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# ANALYSIS OF PRECONDITIONS FOR EBR IN EUROPE AND THE USA

Enrique Bonsón, Virginia Cortijo, Tomás Escobar  
University of Huelva, Spain

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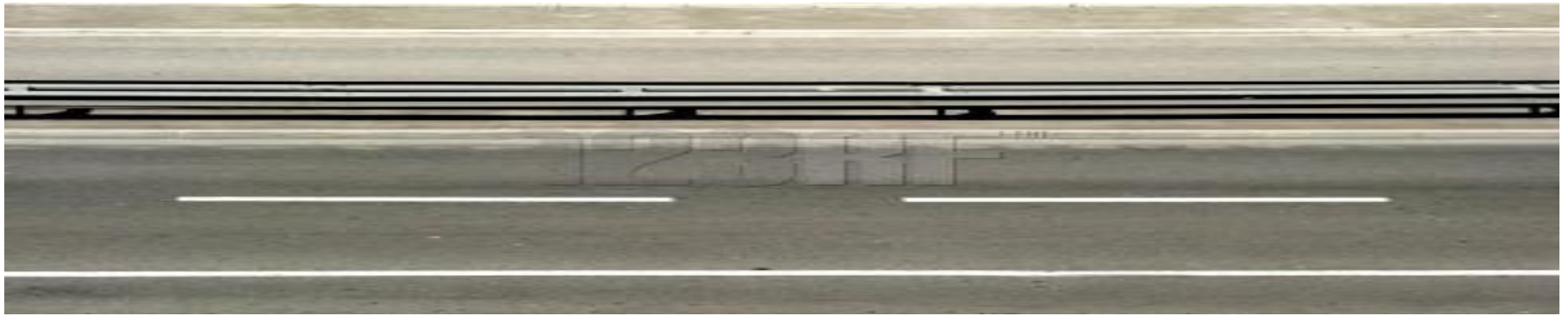
# MOTIVATION

- Financial scandals → Initiatives:
    - Sarbanes-Oxley Act
    - EBR Model (AICPA) → overcome the deficiencies of the traditional business reporting model:
      - Content limitations
      - Structure limitations
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# MOTIVATION

- Financial scandals → Initiatives:
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      - Content limitations → **Internet**
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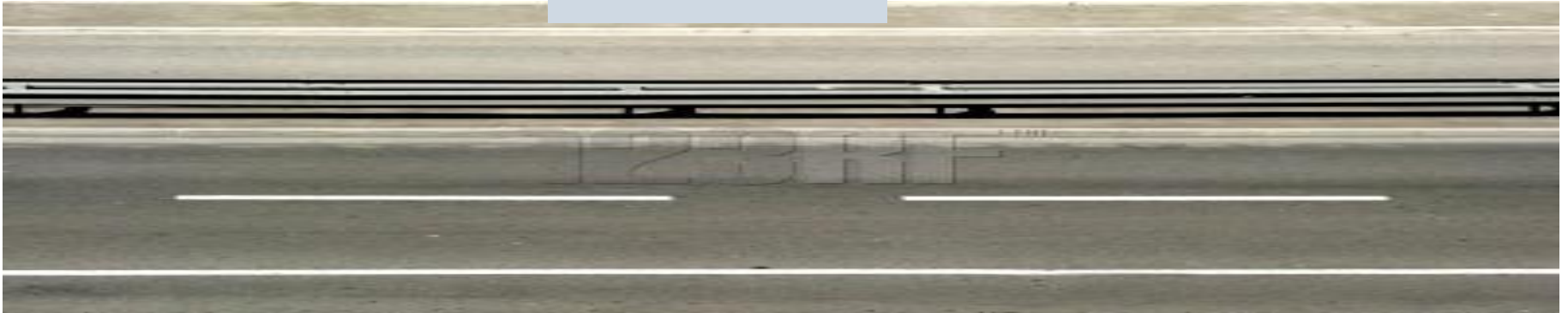


Traditional  
Business  
Reporting



Objective:  
EBR

Internet



Traditional  
Business  
Reporting



Objective:  
EBR

Internet



Traditional  
Business  
Reporting



Objective:  
EBR

WHERE IS THE CAR???????

