**UNDERSTANDING PROFESSIONAL AND NON-PROFESSIONAL**

**INVESTORS’ INFORMATION REQUIREMENTS**

Vicky Arnold a,b

Jean C. Bedard c

Jillian Phillips a

Steve G. Sutton a,b

a **Kenneth G. Dixon School of Accounting**

**College of Business Administration**

**University of Central Florida**

P.O. Box 161400

Orlando, FL 32816-1400

b Professorial Fellow

Department of Accounting and Business Information Systems

University of Melbourne

c Accountancy Department

Bentley University

175 Forest Street

College of Business

Waltham, MA 02452

*and*

Professorial Visiting Fellow, University of New South Wales

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**Abstract**

Broad discussion is currently under way among standards setters on how to enhance the information content of Management’s Discussion & Analysis (MD&A) portion of the annual report. The International Accounting Standards Board (IASB) is currently working on an exposure draft for new guidelines on Management’s Summary—the IFRS equivalent to the MD&A. This study focuses on identifying the information requirements of both professional and non-professional investors with a specific focus on the information most desirable in enhancements to the MD&A. In the first phase of the research, we conduct nine focus groups with professional and non-professional investors to elicit their information requirements. Additionally, participants assess the proposed information disclosures contained within the Enhanced Business Reporting Consortium’s (EBRC) framework for enhanced disclosure. The results support the information value of the EBRC’s 31 categories of information, but 16 additional categories of information are also identified by our focus groups. In Phase II, we use a magnitude measurement survey to assess the relative value of the combined 46 information items. Results indicate that there is consistency among investors as to the relative value placed on the various information items, but all of the items appear to be desirable to the vast majority of investor participants. The results have implications for standard-setters from both a content and structure perspective when considering enhancements in business reporting.

**Key words:** enhanced business reporting, management’s discussion and analysis, management’s summary, eXtensible Business Reporting Language, XBRL, interactive data, financial reporting, IFRS.

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 This study investigates the preferences of both professional and non-professional investors regarding the information desired for disclosure in the Management’s Discussion and Analysis (MD&A) portion of the corporate annual report. The MD&A is a key component of financial disclosures to various stakeholders, as it represents management’s view of their company’s current performance and future potential. However, broad concerns have been voiced over the content and general informativeness of the MD&A (e.g. Anderson et al. 2005; Pozen Committee 2008). Simultaneously, increasing information quality within the MD&A has also been shown to be of substantial interest and value to investors (e.g. Thomas 2003/04; IFAC 2008). Thus, research on the structure and content of the MD&A is important for the establishment of reporting standards and for the dissemination of financial reports. Both the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are currently considering enhancement of MD&A disclosures (“*Management’s Commentary”* in IASB terminology). The IASB is expected to release an exposure draft on information content revision as early as the first quarter of 2009 (IASB 2008a). In addition, research on MD&A structure has current importance due to the stated intention of the Securities & Exchange Commission (SEC) to apply a structured tagging system such as XBRL to financial reports. Textual information such as the MD&A is difficult to structure in tagged format. Our study also investigates investors’ reactions to a suggested top-level categorization for MD&A information disclosure.

To better understand investors’ preferences for MD&A content and the relative value of alternative disclosures, we conducted a series of focus groups and information value assessments with professional and non-professional investors. As a part of these assessments, we specifically solicited investors’ perceptions about the value of information categories specified in the Enhanced Business Reporting Consortium’s (EBRC) proposed framework for enhanced MD&A disclosure (EBRC 2005; 2006). The methodology applied in our research also provides a high-level structure for framing the information content of the MD&A. The study consists of two phases. In the first phase, we conducted nine focus groups consisting of six to ten participants, comprising either professional or non-professional investors. The focus groups include segments devoted to identifying primary interest areas for MD&A disclosure as well as segments devoted to assessing the content value of specific information items in the EBRC’s (2006) proposed framework for disclosure. The focus groups also identified information items they consider important, which were not covered in the EBRC’s framework. In the second phase, 94 professional investors and 192 non-professional investors assessed the relative value of 46 specific areas of proposed enhanced MD&A information disclosures identified through a combination of EBRC-proposed categories and categories suggested by the investor focus groups.

 Our results provide strong support for both the enhanced information content included in the EBRC’s (2006) framework and for the additional information content proposed by our focus groups. Additionally, our results provide insights into relative value placed by investors on specific categories of information. Notably, we find strong concordance among both professional and non-professional investors in perceived value ratings, as well as strong correlations between the average relative values that the two groups of investors place on the proposed information categories. These findings should be of great interest to standards setters as they weigh revisions to guidelines over MD&A content (e.g. IFAC 2008b).

 The remainder of this paper is presented in four sections. First, we briefly overview the contemporary academic and practitioner literatures on MD&A information value relevance and revision requirements. This overview leads to a series of research questions that are addressed through our two-phased research study. Second, we document the foundations, processes, and results of our Phase I focus group approach to identifying information requirements for financial statement users. Third, we document the foundations, processes and results of our Phase II magnitude measurement questionnaire that uses a large number of professional and non-professional investors to assess the relative value of the various proposed MD&A information disclosure enhancements. In the fourth and final section, we briefly summarize our results and discuss the implications from a policy perspective.

**BACKGROUND AND DEVELOPMENT OF RESEARCH QUESTIONS**

 Prior research has shown that the MD&A, which embodies management’s “story” of a company’s past performance and future prospects, significantly impacts investors’ assessments of the company. Evidence in these studies indicates that MD&A information is frequently cited in sell-side analysts’ reports (Rogers and Grant 1997) and appears to influence analysts’ financial predictions (Bryan 1997; Barron et al. 1999; Clarkson et al. 1999; Thomas 2003/04). However, this research also shows that the quality of MD&A disclosures varies substantially (Bryan 1997; Barron et al. 1999). Further, differences in disclosure quality impact variance in predictions, with higher quality disclosures reducing dispersion and forecasting error (Barron et al. 1999; Thomas 2003/04). While more detailed disclosures have been shown to lower earnings forecasts in some situations, they also substantially raised analysts’ willingness to assign a “buy” rating on shares (Thomas 2003/04).

 Improving the information disclosures provided to investors has been a topic of keen interest to regulators and financial market participants in the last few years, as concerns over the scope and understandability of financial reports have received increasing attention (e.g. Financial Reporting Council 2008; IFAC 2008; Pozen Committee 2008). Related to these concerns over scope and understandability is an emphasis on the desirability of additional non-quantitative data; in particular, narrative reporting such as that provided in the MD&A, but with substantial enhancement (Anderson et al. 2005; IASB 2008b; IFAC 2008; Pozen Committee 2008).

 Concurrent with the focus on enhanced business reporting has been an emphasis on the accessibility of data via Internet reporting formats. As noted in the Pozen Committee’s (2008, 4) report, “[the committee] support[s] the SEC’s long-term efforts to data tag financial reports using eXtensible Business Reporting Language (XBRL), so that particular items across companies can be easily sorted and analyzed by investors.”[[1]](#footnote-2) However, research shows that use of XBRL to tag information still leads to disparity, and there can be cross-country limitations from specific country adoption of alternative tagging metadata[[2]](#footnote-3) (Bonson et al. 2009). This lack of consistency in tagging metadata limits the accuracy of searches on Internet financial reporting information and can negate many of the advantages of standardizing XBRL for interactive data disclosure (Debreceny and Gray 2001).

 This difficulty in standardization of interactive data (e.g. XBRL) is particularly acute for less structured aspects of financial reports—particularly the MD&A (Simplifying Global Accounting 2007). Much of the information that is currently disclosed in the MD&A, at least in terms of narrative reports containing management’s perspectives, is essentially voluntary and thus represents a diverse set of information that is not consistent across organizations. Potentially adding to the inconsistency of information disclosed through narrative reporting, the Pozen Committee (2008) has expressed a desire for more frequent (interim) narrative reports from management via Internet reporting in order to keep investors informed as company conditions change due to significant events. Yet, research in voluntary internet financial reporting indicates that such disclosures can be inconsistent in both the content of information provided and the type of company providing that information. For instance, there is evidence that a company’s corporate governance has a significant and positive association with the early voluntary filing of financial information in XBRL format (Premuroso and Bhattacharya 2008). Voluntary internet-based financial disclosures may also vary greatly by the relative internationalization of the firm’s share market and the availability of shares to individual investors (Bollen et al. 2006), as well as the perceived information costs and benefits accruing to stockholders (Cormier et al. 2009).

