CONTENT AND QUALITY OF INFORMATION: ANALYSIS OF THE MANAGEMENT DISCUSSION SESSION IN THE ITALIAN FINANCIAL REPORTS IN THE PERIOD 2003-2008

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Abstract

Three events have affected the management of listed companies: (i) the increasing importance of the intangible assets; (ii) the accounting harmonisation and the management discussion regulation both at European and national level; (iii) the financial crisis. In this context, regulators view narrative disclosures as the key to achieving the desired step-change in the quality of corporate reporting. The paper wants to study the quantity of financial communication in the management discussion for each information category selected and its quality in terms of: time orientation, nature and mode of expression. Content analysis is applied. One of the main results, is that the quantity of information increases and this information is always related to the business and it is non-financial, narrative and historical.

Keywords: MD&A, Disclosure, Regulation, Evolution

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1. Introduction

In recent years, the socio-economic environment in which companies operate has changed considerably. Three events in particular have affected the management communication behaviour of listed companies: (i) the increasing importance of the intangible assets as basic elements of the competitive advantage in business; (ii) the accounting harmonisation and the evolution of the management discussion regulation both at European and national level in the period 2003-2008; (iii) the world financial crisis. These events have inevitably influenced on the one hand the information requirements of the stakeholders and the financial markets and, on the other, the disclosure provided by the companies. In this worldwide context, regulators (i.e. IASB) view narrative disclosures as the key to achieving the desired step-change in the quality of corporate reporting. Moreover there is a consensus that the business reporting model has to develop to serve the changing information needs of the market and provide the information required for enhanced corporate transparency and accountability. In other words, to satisfy these needs, it is agreed that business reporting has to expand beyond the traditional financial reporting model that emphasises backward-looking quantified financial information (i.e. AICPA, 1994; FASB, 2001; ICAEW, 2003; IASB, 2009). The general thrust of these publications is that there is a need for more forward-looking information of a non-financial nature. This information could be unquantified or unquantifiable.

This paper, which represents a preliminary study, concerns the above development context, focusing on evolution of the information quantity and quality (Beattie, McInnes and Fearnley, 2004) of the management discussion in the financial report.

The article proceeds as follows. The aim and the research questions are discussed in section two. Section three outlines the literature review. Section four contains the evolution of the management discussion regulation. Section five presents the methodology applied. Section six highlights the empirical results and discussions. Section seven summarises and concludes. The final section outlines the limitations and future research.

2. The aim and the research questions

The aim of this paper is to analyse the management discussion in the financial report from the viewpoint of both the quantity of information communicated for each information category selected and its quality in terms of: time orientation (backward-looking or historical information, forward-looking information, intertemporal information), nature (financial, non-financial) and mode of expression (narrative, quantitative, mixed). All this is examined in a intertemporal dimension: the analysis is performed considering the 2003, 2005 and 2008 financial reports. The content analysis methodology is applied.

Disclosure is studied in particular since, according to a widely-held opinion, financial communication does not represent a neutral process but affects the behaviour of the recipients and consequently that of the preparers. In the light of the new information requirements of the financial markets, it is useful to study not only the quantity but also the quality of the information. In this study the differences between mandatory and voluntary disclosure are not relevant and therefore are not taken into consideration.

The management discussion, as part of the financial report, was chosen. This choice stems from the debate on improvement of the financial report model via the introduction of narrative reporting which is particularly topical at international level.

In relation to the documentation analysed, the 2003, 2005 and 2008 annual consolidated financial reports were chosen. The annual financial report is considered because it is the most complete mandatory accounting document published by the companies. The periods 2003, 2005 and 2008 were selected in order to take account of the main environmental events that influenced the behaviour of the listed companies.

More in detail, the following research question will be addressed:

1. To what extent and in what direction has the information quantity and quality of the financial report changed with particular reference to the management discussion?

The hypothesis underlying the work is the following:

H1: with the increasing importance of the intangible assets in creating competitive advantage, the evolution of the management discussion regulation both at European and national level into the period 2003-2008, and the climate of uncertainty generated by the financial crisis which originated in 2008, the communication model adopted by the companies has evolved over time to enhance corporate transparency and accountability and to more fully satisfy the information needs of the investor geared to forward-looking, non-financial, narrative information.

Following the guidelines provided by the stakeholder theory (Freedman, 1984), this study follows the line of thinking that an organization's management is not only expected to take on activities expected by its stakeholders but also to report on those activities to the stakeholders (Boesso and Kumar, 2007). Such an approach is also closely linked to the legitimacy theory, which posits that there is a "social contract" between a company and the society that requires the company to be responsive to the environment in which it operates (Deegan, 2000).

3. Literature review

In recent years, the nature of business has changed fundamentally and likewise the information requirements of the stakeholders. These changes obviously depend on the alterations that have taken place in the socio-economic environment in which the companies operate. In this context numerous articles propose models of disclosure; for a complete review of the main presented in the nineties, see the review article by Beattie (2000) which contains a synthesis and a review of the key reports on the future of corporate reporting. Of particular note is the report published by the AICPA (1994) which has become extremely influential (the Jenkins Report): this set out to improve business reporting by adopting a customer focus. The report proposed a comprehensive model of business reporting, composed of eight main topics, which embraced a broader integrated range of information. The eight topics are: financial data, operating data, management analysis, forward-looking information, information about management and shareholders, objectives & strategy, description of business and industry structure. In 2001, the FASB set up a business reporting research project to consider the types of information that companies are voluntarily providing and the means for delivering it. The objective of this report is to help companies improve their business reporting by providing evidence that many leading companies are making extensive voluntary disclosures and by listing examples of these disclosures. The examples in the report serve to provide companies with helpful ideas on how to describe and explain their investment potential to investors. The FASB model is composed of six main topics: business data, management analysis, forward-looking information, information on management and shareholders, company background and information on intangible assets. In 2003, the ICAEW published the New Reporting Models for Business. It identified six underlying issues (stakeholders, investment and information, theory of accounting regulation, intangibles, conceptual framework and transparency in reporting) on which a consensus needs to be formed if significant progress is to be made towards agreement on either an appropriate reporting model for business or on how such a model should be adopted. In 2009, the IASB published the ED on Management Commentary: the objective is to find a synthesis point between the existing regulations concerning the "other information". The IASB defines "other information" as follows: "other financial reporting comprises information provided outside the financial statement that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions". As is known, the proposal presented in the management commentary exposure draft will not result in an IFRS, but it aims to offer a non-binding framework which could be adapted to the legal and economic circumstances of individual jurisdictions (i.e. management discussion session in the case of Italy).

