

# **The Joint Impact of Enhanced Segment Comparability and Managers' Competitive Views on Resource Allocation Decisions: Pre- and Post- Updated Segment Reporting Standard (ASU 2023-07)**

## **ABSTRACT**

The FASB recently issued ASU 2023-07, requiring companies to disclose additional segment-specific information. During the research phase, regulators also considered ways to enhance segment comparability but indicated more research is needed to understand its costs and benefits. Using multiple experiments, we examine how enhanced segment comparability affects managers' resource allocation decisions and how these effects change between the pre- and post- ASU reporting regimes. While investors and regulators advocate for enhanced segment comparability, theory suggests that it can trigger peer comparison pressure, potentially leading to inefficient resource allocation decisions. We predict and find that in the pre-ASU reporting regime, enhanced segment comparability causes *more* competition-focused managers to allocate resources less efficiently but does not affect *less* competition-focused managers' decisions. In the post-ASU reporting regime, with enhanced segment comparability, *more* competition-focused managers continue to make less efficient resource allocation decisions but *less* competition-focused managers make more efficient resource allocation decisions.

**Keywords:** resource allocation decisions; segment comparability; additional disclosures; segment reporting regulation; managers' competitive views

**JEL Codes:** G40, M41

**Data Availability:** Contact the authors.

## 1. Introduction

In multi-segment companies, corporate managers have responsibilities to “pick the winner” and effectively allocate resources to the most profitable segment to increase overall firm value (Stein 1997). While finance literature has documented that corporate managers can make inefficient resource allocations due to divisional (segment) managers’ rent-seeking behavior or other agency issues (Scharfstein and Stein 2000; Rajan et al. 2000), Cho (2015) shows that segment reporting regulations can also influence corporate managers’ resource allocation decisions.<sup>1</sup> In light of the Financial Accounting Standard Board’s (FASB) recent issuance of Accounting Standard Update (ASU 2023-07) to improve reportable segment disclosures (FASB 2023), our study examines how key features of segment reporting disclosures affect managers’ resource allocation decisions across multiple segments.<sup>2</sup>

We examine two important aspects of segment reporting that can influence managers’ resource allocation decisions – enhanced segment comparability and expanded segment-specific disclosures. ASU 2023-07 requires companies to provide additional information about reportable segment expenses and managers’ resource allocation decisions based on the information provided to the chief operating decision maker, significantly expanding the disclosure requirements for segment reporting.<sup>3</sup> Furthermore, during the research phase of this update,

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<sup>1</sup> Cho (2015) examines the change from the first segment disclosure regulation (SFAS 14) to the adoption of SFAS 131 (*Disclosure about Segments of an Enterprise and Related Information*, now ASC 280) and finds that improvements in segment reporting transparency increase internal capital allocation efficiency.

<sup>2</sup> We use the term “managers” to refer to firm-level corporate managers rather than segment-level divisional managers in our study.

<sup>3</sup> The feedback that the FASB has received from its 2016 Invitation to Comment, *Agenda Consultation*, shows that financial statement users are interested in 1) exploring improvements to the segment aggregation criteria, potentially improving comparability, and 2) exploring ways to require disclosures of additional segment information (ASU 2023-07, BC11, p. 42). In discussing the improvement to the segment reporting standard, ASU 2023-07 states that “The amendments in this Update improve financial reporting by requiring disclosure of incremental segment information on an annual and interim basis for all public entities to enable investors to develop more decision-useful financial analyses” (FASB 2023).

regulators considered requiring companies to fully disaggregate reportable segments in response to investors' concerns over segment comparability (FASB 1997, FAF 2012, SEC 2016, 2017, CFA 2018);<sup>4</sup> however, the FASB decided not to include such a requirement in the final update as more research is needed to fully understand its costs and benefits (ASU 2023-07, BC12, p. 43). Therefore, we conduct multiple experiments to investigate the potential benefits and costs of enhanced segment comparability on managers' resource allocation decisions, and how the effects of enhanced segment comparability differ between the pre- and post- ASU reporting regimes.

Regulators and accounting researchers often emphasize the benefits of accounting comparability. Regulators consider comparability as an important attribute of decision-useful financial statements (FASB 2010, IASB 2010), and accounting research has documented numerous capital market benefits associated with enhanced financial statement comparability (De Franco et al. 2011; Kim et al. 2013; Young and Zeng 2015; Song 2021). However, managers often express concerns about accounting comparability due to its potential to increase proprietary and agency costs (e.g., Jiang et al. 2018). Indeed, research suggests that more comparable information can create more competitive environments (Hoffman et al. 1954; Chen et al. 2007; Swab and Johnson 2018) and lead to low quality decisions (Stein 2003). Nevertheless, the circumstances under which enhanced segment comparability will positively or negatively affect managers' resource allocation decisions are underexplored.

While enhanced segment comparability may create a more competitive environment for managers, the interactionist perspective on competition (Brown et al. 1998) indicates that individuals' competitive behaviors are determined by the combination of competitive

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<sup>4</sup> The post-implementation review of ASC 280 highlighted investors' concerns over the lack of comparability across companies' segment reports, stating that "[investors] indicate it is important that there is uniformity among similar segments in similar businesses to improve comparability across companies" (FAF 2012).

environments, contextual factors, and individual factors (Endler and Parker 1992; Reynolds et al. 2010). That is, to understand whether a competitive environment induced by enhanced segment comparability will improve or harm managers' resource allocation decisions, it is important to consider both contextual factors and individual factors (Johnson and Johnson 1991; Murayama and Elliot 2012; Swab and Johnson 2018).

An important contextual factor to consider is the amount of segment-specific information that managers are required to disclose in their segment reports. The expanded segment disclosure requirement under ASU 2023-07 will provide investors with more transparency into managers' decisions at the segment level and allow managers to better communicate their resource allocation strategies to investors.<sup>5</sup> As such, these additional segment disclosures could provide managers with an outlet to communicate their decision rationales to investors, potentially reducing peer comparison pressures arising from a more comparable segment reporting environment and improving managers' resource allocation decisions.

An important individual factor to consider is how managers view competition (i.e., managers' competitive views). Research shows that a manager's competitive view can be shaped by factors such as firm culture, temporal dynamics, and reward structures (Ferrier 2001; Swab and Johnson 2018).<sup>6</sup> Furthermore, competitive views vary significantly among managers and influence the extent to which managers make more aggressive decisions in response to competition (Ferrier 2001; Nadkarni et al. 2016). As such, managers with different competitive

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<sup>5</sup> In addition to requiring the disclosure of "...significant expense categories and amounts that are regularly provided to the chief operating decision maker and included in reported segment profit or loss" (ASU 280-10-50-26A, FASB 2023), the updated ASU states that "In response to stakeholders' concerns and to provide investors with additional transparency, the Board also decided to require that a public entity include a narrative explanation of how its chief operating decision maker uses the reported measure(s) of a segment's profit or loss in assessing segment performance and deciding how to allocate resources" (ASU 280, BC54, p. 57).

