

The readability of a partner's annual 10-K report and the ex-ante perception of a strategic alliance's success

Mufaddal Baxamusa, Abu Jalal & Anand Jha

Abstract

We investigate the association between the readability of a partner's annual 10-K report and the ex-ante perception of a strategic alliance's success. We find that when a partner has a less readable 10-K report, the increase in the cumulative abnormal return around the announcement of the alliance is relatively lower—suggesting that investors discount partnerships with firms that have less readable 10-K reports. Additional tests show that the adverse impact of the poor readability is much worse when the partner is from a different industry. Further, we find that the impact is worse for all alliances that occurred before the Sarbanes Oxley Act. We also find that an announced alliance is unlikely to come to fruition if the partner's 10-K report is less readable at the time of announcement. Overall, our study suggests that the readability of annual reports might affect the market perception of an alliance's success, and possibly its real success. Our results are based on examining 1,870 strategic alliances that occurred between 1995 and 2012.