Meanwhile, accounting researchers have increasingly focused their efforts on investigating disclosure. A number of theories have been put forward to explain why companies disclose information, especially of the voluntary type (Healy and Palepu, 2001; Patelli and Prencipe, 2007). Companies that have high levels of disclosure often have a lower cost of capital, a higher share value and a higher market-to-book ratio because they are seen to be less risky than their non-disclosing counterparts by investors; thus, it may be in companies' interests to disclose information (Verrecchia, 1999; Aggarwal and Simkins, 2004). This argument is consistent with both agency theory and a decision-usefulness approach where managers and owners have to weigh up the relative costs and benefits of increased disclosure. The costs of disclosure relate to the expense of collating, interpreting and disclosing information. Such information is value-reducing for informed traders as they already have the information that is not known to the markets generally. They may be able to trade on this information and exploit their advantage. Furthermore, insiders have an incentive not to disclose if they think that they will be providing strategic information to competitors (Marshall and Weetman, 2002). However, one benefit from reporting such information is that it will reduce any information asymmetry among shareholders and improve the liquidity in the market for that company's shares, lowering bid-ask spreads and increasing the volume of transactions that take place (Cornell and Sirri, 1992). Several studies have addressed the impact of corporate characteristics on the level of disclosure (Belkaoui and Kahl, 1978; McNally et al., 1982; Cooke, 1991, 1992; Wallace and Naser, 1995). These characteristics include size, listing status, leverage, profitability, industry, type of auditor, dispersion of stock ownership and country of origin. Overall, these studies indicate that size and listing status are significantly associated with the level of disclosure.

However, one of the limitations of the study on voluntary disclosure in particular is the difficulty in measuring the quantity and quality of disclosure (Core, 2001; Healy and Palepu, 2001) without using indexes where the amount of disclosure is used as a proxy for disclosure quality (Botosan, 1997; Lang and Lundholm, 2000). In this regard the work by Beattie (2000) and Beattie, McInnes and Fearnley (2004, 2004 a) marks an important evolution in the studies of voluntary disclosure and improvement in corporate reporting. More in detail, the researchers introduced into academic literature a methodology for generating a rich descriptive profile of a company's narrative disclosures. They applied content analysis (Holsti, 1969; Kassarjian, 1977; Krippendorff, 1980; Weber, 1985) already used in previous studies (Gray, Kouhy and Lavers, 1995 a, b; Milne and Adler, 1999) and captured three main quality attributes of the information (time orientation, financial/non-financial and quantitative/narrative). In accounting, studies on this topic have developed in various directions (Beretta and Bozzolan, 2004; Beattie and Thomson, 2005; Beattie, McInnes and Pierpoint, 2008). As regards the meaning of quality of narrative accounting disclosure, it should be pointed out that it can be defined in a variety of ways, suggesting that it is a complex, multi-faced concept. For instance, analytical studies define disclosure quality in terms of the precision of a Bayesian investor's belief in security value after receiving disclosure (Diamond and Verrecchia, 1991); other studies define the concept as the degree of self-interested bias in the disclosure (King, 1996); Hopkins (1996) defines quality as the ease with which investors can read and interpret the information. Beattie et al. (2004 and 2009) study the concept of quality of information considering the three quality attributes of the information, as highlighted previously, and offer a measure of disclosure quality.

4. The evolution of the management discussion regulation

Worldwide narrative communication in annual reports is viewed as the crucial element in achieving the desired step-change in the quality of financial reports (Beattie, McInnes and Fearnley, 2002; Beattie and McInnes, 2006). In particular, regulators are focusing attention on the management discussion and analysis statement (MD&A). In some jurisdictions, guidelines are being extended and revised, while in others disclosures are mandatory. In Canada, the Canadian Institute of Chartered Accountants (CICA) issued more detailed MD&A guidelines that set out six disclosure principles and developed a five-part integrated disclosure framework that covers strategy, key performance drivers, capabilities, results and risks (CICA, 2002). In Australia, the G100 strongly encourages directors to include the OFR in the annual report.

In Europe, the management discussion session was introduced into the community regulations and then also into Italian law under Directive 1978/660/CE and Directive 1983/349/CE, better known as IV Directive (annual accounts) and VII Directive (consolidated accounts). In the provisions of the above directives (art. 46), geared to incentivising a comparable minimum level of information among the companies belonging to the European Union member states, the management discussion session must include at least a fair review of the development of the company's business and of its position. The report shall also give an indication of: any important events that have occurred since the end of the financial year, the company's likely future development, activities in the field of research and development, and information concerning acquisitions of own shares.

While some information characteristics have not altered, in recent years the information content of the management discussion session has undergone profound changes as a result of evolution of the community and national regulations.

A first and significant step in this sense should be attributed to the Directive 2001/65/CE which allows the European Union member states to introduce fair value into the evaluation of some financial instruments, also modifying the disclosure to be provided in the management discussion session. With reference to the Italian context, the legislative decree no. 394/2003, the first effects of which start from the 2005 annual reports, establishes that the management discussion session must indicate, in relation to use of the financial instruments and if relevant, the company's financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used, and the company's exposure to price risk, credit risk, liquidity risk and cash flow risk.

The Directive 2003/51/CE, which modifies the previous Directives IV and VII, significantly widening the information content of the management discussion session, has a more incisive effect on the regulations. In Italy, following the coming into force of the Legislative Decree no. 32/2007 which adopts the above Directive and which is effective as from the 2008 annual reports, the management discussion session includes a fair and thorough review of the development and performance of the company's business and of its position, together with a description of the principal risks and uncertainties that it faces. The review shall be a balanced and comprehensive analysis of the development and performance of the company's business and of its position, consistent with the size and complexity of the business. To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters.