<sup>6</sup> For example, accounting research shows that relative performance evaluation incentives can lead to more competitive views and more aggressive actions (Do et al. 2022; Feichter et al. 2022).

views could react differently to enhanced segment comparability and the expanded segment disclosure requirements under ASU 2023-07. Since understanding the impact of competitive views on managers' susceptibility to competition will help identify the circumstances under which managers are more or less likely to make inefficient resource allocation decisions, we investigate the resource allocation decisions of managers who are *more* versus *less* competition focused, respectively.

We predict that enhanced segment comparability facilitates the comparisons and evaluations of segment performance among peer firms for both managers and investors, causing managers to be more concerned about their segment performance being evaluated against competitors.<sup>7</sup> In the *pre*-ASU reporting regime where additional segment disclosures are not required, we expect that the segment-level peer comparison pressure arising from enhanced segment comparability will be greater for managers who are *more* (versus *less*) competition focused. Furthermore, the peer comparison pressure associated with a firm's primary segment is likely to be the most salient because it contributes the largest portion of the revenue to the firm. As such, we expect that *more* competition focused managers will allocate more resources to the primary segment to outperform their competitors, rather than to a secondary segment with higher profits and growth prospects, resulting in a less efficient allocation decision.<sup>8</sup> However, such an

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<sup>7</sup> Research shows that competitor performance is an important benchmark frequently considered by management (Aggarwal and Samwick 1999; Gong et al. 2011; Jenter and Kanaan 2015; Cao et al. 2018; Du and Shen 2018; Gao and Zhang 2019). Furthermore, some managers engage in strategic segment reporting behavior to portray more favorable segment performance (e.g., You 2014; Lail et al. 2014).

<sup>8</sup> According to Cho (2015), a passive capital allocation means managers allocate resources proportionately using a benchmark such as segment sales. As a result, if a manager allocates capital passively, a firm's primary segment, which contributes the largest portion of revenues to the firm, would receive a greater portion of the allocation. Consistent with Cho (2015), we consider a resource allocation decision as less efficient if managers allocate more resources to a larger segment with fewer opportunities (e.g., lower profits and growth prospects) merely due to the passive allocation rule. We consider a resource allocation decision as more efficient if managers allocate more resources to a segment with more opportunities (e.g., higher profits and growth prospects) despite its smaller size.

effect of enhanced segment comparability is less likely for *less* competition focused managers who are less susceptible to peer comparison pressures.

In the *post-ASU* reporting regime, managers must disclose additional segment-specific information that was used to determine their resource allocation decisions (ASU 280, BC54, p. 57). As a result, managers can use the additional segment disclosures to communicate their decision rationales to investors. Since *more* competition focused managers are likely to use the additional segment disclosures to justify their decisions to prioritize the primary segment, we still expect enhanced segment comparability to cause these managers to allocate resources less efficiently. In contrast, *less* competition focused managers are more concerned about prioritizing profit maximization. In cases where investors would respond negatively towards the “loss” of the primary-segment battle, *less* competition focused managers can use the additional segment disclosures to better communicate their decision of prioritizing profit maximization to investors, and enhanced segment comparability will help them illustrate how their allocation decisions maximize firm profitability and growth potential. As a result, we predict that in the *post-ASU* regime when additional disclosures are required, more comparable segment reports will cause *less* competition focused managers to allocate resources more efficiently.

We conduct a  $2 \times 2 \times 2$  between-participants experiment, in which we manipulate segment comparability (*more* versus *less* comparable) and segment reporting regulation (*pre-ASU* versus *post-ASU*), and we measure managers’ competitive views (*more* versus *less* competition focused) following Armstrong and Collopy (1996). Our dependent variable captures the efficiency of managers’ resource allocation decisions, where a preference to invest in the non-primary growth (primary) segment indicates a more (less) efficient allocation decision that leads to higher (lower) firm profits and growth prospects.

Consistent with our prediction, we observe an interaction effect of enhanced segment comparability and managers' competitive views in both the pre-ASU and the post-ASU reporting regimes. Specifically, in the pre-ASU reporting regime, we find that enhanced segment comparability decreases allocation efficiency for *more* competition focused managers, but not for *less* competition focused managers. In the post-ASU reporting regime, we find that enhanced segment comparability still decreases allocation efficiency for *more* competition focused managers, but it increases allocation efficiency for *less* competition focused managers.

Our findings suggest that enhanced segment comparability can positively or negatively impact managers' resource allocation decisions, depending on their competitive views and the reporting regime (i.e., whether additional segment disclosures are required or not). Specifically, when firm culture emphasizes competition and/or when managers' compensation structures incentivize competition-focused views, our results suggest that enhanced segment comparability negatively affects resource allocation efficiency for *more* competition focused managers, an unintended consequence of enhanced segment comparability that persists in both the pre-ASU and post-ASU reporting regime. In contrast, for *less* competition focused managers, our results show that while enhanced segment comparability does not affect their resource allocation efficiency in the pre-ASU reporting regime, it does improve their resource allocation efficiency in the post-ASU reporting regime when additional segment disclosures are required. To benefit from the positive impact of enhanced segment comparability under the new segment reporting regime, companies should encourage managers to adopt *less* competition focused views and focus more on overall firm value maximization, through firm trainings that emphasize non-competitive cultures or values, and/or reducing the emphasis on peer comparisons in performance evaluations.

## **2. Theory and Hypothesis Development**

### ***Segment Reporting Regulation***

The first segment disclosure regulation, SFAS No. 14 (*Financial Reporting for Segments of a Business Enterprise*, FASB 1976), simply required companies to disclose segment information by line of business or geographic area. Following calls to provide investors with more decision-useful information, the FASB instituted SFAS No. 131 in 1997 (*Disclosure about Segments of an Enterprise and Related Information*, now ASC 280, FASB 1997). Under ASC 280, companies are required to use “the management approach” for segment reporting. This approach requires public companies to disclose operating segments based on the information management uses for internal evaluation and resource allocation purposes (FASB 1997). After issuing an *Invitation to Comment* on ASC Topic 280 in 2016, the FASB found that many preparers and practitioners were interested in exploring ways to require reportable segments to be less aggregated, potentially increasing comparability, and requiring the inclusion of additional information by segment (ASU 2023-07, BC11, p. 42).

