The supply and demand for strategic information

A case study of a large medical device company

Per Nikolaj Bukh and Christian Nielsen
Department of Business Studies, Aalborg University, Aalborg, Denmark

Abstract

Purpose – The purpose of this paper is to study the role of strategic information in the process of analyzing and understanding a specific company. Special emphasis is given to how forward-looking information becomes important in relation to establishing a perception of market value by financial sell-side analysts.

Design/methodology/approach – The empirical part of the paper is based on semi-structured interviews with financial analysts, fund managers, and the top management team from a large medical device company listed on a Scandinavian Stock Exchange. The case company is internationally renowned for its state-of-the-art business reporting.

Findings – It is shown how the three parties produce and consume strategic information and apply it in the process of analyzing and understanding the company and how strategic information plays markedly different roles across the groups participating in the market for information. It was specifically found that understanding the stock price and the company were two distinctly different issues. While management and the long-term oriented sell-side analysts' interests related to the company, fund managers and so-called trigger-oriented sell-side analysts were primarily concerned with predicting the stock price.

Research limitations/implications – This study motivates for a more nuanced understanding of how strategic information is applied in investment decisions, thereby extending existing research. As the case company is considered a best practice case, there are limitations to its generalizability.

Practical implications – The results of this study may help companies in their quest for creating transparency around their business model and how to address the different informational needs of the capital market.

Originality/value – This study provides new insights to further the understanding of how information is moved into investment decisions and thus may form the basis of further studies into this field.

Keywords Information strategy, Information disclosure, Supply and demand

Paper type Case study

1. Introduction

Companies' disclosure of supplementary information and their communication activitiesaimed at creating transparency are themes which are often addressed from an accountability perspective, e.g. through the study of business reporting

The empirical part of this paper is based on interview data from the project "Reporting on the Business Model: Understandings from the Management and Analyst Point of View" which were financially supported by The KPMG and the University of Illinois Business Measurement Research Program. The authors wish to thank the directors from the case firm as well as the financial analysts and fund managers for their willingness in participating in this research project. The authors are listed in alphabetic order.

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practices (Gray, 2006). In this perspective, it is widely acknowledged that disclosure, reporting and communication activities are directed towards a broad group of stakeholders (Illingworth, 2004). Therefore, it is not surprising that much research into the disclosure of supplementary information through reporting media often takes its point of departure in an accountability perspective. What is interesting in this respect, however, is that the arguments for developing such supplementary reporting practices, namely the lack of relevance of traditional financial reporting and enhancing valuation practices, originate from a very different perspective, namely the normative financial accounting area. The question we pose in this paper is therefore concerned with discussing the role of an accountability solution to a normative problem in a setting which is much narrower stakeholder wise, namely the market for information.

Let us start out by taking a look at the problems with existing reporting practices, as seen from the perspective of financial accounting. Here, we find evidence pointing towards that the importance of financial accounting information in explaining stock prices has in general been decreasing in recent decades (Brown *et al.*, 1999), thereby causing a decline in the usefulness of, e.g. earnings when investors make investment decisions (Francis and Schipper, 1999; Lev and Zarowin, 1999). Despite the fact that the value relevance of other accounting measures might have offset the decrease observed in earnings, and although some authors (e.g. Landsman and Maydew, 2002) do not find that the relevance of earning announcements have decreased, most authors (Deng *et al.*, 1999; Al-Horani *et al.*, 2003) do, however, agree that other factors such as strategy and intellectual property have gained more importance.

By means of the annual report, web pages, investor meetings, conference calls, private meetings, etc. publicly listed firms provide information to a broad spectrum of stakeholders including the capital market actors such as private investors, fund managers, and sell-side analysts and also other stakeholders such as public institutions, employees and customers. Essentially, voluntary disclosures through such media are concerned with communicating information on the strategy of the company, and thus signify that reporting practices are essentially concerned with representing the company's strategic imperatives (Puxty and Laughlin, 1983). Thus, we choose to label the voluntary information typically disclosed through such business reporting models as strategic information.

Because financial sell-side analysts and fund managers represent the most influential users of corporate information and together with the company management constitute the "market for information" (Gonedes, 1976; Barker, 1997, 1998), understanding their information needs and how they employ strategic information in relation to their decision-making processes will cast light on the role of strategic information and how this information is produced and consumed. Through a case study based on interviews with the three groups of actors in the market for information concerning a specific company (MediDev) in the medical device sector, this paper focuses therefore on the processes of producing and consuming strategic information and how such information is related to the user's processes of analyzing and valuing companies.

In a much cited study on the importance of non-accounting information (Johanson, 2003; Ittner *et al.*, 1997), Eccles and Mavrinac (1995) raised awareness of the fact that differences in the perceptions of the importance of strategic information exist. This study expands these results by clarifying how these differences in perception relate to roles and identities.

More recently, Fogarty and Rogers (2005) have studied how financial analysts produced their recommendations. They concluded that the institutions surrounding the analysts to a great extent affected their products, and that further studies of their work should take into account the larger context, namely the market for information. In another study, Roberts *et al.* (2005) examined the role of private meetings between company management and institutional investors, finding that such face-to-face interaction had disciplinary consequences in relation to shaping the management's arguments. We complement these important accountability-based contributions to the field by conducting an in-depth study of the supply and demand for strategic information in relation to a specific company.

The remaining part of this paper is structured as follows. In the next section, the market for information and the actors who constitute it are described. The paper thereafter discusses the information considered by the market-for-information participants in order to identify differences and similarities between the group of participants. This discussion leads to the identification of four themes for further investigation. The third section of the paper concerns the research methodology and data collection while the fourth section comprises the empirical analysis of the interview data according to the four themes. Finally, concluding remarks and suggestions for further exploration are offered in the fifth section.

2. The market for information

Often, finance theories are based on the assumption that new information is absorbed into stock prices through market mechanisms. However, according to Gonedes (1976), such a perspective ignores the way the capital market actually functions, because it neglects the existence and roles of the participants who analyze and interpret the information disclosed by companies – among others financial analysts and fund managers. As these participants play key roles in the functioning of the capital market, and together with company management constitute the market for information (Barker, 1998), they must be taken into account both when building theories of the functioning and performance of the market and when testing and investigating actual market behaviour.

A number of authors (Hägglund, 2001; DeBondt and Thaler, 1994) argue that studies of the effects of specific pieces of information on stock prices or accounting accruals are not capable of embracing the behavioural peculiarities and influences of the market-for-information participants. Despite the perspective held by a more positivist stream of researchers, exemplified by Watts and Zimmerman (1986), who argue that the study of capital market behaviour must be performed through the study of stock recommendations and price movements, it is our point of view that corporate disclosures are not merely "absorbed" into the market price, as would be the normative interpretation (Gonedes, 1976; Hägglund, 2001). Rather, information passes through the market for information where it is weighed and interpreted based on the experience of the actors, put into context, and then finally absorbed into the stock price through the production and dissemination of analyses and recommendations, investors' trading decisions, and further disclosures made by these participants (Holland, 2004).

