# “Value relevance of accounting information in the New Normal era: Effects of the COVID-19 pandemic”


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# VALUE RELEVANCE OF ACCOUNTING INFORMATION IN THE NEW NORMAL ERA: EFFECTS OF THE COVID-19 PANDEMIC

## Abstract

This study examines whether the value relevance of accounting information has changed in the post-pandemic "New Normal" era, in light of evolving business models and greater reliance on intangible assets. The study analyzes firms listed on the Korean Stock Exchange from 2013 to 2023, defining the period from 2020 to 2023 as the New Normal period. A total of 5,007 firm-year observations from the post-2020 period are used to assess whether traditional financial metrics remain effective in capturing firm value under the new economic conditions. Following Ohlson (1995), a firm's value is estimated using a linear combination of book value (BPS) and earnings (EPS). Additionally, 1,688 firm-year observations from the information technology (IT) sector are separately examined, given the sector's strong adaptability and emphasis on digital innovation. The empirical analysis reveals that the explanatory power of the Ohlson model declined from 0.501 to 0.382 in the post-COVID period. Furthermore, the coefficients of both EPS and BPS decreased significantly after the pandemic (coef = –3.574, t-value= –11.29; coef = –0.244, t-value= –9.84). This trend is particularly pronounced in the IT sector (coef = –4.654, t-value= –4.54; coef = –1.103, t-value= –8.45). This indicates that the value relevance of earnings and book value decreased during the New Normal era. These findings highlight the limitations of traditional reporting frameworks and the growing importance of incorporating nonfinancial information into corporate disclosures.

**Keywords** value relevance, accounting information, financial reporting, firm value, COVID-19, IT industry, nonfinancial information, Korea

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## INTRODUCTION

The COVID-19 pandemic has induced dramatic shifts in the global economy and business environment, giving rise to a new management paradigm, often referred to as the "New Normal". In the early stages of the pandemic, the collapse of global supply chains and sharp demand fluctuations forced companies into severe operational crises, necessitating fundamental changes in their operational strategies (Frederico et al., 2021; 2023; Goel et al., 2021; Golan et al., 2020). The widespread adoption of remote work, accelerated digital transformation, and increased emphasis on contactless services were adaptations that businesses had to swiftly embrace to survive and thrive. These changes, precipitated by the pandemic, extended beyond immediate responses and resulted in major structural transformations within the business environment (El Baz & Ruel, 2021; Van Hoek, 2020). For example, the retail sector experienced a pronounced decline in offline sales, whereas online channels expanded rapidly. The importance of supply chain management in manufacturing became evident, leading to the emergence of diverse supply



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chain strategies. These transformations posed both threats and opportunities for businesses; firms that successfully navigated digital transformation gained new avenues for growth, whereas those that lagged fell behind in the competitive market.

As the economy gradually normalizes in the post-pandemic landscape, the corporate environment remains altered, prompting renewed discussion on the value relevance of accounting information. Since the onset of the pandemic, the disconnect between market uncertainty and corporate performance has raised concerns regarding the adequacy of accounting information in reflecting corporate value. Although numerous studies have examined the short-term impact of COVID-19 on financial reporting, the need to reassess the long-term implications of value relevance in the New Normal has become increasingly critical. Research by Chen et al. (2019) underscores that certain accounting metrics continue to reflect corporate value inadequately because of changes in the managerial landscape brought on by the pandemic. In their work, they advocate the integration of new accounting standards alongside nonfinancial information to provide a more comprehensive view of corporate performance. The heightened emphasis on Environmental, Social, and Governance (ESG) management further accentuates this issue, as existing accounting frameworks often fail to adequately account for these nonfinancial elements. According to Zhang and Wang (2024), nonfinancial information plays a crucial role in elucidating a company's long-term value, and neglecting it in financial reporting may lead to misestimations of corporate value.

