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The Value Relevance in Accounting Information: The Intermediary Role of Intellectual Capital and the Trust Transfer Effect of Strategic Deviation

NIliyan Ph.D.
School of Business and Economics, Accounting, Universiti Putra Malaysia
Email: niliyan@xmedus.cn

Hasri Bin Mustafa, Saidatunur Fauzi Bin Saidin
Universiti Putra Malaysia
Email:hasyie@upm.edu.my, sakinatul@upm.edu.my

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Abstract

This study examines the evolving value relevance of accounting information in China's A-share market from 2005 to 2024. Using an unbalanced panel dataset of 52,721 firm-year observations from the CSMAR and Wind databases, we employ panel data regression models to investigate the roles of intellectual capital and strategic deviation. We document a significant decline in the value relevance of earnings and book value, particularly post-2014. Our findings reveal that intellectual capital's association with firm value is fully mediated by traditional accounting performance, rather than providing incremental explanatory power. Furthermore, strategic deviation exhibits a dual moderating effect: it weakens the value relevance of earnings while strengthening that of book value, revealing a "trust transfer" effect. Cross-industry analyses establish a critical boundary condition: this trust transfer mechanism holds in traditional industries but completely breaks down in high-tech firms, where strategic deviance severely undermines earnings relevance without enhancing book value's role. Our findings illuminate the dynamic and contingent nature of accounting usefulness in emerging knowledge economies.

Keywords: Value Relevance, Intellectual Capital, Strategic Deviation, Trust Transfer, Mediating Effect

Introduction

The value relevance of accounting information—the ability of financial statements to capture and summarize information that influences firm value—constitutes a cornerstone of capital market research (Ball & Brown, 1968; Ohlson, 1995). This literature stream, grounded in foundational valuation models, examines the statistical association between key accounting figures and stock prices, serving as a critical barometer for the decision-usefulness of financial reporting. However, the enduring relevance of this paradigm is profoundly challenged in an era dominated by knowledge-based industries and intangible-intensive business models

(Barth et al., 2023). The imperative for measurement accuracy and verifiability under current reporting standards has led to the systematic exclusion of critical intangible assets from the balance sheet, creating a growing "value gap" between a firm's book value and its market valuation (Lev & Gu, 2016). Consequently, a persistent global debate has ensued regarding a potential secular decline in the value relevance of accounting information (Barth et al., 2018). The Chinese capital market provides a particularly compelling and dynamic context to explore this global puzzle. The substantial convergence of Chinese Accounting Standards for Business Enterprises (ASBE) with International Financial Reporting Standards (IFRS) since 2007 was a landmark reform explicitly aimed at enhancing reporting quality and value relevance. Yet, the empirical evidence on its success is decidedly mixed. While some early studies were optimistic (Xue et al., 2008), later and more comprehensive analyses paint a divergent picture: some point to only limited improvement (Zhu et al., 2009), while others document a significant long-term decline (Li et al., 2015; Teng & Yang, 2022; Xie et al., 2020).This ambiguity suggests that the search for explanations must move beyond the accounting standards themselves and consider the broader economic and strategic forces reshaping the information environment in a transitioning economy(Li & Teng, 2024; Yu, 2024).

We argue that two critical, yet underexplored, mechanisms emanating from China's own "new economy" transition are central to understanding this evolution. First, the rise of intellectual capital (IC) as a primary driver of value creation presents a fundamental challenge to the traditional accounting model. As investments in human, structural, and relational capital are typically expensed, the balance sheet fails to reflect a core source of future economic benefits(Edvinsson, 1997; Huang, 2018). A pivotal, unresolved question is whether externally measured IC provides incremental value-relevant information beyond traditional financial statements, or whether its value is indirectly impounded into price through its effect on realized accounting performance—a critical distinction for both valuation theory and reporting practice.

Second, a firm's strategic orientation, particularly its strategic deviance—the degree to which its resource allocation diverges from industry norms—profoundly shapes its information environment(Deephouse, 1999). Strategically deviant firms inherently face higher information asymmetry, greater valuation complexity, and increased operational risk (Dong et al., 2021; Finkelstein & Hambrick, 1990; Wang, 2018). This complexity can render standardized accounting numbers more difficult for investors to interpret, potentially weakening the established link between these figures and market values (Chi et al., 2022). Despite its potential significance, the role of strategic deviance as a key moderating variable in the value relevance relationship remains notably underexplored, creating a material gap in the literature.

To address these interconnected gaps, this study conducts a comprehensive longitudinal analysis of the Chinese A-share market from 2005 to 2024. Our research is designed to achieve three core objectives: (1) to systematically document the long-term trend in the value relevance of accounting information in the post-ASBE reform era; (2) to investigate the direct impact of intellectual capital on firm market value and to elucidate its precise role—as an incremental value-driver or a mediated source of accounting performance; and (3) to examine how strategic deviance moderates the relationship between core accounting metrics

and market value, with a particular focus on testing whether the posited 'trust transfer' effect operates uniformly or exhibits fundamental divergence across industry contexts.

This study aims to make several key contributions. Theoretically, we move beyond the siloed examination of financial metrics by integrating intellectual capital (a key value driver) and strategic deviance (a key contextual moderator) into a unified analytical framework. This integrated lens offers a more nuanced and powerful explanation for the dynamic evolution of value relevance. Empirically, we unveil a novel "trust transfer" effect, where strategic uncertainty causes investors to shift their reliance from earnings to book value. Furthermore, we clarify the transmission channel of intellectual capital, demonstrating that it operates primarily through a mediation effect rather than providing direct incremental information. These findings are robust to a series of tests. Most importantly, our cross-industry analysis reveals a limit to the 'trust transfer' effect: it holds in traditional industries but collapses in high-tech sectors, uncovering a more severe valuation crisis for the knowledge-intensive firms that drive the modern economy. This highlights critical boundary conditions and offers a more integrated yet nuanced framework. Practically, our results offer critical insights for standard-setters grappling with the reporting of intangibles and provide investors with a refined understanding of how to value firms in the complex landscape of the Chinese knowledge economy.

