greater accounting comparability.

The remainder of this paper is organized as follows: Section 2 describes foreign investment in India. Section 3 documents background and Hypothesis development. In Section 4, we report data and control variable information. Sections 5, 6, 7, and 8 report empirical results. In Section 9, we conclude our study.

2. Foreign investments in India

Foreign Institutional Investors (FIIs) are the primary channel of foreign equity investment in Indian firms. In September 1992, Indian government has opened domestic stock markets for foreign investments. In early years, pension funds, mutual funds, investment trusts, asset management firm, nominee companies and incorporated/institutional portfolio manage their power-of-attorney holders (providing discretionary and non-discretionary portfolio management services) were permitted to invest in India. Nevertheless, in 1996–97, university funds, endowments, foundations, charitable trusts/societies were also allowed to invest in Indian firms.

On March 2017, close to 9136 foreign portfolio investors[4] are registered with Indian regulators, with the equity investment of $4266.7 million.[5] Further, among major countries, U.S. investors have invested the highest (34.77%), followed by Mauritius (17.59%) and Luxembourg (8.8%) in the equity for the year 2017 (National Stock Exchange of India, 2017). While, these national associations do not imply that actual funds originate from these particular countries, it can provide an idea about the relative importance of different regions across the globe in foreign equity investments (Chakrabarti, 2001). Recent, PricewaterhouseCoopers survey (2017) on foreign portfolio investment find that the cost of trading is high in India relative to other emerging markets. Anshuman, Chakrabarti, and Kumar (2016) find that the aggregate trading activities of foreign portfolio investors reduces stock volatility for Indian stock market.

3. Background and hypothesis development

3.1. Financial statement comparability

Financial statement comparability enables investors to identify differences and similarities in accounting information across firms (FASB, 2010). In this sense, it is one of the desirable characteristics of financial statements because the availability of comparable firms' information lowers the cost of acquiring information, thereby improving the information environment of the firm (De Franco et al., 2011). As a result, it facilitates the efficient allocation of capital and boosts investors' confidence (FASB, 1980, p. 40). Given the importance of accounting comparability, various studies document its benefits on various outcomes. For instance, De Franco et al. (2011) find that analysts' forecast improves with accounting comparability. Young and Zeng (2015) show that accounting comparability improves the accuracy of relative valuation. Kim et al. (2016) document that accounting comparability can restrict managers to withhold bad news, thereby reducing future stock prices crash risk. While these studies use various methodologies to measure comparability or settings to define comparability, in essence, they all conclude that accounting comparability facilitates investors' acquisition of information at lower costs, thereby reducing information asymmetry between insiders and outsiders.

3.2. Foreign investments

It is important to understand the factors that attract foreign investors, particularly when they not only bring new capital but also facilitate enhancement of firm value (Baek, Kang, & Park, 2004; Choi, Park, & Yoo, 2007; Koo & Maeng, 2006), reduction of capital costs (Bekaert & Harvey, 2000) and improvement of corporate governance (Aggarwal, Erel, Ferreira, & Matos, 2011; Garner & Kim, 2013). Prior studies have found that foreign investors underinvest[6] in foreign firms where they face an informational disadvantage relative to local investors (Brennan & Cao, 1997; Kang & Stulz, 1997a). This is because, *ex-ante*, it restricts them in evaluating a firm's performance (Choe et al., 2005), and *ex-post,* it increases the effort required to monitor managers (e.g. Fan & Wong, 2005; Leuz, Nanda, & Wysocki, 2003). As a result, foreign investors do not expect to receive fair returns on investments. In the same vein, Ferreira and Matos (2008) find that foreign investors prefer firms that are cross-listed in the U.S. Aggarwal et al. (2005) report that foreign investors prefer to invest in emerging markets with stronger accounting standards, shareholder rights, and legal frameworks. Miletkov, Poulsen, and Wintoki (2014) find that corporate board independence attracts foreign investments, particularly in countries with poor investor protection.

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[4] "https://www.thehindubusinessline.com/markets/over-1300-new-fpis-register-with-sebi-in-fy18/article24134895.ece.

[5] We use exchange rate Rs 60 = 1 dollar for this conversion.

[6] In the literature, it is coined as *equity home bias.*

3.3. Link between financial statement comparability and foreign investments

Our study examines the impact of accounting comparability on foreign equity ownership for Indian firms. While the domination of founder/family ownership resolves the agency problem of separation of ownership and control, it raises another agency problem between inside and outside shareholders (Claessens, Djankov, & Lang, 2000). Prior studies document that insiders have less incentive to reveal firm-specific information, to conceal their private benefits (see, e.g., Shleifer & Vishny, 1997; Zingales, 1994). Leuz et al. (2003) show that insiders manipulate reported earnings for personal benefit, particularly when shareholder protection is weak. Leuz (2010) finds that foreign investors underinvest in firms that are located in markets with poor investor protection and disclosure and have concentrated ownership structures. For Indian firms, Chauhan and Kumar (2017) show that foreign investors have a strong preference for firms having lower founder ownership.

As discussed previously, accounting comparability facilitates investors' comparison of financial statements across firms without much adjustment, and thus enhances the availability of information to outside investors at lower costs. We posit that, by having access to and being able to comprehend information from comparable firms, foreign investors could not only have a better understanding about a firm's performance but also extend their monitoring to founder-dominated firms. This enhanced understanding and monitoring can play a central role in restricting founders' ability and incentives to divert a firm's resource for personal benefits.

Maintaining the assumption that firms with higher comparability alleviates the informational disadvantage of foreign investors, we posit that foreign investors would prefer firm with more comparable financial statements.

Hypothesis.   *Ceteris paribus*, financial statement comparability increases foreign investments.

4. Data and variable formation

4.1. Data

This study includes all non-missing firm-year observations of Indian firms listed on two major stock exchanges, the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE), for the period of 2003–2016. We obtain data from the Prowess database, provided by the Centre for Monitoring Indian Economy (CMIE). It has been considered a reliable source for similar studies concerning Indian firms (Bertrand et al., 2002; Khanna & Palepu, 1999). We discount financial and government-owned firms. To mitigate the impact of outliers, we winsorize at 1 percent from the bottom and the top of values. Our final sample covers more than 1000 firms.

4.2. Variable formation

4.2.1. Foreign investments
Our study highlights the factors that attract foreign investments. We estimate foreign investments (*FI*) as foreign equity investments by total outstanding stocks. Leuz et al. (2010) consider foreign ownership that is divided by the firm's free float stocks, rather than using total outstanding stocks. Since the interest variable of their study is insider ownership, there can be a mechanical relationship between insider and foreign ownership (Dahlquist, Pinkowitz, Stulz, & Williamson, 2003). In the current study, the interest variable is accounting comparability, and thus the study would not be vulnerable to mechanical relationship.

