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The influence of culture, legal system, and corporate governance on the strategic and operational content of corporate annual reports

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Abstract

We examine aspects of cultural dimensions, legal systems and corporate governance on the extent that firms from the United States, United Kingdom, France and Brazil disclose their strategy in annual reports of 2006. We based our analysis on concepts brought by three theories: cultural dimensions (Hofstede, 1997); legal systems (La Porta, Lopez-De-Silanes and Shleifer, 1999; Glaeser & Shleifer, 2002); and corporate governance (La Porta et al., 1999; Bushman & Smith, 2001). Each company's annual report was entirely analyzed to assess its strategy disclosure. The hypotheses were tested through regression analysis and nonparametric tests of equality of means. The results indicate that the extent to which companies in common law countries disclosure their strategies is greater than in civil law ones. Also, we observed that firms less frequently disclose information with operational content in comparison with information with corporate strategic content.

Keywords: Disclosure, strategy, legal system, corporate governance, cultural dimensions.

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Introduction

This work evaluates the variables that influence the extent of disclosure with strategic and operational content. The annual reports of firms from four countries were content analyzed to test hypotheses formulate to explain how cultural dimensions, legal systems and corporate governance determine the level of observed strategy disclosure. Firms from the United States and the United Kingdom, two common law countries, and France and Brazil, two code laws countries, constitute our sample.

In the capital market context, firms are expected to reveal information on various aspects of their strategy. Firms are also expected to explain how they intend to generate value for their shareholders. In corporate communications directed to investors, firms usually articulate a discourse based on their interpretation of past performance. An analysis of the competitive scenario of their market is frequently presented in order to explain specific decisions taken by management.

From a formal perspective, we adopt the definition of strategy disclosure contained in Santema et al. (2005 p. 354): “The revelation of information an organization decides to share with its stakeholders on the strategy it is pursuing and going to pursue in the future.”

Several studies have found that sell-side equity analysts use elements of strategy, many of them obtained from annual reports, to base their recommendations (Previtts et al., 1994; Breton & Taffler, 2001). Indeed, the firm’s management and strategy seem to be the most important categories of information used by sell-side analysts to base their recommendations (Breton & Taffler, 2001).

However, research on strategy disclosure is surprisingly scarce. Santema and van de Rijt (2001) analyzed annual reports of Dutch companies with respect to strategy disclosure. The authors posited that the extent of strategy disclosure presented in annual reports is positively related to disclosure quality. Using a list with ten criteria as a proxy for strategy disclosure, Santema and van de Rijt (2001) concluded that Dutch companies presented a relatively low level of strategy disclosure, especially information about overall corporate goals and their accomplishment, goals of strategic business units and future plans.

Santema, Hoekert, van de Rijt, van Oijen (2005) analyzed a sample of 100 corporate annual reports of firms from the United Kingdom, France, Germany, Poland and Holland. They sought to establish whether differences in national culture and corporate governance have an influence on the extent to which companies disclose their strategy. The results of Santema et al. (2005) indicated that national differences in corporate governance and culture do influence the extent of strategy disclosure by companies in their annual reports.

We propose additional contributions in relation to previous works by Santema and van de Rijt (2001) and by Santema et al. (2005). First, we developed an empirical procedure to proxy strategy disclosure. Since we could not find precise methodological descriptions of the procedure used to proxy strategy disclosure in both of the studies cited, we introduce a semi-objective procedure for strategy disclosure quantification.

We perform a thematic analysis of a selected sample of corporate annual reports. Thematic analysis is defined as a method for identifying, analyzing and reporting patterns of themes within data (Braun & Clark, 2006). Corporate strategy is the object of four themes of our analysis, which are developed based on the theoretical propositions of Mintzberg and Waters (1982), Porter (1985), Hamel and Prahalad (1994), Slack, Chambers and Johnston (2007), Mintzberg, Ahlstrand and Lampel (1998), Wright, Kroll and Parnell (1998) and Hitt, Ireland and Hoskisson (2007). Additionally, we assess operational strategy thematic content based on the propositions of Skinner (1969), Wheelwright (1984), Ward, Bickford and Leong (1996), Ward, McCreery, Ritzman and Sharma (1998) and Ward and Duray (2000).

Our second contribution is the repositioning of the legal system in the analysis of strategy disclosure. Unlike Santema et al. (2005), we believe that the legal system determines corporate governance features and both have influence on strategy disclosure. We explore propositions of La Porta, Lopes-de-Silanes, Shleifer and Vishny (1997) to explain differences observed in countries with respect to investor protection against expropriation by insiders as determined by legal rules and the quality of their enforcement.