Lastly, for the listed companies, an important role is also played by CONSOB, the Italian Financial Services Authority, which in Communication no. 6064293/2006, as prescribed by the Committee of European Securities Regulators (CESR) in Recommendation no. 178b/2005, requires more detailed disclosure with reference to financial and non-financial key performance indicators called "Alternative Performance Measures". It was observed that, in their financial reporting to markets, European listed companies widely use diverging financial data that are not as such extracted from the issuer's audited financial statements. This additional data, called alternative performance measures, are usually based on the financial statements prepared in accordance with the applicable financial reporting framework (i.e. operating earnings, cash earnings, earnings before one-time charges, EBITDA), or can also be based on other sources or alternative methodology to conventional accounting (i.e. performance indicators reflecting business activity, production or activity levels, projection of future cash flows, forward-looking indicators). As such, alternative performance measures can provide investors with appropriate additional information if properly used and presented. In such cases, these measures can assist investors in gaining a better understanding of a company's financial performance and strategy. So CESR indicated that issuers should define the terminology used and the basis of calculation adopted; where applicable, the disclosure of the basis of calculation should include indications on hypothesis or assumptions used. If the company chooses to present alternative performance measures, it should provide comparable information for other periods as well: the definition of the measures should be consistent over time to avoid investors' decisions being taken on wrong assumptions.

As can be seen by observing the progressive extension of the disclosure obligations, the need is felt firstly to fill the information gap as regards risks, financial first and foremost but more generally connected with the structure and organisation of the risk management functions, the covering strategies, the processes for monitoring the effectiveness of these strategies, and the policies for avoiding or limiting excessive risk concentrations.

Secondly, increasing attention is dedicated to the performance measures which, compatibly with the company's complexity, are related to business and industry. These performance measures are not limited to financial variables but require further non-financial measures; they can be based both on historic data and on forward looking projections and do not necessarily have to be based on quantitative-monetary values but can be expressed qualitatively or via quantitative non-monetary measures. The widening of disclosure in this sense is reflected in the predicted inclusion of information categories far-removed from the mere financial aspect, such as the requirement to provide, where significant, information on personnel and the environment.

5. The methodology applied

5.1 Content analysis

Management discussion in corporate reporting has been analysed using the content analysis methodology. This technique has been used extensively in the accounting literature (Gray, Kouhy and Lavers, 1995 a, b; Beretta and Bozzolan, 2004; Beattie, McInnes and Fearnley, 2004; Dunne et. al., 2008). Krippendorff (1980, p. 21) defined content analysis as "a research technique for making replicable and valid inferences from data according to their context". Thus, content analysis is a method of codifying the text (or content) of a piece of writing into various groups (or categories) depending on selected criteria (Weber, 1985). In order to act as an effective research tool, content analysis must encompass certain key characteristics: the process must be reliable and valid (Holsti, 1969; Krippendorff, 1980; 2004; Andrén, 1981; Weber, 1985; McTavish and Pirro, 1990). Reliability or reproducibility is one of the distinguishing characteristics of content analysis, in contrast to other techniques that are often used when describing the content of communication (Kassarjian, 1977; Krippendorff, 2004). Krippendorff (2004) identified three types of reliability for content analysis: stability, reproducibility and accuracy. Stability refers to the ability of a judge to code data the same way over time (Milne and Adler, 1999; Krippendorff, 2004). The aim of reproducibility is to measure the extent to which coding is the same when multiple coders are involved (Kassarjian, 1977; Weber, 1985; Milne and Adler, 1999; Krippendorff, 2004). Intercoder reliability is the percentage of agreement between several judges processing the same communications material (Holsti, 1969; Andrén, 1981; Kassarjian, 1977; Weber, 1985; Gray et al., 1995b; Milne and Adler, 1999; Krippendorff, 2004). The accuracy measure of reliability involves assessing coding performance against a pre-determined standard, or against previous studies. There is a need for explicitly formulated rules and procedures to minimise the possibility that findings reflect the coder's subjective predispositions rather than the content of the documents under analysis (Kassarjian, 1977; Krippendorff, 2004). Validity relates to how well the results of a study mirror reality (Jones and Shoemaker, 1994). To improve validity, a coding scheme needs to be developed that guides coders in the analysis of content (Krippendorff, 1980; 2004; Potter and Levine-Donnerstein, 1999). The coding scheme is an effort to make the coding process uniform across all coders so that the coding can be regarded as systematic (Krippendorff, 1980; 2004; Potter and Levine-Donnerstein, 1999). This process helps to eliminate partial or biased analysis, ensures that data relevant to a problem or hypothesis are secured and that the findings have theoretical relevance and is generalisable (Kassarjian, 1977; Krippendorff, 1980). To be characterised as content analysis, the data collated must be quantitative and thus amenable to statistical methods for summary purposes, as well as for interpretation and inference (Kassarjian, 1977; Krippendorff, 1980; 2004).

The present content analysis initially requires the development of an appropriate coding scheme. The next stage involves the selection of companies to be included in the investigation. The central part of the research involves analysing management discussion in corporate reporting. First statistical elaborations are used to enable some explanation of the dataset.

More specifically, the research method we applied consisted of the following phases:

I. analysis of the main disclosure models present in literature (i.e. AICPA, 1994; Beattie, 2000; FASB, 2001; ICAEW, 2003; IASB, 2009);

II. analysis of pre-samples of management discussion in Italian corporate reporting which are employed in content analysis in order to develop the set of information category to be used in the analysis of the main sample (Krippendorff, 2004);

III. identification, by the research group, of the information category and sub-category in the light of the findings of the previous first (I) and second (II) study phases. In particular, we considered all the information categories highlighted in the main disclosure models in the various years, together with other new recurring categories found in the pre-samples of management discussion analysed in phase (II);

IV. definition of the coding unit and the measuring unit;

V. construction of the coding scheme which is a sort of guide composed of detailed rules to make the coding process uniform across all coders;

VI. construction of the electronic disclosure sheet in order to collect data in a systematic way;

VII. application of the investigation technique by four researchers on the same sample of financial reports, highlighting any differences in the findings. In this pre-analysis phase, in order to make the behaviour of the researchers as uniform as possible, some modifications had to be made to the basic scheme, and only after achieving 90% identity between the results did we begin analysis of the documents pertaining to the study;

VIII. analysis of the documents and application of the detailed rules defined in the pre-analysis phase to the parts of the financial report significant for the research (in particular the management discussion);

IX. identification of the data and subsequent processing of the results.

The disclosures were divided into eight principal categories: (i) IFRS; (ii) Business; (iii) Vision and Strategy; (iv) Management and Shareholders; (v) Intangible assets; (vi) CSR information; (vii) Risks and (viii) Other. For each category a number of sub-categories were also identified (totalling twenty-one). The conceptual model is therefore the following.