4.2.2. Financial statements comparability measures
We employ the recently developed measure of accounting comparability by De Franco et al. (2011) as a measure of accounting comparability. Comparability is described as the proximity between two firms' accounting systems in recording economic events in financial statements. To compute the accounting function of firm *i* for year *t*, we estimate the following time-series regression by using firm *i*'s 16 previous quarters' earnings (a proxy for financial statements) and quarterly stock returns (a proxy for economic events):

$$Earnings_{iq} = \alpha_i + \beta_i\, Return_{iq} + \varepsilon_{iq} \tag{1}$$

Here, *i*, and *q* represent firm *i* and quarter *q*. *Return* is quarterly stock returns, and *Earnings* is net income before extraordinary items per share. The estimated coefficients a_i and b_i are a measure for accounting function for firm *i* that maps a firm economic event into financial statements. For firm *j*, from the same two-digit industry as firm *i*, accounting function is proxied by a_j and b_j, measured using firm *j*'s time series.

To compute the closeness of the function between firms *i* and *j*, we use each firm's quarterly stock returns to predict the earnings with each firm's accounting function parameters (α_i and β_i, or α_j and β_j), respectively. Specifically, we use the following equations:

$$E[Earnings]_{iiq} = \alpha_i + \beta_i\, Return_{iq} \tag{2}$$

$$E[Earnings]_{ijq} = \alpha_j + \beta_j\, Return_{iq} \tag{3}$$

Here, $E[Earnings]_{iit}$ is predicted earnings for firm *i* given the accounting function of firm *i* and firm *i*'s return in quarter *q*, and $E[Earnings]_{ijt}$ is predicted earnings for firm *j* given the accounting function of firm *j* and firm *i*'s return in quarter *q*.

We calculate accounting comparability between firm *i* and *j* as the negative value of the average absolute difference between the predicated earnings using firm *i*'s and firm *j*'s function:

$$CompAcct_{ijq} = -\frac{1}{16} X \sum_{q-15}^{q} \left| \left(Earnings_{iit} - Earnings_{ijt} \right) \right| \tag{5}$$

The higher value of *CompAcct* suggests greater accounting comparability. We estimate accounting comparability for each firm *i* and *j* pair within a two-digit industry classification.

Following De Franco et al. (2011), we compute firm *i*'s accounting comparability *CompAcct* using (1) the average of firm *i*'s four highest comparability scores (*CompAcct4*) for year *t* and (2) the average of all of firm *i*'s comparability scores (*CompAcctInd*) for year t^{10}

Consistent with Chen, Ding, and Xu (2014), we transform our accounting comparability measures into ranks to decrease noise in the estimates. To do so, for every year, *Rank_CompAcct4* and *Rank_CompAcctInd*.

4.2.3. Control variables

Founder ownership in a firm is supposedly creating a chance for private benefits to the owner (Claessens et al., 2000). Therefore, it is highly likely that founder ownership negatively affects the quality of accounting reporting, subsequently affecting the comparability of accounting earnings negatively. We control for *Founder ownership* (%) using the percentage of founders who own a firm's equity. Firm size also affects the accounting quality, as larger firms are observed and tracked by analysts, investors, and other regulators. Accordingly, it is expected that comparability should be positively related with size of the firm, which we control by the log of total assets (*Firm size*). As other control variables in this study, we use return on assets (*ROA*), defined as operating income to total assets; leverage ratio (*Leverage*), defined as total long-term borrowing to total assets; price-to-book ratio (*PB*), defined as stock price divided by book value of equity; firm age (*Firm Age*), defined as the log of the number of years since a firm's incorporation; and standard deviation of returns (*Ret std*).

5. Empirical analyses

5.1. Descriptive statistics

Table 1 reports the definition of all variables used in the study. Table 2 presents descriptive statistics. We find that foreign investors hold 7.34 percent equity in an average Indian firm, with a median value of 3.73 percent. The average value of the comparability proxy *CompAcct4* suggests that the average error in quarterly earnings between firm *i* and the mean of the top four comparable firms is 2.39 percent of market value. The distribution of our accounting comparability measures is consistent with De Franco et al. (2011). We further find that the average Indian firm has 31 percent leverage, with a median value of 30 percent. Consistent with previous studies (Chauhan, Dey, & Jha, 2016; Chauhan & Kumar, 2017), we find that founders own more than 51 percent of the firm's equity.

Table 3 reports the Pearson correlation matrices for all variables used in the study. At first glance, we find that both of our measures of accounting comparability are highly correlated, indicating that both are likely to capture the same phenomena. We next find that the accounting comparability measures are positively correlated with foreign investments. As expected, foreign investments (*FI*) is positively correlated with firm size (*Firm size*) and negatively correlated with *Leverage*. None of the variables exhibits excessive correlation, and therefore our estimated coefficients are less likely to be vulnerable to multicollinearity issues.

5.2. The effect of financial statement comparability on foreign investments

We first start with the univariate results. For every year, we first group all firms into deciles based on *CompAcct4* and report the mean of foreign investments for each decile. Fig. 1 reports the results. We find that the mean value of *FI* for group 10 is more than group 1. The difference is also statistically significant.

Now, we examine our proposed Hypothesis in the regression framework

$$FI_{i,t} = \alpha + \beta_1 Rank\_CompAcct_{it} + controlvariables + \varepsilon_{i,t} \tag{6}$$

Here, *i* and *t* represent firm *i* and year *t*. *FI* is the percentage of foreign equity investments. *Rank_CompAcct* is the measure of comparability developed by De Franco et al. (2011). We expect a positive coefficient of β_1 to support our Hypothesis, i.e., financial statement comparability increases foreign equity investments. We also include all control variables described in Section 3.2.2. To control for industry effects, we include industry dummies for each two-digit National Industry Classification (NIC) and year effects are controlled by year dummies. Our reported standard errors are clustered at the firm level.

Table 4 reports the results. From Columns (1) and (2), we find that the coefficient of both measures of accounting comparability is positive and significant at the 1% level. In term of economic significance, accounting comparability (*Rank_CompAcct4*) explains about 6.25% of the difference of foreign investments between top decile firms and bottom decile firms. In order to obtain the above percentage, we first divide the estimated coefficient of comparability measures, reported in Columns (1) and (2), by the mean value of foreign investments (7.34). This calculation yields 0.25%. Then, we divide 0.25% by the difference of foreign investments (4%) between top decile firms and bottom decile firms, from Fig. 1. Columns (3) and (4), we replace industry fixed effects with firm fixed effects to control for firm invariant omitted variables bias and find consistent results.