2.1 The actors in the market for information

Gonedes (1976) introduced the distinction between the market for exchange and the market for information. He argued that many of the assertions of normative finance theory were misleading, because they did not deal with the part of the capital market where the opinions and decisions were constructed. According to Barker (1997), this "market for information" is, as shown in Figure 1, made up of three groups of actors – company management, the fund management function, and sell-side analysts – whose functions in relation to the capital market are highly interrelated.

Together with the board of directors, the management team acts as gate-keepers of corporate information in the sense that they can decide whether or not they wish to disclose certain pieces or even types of information. In principle, management are the most informed about the company and will disclose relevant information, unless of course, this can damage the company's future prospects (Jovanovic, 1982), e.g. by revealing strategic information to competitors or by losing bargaining power in relation to customers. Further, listed firms are of course restricted by stock exchange regulations with respect to how and when information can be disclosed, and sometimes corporate information policies (although voluntarily accepted by management) also restrict the dialogue with other capital market actors, e.g. when firms declare a so-called silence period for a specific period before announcements of quarterly earnings.

Management receive information from internal sources, e.g. information systems and staff, as well as from external sources including analysts, customers, consultants, and other experts via private discussions (Holland and Doran, 1998) and conference calls (Tasker, 1998). In relation to the focus of this paper, management's continuous contact with the analyst group is particularly important, because management potentially receive specific pieces of information about market factors, etc. Further, they also improve their understanding of the perspectives the analysts are following. This is reflected in the double arrows between management and sell-side analysts in Figure 1.

In the market-for-information setting, the fund managers hold a powerful position as they administer and trade stocks for institutional investors on a professional basis. Barker (1998, p. 16) analyzed the economic incentives in relation to information flows

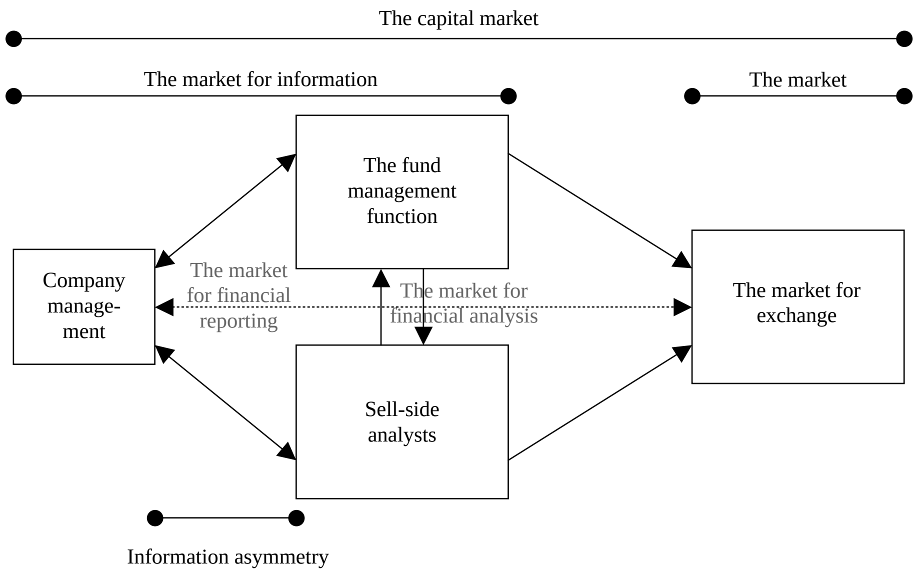

Figure 1.
The market for information

between the actors and found similar economic incentives between management and fund managers, “both having a similar time horizon on a benchmark of relative share price performance, and both take great care to avoid negative surprises”. However, in recent years certain, investor types such as day-traders and hedge funds have received much attention due to the apparent short-termism of their trading.

In relation to the analysts, Eccles and Crane (1998) ponder whether the economic incentives connected with the turnover-based commission income of the investment banks employing the analysts in contrast may motivate sell-side analysts to favour share price volatility rather than share price stability (Barker, 1998, p. 16)? While, it is true that analyst services are remunerated by the professional investors through the trading of stocks via the analysts’ investment bank, it is rather the precision and quality of the analyst services provided, and the reputation of the specific analyst that generates the income. In the light of the discussions above, the first proposition to be investigated in the paper is therefore:

P1. Is the time horizon of the three groups in relation to understanding company value affected by their roles in the market for information?

Understanding the roles of each group of actors in relation to each other has been argued to be of vital importance for understanding how the market for information, and thereby also the capital market, functions (Gonedes, 1976). For example, the analyst’s role in the market for information could be seen as a “news agency and a source of valuation benchmarks” (Barker, 1998, p. 16). According to Holland and Johanson (2003), analysts and fund managers are a very distinct and homogenous group of people, isolated in their own world of finance and materialistic objectives (Norberg, 2001). Furthermore, authors such as Söderbaum (1999) and Granovetter (1985) argue that the ideal person on whom all finance theory is based, namely *homo economicus*, completely ignores the influences of experiences, feeling, roles and social relationships and institutions on decision making. On the basis of this, we formulate our second proposition as:

P2. Does the background and experience of the market-for-information participants play a role in their understanding of the company?

Research confirms that investors react to financial analysts’ reports (Hirst *et al.*, 1995), that analysts’ recommendations have value relevance (Womack, 1996), and that the publication of analysts recommendations have value relevance (Beneish, 1991). Krishnan and Booker (2002) find that analysts’ recommendations only reduce investors’ disposition errors in cases where they are supported by additional information in the form of a report.

According to Philips and Zuckerman (2001, p. 393), relationships, which may take the form of visits to corporate headquarters, telephone calls with senior executives, or group settings, are crucial to the analyst’s possibility of claiming expertise. Also, the cultivation of information sources through relationships with management as well as suppliers, key customers, government officials, etc. is viewed as essential in the process of developing future-oriented insight (Fogarty and Rogers, 2005, p. 3). Thus, an “information advantage” does not imply that analysts have information not already present in the market for information, but rather that they have the possibility of attaining a more precise understanding of the available information through clarifying discussions with management.

While having close relationships that ensure a continuous information flow between the company and analysts is a positive aspect in relation to creating transparency, one possible problem with such close relationships is that management may, even though by mishap, come to disclose private information. Much research concludes that analysts' recommendations are positively influenced by the fear that a bad recommendation will harm their access to private discussions with management in the future. This bias was for instance evident in the Enron case (Healy and Palepu, 2003), where many of the analysts following the company maintained their buy recommendation despite the inherent warning signs.

This implies that sell-side analysts have incentives to be over-optimistic about their recommendations (Frankel *et al.*, 2002; Michaely and Womack, 1999; Dechow *et al.*, 2000). This is exemplified by the well-documented fact that "buy" and "strong buy" recommendations are much more common than sell recommendations (Dugar and Nathan, 1995), and it has been suggested that analysts' relationships with the company management sometimes are too close. Also, having an analyst corps with too close relations and, therefore, potentially too positive a bias to the company may in turn lead to negative surprises come reporting time. Hence, investors may not regard close relationships between analysts and management as a good thing. This leads us to the third proposition:

P3. Are there differences in the perceptions of the importance of having good relationships and frequent interaction with other markets for information participants?