The remainder of the paper is structured as follows: Section 2 reviews the relevant literature and develops our hypotheses. Section 3 outlines the research methodology. Section 4 presents the empirical results and discussion. Finally, Section5 concludes.

Literature Review and Hypothesis Development

The Value Relevance of Accounting Information and Its Evolution

The seminal works of (Ball & Brown, 1968) and (Ohlson, 1995) empirically and theoretically established the central role of accounting information in equity valuation. However, this paradigm faces severe challenges in the knowledge economy. The "declining value relevance" hypothesis (Lev & Zarowin, 1999)posits that accounting systems fail to capture the economic essence of intangible investments, leading to a growing gap between book value and market value (Barth et al., 2018).

In China, evidence following the 2007 ASBE reform converging with IFRS remains ambiguous. While some early studies noted limited improvements (Zhu et al., 2009), more recent long-window analyses reveal a persistent downward trend (Li et al., 2015; Xie et al., 2020).The adoption of new accounting standards (e.g., PSAK 72 in Indonesia) has been shown to affect the value relevance of accounting information in other emerging markets as well (Mubarika & Handayani, 2022). This suggests that broader economic transformations are underway, shifting investor focus from backward-looking historical cost information to forward-looking indicators of growth potential (Amir & Lev, 1996; Cao et al., 2024; Grewal et al., 2019). Recent studies have examined value relevance from an information transmission perspective(Zou et al., 2025). We, therefore, first test the baseline trend:

H1: The value relevance of core accounting information (net income and book value of equity) in China's A-share market has significantly declined over the sample period.

Intellectual Capital: Incremental Information or Mediated Transmission?

The observed decline in value relevance is intrinsically linked to the rise of intellectual capital (IC) as a primary driver of corporate value (Edvinsson, 1997; Rimmel, 2001). The resource-based view (Barney, 1991) provides a strong theoretical foundation for IC's role in creating sustainable competitive advantage. Consequently, numerous studies find that IC efficiency is positively associated with firm performance and market value (Alvino et al., 2020; Chen et al., 2005; Maditinos et al., 2011), including in China (Liu et al., 2023; Yu, 2024; Zeng & Zhang, 2023).This leads to a natural proposition: externally measured IC should provide incremental value-relevant information beyond the constrained confines of traditional financial statements. If investors can see through the accounting and directly price the underlying intangible resources, we would expect IC to command a direct valuation premium.

However, a competing theoretical pathway exists. The value of IC may not be priced directly by the market. Instead, its effect might be indirect, channeled through the intermediary of improved accounting performance. Superior IC leads to higher future profits and asset growth, which are subsequently captured in reported net income and book value. The market then prices these observable accounting outcomes, rendering the direct effect of IC insignificant in a comprehensive valuation model. This perspective suggests that IC is a value source, but its pricing is mediated by the accounting results it generates.

This creates a critical theoretical tension with divergent implications for standard-setters and investors. To resolve this, we formulate two competing hypotheses:

H2a (Incremental Effect Hypothesis): Intellectual capital provides incremental value relevance beyond that of net income and book value.

H2b (Mediation Effect Hypothesis): The positive association between intellectual capital and firm market value is mediated by its effect on traditional accounting performance (net income and book value).

The Moderating Role of Strategic Deviance: A "Trust Transfer" Perspective

Strategic deviance—the extent to which a firm's resource allocation pattern diverges from industry norms (Deephouse, 1999)—fundamentally alters a firm's information environment. From an information economics perspective, strategically deviant firms are inherently more opaque and complex, exacerbating information asymmetry and valuation uncertainty (Chi et al., 2022; Wang, 2018). This opacity can blur the link between current accounting numbers and future cash flows, making financial statements more difficult to interpret (Ye et al., 2014). We extend this logic by integrating signaling theory. A deviant strategy is a powerful, yet ambiguous, signal about a firm's unique business model and prospects. In such a context, investors must carefully weigh the reliability of the accompanying financial signals. We argue that they engage in a "trust transfer," systematically adjusting their reliance on different components of the financial statements based on their relative verifiability.

Earnings, heavily reliant on accruals and management estimates, are susceptible to manipulation and are inherently less verifiable. In contrast, the book value of equity, being more anchored in historical cost and subject to stricter auditing procedures, represents a more reliable and concrete anchor (Penman, 2015). Faced with the strategic uncertainty signaled by high deviance, investors are likely to discount the noisy earnings signal while

increasing their reliance on the more trustworthy book value. This leads to our moderating hypothesis:
H3: Strategic deviance has a dual moderating effect on the value relevance of accounting information: it weakens the value relevance of earnings while strengthening the value relevance of book value.

The Exploratory Role of Industry Context
While H3 predicts a general "trust transfer" effect, we acknowledge that the institutional and information environment may shape its manifestation. The high-tech sector is characterized by greater intrinsic information asymmetry, a higher reliance on intangible assets (which are poorly captured by accounting), and more significant growth options (Ciftci et al., 2013). This context may represent a critical boundary condition for the trust transfer mechanism. It is an open, exploratory question whether investors in high-tech firms, when faced with strategic deviance, are able to or willing to execute the same trust transfer to book value as their counterparts in traditional industries. The elevated uncertainty and different asset structure in high-tech firms could potentially alter the very functioning of this mechanism(Olbert, 2024). This study will empirically examine this potential heterogeneity, which carries important implications for understanding valuation in the knowledge economy.

