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Information Asymmetry between Managers and Outsiders – an Increasing Challenge for Financial Accounting?

Nowadays we are living in the middle of information flow where information and its users have increasing difficulties to find each other. Corporate managers have the responsibility to communicate this material about firm matters to outsiders. If they misuse of the power to communicate, e.g. by overlooking risk or exaggerating profit, they are causing harmful information asymmetry (Myers & Majluf, 1984). My speech focuses on this important area from the research perspective. As we know, central sources for information from a company include annual financial statements and interim, usually quarterly, reports. Recent financial accounting studies focus among other things on how information originated from firms impact the markets. It is relevant to ask whether financial accounting has been able to help firms with their increasing communication challenges. It is also good to consider which of these challenges belong to financial accounting and which do not.

In my speech I will tackle the information asymmetry from four perspectives. First, I review the recent developments of research in the area of business communication. Second, I will focus on capital market intermediaries, such as corporate analysts and corporate bankers, and what is their role in the communication between managers and outsiders. Third, I analyze how international accounting standards (IAS) may impact on the information asymmetry. Finally, I will discuss how regulation and market discipline could contribute in order to further decrease the information asymmetry.

None of these four views I have tackled is capable alone to eliminate information asymmetry. Besides theoretical knowledge, intermediaries and standards there is a call for timely regulation and market discipline. To decrease information asymmetry is an important goal, but luckily belongs not to financial accounting alone. ■