2.2 The production and consumption of strategic information

Analysts produce research reports to be used by investors by assembling "a diverse set of information that might bear upon the future performance of operating companies" (Fogarty and Rogers, 2005, p. 2). This specialization is their primary value-adding function in relation to the fund managers, and also a core element of their relationship with company management. Most analysts specialize in a particular industry or sector (Al-Debie and Walker, 1999, p. 262) and spend their time "ferreting out facts and offering valuable insights on companies and industry trends" (SEC, 2001).

There is an intricate and rather delicate relationship between analysts, investors and management, which at the same time is located in an extremely competitive context (Fogarty and Rogers, 2005). There is an environment of secrecy amongst the competing analysts, who all seek to gain some sort of competitive advantage in relation to their peers. The notion of having or being able to gain a competitive edge over the market can mean a variety of things. For the financial analyst, there are basically three ways to do this: pertaining to, e.g. holding information to which others do not have access; having knowledge of a specific value driver of the company, e.g. competitors; or simply having better analytical skills.

First, possessing a piece of information about a firm that none of the competitors have, is an obvious, competitive advantage. As there are strict rules and regulations with respect to having price sensitive insider information, this sort of competitive edge is typically mobilized through expert contacts, e.g. specialists in the specific field of a company or through collaboration across offices within the larger investment banks. In this manner, having an information edge more likely means having a more detailed account of existing information, rather than new information that nobody else has.

In this respect, having a good relationship with companies' management teams and investor relations (IR) departments is a key to gaining a competitive edge, as more details on specific elements of the firm (Barker, 1998, p. 16) or an alternative management perspective on a piece of information might be shared through private dialogue. According to Francis and Philbrick (1993), the analyst relies on his relationships with corporate executives for information and analyses that are not widely disseminated. Such relationships, which may be conducted through visits to corporate headquarters, telephone calls with senior executives or in group settings, are crucial to the analyst in establishing a claim to expertise (Philips and Zuckerman, 2001, p. 393), and can potentially be a source to a competitive edge.

Also in relation to new information, the ability to be quicker on the market than competitors with newly disclosed information, e.g. in connection with earnings announcements, can be an important competitive advantage. Typically, trading is stopped for 2 minutes around an earnings announcement. Within this interval, the analyst must download and skim the report and be able to inform the sales desk about the direction the share price is likely to move in comparison to previous expectations. For some analysts, this is a crucial part of their job, while others do not see themselves adding value in this way. Also, having a better accuracy of estimates and recommendations (Francis and Philbrick, 1993) is a major performance measure.

Fund managers have a unique influence on analysts in the sense that they rate the analysts on the factors mentioned above. This rating, which is often done on a quarterly basis, has an immense effect on the analysts' standing in the market, and it may dictate the demise or survival of the analysts, influencing the weight investors give their advice and their bonuses in the following months (Eccles and Crane, 1998):

P4. Which role does strategic information play in relation to the main competitive strengths of the analysts?

2.3 Opinion-forming in the market for information

In the market for information, strategic information, such as information on value creation processes, the company's business model and strategy, intellectual capital, etc. plays an important role in discussing and understanding the company (Unger, 2001; Holland, 2004). Mouritsen *et al.* (2005) studied how such strategic information was discussed in connection with investment objects, and contended that understanding the company is a translation process and not purely an identification of information content. Along with Hägglund's (2001) research into the process of discussing and understanding the investment object, i.e. the company, Mouritsen *et al.* (2005) thus direct attention to the ongoing translation process between the market-for-information participants who somehow juggle and change the perception of the company. Therefore, our fifth proposition asks whether:

P5. The three groups of participants constituting the market for information have a common understanding of the information concerning, e.g. value drivers, strategy and the business model.

Studying financial data in relation to analysts' decision-making processes, Gniewosz (1990, p. 227) finds that the annual report is still considered the most important source of information (Brown, 1997), although it is seen as having mainly a confirmatory function, rather than a primary information function, and a disciplinary effect on other corporate disclosure media (Christensen, 2003). In line with Holland's (2004) and

Hägglund's (2001) suggestions, the analysts' respective sets of background information become a mechanism for problematizing and initiating analysis and discussion. Therefore, studying how strategic information is related to analysis and valuation of companies, and the aspects of which form a part of initiating the process of producing or consuming such information, will be of importance for understanding the role of voluntary corporate disclosures through, e.g. business reporting.

A number of studies have also examined analysts' decision-making processes (Schipper, 1991), e.g. in connection with screening of prospective investments (Bouwman *et al.,* 1987, 1995). A number of different foci have been identified, for example how analysts' decisions are products of group environments (Francis and Philbrick, 1993), the identification of the most widely used valuation practices among analysts (Block 1999, p. 91; Plenborg, 2002), and the uncovering of the various stages in the valuation process (Gniewosz, 1990; Mouritsen *et al.*, 2003a, b).

While the analysts' and investors' production and consumption of strategic information seem to be triggered by their work environment, companies' production of such information is regulated by law. Therefore, our sixth proposition considers:

P6. Are the triggers for producing and consuming strategic information different across the three groups constituting the market for information?

2.4 Corporate reporting

It has been argued that the corporate report plays a substantial role in ensuring a comprehensive representation of value creation (Lev, 2001), in turn leading to a valuation of the company closer to its "intrinsic value" (Eccles *et al.*, 2001). Furthermore, much effort from a regulatory perspective has been spent on making management commentary more relevant to existing and potential capital providers (IASB, 2009). However, some authors argue that business reporting is, less relevant towards the capital market because the market-for-information participants are incapable of understanding new types of information (Holland and Johanson, 2003), because the users simply get too much information (Fincham and Roslender, 2003), and also because some users rely on alternative information channels and sources than the corporate report (Fogarty and Rogers, 2005).

Very often, the arguments raised in relation to the need for more comprehensive business reporting take their point of departure in the lack of usefulness of traditional reporting practices. It is argued by the critics of traditional accounting principles that corporate reporting should be more concerned with meeting users' needs (AICPA, 1994; Jonas and Young, 1998; Bray, 2010), and a number of new reporting models have been suggested as solutions to the mismatch between users' needs and existing reporting practices (Nielsen, 2010).

Often, strategic information is found in a supplementary report that is either in the form of a publication separate from the annual report or included in the annual report itself in management's discussion and analysis or as a non-audited addendum. In relation to the capital market, there is some ambivalence with respect to the relevance and usefulness of such strategic information disclosed voluntarily through supplementary business reporting practices. The arguments raised above corroborate the need to take a special look at the role that business reporting plays in the communication of strategic information. Therefore, from these viewpoints, we derive a seventh proposition questioning:

P7. Does the voluntary information conveyed in the company's business reporting constitute a part of the analysts and fund managers information set?