Theoretical Framework and Hypothesis Integration
This paper establishes a comprehensive theoretical framework that moves beyond a narrow focus on accounting metrics. We first establish the documented decline in value relevance (H1) as the motivation for our expanded model. We then introduce intellectual capital and formally articulate the competing theoretical pathways through which it influences market value (H2a vs. H2b). Finally, we introduce strategic deviance and theorize its nuanced moderating role, proposing a novel "trust transfer" mechanism (H3) that explains how investors reinterpret accounting information in the face of strategic uncertainty. The integration of these elements provides a more dynamic and powerful lens through which to examine the evolving usefulness of accounting information in the knowledge economy.

Research Methodology
Sample Selection and Data Sources
This study employs a quantitative archival research design to test the proposed hypotheses. The initial sample encompasses all A-share listed companies on China's Shanghai and Shenzhen stock exchanges from 2005 to 2024. This period is strategically chosen to establish a robust pre-reform baseline (2005-2006) prior to the implementation of the ASBE converging with IFRS in 2007, and to extend sufficiently beyond it to capture long-term trends and the full effect of the reform.

Financial data and stock market data are primarily sourced from the China Stock Market & Accounting Research (CSMAR) database, a leading provider of China-specific financial data. To ensure data accuracy and completeness, we supplement this data with the Wind (WIND) database for cross-verification and to fill any missing values.
The sample is meticulously constructed according to the following procedure:
1.All observations from the financial industry (ICB codes 3000) are excluded due to their distinct regulatory frameworks and financial statement structures.

2.Observations labeled as Special Treatment (ST or *ST) are removed to avoid the confounding influence of financially distressed firms.
3.Firm-year observations with a negative book value of equity or missing data for key regression variables are excluded.
4.To mitigate the influence of extreme values and potential data errors, all continuous variables are winsorized at the 1st and 99th percentiles.
After these screening steps, the final unbalanced panel dataset consists of 52,721 firm-year observations, providing a comprehensive basis for empirical analysis.

Variable Definitions

Dependent Variable

Market Value (MV): Following the dominant practice in value relevance research (Ohlson, 1995), the dependent variable is the market value of a firm's equity. It is measured as the closing stock price per share at the end of the fourth month after the fiscal year-end, multiplied by the number of outstanding common shares. A four-month lag ensures that the market price fully incorporates the information from the annual financial reports. For scaling purposes, MV is presented in billions of Chinese Yuan (CNY).

Independent Variables

Net Income (NI): Measured as the net profit attributable to the parent company's shareholders in a given fiscal year (in billions of CNY).
Book Value of Equity (BVE): Measured as the book value of shareholders' equity at the fiscal year-end (in billions of CNY).

Key Test Variables

Intellectual Capital (VAIC): This study adopts the Value Added Intellectual Coefficient (VAIC) model developed by Pulic (Pulic, 2000) to measure intellectual capital efficiency. The calculation is a three-step process:
Calculate Value Added (VA): VA is approximated using the indirect method: VA = PTP + EC + I, where PTP is pre-tax profit, EC is employee costs (using "cash paid to and for employees" from the cash flow statement), and I is interest expense.
Calculate Component Efficiencies:Human Capital Efficiency (HCE) = VA / HC, where HC is human capital (proxied by employee costs, EC);Structural Capital Efficiency (SCE) = VA / SC, where SC is structural capital (proxied by administrative expenses);Relational Capital Efficiency (RCE) = VA / RC, where RC is relational capital (proxied by selling expenses);
Calculate Total Intellectual Efficiency: VAIC = HCE + SCE + RCE. A higher VAIC indicates greater efficiency in creating value from intellectual resources.
Strategic Deviance (DS): Drawing on the methodology of (Tang et al., 2011)and (Ye et al., 2014) , strategic deviance is measured across six dimensions:
Advertising Intensity (Selling expenses / Operating revenue);
R&D Intensity (Net value of intangible assets / Operating revenue);
Capital Intensity (Net fixed assets / Number of employees);
Fixed Asset Renewal (Net value of fixed assets / Original value of fixed assets);
Administrative Expense Intensity (Administrative expenses / Operating revenue);
Financial Leverage (Total interest-bearing liabilities / Book value of equity).
For each firm-year, the value for each dimension is standardized by subtracting the annual industry median and dividing by the annual industry standard deviation. The absolute values

of these six standardized scores are then averaged to create the composite strategic deviance index (DS). A higher DS score indicates a greater deviation from the industry's conventional strategic profile.

Control Variables

To isolate the effects of the test variables, several firm-level characteristics known to influence market value are included as control variables:

Firm Size (SIZE): The natural logarithm of total assets.

Leverage (LEV): Total liabilities divided by total assets.

Growth (GROW): The year-on-year growth rate of operating revenue.

Year and Industry Fixed Effects (YEAR, IND): A set of dummy variables is included to control for unobserved time-invariant heterogeneity across years and industries (based on the CSRC 2012 classification).

Table 1
Definition of major variables

Variable	abbreviation	Variable Definition
Dependent Variable		
Market Value	MV	The stock market value at the end of the fourth month after the financial year
Independent Variables		
Net Income	NI	The net profit attributable to shareholders in the financial year
Book Value of shareholders' equity	BVE	The book value of shareholders' equity at the end of the year
Key Test Variables		
Value Added Intelligence Coefficient	VAIC	The value that can be created by the resources and knowledge of the enterprise unit,is the sum of SCE, HCE, and RCE.
Strategic Deviance	DS	Drawing reference from the research methods of Tang et al. (2011) and Ye Kangtao et al. (2014) for calculation, the greater the DS index value, the greater the degree to which the company's strategic positioning deviates from the industry's conventional strategic model.
Control Variables		
Company Size	SIZE	The natural logarithm of total assets at the end of the period
Asset-liability ratio	LEV	Total liabilities at end of period/total assets at end of period
Company growth capacity	GROW	The growth rate of operating income is equal to (operating income of the current period - operating income of the previous period) / operating income of the previous period
Annual Variable	YEAR	Dummy variables, based on 2005, set 20 annual dummy variables to control annual effects
Industry Variables	IND	Dummy variable, the manufacturing industry is subdivided to the one digit after the industry code letter of the China Securities Regulatory Commission, and other industries are not subdivided. Excluding the financial industry, a total of 21 industry dummy variables were formed to control industry effects.

