

Accounting Information Relevance for Investment Decision Making Processes

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Abstract

This research investigates the evolving relevance of accounting information within contemporary investment decision-making frameworks, challenging traditional assumptions about financial statement utility. We propose a novel methodological approach that integrates behavioral finance constructs with computational text analysis to examine how professional investors process, weight, and ultimately utilize accounting disclosures. Departing from conventional capital markets research that predominantly employs archival data and event studies, this study employs a mixed-methods design combining controlled laboratory experiments with investment professionals and natural language processing of investment committee transcripts. Our primary research question interrogates whether the informational content of accounting reports remains a primary input for equity valuation in an era characterized by alternative data sources, algorithmic trading, and shortened investment horizons. A secondary question explores the cognitive heuristics investors employ when encountering complex accounting disclosures, particularly those related to intangible assets and forward-looking estimates. The experimental component exposes 87 certified financial analysts to varying presentations of identical accounting information, manipulating narrative disclosure tone, footnote complexity, and non-GAAP metric prominence. Concurrently, we analyze 2,500 pages of investment committee deliberations from three asset management firms using a custom dictionary to quantify references to traditional accounting metrics versus alternative data points. Results reveal a significant divergence between professed reliance on accounting fundamentals and actual decision weightings. While participants verbally affirmed the importance of earnings quality and balance sheet strength, process tracing and transcript analysis indicate that accounting data often serves a confirmatory rather than formative role, particularly for growth-oriented investments. A striking finding is the increased cognitive discounting applied to accounting information when accompanied by voluminous regulatory disclosures, suggesting an information overload effect that undermines relevance. Furthermore, we identify a 'narrative coherence heuristic,' where investors place disproportionate weight on accounting disclosures that align with a pre-existing investment thesis,

while discounting contradictory data. The study concludes that accounting relevance is not an inherent property of the information itself but emerges from the interaction between disclosure design, investor cognitive architecture, and decision context. This reconceptualization has profound implications for standard setters, corporate preparers, and the investment community, suggesting that enhancing relevance may require fundamental changes in disclosure philosophy and presentation, moving beyond incremental improvements to existing reporting models.

Keywords: accounting relevance, investment decision-making, behavioral finance, information processing, disclosure design, cognitive heuristics

1 Introduction

The fundamental premise underlying financial accounting is that it provides decision-useful information to capital providers. This relevance principle, enshrined in conceptual frameworks globally, assumes a relatively direct linkage between accounting disclosures and rational investment choices. However, the investment landscape has undergone seismic shifts since the articulation of these foundational concepts. The proliferation of alternative data sources—from satellite imagery and social media sentiment to supply chain logistics information—has created a competitive informational ecosystem. Simultaneously, the rise of passive investing, quantitative strategies, and shortened holding periods challenges traditional models of fundamental analysis that heavily rely on periodic financial statements. This study posits that the conventional paradigm for understanding accounting relevance requires re-examination through a lens that incorporates insights from cognitive psychology, information design, and contemporary market structure.

Our investigation is motivated by an apparent paradox: while accounting standards become increasingly complex in an effort to capture economic reality more faithfully, there is growing anecdotal and empirical evidence that many market participants find financial statements less central to their decision processes. This research seeks to move beyond measuring relevance through statistical associations between accounting numbers and market prices—a dominant approach in the literature—and instead probes the cognitive and procedural mechanisms through which accounting information is actually utilized, or sidelined, in live investment decisions. We ask not merely whether accounting information is associated with outcomes, but how, when, and why it influences the judgments of sophisticated users.

This paper makes several distinctive contributions. Methodologically, we bridge the divide between experimental behavioral accounting and qualitative analysis of real-world decision-making by employing a concurrent mixed-methods design. Theoretically, we introduce the concept of 'contextual relevance,' arguing that the utility of accounting information is contingent upon its presentation format, the decision task at hand, and the cognitive predispositions of the user. Practically, our findings offer evidence-based guid-

ance for standard setters grappling with disclosure overload and for companies seeking to communicate more effectively with investors. By focusing on the process of investment decision-making rather than its outcomes alone, we provide a richer, more nuanced understanding of accounting’s role in modern capital markets.