Table 2. The conceptual model of disclosure

IFRS	Business	Vision & Strategy	Management& Sharehold.	Intangible assets	CSR information	Risks	Other
- Process of harmonisation - Adoption programme in company - Economic impact - Guide to and interpretation of individual standards	- Background & core business - Socio-economic environment - Markets and competitive positioning - Analysis of company financial performance -Measurements of performance and indicators	- Vision and Mission - Strategic objectives and strategy implemen_ tation method - Value drivers and other performanceindicators	- Management - Shareholders - Related parties - Corporate Governance	- Intangible assets not entered in financial statement - R&D	- Environmental information - Social information - Integrated information	No sub-cat.	No sub-cat.

As regards the quality of the information, three main attributes were identified: time orientation (backward-looking or historical information, forward-looking information, intertemporal information), the nature of the information (financial, non-financial), how the information is expressed (narrative, quantitative, mixed). More specifically by historical information we mean information referring to the past (including the present), by forward-looking information we mean information geared to the future and the intertemporal information represents a combination of past and future. By financial (accounting) information we mean the information correlated with the financial statement and its results referring to the company, to the sector and to the macroeconomic environment. The information is narrative when there are no numbers, quantitative if there is at least one number and mixed when the explanation of the cause is associated with a number or a datum.

As regards the unit of coding and measurement, in accordance with Milne and Adler (1999), the sentence was chosen as the coding unit for a better understanding of the message and the line was chosen as the measuring unit in order to quantify the space dedicated to each piece of information. In addition to the text, the analysis also considers tables, graphs and photographs. The space occupied by them is translated into number of lines obtained by overlaying a piece of tracing paper representing a page of the financial report completely occupied by lines of text. The blank lines were not attributed to any category. In the analysis phase the *dominance principle* was applied. The analysis was performed without the use of software.

During gathering of the data, the overall number of pages of the financial report and the number of pages of the section analysed were noted.

The appendix 1 provides examples for each information category and attribute.

5.2 Research sample and documents analysed

The companies were selected via a random sampling in the population of Italian companies listed as of 31/12/2008, using the following criteria: (i) continuous listing throughout the six years of analysis; (ii) listing on markets other than the United States; (iii) drawing up of the financial statement according to the national regulations prior to the community obligation which introduced the IFRS; (iv) membership of the category of non-finance companies. These criteria were selected in order to focus attention on companies that are comparable in terms of macro-sector of activity (non-finance companies), operating continuously on the financial markets (at least six years), which have not anticipated the potential information and communication change introduced by IFRS with respect to the timescale for European harmonisation, either voluntarily or in connection with listing on the New York market.

The sample is formed of 14 Italian companies, chosen at random and belonging to different manufacturing sectors (appendix 2).

With reference to the documentation analysed, the consolidated financial reports for the periods 2003, 2005 and 2008 were collected. In all, therefore, 42 documents were analysed. Although the content analysis methodology is a source of rich data, it is a labor-intensive and time consuming methodology. As such, it is fairly common to find a relatively small sample size in studies using this methodology (Hooks *et al.* 2002; Bozzolan *et al.*, 2003; Beattie, McInnes and Fearnley, 2004).

Analysis of the disclosure concentrated mainly on the section dedicated to management discussion in corporate reporting. To be more precise, all the parts of the financial report were analysed excluding the balance sheet and income statement, notes, audit report, financial report cover and table of contents. In the text the term “management discussion” is used as it constitutes the main element of the parts of the financial report considered.

5.3 Presentation of results

In the study the results will be presented as follows: (i) overall disclosure situation with reference to the management discussion in corporate reporting; (ii) analysis per information category; (iii) analysis of the attributes; (iv) analysis of category/attributes combination.

The study does not present the specific data relative to the sub-categories.

In relation to the method of processing of the data collected, the study uses the mean on aggregated values. The results are summarised in tables provided in the appendix 3.

6. Empirical evidence and discussion

6.1 The overall results

The results of the empirical research underline the important role of the management discussion in the process of financial communication of the Italian companies (table 1).

In both the years considered, a significant part of the financial report is dedicated to this document: for 2003, 41.5% of the space is allocated to the management discussion and although it drops slightly (36.9 in 2005 – 40.4% in 2008), the percentage remains high.

With reference to the dimension of the financial reports and the management discussion in particular, between 2003 and 2008, although a growth in the volume of the consolidated financial report was recorded, it is observed that the evolution of the law influenced the dimension of the management discussion, while a greater increase in the notes and other parts of the financial report is observed: the transition to the IFRS determined an increase in the volume of the consolidated financial report, yet the incidence of the management discussion on the total number of pages of the financial report remained practically unchanged, indicating that the notes and the other sections of the document became more important in terms of space dedicated. In addition, reduction in the incidence of the number of pages examined out of the total number of pages of the annual report referred to 2005 (36.9%) highlight the attention given to description of the effects of the transition to the IFRS. As is known, IFRS 1 requires presentation in the notes of a reconciliation statement between shareholders’ equity and net profit reported under Italian GAAP and IFRS.

The mean incidence of lines per page increases slightly (49 in 2003, 53 in 2005 and 54 in 2008). Lastly, a reduction in the space dedicated to the contents is recorded.

6.2 The results per information category

For the results per information category, see table 2.

The Italian companies dedicate the majority of the space to description of the business (59.5% in 2003, 61.2% in 2005 and 51.9 in 2008) discussing aspects connected with analysis of the company financial performance, background and core business, the situation and evolution of the socio-economic environment and positioning of the company on the reference markets. The high score obtained in this information category, despite the reduction over time and above all the significant difference recorded vis-à-vis the remaining categories, should be evaluated in relation to the characteristics of the management discussion, a document which gives considerable space (by law) to presentation of the context in which the company operates and the characteristics of its business.