In response to concerns over the lack of decision-useful information included in segment reports, the FASB issued an Accounting Standards Update (ASU 2023-07) to improve reportable segment disclosures in November 2023 (FASB 2023).<sup>9</sup> Although the project began in 2017 and included discussions of requiring disaggregation of reportable segments, which could have enhanced segment comparability, the FASB found that the costs of such a requirement may outweigh the benefits (ASU 2023-07, BC12, p. 43). Thus, the final segment reporting update includes provisions that will require the disclosure of additional segment information that is used by the chief operating decision maker (CODM) in deciding how to allocate resources.

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<sup>9</sup> The standard will be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption of the new standard will be permitted.

Specifically, the amendments require that a public entity disclose “...significant expense categories and amounts that are regularly provided to the chief operating decision maker and included in reported segment profit or loss” (FASB 2023). In addition to the required disclosure of significant expense categories and amounts, managers are expected to provide qualitative descriptions in some cases. For example, the updated standard states that “in response to stakeholders’ concerns and to provide investors with additional transparency, the Board also decided to require that a public entity include a narrative explanation of how its CODM uses the reported measure(s) of a segment’s profit or loss in assessing segment performance and deciding how to allocate resources” (ASU 2023-07, BC54, p. 57).<sup>10</sup>

### ***Segment Comparability***

In discussing the ASC Topic 280 update, Board Member Christine Botosan states that “The structure of the significant expense principle, specifically, and the management approach, more generally, allow for too much discretion by a public entity to manage reporting outcomes, resulting in diminished quantity, quality, and comparability of segment information” (ASU 2023-07, p. 35). This highlights a key concern with the current segment disclosure regulation that was also identified in the 2016 *Invitation to Comment*; namely, that management can discretionarily aggregate operating segments and determine the number of reported segments to achieve strategic reporting objectives (Botosan and Stanford 2005; Berger and Hann 2007; Bens et al. 2011; FASB 2023). Botosan et al. (2021) find that under the initial regime of ASC 280, only 5.4 percent of public companies that provide segment reports disclose more than five segments and 62.6 percent disclose two or fewer segments. Further, using the flexibility under

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<sup>10</sup> Further, the ASU indicates that “an amount and qualitative description of the composition of other segment items shall be disclosed even when a public entity does not separately report significant segment expense categories...” (ASU 280-10-50-26C, FASB 2023).

ASC 280, managers were shown to change the composition of reportable segments once every 3.6 years, which has greatly impeded investors' ability to compare segment performance across peer firms (FAF 2012; CFA 2018).<sup>11</sup>

While enhanced segment comparability can improve the decision usefulness of segment reports for investors, it can also create a more competitive environment for managers. As segment comparability increases, competition at the segment level becomes more salient, which activates peer comparison pressure that can change management's actions and behaviors (Chen et al. 2007; Murayama and Elliot 2012). For example, in a bargaining game, Hoffman et al. (1954) find that when comparable situations exist, individuals' behaviors are determined more by performance relative to others than the absolute level of performance. This suggests that, in some cases, enhanced comparability can lead to value-harming decisions.<sup>12</sup> While managers are generally tasked with the goal of value maximization (Friedman 1970), they are often preoccupied with the objective of outperforming competitors (Armstrong and Green 2007; Bendle and Vandenbosch 2014). Indeed, management research suggests that direct peer firm performance comparisons can shift managers' focus from profit-oriented objectives to competitor-oriented objectives and harm overall firm profitability (Armstrong and Collopy 1996; Armstrong and Green 2007; Luo et al. 2007).

The interactionist perspective on competition indicates that it is the combination of competitive environments, contextual factors, and individual factors that determine behaviors in

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<sup>11</sup> For example, among the three major players in the cloud computing services market (Amazon, Microsoft, and Alphabet), both Amazon and Microsoft disaggregate their cloud computing operations into separate reportable segments, whereas Alphabet aggregates their cloud computing segment with other operating segments, making it difficult to compare the performance of Amazon's or Microsoft's cloud computing segment to that of Alphabet's.

<sup>12</sup> Enhanced segment reporting comparability and transparency would limit managers' ability to manipulate the reporting of segment information, increasing the likelihood that managers will use operating decisions such as resource allocation decisions to achieve their strategic objectives (Wu and Xue 2023), which is different from financial reporting manipulations documented in prior research (e.g., Lail et al. 2014; You 2014; Hinson et al. 2019).

response to competition (Endler and Parker 1992; Brown et al. 1998; Reynolds et al. 2010). This perspective suggests that while enhanced segment comparability creates a more competitive environment, contextual factors (e.g., the change of segment disclosure requirements in ASU 2023-07) and individual factors (e.g., managers' competitive views) are important to consider when analyzing the impact of comparability on managers' behavior. Thus, we discuss the individual factor of managers' competitive views in the next section, and then develop hypotheses on how segment comparability and competitive view jointly influence managers' resource allocation decisions in the pre-ASU and post-ASU reporting regimes, respectively.

### ***Managers' Competitive Views***

Drawing on prior literature (e.g., Armstrong and Collopy 1996; Luo et al. 2007), we define "managers' competitive views" as the extent to which managers focus more on outperforming competitors (i.e., *more* competition focused) or maximizing their own firms' profits (i.e., *less* competition focused).<sup>13</sup> Although the goals of outperforming competitors and maximizing profits do not always conflict with one another, research suggests that different competitive views have important consequences. For example, Armstrong and Collopy (1996) use a field study to show that firms with *more* competition focused objectives (e.g., capturing market share) are less profitable and less likely to survive than those with *less* competition focused, firm-oriented objectives (e.g., maximizing profits). Further, Einhorn, Langberg, and Versano (2018) develop an analytical model to show that a competitor-oriented focus can cause managers to make less optimal production decisions.

Prior research also suggests that a manager's competitive view can be significantly influenced by various environmental factors (Armstrong and Collopy 1996). For example,

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<sup>13</sup> This is also consistent with Bendle and Vandenbosch (2014, p. 781) who define this construct as the extent to which managers "focus on beating the competition rather than maximizing profits."

research shows that managers are more likely to be *more* competition focused when their companies adopt competitive strategies, when management training emphasizes competition, and/or when competitor-oriented information is made salient.<sup>14</sup> Importantly, accounting literature has documented how the use of relative performance evaluation (RPE) in compensation induces managers' competitive behaviors. Do et al. (2022) find that using RPE contracts introduces a tournament among managers and results in more competitive behavior. Feichter et al. (2022) find that managers take more competitively aggressive actions when their compensation plans have greater peer group overlap/comparability. Given the large variation in the use of RPE in managers' incentives (Equilar 2020), competitive views tend to vary significantly among managers. Whereas *more* competition focused managers are more susceptible to competitive pressures and more likely to take competitively aggressive actions, *less* competition focused managers are less susceptible to competitive pressures and tend to focus on maximizing firm profits (Armstrong and Collopy 1996; Bendle and Vandenbosch 2014).

