

# A Study of the Impact of Informational Complexity, Transparency and Stewardship on Decision Usefulness: The Users Perspective

Chester Brearey (Corresponding author)

School of Business, Department of Accounting and Business Law, Siena College

515 Loudon Road, Loudonville, NY 12211 USA

Tel: 1-518.783.4257 E-mail: cbrearey@siena.edu

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## Abstract

*“Arguably, accounting is as much about communication as it is to do with measurement.*

*No matter how effective the process of accounting quantification, its resultant data will be less than useful unless they are communicated adequately”.*

*Raymond John Chambers*

Calls for the reformation of financial reporting have exacerbated in recent years in light of a rapidly changing global investment climate and in the wake of a battered financial system. This study explored the interrelationships between informational complexity, transparency and stewardship on the usefulness of financial reporting. Empirical analyses was based on a survey of more than 650 executives to test hypotheses that informational complexity impairs judgment through decision-makers' strategy selection; that transparency captures the timeliness, interpretation, and dissemination of financial reporting that leads to a more informed market; and that there is a stewardship demand to report on the control and use of resources by those accountable for their control and use.

The most interesting finding of this study was the lack of support for the connection between complexity, transparency and value relevance, even though prior research has found strong support for a relationship between these three constructs. However, it is clear that although considerable complexity can originate from the intricacy of commercial transactions and events themselves. The accounting for such transactions, by their very nature is complicated and is therefore beyond the control of standard setters. It is therefore imperative that we acknowledge and distinguish between two types of complexity in financial reporting, from the outset: that which is inescapable, due to the inherent complexity of certain transactions, and that which could be avoidable, having been brought about by accounting standards themselves.

Additionally, the impact of regulatory trust on decision usefulness was found to be significant, but *negative*. Can it be postulated that rapid changes in the economy, inadequacy of accounting regulation and other institutions creates a negative effect on the usefulness of accounting information?

**Keywords:** Informational Complexity, Transparency, Regulatory Trust, Stewardship

## 1. Introduction

A decade of dramatic political and economic change worldwide has created increased demands for capital and unprecedented opportunities for investors. During this time U.S. capital markets have been enormously successful in attracting investors and raising low cost capital for businesses at home and around the world.

At the same time, however, calls for improved financial reporting that better responds to an ever broadening range of investor expectations have gained momentum.

The historic U.S. financial accounting model has been attacked on a number of fronts. Some argue that the model reports irrelevant information in today's knowledge-based economy, while others argue that its reporting discretion makes results unreliable (Lundholm, 1999: 316). *The Wall Street Journal* (Reilly, 2007), commenting on a draft plan to rework financial statements concluded: "The overhaul could mark one of the most drastic changes to accounting and financial reporting since the start of the Industrial Revolution in the 19<sup>th</sup> century, when companies began publishing financial information as they sought outside capital."

Back then, similar discontent with "inaccurate or misleading" financial reporting that dogged investor confidence (Lardner, 1850: 203) drove Charles Francis Adams Jr. and the Massachusetts Railway Commission in 1869 to rally for legislated reporting standards that would reduce technological and financial complexity, exploitation by unscrupulous promoters, monopolistic tendencies and unresponsiveness to competitive market forces (McGraw, 1984: 21). Adams drafted for Massachusetts regulatory language, described by Frederick C. Clark writing in 1891, as having "secured uniformity in accounts and reports of the roads and has established confidence and a friendly feeling between the people and the railroads as common carriers" (Clark, 1891: 22). "The annual reports of the Board of Railroad Commissioners during Adams' tenure from 1869 to 1879 remain among the clearest, most insightful set of reports ever produced by any state or federal regulatory agency" (McGraw, 1985: 628).

Now, however, informational asymmetry in the financial reporting process have investors claiming again that the model is inefficient in its ability to provide timely and critical information for capital allocation and has significantly lessened value relevance and decision usefulness. Some in the accounting profession and the global capital markets agree that traditional financial statements do not adequately record, track and measure those resources (balance sheet) and activities (income statement) that drive a significant portion of value for today's companies (Anderson, Herring, & Pawlicki, 2005). In addition, neither the balance sheet nor income statement reflects fully all value-relevant information and income realization potentially can be valuation-relevant, although management discretion can detract from its relevance (Barth & Landsman, 1995). Despite the importance pertaining to the debate over the decision usefulness of the current model of financial reporting, comparatively little has been devoted to it, especially research that considers and reports on value relevance and decision usefulness from an investor's perspective (Financial Accounting Standards Board (FASB), 2001). This paper is motivated by the ongoing shift of financial reporting

standards for public companies toward expansion of fair-value-based accounting, investor demands for narrative reporting, U.S. consideration to converge/adopt International Financial Reporting Standards (IFRS), and the ongoing debate for reporting on the control and use of resources by those accountable for their control and use; this study is an attempt to learn from financial industry actors themselves to what extent the current reporting model satisfies or confounds the needs and desires of investors for decision making.

This paper proceeds to make a contribution to the standard setting literature as a response to suggestions by the FASB that academics are in a position to contribute to its standard setting process by viewing financial reporting issues in a broader context than that associated with addressing specific issues raised in their discussion documents (see FASB Status Report, August 21, 1995). Table 1. The capitals, assets and revenue in listed banks

## 2. Theory

The essence of decision usefulness is in the relationships managers (preparers) build with their investors. At the roots of theoretically rich frameworks are notions of informational attributes of complexity, transparency, stewardship, regulatory trust, and value relevance and their connotations in exchange relationships.

### 2.1 Value Relevance

The objective of valuation research is to relate accounting numbers to a measure of firm value to assess the characteristics of accounting numbers and their relation to value. Relevance refers to the ability of the item to make a difference to decisions of financial statement users. Reliability refers to the ability of the measure to represent what it purports to represent. In the extant literature, an accounting amount is defined as *value-relevant* if it has a predicted association with equity market values (Barth, Beaver, & Landsman, 2001). Although the literature examining such associations extends back over thirty years (Miller & Modigliani, 1966), the first study that uses the term “value-relevance” to describe this association is Amir (1993); it is not a stated criterion of the FASB, rather tests of value relevance represent one approach to operationalizing the FASB’s stated criterion of relevance and reliability. Value relevance is an empirical operationalization of these criteria because an accounting amount will be value relevant that is have a predicted significant relation with share prices, only if the amount reflects information relevant to investors in valuing the firm and is measured reliably enough to be reflected in share prices. *Only if an accounting amount is relevant to a financial statement user can it become capable of making of making a difference to that user’s decision.* Under Statement of Financial Accounting Concepts No. 5, information does not have to be new to a financial statement user to be relevant. That is an important role of accountants is to summarize or aggregate information that might be available from other sources. Note that the concepts of value relevance and decision relevance differ – in particular accounting information can be value relevant, but not decision useful if it is superseded by more timely information (Barth et al., 2001).

*Proposition 1: An increase in the level of value relevance will lead to an increase in decision usefulness.*

## 2.2 Informational Attributes of Complexity and Transparency

Two streams of research suggest that the information attributes of complexity and transparency, may affect how efficiently market participants use that information. Theoretical and empirical judgment/decision-making research concludes that increased complexity of a task adversely affects judgment quality (Payne, 1976; Einhorn & McCoach, 1977; Iselin, 1988; Paquette & Kida, 1987; Payne, Bettman, Johnson, & Duke University, 1986). This literature suggests that task complexity impairs judgment through decision-makers' strategy selection, where a strategy is the method or set of procedures an individual uses to incorporate information into decision making (e.g., expected utility maximization, satisfying, elimination by aspects). For example, Payne (1976) finds that, at a high level of task complexity, individuals use strategies that are analytically simpler to complete the task. Subsequent studies report similar findings (e.g., Payne, 1982; Earley, 1985; Bettman, Johnson, & Payne, 1990). They found that higher task complexity leads decision makers to adopt analytically simpler strategies that may result in incomplete use of available information.

A second stream of research found that information complexity likely impairs analysts' abilities to assimilate the information. For example, Hirst and Hopkins (1998) document that analysts fail to access comprehensive income information under certain reporting formats and suggest that "clear reporting" of information increases analysts' use of it. However, Hirst et al. (Hirst, Hopkins, & Whalen, 2004) hypothesize and find that analysts experienced with relevant comprehensive income information are unaffected by differences in reporting format. In another experimental study, McEwen and Hunton (1999) document those analysts who forecast more accurately tend to emphasize different information than other analysts who forecast less accurately. McEwen and Hunton (1999: 14) suggest that the accurate analysts tendencies to ignore certain information "may be a function of its relevance, complexity, or both," but they do not test this conjecture; this research while not addressing or testing this hypothesis, will provide a users' perspective.