 Concerns over the quality of and inconsistencies in voluntary disclosures, in part, have led to recent discourse on enhancing the structure, content and consistency of MD&A disclosures (Simplifying Global Accounting 2007; IASB 2008b; IFAC 2008). Preliminary evidence indicates that stakeholders in the financial reporting supply chain are pleased with an increased emphasis on narrative reporting, that this increased emphasis is critical to reducing the complexity of financial reports, and that narrative reporting on non-financial information is particularly critical (for example, including areas such as corporate social responsibility and environmental issues) (IFAC 2008). Evidence also suggests that narrative reporting could be improved by focusing on market opportunities and risks, performance metrics, and key performance indicators (IFAC 2008). This emphasis on key performance indicators is also consistent with recommendations of the Pozen Committee (2008).

 Despite widespread calls to enhance the MD&A by both broadening its scope of disclosure and improving its searchability through more consistent structure (e.g. Simplifying Global Accounting 2007; IASB 2008b; IFAC 2008), there is a lack of empirical evidence on what investors prefer in such disclosures. The EBRC (2005; 2006) has provided initial guidance on how MD&A disclosures might be enhanced, but the completeness of the framework is in the early stages of development.[[3]](#footnote-4) Further, the perceived value that investors might place on individual framework components is unknown. This leads to four research questions of particular interest to financial statement preparers, investors, and regulators who are considering changes in guidelines for management’s discussion/commentary (e.g. IASB 2008b):

**RQ1:** What are the categories of information that investors (both professional and non-professional) would value most in enhancement of the MD&A?

**RQ2:** Do investors (both professional and non-professional) view the categories of information proposed by the EBRC as important items that should be disclosed by companies?

**RQ3:** Given the cost/benefit trade-off of additional disclosure, which categories of information are of most importance to investors (both professional and non-professional)?

**RQ4:** Is there general consistency among investors (both professional and non-professional) in their perceptions of the relative importance of potential categories of information disclosure?

In Phase I of this study, we employed multiple focus groups in an effort to address the first two research questions—what categories of information do professional and non-professional investors desire in an enhanced MD&A and are the EBRC proposed categories of information valued by these investors? The scope of our investigation into information needs of investors specifically incorporates consideration of the proposals of the EBRC, due its leadership role in addressing this issue. The EBRC was founded in 2005 by the AICPA, Grant Thornton LLP, Microsoft Corporation, and PricewaterhouseCoopers as an “independent, market-driven, non-profit collaboration focused on improving the quality, integrity and transparency of information used for decision-making in a cost-effective, efficient manner” (IFAC 2008). Its leadership role in enhancing business reporting has been recognized by the various standard setting bodies addressing improvement of the financial reporting model (e.g. Anderson et al. 2005; Financial Reporting Council 2008; IFAC 2008; Pozen Committee 2008).

In Phase II of this study, we deployed a survey to a broad array of professional and non-professional investors in order to address the third and fourth research questions—what categories of information are of most value to investors and is there a strong level of consistency on these relative values?

**PHASE I: INVESTOR FOCUS GROUPS**

 To address the first research question on what categories of enhanced information disclosures investors value most within the context of the MD&A, we conducted a series of focus groups with professional and non-professional investors. The focus groups were designed to bring together diverse sets of investors to elicit their perceptions on the most desirable information disclosures for inclusion in an enhanced form of the MD&A. During the focus groups, investors also completed a Q-sort activity to evaluate the desirability of the information categories specified in the EBRC’s (2006) framework (version 2.1)—i.e., to address the second research question.

**Participants**

 Participants were solicited by two marketing research firms specializing in a range of activities including professional focus groups, and all participants were paid by the firms for their participation. One of the firms was used to solicit participation from non-professional investors (also known as “retail investors”) while the other firm (which specializes in provision of professional participants for financial and other research) was used to solicit participation by professional investors (e.g., financial analysts). All sessions were conducted in focus group facilities by a professional focus group moderator. Conducting the focus groups in these facilities permitted the researchers to observe from behind one-way glass during the sessions.

 With non-professional investors, a broad cross-section in age, gender, trading behavior, asset-base, and geographic location was necessary. As a result, six focus groups were scheduled in three geographically dispersed cities (Boston, Chicago and Orlando) with two sessions in each city. A total of 55 non-professional investors participated in the 6 focus groups with group size ranging from 7-10 participants. Every group included a mix in gender and age. Participants also had a broad diversity in income (from below $20,000 to over $160,000). The average size of an individual trade ranged from below $2,000 to greater than $14,000; and, the primary means of executing a trade varied across participants (i.e. online, automated phone system, phoning broker/agent, or through an analyst/advisor) with the bulk being split between online trading and use of a broker to execute trades. All participants indicated that they consulted the annual report either “frequently” or “always” when researching companies for potential investment.

 In order to insure participation by professional investors, we chose to solicit focus groups participants from a large financial center. Hence, all three focus groups with professional investors were conducted in Chicago. Participants were only invited to participate if their job title is one of financial/ investment/venture capital/research analyst and they do not directly sell stocks or other securities. A total of 19 professional investors participated in the three focus groups. These participants represented a range of investment organizations: six from large “Wall Street” firms, five from private equity firms (two in investment management and three in mergers and acquisitions), four from mid-market investment firms, two fund managers, one hedge fund manager, and one from the commercial lending side with a bank serving major corporations.

**Focus Group Process**

 All focus groups were conducted by a professional moderator hired to run the groups. Two professional moderators were used across the groups with one moderator facilitating all six of the non-professional investor groups and the other moderator facilitating all three of the professional investor groups. A script was developed by the research team prior to the beginning of the sessions and the same script was used to guide all nine focus groups. The research team worked closely with the moderators prior to the focus groups to assure each moderator was comfortable with the objectives of the sessions and the general material that would be covered. One or more members from the research team were present at each of the focus group sessions and observed the process from behind one-way glass. While participants were working on individual tasks assigned to them during the sessions, the moderator would periodically check with the researchers to ensure the process was progressing appropriately.

 The activities during each session consisted of six stages conducted in a two-hour period. (Informed consent documents were completed by each of the participants at check-in to the focus group facilities prior to the group sessions.) The six stages entailed:

1. *Introduction* (10 minutes): Moderator would introduce herself/himself, thank participants for attending, discuss the sponsors of the study (FINRA, EBRC and University affiliations of the researchers), reassure confidentiality of participants, request all cell phones to be turned off, and have each of the participants introduce themselves (by first name only) and briefly discuss their investment background.
2. *Current Investment Decision Making Process* (15 minutes): Moderator led an open discussion with the group on the types of information they use in their investment decision making, their use of annual reports, their use of alternative financial information resources, and any difficulties they normally encounter gaining access to the information they desired. This discussion helps get the participants in the mindset for upcoming stages 3 and 4.
3. *MD&A Brainstorming and Evaluation Session* (30 minutes): Moderator provided participants with a handout including a discussion of the purpose of the MD&A in an annual report, and briefly noting the various U.S. regulatory groups reconsidering its content. A structured group process was subsequently initiated that consisted of three steps:
	1. *Silent brainstorming:* Participants were asked to individually list on a handout provided all information that they would like to see included in the MD&A if they could have any information they desired.
	2. *Round-Robin listing:* As a means of keeping individual participants involved, each participant was asked to provide one item on their list and the moderator writes down the item on flip charts for all participants to see. An item was taken from each participant’s list and the process was repeated until no one had any remaining items on his/her own list. As each item was provided, the participant providing the item also defined what is meant by the information item (definitions are thus captured in session transcripts) and any other participant could question the definition and offer modification or extension. After all individual lists were exhausted, participants were asked to reflect on the list and to add any other items that come to mind upon further reflection.
	3. *Information assessment:* During the assessment process, each individual took the items from the flip charts and wrote them in one of three columns on the handout. The columns are used to classify items based on whether they “should always be disclosed”, “should discretionarily be disclosed when important”, or “should never be disclosed” (i.e. a Q-sort methodology). Once all participants had categorized the items, they were asked to rank each item in order of importance in the “always” column and then each item in the “discretionary” column.
4. *EBRC Framework Evaluation* (15 minutes): The moderator informed the participants that a consortium has also developed a list of items for potential inclusion in the MD&A, and that this group is interested in the participants’ perspective on these items. To evaluate the items, participants completed a Q-sort process similar to “C” above. In this case, the participants were provided 31 cards, each having an information item from the EBRC framework along with the EBRC’s definition of the item. Participants were asked to place the cards in one of three piles representing the same three categories as in “C” above and then to sort the “always” and “discretionary” piles in order of importance.[[4]](#footnote-5)
5. *Wrap-Up* (5 minutes)*:* The moderator conducts a de-briefing including an open discussion on how high a priority (in terms of time and money) companies should place on ensuring the reporting process is secure, consistent, and accurate.