Although the space dedicated to the business category has been reduced to the advantage of other information categories, blank spaces and notes, observing the absolute values it can be noted that, in particular with reference to 2008, the information concerning description of the background and core business and the competitive positioning has significantly increased.

The results of the management & shareholder category (23.1% in 2003, 19.7% in 2005 and 23.7% in 2008) can be referred mainly to the system of corporate governance, an aspect subject to intense regulatory activity by the stock market supervisory and control authorities. The stability in the time and space dedicated to the category is connected mainly with the response to the laws rather than to the attention paid to the shareholders. More generally, these results are related to the characteristics of the Italian socio-economic environment: the companies, although listed, often have a stable shareholding structure, with close links to the entrepreneur or the family and managers appointed by the entrepreneur.

The information on vision & strategy is decidedly inadequate and also progressively decreases, dropping from 3.1% in 2003 to 1.4% in 2008: the crisis of the financial market in 2008 makes it difficult to formulate long-term strategies; the comparison between the three years examined has highlighted that the reduction in information is due to the description of the strategic objectives.

CSR information is also of considerable importance (6.1% in 2003, 7.6% in 2005 and 7.2% in 2008). Observing the sub-categories, corporate social disclosure absorbs greater space than the environmental information. Furthermore, corporate social disclosure and likwise, to a more modest extent, environmental information, increased in 2008: as pointed out previously, the legislative decree

32/2007 specifically regulated these aspects, requiring greater detail in the management discussion.

Decidedly little importance is given to the intangible assets (2.4% in 2003, 1.7% in 2005 and 1.4% in 2008): the amount of space occupied in these cases is undoubtedly influenced by the type of business carried out by the company. Although most space is dedicated to R&D, in 2008 an increase in information on the intangible assets not recognised in the financial statement was observed. Here again, as already observed for the previous information categories, both the financial crisis and the change in law can be considered factors affecting corporate communication behaviour.

Information concerning the IFRS is minimal or absent (0.6% in 2003, 0.9% in 2005 and 0.2% in 2008) because the majority of the disclosure is in the notes. The increase in 2005 is justified in relation to the first year of IFRS adoption: the majority of the space is dedicated to description of the harmonisation process rather than presentation of the economic impact of transition, reported by the Italian companies, in a separate part of the reconciliation statement notes. The presence of IFRS information in 2008 is attributable to description of the standard evolution and the company adoption programs.

The risks category has progressively absorbed the space of the management discussion due to a number of regulatory interventions aimed at improving and providing more complete disclosure of the risks to which the company business is exposed. In Italy, modification of the legislative provisions governing the content of the management discussion in relation to financial risks, the first effects of which were seen in the 2005 annual report, have not had a significant effect. The legislative decree 32/2007 was more relevant (first effect on 2008 annual report) because it prescribes mandatory disclosure on risk management and policy. The financial crisis is also believed to have had an effect on this result. Introduction of the IFRS has provided a stimulus in this sense, especially as regards the part concerning financial risks, due to the application of fair value. Observing the results of the empirical analysis, it can be easily seen that from 2003 to 2008 the space dedicated to risks grew.

6.3 The results per attributes

In the financial reports of the Italian companies for the three years considered at overall level (table 3), a prevalence of non-financial information (59.4% in 2003, 58.3% in 2005 and 65.3% in 2008) with respect to financial information is highlighted.

In the analysis carried out considering the 2008 accounting documents, the non-financial information maintains the lead, with an increase of 7.0 percentage points with respect to the documents for 2005 and with an increase of 5.9 percentage points with respect to 2003. This is naturally matched, in 2008, by a decrease in financial information.

In relation to the mode of expression, in 2003 narrative information is the most common (48.4%) followed by quantitative information (38.1%). There is a lower presence of information classified as mixed (13.5%), identified whenever a quantitative datum is correlated with the explanation of the cause.

In 2005, the classification of the attributes described is maintained, but the mixed information increases by 5.2 percentage points with respect to the documents for 2003. This evolution is at the expense of the narrative information which is reduced by 4.6 percentage points. In 2008 the narrative information maintains the lead (52%), with an increase of 8.1 percentage points, while the presence of quantitative information decreases by 5.7 percentage points with respect to the documents for 2005.

With reference to the time orientation, for 2003 the majority of the information (93.2%) is historical, while only a very small part can be classified as forward-looking (1.5%). The intertemporal information, which presents a combination of past and future dimension, is complementary to the above two types of attributes and accounts overall for 5.3% of the information.

In 2005 and in 2008 the analysis scenario does not significantly change and it is similar for both years: the historical information represents 87.3% in 2005 and 88.3% in 2008, the forward-looking information accounts for 0.9% of the total in 2005 and in 2008. The intertemporal information in 2005, on the other hand, records a 6.5 percentage point increase to 11.8% with respect to the documents for 2003. The percentage value of the intertemporal information in 2008 (10.8%) is similar to the documents for 2005.

6.1 The results per categories and attributes

In relation to the analysis performed on the Italian accounting documents for 2003, in the first IFRS information category (table 4) the most common information is non-financial (89.3%), narrative (100%) and historical (68.9%). In 2005 the analysis scenario partially changes: the financial information (74.5%) is prevalent with respect to non-financial information (25.5%), while the narrative (90.7%) and the historical (100%) information maintains the lead. In 2008 there is a decrease in financial information of 33.8 percentage points with respect to the documents for 2005, while the presence of the historical (87.8%) and narrative information (96.7%) is similar to 2005.

The business category (table 5) is mainly characterised, in 2003 (54.4%), in 2005 (54.9%) and in 2008 (52.5%), by financial information. It is furthermore observed that this category is the one linked most closely to the financial attribute with respect to all the other categories of information, except for the first information category (IFRS) in 2005. This is due to the type of data making up the category, which are relative to analysis of the company's financial situation and to measurements or indicators of performance. For the same reason, the quantitative information prevails for the three periods considered with respect to the mixed information and the narrative information. Lastly, almost all the information that can be attributed in temporal terms to this category for the three years refers to past or present events (95.9% in 2003; 90.3% in 2005 and 90.7% in 2008) and not to forward-looking or intertemporal dimensions.