*Proposition 2a: An increase in the level of complexity will lead to a decrease in the level of value relevance.*

*Proposition 2b: An increase in the level of complexity will lead to a decrease in the level of regulatory trust.*

Corporate transparency is defined as the availability of firm-specific information to those outside of publicly traded firms (e.g., investors), (Bushman, Piotroski, & Smith, 2004). They conceptualize corporate transparency within a country as output from a multifaceted system whose components collectively produce, gather, validate, and disseminate information. They isolate two distinct factors. The first factor, interpreted as financial transparency, captures the intensity and timeliness of financial disclosures, and their interpretation and dissemination by analysts and the media. The second factor, interpreted as governance transparency, captures the intensity of governance disclosures used by outside investors to hold officers and directors accountable. Yet, Singh and Yerramilli (2007) argue that an increase in *transparency* that leads to more informed market scrutiny of the firm is not always value-enhancing for the

firm. Firms with strong growth opportunities benefit the most from an increase in transparency; by providing an independent signal on firm quality to the stock market, market scrutiny allows such firms to focus more on maximizing firm value instead of worrying about short-term returns. Their study found evidence that firms who derive their value mainly from current investments would actually benefit by reducing transparency and consequently attracting reduced market scrutiny; for such firms, the gains from shirking investments far outweigh the gains from improving short-term returns. Interestingly, even for firms that gain from an increase in transparency, perfect transparency is not value-enhancing, i.e., some degree of opaqueness is desirable.

*Proposition 3a: An increase in the level of transparency will lead to an increase in the level of value relevance.*

*Proposition 3b: An increase in the level of transparency will lead to an increase in the level of regulatory trust.*

### 2.3 Stewardship

Theoretical considerations argue a view of managerial motivation alternative to agency theory and which may be termed stewardship theory (Donaldson, 1990a, 1990b; Barney, 1990). It also has similarities to the notion of public governance (Travis, Egger, Davies, & Mechbal, 2002).

Since financial statements are not usually thought of as consumption goods, asking for the reason they are in demand is not trivial. Different answers have been suggested to this question. (1) Financial statements may be of value to investors (in a broad sense) making investment decisions, referred to as *decision-making demand*; (2) Investors usually delegate decision making to managers. Then there may be a demand for information about the actions that are taken for the purpose of controlling them. This is referred to as *stewardship demand*.

The stewardship objective is usually taken as an axiom rather than as a result of the theory of financial reporting. For example, Rosenfield states (1974: 126), "An objective of financial statements is to report on the control and use of resources by those accountable for their control and use to those to whom they are accountable." This statement may also serve as a definition of stewardship (or accountability) which seems to agree with general usage<sup>1</sup>.

These theoretical considerations argue a view of managerial motivation alternative to agency theory and which may be termed stewardship theory (Donaldson, 1990a, 1990b; Barney, 1990). The executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets. Thus, stewardship theory holds that there is no inherent, general problem of executive motivation. Given the absence of an inner motivational problem among executives, there is the question of how far executives can achieve the good corporate performance to which they aspire. Thus,

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<sup>1</sup> Some would, perhaps, prefer the narrower, historical meaning of the term, substituting "safekeeping" for "control and use" in the definition. However, support for the wide interpretation may be found in AAA [1967], AICPA [1973], and FASB [1976].

stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive; the issue becomes whether or not the organization structure helps the executive to formulate and implement plans for high corporate performance (Donaldson, 1985). Structures will be facilitative of this goal to the extent that they provide clear, consistent role expectations and authorize and empower senior management.

*Proposition 4a: Reporting on the control and use of resources by managers' leads to an increase in value relevance.*

*Proposition 4b: Reporting on the control and use of resources by managers' leads to an increase in regulatory trust.*

#### 2.4 Trust

*Trust* is considered to 'lubricate social interactions' on various levels so that these interactions function smoothly and harmoniously (e.g., Tyler & DeGoey, 1996), they are thought to reduce social uncertainty and complexity (Luhmann, 1979; Barber, 1983; Earle & Cvetkovich, 1995), and can be seen as an important element of social capital and as a prerequisite for a healthy and flexible economy and democracy (e.g., Putnam, 1993; Fukuyama, 1995; Dekker, 1999; Kasperson, Golding, & Kasperson, 1999; Cook, 2000). The relationship between *trust* and risk perception has since gained widespread attention (e.g., Renn & Levine, 1991; Pidgeon, Hood, Jones, Turner, & Gibson, 1992; Slovic, 1993). Furthermore, trust is seen as one prerequisite for effective risk communication (e.g., Kasperson, Golding, & Tuler, 1992).

Although it is now widely recognized that trust in institutions plays an important role in risk perceptions and responses to risk communication, there have been many debates regarding what constitute and what contributes to trust. In other words, what factors make people trust or distrust risk regulatory or other institutions? In very general terms, Rousseau *et al.* (Rousseau, Sitkin, Burt, & Camerer, 1998) argue that trust, as conceptualized across a number of disciplines, can be defined as: "a psychological state comprising the intention to accept vulnerability based upon the behavior of positive expectations of the intentions of or behavior of another" (p. 395). However, this definition does not, in itself, explain why people might be willing to accept vulnerability. Classical work on interpersonal trust suggests that it is mainly a two dimensional concept based on competence and care (or "trustworthiness"). Half a century ago, Hovland *et al.* (Hovland, Janis, & Kelley, 1953) identified these two aspects in their seminal social psychological research program on communication and persuasion. In a series of experiments, in which they varied specific characteristic of the communicator, they found that someone accepts information more easily when the communicator is seen as an expert (i.e., is a good source for valid assertions) and when the communicator is seen as being trustworthy, in the sense that the source is seen as willing to communicate the assertions he or she considers most valid (i.e., has no motives to promote a particular view or has lack of intent to persuade).

Within risk research, a wide range of theoretical (e.g., Renn & Levine, 1991; Kasperson *et al.*, 1992; Johnson, 1999) and empirical studies (e.g., Frewer, Howard, Hedderley, & Shepherd,

1996; Peters, Covello, & McCallum, 1997; Metlay, 1999) have been conducted to identify the core elements of trust. That is, they have examined what kind of evaluative judgments contribute to the creation or destruction of trust in risk regulatory or other institutions.

Metlay (1999) has criticized researchers for making discussions about trust unnecessarily difficult. He argues that some researchers have the tendency to distinguish additional shades of meaning in the concept of trust, although it is not at all clear whether these are indeed (empirically) discernible aspects of trust. Metlay's study of judgments of trust in the U.S. Department of Energy (U.S. DoE) suggests that trust is not complex and multifaceted, but a rather simple concept based on two distinctively different components: (1) a tightly interconnected set of *affective* beliefs about institutional behavior, which Metlay calls "trustworthiness;" and (2) perceptions of how *competent* the institution is. There is other empirical evidence to support this claim that, rather than being based on a large number of components, trust is mainly as Metlay stated, a two dimensional concept consisting of trustworthiness (care) and competence.

*Proposition 5: An increase in the level of regulatory trust will lead to an increase in decision usefulness.*

### 3. Research Questions

In this study, we investigate the interrelationships between informational complexity, transparency, and stewardship, and their usefulness to investors within the conceptual financial reporting model; we view value relevance and regulatory trust as significant mediators within this model. Additionally, we performed multiple group analyses on a cross-sectional sample of respondents that were divided into occupational groups of CEO – CFO's, accountants and other, to determine whether the same Structured Equation Model was applicable across those groups. The following are questions driving this research:

*Research Question #1: Do the attributes of informational complexity, transparency, and stewardship influence regulatory trust and value relevance; if so, do they always impact decision usefulness?*

*Research Question #2: Are the results invariant across occupational groups?*

We have both a complexity problem and a transparency issue. On the one hand, for preparers and auditors, *complexity* starts with trying to determine which standards, rules, or regulations apply in a particular circumstance, which is complexity in determining what to do. There can also be "how to" complexity, that is complexity and added cost and effort in implementing a particular accounting treatment, for example, in the case of key accounting estimates and certain fair measurements in gathering the data and implementing the processes, judgments, internal controls, and auditing procedures needed to develop or to audit the accounting measures. On the other hand, investors and other users face a lack of transparency relating to the analytical complexity associated with trying to understand what was done in preparing the financial statements, whether and to what extent various treatments properly reflect the underlying business and economic realities, and in making comparisons between companies and over time. Empirical research indicates that information that is presented in a salient,

easily processed form is assumed to be absorbed more easily than information that is less salient, or that is only implicit in the public information set (Kahneman & Tversky, 1973).

As to stewardship, Rosenfield states (1974: 126), "An objective of financial statements is to report on the control and use of resources by those accountable for their control and use to those to whom they are accountable."

#### 4. Conceptual Model

The constructs of value relevance and trust have common antecedents in communication and accountability and a common consequent in investor satisfaction leading to the following simple model. The data for this study was gathered by survey (see Appendix for survey items).