Our third contribution is the logical connection between operational strategy disclosure and proprietary information. We bring Ward and Duray’s (2000) conceptual model of manufacturing strategy, which asserts that competitive strategy acts as a mediator between an organization's environment and its manufacturing strategy and that the relationship between competitive strategy and performance is mediated by manufacturing strategy.

Based on Dye’s (1986 p. 331) proposition that “when managers are endowed with both proprietary and nonproprietary information, nondisclosure or partial disclosure may be optimal even if credible announcements of all information can occur” we suggest that disclosure with operational strategy content can be interpreted as revealing proprietary information. We expect the existence of tension between managers' incentives to disclose information with operational strategy content and the reactions that this disclosure can induce, since that information can reveal both manager’s and their firms' performance and can induce adverse reactions of parties external to the firm (Dye, 1986). For instance, Ozbilgin and Penno (2005 p. 920) demonstrated that “the leader’s disclosure of its resulting financial success or failure may tip off the follower about the correct operational choice the follower ought to pursue.” Then, based on Dye (1986), Ward and Duray (2000) and Ozbilgin and Penno (2005) we hypothesize that operational strategy disclosure is more infrequent than corporate strategy disclosure.

Our results show that the extent to which companies in common law countries disclosure their strategies is greater than in civil law ones. Also, we observe that firms less frequently disclose information with operational content in comparison with information with corporate strategic content.

The following sections present prior research. Then we delineate the conceptual tenets of strategy. Next, we develop the hypotheses articulating concepts of cultural dimensions, legal system, corporate governance and strategy and operational strategy disclosure. Then we test our predictions and finally present our conclusions and discuss implications and limitations of the study.

Prior research

Santema and van de Rijt (2001) analyzed annual reports of Dutch companies with respect to strategy disclosure. The authors posited that the extension of strategy disclosure presented in annual reports is positively related to disclosure quality. Using a list with ten criteria as a proxy for strategy disclosure, they concluded that Dutch companies presented a relatively low level of strategy disclosure, especially regarding information about overall corporate goals and their achievement, goals of strategic business units and future plans.

Santema et al. (2005) analyzed of a sample of 100 corporate annual reports of firms from the United Kingdom, France, Germany, Poland and Holland. Their aim was to establish whether differences in national culture and corporate governance have an influence on the extent to which companies disclose their strategy. Their results indicated that national differences in corporate governance and culture do influence the extent of strategy disclosure by companies in their annual reports.

Strategy disclosure has been an infrequent focus of empirical research. Yet, corporate annual reports reveal more about firms' strategy than is commonly understood (Bowman, 1978). The scarcity of empirical research on the theme is intriguing, since investors and sell-side analysts have indicated that a clear presentation of a firm's objectives and goals, followed by an explanation of how the firm intends to reach its goals, is an essential aspect of disclosure quality (Cole, 2001).

Strategy

Strategy has been conceptualized as a managerial tool used to accomplish results consistent with the company's mission and objectives (Wright, Kroll & Parnell, 1998; Hitt, Ireland & Hoskisson, 2007). In this way, strategy is associated with the course of action that allows the firm to create a competitive advantage that enhances its value (Porter, 1985; Cole, 2001; Besanko, Dranove, Shanley, & Schaefer, 2003).

Strategy is defined in terms of intentions and objectives for the future (Mintzberg & Waters, 1982), and it is also associated with patterns of past actions (Mintzberg, Ahlstrand & Lampel, 2000).

Wright, Kroll and Parnell (1998) mentioned different strategic levels of action: corporate strategy, business unit strategy and functional strategy. However, this hierarchical view does not necessarily represent the way strategy is formulated (Slack et al., 2007).

Corporate strategy is formulated at the firm level (Wright, Kroll & Parnell, 1998) and is aimed at obtaining abnormal returns for the firm (Hitt, Ireland & Hoskisson, 2007).

The strategic business unit is the next level, originally conceptualized for diversified companies. A business unit is an organizational subsystem which has a market niche, competitors and organizational mission and goals diverse from other organizational subsystems in the same firm (Wright, Kroll & Parnell, 1998).