Against this backdrop, this study examines the evolution of the value relevance of accounting information in the New Normal era and its implications for financial performance and market assessments among Korean firms. Recognizing the information technology (IT) industry's anticipated high adaptability and responsiveness during this period, the analysis focuses on how the value relevance of accounting information changed within this sector.

## 1. LITERATURE REVIEW

The COVID-19 pandemic triggered structural shifts in corporate strategy, driving digital transformation, supply chain changes, and organizational restructuring across industries. Empirical studies show that these changes were not merely reactive but marked a long-term reconfiguration of business models. Frederico et al. (2021, 2023) and Goel et al. (2021) highlight how supply chain vulnerabilities prompted firms to diversify suppliers, build redundancies, and implement digital logistics systems. Golan et al. (2020) further emphasize a shift toward decentralized and resilient supply networks supported by automation and data analytics. These trends extended to broader areas such as remote work, digital customer engagement, and platform-based service delivery. El Baz and Ruel (2021) report that over 80% of surveyed firms in Europe and North America undertook long-term digital and organizational restructuring in response to the pandemic. Van Hoek (2020) finds that firms with pre-existing digital capabilities weathered the crisis more effectively and gained competitive advantages in the recovery phase.

These transformations raise important questions about whether traditional financial statements still provide a reliable representation of firm value in the post-pandemic environment. The rise of intangible assets, digital revenue models, and ESG (Environmental, Social, and Governance) considerations has led to concerns that conventional accounting measures may no longer meet investors' information needs. This issue is grounded in a long-standing body of research on the value relevance of accounting information. Ohlson (1995) developed a valuation model in which firm value is a linear function of net income and book value of equity, forming the basis of much empirical research. However, subsequent studies have shown that the explanatory power of these variables varies over time and across industries. For example, Collins et al. (1997), analyzing U.S. firms over four decades, found a declining value relevance of earnings and a rising importance of book value, which they attributed to the emergence of high-tech firms, increased one-time items, and frequent losses. Lev and Gu (2016) argue that earnings have become less informative in innovation-driven in-

dustries, where intangible assets are often omitted from financial statements. Core et al. (2003) similarly note that R&D and advertising are typically expensed under conservative accounting rules, reducing the relevance of reported figures. These limitations are often amplified during periods of economic instability. Prior research (e.g., Barth et al., 1998; Hayn, 1995; Burgstahler & Dichev, 1997) suggests that during financial crises, the value relevance of earnings declines due to volatility and uncertainty, while book value becomes relatively more informative as investors focus on solvency and liquidation value.

The COVID-19 crisis represents a unique case. As an exogenous, non-financial shock, the pandemic disrupted the informativeness of both earnings and book value in reflecting firm value. Appelbaum et al. (2020) note a decline in profitability and heightened risks of asset impairment, which contributed to a growing disconnect between accounting figures and market valuations. Choi and Cho (2021) emphasize the increased reliance on ESG-related disclosures during this period, while cautioning that the absence of standardized reporting frameworks undermines the credibility and comparability of such information. Several empirical studies have investigated how the COVID-19 pandemic has affected the value relevance of accounting information, with a growing consensus pointing to a notable decline in the usefulness of traditional financial metrics. Liu and Sun (2022), examining U.S.-listed firms, find a significant reduction in the explanatory power of earnings and book value during the pandemic period compared to the pre-pandemic year. Their analysis reveals that investors placed less reliance on reported earnings in pricing decisions, likely due to increased uncertainty and earnings volatility. Similarly, Belesis et al. (2022) analyze data from 1,645 firms across six major European countries and document a marked decrease in the value relevance of financial statements following the onset of the pandemic. Their results show that the decline was more pronounced for net income than for book value, suggesting a relative shift in investor focus toward more stable balance sheet information in times of crisis.