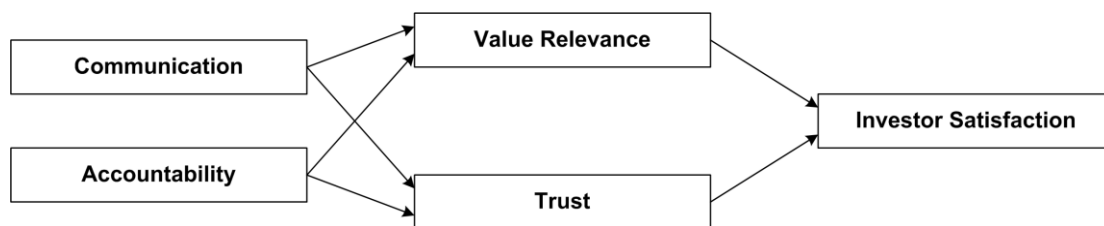


Figure 1. Conceptual Model

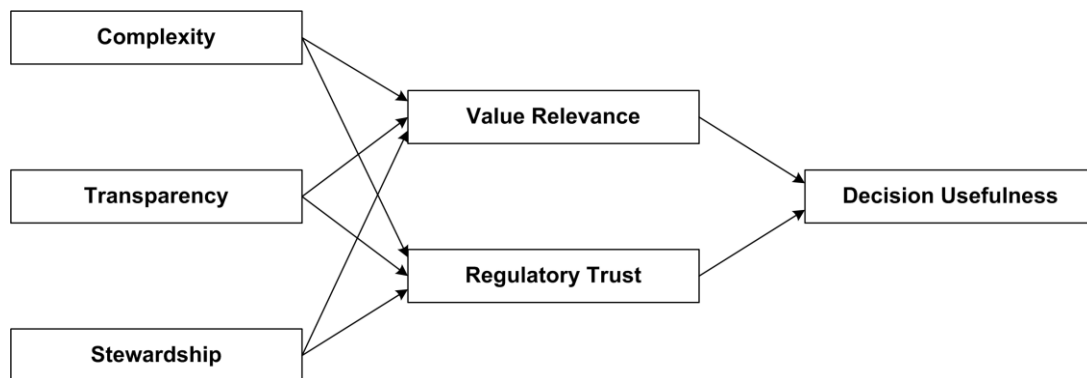


Figure 2. Case Specific Model

The researcher conducted qualitative interviews with corporate managers, accounting practitioners, academics, financial planners and analysts (Brearey, 2008) Figure 2. The results indicate the performance metric of Decision Usefulness was selected based on accounting theory and the “Proposed Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information” developed jointly by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (2006): which states that the primary objective of accounting is to provide financial information that is useful to present and potential investors and creditors and others in making investment, credit, and similar resource allocation decisions about the economic affairs of an entity to interested parties for use in making decisions; that in order to be useful in making investment, credit, and similar resource



allocation decisions, information must possess qualitative characteristics that are relevant (provide predictive value), possess faithful representation (verifiable, neutral, and complete), absent of bias, comparable, consistent and be understandable – all subject to materiality, and whose benefit should justify the costs in providing and using it. Decision usefulness thus presumably captures the intent of financial reporting standards and is therefore an essential part of the framework within which financial reporting standards are developed.

Based on this argument, the following conceptual model was developed to hypothesize the relationships and interactions of the six constructs. The five general propositions from earlier in this paper have been refined into testable hypotheses based on the conceptual model in Figure 3.

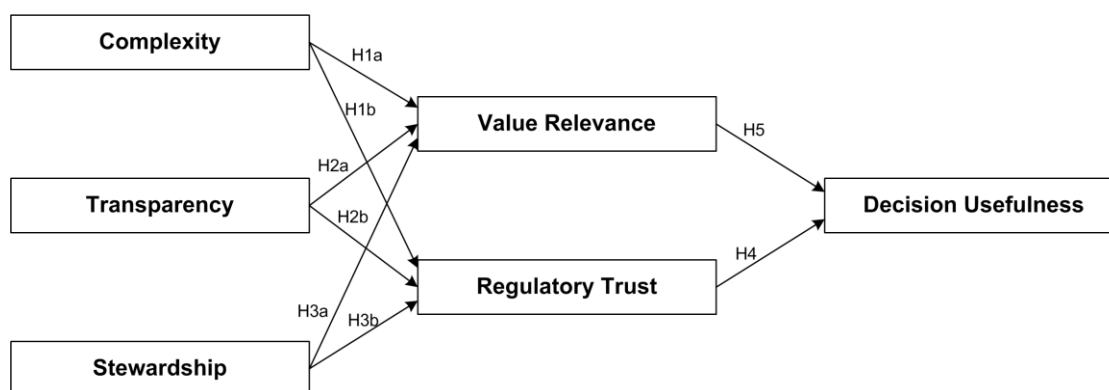


Figure 3. Hypothesized Model

*Hypothesis 1a. Informational Complexity negatively influences Value Relevance.*

*Hypothesis 1b. Informational Complexity negatively influences Regulatory Trust.*

*Hypothesis 2a. Greater Transparency will positively influence Value Relevance.*

*Hypothesis 2b. Greater Transparency will positively influence Regulatory Trust.*

*Hypothesis 3a. Reporting on the use and control of corporate resources (Stewardship) will positively influence Value Relevance.*

*Hypothesis 3b. Reporting on the use and control of corporate resources (Stewardship) will positively influence Regulatory Trust.*

*Hypothesis 4. Regulatory Trust positively influences Decision Usefulness.*

*Hypothesis 5. Value Relevance positively influences Decision Usefulness.*

An additional hypothesis builds on qualitative findings indicating that the effects of informational complexity, transparency and stewardship on value relevance and decision usefulness will be invariant across user groups (i.e., management, accountants, auditors, and analysts).

*Hypothesis 6. The effect of informational complexity, transparency and stewardship on value relevance and decision usefulness will be invariant among different user groups.*

## 5. Research Method

### 5.1 Methodology

This study utilized a structured quantitative research method. The study is cross-sectional research involving survey methodology with the model tested using Structured Equation Modeling.

### 5.2 Data Sample

We surveyed graphically dispersed and diverse group of business professionals that are currently or formerly employed, in occupations including, but not limited to Chief Executive Officers (CEO's), Chief Financial Officers (CFO's), corporate managers, accounting and auditing practitioners, academics, financial planners analysts, and entrepreneurs.

The survey instrument was pilot tested with a group of twenty-five respondents that provided input on the amount of time necessary to complete the survey, the clarity of the questions, the logical ordering of the survey items and other suggested changes, some of which were incorporated into the final survey instrument.

The survey was administered to 1,587 potential participants via the internet over a two-week period. Completed surveys were submitted to a third party vendor's website and downloaded into the Statistical Package for the Social Sciences (SPSS) for analysis. Responses were received from 703 respondents representing a response rate of 44%. All responses were scrutinized for missing data items (1), limited variation pattern responses (26) and significant outlier characteristics (0) leaving a final usable sample of 676 responses. Of these respondents, 203 were CEO's or CFO's, 180 were accountants and 383 identified themselves as being academics, in finance/banking, as financial planners, entrepreneurs, and other. Respondents represented all primary corporate functions and had an average tenure of 6 to 10 years in their *current* occupation. Further details of the sample can be found in Table 1.

Table 1. Demographic Profile of Respondents

<b>Gender</b>			<b>Education</b>			<b>Certification</b>		
	Frequency	Percent		Frequency	Percent		Frequency	Percent
Male	397	58.7	High School	61	9.0	CPA	73	10.8
Female	279	41.3	Tech Certification	21	3.1	CMA	16	2.4
Total	676	100.0	Some College	143	21.2	CFA	18	2.7
			College Degree	255	37.7	Attorney	12	1.8
			Graduate Degree	159	23.5	Other/None	557	82.3
			Other	37	5.5	Total	676	100.0
			Total	676	100.0			

<b>Age</b>			<b>Occupation</b>			<b>Race</b>		
	Frequency	Percent		Frequency	Percent		Frequency	Percent
< 25 years	11	1.6	Public Acct	53	7.8	Hispanic	19	2.8
25–35 years	137	20.3	Mgmt Acct	92	13.6	African-American	26	3.8
36–45 years	178	26.3	Finance Banking	71	10.5	Caucasian	591	87.4
46–55 years	176	26.0	Analyst	42	6.2	Asian	25	3.7
56–65 years	94	13.9	Academic	27	4.0	No Response	3	0.4
> 65 years	80	11.8	CEO/CFO	203	30.0	Other	12	1.8
Total	676	100.0	Other	196	29.0	Total	676	100.0
			Total	684	100.0			

<b>Experience*</b>		
	Frequency	Percent
< 2 years	80	11.8
2–5 years	161	23.8
6–10 years	142	21.0
11–15 years	89	13.2
16–20 years	63	9.3
> 20 years	141	20.9
Total	676	100.0

\* In Current Position

Each respondent self-reported information about their age, gender, education, occupation, years of work experience in current position, and certification, if any. Age, experience and gender were used as control variables. Not supplying demographic information did not disqualify respondents.

Survey questions dealing with regulatory trust were averaged by individual dimension and totaled; the averages were summed and averaged once again, then divided into three groups with a median split (i.e., high, moderate and low trust), and used in multi-group analysis.

The initial interpretation of the data consisted of an iterative process that began with a pre-screening for normality, skewness, outliers, influential of the descriptive statistics to gain an overall impression of each data item. Overall, the data was reasonably normal with some data being skewed.

### 5.3 Measurement

Previously validated scales from relevant research projects were used, adapted with minor

contextual word changes to create survey items for measuring the constructs of stewardship, regulatory trust, value relevance, and decision usefulness. Indigenous scales for the constructs of informational complexity and transparency were developed by the researcher based upon highly debated proposed changes to the current model of financial reporting that would expand fair value accounting, introduce non-traditional (narrative) reporting, and the possible adoption of the International Financial Reporting Standards (IFRS). Specific steps were taken to integrate theoretical and empirical considerations, they included: 1) specification of the constructs, 2) item generation using theoretical dimensions, 3) item development and refinement using pretesting of the items to provide feedback regarding item consistency and clarity of construct dimensions and wording, 4) sound scale and metric properties. Exploratory and Confirmatory Factor Analysis were used to confirm Reliability and Validity.