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[10] We use Verdi (2011) sas code to build financial statement comparability (http://mitmgmtfaculty.mit.edu/rverdi/publications/).

Table 1
Definition of Variables.
The table presents the definition of variables used in this study.

Variable	Definition
Foreign Investments	Taken as percentage of foreign equity investment in firm scaled by total outstanding stocks of the firm.
CompAcct4	Average of four highest comparability score for firm i's with its industry peers.
CompAcctInd	Average of all comparability scores for firm i's with its industry peers.
Earnings$_{it}$	Taken as Net income before extraordinary items for firm i at time t.
Founder ownership	Percentage of equity hold by Owners Group.
Size	Log of Total Assets.
ROA	Operating Income scaled by Total Assets.
Leverage	Total long-term borrowings scaled by Total Assets.
PB Ratio	Market Price of one share divided by Book Value per equity.
Firm Age	Log of numbers of years since incorporation.
Ret SD	Standard deviation of stock returns.
Return	Stock returns are quarterly returns taken for individual stocks.
BG	A dummy variable, taken as '1' when firm is owned by a business group or '0' otherwise.
Dividend dummy	A dummy variable, taken as '1' when dividends are declared by firm otherwise '0'.
Barth2012_aLL	Alternative measure of comparability as suggested by Barth et al. (2012), taken as average value of all ranks for firm i.
Barth2012_M4	Alternative measure of comparability as suggested by Barth et al. (2012), taken as average value of top 4 ranks for firm i.
Rank_CompAcct4	we rank all firms by accounting comparability measures and split them into deciles (lowest to highest), and then divide each decile by 9 so that they range between 0 and 1
Rank_CompAcctInd	we rank all firms by accounting comparability measures and split them into deciles (lowest to highest), and then divide each decile by 9 so that they range between 0 and 1
HHI_rank	Rank of firm i in each industry group based on Hefindahl-Hirschman Index.
Index	An indicator variable, taken as '1' when stock is part of a stock index, '0' otherwise.

Table 2
Descriptive statistics.
The table reports the descriptive statistics of variables used in the study.

	Mean	SD	5%	25%	Median	75%	95%
Foreign Investments	7.34	9.05	0.02	0.49	3.73	11.18	26.44
CompAcct4	−2.39	5.78	−9.73	−1.86	−0.76	−0.38	−0.16
CompAcctInd	−8.25	9.74	−23.73	−8.75	−5.04	−3.53	−2.41
Founder ownership	51.23	16.98	20.91	40.37	51.9	63.68	75
Size	8.88	1.53	6.49	7.89	8.83	9.83	11.45
ROA	0.12	6.25	−0.07	0.05	0.1	0.15	0.21
Leverage	31	26	1	15	30	43	64
PB Ratio	2.64	9.58	0.2	0.61	1.28	2.74	7.97
Firm Age	28.78	1.82	11	20	27	44	80
Ret SD	0.16	0.09	0.06	0.1	0.14	0.19	0.31
Return	0.04	0.7	−1.24	−0.3	0.07	0.45	1.13

The coefficients of the control variables are generally consistent with prior studies. Consistent with Chauhan and Kumar (2017), we find the coefficient of founder ownership is negative and significant, suggesting that foreign investors underinvest in founder-dominated firms. Across all columns, firm size (Size), firm operating profitability (ROA), firm growth proxy (PB Ratio), and stock returns (Return) have positive and significant coefficients. This is consistent with the view that foreign investors invest more in information-efficient and growth firms. The positive and significant coefficient of Dividend dummy indicates that foreign investors prefer dividend-paying firms. The negative coefficients of Ret std and Leverage suggest that foreign investors underinvest in riskier firms.

Overall, we provide evidence that foreign investors prefer to invest in firms having greater accounting comparability, which supports the Hypothesis that financial statement comparability reduces the information acquisition and processing costs to foreign investors.

5.3. Robustness analysis

5.3.1. Robustness analysis

5.3.1.1. Endogeneity concerns. Though we posit that foreign investors prefer firms showing greater accounting comparability, our empirical findings may be vulnerable to endogeneity concerns. Most of the empirical corporate finance literature documents at least two sources of endogeneity: reverse causality and unobservable heterogeneity. In this subsection, we conduct robustness tests to address endogeneity concerns. This is because overlooking endogeneity can create ambiguity while inferencing empirical results. Fang, Maffett, and Zhang (2015) find that an increase in U.S. institutional ownership drives emerging market firms to increase accounting comparability to their U.S. industry peers. In contrast, we estimate accounting comparability to Indian firms for each possible combination of Indian firms, thereby having lower possibility of reverse causality problem. In Table 4, we report the results of firm-fixed effects that can potentially mitigate bias arising from unobservable (fixed) heterogeneity. In order to address other endogeneity concerns, we perform

Table 3

Correlation matrix.

The table reports the correlation value between variable used in the study. the bold value indicates that the correlation value is significant at 5% level.

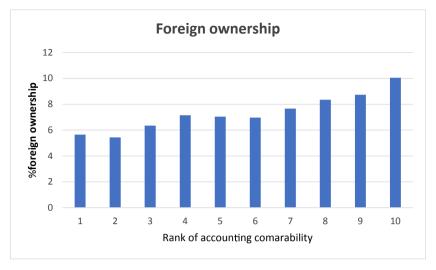| Variable	Foreign Investments	CompAcct4	CompAcctInd	Founder ownership	Size	ROA	Leverage	PB Ratio	Firm Age	Ret SD	Return
Foreign Investments		**0.05**	**0.07**	**−0.15**	**0.39**	0.00	**−0.09**	**0.07**	0.01	**−0.08**	−0.01
CompAcct4	**0.05**		**0.91**	**0.10**	**0.07**	0.00	**−0.18**	**0.03**	0.00	**−0.13**	**−0.06**
CompAcctInd	**0.07**	**0.91**		**0.09**	**0.09**	0.00	**−0.18**	**0.03**	0.00	**−0.14**	**−0.10**
Founder ownership	**−0.15**	**0.10**	**0.09**		**0.08**	**0.03**	**−0.09**	**0.07**	0.00	**−0.13**	**0.09**
Size	**0.39**	**0.07**	**0.09**	**0.08**		**0.08**	0.02	0.01	**0.18**	**−0.17**	**−0.05**
ROA	0.00	0.00	0.00	**0.03**	**0.08**		**−0.50**	**0.08**	0.01	−0.01	0.00
Leverage	**−0.09**	**−0.18**	**−0.18**	**−0.09**	0.02	**−0.50**		**−0.05**	**−0.06**	**0.12**	**−0.04**
PB Ratio	**0.07**	**0.03**	**0.03**	**0.07**	0.01	**0.08**	**−0.05**		0.01	0.00	−0.01
Firm Age	0.01	0.00	0.00	0.00	**0.18**	0.01	**−0.06**	0.01		**−0.11**	**0.04**
Ret SD	**−0.08**	**−0.13**	**−0.14**	**−0.13**	**−0.17**	−0.01	**0.12**	0.00	**−0.11**		**−0.11**
Return	−0.01	**−0.06**	**−0.10**	**0.09**	**−0.05**	0.00	**−0.04**	−0.01	**0.04**	**−0.11**	

Fig. 1. The below figure presents the mean value of foreign ownership based on the deciles of the accounting comparability.