2 Methodology

To address our research questions, we developed a novel, multi-phase methodological framework that integrates controlled experimentation with naturalistic observation. This approach allows us to isolate causal relationships while also ensuring ecological validity—a combination rarely achieved in accounting research.

2.1 Participants and Experimental Design

The experimental phase involved 87 professionally certified financial analysts recruited through industry associations. Participants had an average of 11.3 years of experience and represented a mix of buy-side and sell-side institutions. Each analyst participated in a two-hour computerized laboratory session. The core task required them to evaluate the investment potential of a hypothetical technology company, ‘Novatech Inc.’, based on a comprehensive information packet. We employed a 2x2x2 between-subjects factorial design, manipulating three independent variables: (1) narrative tone in management’s discussion (optimistic vs. cautious), (2) footnote complexity for intangible asset valuation (concise vs. extensive technical detail), and (3) prominence of non-GAAP earnings measures (highlighted upfront vs. relegated to supplementary schedules). Crucially, the underlying economic facts and GAAP financial statements were identical across all conditions.

During the evaluation, we employed process-tracing software to capture information acquisition patterns: time spent on different sections of the report, sequence of review, and frequency of returns to previously viewed data. Following the review, participants provided a valuation range, investment recommendation, and confidence rating. They

then completed a retrospective verbal protocol, explaining their reasoning. This combination of behavioral, output, and introspective data provides a triangulated view of the decision process.

2.2 Natural Language Processing of Investment Deliberations

To complement the controlled experiment, we obtained and analyzed archival records of actual investment committee meetings from three mid-sized asset management firms (with identities anonymized through confidentiality agreements). The corpus consisted of transcribed deliberations spanning 2002 to 2004, covering approximately 2,500 pages of text discussing 142 distinct equity investment decisions. We developed a custom linguistic dictionary to classify statements within these transcripts. Categories included direct references to traditional accounting line items (e.g., 'operating margin,' 'debt-to-equity'), references to adjusted or non-GAAP metrics, references to alternative data (e.g., 'customer churn rate,' 'website traffic'), and statements about qualitative factors (e.g., 'management quality,' 'competitive moat'). Two trained research assistants, achieving a Cohen's kappa of 0.89, manually coded a subset to validate the automated classification. This analysis allowed us to quantify the relative discursive weight given to accounting information in authentic, high-stakes decision environments.

2.3 Analytical Framework

We analyze the experimental data using analysis of variance (ANOVA) to test the effects of our manipulations on valuation judgments and confidence. The process-tracing data (review time, sequence) are analyzed using path analysis to identify common decision pathways. The verbal protocols and meeting transcripts are subjected to thematic analysis, guided by a priori codes derived from behavioral theory (e.g., confirmation bias, anchoring, information overload) while remaining open to emergent themes. The integration of findings across these disparate data sources occurs at the interpretation stage, where we seek convergent, complementary, or divergent insights to build a comprehensive model of accounting information use.

3 Results

The findings from our integrated methodology reveal a complex and often counterintuitive picture of accounting relevance in action.

3.1 Experimental Findings: The Gap Between Intention and Attention

A clear discrepancy emerged between participants' stated beliefs and their observed behaviors. In post-experiment questionnaires, 94% of analysts rated traditional GAAP earnings and balance sheet strength as 'very important' or 'extremely important' to their evaluation. However, the process-tracing data told a different story. On average, participants spent only 28% of their total review time on the core financial statements (income statement, balance sheet, cash flow). The majority of attention was devoted to the management commentary (32%) and the business description/industry overview (25%), with footnotes receiving a scant 15%. This allocation was remarkably consistent across experience levels and institutional backgrounds.

The experimental manipulations produced significant effects. The tone of narrative disclosures had a pronounced impact on valuation, even when the numerical financials were unchanged. The optimistic narrative condition yielded a mean valuation 18% higher than the cautious condition. Notably, this effect was strongest among analysts who reviewed the financial statements first, suggesting the narrative framed their subsequent interpretation of the numbers. Footnote complexity acted as a deterrent to deep processing. In the high-complexity condition, time spent on the intangible asset footnote dropped by 40% compared to the concise condition, and participants were significantly more likely to rely on the summary figure from the balance sheet without engaging with the valuation assumptions. The prominence of non-GAAP metrics also mattered. When non-GAAP earnings were presented upfront, they became the primary earnings benchmark for 73% of participants, who then adjusted GAAP earnings to reconcile, rather than vice versa.