### 6. Data Analysis

Exploratory Factor Analysis (EFA) resulted in an eleven factor unconstrained solution. All loaded onto their hypothesized construct. Some items were trimmed based on cross-loading among factors. Using AMOS, confirmatory factor analysis (CFA) confirmed three 1st order constructs (see Figure 4) and three 2nd order constructs.

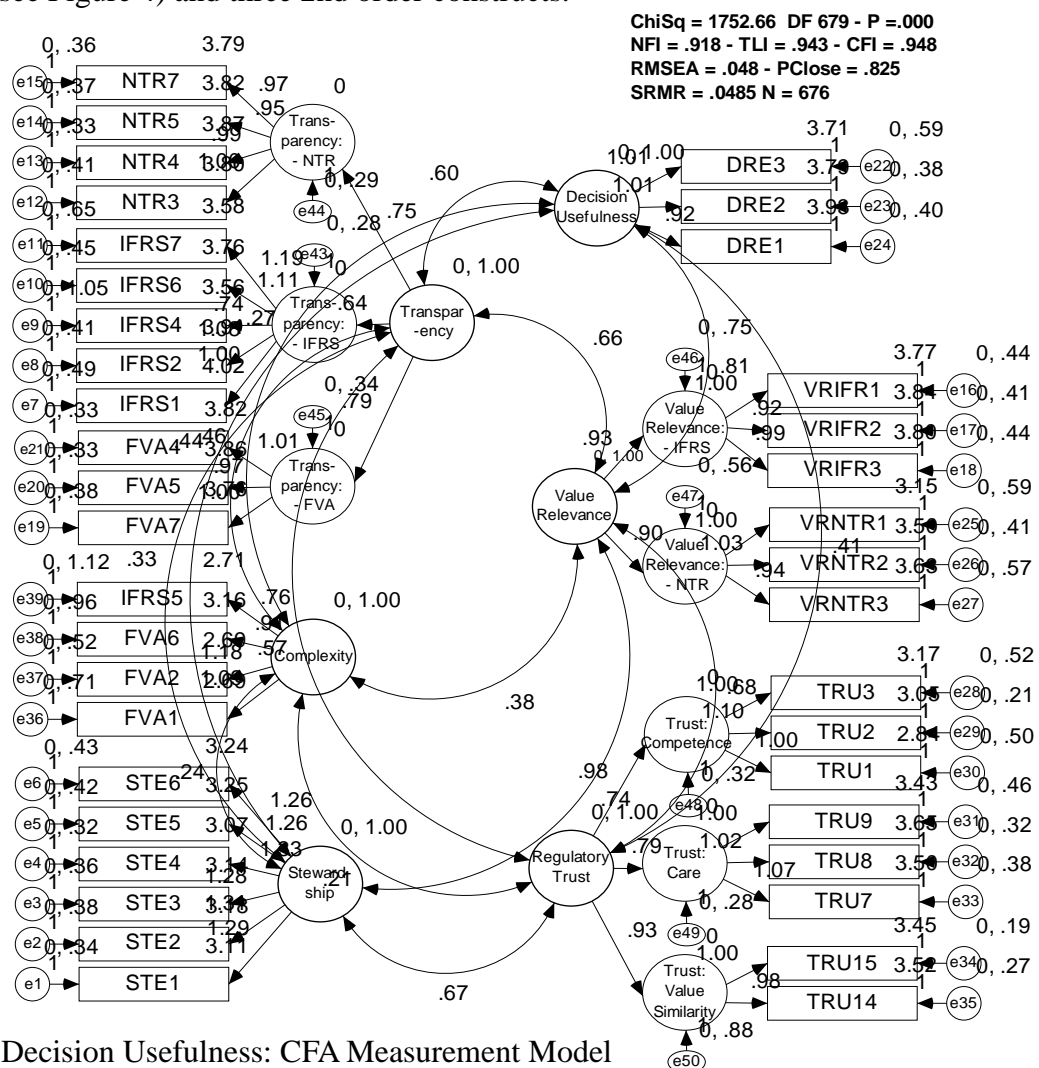


Figure 4. Decision Usefulness: CFA Measurement Model

The correlations, means and standard deviations of the retained items are reported in Table 2. The measurement model in AMOS was estimated using this trimmed data set (see Figure 3 for model and Table 4 for associated fit indices). Beyond goodness of fit statistics, the model adequacy is assessed by looking at individual item reliabilities, the convergent validity of the measures associated with the individual constructs, and the discriminant validity between constructs (Fornell & Cha, 1994). Item reliabilities are evaluated by examining the loadings of each measure on its respective construct. All measures with loadings higher than .50 (Hulland, 1999) are retained for analysis. This threshold was based on the theory that a loading higher than .50 indicates that the item has a higher association with the construct than with the item's error term. As seen in Table 2, all the loadings exceeded this threshold, and were statistically significant.

Table 2. Confirmatory Factor Analysis – Measurement Model

2nd Order	Loading Standardized	t-value	Composite Reliability	Variance Extracted	Highest Variance Shared	Average Variance Shared
COMPLEXITY			0.822	0.540	0.213	0.053
FVA1	0.791	22.785				
FVA2	0.854	25.222				
FVA6	0.682	18.806				
IFRS5	0.583	15.464				
TRANSPARENCY			0.838	0.633	0.442	0.146
TRANS - NTR	0.811	19.002				
TRANS - FVA	0.806	19.279				
TRANS - IFRS	0.770	16.682				
STEWARDSHIP			0.964	0.816	0.554	0.137
STE1	0.911	30.718				
STE2	0.905	30.385				
STE3	0.905	30.384				
STE4	0.921	31.360				
STE5	0.890	29.524				
STE6	0.887	29.402				
REGULATORY TRUST			0.844	0.645	0.462	0.145
TRUST - COMP	0.864	21.139				
TRUST - CARE	0.831	19.417				
TRUST - VAL SIM	0.705	18.391				
VALUE RELEVANCE			0.720	0.563	0.653	0.226
VALRELIFRS	0.730	17.885				
VALRELNTR	0.770	17.829				
DECISION USEFULNESS			0.866	0.682	0.653	0.145
DRE1	0.824	24.915				
DRE2	0.856	26.316				
DRE3	0.797	23.734				



Further analysis finds composite reliabilities exceeded .70 and all variance extracted values exceeded .50. The variance extraction approach was based on and detailed in Ramaswami and Singh (2003) and Fornell and Larcker (1981). The highest variance shared exceeds the variance extracted only for Value Relevance raising a potential concern for clear evidence of discriminate validity. However, being greater than .550 and the difference between the highest variance shared and variance extracted is only .090 therefore, and given a reasonably high quality EFA pattern matrix it was decided not to eliminate any items of this factor. Therefore, overall, the measurement models suggest that the items are suitable and the constructs have appropriate properties and appear reasonable for subsequent analysis and interpretation. Figure 3 indicates that the CFA produced the following acceptable model fit statistics: Chi-Square = 1752.66, degrees of freedom = 679, probability = .000, NFI = .918, TLI = .943, CFI=.948, SRMR = .0485 and RMSEA = .048, PClose = .825 and N = 676.

An important area of concern when using survey techniques for analysis is to ensure that the results are not biased because of the manner in which the data was collected. Common Method Variance (CMV) is one of the most frequently mentioned concerns among social scientists in general (Feldman & Lynch, 1988; Williams & Brown, 1994) and among Information Systems researchers in particular (Woszczyński & Whitman 2001, Straub et al., 2004). Podsakoff et al. (2003) refers to this problem as common method bias (CMB). The authors use this term to describe the variance in the data that is a result of the measurement method rather than the constructs the measure represents. The introduction of this measurement variance tends to invalidate the conclusions one makes about the relationship among the constructs. Though Cote and Buckley (1987) showed that concrete constructs such as satisfaction and performance were less associated with method effects (22.5% method variance) than were abstract constructs such as attitudes (40.7% method variance), our study is intended to fill this need for a comprehensive and systematic investigation of the impact of CMV on survey-based research.

CFA allows the researcher to model explicitly the variance in a measure as a function of three components, namely, the "true" score variance, the variance due to method effect, and random error; allowing an estimation of the true relationships between latent factors that are free from method biases and random error.

Our approach follows the single-method-factor approach outlined by Podsakoff et al. (2003) because it has the advantages of estimating method biases at the measurement level and controlling measurement error. Perhaps because of these advantages, these techniques have been frequently used in the literature. The main disadvantage of this approach, according to Podsakoff et al. (2003) is that it only controls for a single source of method bias at a time and assume that Method x Trait interactions is not present. How serious these disadvantages are depends on how confident the researcher is that the method factor adequately captures the main source of method bias and that Method x Trait interactions does not exist. The former is a judgment that has to be made primarily on conceptual grounds. However, on the latter issue, the empirical evidence suggests that Method x Trait interactions is unlikely to be very strong (Becker & Cote, 1994)

Items were allowed to load on their theoretical constructs, as well as on a latent common methods variance factor and the significance of the structural parameters were examined both

with and without the latent common methods variance factor in the model. In this way, the variance of the responses to a specific measure is partitioned into three components: (a) trait, (b) method, and (c) random error.

In order to assess the degree of common method bias we conducted an analysis using AMOS version 7.0 by constructing a new model (Figure 4A) including a latent variable that served as a method bias construct. The results of this analysis are included in Table 4.