Table 4
The impact of accounting comparability on foreign ownership.
The table reports the impact of accounting comparability on foreign investments. Table 1 reports the definition of variables. t-values are robust to firm-level clustering and heterogenicity and shown in parentheses. *, ** and *** indicate significant level at 10%, 5% and 1%, respectively.

Variable	Coefficient	Coefficient	Coefficient	Coefficient
Intercept	−10.011***	−10.233***	0.850	0.957
	(-6.28)	(-6.35)	(0.21)	(0.24)
Rank_CompAcct4	1.884***		1.988***	
	(5.58)		(6.90)	
Rank_CompAcctInd		1.011***		0.763***
		(2.92)		(2.81)
Founder ownership	−0.111***	−0.110***	−0.056***	−0.055***
	(-18.48)	(-18.31)	(-5.57)	(-5.43)
BG	−0.106	−0.100	−2.805	−1.998
	(-0.49)	(-0.46)	(-0.53)	(-0.38)
Size	2.677***	2.706***	0.748***	0.887***
	(34.36)	(34.80)	(3.53)	(4.19)
ROA	12.324***	12.310***	5.815***	5.695***
	(9.57)	(9.54)	(5.65)	(5.51)
Leverage	−2.189***	−2.674***	−5.052***	−5.439***
	(-3.67)	(-4.53)	(-7.10)	(-7.61)
PB Ratio	0.042***	0.044***	0.017**	0.017**
	(4.41)	(4.66)	(2.43)	(2.48)
Firm Age	−0.770***	−0.772***	−0.736	−1.187
	(-4.46)	(-4.47)	(-0.76)	(-1.21)
Ret SD	−0.058	−0.401	−1.578*	−1.727**
	(-0.05)	(-0.34)	(-1.90)	(-2.07)
Return	0.515***	0.511***	0.309***	0.302***
	(3.07)	(3.03)	(2.70)	(2.63)
Dividend dummy	1.235***	1.363***	1.857***	2.044***
	(5.01)	(5.55)	(8.20)	(9.06)
Industry fixed effects	Yes	No	Yes	No
Year fixed effects	Yes	Yes	Yes	Yes
Firm fixed effects	No	Yes	No	Yes
Adjusted R^2	0.279	0.737	0.275	0.736
N	7131	7131	7131	7131

additional tests.

Ideally, the endogeneity concerns can be addressed if we can identify an exogenous (instrumental) variable that is correlated with the accounting comparability, but uncorrelated with foreign investments. The accounting literature does not suggest a variable that satisfies the exclusion restriction of being a good instrumental variable for our study. Lewbel (2012) develops an estimation technique to identify structural parameters in regression models with endogenous regressors in the case of the nonexistence of external instruments. Lewbel (2012) particularly emphasizes that the existence of heteroskedasticity of the errors in the first-stage regressions can be used as a viable source of identification in instrumental variable regressions. This estimation technique is mainly appropriate for studies in which

Table 5

The impact of accounting comparability on foreign ownership: Lewbel (2012) and Arellano and Bover (1995).

The table reports the impact of accounting comparability on foreign investments. Panel A reports results for Lewbel (2012) in which we use the level variable of accounting comparability. Panel B reports results for Arellano and Bover (1995) with rank variable of accounting comparability. Table 1 reports the definition of variables. *t*-values are robust to firm-level clustering and heterogenicity and shown in parentheses. *, ** and *** indicate significant level at 10%, 5% and 1%, respectively.

Variable	Panel A: Lewbel (2012)		Panel B: Arellano and Bover (1995)	
Intercept	−10.18	−15.152***	4.04	2.06
	(-8.25)	(-20.94)	(0.26)	(0.16)
CompAcct4 (Rank_CompAcct4)	0.03*		2.66**	
	(1.92)		(2.00)	
CompAcctInd (Rank_CompAcctInd)		0.02*		0.41
		(1.93)		(0.42)
Founder ownership	−0.11***	−0.11***	0.04	−0.02
	(-15.67)	(-15.52)	(0.46)	(-0.31)
BG	−0.25	−0.24	−1.32	−7.27
	(-1.20)	(-1.11)	(-0.08)	(-0.73)
Size	2.69***	2.72***	−0.24	1.61
	(32.37)	(32.64)	(-0.07)	(0.73)
ROA	8.06***	7.71***	55.70*	25.03
	(4.21)	(4.05)	(1.78)	(1.24)
Leverage	−3.45***	−3.48***	8.15	−1.28
	(-5.27)	(-5.31)	(0.51)	(-0.14)
PB Ratio	0.39***	0.37***	−0.65	−0.21
	(6.25)	(5.73)	(-0.76)	(-0.38)
Firm Age	−0.66***	−0.68***	−0.35	0.91
	(-4.00)	(-4.10)	(-0.18)	(0.66)
Ret SD	−0.34	−0.51	−16.15	−13.04
	(-0.27)	(-0.41)	(-1.39)	(-1.05)
Return	0.62***	0.62***	−1.66	−1.92
	(3.50)	(3.50)	(-1.22)	(-1.52)
Dividend dummy	1.26***	1.31***	−1.54	0.21
	(4.83)	(5.01)	(-0.63)	(0.08)
AR(1) test (p-value)			0.05	0.06
AR(2) test (p-value)			0.10	0.221
Hansen-test over-identification (p-value)	0.12	0.15	0.16	0.18
Diff-in Hansen tests of exogeneity			0.16	0.20
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Adjusted R^2	0.57	0.57		
N	7131	7131	5831	5831

external instrumental variables are not identified.