The process used in steps 3 and 4 provides the data necessary for addressing RQ1 and RQ2. This process is consistent with that used in earlier accounting research and has proven reliable in identifying external audit quality process measures (Sutton 1993), internal audit quality process measures (Lampe and Sutton 1994), factors affecting the quality of information requirements definition for systems (Havelka et al. 1998), and critical risk factors in interorganizational relationships (Sutton et al. 2008).

 To analyze the data collected during the brainstorming portion of the focus groups, two independent coders considered the items generated by the focus groups and reconciled them both between groups (i.e., what items were consistent with items identified by other focus groups) and with the 31 items in the EBRC (2006) framework. After independently coding the items, the two coders met to reconcile differences. Prior to reconciliation, the coders had 84 percent agreement on defining new categories, 93 percent agreement on categorization of non-professional investors items with the EBRC framework categories, and 85 percent agreement on categorization of professional investors items with the EBRC framework categories. The overall inter-rater reliability numbers are very strong and support the reliability of the categorizations.

**Results**

 RQ1 relates to the identification of the types of information investors would most like to see included in an enhanced MD&A. The results of the MD&A Brainstorming and Evaluation Sessions (Step 3), conducted as a part of the focus group procedure, provide insights that address this question. Table 1 Panel A shows the items from the EBRC (2006) framework and their related definitions, while Panel B shows additional items beyond the EBRC framework categories that were identified by each focus group. Of note, 20 of the 31 items in the EBRC framework were independently identified by at least one of the focus groups. Perhaps more importantly, 15 additional information items not found in the EBRC framework were identified as critical by at least one focus group.

**[Please Insert Table 1 about here]**

 RQ2 relates to the importance placed by investors on information items identified within the EBRC’s (2006) version 2.1 framework. The EBRC framework evaluation task in the focus group process provides valuable feedback related to RQ2 while also extending our understanding of investors’ information needs as reflected in RQ1. Table 2 summarizes focus group participants’ classifications of the EBRC items by importance of disclosure. Generally, the responses strongly support disclosure of the items. The weakest ratings are related to “Manage External Relationships” and “Relationship Social Capital”, but even those items received some level of support for disclosure: 80 percent (82 percent) of professional (non-professional) investors and 85 percent (78 percent) of professional (non-professional) investors respectively.

**[Please Insert Table 2 about here]**

 While there is considerable support for some level of disclosure for all of the EBRC items, there is variation in support for whether disclosure of some individual items should be required, or be subject to management’s discretion based on the importance of the item’s content in the current period. For instance, among professional investors, the strongest support for required disclosure is for the categories of Monetary Capital (100 percent); GAAP-based Performance (95); Corporate Strategy (90); Company-specific Performance (85); Goals and Objectives and Legal (80); Capital Market-Based Performance, Physical Capital, Business Portfolio, and Vision and Mission (75). Items receiving lowest support for required disclosure among professionals are: Social (40); Manage Internal Resources (35); Relationship (Social) Capital (35); Human Capital (25); and Manage External Relationships (10). The results imply that professional investors are most interested in requiring management to discuss its strategy and performance relative to more traditional measures, along with discussion of the status of tangible assets relative to corporate requirements. Professionals are less interested in requiring disclosures of “softer” items such as those having to do with the corporation’s relationship to society, and its human capital. There is a greater preference among professionals that those disclosures be included at management’s discretion.

Although financial accounting and disclosure standards are set with knowledgeable investors in mind, it is interesting to observe how judgments of professionals and nonprofessionals differ. The mean percentage of professional participants that favor requiring (Always Disclose) the items in the framework is slightly higher for professionals (65.2) than for nonprofessionals (60.6).[[5]](#footnote-6) The overall correlation of rankings of items for required disclosure by professionals and nonprofessionals is statistically significant (Spearman correlation = 0.812, p < 0.000). However, there is divergence for some individual items, shown in Table 2. Specifically, the largest gaps in professionals’ versus nonprofessionals’ selection of items that should always be disclosed, for which professionals more strongly favor a requirement, are as follows: Organizational/structural Capital [a 40-point difference], Business Portfolio [30], Environmental [25], Business Unit Strategy [23] and Physical Capital [20]. The largest gaps in required disclosure percentages for which nonprofessionals tend more to favor required disclosure are Industry-based Performance [21], Manage External Relationships [17], Strengths [15], and Human Capital [14].

Comparing the results of the two different methods used in the focus group analysis is interesting. We asked focus group participants to both generate information items for the MD&A through a brainstorming task (Table 1) and to rate information items proposed by the EBRC (Table 2). In a number of cases, items in the EBRC framework that did arise from the brainstorming task (or arose in few groups) were preferred by most participants as required or discretionary disclosures. For instance, Environmental disclosures were not generated by any focus groups, and yet Table 2 shows that 70 percent of professional investors preferred that item to be required. Organizational Capital and Develop Vision and Strategy, were not generated but were rated as “always disclose” by 75 and 65 percent of professionals, respectively. These results suggest an unmet demand for certain types of information that are not currently in the MD&A.

 On an overall basis, the results of Phase I of the research provide 46 information items that appear to be of interest to professional and/or non-professional investors and are desirable for inclusion in an enhanced MD&A. In Phase II of the research, our analysis focuses on further evaluation of these 46 items.

**PHASE II: SURVEY OF INVESTOR PERCEPTIONS**

 In order to address the third and fourth research questions, we extended the evaluation of the 46 information items through the broader coverage of perceptions that can be garnered through a survey. The survey was distributed broadly across the U.S. in order to gather a diverse set of opinions on the usefulness of the proposed information disclosures.

**Participants**

Two survey companies were again used to solicit and compensate participants for this phase of the study, one with access to a pool of non-professional investors and the other specializing in providing access to professional investors. To achieve the broad geographic distribution desired while also assuring the appropriateness of the participants, a web survey with screening questions was used to narrow the potential pool of participants to an appropriate, knowledgeable set of individuals that met specific criteria. The survey regarding MD&A information preferences was conducted as part of a larger study relating to use of the MD&A in investment decisions. Participants completed a financial prediction task using MD&A as well as other information prior to being surveyed on their MD&A preferences as well as other investment-related issues.[[6]](#footnote-7) This provides an additional screening mechanism for assuring that the participants had knowledge and understanding of financial reports and the MD&A, as they had to complete the financial prediction task in order to access the survey evaluating the 46 information components. However, completing the MD&A survey was optional.

For non-professional investors, 240 participants were targeted due to the possibility of a higher dropout rate given the knowledge level required for the task. Pre-screening questions were administered by the survey company to assure all participants had at least $50,000 in funds available for investment or already invested. We also required that participants’ investment portfolios include self-purchased corporate stocks or other corporate issued securities. Out of 234 experienced non-professional participants completing the initial forecasting task, 192 (82 percent) elected to complete the survey on the evaluation of the 46 information categories. Demographics for these respondents are provided in Table 3.