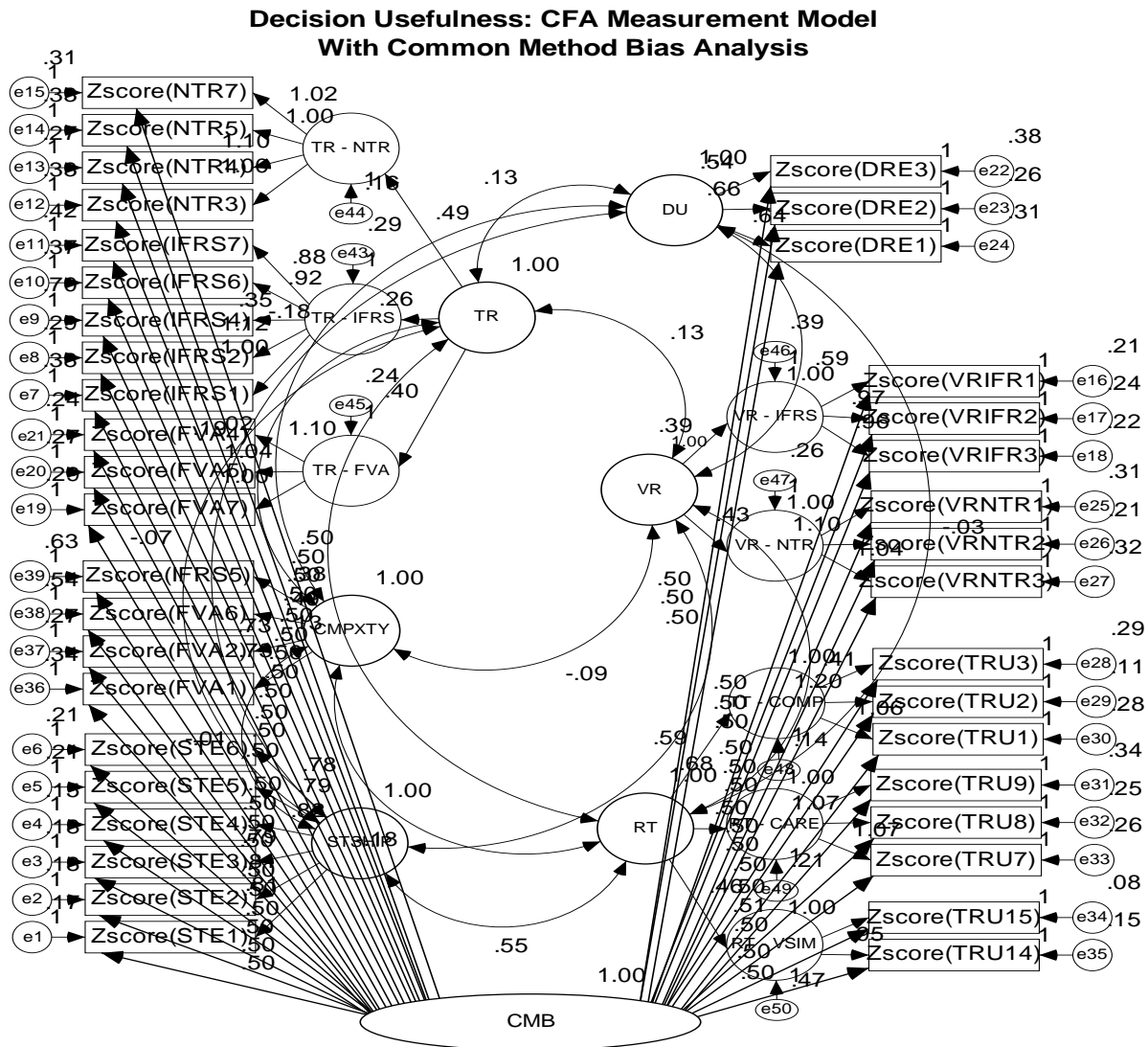


Figure 4A. Decision Usefulness: CFA Measurement Model with Common Method Bias Analysis



Table 4. Common Method Bias - Unconstrained – Constrained Confirmatory Factor Analysis – Measurement Model

2nd Order	Unconstrained						Constrained					
	Loading Standardized	t-value	Composite Reliability	Variance Extracted	Highest Variance Shared	Average Variance Shared	Loading Standardized	t-value	Composite Reliability	Variance Extracted	Highest Variance Shared	Average Variance Shared
<b>COMPLEXITY</b>			0.780	0.482	0.165	0.029			0.659	0.338	0.033	0.007
FVA1	0.803	22.874					0.687	17.510				
FVA2	0.827	24.255					0.710	18.149				
FVA6	0.613	17.058					0.486	12.019				
IFRSS	0.471	12.939					0.376	9.030				
<b>TRANSPARENCY</b>			0.428	0.289	0.165	0.042			0.676	0.423	0.018	0.006
NTR	0.618	9.397					0.773	8.665				
IFRS	-0.043	-0.426					0.629	5.522				
FVA	0.823	11.096					0.431	7.537				
<b>STEWARDSHIP</b>			0.952	0.768	0.590	0.124			0.899	0.597	0.461	0.080
STE1	-0.889	-30.290					0.783	24.546				
STE2	-0.881	-29.887					0.778	24.225				
STE3	-0.877	-29.778					0.771	24.011				
STE4	-0.891	-30.734					0.791	24.979				
STE5	-0.861	-28.888					0.759	23.384				
STE6	-0.858	-28.729					0.755	23.227				
<b>REGULATORY TRUST</b>			0.807	0.586	0.416	0.086			0.763	0.525	0.301	0.052
TRUST - COMP	0.880	19.422					0.848	14.496				
TRUST - CARE	0.768	16.286					0.738	12.461				
TRUST - VAL SIM	0.628	14.938					0.558	10.810				
<b>VALUE RELEVANCE</b>			0.633	0.465	0.590	0.153			0.518	0.352	0.461	0.100
VALRELIFRS	0.619	13.282					0.530	8.194				
VALRELNTR	0.739	14.816					0.651	9.006				
<b>DECISION USEFULNESS</b>			0.706	0.447	0.464	0.069			0.666	0.401	0.347	0.043
DRE1	0.681	20.260					0.648	16.497				
DRE2	0.736	22.281					0.682	17.487				
DRE3	0.579	17.594					0.564	14.173				

The values are estimated maximum likelihood factor loadings with t-values

Composite Reliability based on the formula by Fornell and Larcker (1981)

Estimate of the variance extracted by each factor based on the formula by Fornell and Larcker (1981)

Highest R<sup>2</sup> is the highest variance shared within this construct

Average R<sup>2</sup> is the average variance shared within this construct

Goodness of fit statistics	Unconstrained	Constrained
Chi-Sq (df)	1479.46 (640)	1666.45 (677)
NFI	0.931	0.922
CFI	0.960	0.952
TLI	0.953	0.948
RMSEA (90% CI)	.044 (.041-.047)	.047 (.044-.049)
SRMR	0.0372	0.0449

The constrained model in Table 4 indicates that the CFA produced acceptable fit indices. Though we desire loadings to be higher than .50 (Hulland, 1999), all were retained for analysis (lowest @ .376). This decision was based on an examination of the overall construct and some of the limitations discussed as to potential problems that may be encountered with identification when using common method variance analysis. An alternative factor-based procedure for assessing discriminant validity is that proposed by Fornell and Larcker (1981). In this method, the researcher concludes that constructs are different if the average variance extracted (AVE) for one's constructs is greater than their shared variance. The highest variance shared exceeds the variance extracted only for Value Relevance raising a potential concern for clear evidence of discriminant validity. Given that the difference between the

highest variance shared and variance extracted is .109, a reasonably high quality EFA pattern matrix, the standardized loadings and the amount of existing theory, it was decided not to eliminate any items of this factor. Similarly, though we prefer composite reliabilities to exceed .70; other researchers (Tseng et al., 2006) suggest that a composite reliability of greater than 0.6 is acceptable. We recognize the issue as to Value Relevance, but conclude that existing theory and research support this construct, as well as the existing limitations of CMV that lies in identification of the CFA model. Therefore, overall, the measurement models suggest that the items are suitable and the constructs have appropriate properties and appear reasonable for subsequent analysis and interpretation.

In summary, cross-sectional studies of attitude-behavior relationships are vulnerable to the inflation of correlations by common method variance (CMV). Despite its powerful properties, the CFA based technique has some disadvantages. One limitation lies in identification of the CFA model. Evidently, the CFA technique involves complex model specification and thus produces a highly parameterized model. Therefore, the resulting model is said to be often underidentified or to result in invalid parameter estimates (Williams & Anderson 1994, Podsakoff et al., 2003).

## 7. Analysis and Findings

A structural equation model was specified in AMOS to test the hypothesized model and assess its overall fit. The hypothesized model achieved reasonable overall fit indices (Table 5).