Lewbel (2012) suggests that under the condition of heteroskedasticity, all products (covariances) between the residuals from the first-stage regressions and each (or a subset) of the demeaned exogenous regressors can be considered suitable instruments to attain identification. To do so, we particularly follow 'ivreg2h' Stata program developed by Baum and Schaffer (2012) with the 2-Step GMM estimation method. We report standard error robust to heteroskedasticity. For this analysis, we do not use ranked variables of accounting comparability (*Rank_CompAcct4* and *Rank_CompAcctInd*) since these variables have less heterogeneity. We particularly use *CompAcct4* and *CompAcctInd* variables. In order to examine the strength of the instrumental variables, we also report formal tests for weak instruments. In the first stage, the value of the *F-statistic* is 457.36, rejecting the null Hypothesis of weak instruments at the 5% level (Stock and Yogo's (2005) critical value at the 5% level is 21.27). Anderson and Rubin's (1948) test also rejects the null hypothesis of weak instruments at the 1% level. Hansen's (1982) *J* test also suggests that our instrumental variables are valid.

Columns (1) and (2) of Table 5 present results for *CompAcct4* and *CompAcctInd*, respectively. The coefficients of both measures of accounting comparability are positive, but statistically significant for *CompAcct4*. Our robustness analysis, therefore, reveals that the proposed relationship is not vulnerable to an endogeneity concern.

In order to address the dynamic nature of the relationship between foreign investments and accounting comparability, we perform the dynamic panel GMM estimator developed by Arellano and Bover (1995). The advantage of a dynamic panel GMM is that if the underlying economic process itself dynamic—in our case, if the current value of accounting comparability is associated with the past value of foreign investments—then there is a possibility to find valid instrumental variables from the history of the firm to address reverse causality. That is, the past value of foreign investments and accounting comparability can be used as instrument variables for the current value of accounting comparability. As a result, the external instrument variables are not required to establish causation.[7]

To do this, we use Roodman's (2009) 'xtabond2' module in Stata to perform the two-step system GMM. We include two lags of foreign investments in the dynamic model because lags three and greater are insignificant. Thus, we can use lags three and four of foreign investments as instrumental variables. We assume that all the regressors except firm age, firm size, founder ownership, business group dummy, the year dummies, and the industry dummies are endogenous.

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[7] For further details, refer to Wintoki, Linck, and Netter (2012).

In the tabulated results in Panel B, we find that the coefficient of accounting comparability proxies is positive, but it is statistically significant for *Rank_CompAcct4* at the 5% level. We also report the results of the specification tests: AR (2) second-order serial correlation tests, a Hansen *J* test of over-identification restrictions, and a difference-in-Hansen test of exogeneity. The p-value of AR (2) test is 0.10 (0.221), implying that we have included adequate lags to control for the dynamic aspects of our empirical relationship (see, Arellano & Bond, 1991). This test advocates that lags three and four of foreign investments can be used as instrumental variables because they will be exogenous to current foreign investments. The *J*-statistic with p-value of 0.16 (0.18) also supports the validity of the instrumental variables. A difference-in-Hansen test of exogeneity with p-value of 0.16 (0.20) also suggests that the subset of instrumental variables used in the system of GMM estimates is exogenous.

In a nutshell, the robustness tests to address endogenous concerns suggest that the reported positive relationship in this study between the accounting comparability and foreign investments is not determined by any endogeneity concerns.

5.3.2. Alternative measure of comparability

In order to provide robustness to our baseline results, we use Barth et al.'s (2012) measure for accounting comparability.

To estimate Barth et al.'s (2012) measure, for each firm-year, we estimate the following regression equation using 16 quarters of data:

$$Ret_{i,q} = \propto + \beta_{1i}\left(\frac{NI_{iq}}{P_{iq-1}}\right) + \beta_{2i}\left(\frac{\Delta NI_{iq}}{P_{iq-1}}\right) + \beta_{3i}LOSS_{iq} + \beta_{4i}LOSS_{iq}*\left(\frac{NI_{iq}}{P_{iq-1}}\right) + \beta_{5i}LOSS_{iq}*\left(\frac{\Delta NI_{iq}}{P_{iq-1}}\right) + \varepsilon_{iq} \tag{7}$$

Here, i and q represent firm i and quarter q. P is stock price, *RET* is quarterly stock returns, *NI* is net income before extraordinary items per share. *LOSS* is a dummy variable that takes a value 1 if *NI* is negative, and 0 otherwise. We follow the same algorithm used to estimate our main measures of accounting comparability to compute *Rank_CompAcct4_Barth* and *Rank_CompAcctInd_Barth*.

Table 6 reports the results. The coefficients of both measures of Barth, Landsman, Lang, and Williams (2012) are positive and significant at the 1% level and confirm our Hypothesis.

6. Foreign investments and financial statements comparability—information asymmetry

In order to provide robustness to our Hypothesis that financial statements comparability alleviates the informational disadvantage of foreign investors, we further examine whether cross-sectional relation observed between foreign investments and accounting comparability vary, depending on the level of information asymmetry.

6.1. Firms included in index versus firms excluded from index

H. Chen, Noronha, and Singal (2004) demonstrate that the addition of firms' stock in a market index rises investor awareness and thus, these firms' stock prices reveal more information, which in turn reduces information asymmetry. Building on this view, we posit that foreign investors may face more difficulty while evaluating non-index-based firms compared to index-based firms. Thus, the benefits of financial statement comparability are likely to be more pronounced for non-index firms compared to index firms.

To test our prediction, we consider all firms that are a part of major national or international indices, such as BSE Sensex, NSE Nifty, and Morgan Stanley Emerging Market Index. We deploy an indicator for these firms (*Index dummy*). Overall, we find 84 index-based firms. We then add an interaction variable of *Index dummy* and comparability measures to our main model (1). To prove our Hypothesis, we expect a negative sign of the estimated coefficient for the interaction variable.

Table 7 reports the results. As expected, the coefficients of *Index dummy* are positive and significant, suggesting that foreign investors prefer to invest in index-based firms, since they face less informational disadvantage. The coefficient of the interaction term is significantly negative. The sum of the coefficient of comparability measures and the Index *dummy* is significantly negative for *Rank_CompAcct4* and insignificant for *Rank_CompAcctInd*. These results highlight that the benefits of accounting comparability are pervasive only for firms having low investor awareness, i.e., those more vulnerable to information problems.

6.2. High versus low product market competition

Prior studies document that firms' efficiency in product markets also prevails in stock markets (Giroud & Mueller, 2010, 2011; Hart, 1983). For instance, Balakrishnan and Cohen (2013) show that the intensity of misreporting accounting information reduces with product market competition. In the same vein, Ali, Klasa, and Yeung (2014) find that mangers associated with a competitive market are more likely to make voluntary disclosures. We advance this view and posit that financial statement comparability is likely to alleviate the inefficiency of the product market and, thus, its impact would be more prominent for firms operating in a less competitive industry.