Strategy at the functional level gives support to the firm's objective. It is the competitive advantage that a firm possesses (Slack et al., 2007). In the present work, operational or manufacturing strategy is a synonym for functional strategy, since competitive strategy is conditional to operational performance. The rationale for this assumption is that production operations support corporate strategy by providing resources and conditions to reach its objectives (Slack et al., 2007).

Skinner (1969) is the seminal work that linked manufacturing with strategy. The author argued that operational strategy paves the way for firms to reach their goals. Wheelwright (1984) suggested that the development and implementation of operational strategy is a necessary condition for a firm to attain competitive advantage.

Ward, Bickford and Leong (1996) linked manufacturing strategy with corporate strategy. The authors described four competitive manufacturing priorities: cost, quality, delivery-time and flexibility.

Cost priority is related to diminishing production costs, lower inventory levels and higher capacity utilization (Ward et al., 1998). Quality is concerned with lower error frequency (Slack et al., 2007), products with high durability and performance and higher consumer confidence in the product or service offered (Ward et al., 1998).

Delivery-time is a competitive advantage based on the firm's ability to make things faster than its competitors. It is also associated with reduced lead times (Slack et al., 2007; Ward et al., 1998). Flexibility is the ability to change operational plans quickly (Slack et al., 2007). Basically, it is the firm's ability to adapt and react to changes in demand patterns (Ward et al., 1998).

The influence of cultural dimensions on strategy disclosure

In this work we adopt the perspective that culture is a collective phenomenon shared, at least in part, by the people who live in the same social environment in which it is acquired (Hofstede, 1997). Thus, culture is a set of expected reactions from people that have a common mental pattern (Hofstede, 1997).

Hofstede (1983) proposed four cultural dimensions to understand the differences among fifty nations. These dimensions refer to specific values and beliefs that vary less within nations than across nations (Hofstede, 1983). In the subsequent sections we discuss how these dimensions are theoretically associated with strategy disclosure.

Uncertainty avoidance

This dimension expresses how much insecurity each society is willing to accept. It reflects the degree of anxiety associated with an unpredictable future (Hofstede & McCrae, 2004). In certain societies people have a natural tendency to feel relatively safer, while in others they experience a higher anxiety level and tend to create institutions to increase the sense of security and try to avoid risky situations (Hofstede, 1997). Countries that received the cultural heritage of the Roman Empire have the highest levels of uncertainty avoidance, since the Empire was strong and centralized, with an elaborated legislative system (Hofstede, 1997).

Societies with more pronounced uncertainty-avoidant characteristics will have a greater need for legislation than will less uncertainty-avoidant countries (Hofstede, 1997). Santema et al. (2005) argued that firms from uncertainty-avoidant countries should be expected to disclose more about their strategy.

In our analysis, the most uncertainty-avoidant country is France, followed by Brazil. The United States has an intermediary score and the United Kingdom has the lowest uncertainty avoidance index (Hofstede, 1997).

Power distance

The basic issue involved with power distance is how different societies deal with human inequality (Hofstede, 1997). Power distance refers to the degree of acceptance of unequal distribution of power between bosses and subordinates (Hofstede, 1997). Lower scores in this dimension are usually associated with decentralization, small differences in wages across hierarchical levels and the predominance of democratic leadership (Hofstede, 1997). Conversely, in countries with higher scores in the power distance index, power is a dominant dimension in society and the legitimacy of those who attain power is less often questioned (Hofstede, 1983, 1997).

Santema et al. (2005) argued that there is less demand for accountability in societies with higher power distance scores. Thus, lower levels of strategy disclosure are expected in these societies. In our analysis, Brazil and France are the countries with the highest levels of power distance. The United States and United Kingdom have the lowest scores in our sample of countries.

Masculinity and femininity

A country's masculine index represents how the values of women and men in the same jobs differ. A higher index is associated with more differences in the values held by women and men (Hofstede, 1997). Masculine values are directed toward career goals and money. Feminine values are associated with social goals, such as relationships, other-regardness and concern with the physical environment (Hofstede, 1983, 1997).

In our analysis, we follow Santema et al. (2005) and consider that masculine societies are focused on progress and development. Thus, we expect that firms in higher masculine index countries such as the United States and United Kingdom will disclose more of their strategy.

Individualism and collectivism

Individualism is a cultural trait that describes the relationship that prevails between an individual and the collectivity in a given society (Hofstede, 1983, 1997). The dominant characteristic of these relationships is the complexity of the family units in which people live (Hofstede, 1997). The author suggested that nuclear families, extended families and clans are examples of the types that differ with respect to the individualism dimension.

