The effect of board of directors Independence on Value Relevance of Accounting Earning's Information for decisions by investors in stock exchange market (Empirical Study)

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Abstract

The effects of the independence of board of directors on the relevance of earning's information for decisions by investors in stock markets is the subject of this study. This independence is considered very important within the monitoring and directing roles played by boards of directors on the working of and decision making by corporation's management. In addition, accounting earnings represent the key base for accrual accounting in particular and in accounting process in general. Two factors reflecting investors usage of earning relevance in their decision making are employed to determine the relevance of earning information that are (i) the ability of these earning to forecast future cash flows (ii) and valuation contents of these earnings in stock markets. The empirical work in this study utilized data drawn from a sample of 78 publicly listed Egyptian firms covering the period 2005 – 2008. The study's main findings are:

1. **There is a positive impact on accounting earning relevance of board independence defined as the ratio of non-executive directors in the board.**
2. **When chairman of board has double roles (a chairman and CEO) the relevance of accounting earning declines.**
3. **There are no documented effects of the size of board on the relevance of accounting earning**

For the Paper in Arabic Language See the Pages (223-254)