AN EMPIRICAL INVESTIGATION OF MANAGERS' PERCEPTIONS OF PUBLISHED FINANCIAL RESEARCH

Arthur C. Gudikunst, Amherst Investment Management Company
Robert T. Kleiman, Finance, Babson College
Joel M. Shulman, Finance, Babson College

Abstract

In recent years a number of noted academicians have commented upon the divergence between financial theory and practice. This study analyzes the responses of chief financial officers to a survey questionnaire concerning the current state of published financial research. The results of the survey suggest that practitioners believe that academic journals are too long, overly quantitative and less readable than a selected group of professional journals. The paper also discusses the need to close the gap between the academic and professional communities.

Introduction

In recent years there have been several articles in the finance literature that have been critical of the state of published financial research and its current directions [1]. In his 1983 presidential address to the Financial Management Association, Hempel noted, "In many practitioners' opinions, finance professors focus on relatively narrow topics which are not usually helpful in making important financial decisions."

Furthermore, Ronen (1987) has noted that practitioners and academics have long contended with a communication gap. He suggests that practitioners have difficulty relating to research published in academic journals because academicians write in a language that is distinct from the everyday terminology employed in accounting and finance. In academic research, he comments, finance professors typically write for an academic audience comprised of other finance professors. Accordingly, academicians employ more rigorous statistical and mathematical terminology than that used by finance practitioners. Ronen adds that finance practitioners are more comfortable with the less precise language of business since it more closely corresponds with

the complexities and ambiguities of the real world. As a result of this communications gap, both practitioners and academics lose. Practitioners forego the opportunity to avail themselves of potentially useful research ideas from the academic sector. Similarly, academics relinquish the opportunity to gain important feedback from finance professionals.

Given this perceived divergence between the terminology employed by finance academics and the information needs of business practitioners, it is useful to examine practitioners' views of published financial research. This study provides insights which may help increase academic awareness of practitioners' views, and perhaps result in greater communication between the academic and professional communities.

Survey Data

This study employs a survey of the responses of Chief Financial Officers of 1300 corporations (principally the Fortune 1000) to a ten item questionnaire concerning the current state of published financial research. The surveyed cor-

porations represent a diverse geographical and industrial group and had sales ranging from less than \$100 million to over \$1 billion during the 1985 fiscal year. Three-hundred eighty six surveys were returned for a response rate of 29%. Of the respondents, sixty-seven percent possess a masters degree, thirty percent have a bachelors degree, and three percent possess a doctorate. For this study, we solicited opinions regarding two distinct groups of journals--academic and professional. The academic journals we used include the following: *The Journal of Financial and Quantitative Analysis*, *The Financial Review*, and *Financial Management*[2]. The professional journals include *Harvard Business Review*, *the Journal of Cash Management*, *Financial Analysts Journal*, and *the Journal of Commercial Bank Lending*[3].

Survey Results

The results to selected items from the questionnaire are displayed in Tables I-VI. In general, the Tables indicate strong and consistent differences between the two categories of journals. Consequently, many commonly held beliefs regarding professional and academic journals appear to be true. For example, in response to the statement, "Articles deal with relevant business issues," forty-six percent of the respondents either strongly agree or agree for professional journals as compared to twenty-three percent for the academic journals. Not only do executives perceive that professional journals deal with more relevant business issues, they also believe that professional journals written in a more understandable manner. Table II indicates the responses to the statement, "Articles are written in an understandable manner." Whereas seventy-three percent of the financial officers either strongly agree or agree with the statement with respect to professional journals, only forty percent either strongly agree or agree with the statement for academic journals.