Empirical Models

To test the hypotheses, the following regression models are estimated using panel data ordinary least squares (OLS) regression. To account for potential heteroskedasticity and within-firm correlation, we report robust standard errors clustered at the firm level in all models.

Model 1: Testing H1 (The Trend of Value Relevance)

To examine the temporal trend of value relevance (H1), we first estimate the following baseline Ohlson model for each year in the sample cross-sectionally:

$$\mathrm{MV}_{it} = \beta_0 + \beta_1 \mathrm{NI}_{it} + \beta_2 \mathrm{BVE}_{it} + \varepsilon_{it}$$

The adjusted R^2 from each annual cross-sectional regression is recorded, serving as our annual measure of value relevance. Subsequently, a second-stage regression is performed where the annual adjusted R^2 is the dependent variable regressed against a linear time trend variable (Year):

$$R_t^2 = \gamma_0 + \gamma_1 Time_t + \varepsilon_t$$

A significantly negative coefficient for $\gamma_1$would support H1, indicating a systematic decline in the explanatory power of accounting information over time.

Model 2: Testing H2 (The Direct Effect of Intellectual Capital)

To test the direct impact of intellectual capital on market value (H2), the baseline model is extended to include VAIC:

$$MV_{it} = \beta_0 + \beta_1 \mathrm{NI}_{it} + \beta_2 \mathrm{BVE}_{it} + \beta_3 \mathrm{VAIC}_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 GROW_{it} + \sum YEAR + \sum IND + \varepsilon_{it}$$

A significantly positive coefficient for $\beta_3$would support H2, indicating that intellectual capital provides incremental value relevance beyond traditional accounting measures.

Model 3: Testing H3 (The Moderating Effect of Strategic Deviance)

To test whether strategic deviance weakens the value relevance of accounting information (H3), an interaction model is employed:

$$MV_{it} = \beta_0 + \beta_1 NI_{it} + \beta_2 \mathrm{BVE}_{it} + \beta_3 \mathrm{DS}_{it} + \beta_4 \mathrm{DS}_{it} * NI_{it} + \beta_5 \mathrm{DS}_{it} * \mathrm{BVE}_{it} + \beta_6 VAIC_{it} + \beta_7 \mathrm{DS}_{it} * VAIC_{it} + \beta_8 SIZE_{it} + \beta_9 LEV_{it} + \beta_{10} GROW_{it} + \sum YEAR + \sum IND + \varepsilon_{it}$$

H3 predicts that the association between accounting information and market value is weaker for firms with high strategic deviance. This would be evidenced by significantly negative coefficients for the interaction terms β_4 and β_5.

Exploratory Analysis: Although our theoretical hypotheses primarily focus on traditional accounting information, we exploratoryly include a VAIC × DS interaction term in our model to explore whether the moderating effect of strategic bias also applies to intellectual capital, a new driver of value. We do not formulate explicit a priori hypotheses regarding this interaction effect, and the results are reported as exploratory findings.

Results and Analysis

Descriptive Statistics and Univariate Analysis

Table 2 presents the descriptive statistics for the main variables. The final sample consists of 52,721 firm-year observations. The dependent variable, Market Value (MV), along with the core accounting variables Net Income (NI) and Book Value of Equity (BVE), all exhibit right-skewed distributions, indicating the presence of large, highly valued firms typical in stock markets.

The key test variable, Intellectual Capital (VAIC), shows a mean of 23.798 but a very high standard deviation and a median far below the mean. This reveals dramatic cross-sectional heterogeneity in intellectual capital efficiency among Chinese listed firms. The moderating variable, Strategic Deviance (DS), has a mean of 0.555, confirming a discernible degree of strategic differentiation from industry norms.

Table 2
Descriptive statistics of the entire sample

variable	Nobs	mean	Std. Dev.	p25	Median	p75
MV	52,721	11.095	19.421	2.830	4.962	10.293
NI	52,721	0.411	1.230	0.031	0.104	0.320
BVE	52,721	5.027	10.793	0.932	1.840	4.072
VAIC	52,721	23.798	56.056	6.969	11.052	19.697
DS	52,721	0.555	0.329	0.344	0.468	0.661
SIZE	52,721	22.094	1.304	21.168	21.900	22.815
LEV	52,721	0.422	0.206	0.256	0.414	0.576
GROW	52,721	0.151	0.567	-0.063	0.086	0.252

Note: The unit for MV, NI, and BVE is billions of Chinese Yuan (CNY).

Table 3 displays the Pearson correlation matrix. Crucially, both NI and BVE are highly and significantly correlated with MV (0.782 and 0.787, $p<0.01$), providing strong preliminary evidence for the fundamental value relevance of accounting information in China. VAIC also shows a significant positive correlation with MV (0.173, $p<0.01$). All Variance Inflation Factors (VIFs) were well below 5, indicating that multicollinearity is not a serious concern for the multivariate regression analysis.

Table 3
Correlation Coefficient

	MV	NI	BVE	VAIC	DS	SIZE	LEV	GROW
MV	1.000							
NI	0.782***	1.000						
BVE	0.787***	0.821***	1.000					
VAIC	0.173***	0.246***	0.225***	1.000				
DS	-0.006	-0.045***	-0.004	0.055***	1.000			
SIZE	0.621***	0.568***	0.719***	0.215***	-0.008*	1.000		
LEV	0.099***	0.088***	0.176***	0.039***	0.118***	0.434***	1.000	
GROW	0.096***	0.093***	0.031***	0.056***	-0.019***	0.092***	0.079***	1.000

Note: The high correlation between VAIC and its components (e.g., RCE) is expected by construction. These components are never included in the same regression model to avoid perfect multicollinearity.