### ***Pre-ASU 2023-07 Hypothesis***

Prior research has found that managers who are *more* competition focused can be subject to negative consequences including self-harming outcomes, negative effects on task performance, and reduced firm profitability (Kohn 1986; Corfman and Lehmann 1994; Campbell and Furrer 1995; Armstrong and Collopy 1996; Armstrong and Green 2007). This seemingly irrational behavior, where managers accept lower absolute outcomes in order to outperform their competitors, is theorized to stem from the competitive nature of humans and is known as “competitive irrationality” in psychology (Gilbert et al. 1995; Armstrong and Green 2007; Zell

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<sup>14</sup> Examples of competitor-oriented information examined in prior studies include competitor's responses to competition strategies (Teger 1980), competitor's payoffs (Messick and Thorngate 1967; Messick and McClintock 1968), and market share information (Armstrong and Collopy 1996).

and Alicke 2010; Van Yperen and Leander 2014). This body of research suggests that *more* competition focused managers are more likely than *less* competition focused managers to exhibit “competitive irrationality.” Psychology research also shows that individuals are more likely to engage in competitive irrationality and make self-harming decisions in an effort to outperform competitors when direct comparisons are available (Kohn 1986; Arnett and Hunt 2002). Accordingly, when segment disclosures become more comparable and managers can easily compare segment-level performance across peer firms, managers who are more focused on competition are more likely to make less efficient allocation decisions to outperform competitors at the segment level than those who are less focused on competition.

Among all the reported operating segments, we expect that the comparison of a firm’s primary segment with its competitors will receive the most attention. This is because a primary segment is usually the largest segment of a firm (Lang and Stulz 1994). Additionally, a firm’s primary segment is important to managers also because it significantly influences firm valuation (e.g., Berger and Ofek 1995; You 2014; Chen et al. 2016), provides sustainable cash flows (Zook 2007; Zook and Allen 2010; McKinsey and Company 2015), and attracts more media and investor attention than non-primary segments (Osawa 2013; Martin and Mickle 2017; Gallagher 2019). Taken together, in the pre-ASU reporting regime where additional contextual information is not required to be disclosed, our theory suggests that *more* competition focused managers will be particularly motivated to ensure that their primary segment outperforms its competitors. As a result, we expect that when segment reports are more (versus less) comparable, *more* competition focused managers are more likely to allocate resources to a primary segment in order to “beat” the competition at the expense of forgoing higher profits and growth potential in a non-primary growth segment, reducing resource allocation efficiency. However, such an effect

of comparability is less likely for *less* competition focused managers. We state this prediction for the *pre*-ASU reporting regime below as H1.

H1: In the *pre*-ASU reporting regime, enhanced segment comparability will cause *more* competition focused managers to make less efficient allocations decisions, but such an effect is less likely for *less* competition focused managers.

### ***Post-ASU 2023-07 Hypothesis***

The updated segment reporting requirement (ASU 2023-07) includes a requirement to provide additional segment disclosures and/or qualitative information to help investors obtain better insight into companies' internal decision making. It also provides managers a channel to explain their resource allocation decisions and how such decisions impact segment performance, which otherwise may not be voluntarily disclosed due to managers' concerns over proprietary costs (Botosan and Stanford 2005; FASB 2016). Since *more* competition focused managers tend to more easily succumb to peer comparison pressure, they are likely to utilize additional disclosures to justify why they made resource allocation decisions to ensure that their primary segment outperforms its competitors. As such, we should continue to observe a negative impact of enhanced segment comparability on more competition focused managers' resource allocation decisions in the post-ASU reporting regime.

In contrast to *more* competition focused managers, *less* competition focused managers are less susceptible to competitive pressures themselves and tend to focus on maximizing firm profits (Armstrong and Collopy 1996; Bendle and Vandenbosch 2014). However, *less* competition focused managers do need to consider investors' potentially negative reactions if their primary segment underperforms that of the peer firm (e.g., Chen et al. 2016). In this case, the additional segment disclosures and qualitative descriptions required by ASU 2023-07 can be particularly helpful because they allow *less* competition focused managers to explain to investors

how their resource allocation decisions can lead to improved firm profits and growth potential. Prior research suggests that when individuals are provided with an opportunity to explain their decisions, they are less concerned about being evaluated against quantitative performance benchmarks and less likely to make suboptimal operating decisions, compared to when they do not have such an opportunity to explain their decisions (Bentley 2019). Therefore, we expect that additional segment disclosures will reduce *less* competition focused managers' concerns about investors' negative reactions to underperforming a primary-segment competitor, and thus, increase the likelihood that they make more efficient resource allocation decisions.

Moreover, we posit that *less* competition focused managers' explanations in the post-ASU reporting regime will be more effective when segment reports are more (versus less) comparable. With both enhanced comparability and additional disclosures, managers can better explain how resources allocated to a non-primary growth segment enable the firm to maximize overall profitability and growth potential. Without comparable segment disclosures, investors will not be able to compare the non-primary growth segment performance across peer firms, making it difficult for investors to understand the positive implications of *less* competition focused managers' resource allocation decisions. Taken together, we expect that *less* competition focused managers will make more efficient capital allocation decisions in the post-ASU reporting regime when segment reports are more (versus less) comparable. In contrast, similar to the pre-ASU reporting regime, we expect that *more* competition focused managers will continue to make less efficient capital allocation decisions when segment reports are more (versus less) comparable. We state this prediction for the post-ASU reporting regime below as H2.

H2: In the *post*-ASU reporting regime, enhanced segment comparability will cause *more* competition focused managers to make less efficient allocation decisions, but it will cause *less* competition focused managers to make more efficient allocation decisions.

### **3. Method**

#### ***Participants***

Two hundred and thirty-four business school graduate students from a large public university in the United States participate in our study.<sup>15</sup> Participants have an average work experience of 8.48 years with 3.08 years of experience working in accounting- or finance-related fields. They have taken an average of 9.92 accounting courses, 2.15 finance courses, 2.31 economics courses, and they have an average of 1.38 years of investment experience. On average, participants are 27.95 years old, and 63.2% are female. The demographic information of our participants is similar to those in prior studies using graduate students as a proxy for firm-level managers (e.g., Wang and Tan 2013; Rennekamp et al. 2015).

#### ***Design and Procedure***

This experiment employs a  $2 \times 2 \times 2$  between-participants design. We manipulate segment comparability (more versus less) and reporting regime (pre-ASU versus post-ASU), and we measure managers' competitive views (*more* competition focused versus *less* competition focused). Participants begin the experiment by reading general instructions, which indicate that they will assume the role of the CEO of Firm X and determine whether to make an advertising investment in the company's Cell Phone segment or Smart Home segment. Participants then proceed to read background information about their firm, Firm X, and its primary competitor, Firm Z. The two firms operate in the same industry and have similar product lines. Both firms have three operating segments: Cell Phone, Smart Home, and Home Appliance, with Cell Phone as the primary segment of both Firm X and Firm Z.