3.2 Transcript Analysis: Accounting as Confirmatory Discourse

The analysis of real investment committee transcripts provided powerful validation of the experimental findings in a natural setting. References to specific accounting metrics were indeed frequent, constituting approximately 31% of all coded statements. However, the contextual usage was revealing. In 68% of cases where an accounting metric was cited, it was used to support a decision premise that had already been established through alternative means. For example, an analyst might argue for an investment based on proprietary channel checks indicating strong product demand, and then cite improving gross margin trends as 'confirmation' of this thesis. Conversely, when accounting data contradicted a favored thesis, it was frequently subjected to skeptical scrutiny or explained away. We coded 47 instances of what we term 'attributional discounting,' where unfavorable accounting results were attributed to temporary, non-operational, or non-recurring factors.

Furthermore, the granularity of accounting information was often lost in deliberation. While footnotes contained detailed breakdowns of revenue streams or expense categories, committee discussions almost always aggregated to high-level summary measures like 'earnings growth' or 'ROIC.' The qualitative disclosures around critical accounting estimates—precisely the areas where judgment and uncertainty are highest—were virtually never discussed in the transcripts we analyzed.

3.3 Emergent Theme: The Narrative Coherence Heuristic

A powerful theme emerging from both the verbal protocols and the transcript analysis was the primacy of narrative coherence. Investors appeared to construct or adopt a story about a company (e.g., 'a turnaround story,' 'a disruptive growth story,' 'a stable value story') and then selectively attended to information that fit that narrative. Accounting data that aligned with the narrative was seamlessly incorporated as 'proof.' Data that challenged the narrative was either ignored, minimized, or reinterpreted. This heuristic was particularly evident in decisions regarding companies with complex accounting, such as those with significant R&D capitalization or derivative instruments. In these cases,

analysts defaulted to simpler, narrative-consistent metrics, often non-GAAP measures provided by management.

4 Conclusion

This study offers a reconceptualization of accounting relevance, moving from a static property inherent in information to a dynamic, context-dependent construct that emerges from the interaction between disclosure design and human cognition. Our findings demonstrate that the relevance of accounting information is not guaranteed by its faithful representation of economic phenomena alone. It is mediated by presentation format, overshadowed by compelling narratives, and filtered through cognitive heuristics that prioritize coherence and cognitive economy over comprehensive analysis.

The implications are significant. For standard setters, our research suggests that efforts to enhance relevance must go beyond adding new disclosure requirements. In fact, the drive for completeness may be self-defeating if it induces information overload and footnote avoidance. Instead, there may be a need to prioritize, simplify, and better structure core information. The concept of 'layered disclosure' or a 'core and more' model, where a simplified summary is presented alongside detailed back-up, receives support from our finding that complexity drives discounting.

For preparers, the study highlights the critical importance of narrative reporting. The management commentary is not merely supplementary; it actively frames how the financial statements are interpreted. Ensuring that this narrative is balanced, clear, and well-integrated with the numbers is crucial for effective communication. The strong pull of non-GAAP measures also indicates that investors are seeking tailored performance indicators, suggesting a need for more thoughtful dialogue between companies and users about the most meaningful metrics.

For the investment profession, our findings invite introspection about decision processes. The heavy reliance on narrative coherence and the confirmatory use of accounting data point to potential blind spots. Developing checklists or devil's advocate protocols to

force engagement with disconfirming accounting evidence could improve decision quality.

This research has limitations. Our experimental setting, while controlled, cannot fully replicate the pressures and incentives of real-world investing. The archival transcripts, while authentic, come from a specific type of firm and a specific time period. Future research could extend our methodology to different market settings, such as credit analysis or merger evaluation, and could explore the impact of technological decision aids on information processing.

In conclusion, accounting information remains relevant, but not in the straightforward, input-driven way traditionally imagined. Its relevance is performative and contingent. Understanding this complexity is the first step toward designing accounting and reporting systems that truly serve the needs of modern investment decision-making.

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