Multivariate Regression Results

The Temporal Trend of Value Relevance (Test of H1)

To test H1, we first conducted annual cross-sectional regressions of market value on net income and book value. The adjusted R^2 from these regressions, plotted in Figure 1, serves as our measure of value relevance. The explanatory power of accounting information reached a peak around 2008-2013 (Adj-R^2 up to 0.835) but entered a pronounced and continuous decline starting in 2014, bottoming out in 2020 (Adj-R^2 = 0.545).

To formally test this trend, we regressed the annual Adj-R^2 on a linear time trend variable. The coefficient was significantly negative (β = -0.014, $p < 0.01$), providing strong support for H1. This confirms a systematic, long-term erosion in the ability of traditional accounting information to explain firm value in China's capital market, setting the stage for investigating the underlying mechanism.

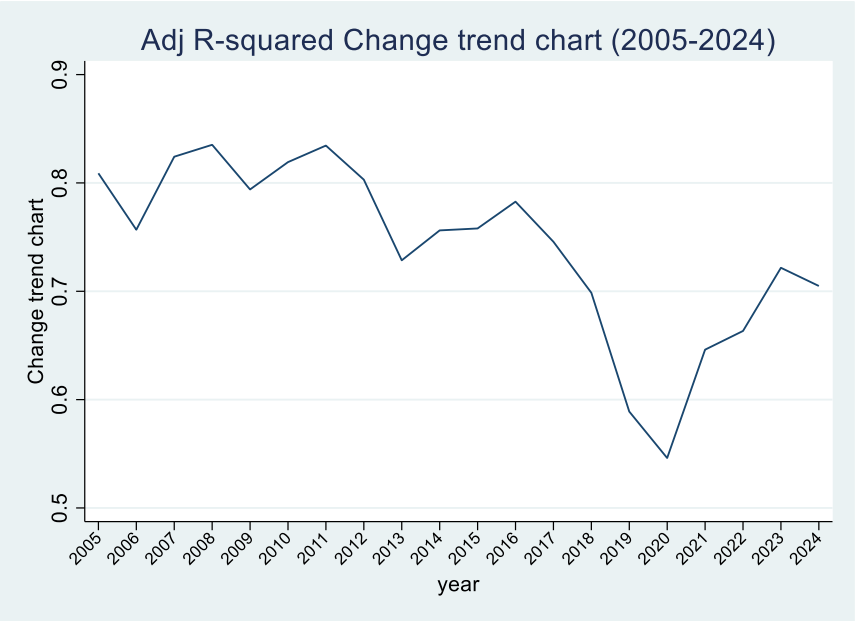


Figure :The Trend of Value Relevance (Adj-R^2)

The ability to interpret the company's market value by accounting income and book value information

Table 4

Time-Series Analysis of Value Relevance (Adjusted R^2)

	ALL	BVE_ONLY	NI_ONLY
2005	0.807	0.774	0.740
2006	0.755	0.714	0.707
2007	0.824	0.719	0.824
2008	0.835	0.827	0.601
2009	0.794	0.770	0.671
2010	0.815	0.737	0.775

2011	0.825	0.722	0.786
2012	0.801	0.734	0.739
2013	0.726	0.659	0.696
2014	0.756	0.745	0.622
2015	0.757	0.715	0.638
2016	0.782	0.746	0.682
2017	0.745	0.687	0.705
2018	0.698	0.659	0.624
2019	0.587	0.497	0.575
2020	0.545	0.473	0.524
2021	0.646	0.585	0.585
2022	0.660	0.613	0.560
2023	0.713	0.649	0.638
2024	0.701	0.625	0.624

Note: This table reports the adjusted R^2 values from annual cross-sectional regressions of market value on accounting variables. ALL represents the model including both book value of equity and net income; BVE_ONLY includes only book value of equity; NI_ONLY includes only net income.

The Complex Role of Intellectual Capital (Test of H2)

Table 5 presents the results testing the role of intellectual capital. The findings reveal a striking pattern. When VAIC is added to the baseline valuation model, its coefficient is significantly negative (-0.009, $p < 0.01$). This result directly contradicts the Incremental Effect Hypothesis (H2a).

Table 5

The Impact of Intellectual Capital on Market Value

Varibles	Baseline	With VAIC	With Components
Constant	-61.501*** (-35.27)	-61.899*** (-35.48)	-62.237*** (-34.62)
NI	6.451*** (29.46)	6.524*** (29.73)	6.636*** (27.58)
BVE	0.605*** (21.37)	0.602*** (21.28)	0.590*** (19.53)
VAIC		-0.009*** (-5.92)	
SCE			0.086*** (2.91)
HCE			-0.312*** (-7.66)
RCE			-0.008*** (-4.72)

SIZE	3.076***	3.107***	3.151***
	(35.71)	(36.03)	(34.89)
LEV	-5.749***	-5.926***	-6.274***
	(-20.58)	(-21.19)	(-21.75)
GROW	1.267***	1.294***	1.362***
	(12.14)	(12.40)	(13.11)
Year FE	YES	YES	YES
Industry FE	YES	YES	YES
Observations	5,2721	5,2721	5,2721
Adjust_R2	0.709	0.709	0.710

Noted: *p < 0.1, **p < 0.05, ***p < 0.01, t-value in parentheses.

To resolve this paradox and test the Mediation Effect Hypothesis (H2b), we turn to Table 6. The results clearly show that VAIC has significant positive associations with both NI (β = 0.005, p < 0.01) and BVE (β = 0.043, p < 0.01). This pattern is classic evidence of mediation (Baron & Kenny, 1986). Intellectual capital is a genuine value driver, as evidenced by its positive univariate correlation with MV. However, its value-creating effects are channeled through the improvement of traditional accounting performance. Once NI and BVE—the observable outcomes of superior IC—are included in the model, the direct effect of the source (IC) itself becomes non-significant or negative due to statistical suppression. Consequently, our results provide robust support for H2b and reject H2a. The market prices intellectual capital, but it does so indirectly, by valuing the accounting results it produces

Table 6
VAIC and Core Accounting Performance

Varibles	ModelMV	ModelNI	ModelBVE
Constant	9.672***	0.283***	3.996***
	(106.86)	(50.11)	(80.32)
VAIC	0.060***	0.005***	0.043***
	(40.24)	(58.29)	(53.01)
Observations	52,721	52,721	52,721
Adjust_R2	0.0298	0.0605	0.0506

Noted: *p < 0.1, **p < 0.05, ***p < 0.01, t-value in parentheses.