**[Please Insert Table 3 about here]**

 For professionals, 120 participants were targeted due to an increased likelihood of completing the task given their higher expected knowledge level relative to task requirements. Pre-screening questions were used to assure that participants were in fact professional investors. Potential participants were first asked to select their most appropriate job description from six alternatives covering the scope of the survey company’s database that was used to select the sample, and only those selecting “Financial (Venture Capitalist, Fund Manager, Financial Analyst, etc)” were allowed to continue and passed on to the website containing the survey. Pre-screening also required that the potential participant respond ‘yes’ to a question asking whether their position required assessment of a company's financial performance and whether they recommended acquisition of company's stock as part of an investment portfolio. Participants were then required to complete the same financial prediction task as described above for non-professional investors, with completion of that task providing an additional level of assurance as to the respondent’s applicability. Out of 119 professional participants completing the initial forecasting task, 95 (80 percent) elected to complete the survey on the evaluation of the 46 information categories. Demographics for the professional respondents are also provided in Table 3.

**Survey**

 The survey uses a magnitude measurement scale to assess the relative impact of each of the 46 information items. Magnitude measurement scaling allows participants to comparatively judge items on a ratio scale—i.e., to provide the value of one item relative to another. An extensive discussion on validation and reliability testing of magnitude measurement scales can be found in Howard (1981). Magnitude measurement scales have been used in several earlier studies in the accounting literature (e.g. Arnold 1993; Daigle and Arnold 2001; Havelka et al. 1998; Howard and Nikolai 1983; Lampe and Sutton 1994).

 To construct the scale, one item is selected as the benchmark. This should be an item that is normally expected to be around the middle in terms of value, but more importantly it should be an item readily understood by participants. We selected “Industry-Based Performance” as the baseline for our study as it is an easily understood item; and, during the Phase I assessment, it was recommended for either Always Disclose or Disclose if Important by all but one of the 74 focus group participants. Accordingly, it was assigned a value of “100”. In assigning values to other items, the respondent assesses the relative importance of the item to the benchmark. In this case, if a respondent felt an item was one-half as important as “Industry-Based Performance” the respondent would assign a value of “50” (i.e. 100\*.5), whereas if the item was viewed to be twice as important the respondent would assign a value of “200” (i.e. 100\*2). Responses are ‘averaged’ out by first taking the log of the assigned values, averaging the logs, and then taking the antilog of the mean. So in the above example, a “50” and a “200” would average out to “100” after the log, averaging, and antilog are used. In other words, the average of one participant’s rating of one-half as important and another’s as twice as important is an average view of equal importance across the sample.

 The 46 items were listed on a single screen with along with boxes in which to place the ratings for each of the items. Each item was also provided with a mouse-over capability such that the respondent could move the mouse pointer over an item and its definition would become visible as a pop-up comment. This assured that respondents could easily reference the explanation of an item if its meaning was in doubt. The questionnaire along with the pop-up explanation of the first item (“Economic”) is shown in Figure 1.

**[Please Insert Figure 1 about here]**

**Results**

 The magnitude measurements are designed to address RQ3 directly—what is the perceived relative importance of various potential items for disclosure in an enhanced MD&A format. The results of the magnitude measurement evaluations are shown in Table 4. The highest evaluation of any item for both groups is Income and Expense Analysis (109 for professionals and 125 for nonprofessionals), and the lowest for both groups is Social (44 for professionals, 50 for nonprofessionals). Thus, the range of evaluations indicates that the most important items are more than twice as important for both groups as the least important. Other items identified as particularly important by professionals participating in the magnitude measurement task are Monetary Capital (105), Company-specific Performance (101), Industry-based Performance (100), Products/ Research and Development (99), Opportunities (96), Economics (94), and GAAP- based Performance (93). The items identified by the focus groups (32-46) that are not a part of the EBRC framework appear to be generally on par with EBRC identified items (1-31) as rated by both professional and non-professional investors. In fact, two of those items (Income and Expense Analysis and Products/ Research and Development) are among the five most highly ranked.

**[Please Insert Table 4 about here]**

 As a control over the possibility that there may be substantial variances in the individual ratings of respondents that are muted as they are averaged across respondents, we also test for concordance among the individual respondents. A test of concordance directly addresses RQ4 on agreement among investors. The test requires that a rank transformation be performed on the magnitude data and then Friedman’s test is used to examine the agreement in rankings across multiple respondents. The results of the Friedman’s tests indicate strong agreement among professional investors (Chi-squared = 398.15, p-value < .001) and non-professional investors (Chi-squared = 882.02, p-value < .001). We also consider the agreement among the aggregate ratings of professional investors versus those of non-professional investors using Spearman’s correlation on a rank transformation of the aggregate magnitude measures. The correlation between professional and non-professional investors is very high (Spearman correlation = 0.793, p-value < 0.001). These results indicate that there is general agreement among investors on the relative importance of information items for potential disclosure in an enhanced MD&A.

**DISCUSSION**

 In this study, we used a two-phase approach to systematically investigate the information needs of investors regarding the MD&A section of corporate financial reports. In studying the MD&A, we specifically consider issues that include non-financial and non-quantitative disclosures of the type often most efficiently presented via narrative reporting by management. Our results indicate that items included in the EBRC’s (2006) framework are perceived to be of value to both professional and non-professional investors. At the same time, focus groups conducted with professional and non-professional investors identified 15 additional items (an increase of 50 percent) that are not included to date in the framework. Thus, the results of our study would appear to hold promise for improving the EBRC’s current framework as it works with standards setters to enhance MD&A content and structure. The items identified can be integrated with the EBRC framework to maintain the structure and facilitate tagging that improves searchability. Our results also reveal that certain items suggested for disclosure in the MD&A are more valued by investors than other potential disclosure items, which may assist regulators in prioritizing the inclusion of specific disclosures.

 In combination, the results have significant implications for the FASB as it weighs its own perspectives on MD&A content and as it works with the IASB to revise the guidelines for the Management Summary—the IFRS equivalent to the MD&A. Similarly, there are broad implications for the IASB as it is currently examining the specific issue of enhancing the Management Summary’s content (IASB 2008b). Our results indicate that there is interest in a substantial amount of additional information that most logically could be provided through Management’s Summary. These findings also lend additional support to the survey and interview data collected by IFAC (2008) indicating that investors and other stakeholders are pleased with recent increases in narrative reporting and desire additional information presented in this format that allows financial statement users to get management’s perspective on such qualitative items. Finally, given the uneven reporting that has been shown to arise from both voluntary disclosure and flexibility in tagging data (i.e. tailored XBRL tags), it would seem most useful if the IASB would specify required levels of additional disclosure and if a structure similar to that of the EBRC’s framework is used to help standardize related XBRL tags.

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Figure 1: Screenshot Depicting Magniture Measurement Task

Management’s perspective on the economic environment in which the company operates

