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Will XBRL improve corporate governance? A framework for enhancing governance decision making using interactive data[☆]

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ABSTRACT

In this paper we first develop a framework for understanding how tagged data can be used to change the way in which decisions affecting governance are made. Ultimately data, however it is formatted, is simply a means towards an end and it provides no value added unless different decisions are made as a result of its availability. We use Elliott's (1998) model of decision making and apply it to the governance area to serve as a framework for an investigation of precisely how XBRL will provide value added. We then analyze the current specifications of XBRL, both its taxonomies and the way in which tagged data is rendered, to answer the question of whether XBRL—as opposed to the generic concept of tagged data—takes full advantage of its potential to improve governance decision making.

1. Introduction

> At the Practicing Law Institute's annual "SEC Speaks" event on Feb. 9 [2008], SEC Chairman Christopher Cox said XBRL, the Internet programming language newly adopted by the agency, is helping his staff root out fraud by tagging financial data so computers can track it and sift through it

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> quickly… Cox said the timing of the options backdating scandal coincided with the SEC's decision to begin converting Form 4 submissions—the form companies use to report stock option exercise transactions—into interactive documents. Before 2003, information filed on the SEC's Form 4 was analyzed the old-fashion way—retyped into SEC databases and spreadsheets before being scrutinized. "Not surprisingly, for all of that time, the backdating phenomenon was never uncovered," Cox said. More recently, however, the SEC started collecting Form 4 data in an interactive format, which made analyzing the information easier. The SEC also issued new rules around the same time requiring real-time reporting of options awards—within two days of the grant. "**Once real-time disclosure was combined with interactive data ... we began to find clues that had previously gone undetected. That led directly to the discovery of what we now know were billions of dollars of backdated stock option awards**," Cox said. (Block and Orol, 2007, emphasis added)

Christopher Cox, the former chairman of the US Securities and Exchange Commission, made the adoption of the eXtensible Business Reporting Language (XBRL) for tagging financial information his signature initiative—a program that came to fruition under his successor Mary Schapiro in February 2009 with the issuance by the SEC of the final rule mandating the use by large US firms of "Interactive Data To Improve Financial Reporting."[1]

It is noteworthy that amongst the various benefits Chairman Cox repeatedly put forward for XBRL, such as not needing to retype financial data and the ease of communicating it, he draws particular attention to its use in improving governance.[2] And while in the powerful example quoted above Chairman Cox is referring to the use of XBRL by regulators to root out earning's management, the same practices can obviously be adopted by governance watchdogs within the firm, such as internal auditors and boards of directors, even leaving aside the fact the monitoring by regulators is a central aspect of governance in its own right.

While the importance of corporate governance is well understood, there is some argument over its exact scope and the identities and specific responsibilities of the players involved. In this paper any controversy over the definition of corporate governance is beside the point since we focus on governance *as a process rather than as an outcome*. The point is that whatever corporate governance involves—and its scope undoubtedly varies from country to country as cultures and legal systems change—it ultimately comes down to a set of decisions made by individuals about how a company is managed and how the interests of stakeholders can be protected. Hence we base our analysis not on a model of governance, but one on decision making and we ask how XBRL can improve the way in which decisions that impact governance are made—encompassing all such decisions made by any governance player.

The central question we address in this paper is whether XBRL will improve corporate governance. Proponents of XBRL might well echo Chairman Cox and consider the answer to be a given. Thus, to continue what seems like restating the obvious, consider another quote, this time from KPMG, though similar sentiments are plentiful from many other sources in business:

> For today's enterprise, the issue of understanding report consolidation and the controls that exist around those reports is a critical part of corporate governance. In addition to building a corporate culture of accountability and accuracy, there is a very real need to re-examine the manner in which information is produced, verified and disclosed… We believe that for many enterprises the use of XBRL technology will prove the most suitable, platform-independent way to impose rigor on the framework of reporting. (KPMG, 2008)

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[1] https://www.vtrenz.net/imarkownerfiles/ownerassets/627/SEC%20Final%20XBRLrule.pdf. Cox tended to use the term "interactive data" instead of XBRL and we treat the terms interactive data and tagged data as synonyms in this paper.

[2] See www.XBRL.org for more details about XBRL. From that website, here is a "simple explanation" of XBRL: "The idea behind XBRL, eXtensible Business Reporting Language, is simple. Instead of treating financial information as a block of text — as in a standard internet page or a printed document — it provides an identifying tag for each individual item of data. This is computer-readable. For example, company net profit has its own unique tag. The introduction of XBRL tags enables automated processing of business information by computer software, cutting out laborious and costly processes of manual re-entry and comparison. Computers can treat XBRL data "intelligently": they can recognize the information in a XBRL document, select it, analyze it, store it, exchange it with other computers and present it automatically in a variety of ways for users. XBRL greatly increases the speed of handling of financial data, reduces the chance of error and permits automatic checking of information."