To test our prediction, we measure product market competition by Herfindahl-Hirschman Index (*HHI*) at the beginning of the year. For every year, we calculate the median of *HHI* and define an indicator variable (*High HHI*) that takes a value 1 if firm-year observations are above the median of *HHI*, and 0 if firm-year observations are below the median of *HHI*. We then construct an interaction variable of *High HHI* and accounting comparability measures. To prove our argument, we expect a positive coefficient of the interaction variable.

Table 8 reports the results. The coefficient of the interaction variable is positive and statistically significant less than the 10 percent level. The sum of the coefficient of accounting measures and the interaction variable is also positively significant. These results suggest that the positive impact of accounting comparability on foreign investments is stronger for firms with low product market competition

Table 6
The impact of accounting comparability on foreign ownership: Barth's proxy for accounting comparability.
The table reports the impact of accounting comparability on foreign investments. Table 1 reports the definition of variables. *t*-values are robust to firm-level clustering and heterogenicity and shown in parentheses. *, ** and *** indicate significant level at 10%, 5% and 1%, respectively.

Variable	Coefficient	Coefficient	Coefficient	Coefficient
Intercept	−10.299***	4.445	−10.153***	4.209
	(-6.16)	(1.04)	(-6.06)	(0.98)
Rank_CompAcctInd_Barth	2.030***	2.125***		
	(5.67)	(6.82)		
Rank_CompAcct4_Barth			0.477*	1.397***
			(1.78)	(4.46)
Founder ownership	−0.111***	−0.042***	−0.110***	−0.042***
	(-17.50)	(-3.91)	(-17.27)	(-3.89)
BG	−0.073	−3.900	−0.077	−2.601
	(-0.32)	(-0.75)	(-0.34)	(-0.50)
Size	2.746***	0.577***	2.823***	0.774***
	(32.91)	(2.49)	(34.18)	(3.37)
ROA	11.514***	5.290***	11.220***	4.872***
	(8.63)	(5.07)	(8.37)	(4.66)
Leverage	−2.385***	−5.023***	−3.095***	−5.462***
	(-3.80)	(-6.62)	(-5.00)	(-7.22)
PB Ratio	0.044***	0.015**	0.047***	0.016**
	(4.50)	(2.13)	(4.77)	(2.29)
Firm Age	−0.907***	−1.440	−0.915***	−2.041*
	(-4.92)	(-1.31)	(-4.95)	(-1.86)
Ret SD	−0.756	−1.944**	−1.365	−1.859**
	(-0.60)	(-2.23)	(-1.08)	(-2.12)
Return	0.568***	0.413***	0.524***	0.389***
	(3.17)	(3.43)	(2.91)	(3.22)
Dividend dummy	1.434***	1.806***	1.582***	1.927***
	(5.50)	(7.70)	(5.98)	(8.23)
Industry fixed effects	Yes	No	Yes	No
Year fixed effects	Yes	Yes	Yes	Yes
Firm fixed effects	No	Yes	No	Yes
Adjusted R²	0.279	0.737	0.275	0.736
N	7131	7131	7131	7131

than for firms with high product market competition.

6.3. Firm-specific information

In this study, we argue that accounting comparability facilitates foreign investors' evaluation and monitoring of firms, particularly when firms have a poor information environment. We now empirically validate our argument by examining the role of firm-specific information conveyed by stock prices in the relationship between foreign investments and accounting comparability. To the extent to which firm-specific information is incorporated into stock prices, foreign investors are less likely to face an information disadvantage relative to local investors. In such a case, the benefits of accounting comparability would be lower.

While we cannot directly measure a firm's information environment, empirical evidence supports the use of firm-specific return variation as a measure of firm-specific information (Durnev, Morck, & Yeung, 2004; Chen, Goldstein, & Jiang, 2006; Jin & Myers, 2006). We therefore use firm-specific stock return variation for each stock as a measure of firm-specific information. We compute the firm-specific returns by the Fama-French three-factor model. Thereafter, for every firm-year, we measure a stock's relative firm-specific return variation as the natural log of the ratio of idiosyncratic volatility to total volatility (*Non-synchronicity*). For every year, we then calculate the median of *Non-synchronicity* and define an indicator variable (*High Non-synchronicity*) that takes a value 1 if firm-year observations are above the median of *Non-synchronicity*. and 0 if firm-year observations are below the median of *Non-synchronicity*. To measure the marginal effect of accounting comparability on foreign investments for firms' stock prices revealing more information, we deploy an interaction variable (*High Non-synchronicity* *measure of accounting comparability). We expect a negative sign for the interaction variable.

Table 9 reports the results. The coefficient of accounting comparability measures and *High Non-synchronicity* is positive and significant at the 1 percent level. The positive coefficient of *High Non-synchronicity* indicates that foreign investors prefer to invest more in firms whose stock prices reveal more firm-specific information. We next find that interaction variables (*Rank_CompAcct4* *High Non-synchronicity* and Rank_CompAcct4*High Non-synchronicity*) are negative and significant at the 5 percent level. These results again highlight the benefit of accounting comparability for foreign investors when a firm's information environment is poor.

7. The effect of financial statements comparability on domestic mutual funds

Prior studies show that foreign investors face relatively a greater information disadvantage compared to local investors. This is

Table 7

The impact of accounting comparability on foreign ownership: Index firms vs non-index firms.

The table reports the impact of accounting comparability on foreign investments. Table 1 reports the definition of variables. *t*-values are robust to firm-level clustering and heterogenicity and shown in parentheses. *, ** and *** indicate significant level at 10%, 5% and 1%, respectively.

Variable	Coefficient	Coefficient
Intercept	−4.146***	−3.887***
	(-4.19)	(-3.96)
Rank_CompAcctInd	1.478***	
	(4.6)	
Rank_CompAcct4		1.509***
		(4.52)
*Rank_CompAcctInd *Index dummy*	−3.025**	
	(-2.29)	
*Rank_CompAcct4*Index dummy*		−1.159*
		(-1.87)
Index dummy	8.211***	6.999***
	(8.54)	(6.69)
Founder ownership	−0.116***	−0.116***
	(-19.85)	(-19.87)
BG	−0.343	−0.340
	(-1.62)	(-1.61)
Size	2.167***	2.156***
	(27.10)	(26.94)
ROA	9.362***	9.100***
	(7.28)	(7.08)
Leverage	−2.381***	−2.354***
	(-4.24)	(-4.19)
PB Ratio	0.041***	0.039***
	(4.27)	(4.14)
Firm Age	−1.070***	−1.097***
	(-6.54)	(-6.71)
Ret SD	1.107	1.065
	(0.95)	(0.92)
Return	0.298*	0.283*
	(1.77)	(1.68)
Dividend dummy	1.212***	1.156***
	(5.01)	(4.75)
Industry fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Adjusted R^2	0.260	0.260
N	7131	7131

because local investors can access information from informal sources, such as managers, and tend to be more familiar with local accounting standards (Brennan & Cao, 1997; Choe et al., 2005; Kang & Stulz, 1997). In this subsection, we study whether local investors benefited as much as foreign investors from financial statement comparability. While we do not posit any prediction concerning local investors, we expect that the effect should be weaker compared to foreign investors. We consider domestic mutual fund ownership as a measure of local investors, because they are the one who actively trade local stocks.