**Table 1: Focus Group Identification of Factors**

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **Title and Description** | **Professional Investors Groups** | **Nonprofessional****Investors****Groups** |
| **Panel A. Items Identified That Are Consistent With EBRC Framework** |
| 1 | **Economics**: Management’s perspective on the economic environment in which the company operates; management’s perspective on the macro-economic environment in the countries and regions in which the company has operations including key factors such as GDP growth, interest rates, inflation rates, currency exchange rates. |  |  | • |  |  |  |  | • |  |
| 2 | **Industry Analysis:** Discussion of competitive environment of the company’s industry; discussion of competitive environment in the industries in which the company operates including strategies, strengths and weaknesses of major competitors; customer preferences and trends; supplier capabilities, dynamics of supply and demand, and management’s view of the industry’s prospects. | • |  | • | • |  |  | • | • | • |
| 3 | **Technological Trends:** Discussion of trends in key technologies affecting the company and its industry; discussion of the key technologies and their trends which affect the company and all the members of its supply chain including competing technologies, intellectual property issues, and pace of technological innovation. |  |  |  |  |  |  | • |  |  |
| 4 | **Political:** Analysis of the major political issues in the countries where the company operates; Analysis of the major political issues in the countries where the company has operations including such things as potential shifts in power between “pro-business” and “anti-business” parties, trade policies and relevant pending legislation. |  |  |  |  | • |  |  |  | • |
| 5 | **Legal:** Analysis of the major political issues in the countries where the company operates; Analysis of the major political issues in the countries where the company has operations including such things as potential shifts in power between “pro-business” and “anti-business” parties, trade policies and relevant pending legislation. |  |  |  |  |  |  |  |  | • |
| 6 | **Environmental:** Discussion of key environmental issues and concerns that may affect the company and its stakeholders; discussion of key environmental issues and concerns that are related to the company’s operations, the stakeholder groups actively involved in these issues and concerns, and what these groups are trying to accomplish and through what means. |  |  |  |  |  |  |  |  |  |
| 7 | **Social:** Management’s analysis of key demographic and lifestyle trends, social attitudes and norms, consumer preferences and media influences. |  |  |  |  |  |  |  |  |  |
| 8 | **Vision and Mission:** Management’s description of the company’s long-term vision and mission; Management’s description of its long-term vision for the company and the mission it sees the company has having with respect to all of the stakeholders it defines as relevant. |  |  |  |  | • |  |  |  |  |
| 9 | **Strengths:** Management’s perspective on the company’s strengths; Management’s perspective on the company’s absolute and relative strengths in the context of its Business Landscape. |  |  |  | • |  |  |  |  |  |
| 10 | **Weaknesses:** Management’s perspective on the company’s weaknesses; Management’s perspective on the company’s absolute and relative weaknesses in the context of its Business Landscape. |  |  |  |  |  |  |  |  |  |
| 11 | **Opportunities:** Management’s perspective on the opportunities facing the company; Management’s perspective on the opportunities facing the company in the context of its Business Landscape. |  |  |  |  |  |  |  |  |  |
| 12 | **Threats:** Management’s perspective on the threats facing the company; Management’s perspective on the threats facing the company in the context of its Business Landscape. | • | • |  | • |  |  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **Title and Description** | **Professional Investors Groups** | **Nonprofessional****Investors****Groups** |
| 13 | **Goals and Objectives:** Statement of financial and non-financial goals and objectives; Statement of financial and non-financial goals and the objectives that must be accomplished to achieve them. | • | • |  | • |  |  | • | • | • |
| 14 | **Corporate Strategy:** Description of the company’s overall corporate strategy; Description of the company’s overall corporate strategy, which sets the context for specific business unit strategies |  |  | • |  |  | • |  |  |  |
| 15 | **Business Unit Strategies:** Description of the strategies for the company’s major business units |  |  | • | • |  |  |  | • |  |
| 16 | **Business Portfolio:** Discussion of the relationships between the different business unit strategies; Discussion of the relationships between the different business unit strategies such as vertical and horizontal integration, common customers, and shared distribution channels. |  |  |  |  |  |  |  |  |  |
| 17 | **Monetary capital:** Ability of a company to fund its operations and investments; Tangible monetary capital is reported on the balance sheet but monetary capital also has intangible aspects, identified by management, which affect the ability of a company to fund its operations and investments such as borrowing capacity/access to capital, quality of earnings, the character and reputation of the company’s major debt and equity investors and the stability of the shareholder base. |  |  |  |  | • |  |  |  | • |
| 18 | **Physical capital:** The company’s plant locations, plant adaptability, access to raw materials, etc.; Tangible physical capital is reported on the balance sheet but physical capital also has intangible aspects, identified by management, which affect its value, such as a plant location, plant adaptability, raw material accessibility and reliance on strategic resources. |  |  |  | • |  |  |  |  |  |
| 19 | **Relationship (Social) capital:** Management’s identification of relationships with other organizations and third parties that it regards as important; Management’s identification of relationships with other organizations and third parties that it regards as important; these can be both tangible (e.g., contracts, license agreements, joint venture agreements, and alliances) and intangible (e.g., long-term relationships with no contractual basis and personal relationships). |  |  |  |  |  |  |  |  |  |
| 20 | **Organizational (Structural) capital:** Management’s identification of organizational resources such as patents, copyrights, formulas, methods and processes; Management’s identification of organizational resources not reported on the balance sheet and that are independent of its employees; these can be both tangible (e.g., patents, trademarks, copyrights, formulas and data bases) and intangible (e.g., employed but undocumented methodologies and processes). |  |  |  |  |  |  |  |  |  |
| 21 | **Human capital:** Management’s identification of any attributes of its workforce that it regards as important; Management’s identification of any attributes of its workforce (both employees and contractors) that it regards as important; these can be both tangible (e.g., employment contracts) and intangible (e.g., education, skills and abilities, experiences, attitudes, and accomplishments). |  |  |  |  |  |  |  |  |  |
| 22 | **Develop Vision and Strategy:** Description of the processes by which the company develops its vision and strategy, such as benchmarking, business portfolio analysis and capital allocation decisions; |  |  |  |  |  |  |  |  |  |
| 23 | **Manage Internal Resources:** Description of the processes used for managing internal resources such as financial, human and technology resources; Description of the processes (possibly including benchmarking comparisons) used for managing internal resources like financial, human capital, information technology, property and knowledge.  |  |  |  |  |  | • |  |  |  |
| 24 | **Manage Products and Services:** Description of the processes used for managing, marketing, delivering products and services; Description of the processes (possibly including benchmarking comparisons) used for managing the design and development, marketing and delivery of products and services. |  |  |  |  |  |  |  |  |  |