The Moderating Effect of Strategic Deviance (Test of H3)

Table 7 presents the results for the moderating effect of strategic deviance, which unveils the most nuanced finding of our study. The results strongly support H3, revealing a dual effect that confirms the "trust transfer" mechanism. The interaction term between strategic deviance and net income (NI × DS) is significantly negative (-3.073, p < 0.01), indicating that the value relevance of earnings erodes as a firm's strategy deviates further from industry norms. Conversely, the interaction term with book value (BVE × DS) is significantly positive (0.247, p < 0.01), indicating that the value relevance of book value is strengthened under the same condition.

Table 7
The Moderating Effect of Strategic Deviance

Variables	Coefficient	t-statistic
Constant	-62.699***	(-35.70)
NI	8.406***	(20.34)
BVE	0.445***	(9.24)
DS	1.031***	(5.66)
NI × DS	-3.073***	(-5.68)
BVE × DS	0.247***	(4.01)
VAIC	-0.011***	(-3.92)
VAIC × DS	0.004	(1.23)
SIZE	3.129***	(36.33)
LEV	-6.434***	(-22.92)
GROW	1.317***	(12.56)
Year FE	YES	
Industry FE	YES	
Observations	52,721	
Adjust_R2	0.711	

Noted: *p < 0.1, **p < 0.05, ***p < 0.01, t-value in parentheses.

This dual effect is precisely what the "trust transfer" perspective predicts. Faced with the heightened uncertainty and information opacity of a deviant strategy, investors appear to discount the earnings number—which is susceptible to estimation and manipulation—and shift their reliance towards the balance sheet, which provides a more reliable and verifiable anchor for valuation.

Robustness Tests

A series of robustness tests confirm the reliability of our core findings.

Alternative Measurement of Key Constructs

Intellectual Capital: To ensure our findings are not driven by a specific measurement choice for intellectual capital, we conducted robustness tests using the original Value Added Intellectual Coefficient (VAIC) methodology as proposed by Pulic(Pulic, 2000). This alternative approach offers a conceptually different calculation from our main model, replacing relational capital with financial capital efficiency and inverting the structural capital computation. VAIC = CEE + HCE + SCE, where:

CEE = VA / Capital Employed (Financial capital efficiency)

HCE = VA / Human Capital (Definition consistent with main model)

SCE = Structural Capital / VA = (VA - HC) / VA (Note the inverse relationship)

As shown in Table 8, using (Pulic, 2000)'s original VAIC methodology yields consistent results: the coefficient on the alternative VAIC measure remains significantly negative, reinforcing the mediation effect.

Strategic Deviance: Similarly, we reconstructed the strategic deviance index using a streamlined four-dimensional framework that excludes the potentially noisier advertising and R&D dimensions, focusing instead on capital intensity, fixed asset renewal, administrative intensity, and financial leverage. The new index exhibits a high correlation with the original measure (0.727, $p<0.01$) and produces fully consistent regression results, confirming that the "trust transfer" effect is not sensitive to the specific operationalization of strategic deviance.

Table 8

Robustness Test Using Alternative VAIC Measurement

This table compares the regression results using the baseline VAIC measure and the alternative VAIC measure based on Pulic (2000). Panel A replicates the main valuation model (testing H2). Panel B shows the direct association between VAIC and key financial variables. T-statistics based on robust standard errors are in parentheses.

Panel A

Main Valuation Model (Dependent Variable: MV)

Varibles	Baseline VAIC	Alternative VAIC
Constant	-61.899***	-62.058***
	(-35.48)	(-36.36)
NI	6.524***	6.428***
	(29.73)	(28.68)
BVE	0.602***	0.614***
	(21.28)	(21.50)
VAIC	-0.009***	-0.119***
	(-5.92)	(-5.49)
SIZE	3.107***	3.103***
	(36.03)	(36.60)
LEV	-5.926***	-4.967***
	(-21.19)	(-18.43)
GROW	1.294***	1.263***
	(12.40)	(12.45)

Year FE	YES	YES
Industry FE	YES	YES
Observations	52,721	53,230
Adjust_R2	0.709	0.716

Note: *p < 0.1, **p < 0.05, ***p < 0.01, t-value in parentheses.

Panel B

Direct Association Models (Dependent Variable as Indicated)

Varibles	ModelMV		ModelNI		ModelBVE	
	Baseline	Alternative	Baseline	Alternative	Baseline	Alternative
Constant	9.672***	7.896***	0.283***	0.050***	3.996***	3.700***
	(106.86)	(64.26)	(50.11)	(6.60)	(80.32)	(54.01)
VAIC	0.060***	1.066***	0.005***	0.121***	0.043***	0.443***
	(40.24)	(35.06)	(58.29)	(64.70)	(53.01)	(26.12)
Observations	52,721	53,230	52,721	53,230	52,721	53,230
Adjust_R2	0.0298	0.0225	0.0605	0.0728	0.0506	0.0126

Note: The baseline VAIC measure is VAIC = HCE + SCE + RCE. The alternative VAIC measure is VAIC = CEE + HCE + SCE, per Pulic (2000). All models include a constant term. Full results are available upon request.*p < 0.1, **p < 0.05, ***p < 0.01, t-value in parentheses.

