The Australian National University
School of Business and Information Management

The Effect of Voluntary Disclosure of Non-Financial Performance Indicators on Company Valuation Judgements: An Experimental Analysis

A thesis submitted for the degree of
Doctor of Philosophy of
The Australian National University

by

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November 2005

Certification

I hereby declare that this submission is my own work and that to the best of my knowledge it contains no material previously published or written by another person, nor material which to a substantial extent has been accepted for the award of any other degree or diploma at ANU or any other educational institution except where due acknowledgement is made in the thesis. Any contribution made to the research by others, with whom I have worked at ANU or elsewhere, is explicitly acknowledged in the thesis.

I also declare that the intellectual content of this thesis is the product of my own work, except to the extent that assistance from others in the project's design and conception or in style, presentation and linguistic expression is acknowledged.

Paul James Coram
November 2005

Acknowledgements

Thanks firstly to my supervisors, Gary Monroe (Chair), Ted Mock, and David Woodliff, for their encouragement, support and knowledge. Thanks also to Ted for assistance with the protocol study and for double coding the protocols.

This dissertation has benefited from many people who were not members of my committee. I would like to thank Jeff Cohen, Jere Francis, Keith Houghton, Christine Jubb, Tom Kida, Lisa Koonce, and Roger Simnett. In particular, thanks to Ken Trotman for advice and assistance throughout the process. Thanks also to friends and colleagues at The University of Melbourne, The Australian National University, and The University of Western Australia.

Thanks to the Accounting and Finance Association of Australia and New Zealand for a research grant to support this study, the Australian Shareholders' Association for distributing experimental materials to their members, and to the participants in the experiments for giving their time.

Thanks to my parents, Allan and Annette for their love and supporting my early studies.

Finally, and especially, thanks to my wife Veronica for her love and ongoing support and my four-year-old daughter Ingrid for her love and for being such an enjoyable distraction.

Abstract

Transparency and disclosure are crucial to our corporate reporting system and in recent years there have been calls for more of both. This dissertation has two primary aims in addressing this issue. The first aim is to ascertain whether non-financial performance indicators impact users' judgements and decision-making when assessing company performance. The second and associated aim is to assess the impact of assurance services on these non-financial performance indicators. This dissertation addresses these aims through the performance of two studies. Study One used the verbal protocol methodology to examine the information processing strategies and types of information utilised by financial analysts in valuing a company. Study Two drew on the results and case study materials from Study One and was a behavioural experiment performed on several participant groups, which examined the impact of the provision of non-financial performance indicators and assurance on users' share price estimates and earnings forecasts.

Study One found, as expected, that financial statements were the main source of information utilised in performing a company valuation. However, significant utilisation of the non-financial performance indicators and assurance report was also observed from the verbal protocols. The experimental case material in Study One included a between-subjects manipulation relating to whether the financial information was positive or negative trending. It was found that participants in the negative trending group focussed significantly more on the financial statements, performed more algebraic calculations, and brought less information from memory to

the task. This is consistent with the psychology literature that suggests negative information tends to be more diagnostic and elicits more cognitive analysis.

Study Two was a behavioural experiment that used a 2 (positive and negative non-financial performance indicators) x 2 (assurance and no assurance) + 1 (base case) between-subjects design. Participants were asked to assess whether the company's share price and earnings would increase, decrease or stay the same based on the information provided. The main participant group in this study was accountants, as they were expected to have expertise in financial statement and security valuation concepts. It was found that the non-financial performance indicators had a very significant effect in the expected directions on share price estimates and earnings forecasts. Assurance also had a significant effect on share price estimates but only when the non-financial information was positive, consistent with attribution theory. The other two groups in Study Two were commerce students and Australian Shareholders' Association members. The main significant finding from these other two groups was that negative non-financial performance indicators decreased their earnings forecasts. However, the order effects observed for these other two groups suggested that they may not have had the appropriate level of expertise as the main group to perform a task of this type.

In summary, for users with higher levels of expertise, non-financial performance indicators and assurance affect their judgements and decision-making. This should be of interest to managers in companies considering enhanced disclosure policies, regulators considering mandating disclosure of this type of information, and analysts and other financial statement users in deciding how to use this information.

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