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# OBJECTIVE

- Analyze the extent to which the Internet is overcoming the content limitations → gap between the information that companies should disclose, according to the EBR framework and the information they currently provide



- Sample of 200 companies → Do they currently report the information contained in the EBR framework ???
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# METHODOLOGY

- Sample: 100 North-American and 100 European companies with a higher market capitalization according to the ranking published by Fortune magazine, on July 23rd, 2007.
  - Procedure:
    - Create a Disclosure Index (DI) based on the EBR framework
    - Using this DI, we checked whether company annual reports included the information suggested by the EBRC
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# EBR Disclosure Index

|                    |                      |  |
|--------------------|----------------------|--|
| BUSINESS LANDSCAPE | Economic             | V01. GDP Growth  |
|                    |                      | V02. Interest rates  |
|                    |                      | V03. Inflation rates   |
|                    |                      | V04. Currency exchange rates   |
|                    | Industry Analysis    | V05. Major competitors: strategies, strengths & weaknesses                                     |
|                    |                      | V06. Customer preferences and trends   |
|                    |                      | V07. Supplier capabilities   |
|                    |                      | V08. Dynamics of supply  |
|                    |                      | V09. Dynamics of demand  |
|                    |                      | V10. Management's view of the industry's prospects   |
|                    | Technological Trends | V11. Key technologies/ trends which affect the company & all the members of its supply chain   |
|                    |                      | V12. Competing technologies  |
|                    |                      | V13. Intellectual property issues  |
|                    |                      | V14. Pace of technological innovation  |
|                    | Political            | V15. Analysis of the major political issues in the countries where the company operates        |
|                    |                      | V16. Potential shifts in power between pro-business/ anti-business parties                     |
|                    |                      | V17. Trade policies  |
|                    |                      | V18. Relevant pending legislation  |
|                    | Legal                | V19. Legal cases & decisions, new regulations & regulatory actions that can affect the company |
|                    | Environmental        | V20. Key environmental issues & concerns related to the company's operations                   |
|                    |                      | V21. Stakeholder groups actively involved in these issues and concerns                         |
|                    |                      | V22. What these groups are trying to accomplish and through what means                         |
|                    | Social               | V23. Key demographic trends  |
|                    |                      | V24. Lifestyle trends  |
|                    |                      | V25. Social attitudes and norms  |
|                    |                      | V26. Consumer preferences  |
|                    |                      |  |

# EBR Disclosure Index

|                                   |                          |   |
|-----------------------------------|--------------------------|---|
| STRATEGY                          | Vision & Mission         | V28. Management's description of the long term vision for the company           |
|                                   |                          | V29. Management's description of the mission for the company                    |
|                                   | Strengths                | V30. Management's description of the company's absolute and relative strengths  |
|                                   | Weaknesses               | V31. Management's description of the company's absolute and relative weaknesses |
|                                   | Opportunities            | V32. Management's perspective on the opportunities facing the company           |
|                                   | Threats                  | V33. Management's perspective on the threats facing the company                 |
|                                   | Goals & Objectives       | V34. Financial goals  |
|                                   |                          | V35. Non-financial goals  |
|                                   | Corporate Strategy       | V36. Company's overall corporate strategy                                       |
|                                   | Business Unit Strategies | V37. Business unit strategies   |
|                                   | Business Portfolio       | V38. Relationships between the different business unit strategies               |
|                                   |                          | V39. Vertical and horizontal integration  |
|                                   |                          | V40. Common customers   |
| V41. Shared distribution channels |                          |   |

# EBR Disclosure Index

|                              |                        |  |
|------------------------------|------------------------|--|
| RESOURCES &<br>PROCESSES (I) | Monetary Capital       | V42. Borrowing capacity/ access to capital   |
|                              |                        | V43. Quality of earnings   |
|                              |                        | V44. Character/ reputation of the company's major debt & equity investors                              |
|                              |                        | V45. Stability of the shareholder base   |
|                              | Physical Capital       | V46. Plant location  |
|                              |                        | V47. Plant adaptability  |
|                              |                        | V48. Raw material accessibility  |
|                              |                        | V49. Reliance on strategic resources   |
|                              | Relational Capital     | V50. Contracts/ licenses, joint venture agreements/ alliances with other organizations & third parties |
|                              |                        | V51. Long-term relationships with no contractual basis and personal relationships                      |
|                              | Organizational Capital | V52. Patents, trademarks, copyrights, formulas, data bases   |
|                              |                        | V53. Employed but undocumented methodologies and processes   |
|                              | Human Capital          | V54. Employment contracts  |
|                              |                        | V55. Education, skills & abilities, experiences, attitudes, accomplishments                            |