In countries with higher scores on individualism, failure to inform will be interpreted as a fault. Societies more prone to collectivism tend to value loyalty and family protection and a more gregarious lifestyle (Hofstede, 1997).

Santema et al. (2005) proposed that shareholders from individualist societies demand more information from firms. The United States and United Kingdom are the countries with highest individualism scores in our analysis, while Brazil is the most collectivist (Hofstede, 1997).

The influence of the legal system on strategy disclosure: the mediation of corporate governance

La Porta et al. (1999) demonstrated that legal rules from different traditions differ in their ability to protect shareholders and creditors from expropriation by insiders. According to the authors, common law countries protect both shareholders and creditors more than civil law countries do.

Corporate governance is a natural topic in the discussion of how legal systems exert influence on disclosure. The basic question about corporate governance is how suppliers of finance to corporations assure themselves of a return on their investment. So, corporate governance mechanisms are economic and legal institutions that can be altered through the political process (Shleifer & Vishny, 1997).

Shleifer and Vishny (1997) suggested that legal protection of investors and concentration of ownership are complementary approaches to governance. The authors also argued that legal protection of investor rights is an essential element of corporate governance. Concentrated ownership is also a very common form of control that assures that investors get their money back.

Shleifer and Vishny (1997 p. 774) observed that "successful corporate governance systems, such as those of the United States, Germany, and Japan, combine significant legal protection of at least some investors with an important role for large investors." They also noted that "this combination separates them from governance systems in most other countries, which provide extremely limited legal protection of investors, and are stuck with family and insider-dominated firms receiving little external financing" (1997, p.774).

Ownership concentration is also an important aspect of corporate governance. Matching significant control rights with significant cash flow rights usually results in less need for legal protection from expropriation (Shleifer & Vishny, 1997). Although large investors reduce agency costs, concentrated ownership has its costs too. They are usually described as potential expropriation by large investors of other investors and stakeholders in the firm (Shleifer & Vishny, 1997).

Roe (1994) suggested that large shareholdings and majority ownership are relatively uncommon in the United States. Black and Coffee (1994) observed that the same occurs in the United Kingdom. In contrast, Shleifer and Vishny (1997) observed that shareholding concentration is the norm in the rest of the world.

With regard to legal protection, Santema et al. (2005) argued that firms in countries characterized by strong legal enforcement will disclose more about their strategy. They also proposed that firms in countries characterized by the presence of concentrated shareholding tend to disclose less about their strategy. Their rationale is that a small number of large shareholders dominate the market, and they are probably more efficiently informed through other channels.

From the preceding discussion, we suggest the following hypotheses:

H1: Firms from common law countries disclose more about their strategy than firms from code law countries.

In H2 we propose a ranking for how much firms disclose their strategy in the selected countries of our analysis.

H2: $\text{mean}_{\text{USA}} > \text{mean}_{\text{UK}} > \text{mean}_{\text{FRANCE}} > \text{mean}_{\text{BRAZIL}}$

6. Disclosure with operational strategy content

Dye (1986) demonstrated that nondisclosure or partial disclosure may be optimal in the existence of proprietary information. We believe that operational strategy disclosure is strongly positively correlated with proprietary information. Therefore, we expect the existence of tension between managers' incentives to disclose information with operational strategy content and the reactions that this disclosure can induce, since that information can reveal both managers’ and their firms' performance, and it can induce adverse reactions of parties external to the firm (Dye, 1986).

Our rationale linking operational strategy disclosure to proprietary information is based on Ward and Duray (2000). They developed a conceptual model of manufacturing strategy from the literature and tested the model using data from a sample of manufacturers in three industries in the United States. They concluded that competitive strategy acts as a mediator between an organization's environment and its manufacturing strategy and that the relationship between competitive strategy and performance is mediated by manufacturing strategy.

Also, Wheelwright (1984), Slack et al. (1997), Ward, Bickford & Leong (1996), and Ward et al. (1998) suggested that manufacturing strategy capabilities are used to create competitive advantages. Hence, we expect that:

H3: Operational strategy disclosure occurs less frequently than corporate strategy disclosure.

Sample and methods

We chose a sample of 73 annual reports of companies from the United States, United Kingdom, France and Brazil. The firms were selected from the Forbes Global 2000 annual ranking for 2006.