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| --- | --- | --- | --- |
| **Item** | **Title and Description** | **Professional Investors Groups** | **Nonprofessional****Investors****Groups** |
| 25 | **Manage External Relationships:** Description of the processes used for managing external relationships with suppliers, customers, regulatory agencies; Description of the processes (possibly including benchmarking comparisons) used for managing external relationships with suppliers, customers, government and regulatory agencies, and NGOs. |  |  |  |  |  |  |  |  |  |
| 26 | **Manage Governance and Risks:** Manage Governance and Risks: Description of the processes used for protecting stakeholders’ interests and managing risk; Description of the processes (possibly including benchmarking comparisons) used for ensuring that the interests of shareholders and other stakeholders are properly represented and for managing risk on both a category and enterprise-wide basis. |  |  | • | • | • |  |  |  |  |
| 27 | **GAAP-based performance:** Discussion of outcomes on key accounting-based measures such as revenues, earnings, and gross margins; Discussion of outcomes on key GAAP-based measures such as revenues, earnings, and gross margins. |  |  | • | • |  |  | • |  | • |
| 28 | **GAAP-derived performance:** Discussion of outcomes on performance measures that are based on accounting numbers but not defined by accounting procedures, such as return on invested capital and revenue growth; Discussion of outcomes on performance measures (including definitions) relevant to all industries which are based on but not defined by GAAP such as return on invested capital and revenue growth. |  |  |  |  |  |  |  |  | • |
| 29 | **Industry-based performance:** Discussion of outcomes on key performance indicators, including financial and non-financial metrics; Discussion of outcomes on key performance indicators (including definitions) which are commonly used in an industry, including both financial (e.g., sales per square foot in retail) and non-financial (manufacturing yield rates in semiconductors) metrics. |  | • |  | • | • |  |  |  |  |
| 30 | **Company-specific performance:** Discussion of outcomes on key performance indicators (including definitions) specific to a company’s strategy, including both financial (e.g., percentage of revenues from products introduced in the last three years) and non-financial (e.g., employee turnover) metrics; Discussion of outcomes on key performance indicators (including definitions) which are specific to a company’s strategy, including both financial (e.g., percentage of revenues from products introduced in the last three years) and non-financial (e.g., employee turnover) metrics. |  |  | • | • | • | • |  |  |  |
| 31 | **Capital market-based performance:** Discussion of outcomes on performance measures based on the company’s performance in the capital markets such as total return to shareholders, debt ratings, and weighted average cost of capital; Discussion of outcomes on performance measures (including definitions) which are based on the company’s performance in the capital markets such as total return to shareholders, debt ratings, and weighted average cost of capital. |  |  |  | • |  |  |  |  |  |
| **Panel B. Items Identified That Are New Items Not Encompassed Under the Current EBRC Framework** |
| 32 | **Employee Stock Ownership Details:** Details on how much stock is owned internally, by both regular employees and top management, and the programs in place for employee ownership in stock (stock options) | • |  |  |  |  | • |  |  | • |
| 33 | **Perspectives from Different Individuals:** Description of issues and trends written by different member of top management, internal auditors and legal counsel regarding issues and trends for a more comprehensive view of what is occurring within the company. | • |  |  |  |  |  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **Title and Description** | **Professional Investors Groups** | **Nonprofessional****Investors****Groups** |
| 34 | **Human Resources Analysis:** Information regarding total head count, costs and benefits related to employee growth (or shrinkage), per department, per business unit, per region, etc; Programs designed to train and support employees; Discussion of union agreements, terms, conditions, relationships and resolutions to any prior disagreements | • |  |  | • | • | • |  | • | • |
| 35 | **Analysis of Analyst Forecasts:** Disclosure of independent forecasts generated by analysts, and a detailed discussion related to these forecasts |  | • |  |  |  |  |  | • |  |
| 36 | **Analysis of Past Goals:** Discussion of past goals; ex: did they meet the goals described in prior years' MD&A sections? |  | • |  |  | • | • | • | • | • |
| 37 | **International Operations:** Details on overseas operations including: labor sources, outsourcing, compensation, work conditions, external conditions, community impact, politics |  | • |  |  |  |  |  | • | • |
| 38 | **Income and Expense Analysis:** Comprehensive and detailed analysis of the company's income and expenses; Projected future expenses (ex: discussion of lease terms, anticipated future expenses, etc.); Description of expense management programs including; unusual expenses, specific strategies and plans to save on expenses, cost reduction programs that could impact cost ratios |  | • | • |  |  | • |  |  |  |
| 39 | **Top Management:** Detailed information on top management, such as; compensation, history, credentials, performance, leadership style, stock options and ownership, etc. Includes details on any changes in top management, and the impact of these changes on the company's performance |  | • |  |  | • |  | • |  | • |
| 40 | **Products / Research and Development:** Detailed analysis of the company's products and their investment in research and development for new products including; descriptions of current product lines, markets covered by products, introduction of new products, cost/benefit analysis, projections, timeline |  |  |  | • | • | • | • | • | • |
| 41 | **Changes in Ownership or Structure:** Discussion of possible changes in ownership or structure (ex: mergers, acquisitions, recapitalization, restructuring, privatization), and how this would impact the company (ex: hiring, firing). |  | • |  | • | • |  |  | • | • |
| 42 | **Key Outside Investors:** Details describing stock ownership in the company, particularly whether well known and established investors have purchased stock in the company |  |  |  |  | • |  |  |  |  |
| 43 | **Executive Summary:** Summary of information included in the MD&A; Concise summary of key accounting/financial information; may include a modified version of the financial reports including brief explanation |  |  |  |  | • |  |  | • |  |
| 44 | **Social and Environmental Responsibility:** (CSR) - Management's vision related to social responsibility, including workplace codes, ethics, environment and how they prioritize social issues; Discussion of what the company is doing to give back to the community and a detailed list of what charities they are involved with |  |  |  |  |  | • |  |  | • |
| 45 | **History of Company:** Detailed history of the company including background information of the founders, changes in the company since founding |  |  |  |  |  | • |  |  |  |
| 46 | **Demographics & Growth Strategies:** List of company locations, countries and external conditions in those areas; Analysis of potential growth/expansion into new product areas, including details on the new market opportunities, incentives to expand, etc.; Anticipated timetable and benchmarks to achieve |  |  |  | • |  | • |  | • | • |

**Table 2: Focus Group Participants’ Evaluations of EBRC (2006) Framework Items (version 2.1).**

|  |  |  |  |
| --- | --- | --- | --- |
| **Item No.** | **EBRC Framework** | **Professional Investors** | **Nonprofessional Investors** |
| **Always disclose** | **Disclose if important** | **Never disclose** | **Always disclose** | **Disclose if important** | **Never disclose** |
| 1 | **Economic:** Management’s perspective on the economic environment in which the company operates  | 65% | 35% | 0% | 51% | 47% | 2% |
| 2 | **Industry Analysis:** Discussion of competitive environment of the company’s industry  | 80% | 20% | 0% | 86% | 12% | 2% |
| 3 | **Technological Trends:** Discussion of trends in key technologies affecting the company and its industry | 70% | 30% | 0% | 55% | 39% | 6% |
| 4 | **Political:** Analysis of the major political issues in the countries where the company operates  | 35% | 55% | 10% | 39% | 41% | 10% |
| 5 | **Legal:** Discussion of legal cases and decisions, new regulations and regulatory actions that can affect operations  | 80% | 20% | 0% | 63% | 31% | 6% |
| 6 | **Environmental:** Discussion of key environmental issues and concerns that may affect the company and its stakeholders  | 70% | 30% | 0% | 45% | 45% | 10% |
| 7 | **Social:** Management’s analysis of key demographic and lifestyle trends, social attitudes and norms, consumer preferences and media influences  | 40% | 50% | 10% | 37% | 49% | 14% |
| 8 | **Vision and Mission:** Management’s description of the company’s long-term vision and mission  | 75% | 25% | 0% | 80% | 16% | 4% |
| 9 | **Strengths:** Management’s perspective on the company’s strengths | 60% | 40% | 0% | 75% | 24% | 1% |
| 10 | **Weaknesses:** Management’s perspective on the company’s weaknesses | 50% | 50% | 0% | 63% | 22% | 15% |
| 11 | **Opportunities:** Management’s perspective on the opportunities facing the company | 70% | 30% | 0% | 57% | 35% | 8% |
| 12 | **Threats:** Management’s perspective on the threats facing the company | 70% | 25% | 5% | 63% | 27% | 10% |

|  |  |  |  |
| --- | --- | --- | --- |
| **Item No.** | **EBRC Framework** | **Professional Investors** | **Nonprofessional Investors** |
| **Always disclose** | **Disclose if important** | **Never disclose** | **Always disclose** | **Disclose if important** | **Never disclose** |
| 13 | **Goals and Objectives:** Statement of financial and non-financial goals and objectives | 85% | 15% | 0% | 82% | 12% | 6% |
| 14 | **Corporate Strategy:** Description of the company’s overall corporate strategy | 90% | 10% | 0% | 75% | 20% | 5% |
| 15 | **Business Unit Strategies:** Description of the strategies for the company’s major business units | 80% | 20% | 0% | 57% | 35% | 8% |
| 16 | **Business Portfolio:** Discussion of the relationships between the different business unit strategies | 75% | 25% | 0% | 45% | 47% | 8% |
| 17 | **Monetary capital:** Ability of a company to fund its operations and investments | 100% | 0% | 0% | 90% | 6% | 4% |
| 18 | **Physical capital:** The company’s plant locations, plant adaptability, access to raw materials, etc. | 75% | 20% | 5% | 55% | 37% | 8% |
| 19 | **Relationship (Social) capital:** Management’s identification of relationships with other organizations and third parties that it regards as important | 35% | 50% | 15% | 39% | 39% | 22% |
| 20 | **Organizational (Structural) capital:** Management’s identification of organizational resources such as patents, copyrights, formulas, methods and processes | 75% | 20% | 5% | 35% | 45% | 20% |
| 21 | **Human capital:** Management’s identification of any attributes of its workforce that it regards as important | 25% | 75% | 0% | 39% | 51% | 10% |
| 22 | **Develop Vision and Strategy:** Description of the processes by which the company develops its vision and strategy, such as benchmarking, business portfolio analysis and capital allocation decisions | 65% | 30% | 5% | 65% | 25% | 10% |
| 23 | **Manage Internal Resources:** Description of the processes used for managing internal resources such as financial, human and technology resources | 35% | 55% | 10% | 41% | 45% | 14% |
| 24 | **Manage Products and Services:** Description of the processes used for managing, marketing, delivering products and services | 45% | 50% | 5% | 37% | 51% | 12% |