As shown in Table III, financial executives also believe that academic journals require more extensive prior knowledge than professional journals. Fourteen percent of the respondents either strongly disagree or disagree with the statement, "Articles require extensive prior knowledge" for academic journals, while thirty-seven percent responded in a similar manner for professional journals. Academic journals articles

are also considered longer than professional journal articles. Table IV shows the responses to the statement, "Articles are written in a convenient length." Sixty-eight percent of the responses for professional journals either agree or strongly agree with the statement, whereas only forty-nine percent responded in this manner for academic journals. The final two tables offer additional evidence that the academic journals, whether intentionally or not, have significantly less appeal to the practitioner audience. As might be expected, Table V shows a striking difference in the responses for professional and academic journals to the statement, "Articles deal more with theoretical issues than practical issues." Respondents to the survey were twice as likely to indicate strong agreement or agreement with the statement with respect to academic journals as opposed to professional journals. Finally, Table VI indicates a clear difference in financial executives' perceptions regarding the appropriateness of the use of quantitative techniques in journal articles. The survey participants strongly believe that academic journal articles overemphasize quantitative techniques. With the exception of Table III, which is significant at the .10 level, a t-test for the difference in means between academic and professional journals is statistically significant for all items at the .01 confidence level.

Summary and Conclusions

The results of the survey questionnaire indicate that academic journals do not communicate information to a large, highly educated, and influential practitioner market in as effective a manner as professional journals. The academic journals considered in this survey appear to the business community to be too long, overly quantitative, and less readable than their professional counterparts. Furthermore, academic journals are often viewed by financial executives as providing theoretical constructs and quantitative analysis which are less relevant to their interests and professional activities. While the results may not surprise academicians, who may be targeting their publications towards an academic audience for tenure/promotion considerations, they do in fact substantiate arguments regarding a communication gap between academics and practitioners.

Despite the differences in focus, not all aca-

Table I

"Articles Deal with Relevant Business Issues"
(Percent)

	<u>Professional Journals</u>	<u>Academic Journals</u>
1. Strongly Agree	13	4
2. Agree	33	19
3. Neutral	2	5
4. Disagree	43	57
5. Strongly Disagree	<u>9</u>	<u>15</u>
	100	100
Mean	3.03	3.58
Std. Dev.	1.29	1.09
T-Value		4.54*

* Significant at the .01 level of confidence.

Table II

"Articles are Written in an Understandable Manner"
(Percent)

	<u>Professional Journals</u>	<u>Academic Journals</u>
1. Strongly Agree	24	11
2. Agree	49	29
3. Neutral	21	39
4. Disagree	5	13
5. Strongly Disagree	<u>1</u>	<u>8</u>
	100	100
Mean	3.03	2.76
Std. Dev.	.87	1.06
T-Value		3.71*

* Significant at the .01 level of confidence.

Table III

"Articles Require Extensive Prior Knowledge"
(Percent)

	<u>Professional Journals</u>	<u>Academic Journals</u>
1. Strongly Agree	4	15
2. Agree	30	40
3. Neutral	29	31
4. Disagree	34	12
5. Strongly Disagree	<u>3</u>	<u>2</u>
	100	100
Mean	2.28	2.55
Std. Dev.	.85	.88
T-Value		1.76**

** Significant at the .10 level of confidence.

Table IV

"Articles are Written in Convenient Length"
(Percent)

	<u>Professional Journals</u>	<u>Academic Journals</u>
1. Strongly Agree	15	10
2. Agree	53	39
3. Neutral	24	39
4. Disagree	7	10
5. Strongly Disagree	<u>1</u>	<u>2</u>
	100	100
Mean	3.02	2.42
Std. Dev.	.96	.90
T-Value	3.74*	

* Significant at the .01 level of confidence.

Table V

"Articles Deal More with Theoretical Issues than
Practical Issues"
(Percent)

	<u>Professional Journals</u>	<u>Academic Journals</u>
1. Strongly Agree	9	18
2. Agree	22	44
3. Neutral	33	25
4. Disagree	33	13
5. Strongly Disagree	<u>3</u>	<u>0</u>
	100	100
Mean	2.96	2.33
Std. Dev.	1.02	.92
T-Value	3.69*	

* Significant at the .01 level of confidence.