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<sup>15</sup> This study received IRB approval from the institution where the study took place.

Next, participants across all conditions receive the same information on the expected return of an advertising investment if it were to be made in either the Cell Phone segment (i.e., the primary segment) or the Smart Home segment (i.e., a non-primary growth segment). This information indicates that the return of an advertising investment in the Smart Home segment would be substantially higher than the return of the same investment made in the Cell Phone segment because the Smart Home segment is in a more rapidly growing market. Specifically, an advertising investment of \$6 million would increase the revenue of the Smart Home segment by \$12 million, whereas the same \$6 million advertising investment would increase the revenue of the Cell Phone segment by only \$10 million. Thus, an investment in the Smart Home segment is more efficient relative to an investment in the Cell Phone segment. See Appendix A for this information, which is presented in *all* conditions.

After reading information about the resource allocation decision, participants are told how Firm X and Firm Z present their *reportable* segments in their annual reports. This is where we manipulate segment comparability (more versus less comparable) and the reporting regime (pre-ASU versus post-ASU). After reading the case materials, participants make resource allocation decisions and explain the rationales for their decisions. Finally, participants respond to questions in the post-experimental questionnaire, including manipulation check questions, questions capturing managers' competitive views, process measures, and demographic questions.

### ***Independent Variables***

#### *Comparability Manipulation*

We manipulate segment comparability at two levels (more versus less comparable). In the *more* comparable condition, we inform participants that both their firm (Firm X) and the peer firm (Firm Z) combine operating segments into the same reporting segments. That is, both firms

combine the Smart Home and Home Appliance operating segments into a single “Home Products” reportable segment. As a result, segment-level revenues and profits between the two firms are directly comparable.<sup>16</sup> In this case, an investment in the Cell Phone segment will cause Firm X (the focal firm) to report better “Cell Phone” segment performance but worse “Home Products” segment performance compared to Firm Z (the peer firm). In the *less* comparable condition, we tell participants that the two firms combine operating segments into different reporting segments. While their firm (Firm X) combines the Smart Home and Home Appliance segments into a single “Home Products” reportable segment, the peer firm (Firm Z) combines the Cell Phone and Smart Home segments into a single “Smart Devices” reportable segment. Due to the different ways the segments are combined, segment-level revenues and profits between the two firms are not directly comparable.<sup>17</sup> Appendix B presents an illustration of our segment comparability manipulation. Importantly, regardless of our manipulations, the segment report makes it clear that Firm X always has higher *overall* firm-level performance than Firm Z; although, Firm X outperforms Firm Z by a larger amount if participants choose to invest in the “Smart Home” segment compared to if they choose to invest in the “Cell Phone” segment.

#### *Reporting Regime Manipulation*

We manipulate the reporting regime by varying the absence (pre-ASU) versus presence (post-ASU) of an additional footnote disclosure that includes significant segment advertising expense information. This manipulation is consistent with the updated requirements in ASU

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<sup>16</sup> Along with access to both public and private information sources about competitors (e.g., firm and analyst forecasts, private subscription services), recent developments in technology have facilitated managers’ ability to accurately project competitors’ sales information (e.g., Penpece and Elma 2014; Kepler 2021).

<sup>17</sup> Note that this manipulation keeps the level of disaggregation of segment information constant across all conditions. That is, in both the *more* and *less* comparable conditions, both the focal and peer firms combine two operating segments to form a reporting segment. What differs between the two conditions is whether the two firms combine the operating segments in the same way or not, resulting in either more or less comparable segment reports disclosed to investors. Our manipulation of comparability is consistent with Botosan et al. (2021), which finds that companies combine reported segments discretionally, reducing segment comparability across firms.

2023-07. Specifically, ASU 2023-07 requires managers to disclose “...significant expense categories and amounts that are regularly provided to the chief operating decision maker...” (ASU 280-10-50-26A), and “...a narrative explanation of how its CODM uses the reported measure(s) of a segment’s profit or loss in assessing segment performance and deciding how to allocate resources...” (ASU 280, BC54, p. 57), whereas such a requirement is absent before the issuance of ASU 2023-07. In the post-ASU condition, we include a footnote that reports how the advertising investment (a significant expense) affects reportable segment revenue and investment returns should managers choose to invest in either of the investment alternatives. Specifically, participants are provided with two versions of the footnote, one that would be disclosed to investors if they choose to invest in the Cell Phone segment and one that would be disclosed to investors if they choose to invest in the Smart Home segment. No such information is provided in the pre-ASU condition. See Appendix C for our manipulation of reporting regime.

#### *Managers’ Competitive Views*

We measure our third independent variable, managers’ competitive views, by asking participants a general question that is not pertinent to the case material at the end of the debriefing section — “in your opinion, which of the following is a firm’s primary purpose?” Participants choose between two options: (1) to do better than its competitors, or (2) to do the best that it can. Consistent with prior research, we code those who choose option (1) as *more* competition focused, and those who choose option (2) as *less* competition focused.<sup>18</sup>

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<sup>18</sup> Our measure is consistent with the measures used widely used in psychology, marketing, and management research (e.g., Armstrong and Collopy 1996; Keil et al. 2001; Luo et al. 2007). Specifically, Armstrong and Collopy (1996, p. 189) capture managers’ “competitor orientation” by asking participants whether they agree with the statements that “The best way to judge the success of a firm is by how well it does relative to its competitors” (in their survey with MBA students) and “The primary purpose of a firm is to be better than its competitors” (in their survey with managers). Participants who express agreement (disagreement) with *either* of the statements are considered to be more (less) competitor oriented. Slightly more participants are coded as *less* competition focused (n = 119, or 50.9%) than *more* competition focused (n = 115, or 49.1%). This result is consistent with Armstrong and Collopy (1996) who find that 50 percent of managers in the U.S. are considered to be more focused on competition.

To validate that managers' competitive views are independent of our manipulated variables (Asay et al. 2022), we conduct a logistic regression with competitive view as the binary dependent variable, and the two manipulated variables as the independent variables. Results show that competitive view is not influenced by enhanced comparability ( $p = 0.479$ , two-tailed), reporting regime ( $p = 0.323$ , two-tailed), or the interaction of these two variables ( $p = 0.551$ , two-tailed), indicating that competitive view is independent of the two manipulated variables. Additionally, we conduct a logistic regression with competitive view as the binary dependent variable and managers' resource allocation decisions as the independent variable, and results show that managers' allocation decisions do not influence managers' competitive views ( $p = 0.971$ , two-tailed), ensuring there is no reverse causality or carryover effect (Asay et al. 2022).