|  |  |  |  |
| --- | --- | --- | --- |
| **Item No.** | **EBRC Framework** | **Professional Investors** | **Nonprofessional Investors** |
| **Always disclose** | **Disclose if important** | **Never disclose** | **Always disclose** | **Disclose if important** | **Never disclose** |
| 25 | **Manage External Relationships:** Description of the processes used for managing external relationships with suppliers, customers, regulatory agencies | 10% | 70% | 20% | 27% | 55% | 18% |
| 26 | **Manage Governance and Risks:** Description of the processes used for protecting stakeholders’ interests and managing risk | 70% | 30% | 0% | 69% | 27% | 4% |
| 27 | **GAAP-based performance:** Discussion of outcomes on key accounting-based measures such as revenues, earnings, and gross margins | 95% | 5% | 0% | 78% | 16% | 6% |
| 28 | **GAAP-derived performance:** Discussion of outcomes on performance measures that are based on accounting numbers but not defined by accounting procedures, such as return on invested capital and revenue growth | 70% | 25% | 5% | 76% | 16% | 8% |
| 29 | **Industry-based performance:** Discussion of outcomes on key performance indicators, including financial and non-financial metrics | 65% | 35% | 0% | 86% | 12% | 2% |
| 30 | **Company-specific performance:** Discussion of outcomes on key performance indicators (including definitions) specific to a company’s strategy, including both financial (e.g., percentage of revenues from products introduced in the last three years) and non-financial (e.g., employee turnover) metrics | 85% | 15% | 0% | 90% | 8% | 2% |
| 31 | **Capital market-based performance:** Discussion of outcomes on performance measures based on the company’s performance in the capital markets such as total return to shareholders, debt ratings, and weighted average cost of capital | 75% | 25% | 0% | 78% | 18% | 4% |

**Table 3: Demographic Information**

|  |  |  |
| --- | --- | --- |
|  | **Professional Investors** | **Non-Professional Investors** |
| Number of participants | 95 | 192 |
| Average Age in Years | 37.45 | 43.97 |
| Gender: |  |  |
|  Male | 50 | 107 |
|  Female | 45 | 85 |
| Average Years of Investing Experience[[7]](#endnote-2) | 13.45 | 13.67 |
| Level of education |  |  |
|  High School | 7 | 22 |
|  Associates Degree | 12 | 21 |
|  Bachelor’s Degree | 34 | 75 |
|  Masters’ Degree | 35 | 58 |
|  Doctorate Degree | 7 | 15 |
|  Did not answer | 0 | 1 |
| Degree (for participants with a Bachelor’s Degree or higher) |  |  |
|  Accounting/Finance | 26 | 9 |
|  Other Business | 24 | 23 |
|  Other Non-Business | 23 | 116 |
|  Did not answer | 4 | 0 |
| Number holding CFA | 35 | 1 |
| Number holding CPA | 34 | 6 |

**Table 4: Average Magnitude Measures (i.e. Relative Importance) for Proposed MD&A Enhancements**

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **Title and Description** | **Professional Investors** | **Non-Professional Investors** |
| 1 | **Economics**: Management’s perspective on the economic environment in which the company operates; management’s perspective on the macro-economic environment in the countries and regions in which the company has operations including key factors such as GDP growth, interest rates, inflation rates, currency exchange rates. | 94 | 100 |
| 2 | **Industry Analysis:** Discussion of competitive environment of the company’s industry; discussion of competitive environment in the industries in which the company operates including strategies, strengths and weaknesses of major competitors; customer preferences and trends; supplier capabilities, dynamics of supply and demand, and management’s view of the industry’s prospects. | 80 | 92 |
| 3 | **Technological Trends:** Discussion of trends in key technologies affecting the company and its industry; discussion of the key technologies and their trends which affect the company and all the members of its supply chain including competing technologies, intellectual property issues, and pace of technological innovation. | 84 | 103 |
| 4 | **Political:** Analysis of the major political issues in the countries where the company operates; Analysis of the major political issues in the countries where the company has operations including such things as potential shifts in power between “pro-business” and “anti-business” parties, trade policies and relevant pending legislation. | 52 | 58 |
| 5 | **Legal:** Analysis of the major political issues in the countries where the company operates; Analysis of the major political issues in the countries where the company has operations including such things as potential shifts in power between “pro-business” and “anti-business” parties, trade policies and relevant pending legislation. | 67 | 79 |
| 6 | **Environmental:** Discussion of key environmental issues and concerns that may affect the company and its stakeholders; discussion of key environmental issues and concerns that are related to the company’s operations, the stakeholder groups actively involved in these issues and concerns, and what these groups are trying to accomplish and through what means. | 63 | 70 |
| 7 | **Social:** Management’s analysis of key demographic and lifestyle trends, social attitudes and norms, consumer preferences and media influences. | 44 | 50 |
| 8 | **Vision and Mission:** Management’s description of the company’s long-term vision and mission; Management’s description of its long-term vision for the company and the mission it sees the company has having with respect to all of the stakeholders it defines as relevant. | 72 | 77 |
| 9 | **Strengths:** Management’s perspective on the company’s strengths; Management’s perspective on the company’s absolute and relative strengths in the context of its Business Landscape. | 86 | 95 |
| 10 | **Weaknesses:** Management’s perspective on the company’s weaknesses; Management’s perspective on the company’s absolute and relative weaknesses in the context of its Business Landscape. | 76 | 100 |
| 11 | **Opportunities:** Management’s perspective on the opportunities facing the company; Management’s perspective on the opportunities facing the company in the context of its Business Landscape. | 96 | 101 |
| 12 | **Threats:** Management’s perspective on the threats facing the company; Management’s perspective on the threats facing the company in the context of its Business Landscape. | 85 | 99 |
| 13 | **Goals and Objectives:** Statement of financial and non-financial goals and objectives; Statement of financial and non-financial goals and the objectives that must be accomplished to achieve them. | 88 | 85 |
| 14 | **Corporate Strategy:** Description of the company’s overall corporate strategy; Description of the company’s overall corporate strategy, which sets the context for specific business unit strategies | 85 | 94 |
| 15 | **Business Unit Strategies:** Description of the strategies for the company’s major business units | 83 | 83 |

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| **Item** | **Title and Description** | **Professional Investors** | **Non-Professional Investors** |
| 16 | **Business Portfolio:** Discussion of the relationships between the different business unit strategies; Discussion of the relationships between the different business unit strategies such as vertical and horizontal integration, common customers, and shared distribution channels. | 84 | 81 |
| 17 | **Monetary capital:** Ability of a company to fund its operations and investments; Tangible monetary capital is reported on the balance sheet but monetary capital also has intangible aspects, identified by management, which affect the ability of a company to fund its operations and investments such as borrowing capacity/access to capital, quality of earnings, the character and reputation of the company’s major debt and equity investors and the stability of the shareholder base. | 105 | 108 |
| 18 | **Physical capital:** The company’s plant locations, plant adaptability, access to raw materials, etc.; Tangible physical capital is reported on the balance sheet but physical capital also has intangible aspects, identified by management, which affect its value, such as a plant location, plant adaptability, raw material accessibility and reliance on strategic resources. | 89 | 99 |
| 19 | **Relationship (Social) capital:** Management’s identification of relationships with other organizations and third parties that it regards as important; Management’s identification of relationships with other organizations and third parties that it regards as important; these can be both tangible (e.g., contracts, license agreements, joint venture agreements, and alliances) and intangible (e.g., long-term relationships with no contractual basis and personal relationships). | 65 | 72 |
| 20 | **Organizational (Structural) capital:** Management’s identification of organizational resources such as patents, copyrights, formulas, methods and processes; Management’s identification of organizational resources not reported on the balance sheet and that are independent of its employees; these can be both tangible (e.g., patents, trademarks, copyrights, formulas and data bases) and intangible (e.g., employed but undocumented methodologies and processes). | 90 | 88 |
| 21 | **Human capital:** Management’s identification of any attributes of its workforce that it regards as important; Management’s identification of any attributes of its workforce (both employees and contractors) that it regards as important; these can be both tangible (e.g., employment contracts) and intangible (e.g., education, skills and abilities, experiences, attitudes, and accomplishments). | 68 | 83 |
| 22 | **Develop Vision and Strategy:** Description of the processes by which the company develops its vision and strategy, such as benchmarking, business portfolio analysis and capital allocation decisions; | 80 | 86 |
| 23 | **Manage Internal Resources:** Description of the processes used for managing internal resources such as financial, human and technology resources; Description of the processes (possibly including benchmarking comparisons) used for managing internal resources like financial, human capital, information technology, property and knowledge.  | 83 | 87 |
| 24 | **Manage Products and Services:** Description of the processes used for managing, marketing, delivering products and services; Description of the processes (possibly including benchmarking comparisons) used for managing the design and development, marketing and delivery of products and services. | 80 | 96 |
| 25 | **Manage External Relationships:** Description of the processes used for managing external relationships with suppliers, customers, regulatory agencies; Description of the processes (possibly including benchmarking comparisons) used for managing external relationships with suppliers, customers, government and regulatory agencies, and NGOs. | 63 | 75 |
| 26 | **Manage Governance and Risks:** Manage Governance and Risks: Description of the processes used for protecting stakeholders’ interests and managing risk; Description of the processes (possibly including benchmarking comparisons) used for ensuring that the interests of shareholders and other stakeholders are properly represented and for managing risk on both a category and enterprise-wide basis. | 83 | 88 |
| 27 | **GAAP-based performance:** Discussion of outcomes on key accounting-based measures such as revenues, earnings, and gross margins; Discussion of outcomes on key GAAP-based measures such as revenues, earnings, and gross margins. | 93 | 84 |