Table 10 reports the results. In Column (1), and (2), we find the coefficient of *Rank_CompAcct4* (*Rank_CompAcctInd*) is positive and significant. Nevertheless, the value of the coefficient is much lower when we compare it with foreign investments (Panel A of Table 4). In order to examine whether the difference between the value of coefficients is actually statistically significant, we, in untabulated results, run the seemly unrelated regression (SUR) and formally test our Hypothesis, i.e., the effect of the accounting comparability on foreign investment is more than domestic mutual funds. We find that the *t-value* of comparison test is 2.07 (p-value = 0.038), suggesting that there is a statistically significant difference between the value of coefficients.

In Column (3) and (4), we report our results for firm fixed effects and find that the coefficient of *Rank_CompAcct4* (*Rank_CompAcctInd*) is positive but insignificant. This finding indicates that financial statement comparability does not increase domestic mutual fund ownership.

8. Sensitivity analyses

8.1. Excluding firms with cross-listing

Fernandes and Ferreira (2008) show that cross-listing of domestic firms improves the information environment of firms, thereby reducing information acquisition costs. As a result, foreign investors prefer to invest in cross-listed firms (Aggarwal et al., 2005). While

Table 8

The impact of accounting comparability on foreign ownership: Product market competition.

The table reports the impact of accounting comparability on foreign investments. Table 1 reports the definition of variables. *t*-values are robust to firm-level clustering and heterogenicity and shown in parentheses. *, ** and *** indicate significant level at 10%, 5% and 1%, respectively.

Variable	Coefficient	Coefficient	Coefficient	Coefficient
Intercept	−10.045***	1.228	−9.926***	0.933
	(-6.22)	(0.31)	(-6.23)	(0.23)
Rank_CompAcctInd	0.820**	0.609**		
	(2.28)	(2.15)		
Rank_CompAcct4			1.687***	1.856***
			(4.84)	(6.25)
*Rank_CompAcctInd *HHI_rank*	2.422**	1.796**		
	(2.04)	(1.97)		
*Rank_CompAcct4*HHI_rank*			2.712**	1.735*
			(2.28)	(1.73)
HHI_rank	−0.662	0.137	−0.850	0.110
	(-1.01)	(0.21)	(-1.20)	(0.160)
Founder ownership	−0.110***	−0.056***	−0.111***	−0.057***
	(-18.34)	(-5.54)	(-18.53)	(-5.66)
BG	−0.101	−1.891	−0.113	−2.704
	(-0.47)	(-0.36)	(-0.53)	(-0.51)
Size	2.708***	0.879***	2.681***	0.740***
	(34.82)	(4.15)	(34.41)	(3.49)
ROA	12.321***	5.710***	12.359***	5.834***
	(9.55)	(5.53)	(9.60)	(5.67)
Leverage	−2.662***	−5.442***	−2.188***	−5.064***
	(-4.51)	(-7.62)	(-3.66)	(-7.11)
PB Ratio	0.044***	0.017**	0.042***	0.017**
	(4.68)	(2.47)	(4.44)	(2.42)
Firm Age	−0.777***	−1.231	−0.773***	−0.720
	(-4.49)	(-1.26)	(-4.48)	(-0.74)
Ret SD	−0.428	−1.730**	−0.076	−1.565*
	(-0.37)	(-2.08)	(-0.07)	(-1.89)
Return	0.511***	0.298***	0.520***	0.308***
	(3.03)	(2.59)	(3.09)	(2.69)
Dividend dummy	1.375***	2.055***	1.248***	1.864***
	(5.60)	(9.11)	(5.06)	(8.23)
Industry fixed effects	Yes	No	Yes	No
Year fixed effects	Yes	Yes	Yes	Yes
Firm fixed effects	No	Yes	No	Yes
Adjusted R²	0.267	0.721	0.270	0.723
N	7131	7131	7131	7131

very few Indian firms are cross-listed,[8] we rerun our results after excluding these firms. This analysis finds results (untabulated) that are qualitatively similar, as reported in Table 4. Therefore, the results of our Hypothesis are not sensitive to cross-listing firms.

8.2. Controlling for firms' earnings quality and analysts following

There is a possibility that financial statement comparability may be correlated with earnings quality. In untabulated results, we reestimate the regression model (1) with an additional control variable of earnings quality—the prior three-year moving sum of absolute discretionary accruals, obtained from a modified Jones model (Dechow, Sloan, & Sweeney, 1995). We find that our reported relationship between accounting comparability and foreign investments is not sensitive to earnings quality.

De Franco et al. (2011) exhibit that accounting comparability is correlated with analysts following. Aggarwal et al. (2005) also document that foreign investors prefer to invest in emerging market firms with more analysts following. Given this fact, it is likely that our results may be vulnerable to omitted variable biasness. To mitigate this caveat, in untabulated results, we reestimate the regression (1) with the control of analysts following (*NANALYSTS*), measured by the natural logarithm of (1 + the number of analysts). We find that an average Indian firm is followed by 2.43 analysts, with the median value of 0. We next find that the coefficient of *NANALYSTS* is positive and statistically significant at 1% level, but the coefficient of the accounting comparability measures is still positive and statistically significant at 1% level.

8.3. The number of foreign investors

While a commonly used variable to examine the preference of foreign investors is the percentage of foreign investment, we reestimate the regression model (1) where the dependent variable is the log of the number of foreign investors. In untabulated results, we

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[8] Refer for further information to "https://www.adrbnymellon.com/directory/dr-directory.

Table 9
The impact of accounting comparability on foreign ownership: Firm -specific information.
The table reports the impact of accounting comparability on foreign investments. Table 1 reports the definition of variables. *t*-values are robust to firm-level clustering and heterogenicity and shown in parentheses. *, ** and *** indicate significant level at 10%, 5% and 1%, respectively.