Since we could not find precise methodological descriptions of the procedure used to proxy strategy disclosure both in Santema and van de Rijt (2001) and Santema et al. (2005), we introduce a semi-objective procedure for strategy disclosure quantification. The procedure is based on content analysis techniques. More specifically, we employ thematic analysis, which is a method for identifying, analyzing and reporting patterns within data (Braun & Clarke, 2006).

Thematic analysis is characterized by flexibility, because of its theoretical freedom, and it “can potentially provide a rich and detailed, yet complex, account of data” (Braun & Clarke, 2006 p. 78). This feature is essential to explore the complexities associated with strategic disclosure, which is a multidimensional construct.

We perform the thematic analysis through the use of semantic indicators. These indicators are constructed based on theoretical definitions of the specific strategic and operational strategy disclosure dimensions. We register the frequency associated with each dimension of the constructs.

Each dimension is constituted by a thematic group, which is a set of words that express the concept of the dimension. We built an initial list of words for each of the eight thematic dimensions and then scrutinized each annual report entirely, counting occurrences of the themes. Words that express a particular theme and that were not included in our initial list were then incorporated. The disclosure in each dimension was aggregated by the sum of all occurrences in each annual report.

The four dimensions of the strategy disclosure construct are selected based on Mintzberg & Waters (1982), Porter (1985), Hamel & Prahalad (1994), Wright, Kroll & Parnell (1998), and Hitt, Ireland & Hoskisson (2007). The four dimensions of operational strategy disclosure are developed based on Skinner (1969), Wheelwright (1984), Ward et al. (1996, 1998), and Ward & Duray (2000). The dimensions are:

- Corporative objectives and goals: declaration of what the firm intends to achieve (Wheelen & Hunger, 2004);
- Future or planned strategic actions: actions planned to be executed in the future (Mintzberg & Waters, 1982);
- Strategic actions resulting from past actions: actions initiated in the previous year. This represents the feedback about past strategic actions (Mintzberg, Ahlstrand & Lampel, 2000)
- Corporate strategy: strategic plans articulated as the management of opportunities and threats for the firm (Wheelen & Hunger, 2004).

Operational strategy disclosure is also addressed by four dimensions (Wheelwright, 1984; Ward, Bickford & Leong, 1996; Ward et al., 1998; and Ward & Duray, 2000):

- Cost: specific actions taken aiming to obtain cost competitive advantages;
- Quality: specific actions taken aiming to obtain quality competitive advantages;
- Delivery-time: actions taken aiming to obtain competitive advantages in delivery time;
- Flexibility: actions taken aiming to obtain flexibility competitive advantages;

Analysis

We use linear regression analysis to test H1 and H2, with the United States as the base country.

$$\text{Total score}_{\text{USA}} = \beta_o + \beta_1\, \textit{dummy}_{\text{UK}} + \beta_2\, \textit{dummy}_{\text{FRANCE}} + \beta_3\, \textit{dummy}_{\text{BRAZIL}}$$

For the predictions to be correct, the betas (β_1 to β_3) need to be significant and negative. The results are shown in Table 1.

Due to sample size, we also assess the robustness of our findings with nonparametric Mann-Whitney tests. We compare the strategy disclosure for each pair of countries in our sample. The results are shown in Tables 2 to 7.

Hypothesis H3 is assessed by the Student's *t*-test comparing the frequencies of corporate strategy disclosure and operational strategy disclosure. Table 8 presents the results of this test.

Results

Table 1 shows the results for the regression analysis. All coefficients are negative, even though only the dummy variables for France and Brazil are significant. As expected, firms from France and Brazil present less information about their strategy in the annual reports. However, the results indicate that there are no significant differences in the strategy disclosure between the United States and United Kingdom.

Table 1: Linear Regression*

Country	Coefficient	Standard error	t	P>|t|
UK	-1.38	1.49	-0.92	0.360
France	-2.84*	1.54	-1.85	0.069
Brazil	-3.91***	1.38	-2.85	0.006
Intercept	10.65***	1.30	8.18	0.000
Prob > F = 0.0306 **				

*p < 0.10; **p < 0.05; ***p < 0.01

The results corroborate the first hypothesis, that firms from common law countries disclose more about their strategy than firms from code law countries, since the coefficients of France and Brazil are significant and negative. There are no significant differences between the strategy disclosure of US and UK firms in our sample.

We assess robustness through nonparametric tests of equality of means (Mann-Whitney). Table 2 indicates that the hypothetical superiority of the disclosure values of US firms over the UK firms is not significant at any level. This result is consistent with the regression analysis performed.