In light of these challenges, several studies have proposed expanding the scope of accounting information to better capture firm value in a changing environment. Barth et al. (2019) advocate for incorporating intangible assets and forward-looking indicators into financial reporting frameworks. Similarly, Zhang and Wang (2024) provide empirical evidence supporting a positive association between ESG performance and long-term firm value. Nonetheless, as Choi and Cho (2021) point out, the lack of a consistent and verifiable structure for non-financial disclosures continues to constrain their practical usefulness. Taken together, these findings suggest that the pandemic has accelerated structural transformations that undermine the value relevance of traditional accounting measures. The growing role of intangible assets, digital platforms, and sustainability-oriented strategies suggests that financial statements may no longer fully capture firm value in the post-COVID era. Accordingly, this study investigates whether the value relevance of net income and book value of equity has changed in the aftermath of the COVID-19 pandemic. It further examines whether such changes are more pronounced in the information technology (IT) sector, where digital business models and intangible assets play a central role.

## 2. METHODS

This paper investigates whether the value relevance of accounting information for firms has changed in the New Normal era following the COVID-19 pandemic. This study employs the valuation model proposed by Ohlson (1995), which relates a firm's market value to its equity book value and net income through a linear framework. As an initial step, Equation (1) is developed to evaluate the overall value relevance of accounting figures over the sample period, emphasizing the association between stock prices, book value of equity, and earnings. To examine whether the relevance of accounting information has changed due to the pandemic, a COVID-19 indicator variable is incorporated. This specification functions as a core analytical framework for identifying potential shifts in how investors interpret and respond to firms' accounting data in the post-COVID context. It also provides a basis for analyzing how key financial indicators are associated with stock price fluctuations under the influence of the pandemic.


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$$PRICE = \beta_0 + \beta_1 EPS + \beta_2 BPS + \varepsilon_{i,t}. \quad (1)$$

$$PRICE = \beta_0 + \beta_1 EPS + \beta_2 BPS + \beta_3 COVID + \beta_4 COVID \cdot EPS + \beta_5 COVID \cdot BPS + \varepsilon_{i,t}. \quad (2)$$

If the empirical analysis indicates that coefficients β4 and β5 have significant negative values, this would signal a substantial decline in the credibility of these firms' post-pandemic accounting information, according to investors. These results imply that accounting information, typically a foundational aspect of investment decision making, has lost its reliability, leading to reduced relevance in predicting stock prices. The erosion of credibility may stem from heightened uncertainty regarding firms' future profitability and cash flows amid the operational disruptions brought on by the pandemic (Gao et al., 2021; Cui et al., 2021). Nevertheless, should the empirical results indicate that coefficients β4 and β5 are significantly positive, it would imply that investors have revised their perception of current earnings in a favorable direction. Such findings would suggest that market participants acknowledge these firms' strong potential for growth and resilience in adapting to the post-pandemic environment. In addition, if book values are found to convey positive signals about firms' long-term viability, it may reflect investors' continued trust in accounting figures as reliable indicators of financial soundness and expected performance (Li et al., 2021). Gaining insights into how investor expectations shift in the wake of extraordinary events such as the COVID-19 pandemic is essential for stakeholders aiming to refine their strategic and financial decision making. Variable definitions used in the empirical model are provided in Table A1 in the Appendix.

### 2.1. Sample selection

This study utilizes data from firms listed on the Korean Stock Exchange over the period 2013 to 2023. To maintain consistency across observations, only companies with a December fiscal year-end were included. Financial statement data were retrieved from the DATA-GUIDE database. To mitigate the impact of extreme values, all variables used in the regression analyses were winsorized at the 1st and 99th percentiles. After applying these selection criteria, the final dataset comprises 12,048 firm-year observations. The years 2020 through 2023 are classified as the "New Normal" period, reflecting the post-COVID-19 business environment. The analysis includes 5,007 firm-year observations from the period after 2020 and focuses on how the evolving business environment of the New Normal era influenced the value relevance of accounting information. Additionally, to explore the changes in value relevance within the IT industry, which is expected to exhibit the highest adaptability and responsiveness in the New Normal era, 1,688 additional samples were extracted. A total of 708 firm-year observations are used to specifically assess the value relevance of accounting information for IT firms during the New Normal era.