The information quality that can be associated with the vision & strategy category (table 6) in terms of attributes is identified for 2003, 2005 and 2008 with information that is mainly non-financial, with an increase of 9.7 percentage points in the second year, mostly narrative and historical. In 2005, however, the intertemporal information increases by 23.9 percentage points with respect to the documents for 2003 and the growth is at the expense of the historical information. In our opinion, in 2005 and 2008 it is important to underline that the percentage of intertemporal information in this category (29.8% in 2005; 32.3% in 2008) is the highest in terms of representation with respect to all the other information categories (except the information category "others"). Lastly in 2008 the mixed information increases by 24.4 percentage points with respect to the documents for 2005, settling at a value of 24.4%.

With reference to the fourth category management & shareholders (table 7), the information can be classified for the three years considered as non-financial, narrative and historical. It is nevertheless observed that from 2005 the quantitative information decreases by 9.5 percentage points, settling at a value of 17.6% in 2008. Part of this reduction is absorbed by the narrative information which, during the time period considered, increases by 10.7 percentage points.

The information relating to the intangible assets (table 8), as for the previous category, is for the three years mainly non-financial, narrative and historical. However it is important to underline that in 2005 the financial information decreases by 7.1 percentage points with respect to 2003 while it increases by 12.8 percentage points in 2008. In 2003, in 2005 and in 2008 there is no mixed information. Finally in 2008 the financial reports contain more quantitative and intertemporal information with respect to the documents for 2005 or 2003.

The CSR information (table 9) is identified as non-financial. This information consists mainly of historical and narrative data in all periods considered. In 2008 the quantitative information increases by 7.8 percentage points with respect to the documents for 2005 and by 10.2 percentage points for 2003. In 2005 there is no mixed and forward-looking information.

The seventh information category, risks (table 10), contains non-financial, narrative and historical information. This is confirmed in the three periods considered. However in 2005 the financial information increases by 40.5 percentage points with respect to the documents for 2003 settling at a value of 41.5% but decreases by 24.8 percentage points in 2008. In this category the mixed, forward-looking and intertemporal information is not present or accounts for a low value percentage in all the financial reports of analysis for the three periods considered.

In the remaining category, other (table 11), the information is almost completely non-financial, mixed and intertemporal in all periods of analysis. This classification follows a rule used for analysis of the documents in which all the images or photographs present that cannot be correlated to a specific information category and are therefore autonomous in information terms are placed in this area with the main attributes listed above.

7. Conclusions

Returning to the hypothesis expressed in paragraph two, the following considerations can be made in response to the research question underlying the paper.

H1 is partially verified.

For the Italian companies, in the three years analysed, a reduction in the space dedicated to the management discussion was observed, decreasing significantly between 2003 and 2005 and then increasing but without exceeding the values for 2003. The reason for the contraction between 2003 and 2005 can be certainly attributed to introduction of the IFRS which led to focusing of attention on the effects deriving from the change of accounting standards. This information is mainly present in the notes and in the IFRS Transition section. The subsequent increase in space dedicated to the management discussion observed between 2005 and 2008 is the appropriate response to two phenomena which are often difficult to separate: the financial crisis and the change in the laws.

Observing the evolution in the space dedicated to each category, from 2003 to 2008 no important changes were introduced to meet the new information needs of the financial markets. The only exception to this could be the growth of the category risks in favour of a greater corporate transparency and accountability. In this regard, it would appear that the climate of uncertainty due to the financial crisis of 2008 has positively affected this information; for the Italian companies, the new regulations on the management discussion which came into force in 2008 were also a contributory factor. On the other hand, again in 2008 for the companies, it is important to highlight the reduction in vision & strategy information, especially the information oriented to the future. Very little information is provided on the intangible assets in the period analysed despite the growing importance of the intangible assets in company business. The main information refers to the business category and management & shareholders category (with particular reference to corporate governance).

If we look at the categories in detail, in the period 2003-2008 there was a re-definition of the space dedicated to the sub-categories: here again, this phenomenon can be mainly attributed to the changes in the laws and the financial system. In relation to the business category, between 2005 and 2008, in response to the financial crisis there was a significant increase in information on the background & core business, socio-economic environment, market and competitive positioning. The effects of the crisis and the changes in law also led to an increase in information relative to the analysis of company financial performance. The change in the law alone resulted in greater detail being provided in the sub-categories environmental and social information.

As regard the attributes, the information is mainly non-financial and narrative but little space is dedicated to the forward-looking information. Analysis of the results confirms for the three periods considered a prevalence of non-financial information, stable from 2003 to 2005 and increasing between 2005 and 2008. These dynamics induce a twofold reflection: on the one hand it responds to the new "stakeholder information" expectations and the need for development of the traditional financial reporting model towards a model that also offers non-financial information; on the other, the economic context of serious financial instability and uncertainty may have induced the compiler of the financial statement to make greater use of mainly non-financial information. These observations are further strengthened by observing the "mode of expression" and the time orientation. With reference to the modes of expression, a clear prevalence of narrative information is observed for the three years, decreasing from 2003 to 2005 and then significantly increasing between 2005 and 2008.

In relation to the time orientation, little space is dedicated to forward-looking information which decreases from 2005 to 2008.

8. Limitations and future research

The paper is the result of a first application of the method chosen for analysis of disclosure in quantitative and qualitative terms, in the spatial and temporal dimension. Some of the results found (i.e. information on CSR) are affected by the specific sector in which the company selected was operating.

In the future the analysis will be extended to a larger number of both Italian and UK listed companies (content analysis methodology permitting) in order to enlarge the database as a means of achieving a much deeper statistical analysis. We will compare Italian and UK listed companies due to the profound differences existing at the level of economic reference environment: the main purpose will be to study whether there any differences between the communication models of Italian companies and those of UK companies. The companies will be selected by matching two criteria: dimension (capitalisation) and industry. Statistical analysis of the data will then be used to identify the determinants of corporate communication behaviour.