# EBR Disclosure Index

|                            |                               |   |
|----------------------------|-------------------------------|---|
| RESOURCES & PROCESSES (II) | Develop Vision & Strategy     | V56. Description of the processes by which the company develops its vision & strategy at the corporate level                                    |
|                            |                               | V57. Description of the processes by which the company develops its vision & strategy at the business unit level                                |
|                            |                               | V58. Determination of the appropriate overall business portfolio  |
|                            |                               | V59. Capital allocation process   |
|                            | Manage Internal Resources     | V60. Description of the processes used for managing internal resources (financial, human, capital, information technology, property, knowledge) |
|                            | Manage Products & Services    | V61. Description of the processes used for managing the design/ development of products & services  |
|                            |                               | V62. Description of the processes used for managing the marketing of products & services  |
|                            |                               | V63. Description of the processes used for managing the delivery of products & services   |
|                            | Manage External Relationships | V64. Description of the processes used for managing external relationships with suppliers   |
|                            |                               | V65. Description of the processes used for managing external relationships with customers   |
|                            |                               | V66. Description of the processes used for managing external relationships with governmental & regulatory agencies                              |
|                            |                               | V67. Description of the processes used for managing external relationships with NGOs  |
|                            | Manage Governance Risks       | V68. Description of the processes used for ensuring that the interests of stakeholders are properly represented                                 |
|                            |                               | V69. Description of the processes used for managing risks on a category basis   |
|                            |                               | V70. Description of the processes used for managing risk on an enterprise-wide basis  |

# EBR Disclosure Index

|             |                      |  |
|-------------|----------------------|--|
| PERFORMANCE | GAAP-based           | V71. Revenues  |
|             |                      | V72. Earnings  |
|             |                      | V73. Gross margins   |
|             | GAAP-derived         | V74. Return on investment capital  |
|             |                      | V75. Revenue growth  |
|             | Industry-based       | V76. Financial metrics (e.g. sales per square foot in retail)                            |
|             |                      | V77. Non-financial metrics (e.g. manufacturing yield rates in semiconductors)            |
|             | Company-specific     | V78. Financial metrics (e.g. % of revenues from products introduced in the last 3 years) |
|             |                      | V79. Non-financial metrics (e.g. employee turnover)                                      |
|             | Capital Market-based | V80. Total return to shareholders  |
|             |                      | V81. Debt ratings  |
|             |                      | V82. Weighted average cost of capital  |

# AGGREGATED RESULTS

|                          | EUROPE |         | U.S.A |         |
|--------------------------|--------|---------|-------|---------|
|                          | Mean   | St.Dev. | Mean  | St.Dev. |
| Business Landscape       | 68,52  | 29,39   | 60,66 | 27,66   |
| Strategy                 | 67,58  | 21,44   | 70,25 | 18,91   |
| Resources &<br>Processes | 77,68  | 24,75   | 76,10 | 30,43   |
| Performance              | 98,83  | 1,64    | 97,67 | 2,31    |

# BUSINESS LANDSCAPE

|                      | EUROPE       |              | U.S.A.       |              |
|----------------------|--------------|--------------|--------------|--------------|
|                      | Mean         | St.Dev.      | Mean         | St.Dev.      |
| Economic             | 60,75        | 12,84        | 26,5         | 9,15         |
| Industry Analysis    | 67,00        | 29,35        | 64           | 34,93        |
| Technological Trends | 60,75        | 42,43        | 67,25        | 35,83        |
| Political            | 66,50        | 34,86        | 56,75        | 42,20        |
| Legal                | 100,00       | NA           | 100,00       | NA           |
| Environmental        | 67,67        | 27,14        | 59,33        | 19,63        |
| Social               | 57,00        | 29,72        | 50,80        | 24,20        |
| <b>TOTAL</b>         | <b>68,52</b> | <b>29,39</b> | <b>60,66</b> | <b>27,66</b> |