Controlling for Additional Confounding Factors

To alleviate omitted variable bias, we augmented our baseline model with several additional control variables:Cash Flow Performance: We included cash flow from operations (CFOA) to ensure our results are not confounded by a firm's underlying cash-generating ability, which is a critical valuation metric.Audit Quality: We controlled for Big 4 auditor affiliation(AT), as audit quality can influence the perceived reliability of financial reports and thus their value relevance.

As shown in Table 9, the inclusion of these controls does not materially alter the significance or direction of our key test variables. The core findings regarding the mediation effect of intellectual capital and the "trust transfer" effect of strategic deviance remain stable, indicating that our results are not confounded by these omitted firm characteristics.

Table 9

Robustness Checks with Additional Control Variables

Varibles	Baseline	+ CFOA	+ Big4	+ Both
Constant	-62.699***	-63.647***	-60.533***	-61.448***
	(-35.70)	(-35.90)	(-34.99)	(-35.13)
NI	8.406***	8.089***	8.394***	8.105***
	(20.34)	(19.24)	(20.41)	(19.40)
BVE	0.445***	0.409***	0.413***	0.381***
	(9.24)	(8.23)	(8.60)	(7.68)
VAIC	-0.011***	-0.010***	-0.011***	-0.011***
	(-3.92)	(-3.80)	(-3.96)	(-3.85)
DS	1.031***	1.079***	0.898***	0.944***
	(5.66)	(5.88)	(4.92)	(5.13)
NI×DS	-3.073***	-3.036***	-3.130***	-3.094***
	(-5.68)	(-5.56)	(-5.80)	(-5.68)

BVE×DS	0.247***	0.220***	0.254***	0.230***
	(4.01)	(3.54)	(4.12)	(3.68)
VAIC×DS	0.004	0.004	0.004	0.004
	(1.23)	(1.13)	(1.45)	(1.35)
SIZE	3.129***	3.179***	3.017***	3.065***
	(36.33)	(36.52)	(35.60)	(35.74)
LEV	-6.434***	-6.757***	-6.245***	-6.543***
	(-22.92)	(-23.72)	(-22.45)	(-23.18)
GROW	1.317***	1.332***	1.313***	1.327***
	(12.56)	(12.70)	(12.66)	(12.79)
CFOA		0.477***		0.435***
		(3.91)		(3.59)
AT			4.572***	4.469***
			(11.33)	(11.09)
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	52,721	52,689	52,721	52,689
Adjust_R2	0.711	0.712	0.714	0.714

Note:All models include year and industry fixed effects. Robust standard errors are clustered at the firm level. Variable definitions are provided in Table 8.* p < 0.1, ** p < 0.05, *** p < 0.01

Sub-Sample Analysis: The Divergent Valuation Landscape

To further dissect the heterogeneous effects uncovered in our main analysis and test the boundary conditions of our findings, we conduct a sub-sample analysis based on industry type. The classification of high-tech industries follows the official guidelines from the China Securities Regulatory Commission (CSRC) and the High-Tech Enterprise Recognition and Management Measures. Specifically, firms in the following sectors are classified as high-tech: pharmaceuticals manufacturing (C27), computer, communication, and other electronic equipment manufacturing (C39), instrument and apparatus manufacturing (C40), information transmission, software, and information technology services (I65), and scientific research and technical services (M73-M75). The remaining firms constitute the traditional industry sample. This rigorous classification yields 9,347 firm-year observations in the high-tech sub-sample and 43,374 in the traditional sub-sample, accurately reflecting the structure of China's real economy.

The results, presented in Table 10, reveal a striking divergence in valuation mechanisms across the two sectors.

Table 10
Sub-Sample Analysis

Varibles	High-Tech	Traditional
Constant	-63.115***	-57.068***
	(-14.35)	(-30.29)
NI	13.714***	7.527***
	(12.26)	(17.18)
BVE	0.827***	0.484***
	(5.47)	(9.56)
VAIC	0.008	-0.008***
	(0.57)	(-3.01)
DS	2.544***	1.297***
	(4.41)	(6.94)
NI×DS	-9.696***	-1.945***
	(-6.00)	(-3.39)
BVE×DS	-0.060	0.217***
	(-0.33)	(3.40)
VAIC×DS	-0.003	0.001
	(-0.27)	(0.23)
SIZE	3.069***	2.830***
	(14.10)	(30.64)
LEV	-5.206***	-5.381***
	(-7.26)	(-18.42)
GROW	1.461***	1.248***
	(4.71)	(11.44)
Year FE	YES	YES
Industry FE	YES	YES
Observations	9,347	43,374
Adjust_R2	0.667	0.729

Note:All models include year and industry fixed effects. Robust standard errors are clustered at the firm level.* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

First, the mediating role of intellectual capital, established in the full sample, exhibits clear contextual dependency. In traditional industries, the coefficient on VAIC remains significantly negative (-0.008, $p < 0.01$), robustly supporting the mediation effect (H2b). In stark contrast, in high-tech industries—the very heart of the knowledge economy—the direct valuation effect of VAIC is statistically indistinguishable from zero (0.008, $p > 0.1$). This indicates a profound market failure: the primary drivers of value in high-tech firms are not being priced directly, even when externally measured, suggesting that conventional valuation models are particularly ill-suited for these entities.

Second, and most notably, the moderating role of strategic deviance displays a fundamental qualitative difference, not merely a quantitative one. The weakening effect of strategic deviance on earnings relevance is not only present but is dramatically amplified in high-tech industries. The coefficient for the NI×DS interaction is -9.696 ($p < 0.01$) for high-tech firms, which is nearly five times larger than the corresponding coefficient of -1.945 ($p < 0.01$) in traditional industries. This suggests that the valuation uncertainty triggered by a unique strategy is exponentially greater in sectors characterized by inherent information asymmetry and rapid innovation.