### ***Dependent Variable***

Recall that an investment in the non-primary Smart Home segment generates a higher overall return compared to an investment in the primary Cell Phone segment. We code the decision to invest in the Smart Home segment as “+1” (i.e., a more efficient decision) and the decision to invest in the Cell Phone segment as “-1” (i.e., a less efficient decision). We then multiply the decision by the strength of preference for that particular choice (0 = very weak preference; 10 = very strong preference) to generate our dependent variable, ranging from -10 (strong preference to invest in the Cell Phone segment) to +10 (strong preference to invest in the Smart Home segment), with a larger rating indicating higher investment efficiency.

## **4. Results**

### ***Manipulation Check Questions***

To check our manipulation of segment comparability, we ask participants to indicate the extent to which they agree that investors can easily compare the revenue and operating income of

the Cell Phone segments between Firm X and Firm Z on an 11-point scale (0 = completely disagree; 10 = completely agree). Participants indicate that it is easier for investors to compare the revenue and operating income of the Cell Phone segments between the two firms when segment reports are more comparable than less comparable (means = 8.15 versus 3.70;  $F_{1,232} = 169.498$ ,  $p < 0.001$ ), suggesting that our manipulation of segment comparability is successful.<sup>19</sup>

To check our reporting regime manipulation, we ask participants to indicate the extent to which they agree with the following statement, “Your company (Firm X) disclosed a footnote explaining the significant expenses for reported segments,” on an 11-point scale, ranging from 0 (completely disagree) to 10 (completely agree). Participants in the post-ASU condition indicate a higher rating (mean = 7.79) than those in the pre-ASU condition (mean = 5.44;  $F_{1,232} = 56.417$ ,  $p < 0.001$ ), suggesting a successful reporting regime manipulation.

### ***Hypothesis Testing***

Since our H1 and H2 jointly predict a three-way interaction such that the two-way interaction effect of segment comparability and competitive view on managers’ resource allocation decisions will be different between the pre-ASU regime and the post-ASU regime, we first conduct a three-way ANOVA with segment comparability, reporting regime, and competitive view as the independent variables, and managers’ resource allocation decisions as the dependent variable. Table 1, Panel A presents the descriptive statistics, and Panel B presents the three-way ANOVA results. Figure 1 plots the means for the *pre-ASU* and *post-ASU* subsamples in Panels A and B, respectively.

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<sup>19</sup> All p-values are one-tailed equivalents given our directional predictions unless otherwise specified.

Consistent with our expectations, the three-way ANOVA shows a marginally significant three-way interaction effect ( $F_{1, 226} = 1.777$ ,  $p = 0.092$ ).<sup>20</sup> We also find a significant two-way interaction between segment comparability and competitive view on managers' resource allocation decisions ( $F_{1, 226} = 11.282$ ,  $p < 0.001$ ), suggesting that segment comparability has different impacts on *more* and *less* competition focused managers' resource allocation decisions. Specifically, *more* competition focused managers are more likely to make less efficient allocation decisions when segment reports are more comparable than less comparable (means = 3.121 versus 6.689;  $t_{230} = -3.388$ ,  $p < 0.001$ ; untabulated). However, enhanced comparability does not significantly influence *less* competition focused managers' resource allocation decisions (more versus less comparable means = 5.679 versus 4.274;  $t_{230} = 1.308$ ,  $p = 0.192$ , two-tailed; untabulated). All other effects are insignificant ( $F_{1, 226} < 1.759$ ,  $p > 0.185$ , two-tailed).

(Insert Table 1 and Figure 1 about here)

H1 predicts that in the pre-ASU reporting regime, enhanced segment comparability will cause *more* competition focused managers to make less efficient allocation decisions, and such an effect is less likely to exist for *less* competition focused managers. We conduct a two-way ANOVA in the *pre*-ASU subsample with segment comparability and competitive view as independent variables and managers' resource allocation decisions as the dependent variable. As shown in Table 2, Panel A, we find a marginally significant main effect of segment comparability ( $F_{1, 118} = 1.905$ ,  $p = 0.085$ ) such that managers are generally more likely to make less efficient allocation decisions when segments are more versus less comparable in the *pre*-ASU subsample (means = 3.948 versus 5.453). The main effect of managers' competitive view is insignificant

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<sup>20</sup> The F-test of the three-way interaction has one numerator degree of freedom with a directional prediction. Therefore, we use the one-tailed p-value of the directional t-test associated with the corresponding F-test (Piercey 2023, Appendix D). We follow the same approach to report the one-tailed p-values of the directional t-tests of their corresponding F-tests elsewhere in the paper where we have directional predictions.

( $F_{1,118} = 0.019$ ,  $p = 0.890$ , two-tailed). Importantly, we find a marginally significant two-way interaction between segment comparability and competitive view ( $F_{1,118} = 1.888$ ,  $p = 0.086$ ). Simple effect tests show that for *more* competition focused managers, enhanced segment comparability reduces resource allocation efficiency (less versus more comparable means: 6.207 versus 3.133;  $t_{118} = 1.922$ ,  $p = 0.029$ ). In contrast, segment comparability does not affect *less* competition focused managers' allocation efficiency (less versus more comparable means: 4.829 versus 4.821;  $t_{118} < 0.001$ ,  $p = 0.996$ ). These findings support H1.

(Insert Table 2 about here)

Next, we turn to the *post*-ASU subsample to test H2. H2 predicts that in the post-ASU reporting regime, enhanced segment comparability will cause *more* competition focused managers to make less efficient allocation decisions but help *less* competition focused managers make *more* efficient allocation decisions. Taken together, this predicts an interaction such that enhanced segment comparability improves (harms) less (more) competition focused managers' resource allocation efficiency when additional segment disclosures are required (i.e., in the post-ASU reporting regime). To test H2, we conduct a two-way ANOVA in the *post*-ASU subsample, with segment comparability and competitive view as the independent variables and managers' resource allocation decisions as the dependent variable.

As shown in Table 2, Panel B, we observe a significant interaction effect of segment comparability and competitive view ( $F_{1,108} = 12.393$ ,  $p < 0.001$ ). The main effects of both segment comparability and competitive view are insignificant (largest  $F_{1,108} = 0.214$ , smallest  $p = 0.645$ ). As predicted, simple effect results show that for *more* competition focused managers, enhanced segment comparability continues to significantly *reduce* their allocation efficiency (less versus more comparable means: 7.125 versus 3.107;  $t_{108} = 2.920$ ,  $p = 0.002$ ). However, for

*less* competition focused managers, enhanced segment comparability significantly *increases* their allocation efficiency (*less* versus *more* comparable means: 3.556 versus 6.640;  $t_{108} = -2.090$ ,  $p = 0.020$ ). These results support H2.