USA



EU



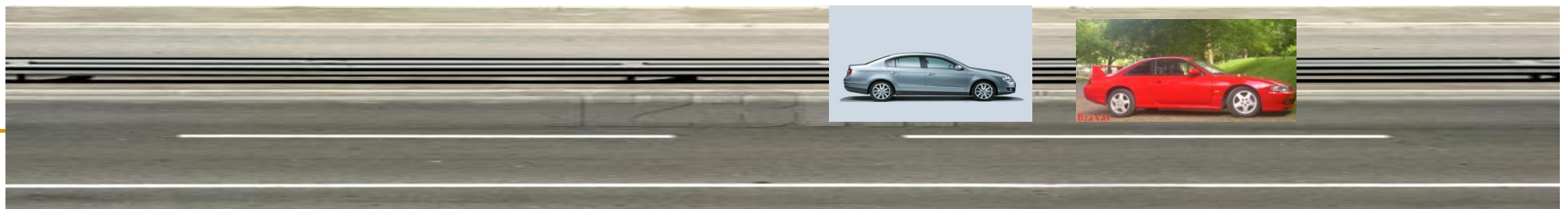
# STRATEGY

|                          | EUROPE       |              | U.S.A.       |              |
|--------------------------|--------------|--------------|--------------|--------------|
|                          | Mean         | St.Dev.      | Mean         | St.Dev.      |
| Vision & Mission         | 53,50        | 12,02        | 63,50        | 7,78         |
| Strengths                | 49,00        | NA           | 75,00        | NA           |
| Weaknesses               | 2,00         | NA           | 0,00         | NA           |
| Opportunities            | 58,00        | NA           | 83,00        | NA           |
| Threats                  | 98,00        | NA           | 98,00        | NA           |
| Goals & Objectives       | 99,00        | 0,00         | 88,50        | 0,71         |
| Corporate Strategy       | 98,00        | NA           | 98,00        | NA           |
| Business Unit Strategies | 96,00        | NA           | 75,00        | NA           |
| Business Portfolio       | 54,75        | 52,29        | 51,25        | 48,25        |
| <b>TOTAL</b>             | <b>67,58</b> | <b>21,44</b> | <b>70,25</b> | <b>18,91</b> |

**EU**



**USA**



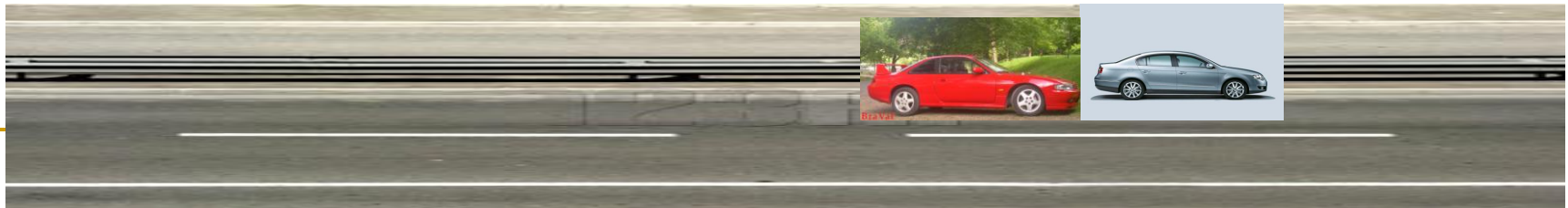


# RESUORCES & PROCESSES

|                               | EUROPE       |              | U.S.A.       |              |
|-------------------------------|--------------|--------------|--------------|--------------|
|                               | Mean         | St.Dev.      | Mean         | St.Dev.      |
| Monetary Capital              | 58,25        | 38,09        | 67,00        | 44,63        |
| Physical Capital              | 40,50        | 37,79        | 53,00        | 39,40        |
| Relational Capital            | 78,00        | 31,11        | 51,50        | 68,59        |
| Organizational Capital        | 71,50        | 34,65        | 61,50        | 50,20        |
| Human Capital                 | 97,00        | 4,24         | 98,50        | 2,12         |
| Develop Vision & Strategy     | 67,50        | 36,97        | 86,00        | 18,06        |
| Manage Internal Resources     | 100,00       | NA           | 98,00        | NA           |
| Manage Products & Services    | 98,67        | 1,15         | 89,00        | 8,19         |
| Manage External Relationships | 86,00        | 17,09        | 80,25        | 13,23        |
| Manage Governance Risks       | 98,67        | 1,15         | 98,67        | 1,15         |
| <b>TOTAL</b>                  | <b>77,68</b> | <b>24,75</b> | <b>76,10</b> | <b>30,43</b> |