## 3. RESULTS AND DISCUSSION

Table 1 reports the descriptive statistics for all variables included in the analysis, based on the entire sample. During the period from 2013 to 2023, the average stock price of firms listed on the Korean Stock Exchange was 39,644 KRW, while the median stood at 12,400 KRW. The notable gap between the mean and median suggests the presence of a considerable number of firms with relatively high stock valuations in the sample. The mean (median) earnings per share amounted to 6,486 KRW (568 KRW), and the average (median) book value per share was 37,368 KRW (9,768 KRW), indicating a right-skewed distribution in both variables.

Table 2 reports the correlation between variables. Panel A shows the correlations for the overall sample, while Panel B focuses on the correlations within the IT industry sample. In both samples, *earnings per share* (EPS) and *book value per share* (BPS) exhibit a positive correlation with stock prices; this suggests that these two accounting variables are significant indicators of corporate value. Notably, the correlations between EPS and BPS with stock prices are higher in the IT industry sample than in the overall sample. This can be interpreted as a reflection of the rapidly evolving technological landscape in the IT industry and investors' heightened expectations for growth, which amplify the importance of these accounting variables and increase their sensitivity to EPS and BPS.

**Table 1.** Descriptive statistics

| <Panel A> Entire industry | | | | | | |
|---|---|---|---|---|---|---|
| **Variable** | **N** | **Mean** | **Standard Deviation** | **Minimum** | **Median** | **Maximum** |
| PRICE | 12,048 | 39,644 | 107,165 | 146 | 12,400 | 2,548,000 |
| EPS | 12,048 | 2,397 | 6,486 | –8,027 | 568 | 41,130 |
| BPS | 12,048 | 37,368 | 83,162 | 320 | 9,768 | 557,110 |

*Notes:* All variables are defined in the appendix, and continuous variables have been winsorized at the 1st and 99th percentiles to reduce the impact of extreme values.

**Table 2.** Correlations (p-values below)

| <Panel A> Entire industry (*N* = 12,048) | | | |
|---|---|---|---|
| | **PRICE** | **EPS** | **BPS** |
| PRICE | 1.000 | 0.592 | 0.632 |
| | | (<.0001) | (<.0001) |
| EPS | | 1.000 | 0.702 |
| | | | (<.0001) |
| BPS | | | 1.000 |
| <Panel B> IT Industry (*N* = 1,688) | | | |
| | **PRICE** | **EPS** | **BPS** |
| PRICE | 1.000 | 0.707 | 0.832 |
| | | (<.0001) | (<.0001) |
| EPS | | 1.000 | 0.796 |
| | | | (<.0001) |
| BPS | | | 1.000 |

*Notes:* All variable definitions are available in the appendix. Continuous variables are winsorized at the top and bottom 1% to reduce the effect of outliers, and all p-values are derived from two-tailed significance tests.

**Table 3.** Pre- vs. during-COVID-19 value relevance of accounting information: Full sample

| **Variable** | **Pre-COVID-19 period (COVID = 0)** | | **Post-COVID-19 period (COVID = 1)** | | **Test of parallelism** |
|---|---|---|---|---|---|
| | **Coef.** | **t-value** | **Coef.** | **t-value** | |
| Intercept | 2,655 | 2.34** | 14,867 | 15.25*** | |
| *EPS* | 6.354 | 26.78*** | 2.779 | 14.66*** | –11.77*** |
| *BPS* | 0.649 | 35.57*** | 0.405 | 26.96*** | –10.31*** |
| *Industry fixed effect* | YES | | YES | | |
| *Year fixed effect* | YES | | YES | | |
| Adj. $R^2$ | 0.501 | | 0.382 | | |
| N | 7,041 | | 5,007 | | |

