

## Accounting Choice, Home Bias, and US Investment in Non-US Firms

**Mark T. Bradshaw**

Graduate School of Business Administration  
Harvard University  
Boston, MA 02163  
[mbradshaw@hbs.edu](mailto:mbradshaw@hbs.edu)

**Brian J. Bushee**

The Wharton School  
University of Pennsylvania  
2400 Steinberg-Dietrich Hall  
Philadelphia, PA 19104-6365  
[bushee@wharton.upenn.edu](mailto:bushee@wharton.upenn.edu)

**Gregory S. Miller**

Graduate School of Business Administration  
Harvard University  
Boston, MA 02163  
[gmler@hbs.edu](mailto:gmler@hbs.edu)

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**ABSTRACT:** This paper examines the relation between accounting method choice and investment by US institutional investors in non-US firms. Such a relation could be driven by two factors. First, “home bias” in US investment could result in preferences for accounting practices familiar to US investors. The use of accounting methods consistent with US GAAP reduces information processing costs for US investors, allowing for more thorough analyses and increasing the credibility of the financial information. Second, many sources consider US GAAP to be one of the highest quality sets of financial reporting standards in the world. Thus, US investors likely perceive firms that use accounting methods allowed under US GAAP as having higher accounting quality. We find that firms with higher degrees of conformity with US GAAP have greater levels of US institutional ownership. These associations are exhibited in levels and changes, and are robust to the inclusion of a number of control variables for other determinants of institutional investment. Lead/lag regressions suggest that increases in US GAAP conformity attract a higher level of US institutional investment in future periods, but changes in US institutional holdings do not lead to changes in accounting methods. In partition analyses, we find that the positive relation between US GAAP conformity and US institutional investment holds regardless of a firm’s ADR status or other proxies for visibility (e.g., stock index listing, analyst following, and firm size). However, the relation is significantly stronger in the subsamples of ADR firms and more visible firms, suggesting that US GAAP conformity has greater impact among firms already somewhat visible to US investors.