A problem with voluntary disclosure is reliability. Many papers argue that the incentives to report "strategically", i.e. over-optimistically, are important aspects to take into consideration (Gibbins *et al.*, 1990). For instance, Lang and Lundholm (2000) ask whether voluntary disclosures in connection with equity offerings are a means of merely reducing information asymmetry or in reality hyping the stock. According to Dye (2001, p. 184):

> [. . .] voluntary disclosures are a special case of game theory with the following central premise: any entity contemplating making a disclosure will disclose information that is favourable to the entity, and will not disclose information unfavourable to the entity.

Therefore, in relation to recent proposals discussing problems of the reliability of the information contained in supplementary reporting practices (Catasús and Gröjer, 2003; Derby, 2005), we formulate the following proposition:

P8. Do supplementary business reporting sections require an audit in order for them to be considered reliable?

3. The Danish financial sector and the case company

In comparison to financial markets such as the American and UK markets, the Nordic countries represent small markets both in relation to the number of listed companies and their market values. From having been primarily stand-alone markets, the creation of a Nordic Stock Exchange has taken place in the last two years. Despite the recent stock market mergers, much trading of stocks, especially that of private investors is still retained within the individual countries.

In the Danish context, common social accountability mechanisms in the financial community may to some extent be expected because the individuals holding positions as fund managers, sell-side analysts, CFO's and IR managers know one another from educational institutions or by way of job rotation. This is not to imply that the financial markets are isolated as many financial markets participants work for international investment banks and have also been abroad, primarily to London.

The case firm, MediDev, was founded in the 1950s and has since grown to a worldwide provider of high-quality and innovative healthcare products and services. The firm is represented in 30 countries, its annual turnover amounts to around €800 million and the firm is very profitable. It employs more than 6,000 people, about 2,500 of them working in Scandinavia, and the firm has production facilities in several countries although most of the products are currently produced in Scandinavia.

MediDev's vision is to be the preferred source of medical devices and associated services, contributing to a better quality of life for the users of their products. Via close customer relationships, MediDev aims at fulfilling customers' needs with innovative, high quality solutions. Further, the firm's stated aim is to earn customer validity through responsiveness and dependability.

Since 1998, MediDev has published a supplementary section concerning the company's stakeholder groups, employees, customers and shareholders, and intellectual capital as an integral part of its annual report. MediDev's business reporting is internationally regarded as a best-practices case. The firm was one of the main cases in the first Danish guideline for intellectual capital reporting (Mouritsen *et al.*, 2003b), and suggested by DiPiazza and Eccles (2002, p. 126) as the main example of disclosing information on "how the company creates value". Furthermore, its web-based annual report has recently won the IR Global Ranking Prize in its category and the firm has also won the award for the best annual report in Denmark. As such, it must also be recognized as a limitation to the generalizability of this study. We find the MediDev case particularly interesting as despite its excellent reputation in the business community, the company is not equally appraised in the market for information.

4. Research method and data collection

This study is based on semi-structured interviews with respondents from the three core groups constituting the case company's, market for information: the senior management team, the sell-side analysts following the firm on a regular basis, and the fund managers representing the major stockholders. In order to structure the empirical enquiries, we identified the four interview themes listed in Table I, each with a number of more specifically associated questions, to form the basis for the interviews. The four themes also group the eight propositions two by two; however, this is more a coincidence than deliberately chosen structure.

If possible the wording and the order of the questions remained unchanged for all respondents, however, the respondents were allowed to talk freely and the questions were adjusted accordingly and not all questions were necessarily brought up in every interview. The form of interviewing chosen was based on the principle of dialogue between the interviewer and the respondent (Kvale, 1996) and has some similarities with the type of interview that Yin (1994, p. 84) calls "focused interviews".

After the interviews, recordings were transcribed and analyzed according to the research propositions. Some qualitative approaches, most notably grounded theory (Strauss and Corbin, 1990), are concerned with the discovery of data-induced hypotheses. Contrary to this, the approach we used in the coding is more similar to classic content analysis (Gerbner *et al.*, 1969; Krippendorff, 1980) by taking already determined or described codes, i.e. the propositions outlined in the previous sections, as a starting point (Ryan and Bernard, 2000, p. 785) and adding subcategories according to what was brought up in relation to these propositions. Before deciding on the final interview guideline and the coding structure, a pilot interview with an experienced financial analyst was conducted, and the pilot-interview was transcribed and analyzed by both authors in order to assess the applicability of the interview guide.

4.1 The interview data

Via the corporate web site and through our contacts with the IR department a list of all the sell-side analysts covering it on a regular basis was created. Thus, we interviewed all the sell-side analysts following the case company on a regular basis, five fund managers representing the institutional investors with the largest shareholdings in MediDev,

Theme 1	Characteristics of the actors constituting MediDev's market for information
Theme 2	The processes of producing and consuming strategic information in the market for information
Theme 3	The MediDev mosaic: which strategic information is considered in MediDev's market for information
Theme 4	MediDev's corporate reporting

Table I.
Interview themes

as well as the four members of the group management team. The contact information of the sell-side analysts and fund managers was attained from MediDev.

In total, 13 analysts were contacted by the researchers after having received a letter-of-recommendation from MediDev's Chief Financial Officer. All analysts confirmed that they performed regular analyses of MediDev including the dissemination of these through analyst reports and all were willing to participate in the research project. However, one analyst had later to cancel his participation due to unforeseen circumstances. Thus, the paper is based on interviews with 12 analysts. The typical analyst specialized in four to six Scandinavian companies within the medico-technology sector and followed sporadically four to six major competing firms often outside Scandinavia. However, there were also analysts with a broader focus, who actively followed up to 15-20 companies. All analysts were interviewed in the same month, a few weeks after MediDev's annual earnings announcement.

The institutional investors were represented by five fund managers from both national and international investment banks and pension funds with local offices in Denmark. These respondents were interviewed in the same time period. These firms managed funds between €four and €35 billion, and a typical fund manager had between 50 and 150 stocks in the portfolio he was responsible for. The MediDev share comprised between 0.1 and 2.7 percent of the portfolios managed by these respondents.

The interviews lasted between 45 minutes to 2 hours, with an average of 75 minutes, and were conducted using the interview guide shown in the Appendix. First, the interview focused on the background and experience of the respondents. Then, focus was shifted to the work and analysis processes, i.e. what information is used and how it is used, how the interaction with the two other groups in the market for information is characterized, and how the information is structured during the analysis. For obvious reasons, the questions posed to the management group were slightly different than those posed to the two other groups in relation to this theme as they do not analyze the company. Therefore, our dialogue with management in connection with theme two naturally focused on roles and relationships with the other groups. Next, the interview concerned the firm and how the respondents perceived the case company, its management team, strategy, value creation and which key information they were interested in, etc. The questions concentrated on the daily routines of the respondents and attempted to avoid referring to specific notions of strategy. As a continuation of this issue, the interviews were rounded off by asking about the annual report, how it was used, how the different parts of the report were perceived, etc.

5. Empirical analysis

The evidence from the empirical analysis will be structured following the sections of the literature review, which led to the identification of eight research propositions. As these research questions were closely interrelated to the respondents' daily work processes, some groups naturally had more to contribute in relation to some areas than other groups.