Furthermore, the hypothesized "trust transfer" effect is predominantly a phenomenon of traditional industries. Here, we observe the classic dual pattern: strategic deviance weakens earnings relevance (NI×DS: -1.945) while simultaneously strengthening book value relevance (BVE×DS: 0.217, $p < 0.01$). Investors in traditional firms, faced with strategic ambiguity, indeed shift their trust to the more reliable balance sheet. However, this compensatory mechanism completely breaks down in high-tech industries. While earnings relevance is severely penalized (NI×DS: -9.696), there is no corresponding shift of trust to book value (BVE×DS: -0.060, $p > 0.1$). In the high-tech sector, strategic deviance appears to trigger a broader crisis of confidence, undermining the relevance of accounting information as a whole rather than prompting a strategic re-weighting of its components.

In summary, the sub-sample analysis delineates two distinct valuation regimes. In traditional industries, the integrated framework of mediation and trust transfer holds strongly. In high-tech industries, however, the valuation process is far more fractured: intellectual capital cannot be directly priced, and strategic uniqueness leads to a near-complete erosion of confidence in earnings without any countervailing reliance on book value. This paints a picture of a market struggling to value its most innovative and strategically distinct firms.

Synthesis and Discussion

Our integrated analysis yields a coherent narrative about the evolving value relevance of accounting information in China's knowledge economy.

First, the confirmed decline (H1) establishes the context, underscoring the diminishing utility of a pure accounting-based valuation model. Second, the discovery of the mediation effect of intellectual capital (H2b) clarifies a long-standing theoretical tension. It demonstrates that the market recognizes IC as a source of value but lacks a direct pricing model for it, relying instead on its manifestation in traditional accounting outcomes. This explains why the value gap persists despite the acknowledged importance of intangibles.

Most importantly, the "trust transfer" effect (H3) reveals a sophisticated adaptive behavior among investors. It shows that the market's response to strategic complexity is not a blanket dismissal of accounting information, but a strategic re-weighting of its components based on their relative reliability. This finding significantly enriches our understanding of how investors process information under uncertainty.

Finally, the subsample analysis paints a stark picture of the valuation frontier. In high-tech firms with deviant strategies, the market faces a dual dilemma: traditional earnings are heavily discounted, while the core value driver (IC) cannot be priced directly. In this scenario, the balance sheet becomes the valuation anchor of last resort, and strategic deviance itself transforms from a mere moderator into a critical, top-level signal for identifying and interpreting true innovators.

Conclusion

This study provides robust longitudinal evidence on the evolving value relevance of accounting information in China, highlighting the critical roles of intellectual capital (IC) and strategic deviance. Our findings offer nuanced insights into valuation in the knowledge economy.

Key Findings

This study systematically examines the evolving mechanisms of the value relevance of accounting information in China's A-share market from 2005 to 2024, building an analytical framework that integrates intellectual capital and strategic deviation. The key findings are as follows:

First, the value relevance of core accounting information exhibits a significant structural decline. Despite the international convergence of accounting standards in 2007, the overall explanatory power of net profit and net assets for stock market value has shown a sustained and systematic decline over the sample period, particularly since 2014. This trend highlights the weakening ability of traditional historical cost-based financial reporting models to capture the drivers of corporate value in the knowledge economy, leading to an increasingly severe "value gap."

Second, the value creation path of intellectual capital is complex, primarily manifested in a "mediation effect." The study found that while intellectual capital is positively correlated with firm value, its positive impact is primarily achieved indirectly through improvements in traditional accounting performance (net profit and net assets). In a complete valuation model that incorporates these traditional indicators, the direct incremental explanatory power of intellectual capital is suppressed or even negative. This suggests that the current financial reporting system has structural flaws in reflecting the value of intangible assets, and the market's pricing of these assets is highly dependent on observable accounting outcomes derived from them.

Third, and most critically, we uncover a fundamental divergence in how strategic deviance influences valuation across industries. In traditional sectors, we observe the predicted 'trust transfer' effect, where investors shift reliance from earnings to book value. However, this compensatory mechanism completely breaks down in high-tech industries. For these knowledge-intensive firms, strategic uniqueness leads to a severe devaluation of earnings relevance (nearly five times stronger than in traditional industries) without any corresponding increase in the relevance of book value. This indicates a deeper 'valuation crisis' for innovative, strategically distinct companies, where the entire accounting system provides less decision-useful information.

Theoretical and Practical Implications

Theoretical contribution lies in its integration of intellectual capital (as a value driver) and strategic deviation (as a key contextual factor) into a unified valuation framework, providing a more comprehensive and dynamic explanation for the evolution of value relevance in emerging markets. The discovered "trust transfer" effect reveals an important adaptive behavior in investors' interpretation of accounting information.

For regulators and standard-setters, our findings underscore the urgent need for industry-tailored reporting reforms. The one-size-fits-all model of financial reporting is particularly inadequate for high-tech firms. Enhancing the disclosure of intangible drivers, innovation pipelines, and strategic key performance indicators (KPIs) is crucial to bridging the value gap for these companies. The collapse of the trust transfer mechanism in this sector signals that

incremental improvements to existing statements may be insufficient; more fundamental rethinking of value reporting is required.

For investors and analysts, the findings call for upgrading their valuation models. When evaluating strategically unique or knowledge-intensive companies, they should reduce reliance on earnings metrics and instead develop a more diversified evaluation system that relies on book value, cash flow, and non-financial strategic information.

For company management, the research highlights the importance of clear strategic communication. While implementing a differentiated strategy, they must proactively explain the rationale and economic returns of their business models to the market through various channels to reduce information asymmetry and avoid potential valuation discounts.

Research Limitations and Future Prospects

A limitation of this study is that the measurement of intellectual capital still relies on the VAIC model based on financial data. Future research could adopt more direct measurement methods, such as using text analysis to capture intangible asset information or exploring the moderating role of corporate governance mechanisms(such as institutional investor ownership) in the aforementioned relationship. In addition, the micro-mechanism of the "trust transfer" effect and its universality in other emerging markets are also worthy of further exploration.

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