Table 5. Estimated Coefficients for the Nomological Relationships

Explanatory Variable	à	Dependent Variable	Initial Model						Respecified Model					
			Unst Coef	SE	t-value	Std. Coef.	Sig	R <sup>2</sup>	Unst Coef	SE	t-value	Std. Coef.	Sig	R <sup>2</sup>
Transparency	à	Value Relevance	-0.01	0.02	-0.33	-0.02	0.74		0.02	0.01	1.40	0.04	0.16	
Complexity	à	Value Relevance	-0.03	0.03	-0.90	-0.06	0.37	0.00	-0.02	0.02	-1.19	-0.05	0.23	
Stewardship	à	Value Relevance							0.35	0.03	10.77	0.81	***	0.65
Transparency	à	Reg. Trust	0.00	0.02	0.22	0.01	0.82		0.02	0.02	0.87	0.02	0.38	
Complexity	à	Reg. Trust	-0.08	0.03	-3.10	-0.14	0.00		-0.08	0.03	-2.92	-0.12	0.00	
Stewardship	à	Reg. Trust	0.35	0.03	11.62	0.57	***	0.34	0.44	0.03	13.90	0.68	***	0.44
Stewardship	à	Decision Useful	0.07	0.03	2.03	0.12	0.04		-0.19	0.11	-2.03	-0.35	0.04	
Value Relevance	à	Decision Useful	0.60	0.15	4.01	0.57	***		1.32	0.32	4.17	1.03	***	
Reg. Trust	à	Decision Useful	-0.19	0.06	-3.11	-0.21	0.00	0.37	-0.23	0.06	-3.65	-0.27	***	0.52
Gender	à	Decision Useful	0.01	0.02	0.51	0.02	0.61		0.01	0.02	0.50	0.02	0.62	
Age	à	Decision Useful	0.01	0.02	0.58	0.03	0.56		0.02	0.02	0.93	0.04	0.35	
Education	à	Decision Useful	-0.06	0.02	-2.31	-0.10	0.02		-0.05	0.02	-2.21	-0.09	0.03	

CFA Goodness of Fit Statistics		
Criteria	Initial Model	Respecified Model
	Value	Value
Chi-Sq (df)	2103.93(787)	1954.95(786)
CMIN/df	2.67	2.49
Value	0.000	0.000
CFI	0.937	0.944
TLI	0.931	0.939
NFI	0.903	0.910
SRMR	0.067	0.074
RMSEA	0.050	0.047
90% - CI	.047-.052	.044-.050

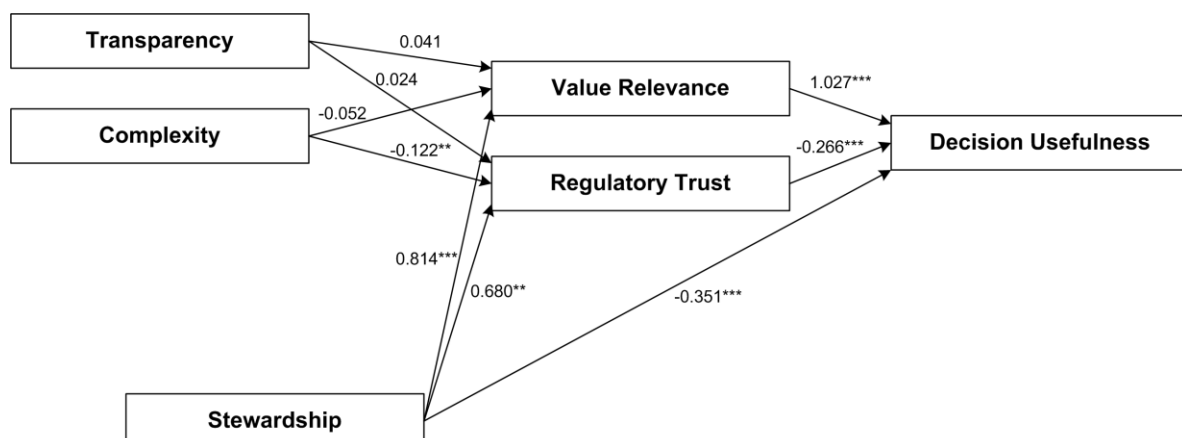
Notes: The Initial Model is the estimated coefficients before we re-specified the model to account for misspecification bias. Paths not hypothesized and not tested for re-specification are highlighted. The Re-specified Model is the estimated coefficients after accounting for misspecification bias. Bolding means paths with significance in relationships.

Of the original hypotheses, support was found for the effect of stewardship on value relevance (H3a); there was also support for the effects of informational complexity and stewardship on regulatory trust (H1b and H3b). A base was also found for the effect of value relevance on decision usefulness (H5). The effect of transparency and informational complexity on value relevance (H1a and H2a) was negligible and not significant, as well as the influence of complexity on value relevance.

The effect of regulatory trust on decision usefulness was significant, but negative, providing no support for (H4).

Looking for improvement in fit, Modification Indices were reviewed to consider eliminating or adding paths or allowing correlated error terms. This was done only when there was statistical support and was supported by theory. This model re-specification resulted in a potential relationship to be empirically tested between stewardship and decision usefulness. This added path postulates that stewardship has a statistically negative impact on decision usefulness. The relationship between stewardship and decision usefulness is still not well understood (Bushman et al., 2005). Is stewardship itself a subset of the broader objective of providing information that is useful in making investment, credit and similar decisions? (IASB/FASB, 2005). Does the relative importance of these roles vary for different users and different sectors (i.e., in assessing the past and the performance of managers and directors)? This finding will be left to future research.

The resulting model generated better fit indices and all standardized loadings (except for transparency → value relevance and regulatory trust; and complexity → value relevance) were significant at  $p < .010$ . The overall final model fit indices were NFI .91, CFI .94, TLI .94, RMSEA .047 and SRMR .074, all of which are within the acceptable, established ranges as established by research guidelines (Tabachnick & Fidel, 2000). Table 5 contains the complete results of both the hypothesized model and the final re-specified model. Figure 5 shows the final AMOS graphic and statistically significant paths. The final model provides support for hypotheses H1b, H3a, H3b and H5.



Note: Standardized Coefficients marked with \*\*\* indicate significance at  $p < .001$ ; those marked with \*\*  $p < .005$ ; those marked with \*  $p < .010$ ; not marked indicate no significance

Figure 5. Final Re-Specified Structural Model

The influence of transparency, stewardship, and informational complexity on decision usefulness was suppressed by value relevance and regulatory trust (suppression effects) to study for mediation. Mediation effects were analyzed using structural equation modeling according to the procedures proposed by Mathieu and Taylor (2006)<sup>2</sup>, (applying the indirect effects model – they define this type of relationship as “a qualitatively different phenomenon than mediation” and label it as an indirect effect); statistical analysis is provided in Table 6. Transparency and stewardship, when mediated by value relevance does not directly influence decision usefulness, having only an indirect effect, while complexity has a direct effect. Complexity and stewardship, when mediated by regulatory trust concludes partial and indirect results respectively. No mediation exists for other relations.

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<sup>2</sup> Mediation testing procedures and indications described in Mathieu, J. E. & S. R. Taylor (2006). Clarifying conditions and decision points for mediational type inferences in Organizational Behavior. *Journal of Organizational Behavior* 27(8): 1031.

Table 6. Mediation Analysis

Value Relevance mediates effects of Complexity on Decision Usefulness						
	Estimate	S.E	P Value	Indication	Sobel P Value	Conclusion
				Direct	0.074	Direct
Direct	-0.187	0.031	0.001			
Indirect	0.035	0.022	0.485			
	0.955	0.278	0.000			
Total Indirect	0.033					
Total Effect	-0.154					

Value Relevance mediates effects of Transparency on Decision Usefulness						
	Estimate	S.E	P Value	Indication	Sobel P Value	Conclusion
				Null	0.006	Indirect
Direct	-0.019	0.019	0.580			
Indirect	0.050	0.014	0.125			
	0.955	0.278	0.000			
Total Indirect	0.048					
Total Effect	0.029					

Value Relevance mediates effects of Stewardship on Decision Usefulness						
	Estimate	S.E	P Value	Indication	Sobel P Value	Conclusion
				Full	0.000	Indirect
Direct	-0.215	0.102	0.253			
Indirect	0.784	0.032	0.000			
	0.955	0.278	0.000			
Total Indirect	0.749					
Total Effect	0.534					

Regulatory Trust mediates effects of Complexity on Decision Usefulness						
	Estimate	S.E	P Value	Indication	Sobel P Value	Conclusion
				Partial	0.000	Partial
Direct	-0.187	0.031	0.001			
Indirect	-0.139	0.027	0.001			
	-0.330	0.069	0.000			
Total Indirect	0.046					
Total Effect	-0.141					

Regulatory Trust mediates effects of Transparency on Decision Usefulness						
	Estimate	S.E	P Value	Indication	Sobel P Value	Conclusion
				Null	0.140	Null
Direct	-0.190	0.019	0.580			
Indirect	0.020	0.018	0.473			
	-0.330	0.069	0.000			
Total Indirect	-0.007					
Total Effect	-0.197					

Regulatory Trust mediates effects of Stewardship on Decision Usefulness						
	Estimate	S.E	P Value	Indication	Sobel P Value	Conclusion
				Full	0.000	Indirect
Direct	-0.215	0.102	0.253			
Indirect	0.684	0.032	0.000			
	-0.330	0.069	0.000			
Total Indirect	0.104					
Total Effect	0.325					

