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Ann L.-C. Chan

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Innovation Efficiency and Asymmetric Timeliness of Earnings: Evidence from an Emerging**Market****Ann L-C Chan**

Associate Professor

Department of Accounting

National Chengchi University

64 Sec. 2 Zhi-Nan Road

Taipei, 11605, Taiwan

lcchan@nccu.edu.tw

Abstract: This study investigates the impact of intellectual capital output on the asymmetric income timeliness of firms in Taiwan, which is an emerging economy with a high concentration of research and development (R&D)-intensive firms but poor investor protection. The higher growth opportunities and increased risk faced by R&D firms makes them more vulnerable to shareholder litigation. Specifically, I examine whether companies that are less efficient at transforming new ideas or techniques into granted patents are more timely in their recognition of losses and less timely in their recognition of gains in response to higher expected litigation costs. Indeed, I observe a negative relationship between innovation efficiency and asymmetric income timeliness and this is more evident among highly R&D-intensive firms. In a parallel analysis, I also find that the observed greater earnings conservatism of low-innovation-efficient firms is more evident following the introduction of the Securities and Futures Investor Protection Act in the year 2003, when a class action litigation mechanism was established. Together, these findings highlight the role of accounting conservatism in mitigating the potential litigation risk faced by high-tech industries.

Keywords: Innovation efficiency, asymmetric income timeliness, information asymmetry, litigation

risk

JEL Classification: M41

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