5.1 The actors in the market for information

The first part of the study concerned the characteristics of the actors, i.e. their background and roles in the market for information. *P1* suggested that the time horizons were affected by the roles in the market for information. The analysts proved to be a more heterogeneous group than we had expected. Some analysts were very concerned with the precision of their earnings estimates and their ability to react speedily and correct in relation to earnings announcements. In the words of one analyst:

> When the first numbers come out, I basically only focus on whether they are good or bad [. . .] and then I comment on it as soon as I have read it.

Other analysts did not emphasise this part of their job, but rather argued that their value-adding activities related to a long-term perspective and not to predicting short-term fluctuations. One of these analysts described himself in the following way:

> I belong to the category of analysts who are more oriented towards the long-term perspective, and this has given me a strong interest in management, strategy and governance, not just for the upcoming quarter but rather 5 to 10 years into the future. Because of this, I often end up in interesting discussions with the company. I am probably an advocate for the more fundamental part of understanding the company.

Another analyst commented:

> There are some analysts who are good at writing an interesting story [. . .] having previously worked as a journalist, I know how one writes a good story and how to make it easy to read and easy to understand.

Thus, a number of analysts were denoting their specific experience as a key to their value-adding activities, in that manner creating a space where their specific competences provided a competitive advantage.

A number of the fund managers indicated that they were the most long-term oriented actors in the market for information because of the fact that their positions in general were so large that they had difficulties in "getting in and out of the stock". In relation to this, one of the respondents commented:

> That is why we generally disapprove of all this trigger talk. It makes no sense for our work, as we cannot just sell our positions anyway. We have to be much more long-term oriented.

According to the management team, one of the roles they play is to ensure that the capital market does not trade its shares on too short-sighted a perspective. A management representative commented:

> We are not interested in pleasing the investors who only hold our stock for 3 days or 3 months. Rather, we are concerned with generating a competitive market value growth on a 5 to 7-year horizon.

In turn, it can be deduced that the management team is not interested in specifically pleasing more short-sighted investors such as hedge-funds and certain types of private equity funds, which are equally as present in the Nordic countries as in the global context. Despite these views, MediDev, as well as most quoted companies in the Nordic region, disclose key financial data and provide financial guidance to the capital market on a quarterly basis.

To conclude this theme, the time horizon was clearly affected by the role of the individual actor. Neither of the groups was really interested in being labelled as short-term oriented. However, many analysts do also clearly focus mostly on how share prices are influenced in the short run.

In *P2*, it was suggested that the backgrounds and experience of the market-for-information participants play an important role in their understanding of the company. In this respect, the analysts appeared to constitute a very homogenous group of people. With only a few exceptions, they were males between 30 and 40 years of age, most of them having a university degree in finance and work experience relating primarily to corporate finance and analysis services. The analysts described themselves as being analytically oriented professionals, hard working and competitive. One analyst commented:

> I have to be the best to survive. Because of rationalization, I now do the work of 3 people. But then again, I get their money too, so I am satisfied.

In general, the fund managers had more and broader experience than the analyst group. For instance, all the fund managers had experience from sell-side positions prior to their present jobs, and contrary to the analyst population, the tendency was that they had started in the present type of position almost directly after graduation. Also, a great proportion of the fund managers had previously held positions outside the financial sector, thus suggesting that they had a wider experience-base than the analysts. The interviewees were between 35 and 45 years of age and had the same educational characteristics and background as the analysts, as they all had worked as sell-side analysts previously.

Lastly, the top management team consisted of a very different type of persons than the two other groups of participants. The management team was somewhat older and on average they had rather many years of experience in the company and the industry. One executive explained, "I've been with MediDev for 23 years and [. . .] I've been in the health care business for 41 years". In some cases, they had worked their way up through the ranks in the company or a similar company. Here, we can conclude that there are significant differences between the respondents' views of themselves, i.e. identities, as well as their experience.

5.2 The production and consumption of strategic information

Next, we focus on the processes of producing and consuming strategic information, and moreover how the roles, relationships, and interactions between the groups constituting the market for information differ. In connection with this theme, the study touches upon what it is these key actors do, i.e. what their functions in the market for information are and how they interact with one another. *P3* suggests that there are differences in the perceptions of the importance of having good relationships and frequent interaction with other market-for-information participants.

The analysts have incentives to be proactive and helpful, as access to the management team is a key to gaining a competitive edge over the market and other analysts. It was found that sometimes company management and analysts even work together, e.g. on planning the so-called roadshows where the companies typically present themselves to potential and present investors in a number of different locations. At the same time, the analyst gets the chance to display his qualities to the investors through a brief case presentation of the company and by setting up the event.

With regard to this relationship there is, however, a dilemma as some of the fund managers expressed that the analysts had too close relationships with management and that this inherently led to bias in their opinions and recommendations. In the words of one fund manager:

> The analysts know the firms in such great detail that they become over-optimistic and they are too attached to the firm to be neutral in their recommendations, as they rely on management's goodwill to supply information to them.

The impression given by the literature review of analysts-as-sales-people is not disputed by them either. During the interviews, they readily explained how they took courses in giving presentations, promoting sales, and even in leaving messages on answering machines. One analyst, being self-critical, expressed, "My role is to be a commentator and a judge, but without responsibility". Further, the analysts readily perceived their role of performing a service function:

> As analysts, we have to take our point of departure in what the customers want. Like everybody else working in the commercial sector, we are forced to provide the service that our customers want. The investors are not interested in reading thick reports about companies' logistics strategies or human resource strategies, unless of course, it has an effect on their bottom line.

Fogarty and Rogers (2005) argue that good relations with management is of paramount importance as it ensure vital details, one-on-one time, etc. while good relations with fund managers ensure that their recommendations and opinions are listened to, and that their overhead is covered through trading. An analyst commented:

> Contact with customers is very relationship-based. It typically takes between 6 and 9 months, assuming you are competent, to become one of the analysts they bother to listen to when you call them [. . .] it is quite evident that you need some kind of documentation before they listen to you.

While the relationships between analysts and group management were close and personal, in some instances the parties had contact several times a week, the fund managers on the contrary did not have the same amount of time in hand for each company and thus had a much more sparse communication with management than the analysts. Typically, this would be once or twice a year in connection with a conference call, roadshow or capital market day.

In connection with *P4*, it was suggested that competitive advantage could be related to special knowledge and analytical abilities in relation to understanding the company's activities, but also to accuracy, speediness and precision in estimate changes. The analysts talked readily about the importance of presenting a unique perspective on the company or the industry in their reports in order to attract the interest of the fund managers. However, the fund managers were in general not equally interested in too many new perspectives and ideas. One of the fund managers said for instance:

> They all come running with their so-called cases instead of concentrating their efforts on the key growth driver, namely entering the US market. Unfortunately, I don't think they understand the US market well enough and therefore try all sorts of other perspectives, just to have an excuse to contact us.