*Notes:* All variables are defined in the appendix. Continuous variables are winsorized at the top and bottom 1% to reduce the influence of outliers. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 3 summarizes the outcomes of a parallelism test aimed at assessing whether the relationship between accounting information and stock prices underwent significant changes following the onset of the COVID-19 pandemic. First, the explanatory power of the model ($R^2$) is decreased from 50.1% before the COVID-19 crisis to 38.2% after, indicating a significant reduction in the ability of accounting information to explain stock prices after the pandemic occurred. Additionally, the coefficients of both EPS and BPS decreased after the pandemic. Specifically, the coefficient of EPS dropped from 6.354 in the pre-COVID-19 period to 2.779 in the post-COVID-19 period, indicating a statistically significant decline. Similarly, the BPS coefficient decreased from 0.649 before the pandemic to 0.405 after the pandemic, which also shows a statistically significant difference. These results align with those of Ho et al. (2001), who found that the value relevance of accounting information tends to decrease during periods of severe economic shocks. This suggests that in the New Normal era, marked by the post-COVID-19 period, the value relevance of accounting information has relatively diminished.

Table 4 presents robustness test results for Hypothesis 1, using a regression model that includes a COVID-19 indicator variable to reassess differences in the value relevance of accounting data before and after the pandemic. The regression coefficients for the interaction terms, COVID*EPS and COVID*BPS, which represent the value relevance in the New Normal era, are –3.574 and –0.244, respectively, both statistically significant. This indicates that the value relevance of earnings and book value decreased during the New Normal era.

Table 5 presents the results of a parallelism test conducted to examine whether the value relevance of accounting information in the IT industry shifted in the post-COVID-19 period, compared to the pre-COVID-19 period. First, the model's explanatory power in the IT industry decreases from 76.3% to 56.7%, reflecting a notable decline in the capacity of accounting information to account for stock prices, following the onset of the pandemic. Moreover, the coefficients of both the EPS and BPS decreased after the pandemic. Specifically, the coefficient


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of EPS dropped from 7.377 in the pre-COVID-19 period to 2.723 in the post-COVID-19 period, indicating a statistically significant decline. Similarly, the BPS coefficient decreased from 1.941 before the pandemic to 0.838 after the pandemic, which also shows a statistically significant difference. This indicates that, even within the IT industry, the value relevance of accounting information relatively declined during the New Normal era.

**Table 4.** Comparison of accounting information value relevance pre- and during COVID-19: Evidence from the full industry sample

| Variable | Dependent variable = *PRICE* | |
|---|---|---|
| | Coef. | *t*-value |
| Intercept | 2,655 | 2.61*** |
| *EPS* | 6.354 | 29.92*** |
| *BPS* | 0.649 | 39.74*** |
| *COVID* | 12,212 | 7.73*** |
| *COVID × EPS* | –3.574 | –11.29*** |
| *COVID × BPS* | –0.244 | –9.84*** |
| *Industry fixed effect* | YES | |
| *Year fixed effect* | YES | |
| Adj. $R^2$ | 0.473 | |
| N | 12,048 | |

*Notes*: Variable definitions are provided in the appendix. All continuous variables are winsorized at the 1st and 99th percentiles to address outliers. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

**Table 5.** Pre- and post-COVID-19 value relevance of accounting information in the IT industry

| Variable | Pre-COVID-19 period (COVID = 0) | | Post-COVID-19 period (COVID = 1) | | Test of parallelism |
|---|---|---|---|---|---|
| | Coef. | t-value | Coef. | t-value | |
| *Intercept* | 11,308 | –5.01*** | 8,445 | 6.71*** | |
| *EPS* | 7.377 | 8.24*** | 2.723 | 7.15*** | –4.78*** |
| *BPS* | 1.941 | 22.84*** | 0.838 | 14.33*** | –10.68*** |
| *Industry fixed effect* | YES | | YES | | |
| *Year fixed effect* | YES | | YES | | |
| Adj. $R^2$ | 0.763 | | 0.567 | | |
| N | 980 | | 708 | | |

*Notes*: Variable definitions are provided in the appendix. All continuous variables are winsorized at the 1st and 99th percentiles to address outliers. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 6 presents the results of the robustness analysis for Hypothesis 2, reexamining the difference in the value relevance of accounting information using a dummy variable (COVID) in the regression model. The regression coefficients for COVID*EPS and COVID*BPS are -4.654 and -1.103, respectively, and both are statistically significant. This indicates that the value relevance of earnings and book value in the IT sector decreased during the New Normal era.