Table VI

"Articles Overemphasize Quantitative Techniques"
(Percent)

	<u>Professional Journals</u>	<u>Academic Journals</u>
1. Strongly Agree	5	17
2. Agree	15	35
3. Neutral	46	41
4. Disagree	32	7
5. Strongly Disagree	<u>2</u>	<u>0</u>
	100	100
Mean	3.08	2.39
Std. Dev.	.85	.86
T-Value	4.80*	

* Significant at the .01 level of confidence.

demetic research is irrelevant to practitioners. Evidence has shown that many theoretical models, such as the Capital Asset Pricing Model and the Black-Scholes Option Valuation Model, are eventually adopted by the business community. Moreover, the hiring of such noted theoreticians as Fisher Black and Richard Roll by major investment banking firms indicates that the investment community recognizes and places a high value of exceptional academic research.

Given the results of this paper, it is useful to suggest a number of solutions to bridge the gap between theory and practice. First, this article clearly indicates the need for increased emphasis on continuing management education programs to reinforce and update the financial skills of practitioners. This additional education would expose financial professionals to more recent developments and terminology that they have not previously encountered. Second, this paper also illustrates the need for further development of practitioner oriented journals, such as the *AAIL Journal*, *CFA Digest*, and the *Midland Corporate Finance Journal*, which seek to communicate the results of academic research in a less rigorous and mathematical manner. The continued development of journals such as those alluded to above would assist in communicating the basic research found in academic journals to professionals who would benefit from applying these models to "real world" situations.

FOOTNOTES

1. See for example, Hastie (1982), Hempel (1983), Hettenhouse (1981), Hirt (1984), and Ronen (1987).
2. Academic journals principally represent publications that are affiliated with leading academic finance societies.
3. Professional journals are those which are associated with leading professional finance organizations as well as practitioner oriented university publications.

REFERENCES

1. Hastie, L.K., "Presidential Address: A Perspective on Management Education," *Financial Management*, Winter 1982, pp. 55-62.
2. Hempel, G.H., "Teaching and Research in Finance: Perceptions, Conflicts, and the Future," *Financial Management*, Winter 1983, pp. 5-10.
3. Hettenhouse, G.W., "Financial Theory and Financial Practice: Are They Really Compatible?," *Journal of Financial Education*, 1981, pp. 59-62.
4. Hirt, G.A., "Integrating Financial Theory and Practice with Institutional-Descriptive Finance," *Journal of Financial Education*, 1984, pp. 19-27.
5. Ronen, J., "From the Editor," *Journal of Accounting, Auditing, and Finance*, Winter 1987, pp. 1-4.

Continued from page 73

- right to vote. *Storer v. Brown*, 415 U.S. 724 (1974). Other laws are usually judged under the rational basis test, which requires only that the law bear a rational relationship to some legitimate state goal, *Vance v. Bradley*, 440 U.S. 93 (1979), although the Court has lately seemed more inclined to apply a "substantial interest" test, which requires the law to "serve important governmental objectives and . . . be substantially related to the achievement of those purposes." *Craig v. Boren*, 429 U.S. 190 (1976).
50. 795 F.2d 1136, 1144 (3rd. Cir. 1986).
51. *Id.*
52. 381 U.S. 479, 485 (1965) (finding this right inherent in "specific guarantees in the Bill of Rights [that] have penumbras, formed by emanations from those guarantees").
53. The autonomy or "decisional privacy" right embraces matters relating to marriage, procreation, contraception, family relationships, and child rearing and education. *Paul v. Davis*, 424 U.S. 693, 713 (1976). "Disclosural" privacy protects the "individual interest in avoiding disclosure of personal matters." *Whalen v. Roe*, 429 U.S. 589, 599-600 (1977).
54. 816 F.2d 170, 181 (5th Cir. 1987).
55. 384 U.S. 757 (1966); 342 U.S. 165 (1952).
56. 795 F.2d 1136, 1145 (3rd. Cir. 1986).
57. *Id.*
58. *Id.*