One way for a new analyst to establish his position is to write a comprehensive analysis report on the company, and as one of the fund managers noted, "This is typically the way a new analyst seeks to brand himself". The analyst reports were also seen as an important medium to market the analysts' key knowledge areas in relation to the company. One of the analysts focusing on having a unique perspective stated:

> I try to use the periods that lie between the quarterly earnings announcements to visit the company, visit clients, etc. because it represents our investment in product development. Our product development takes place out in the field. This is where we get our stories and ideas for stories, which we then go home and develop, analyze – and then it is all about getting out there and disseminating it to the investors.

Again, the fund managers, to whom these cases were directed, were not very interested in any special cases at all. This group of participants were much more interested in establishing the relative price of the stock and the precise information they considered relevant.

As the fund managers were typically responsible for portfolios with 50 to 150 companies, they were extremely constrained time-wise in relation to spending time on understanding companies. As a result, the fund managers often had to focus on numbers and ratios such as the P/E multiple and discounted cash flow-valuations; the numbers always being the point of departure for their analyses and decision-making. "As fund managers we are information pickers and prioritisers", one respondent argued.

The fund managers thus see themselves as fulfilling an information selection function, as well as having to see through the over-optimistic analyst recommendations. While some fund managers rely extensively on research and summaries of analyst services, others focus on establishing their own opinions of the company. In relation to this, several fund managers commented that if they felt they had a perspective edge on the market, then they would keep it to themselves and do their own research on that particular idea instead of discussing it with the analysts. One fund manager also mentioned that he made a point out of not reading analyst reports and their recommendations, as his own perceptions might be biased by them. In such situations, the informational role of the analysts could be said to be a limited input to the consensus estimates that are produced for the fund managers.

The analysts were very concerned with their own ability to have a competitive advantage over their colleagues in the business. This meant not just having a unique case but could also be background information on the company or industry that nobody else had access to, or as mentioned before to be quicker on the market than the competitors in relation to publicly disclosed information, e.g. in connection with earnings announcements.

Another type of competitive edge could derive from being better at interpreting and understanding existing information than the rest of the market participants. Some of the larger investment banks represented in this study sought to gain analytical advantages by having analysts work together in teams and across departments in different countries. The analysts from these banks also were more focused on sector analyses.

Our empirical evidence highlights that industry specialization is a primary value-adding function of the analysts in relation to the fund management function. In the words of the analysts themselves, this specialization also constitutes a core element of their role in relation to company management, namely to act as sparring partners and discuss the company's performance and strategy in relation to industry and market developments. In the midst of the market-for-information setting (Fogarty and Rogers, 2005; Scott, 1997), the analysts and fund managers seek to gain advantages over the market through a variety of possible competitive edges based on either better consumption or better production than that of their rivals, and through better recognition of events or possibilities that trigger changes in the current stock price level.

The interviews showed that even though some analysts are not the most accurate in relation to stock price targets they can still have the highest rating because their competitive edge derives from their ability to provide a new case on the firm. In a similar manner, Beunza and Garud (2005, p. 27) find that providing new frames is an important part of analysts' work, because they have the most detailed knowledge of the companies. In this way, the analysts, as intermediaries between managers and fund managers, become sales people, both of stocks and of themselves.

5.3 Opinion-forming in the market for information

MediDev's financial objectives over the next five years have been publicly stated in press releases and during investor meetings and many of the analysts readily quoted these objectives when we asked them about MediDev's strategy. Thus, from the analysts' perspective strategy was equated with financial goals. However, most analysts turned also to value drivers in connection with strategy and the long run competitiveness and performance of the company. When asked directly about value drivers, both the analysts and the fund managers tended, to think primarily in terms of immediate effects on share prices – first of all what affected the growth rate of revenue. By comparison, management-related value drivers much more to internal processes like culture, marketing and reorganization efforts.

Among the internal value drivers, highlighted by the analysts, was for example the firm's focus on cost-cutting. Moving production to Eastern-Europe and Asia was for instance seen as a major opportunity for enhancing competitiveness, while the possible logistics problems that could follow represented possible risk areas. Among other value drivers mentioned that that would affect MediDev's profitability were factors such as demographic developments, the political environment and developments in medical treatments. From the analysts perspectives value drivers were thus thought of in terms of factors that influence share prices.

There was some disagreement among the analysts on the relative importance of the different elements of strategy for the success of MediDev. For instance, while one analyst expressed that "R&D is crucial for the future value creation of MediDev", a second argued that "MediDev is a production company not an innovation company. Therefore, understanding the future prospcts of MediDev must be concerned with utilizing CAPEX and creating cost-efficiencies in production". This essentially mirrored the fact that the analysts pursued different "cases" on the company in their quest for differentiating themselves. Likewise, the fund managers did not agree on the relative importance of the strategic aspects driving MediDev's future performance. This could maybe be attributable to the fact that they had different time perspectives and were influenced by different analysts.

Externally oriented factors, or external value drivers, were also mentioned by the analysts. Demographic developments were considered important as they related to the size of the market in the future. Also, the political environment, especially health policies, and developments in medical treatment were also perceived to have substantial influences on the company's future prospects and valuation.

The production of strategic information by the analysts, like, e.g. fundamental analyses and regular refreshments of the mosaic, was often connected with specific events. These events were often referred to as triggers or trigger points. One analyst defined a trigger point as being a discontinuous change or a break in a company value driver. In this manner, a trigger therefore becomes a change to the mosaic of strategic information that is so significant that it affects the perception of the company's financial information and the input numbers for the technical valuation models, thus changing the perception of market value too. Although the demand for strategic information in general is continuous, it too can be initiated by triggers.

Some of the most frequently mentioned triggers in relation to MediDev, and probably having a more general relevance, are listed below.

Trigger points identified in the study:

- mergers and acquisitions in relation to the company and its nearest competitors;
- spin-off of existing operations into new company;
- entering into new markets organically;
- introduction of new products or accounts of the market acceptance of new products;
- initiating significant cost-cutting efforts like out-sourcing production;
- change of strategic focus;
- changes in the top management team;
- announcement of significant collaborative agreements;
- IPO of major competitors;
- change in sector expectations;
- buy-backs of own stocks; and
- changes in external factors like health policies and reimbursement policies.

Of course, the specific trigger points and the importance of trigger points varied across the groups of participants. The fund managers' trigger points were in general strongly associated with movements in stock price, e.g. relative to an industry index.

The evidence encountered in connection with the dialogue, we had with the respondents in relation to trigger points does not only suggest that there are vastly different points of departure for the groups, but also that translating strategic information into market value is not a consequential process. The processes were rather driven by the individuals' situation. Clearly, the fund managers were driven by stock price fluctuations, and despite also being number oriented, the analysts were somewhat ore driven by their cases. It was also mentioned by both fund managers and analysts that the company and the stock price were two completely different things to understand.

The interview data indicate that analysts' production of strategic information is primarily connected with writing fundamental analyst reports that consider a new perspective. For the analysts, the discussion and piecing together of the mosaic are the point of departure, ultimately leading to the alteration of inputs for the technical valuation model and maybe even their final recommendation.