The last hypothesis involved testing the final model across respondent's occupations (H6). The measurement equivalence model discussed earlier indicated that we considered the constructs in this study were invariant between three occupational groups, CEO – CFO's, accountants/auditors, and other occupations. The same protocol was followed to ensure measurement equivalence during assessment of the final model. Models were run sequentially from an unconstrained model until all parameters had been constrained, except structural weights. By leaving the structural weights unconstrained, any differences between high, moderate, and low trust can be attributed to the groups themselves, not to measurement bias. The results of the across groups comparison are shown in Table 7 and Figures 6, 7 and 8

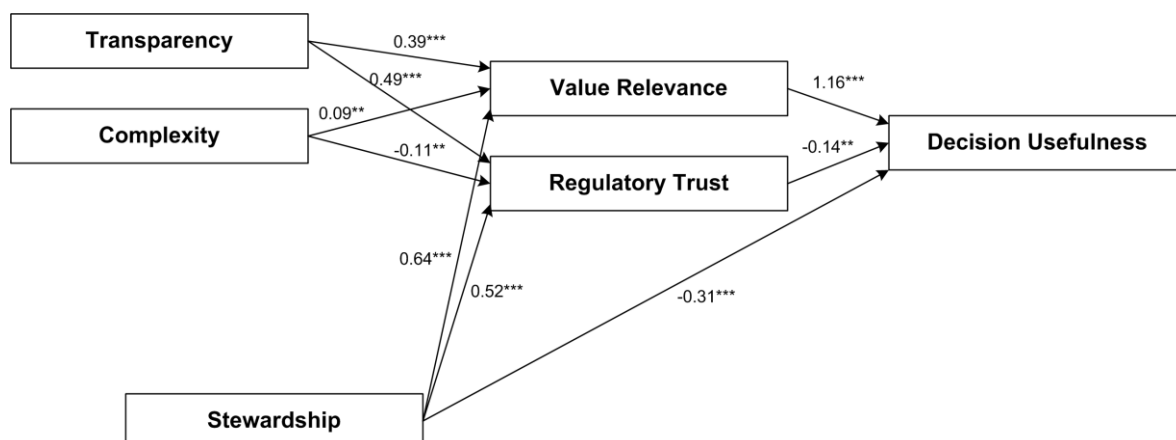
show the corresponding AMOS models. Most of the loadings did not change appreciably between the groups. However, the most substantial change occurred for transparency which was found to be not invariant for the accountant/auditor group.

Table 7. Estimated Coefficients for the Nomological Relationships Differences between Groups

Explanatory Variable	à	Dependent Variable	CEO-CFO's						Accountants						Other					
			Unst Coef	SE	t-value	Std. Coef.	Sig	R <sup>2</sup>	Unst Coef	SE	t-value	Std. Coef.	Sig	R <sup>2</sup>	Unst Coef	SE	t-value	Std. Coef.	Sig	R <sup>2</sup>
Complexity	à	Value Relevance	0.06	0.03	2.42	0.09	0.02		0.06	0.03	2.42	0.10	0.02		0.06	0.03	2.42	0.08	0.02	
Transparency	à	Value Relevance	0.27	0.03	8.14	0.39	***		0.27	0.03	8.14	0.44	***		0.27	0.03	8.14	0.37	***	
Stewardship	à	Value Relevance	0.45	0.03	15.22	0.64	***	0.89	0.45	0.03	15.22	0.74	***	0.85	0.45	0.03	15.22	0.61	***	0.84
Complexity	à	RegTrust	-0.10	0.03	-2.80	-0.11	0.01		-0.10	0.03	-2.80	-0.14	0.01		-0.10	0.03	-2.80	-0.11	0.01	
Transparency	à	RegTrust	0.42	0.05	9.30	0.49	***		0.30	0.05	5.49	0.42	***		0.42	0.05	9.30	0.49	***	
Stewardship	à	RegTrust	0.44	0.03	14.03	0.52	***	0.69	0.44	0.03	14.03	0.64	***	0.60	0.44	0.03	14.03	0.52	***	0.67
Stewardship	à	Decision Useful	-0.27	0.07	-3.68	-0.31	***		-0.27	0.07	-3.68	-0.37	***		-0.27	0.07	-3.68	-0.33	***	
RegTrust	à	Decision Useful	-0.15	0.06	-2.37	-0.14	0.02		-0.15	0.06	-2.37	-0.14	0.02		-0.15	0.06	-2.37	-0.15	0.02	
Value Relevance	à	Decision Useful	1.45	0.14	10.30	1.16	***	0.66	1.45	0.14	10.30	1.18	***	0.71	1.45	0.14	10.30	1.28	***	0.85

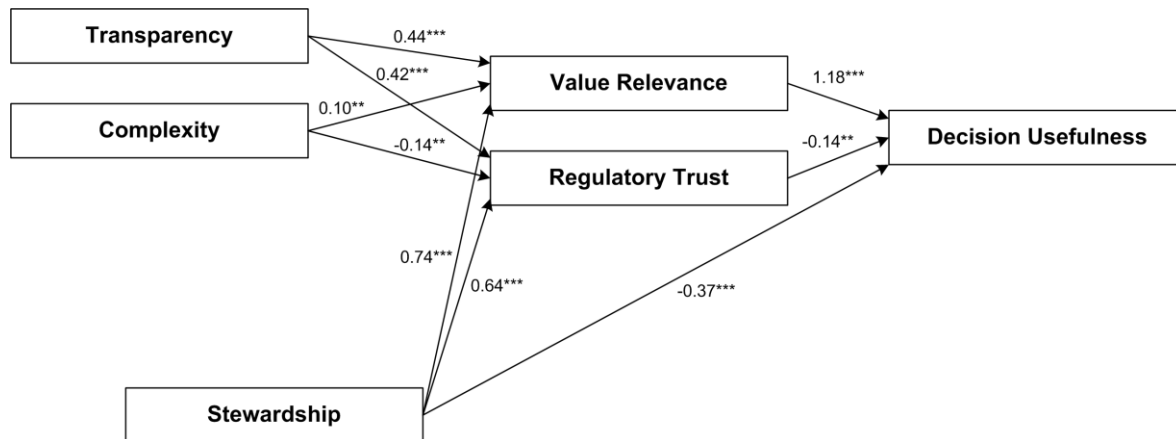
Goodness of Fit Statistics		
Criteria	Unconstrained	Constrained
$\chi^2/df$	1.690	1.690
CFI	0.925	0.924
TLI	0.916	0.917
NFI	0.836	.8.835
SRMR	0.081	0.084
RMSEA	0.032	0.032
90% - CI	.030-.034	.030-.034
PCLOSE	1.000	1.000

Notes: The estimated coefficients in this table were derived after model re-specification and adjusting for measurement equivalence between groups. Measurement equivalence was achieved through constraining all model parameters except structural weights. Our final model maintained path constraints across all groups and maintained some across only two of the data sets. The only meaningful difference (non-invariance) between the three groups was: transparency → regulatory trust for accountants.



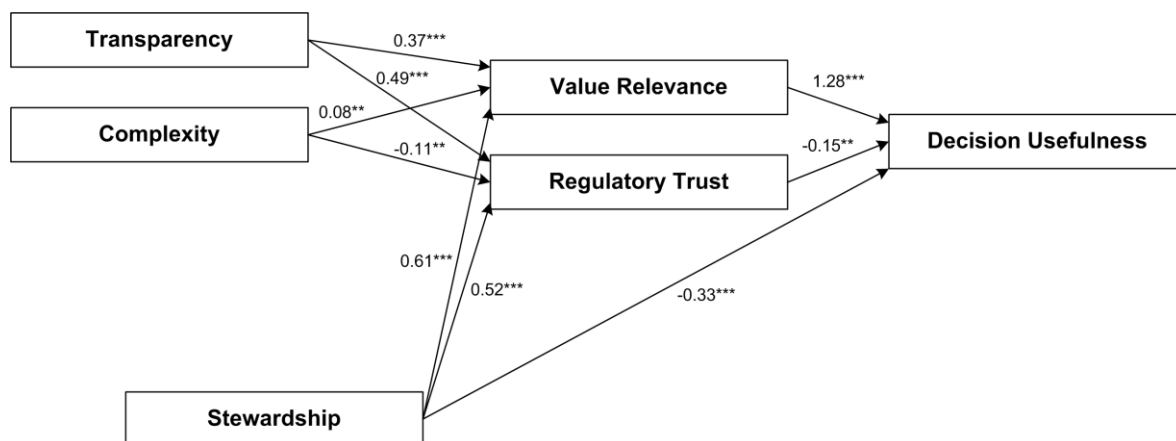
Note: Standardized Coefficients marked with \*\*\* indicate significance at p < .001; those marked with \*\* p < .005; not marked indicate no significance.

Figure 6. Final Model – CEO – CFO



Note: Standardized Coefficients marked with \*\*\* indicate significance at  $p < .001$ ; those marked with \*\*  $p < .005$ ; not marked indicate no significance

Figure 7. Final Model – Accountants



Note: Standardized Coefficients marked with \*\*\* indicate significance at  $p < .001$ ; those marked with \*\*  $p < .005$ ; not marked indicate no significance

Figure 8. Final Model – Occupation Other

### 8. Discussion

Whereas much of the literature on a proposed model for financial reporting has focused on either value relevance or decision usefulness this study explores the inter-relationships between them and regulatory trust as they are affected by reporting complexity, transparency and accountability of management - most importantly this study obtains a users' perspective. The most interesting finding of this study was the lack of support for the connection between transparency, complexity and value relevance (H1a and H2a). The elements of an increase in fair value accounting, introducing narrative discussion to the reporting model, and the movement to International Financial Reporting Standards were effective proxies for a study on transparency and complexity, and as noted above, past research has found strong support for a relationship between these three constructs. One possibility is that none of these studies obtained views and opinions from a wide and varied range of users' in the financial reporting process as this study. Another is that questions dealing with fair value accounting, narrative

reporting, and international financial reporting standards influenced value relevance directly, without intermediation of complexity and transparency. Finally, it is possible that measures of transparency and complexity were poor. Complexity is certainly difficult to define, and I can well imagine that whatever measure one can come up with captures only a few dimensions of the underlying concept. Or is it the value relevance construct that is problematic?