### ***Additional Analyses***

#### ***The Impact of Segment Comparability and Competitive View on Intrinsic Comparison Pressure***

Our theory indicates that *more* competition focused managers tend to feel more intrinsic pressure to outperform primary-segment competitors than *less* competition focused managers, and that enhanced segment comparability is more likely to amplify intrinsic comparison pressure for *more* competition focused managers than *less* competition focused managers. To test this theory, we measure managers' intrinsic comparison pressure by asking participants to indicate the extent to which they agree that they feel pressure that their primary segment would underperform that of the peer firm (0 = strongly disagree; 10 = strongly agree). We label this variable as *Intrinsic Comparison Pressure*.

Using *Intrinsic Comparison Pressure* as the dependent variable, we conduct a two-way ANOVA with segment comparability and competitive view as the independent variables. Table 3, Panel A presents the descriptive statistics, and Panel B presents the ANOVA results. We find a marginally significant interaction effect ( $F_{1, 200} = 2.385$ ,  $p = 0.062$ ).<sup>21</sup> As shown in Table 3, Panel C, simple effect tests suggest that for *more* competition focused managers, segment comparability significantly increases *Intrinsic Comparison Pressure* (*more* versus *less* comparable means = 6.28 versus 5.49;  $t_{200} = 2.037$ ,  $p = 0.022$ ). For *less* competition focused managers, however, segment comparability does not significantly impact *Intrinsic Comparison Pressure* (*more* versus *less* comparable means = 5.64 versus 5.73;  $t_{200} = -0.214$ ,  $p = 0.831$ , two-

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<sup>21</sup> Thirty participants did not complete the post-experimental questions, leaving a sample of 203 participants for our additional analyses.

tailed). Consistent with our theory, these results suggest that enhanced segment comparability is more likely to increase managers' intrinsic comparison pressure for *more* competition focused managers compared to *less* competition focused managers.

(Insert Table 3 about here)

#### *The Impact of Reporting Regime and Competitive View on Investor Comparison Pressure.*

In contrast to *more* competition focused managers, theory suggests that *less* competition focused managers feel less intrinsic comparison pressure; however, enhanced segment comparability can cause *less* competition focused managers to feel more comparison pressure from investors unless they can explain their decision rationales with additional disclosures in the post-ASU reporting regime. To provide support for this theoretical argument, we measure managers' perceived investor comparison pressure by asking participants to indicate the extent to which they agree that they are concerned that *investors* are comparing the performance of their firm's primary segment to that of the competitor's primary segment (i.e., *Investor Comparison Pressure*). This question is measured on an 11-point scale (0 = strongly disagree; 10 = strongly agree). We run a two-way ANOVA with reporting regime and managers' competitive view as the independent variables, and *Investor Comparison Pressure* as the dependent variable. Table 4, Panel A presents descriptive statistics, and Panel B presents the ANOVA results.

Consistent with our theory, we find a significant interaction effect between reporting regime and competitive view ( $F_{1, 200} = 2.931$ ,  $p = 0.044$ ). As shown in Table 4, Panel C, simple effect tests confirm that in the pre-ASU reporting regime, both *less* and *more* competition focused managers feel similar levels of *Investor Comparison Pressure* (means = 6.77 versus 6.53;  $t_{200} = 0.650$ ,  $p = 0.517$ , two-tailed). However, in the post-ASU reporting regime, *Investor Comparison Pressure* is significantly lower for *less* competition focused managers than for *more*

competition focused managers (means = 6.34 versus 7.13;  $t_{200} = -1.673$ ,  $p = 0.048$ ). These results are consistent with our theory that the additional segment disclosures required in the post-ASU reporting regime help reduce investor comparison pressure for *less* competition focused managers, but less so for *more* competition focused managers. The latter result is not unexpected as *more* competition focused managers probably use additional segment disclosures to justify their decisions to prioritize the primary segment performance to outperform competitors, which is unlikely to reduce investor comparison pressure.

(Insert Table 4 about here)

#### *The Impact of Segment Comparability and Reporting Regime on Return Concern*

Our theory suggests that in the pre-ASU regime, segment comparability will increase managers' comparison pressure and decrease their concern on maximizing investment return. However, such an effect of enhanced segment comparability is likely to be attenuated in the post-ASU regime, as the required additional disclosures provide managers with a channel to explain their decision making. To measure managers' concern on maximizing investment return (hereafter, *Return Concern*), we ask participants to indicate the extent to which they agree with the following four statements: they are concerned about 1) the investment return, 2) profitability in the primary segment relative to that of the secondary segment, 3) managers' concern about the overall firm performance relative to that of the peer firm, and 4) managers' concern about being viewed by others as making the right decision. All four questions are measured on 11-point scales (0 = strongly disagree; 10 = strongly agree). These questions load onto the same factor (highest eigenvalue = 2.074, explaining 51.84 percent of the variance). We use the average of these four questions as our measure of *Return Concern*. Using *Return Concern* as the dependent variable, we conduct a two-way ANOVA with segment comparability and reporting regime as the

independent variables. Table 5, Panel A provides descriptive statistics for managers' *Return Concern* and Panel B reports the two-way ANOVA results.

We find a significant interaction effect between segment comparability and reporting regime ( $F_{1, 200} = 9.706$ ,  $p = 0.001$ ). Simple effect tests, reported in Table 5, Panel C, show that in the *pre-ASU* condition, enhanced comparability *reduces* managers' *Return Concern* (high versus low comparability means = 5.94 versus 6.70;  $t_{200} = -2.581$ ,  $p = 0.006$ ), supporting our argument that enhanced segment comparability shifts managers' attention away from maximizing return. In the *post-ASU* condition, however, enhanced comparability *increases* managers' *Return Concern* (high versus low comparability means = 6.51 versus 5.83;  $t_{200} = 1.913$ ,  $p = 0.057$ , two-tailed), supporting our theory that expanded segment disclosures and enhanced segment comparability enable managers to communicate to investors and help them focus on maximizing return.