**Table 6.** Value relevance of accounting information in the IT industry: Pre- vs. during COVID-19

| Variable | Dependent variable = *PRICE* | |
|---|---|---|
| | Coef. | t-value |
| Intercept | –11,308 | –6.17*** |
| *EPS* | 7.377 | 10.16*** |
| *BPS* | 1.941 | 28.18*** |
| *COVID* | 19,754 | 6.56*** |
| *COVID × EPS* | –4.654 | –4.54*** |
| *COVID × BPS* | –1.103 | –8.45*** |
| *Industry fixed effect* | YES | |
| *Year fixed effect* | YES | |
| Adj. $R^2$ | 0.750 | |
| N | 1,688 | |

*Notes*: Variable definitions are provided in the appendix. All continuous variables are winsorized at the 1st and 99th percentiles to address outliers. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

This study finds a significant decline in the value relevance of accounting information in the post-COVID era, consistent with prior research (Liu & Sun, 2022; Belesis et al., 2022). The effect is more pronounced in the IT industry, suggesting that traditional accounting metrics struggle to capture firm value in sectors driven by digital transformation and intangible assets. While this decline may partly reflect the limitations of accounting information, it also points to heightened uncertainty and structural shifts in the business environment. In the IT sector, the complexity of valuing digital assets under current standards may contribute to reduced investor confidence in reported figures. These findings underscore the need to enhance accounting frameworks by incorporating nonfinancial indicators, recognizing intangible assets, and improving risk disclosures, to ensure financial reporting remains relevant in the evolving economic landscape.

## CONCLUSION

The purpose of this study is to explore whether traditional accounting information continues to effectively reflect firm value in the 'New Normal' era, characterized by heightened reliance on intangibles and transformed business practices following the pandemic. The paper finds a significant decline in the value relevance of accounting information in the post-COVID era, highlighting the limitations of traditional financial metrics in capturing firm value amid rapidly evolving economic and technological conditions. This trend is particularly pronounced in the IT sector, where structural shifts and the growing importance of intangible assets may have further diminished the explanatory power of conventional accounting figures. This study serves as a foundation for future research into the adequacy of conventional accounting frameworks in an era where technological innovation and non-physical assets play an increasingly central role.

## AUTHOR CONTRIBUTIONS

Conceptualization: Boyoung Moon.
Data curation: Soo-Joon Chae.
Formal analysis: Soo-Joon Chae.
Funding acquisition: Soo-Joon Chae.
Investigation: Soo-Joon Chae.
Methodology: Soo-Joon Chae.
Project administration: Boyoung Moon.
Resources: Soo-Joon Chae.
Software: Soo-Joon Chae.
Supervision: Boyoung Moon.
Validation: Boyoung Moon.
Visualization: Soo-Joon Chae.
Writing – original draft: Boyoung Moon.
Writing – review & editing: Soo-Joon Chae.

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# APPENDIX A

**Table A1.** Variable definitions

| Variable | Definition |
|---|---|
| | **Dependent Variables** |
| PRICE | Closing stock price on the last trading day of the fiscal year |
| | **Independent Variables** |
| EPS | Earnings per share (Net Income/Weighted Average Outstanding shares) |
| BPS | Book value per share (Book value/ Weighted Average Outstanding shares) |
| COVID | If the period is between 2020 and 2023, then COVID = 1; otherwise, COVID = 0 |


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