A combination of methodologies was used in this research (literature and experience-based, qualitative, and quantitative analysis). It was not likely that this quantitative study would have been focused the way it was without the preceding qualitative study. It seems to me that this explorative grounded-theory work opened up new questions that might not have come up otherwise. In my opinion, it is clear that considerable complexity can originate from the intricacy of commercial transactions and events themselves. The accounting for such transactions, by their very nature is complicated and is therefore beyond the control of standard setters. It is therefore imperative to acknowledge and distinguish two types of complexity in financial reporting, from the outset: that which is inescapable, due to the inherent complexity of certain transactions, and that which could be avoidable, having been brought about by accounting standards themselves. While this report has limitations that prevent wide generalization, it would be prudent for any future research connecting complexity, transparency and value relevance to account for these results.

Secondly, the hypothesis (H4) – ‘Regulatory Trust positively influences Decision Usefulness’ was significant, but negative and thereby not supported; a recent study (Dobija and Klimczak, 2007), proposes that rapid changes in the economy, inadequacy of accounting regulation and other institutions can have a negative effect on the usefulness of accounting information in developing countries, that as a country continues to develop, accounting information should become more relevant. Many of the factors described are relevant and could certainly be applied to our current condition and discussions in our public forums as to the structural and functional inadequacies of our regulatory systems - not only here in the United States, but globally; a multi-national study is recommended.

The final implication from this study addresses the impact of various levels of education on decision usefulness. Used as a control variable, the study indicates that differences in education would appear to impact a users’ decision making process. Though not further analyzed in this report, it may be an important consideration for standard setters.

For standard setters, this study suggests several important considerations. Financial reporting should consider the impact of complexity and transparency on value relevance and regulatory trust – not just one or the other. The intricate relationships between these ideas must be incorporated to avoid the ambiguity that can result from attempting to address only one aspect. The second practical application deals with a stewardship demand that management report on the control and use of resources. It is clear from this study that stewardship/accountability has implications for recognition, measurement and presentation issues. Implications of stewardship/accountability, therefore, cannot be discussed without “peeking ahead” to later phases of the conceptual framework project and this should be considered by both the Boards when considering further revisions to the conceptual framework; therefore, this research provides only some initial thinking on the issue and does



not represent definitive answers to accounting issues. They have been provided, from an analysis of responses from participants as illustrations of the shift in focus arising from the omission of the stewardship construct from the framework.

### **9. Limitations and Future Research Extensions**

The findings of this study should be viewed within the context of its limitations. Caution in interpreting these results should be taken due to the nature of the data collection. In that the data is cross-sectional it will not account for anticipated changes in accounting and reporting regulation that may be imposed on preparers, auditors and other regulators in the wake of a battered financial system, leading to the possible inclusion of common method bias in the results. This analysis may be the precursor to a longitudinal study that will incorporate survey data from several consecutive time periods; the expansion of this study from a cross-sectional view to a longitudinal approach may allow for mitigation of common method bias in future results.

Additionally, because participants in this study were not randomly selected, the selection method is a potential threat to the internal validity of the study. Finally, the inability to assess the error associated with a one-item dependent variable exists; a longitudinal approach will allow for estimation of the error associated with one-item dependent variable.

The study did not examine why investors decide to incorporate or ignore more complex information, in their determination of value relevance, regulatory trust or decision usefulness. There is a dearth of literature regarding whether a stewardship objective should be established as a separate objective of financial reporting. The stewardship objective has been characterized as being about information that provides a foundation for a constructive dialogue between management and investors. This study attempted to provide a foundation on a user perspective basis as to dimensions that exist within the model of financial reporting and their interrelationships and impact on decision usefulness.

### **10. Conclusion**

It is widely accepted that published financial accounting reports seek to serve multiple purposes. The nature of these competing purposes impacts existing accounting regimes in subtle and important ways. Thus, understanding relations among the multiple roles of accounting information is important to a complete understanding of the forces shaping accounting and reporting regulation and practice.

This study provides important empirical support for relationships that has been suspect for decades. Future exploration of these intricate relationships will further our understanding of improving the financial reporting model to enhance the ability of financial analysts and investors to evaluate companies in making investment decisions, ensuring that financial statements are relevant, clear, accurate, understandable, and comprehensive, in the words of Raymond John Chambers "...[that] they are communicated adequately".

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## **Appendix**

### Appendix 1. Survey Items

Fair value will make it more necessary to use experts to interpret accounting disclosures

Fair value accounting increases the complexity of financial reporting

Fair value will make accounting less reliable and therefore less informative

Fair value provides the clearest picture of the financial position of a firm

Fair value will make it easier to assess the risks that the firm faces

Fair value will facilitate an earnings management that will be difficult to detect

On balance, I favor the requirement that fair value be used to value assets

Adding forward-looking and non-financial information to that which companies report will increase the difficulty of financial analysis

For the most part, additional disclosures that relate to future transactions or expectations will render interpretation of financial positions more complicated

Users of financial statements would be able to understand the relevance of future-oriented and non-financial information if more were disclosed

The inclusion of a broader information packet, including forward-looking and non-financial information, will improve investor's appreciation for the competitiveness of the firm

Management's interpretations of where the business is heading and what elements drive value would enhance traditional financial reporting and disclosures

Forward-looking and non-financial information would be too difficult to audit

Overall, I favor requiring companies to provide more forward-looking and non-financial information

The movement toward one international set of accounting standards will reduce the difficulty caused by needing to reconcile accounting numbers reported under more than one system

Reducing the accounting choices available to companies by adopting international accounting standards will allow less uncertainty and ambiguity in financial analysis

International accounting standards will increase complexity when the control over them is no longer held by U.S. authorities

More than one set of accounting standards (e.g., U.S., International) reduces the integrity of financial analysis

Because of their familiarity, U.S. accounting standards provide users with a superior understanding of the factors of reporting

When U.S. companies adopt international accounting standards, users will be given a clearer picture of their worldwide competitiveness

I favor the mandatory adoption of international accounting standards for U.S. companies

The Securities and Exchange Commission (SEC) is doing a good job with regard to protecting investors

The SEC is competent enough to provide oversight for financial reporting

The SEC has the necessary skilled people to carry out its job with regard to financial reporting

Organizations distort facts in its favor regarding their financial reporting

Organizations change policies regarding financial reporting without good reasons

Organizations provide all relevant information about their financial reporting to the investment public

Auditors are acting in the public interest in the preparation of informative, fair and independent audit reports

Auditors add credibility to management's inherent assertions included in the financial statements

Auditors are objective and neutral in their interpretation of accounting standards, rather than advocates for client positions

The Financial Accounting Standards Board (FASB) makes decisions about financial reporting that are fair

The FASB's structure is insulated from outside pressures

The FASB does a good job in keeping standards current to reflect changes in methods of doing business and changes in the economic environment

Since the Sarbanes-Oxley Act of 2002 investor confidence has been steadily rebuilding

I feel that the Public Company Accounting Oversight Board (PCAOB) is doing a good job to oversee the auditors of public companies

I feel confident that the PCAOB adequately protects the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports

Do you believe that the fair value of Auction Rate Securities measures, implicit in share prices, is more relevant than the book values of Auction Rate Securities?

Does the disclosure provide you with a way to go beyond book value in the in the determination of the value of the Auction Rate Securities?

Do you think this disclosure is sufficiently accurate to believe?

Can you rely on the disclosure to assess the company's underlying economic exposure?  
Do you believe that the disclosure provides greater relevance in the value creation processes when compared to traditional reporting?  
Does the disclosure provide the type of information that is important?  
Is the IFRS accounting policy as to impairments of inventory more reliable than US GAAP?  
Does the IFRS accounting policy as to impairments of inventory provide the type of information that is important?  
Do you believe that the IFRS accounting policy disclosure as to impairments of inventory provides greater relevance in the value creation processes when compared to US GAAP?  
Current accounting disclosures are adequate about management's performance  
Current accounting disclosures are adequate about management's views about the quality and extent of risk management  
Current accounting disclosures are adequate in providing information management's views about future performance  
Current accounting disclosures are adequate in providing information about the accountability of the managers and directors to its owners  
Current accounting disclosures provide adequate explanations from management about past transactions  
Current accounting disclosures provide adequate discussions about management's safe custody of the assets, and compliance with laws and regulation  
I would choose to invest in those companies that would provide fair value reporting rather than those that omitted the disclosure  
I would choose to invest in those companies that would provide non-traditional accounting rather than those that omitted the disclosure  
I would choose to invest in companies that elected to switch to International Financial Reporting Standards rather than those who remained reporting under GAAP

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