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| **Item** | **Title and Description** | **Professional Investors** | **Non-Professional Investors** |
| 28 | **GAAP-derived performance:** Discussion of outcomes on performance measures that are based on accounting numbers but not defined by accounting procedures, such as return on invested capital and revenue growth; Discussion of outcomes on performance measures (including definitions) relevant to all industries which are based on but not defined by GAAP such as return on invested capital and revenue growth. | 87 | 82 |
| 29 | **Industry-based performance:** Discussion of outcomes on key performance indicators, including financial and non-financial metrics; Discussion of outcomes on key performance indicators (including definitions) which are commonly used in an industry, including both financial (e.g., sales per square foot in retail) and non-financial (manufacturing yield rates in semiconductors) metrics. | 100 | 100 |
| 30 | **Company-specific performance:** Discussion of outcomes on key performance indicators (including definitions) specific to a company’s strategy, including both financial (e.g., percentage of revenues from products introduced in the last three years) and non-financial (e.g., employee turnover) metrics; Discussion of outcomes on key performance indicators (including definitions) which are specific to a company’s strategy, including both financial (e.g., percentage of revenues from products introduced in the last three years) and non-financial (e.g., employee turnover) metrics. | 101 | 116 |
| 31 | **Capital market-based performance:** Discussion of outcomes on performance measures based on the company’s performance in the capital markets such as total return to shareholders, debt ratings, and weighted average cost of capital; Discussion of outcomes on performance measures (including definitions) which are based on the company’s performance in the capital markets such as total return to shareholders, debt ratings, and weighted average cost of capital. | 86 | 95 |
| 32 | **Employee Stock Ownership Details:** Details on how much stock is owned internally, by both regular employees and top management, and the programs in place for employee ownership in stock (stock options) | 72 | 68 |
| 33 | **Perspectives from Different Individuals:** Description of issues and trends written by different member of top management, internal auditors and legal counsel regarding issues and trends for a more comprehensive view of what is occurring within the company. | 58 | 62 |
| 34 | **Human Resources Analysis:** Information regarding total head count, costs and benefits related to employee growth (or shrinkage), per department, per business unit, per region, etc; Programs designed to train and support employees; Discussion of union agreements, terms, conditions, relationships and resolutions to any prior disagreements | 68 | 68 |
| 35 | **Analysis of Analyst Forecasts:** Disclosure of independent forecasts generated by analysts, and a detailed discussion related to these forecasts | 81 | 83 |
| 36 | **Analysis of Past Goals:** Discussion of past goals; ex: did they meet the goals described in prior years' MD&A sections? | 84 | 94 |
| 37 | **International Operations:** Details on overseas operations including: labor sources, outsourcing, compensation, work conditions, external conditions, community impact, politics | 76 | 104 |
| 38 | **Income and Expense Analysis:** Comprehensive and detailed analysis of the company's income and expenses; Projected future expenses (ex: discussion of lease terms, anticipated future expenses, etc.); Description of expense management programs including; unusual expenses, specific strategies and plans to save on expenses, cost reduction programs that could impact cost ratios | 109 | 125 |
| 39 | **Top Management:** Detailed information on top management, such as; compensation, history, credentials, performance, leadership style, stock options and ownership, etc. Includes details on any changes in top management, and the impact of these changes on the company's performance | 84 | 87 |

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| **Item** | **Title and Description** | **Professional Investors** | **Non-Professional Investors** |
| 40 | **Products / Research and Development:** Detailed analysis of the company's products and their investment in research and development for new products including; descriptions of current product lines, markets covered by products, introduction of new products, cost/benefit analysis, projections, timeline | 99 | 111 |
| 41 | **Changes in Ownership or Structure:** Discussion of possible changes in ownership or structure (ex: mergers, acquisitions, recapitalization, restructuring, privatization), and how this would impact the company (ex: hiring, firing). | 74 | 94 |
| 42 | **Key Outside Investors:** Details describing stock ownership in the company, particularly whether well known and established investors have purchased stock in the company | 75 | 83 |
| 43 | **Executive Summary:** Summary of information included in the MD&A; Concise summary of key accounting/financial information; may include a modified version of the financial reports including brief explanation | 77 | 81 |
| 44 | **Social and Environmental Responsibility:** (CSR) - Management's vision related to social responsibility, including workplace codes, ethics, environment and how they prioritize social issues; Discussion of what the company is doing to give back to the community and a detailed list of what charities they are involved with | 62 | 58 |
| 45 | **History of Company:** Detailed history of the company including background information of the founders, changes in the company since founding | 72 | 73 |
| 46 | **Demographics & Growth Strategies:** List of company locations, countries and external conditions in those areas; Analysis of potential growth/expansion into new product areas, including details on the new market opportunities, incentives to expand, etc.; Anticipated timetable and benchmarks to achieve | 88 | 102 |

1. The U.S. SEC (2008) formally voted December 18, 2008, to require public companies and mutual funds to use interactive data for financial information to increase the speed, accuracy and usability of financial disclosure and reduce costs for investors. Earlier in the year, the SEC released the IDEA (Interactive Data Electronic Applications) system to accept and use interactive data filings as a replacement for the less interactive EDGAR database. [↑](#footnote-ref-2)
2. Metadata is the underlying coding embedded in internet data that allows the specification of tags for facilitating search capabilities. [↑](#footnote-ref-3)
3. Note that the EBRC frameworks leverage off earlier work completed by PricewaterhouseCoopers in their value reporting initiative (see [www.corporatereporting.com](http://www.corporatereporting.com)). [↑](#footnote-ref-4)
4. Following the series of tasks related to the current study, participants were asked to provide their views on the usefulness of company and auditor reports related to Sarbanes-Oxley Section 404 internal control reporting. This task took approximately 15 minutes. While this topic not directly related to the current research, it is a key issue in current financial reporting. This discussion was placed at the end of the session so as not to affect responses to the MD&A tasks. Responses to this question will be considered in future research. [↑](#footnote-ref-5)
5. These results reflect the relatively greater use of disclosures by professional over nonprofessional investors when evaluating information in investment tasks, as found by Arnold et al. (2008). [↑](#footnote-ref-6)
6. Results of the financial prediction task will be considered in future research. [↑](#footnote-ref-7)
7. Investing experience for nonprofessional analysts and years of experience for professional analysts [↑](#endnote-ref-2)