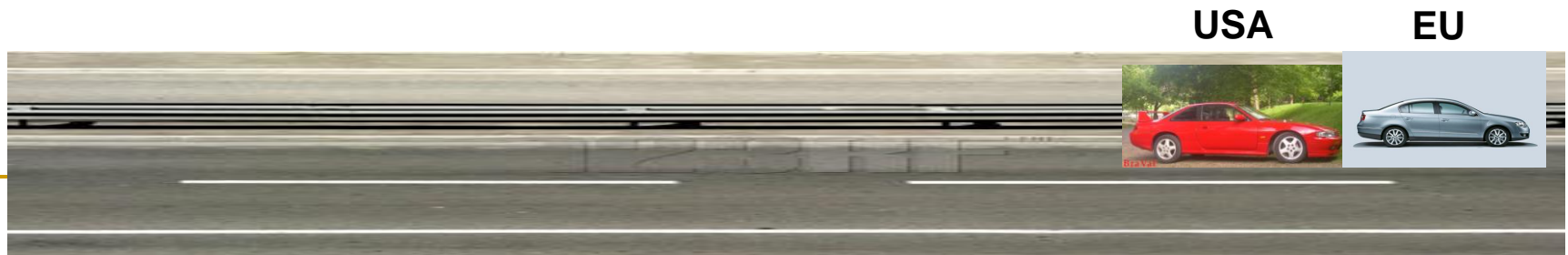
**USA**

**EU**



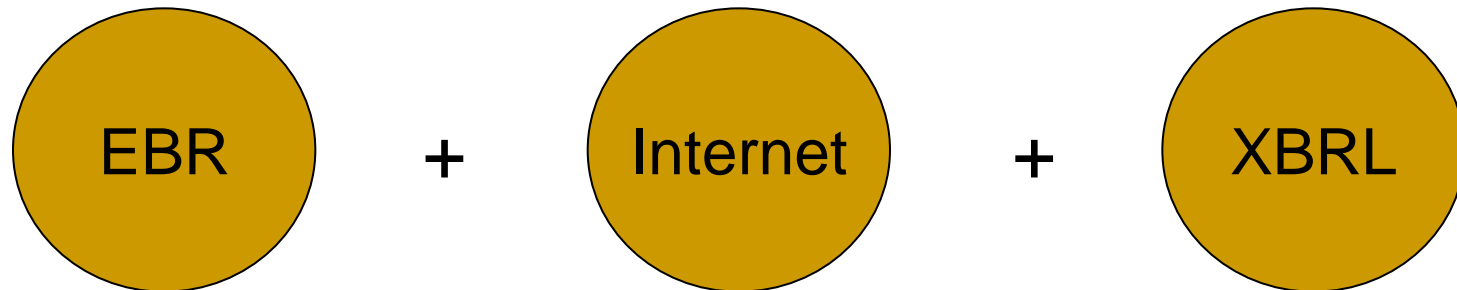
# PERFORMANCE

|                      | EUROPE       |             | U.S.A.       |             |
|----------------------|--------------|-------------|--------------|-------------|
|                      | Mean         | St.Dev.     | Mean         | St.Dev.     |
| GAAP-based           | 100,00       | 0,00        | 100,00       | 0,00        |
| GAAP-derived         | 99,50        | 0,71        | 99,00        | 0,00        |
| Industry-based       | 100,00       | 0,00        | 98,00        | 0,00        |
| Company-specific     | 100,00       | 0,00        | 99,00        | 0,00        |
| Capital Market-based | 94,67        | 7,51        | 92,33        | 11,55       |
| <b>TOTAL</b>         | <b>98,83</b> | <b>1,64</b> | <b>97,67</b> | <b>2,31</b> |



# CONCLUSION

- Results obtained in USA and Europe → reporting practices are very similar .
- Content limitations are currently being overcome → companies disclose most of the information suggested by the EBR framework
- Structure → it is not a problem if companies report their information in XBRL



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THANK YOU FOR YOUR  
ATTENTION

[virginia.cortijo@decd.uhu.es](mailto:virginia.cortijo@decd.uhu.es)

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