The fund management group is primarily a "consuming group" in relation to strategic information, receiving information both directly from companies as well as from the analysts in either a more detailed or a more summarized form. Some fund managers received all their strategic information via the analysts, relying on them to summarize it for more effortless application in their decision making. As opposed to the analysts, the fund managers were found to initiate their screening process with the relative pricing of the stock. In summary, the processes of production and consumption differed significantly between the groups of participants constituting the market for information, and these differences were attainable to the different roles each group played in relation to each other.

5.4 MediDev's corporate reporting

Many respondents from all three group perceived the strategy as customer driven in the sense that MediDev seeks to gain insight into the user's needs by obtaining feedback from nurses, and ensures that this feedback is taken into consideration in the product development. One analyst assessed this by stating, "The key asset is knowledge about the customer and the customer's needs, this is MediDev's strategy". Information on the company's innovativeness indicates the outcome of these efforts; and metrics that are reported externally by the firm include new products' share of turnover and the amount spent on R&D relative to the total turnover. These metrics were evaluated by the analysts and used in justifying opinions. An analyst comparing these two metrics noted for instance that since the amount spent on R&D relative to turnover had declined in recent years "it seems like they have enhanced their innovation productivity and efficiency".

As this information is disclosed in the corporate report it indicates that elements from the report are indeed important in understanding how the company operates as stated in *P7*. Even though the above-mentioned metrics are reported in the supplementary part of the annual report, most analysts and fund managers only used the supplementary sections as a work of reference. Some of them did not even read them at the time of publication as one analyst directly commented, "I'll have to be honest and admit that for us it is often secondary information because it is something you look at when you have plenty of time". Similarly, another respondent stated, "I often use the report as a point of departure for lifting my knowledge base on the company to a higher level".

Some fund managers commented from a general perspective that in instances where companies are very well covered by analysts, the annual report might not be read in details by the fund managers at all. Rather, the fund managers will rely on analyst reports and personal contacts, as a fund manager noted, "I get the main points summarized and explained in a precise fashion". These statements seem to be very much in line with Holland and Doran (1998), more recently also accentuated by Roberts *et al.* (2005), who argue that private information channels, like for instance private face-to-face meetings between corporate management and fund managers, constitute a more important information channel than the annual report.

The evidence was, however, somewhat ambivalent in relation to what role the annual report had in connection with the overall understanding of the company. One fund manager also noted that he used the annual report as a first point of reference because:

> [. . .] in that way it is possible for me to keep the specific idea inside the organization instead of having to ask an analyst and thereby possibly risk letting out a good case on the company.

When the annual report was not used by analysts, they often referred to the information that was not found there and could have been included in the supplementary sections of the annual report. Often, they referred to themes and areas that they themselves included in their analyst reports. The information that was needed by analysts in their quest for understanding the company was clearly phrased by one of the analysts as:

> [...] more description of how the markets function, the distribution system – how does the research function look? – which contacts does the company have during product development and during sales?. Information on the factors that affect operations and some sort of narrative sensitivity analysis along with descriptions of the drivers in each market and how these affect MediDev strategically and sales-wise.

Two specific areas that were not given enough attention according to the fund managers and analysts were: health policy developments with respect to reimbursement policies on MediDev's products; and the success in gaining a position on the US market with a critical mass. A number of respondents commented that more information about reimbursement policies was necessary, because these represent an intricate part of the business model. The reimbursement system, particularly in the USA, is seen as a major hurdle and risk factor for MediDev, and "the decrease in turnover in the US in the last couple of years is due to the changes in the American reimbursement system".

When, we directly asked for possible limitations in the annual report, both analysts and fund managers directed their attention to the financial part of the report. It was for instance stated:

> We are missing the greatest visibility in relation to the return on product areas, and ideally also the balance for these so it would be possible to see the return, profitability, and cash flow on the individual product areas. In relation to this, the information provided is rather sporadic.

These missing pieces of information were the sort of details pertaining to the ease of applying the numbers directly in analysts' and fund managers' spreadsheet-based valuation models.

MediDev's group management commented on the problems of ensuring a longer term focus in comparison to its unlisted competitors, and related this to the disclosure: "Our worries relate to the fact that not all of our competitors disclose very many details about their operations". These concerns were focused around the propriety costs of disclosing sensitive information (Jovanovic, 1982). Thus, management's incentives in relation to full disclosure are constrained by considerations of revealing their competitive position.

There was a generally positive attitude towards MediDev's business reporting practices. But in conclusion we found that the supplementary reporting was not applied very actively in relation to constructing and discussing the mosaic of the market-for-information participants.

A few respondents admitted that this could be due to ignorance and even laziness, because the document consisted of many pages. Further, it was noted by the management group that they were often answering questions at conference calls on subjects that were already covered in the supplementary report; thus adding to the impression that these parts of the reports are not always read carefully. Finally, the study indicated that it was not so much the actual content of the supplementary report that was emphasised, but rather the mere existence of it.

When MediDev published their first supplementary report in 1998 an auditor verified the information and an auditor's report was included. After a few years, this practice was given up by the firm because on the one hand they felt that the stakeholders did not note and appreciate the extra effort and cost associated with this auditing, and on the other hand the reoccurring auditing process was not of any value to the internal management processes. With this point of views, the management departed from the conventional wisdom reflected in *P8* where it is suggested that supplementary business reporting sections require an audit in order for them to be considered reliable.

Asked directly about the auditing of the supplementary report, about half of the analysts and fund managers were not aware of or did not remember if the report was audited – and most of them stated that it was not an important issue whether it was audited or not. Saying this, it was also emphasised that the reputation of the management team and the company played a vital role in relation to the mere presence of the information being sufficient. It was specifically emphasised by a number of analysts that there was no need for verification of the supplementary disclosures in the annual report because of the excellent trust in the group management. Some respondents, most notably fund managers, did however insist on the need for auditing this type of information as well. The pattern seems to be that the less understanding and trust in the company the respondent has, the greater the effect of an audit would be.

So, in conclusion, it was found that auditing of the supplementary reporting was not emphasised by management and was not deemed important by analysts and fund managers in this specific case. However, this result is likely to be dependent on the trust that market participants have in the management as well as the firms previous abilities to reach its financial targets.

6. Concluding discussion

We set out to study the supply of and demand for strategic information in the context of the market for information. Initially, we pondered upon the interesting paradox that supplementary disclosure through business reporting constituted an accountability solution to a normative problem. The objective of the paper was thus to study how strategic information was related to constructing an understanding of the company and how the particularities of their interactions and relationships in the setting influenced this supply and demand. In order to achieve this, we identified eight propositions in the literature discussing this field. Let us here briefly conclude the paper by taking our point of departure in each of these propositions, respectively.

P1 indicated that differences did exist in the time horizon of the groups. Our literature review suggested that it was the analysts that would be short-term oriented. Not all of them liked that label and some argued that they were only short-term oriented because their "employers", the fund managers, wanted short-term advice. When confronted with the notion that they were the short-term oriented party in the market, the fund managers readily brushed aside such an idea aside as nonsense. Thus, it seemed to be the case that nobody liked to have the short-sighted label put on them.