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Appendix 1

Information categories

IFRS

The present consolidated financial statements are prepared in accordance with IFRS – International Financial Reporting Standards - in conformity with European Regulation No. 1725, published in the official gazette in October 2003, which render the application of the above-mentioned accounting standards for consolidated financial statements of companies listed on regulated European markets obligatory. (Dada-annual report 2005 p.7).

Background

In 2005 most of our cooling production was done in Carinaro, both free-standing and built-in, with over 1.5 million units coming off the line. (Indesit-annual report 2005 p. 8).

Vision & Strategy

The strategy to strengthen capabilities in the area of product innovation has seen major progress with the creation and activation of the new "Innovation and Technology" Department which focuses on medium/long-term technological innovation across product lines, with a view to seizing the escalating opportunities offered by technology and transforming them rapidly into new product features and performance. (Indesit-annual report 2005 p. 15).

Management & Shareholder

The Corporate Governance system in force within BIESSE S.p.A. is based on and tends towards the standards contained in the Code for Self-Regulation of Listed Companies. (Biesse 2005-annual report 2005 p. 22).

Intangible assets

Development of a high range (LM) and medium range (Hart) cutting bench, to cut laminated sheets, mainly used in the building sector, comprising a structure on which it is possible to set up transport belts to move the sheet and carry out cuts of various depths. (Biesse-annual report 2005 p. 31).

CSR information

The Mediaset Group, though not being an industrial processing company, believes it essential to disclose information to better meet stakeholder needs in relation to some environmental performance related indicators. (Mediaset-annual report 2008 p. 78).

Risks

From the context described above, it is possible to detect a risk of a lower interest towards the so-called free-to-air generalistic television by viewers who have increasingly become more aware and increasingly demanding in terms of the new communication media and, consequently, there is a risk that the Group will not be in a position to adequately monitor opportunities deriving from emerging business. (Mediaset-annual report 2008 p. 61).

Other

The European Union adopted the WEEE (Waste Electrical and Electronic Equipment) Directive in December 2002, which makes manufacturers responsible at a European level for the recovery and disposal of waste products. (Indesit-annual report 2005 p. 22).

Attributes

Financial (F)

Earnings before tax and minority interest totalled EUR 693.0 million, against EUR 1,095.5 million posted in 2007. (Mediaset-annual report 2008 p. 5).

Non Financial (NF)

Over the year we carried forward re-organization to create a more integrated and result-focused management and invested in research to develop even more innovative, higher quality products. (Indesit-annual report 2005 p. 5).

Narrative (N)

We can state that with the above reported relationships, the applied contractual conditions are no different than those that can be theoretically obtained from negotiations with third parties. (Biesse-annual report 2005 p. 33).

Quantitative (Q)

GDP projections at the global level show a considerable reduction for 2009, down to 0.2% growth against the 3.9% registered in 2008 and 5.4% in 2007. (Mediaset-annual report 2008 p. 8).

Mixed (M)

Based on comparable data, the difference in total television costs including amortisation, depreciation and write-downs was up 0.8%, a limited growth, mainly resulting from allocations to the bad debt fund. (Mediaset 2008-annual report 2008 p. 49).

Historical (H)

According to the most recent figures issued by Acimall, - the woodworking machinery sector business association - the last quarter of 2005 ended on a positive note; from October to December, in fact, orders increased by 7.4 percent as compared with the last quarter of 2004, confirming the [more timid] positive trend recorded for the preceding quarter. (Biesse-annual report 2005 p. 14).

Forward looking (FL)

A groth trend is instead expected for the 2010-2011 two-year period, taking GDP back to the same growth levels achieved in 2008. (Mediaset-annual report 2008 p. 8).

Intertemporal (I)

Inflation has dropped, thanks to plummeting raw material prices on the international markets and it is expected to reach zero by the summer of 2009. (Mediaset-annual report 2008 p. 4).

Appendix 2

Company	Sector of activity	Cap. 2003	Cap. 2004	Cap. 2005	Cap. 2006	Cap. 2007	Cap. 2008	Cap. Average
Acea	Electricity	1,080,675	1,697,295	1,785,721	3,088,321	3,024,557	2,047,899	2,120,745
Alerion Industries	Financial Services (Sector)	222,863	190,054	178,050	190,854	284,680	177,365	207,311
Bastogi	Support Services	105,445	100,037	182,501	175,742	221,029	26,308	135,177
Beghelli	Electronic & Electrical Equipm	107,093	112,833	120,173	105,424	219,507	101,599	127,772
Biesse	Industrial Engineering	56,651	69,210	181,026	423,770	350,984	105,669	197,885
Caltagirone Editore	Construction & Materials	545,308	586,513	765,405	865,956	754,354	293,693	635,205
CDC	Technology Hardware & Equipment	115,941	130,712	112,503	78,472	40,779	11,872	81,713
Dada	Software & Computer Services	75,170	84,324	216,001	262,675	261,095	108,977	168,040
Gruppo Editoriale L'Espresso	Media	2,119,717	1,904,717	1,918,372	1,742,679	1,243,329	466,207	1,565,837
Indesit Company	Household Goods & Home Constru	1,493,927	1,283,412	895,566	1,269,662	1,094,946	440,115	1,079,605
Mediaset	Media	11,098,300	11,002,590	10,153,400	10,219,350	7,846,856	4,605,269	9,154,294
Mondadori Editore	Media	1,718,384	2,063,263	1,880,703	1,908,222	1,345,047	833,475	1,624,849
Sabaf	Industrial Engineering	153,952	216,956	200,566	299,985	256,043	173,002	216,751
Saipem	Oil Equipment & Services	2,811,522	3,874,382	6,036,811	8,591,101	11,969,830	5,142,447	6,404,349

Appendix 3

Table 1. Overall results

Overall results	**2003**	**2005**	**2008**
Total no. of pages examined (aggregated)	586	682	870
Total no. of pages of annual report (aggregated)	1.412	1.848	2.155
No. lines per page (mean)	49	53	54
Total no. of lines (aggregated)	28,509	36,457	46,853
No. of content lines (aggregated)	20,232	22,360	32,416
No. of blank lines (aggregated)	8,278	14,097	14,438
Total no. of lines (aggregated)	28,509	36,457	46,853
No. of pages examined/No. total pages	41.5%	36.9%	40.4%
No. of content lines/Total no. of lines	71.0%	61.3%	69.2%
No. of blank lines/Total no. of lines	29.0%	38.7%	30.8%