Table 2: Nonparametric Mann-Whitney Test (USA ≤ UK)

USA ≤ UK	n	Mean	Variance
USA	20	10.656	33.809
UK	20	9.281	10.557
Z (observed)			0.203

*p<0.10; **p<0.05; ***p<0.01

Table 3 indicates that the hypothetical superiority of the disclosure values of US firms over the Brazilian firms is significant at 1%. This result is consistent with the regression analysis performed.

Table 3: Nonparametric Mann-Whitney Test (USA ≤ Brazil)

USA ≤ BR	N	Mean	Variance
USA	20	10.656	33.809
Brazil	14	6.741	2.761
Z (observed)			2.836***

*p<0.10; **p<0.05; ***p<0.01

Table 4 indicates that the hypothetical superiority of the disclosure values of US firms over French firms is significant at 5%. This result is also consistent with the regression analysis performed.

Table 4: Nonparametric Mann-Whitney Test (USA ≤ France)

USA ≤ France	N	Mean	Variance
USA	20	10.656	33.809
France	19	7.816	12.636
Z (observed)			1.658**

*p<0.10; **p<0.05; ***p<0.01

Table 5 indicates that the hypothetical superiority of the disclosure values of UK firms over Brazilian firms is significant at 1%. This result is consistent with the regression analysis performed.

Table 5: Nonparametric Mann-Whitney Test (UK ≤ Brazil)

UK ≤ Brazil	N	Mean	Variance
UK	20	9.281	10.557
Brazil	14	6.741	2.761
Z (observed)			2.521***

*p<0.10; **p<0.05; ***p<0.01

Table 6 indicates that the hypothetical superiority of the disclosure values of UK firms over French firms is significant at 10%. This result is consistent with the regression analysis performed.

Table 6: Nonparametric Mann-Whitney Test (UK ≤ France)

UK ≤ France	N	Mean	Variance
UK	20	9.281	10.557
France	19	7.816	12.636
Z (observed)			1.433*

*p<0.10; **p<0.05; ***p<0.01

Table 7 indicates that the hypothetical superiority of the disclosure values of French firms over Brazilian firms is not significant at any level. This result is consistent with the regression analysis performed.

Table 7: Nonparametric Mann-Whitney Test (France ≤ Brazil)

France ≤ Brazil	N	Mean	Variance
France	19	7.816	12.636
Brazil	14	6.741	2.761
Z (observed)			0.802

*p<0,10; **p<0,05; ***p<0,01

The results of the nonparametric tests give us some confidence about the robustness of the regression analysis. Moreover, these results corroborate H2, which posits that the ranking for strategy disclosure is $mean_{USA} > mean_{UK} > mean_{France} > mean_{Brazil.}$

To test H3, which posits that operational strategy disclosure occurs less frequently than corporate strategy disclosure, we conduct a test of equality of means for independent samples. Table 8 presents the results.

Table 8: Strategy vs. Operational Strategy Disclosure

Sample	N	Mean	Variance
Mean corporate strategy disclosure	73	12.380	34.563
Mean operational strategy disclosure	73	5.199	8.814
t (observed)			9.316***

*p<0.10; **p<0.05; ***p<0.01

Again, the results corroborate H3. The firms in our sample disclose less about their operational strategy than their corporate strategy.

10. Conclusion

This study sought a better understanding of the cross-cultural aspects that influence strategy disclosure. Based on Santema and van de Rijt (2001) and Santema et al. (2005), we content analyzed 73 annual reports of firms from the United States, United Kingdom, France and Brazil.

Based on cultural dimensions, legal system and corporate governance we can advance the understanding of which variables exert significant influence on strategy disclosure. Firms from common law countries disclose more about their strategy than firms from code law countries. These results are consistent with previous studies from Santema and van de Rijt (2001) and Santema et al. (2005). Moreover, we observed that the disclosure with operational strategy content occurs less frequently than corporate strategy disclosure, and this result is an innovative contribution from the present work.

These results are subject to a number of limitations. The difference observed in the disclosure with operational strategy content and disclosure with corporate strategy content can be due to other factors. Since the former is more specific in its content, it can occur naturally less frequently. In addition, we cannot generalize our results for other common law and civil law countries.

Future studies could analyze whether the disclosure with strategy and operational strategy content is value relevant. Since the literature clearly indicates that operational strategy is a way of creating competitive advantage, investors would be expected to know how to interpret operational strategy disclosure in the valuation of their investment options.

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