Variable	Coefficient	Coefficient	Coefficient	Coefficient
Intercept	−12.556***	−0.666	−12.500***	−0.285
	(-7.86)	(-0.17)	(-7.73)	(-0.07)
Rank_CompAcct4	2.530***	2.550***		
	(5.66)	(7.17)		
Rank_CompAcctInd			1.248***	0.952***
			(2.77)	(2.79)
Rank_CompAcct4 High Non-synchronicity*	−1.359**	−0.978***		
	(-2.30)	(-2.21)		
*Rank_CompAcctInd *High Non-synchronicity*			−0.291	−0.223
			(-0.50)	(-0.51)
Non-synchronicity	3.100***	1.510***	2.600***	1.104***
	(8.87)	(5.68)	(7.44)	(4.20)
Founder ownership	−0.118***	−0.055***	−0.117***	−0.054***
	(-19.71)	(-5.47)	(-19.59)	(-5.34)
BG	0.015	−3.137	0.039	−2.408
	(0.07)	(-0.60)	(0.18)	(-0.46)
Size	2.908***	0.853***	2.935***	0.975***
	(36.71)	(4.03)	(37.13)	(4.60)
ROA	11.750***	5.837***	11.692***	5.685***
	(9.21)	(5.70)	(9.15)	(5.52)
Leverage	−2.356***	−5.123***	−2.787***	−5.481***
	(-3.99)	(-7.22)	(-4.77)	(-7.69)
PB Ratio	0.041***	0.016***	0.043***	0.016***
	(4.37)	(2.36)	(4.56)	(2.40)
Firm Age	−0.830***	−0.821	−0.843***	−1.243
	(-4.86)	(-0.85)	(-4.92)	(-1.28)
Ret SD	−1.341	−2.268***	−1.544	−2.320***
	(-1.16)	(-2.73)	(-1.33)	(-2.78)
Return	0.451***	0.276***	0.450***	0.274***
	(2.74)	(2.42)	(2.76)	(2.39)
Dividend dummy	1.298***	1.876***	1.426***	2.072***
	(5.33)	(8.31)	(5.87)	(9.22)
Industry fixed effects	Yes	No	Yes	No
Year fixed effects	Yes	Yes	Yes	Yes
Firm fixed effects	No	Yes	No	Yes
Adjusted R^2	0.28	0.77	0.28	0.77
N	7131	7131	7131	7131

find that our accounting comparability measures remain significant with the expected sign, which again confirms our main Hypothesis.

8.4. Alternative methodology

In order to provide robustness to our main Hypothesis, we further consider fractional logistic regression for two reasons.[9] First, the conditional mean of the foreign ownership variable is limited to the interval (0, 1). Second, the conditional variance should be a function of the conditional mean. This is because the conditional variance changes as the conditional mean touches either boundary. The OLS, as a result, may produce biased and inconsistent estimates. In unreported results, we find qualitative similar results, as reported in Table 4.

9. Conclusion

This study examines whether financial statement comparability reduces foreign investors' information acquisition costs, which in turn increases their investment in firms showing greater accounting comparability. We address this question by using data for Indian firms, since a poor external information environment and low analyst coverage are likely to enhance the benefits of accounting comparability in the context of Indian firms.

In empirical analyses, we find strong support for our Hypothesis. Furthermore, we find that the benefits of accounting comparability are concentrated in firms having a poor information environment, such as non-index firms, firms operating in a less competitive industry, and firms with stock prices that reflect a lower level of firm-specific information. The analysis of domestic mutual funds reveals that accounting comparability does not increase domestic mutual fund ownership. This is consistent with the view that domestic investors are more familiar with local firms and, therefore, may access information from informal sources, such as managers.

Our study is highly relevant to policy makers, who are in the process of improving financial statement comparability by

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[9] See Cook, Kieschnick, and McCullough (2008) for further information.

Table 10

The impact of accounting comparability on Mutual fund ownership.

The table reports the impact of accounting comparability on mutual fund ownership. Table 1 reports the definition of variables. *t*-values are robust to firm-level clustering and heterogenicity and shown in parentheses. *, ** and *** indicate significant level at 10%, 5% and 1%, respectively.

Variable	Coefficient	Coefficient	Coefficient	Coefficient
Intercept	−3.563***	2.647	−3.506***	3.068
	(-3.41)	(0.80)	(-3.35)	(0.93)
Rank_CompAcctInd	0.479***	0.026		
	(2.69)	(0.17)		
Rank_CompAcct4			0.272	0.540***
			(1.51)	(3.71)
Founder ownership	−0.029***	−0.020***	−0.029***	−0.019***
	(-8.77)	(-3.54)	(-8.58)	(-3.40)
BG	−0.233**	11.172***	−0.243**	11.022***
	(-2.07)	(2.95)	(-2.16)	(2.91)
Size	0.833***	−0.205*	0.856***	−0.137
	(21.69)	(-1.82)	(22.40)	(-1.22)
ROA	1.538***	0.941**	1.513***	0.881**
	(2.98)	(2.39)	(2.93)	(2.24)
Leverage	−1.302***	−0.672**	−1.455***	−0.790***
	(-5.52)	(-2.20)	(-6.20)	(-2.58)
PB Ratio	0.006	0.002	0.007	0.002
	(1.13)	(0.55)	(1.29)	(0.52)
Firm Age	0.262***	−0.044	0.245***	−0.263
	(2.80)	(-0.08)	(2.62)	(-0.48)
Ret SD	0.753	−0.141	0.435	−0.221
	(1.18)	(-0.30)	(0.69)	(-0.48)
Return	0.372***	0.107*	0.354***	0.097
	(3.92)	(1.64)	(3.72)	(1.48)
Dividend dummy	1.262***	0.438***	1.343***	0.487***
	(10.03)	(3.68)	(10.76)	(4.13)
Industry fixed effects	Yes	No	Yes	No
Year fixed effects	Yes	Yes	Yes	Yes
Firm fixed effects	No	Yes	No	Yes
Adjusted R^2	0.223	0.684	0.223	0.685
N	7526	7526	7526	7526

implementing international accounting standards, such as the IFRS. In this vein, on January 2, 2015, Indian policy makers also proposed an Indian accounting standard (Ind AS), outlining various standards that correlate with the IFRS. Our study offers preliminary affirmation of the benefits of accounting comparability and may encourage firms in emerging markets to voluntarily adopt IFRS. Note that our study measures accounting comparability among Indian firms, and therefore, it facilitates foreign investors to compare firms within a country. Nevertheless, the adoption of IFRS is likely to converge emerging market firms' reproting practices to their global Industry peers. Consequently, it can facilitate foreign investors to compare firms across the globe.

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