Table 2. Results per information category

Information category	**Content distribution (n° lines per category/total n° lines of content) %**		
	2003	**2005**	**2008**
IFRS	0.6	0.9	0.2
Business	59.5	61.2	51.9
Vision and strategy	3.1	1.7	1.4
Management and shareholders	23.1	19.7	23.7
Intangible assets	2.4	1.7	2.4
CSR information	6.1	7.6	7.2
Risks	1.0	1.1	7.5
Other	4.2	6.1	5.7
Total	100.0	100.0	100.0

Table 3. Results per attributes

Attributes	**Attribute distribution (n° lines per attribute/total n° lines of content) %**		
	2003	**2005**	**2008**
Financial (F)	40.6	41.7	34.7
Non-financial (NF)	59.4	58.3	65.3
Narrative (N)	48.4	43.9	52.0
Quantitative (Q)	38.1	37.5	31.8
Mixed (M)	13.5	18.7	16.3
Historical (H)	93.2	87.3	88.3
Forward-looking (FL)	1.5	0.9	0.9
Intertemporal (I)	5.3	11.8	10.8

Table 4. Results per categories/attributes: IFRS

Attributes	**Attribute distribution per category (n° lines attribute per category/total n° lines of content category) %**		
	2003	**2005**	**2008**
Financial (F)	10.7	74.5	40.7
Non-financial (NF)	89.3	25.5	59.3
Narrative (N)	100.0	90.7	96.7
Quantitative (Q)	0.0	4.8	3.3
Mixed (M)	0.0	4.5	0.0
Historical (H)	68.9	100.0	87.8
Forward-looking (FL)	17.8	0.0	12.2
Intertemporal (I)	13.3	0.0	0.0

Table 5. Results per categories/attributes: business

Attributes	**Attribute distribution per category (n° lines attribute per category/total n° lines of content category) %**		
	2003	**2005**	**2008**
Financial (F)	54.4	54.9	52.5
Non-financial (NF)	45.6	45.1	47.5
Narrative (N)	37.9	33.1	35.6
Quantitative (Q)	49.2	47.6	46.0
Mixed (M)	13.0	19.3	18.4
Historical (H)	95.9	90.3	90.7
Forward-looking (FL)	1.5	0.8	1.2
Intertemporal (I)	2.6	8.9	8.1

Table 6. Results per categories/attributes: vision & strategy

Attributes	Attribute distribution per category (n° lines attribute per category/total n° lines of content category) %		
	2003	**2005**	**2008**
Financial (F)	11.1	1.3	12.0
Non-financial (NF)	88.9	98.7	88.0
Narrative (N)	86.7	74.0	67.3
Quantitative (Q)	11.9	26.0	8.3
Mixed (M)	1.4	0.0	24.4
Historical (H)	81.2	56.3	56.2
Forward-looking (FL)	12.9	13.9	11.5
Intertemporal (I)	5.9	29.8	32.3

Table 7. Results per categories/attributes: management & shareholder

Attributes	Attribute distribution per category (n° lines attribute per category/total n° lines of content category) %		
	2003	**2005**	**2008**
Financial (F)	32.4	32.6	22.0
Non-financial (NF)	67.6	67.4	78.0
Narrative (N)	64.5	67.5	78.2
Quantitative (Q)	26.9	27.1	17.6
Mixed (M)	8.6	5.3	4.2
Historical (H)	98.4	97.0	98.1
Forward-looking (FL)	0.4	0.2	0.2
Intertemporal (I)	1.3	2.8	1.6

Table 8. Results per categories/attributes: intangible assets

Attributes	Attribute distribution per category (n° lines attribute per category/total n° lines of content category) %		
	2003	**2005**	**2008**
Financial (F)	8.1	1.0	13.9
Non-financial (NF)	91.9	99.0	86.1
Narrative (N)	88.1	94.2	81.1
Quantitative (Q)	11.9	5.8	18.9
Mixed (M)	0.0	0.0	0.0
Historical (H)	99.2	93.3	88.8
Forward-looking (FL)	0.6	2.1	1.4
Intertemporal (I)	0.2	4.6	9.8

Table 9. Results per categories/attributes: CSR information

Attributes	Attribute distribution per category (n° lines attribute per category/total n° lines of content category) %		
	2003	**2005**	**2008**
Financial (F)	2.6	6.1	4.9
Non-financial (NF)	97.4	93.9	95.1
Narrative (N)	72.8	66.3	63.4
Quantitative (Q)	26.4	28.8	36.6
Mixed (M)	0.7	4.8	0.0
Historical (H)	99.4	93.7	99.6
Forward-looking (FL)	0.0	1.6	0.0
Intertemporal (I)	0.6	4.7	0.4

Table 10. Results per categories/attributes: risks

Attributes	Attribute distribution per category (n° lines attribute per category/total n° lines of content category) %		
	2003	**2005**	**2008**
Financial (F)	1.0	41.5	16.7
Non-financial (NF)	99.0	58.5	83.3
Narrative (N)	65.8	81.9	90.8
Quantitative (Q)	33.2	18.1	6.5
Mixed (M)	1.0	0.0	2.7
Historical (H)	95.0	100.0	94.9
Forward-looking (FL)	0.0	0.0	0.5
Intertemporal (I)	5.0	0.0	4.6

Table 11. Results per categories/attributes: others

Attributes	Attribute distribution per category (n° lines attribute per category/total n° lines of content category) %		
	2003	**2005**	**2008**
Financial (F)	0.0	0.4	0.0
Non-financial (NF)	100.0	99.6	100.0
Narrative (N)	12.5	11.6	9.1
Quantitative (Q)	0.0	0.0	0.0
Mixed (M)	87.5	88.4	90.9
Historical (H)	26.3	20.9	11.1
Forward-looking (FL)	0.0	0.0	0.0
Intertemporal (I)	73.7	79.1	88.9