In respect of *P2,* we found that, apart from the management team, the market-for-information participants constituted a fairly homogenous group of people. This in part reflected an employment pattern in the Scandinavian financial sector, where the agents typically started out as sell-side analysts and moved on to buy-side positions. It was also quite clear that their experience, identities, and the roles they played in relation to each other affected their processes of producing and consuming strategic information. These processes varied significantly across the three groups and furthermore, in relation to *P3*, we found evidence that relationships constituting the market for information were not only contractual of nature, but also based on social relationships and cooperation. The strongest ties existed between analysts and management and some fund managers seemed to consider relationships problematic because the analysts' recommendations might be biased.

Analysts were found to consume strategic information from many different media. In relation to *P4*, alternative sources of consumption were considered to be a distinct competitive advantage by a number of the analysts, e.g. participating in conferences and technology fairs, or taking relevant education in the medical field. In this manner, the analysts were concerned with gaining a competitive edge on the market via more insight, more details, and a new perspective on the company. The fund managers, however, did not seem too fond of the analysts' case-driven routines, and thought of them mainly as an excuse to generate publicity around themselves.

In relation to the elements of the mosaic of information, *P5*, management was only focused on value drivers and value creation in the sense of the internal aspects of the company, its values and objectives, and in a broader sense than profit-maximizing. Group management was concerned with branding the company as an ethical and socially responsible actor in the business environment, which was evident in their production of strategic information through the annual report. The analysts typically covered a broad variety of value drivers in their descriptions of strategy and the business model, while the fund managers typically focused their attention on only a few of the most important value drivers; for MediDev this was primarily their performance on the US market. This reflected the fund managers' lack of time for analysis and understanding.

With regard to *P6*, we identified substantial differences in the processes of utilizing strategic information in relation to analyzing and valuing the company. Process evidence was primarily reflected in relation to analysts and fund managers, which was natural as these were the groups concerned with analyzing the company. We found that the fund managers' analysis processes were driven by stock price fluctuations. Their needs for strategic information took their point of departure from price alone. Despite also being number-oriented, the analysts were somewhat more driven by discussion and the strategic information constituting their mosaic; at least some of them. From the mosaic they produced their case, and from their case they produced their valuation. However, as several respondents stated, understanding the company is one thing, understanding the stock price is something completely different.

In general, the mosaic of strategic information was clearest in relation to the analyst group, which was only natural as it was their job to pay more attention to detailed information. Moreover, they also had considerably more time for analysis per company than the fund managers had. The fund managers were primarily interested in summaries and reasons for changes in the stock price, and the study indicates that the fund managers were in fact not very interested in company details. Rather, they were extremely focused on price relative to industry benchmarks.

In the analysis, we underlined some of the aspects of the case company's strategy and the key value drivers mentioned by the respondents. However, for this study, it is not possible to conclude that some of the participants are concerned with some specific types of information and others are not; at least not on an aggregated level. For such results, experiments might be more useful despite the fact that they involve removing the respondents from their natural habitat (Catasús and Gröjer, 2003), or analyzing the content of the dissemination media for production of strategic information, e.g. annual reports and analyst reports (Arvidsson, 2003; García-Meca *et al.*, 2005; Nielsen, 2007).

Looking at *P7*, the annual report was mainly considered a work of reference, but it also constituted an important point of departure for extending the knowledge base of the individual in relation to the company. In general, the supplementary sections were not necessarily read immediately after the publication of the report, rather some time afterwards, if at all. Lastly, in respect to *P8*, the analysts did not mind that the supplementary sections containing strategic information were not assured. After all, they verified the information through their own mosaic and pointed towards the fact that MediDev's management team had an excellent track record, i.e. this was a perception of trust. The fund managers did however seem concerned when strategic information was not assured, perhaps indicating that their mosaic of the company was not as complete as that of the analysts.

Throughout the study, it was evident that the company and its stock price were two completely different things to understand. Management were focused on value drivers and value creation in the sense of the company, its values and objectives in a broader sense than profit-maximizing, because the company operates in a rather sensitive field, and management were not particularly concerned with stock price fluctuations. Interestingly, this was the case despite the fact that group management and the top 200 managers were included in the company's option programme. The analysts were found to focus on both the company and the stock, and their value adding in the market for information related to better consumption and better production of strategic information about the company. Lastly, the fund managers were found not to be very interested in the company, but rather more concerned with the price of the stock relative to an industry benchmark.

To conclude on our initial pondering, this study illustrates that the proposed accountability vehicle, namely business reporting, is not mobilized as a solution to the problem of disclosing strategic information. This is not to say that accountability is not an issue in the market of information. However, the issue of accountability seems to be addressed in the disciplining effects of face-to-face meetings (Roberts *et al.*, 2005) and constant interaction between three bodies of actors although too close relationships could lead to subjectivity and blurred decision making.

The conclusion must therefore be that creating transparency of the business model and value creation does not necessarily revolve around the corporate report. This is a bold statement. Research addressing a wider array of stakeholders (Rimmel and Nielsen, 2007), indicates that the supplementary sections of the annual report are important in relation to employees, customers, private investors and the local community.

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Appendix. Interview guide

Theme 1: the analyst

- *Background*, e.g. education?
- Experience, years in present position, *previous experience* in relation to these types of firms?
- Number of *firms covered* and dispersion across industries and countries? How long time covering MediDev?

Theme 2: MediDev and MediDev's strategy

- Tell us about MediDev. What *kind of firm* is this? How is the share performing? How about the firm?
- What is MediDev's *strategy*? Does the firm have other options?
- Which *elements* of strategy do you consider of importance in the case of MediDev?
- How would you describe the *business model*? What component? Does it have a function in your perception of MediDev?
- What about the *external factors*? Stakeholders, e.g. relationships to partners? How are things linked?
- How does MediDev *create value*? What are the *core activities*?
- What are the main *value drivers* for MediDev? (Are these solely macroeconomic or are they company specific value drivers?).
- Is MediDev mostly driven by *marketing, innovation* [. . .] or maybe production?
- Have there been any changes in strategy while you have followed the firm?
- Tell us about MediDev's industry. What are the value drivers? Which industry do you regard MediDev as a part of?
- Who are the competitors? The peer group? How do you view MediDev in comparison to close competitors? What about the reporting from MediDev.
- What are the overall industry trends? Threads and opportunities? Is this reported?
- How would you describe the market situation? How do you view MediDev's future prospects?

Theme 3: the annual report

- Briefly: what about the *annual report*? What do you think about the various parts? How would you explain the content to someone who has not read it?
- What are you missing in the report? What is good and what is bad? In what ways does the report reflect what we have been talking about regarding strategy?

- Briefly: is external assurance and the application of standardized measures important with respect to your view of MediDev's supplementary reporting?

Theme 4: the analysis process

- Tell us *how you work*. What are your relations to MediDev? How do you work regarding the financial calendar? What meetings, etc. do you participate in? Who else do you consult?
- Can you identify *different stages in your research process*? What are the foci of these different stages? What is the rationalization for each of these phases?
- What causes changes in your perception of MediDev? (event, bundle of information, company specific, industry specific).
- How do you recognize an event, is it a eureka or an always present aspect?
- Dissemination of the information to third parties?