(Insert Table 5 about here)

## 5. Supplemental Experiment

### ***Motivation and Design***

In our main experiment, we observe that the negative impact of enhanced segment comparability on the *more* competition focused managers' decisions exists in both the *pre-ASU* and the *post-ASU* reporting regimes. However, the impact of enhanced comparability on the *less* competition focused managers' decisions changes from an insignificant effect in the *pre-ASU* era to a significantly positive effect in the *post-ASU* era. Given the policy implications of this result, we test the robustness of this finding by conducting a supplemental experiment that focuses on *less* competition focused managers. Moreover, in the main experiment, the reporting regime variable is manipulated by providing participants with a pre-designed footnote disclosure explaining the impact of managers' decisions. One concern with this approach could be that

results in the main experiment are driven by the specific content of the footnote disclosures provided to participants. To rule out this alternative explanation in the supplemental experiment, we manipulate the presence or absence of a reporting *requirement* for the segment disclosures associated with the ASU. That is, rather than providing participants with a pre-designed footnote disclosure, we inform participants that regulations do (in the *pre*-ASU condition) or do not (in the *post*-ASU condition) require an additional disclosure (see Appendix C). All other experimental manipulations and procedures are similar to those in the main experiment. Thus, we conduct a 2 (*more* versus *less* comparable)  $\times$  2 (*pre*-ASU versus *post*-ASU) between-participants supplemental experiment focusing on *less* competition focused managers.<sup>22</sup>

### **Results**

To check our manipulation of segment comparability, we ask participants to indicate the extent to which they agree that investors can easily compare the revenue and operating income of the Cell Phone segments between Firm X and Firm Z on an 11-point scale (0 = completely disagree; 10 = completely agree). Participants indicate that it is easier for investors to compare the revenue and operating income of the Cell Phone segments between the two firms when segment reports are more comparable than less comparable (means = 8.55 versus 4.16;  $F_{1,281} = 191.333$ ,  $p < 0.001$ ). Our manipulation of segment comparability is successful.

To check our manipulation of reporting regime, we ask participants to indicate the extent to which they agree with the following statement, “Current accounting regulations required you

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<sup>22</sup> We recruit experienced corporate managers via Qualtrics Panel, a third-party participant-recruiting platform. We require participants to have manager-level work experience, and we screen participants using our measure of managers’ competitive view. Based on this measure, 283 participants qualify as “*less* competition focused managers.” On average, these managers are 53.23 years old, with 32.07 years of work experience, 20.57 years of management experience, 12.33 years of experience in accounting/finance-related areas, and 12.90 years of investment experience. They have taken an average of 3.58 accounting courses, 2.78 finance courses, and 4.04 economics courses, and indicate that they are reasonably familiar with segment reports (mean = 5.04 on an 11-point scale ranging from “0 = extremely unfamiliar” to “10 = extremely familiar”).

to disclose all significant expenses for each reported segment and a reconciliation to segment operating income,” on an 11-point scale (0 = completely disagree; 10 = completely agree). Participants in the *post*-ASU condition indicate a higher agreement with the statement (mean = 8.53) than those in the *pre*-ASU condition (mean = 4.60;  $F_{1, 281} = 139.563$ ,  $p < 0.001$ ). Our manipulation of reporting regime is successful.

We conduct a two-way ANOVA with segment comparability and reporting regime as the independent variables and managers’ resource allocation decisions as the dependent variable. Figure 2 illustrates the means for each condition. Table 6, Panel A presents descriptive statistics, and Panel B presents the ANOVA results. We find a significant main effect of comparability such that *less* competition focused managers’ allocation efficiency is higher when the segments are more comparable than less comparable (means: 5.58 versus 3.94;  $F_{1, 279} = 4.537$ ,  $p = 0.017$ ). Neither the main effect of reporting regime nor the interaction is significant (smallest p-value = 0.242). However, consistent with the findings in our main experiment, our results in the supplemental experiment show that the impact of enhanced comparability on the *less* competition focused managers’ decisions is insignificant in the *pre*-ASU regime (more versus less comparable means: 5.06 versus 4.35,  $t_{279} = 0.645$ ,  $p = 0.519$ , two-tailed; Panel C of Table 6), but is significantly positive in the *post*-ASU regime (more versus less comparable means: 6.08 versus 3.65,  $t_{279} = 2.462$ ,  $p = 0.007$ ; Panel C of Table 6). This result suggests that the main effect of comparability on *less* competition focused managers’ allocation efficiency is primarily driven by the *post*-ASU regime.

(Insert Table 6 and Figure 2 about here)

We also conduct an additional analysis on *less* competition focused managers’ *Return Concern*. Our theory suggests that in the *post*-ASU reporting regime, *less* competition focused

managers are more likely to be concerned about investment return when segment disclosures are comparable; however, in the *pre-ASU* era, this comparability effect is weaker. We measure managers' return concern by asking participants questions similar to those in the main experiment. These questions load onto the same factor (highest eigenvalue = 2.070, explaining 51.74 percent of the variance). We use the average of these four questions as our measure of *Return Concern*. We conduct a two-way ANOVA with segment comparability and reporting regime as the independent variables and *Return Concern* as the dependent variable. Table 7, Panel A reports descriptive statistics by conditions and Panel B provides the two-way ANOVA results. We find a significant interaction between segment comparability and reporting regime ( $F_{1, 279} = 2.777, p = 0.049$ ). Neither the main effects of segment comparability nor reporting regime is significant (smallest  $p = 0.239$ ). The simple effect results show that in the *post-ASU* condition, *Return Concern* is higher for less competition focused managers when segments are more versus less comparable (means: 6.78 versus 6.18;  $t_{279} = 2.121, p = 0.018$ ). However, in the *pre-ASU* condition, *Return Concern* is not significantly different between the more and less comparable conditions (means: 6.32 versus 6.43;  $t_{279} = -0.327, p = 0.743$ , two-tailed). These results support our theory that more (versus less) comparable segment reports are more likely to increase *less* competition focused managers' return concerns in the *post-ASU* reporting regime.

(Insert Table 7 about here)

## 6. Conclusion

Considering the FASB's issuance of ASU 2023-07 to improve the decision-usefulness of segment reports (FASB 2023), we examine how the updated segment reporting requirement will influence more and less competition focused managers' resource allocation decisions, when reportable segments are more versus less comparable across peer firms. Our results show that

enhanced segment comparability causes *more* competition focused managers to make less efficient allocation decisions, and we find that this negative comparability effect exists in both the *pre*-ASU and *post*-ASU reporting regimes. While prior research has identified effects of *firm-level* competition on management behavior (e.g., Cao et al. 2018; Du and Shen 2018; Gao and Zhang 2019), we show that managers are also concerned with *segment-level* competition, particularly with respect to the company's primary segment, and that enhanced segment comparability can reduce allocation efficiency for *more* competition focused managers.

In contrast to managers who are *more* competition focused, we find that enhanced segment comparability does not influence *less* competition focused managers' allocation decisions in the *pre*-ASU reporting regime. However, we find that enhanced segment comparability *improves* allocation efficiency for less competition focused managers in the *post*-ASU reporting regime. Specifically, we show that the ASU requirement to disclose additional segment information is more likely to improve allocation efficiency for less competition focused managers when it is presented with more (rather than less) comparable segment reports.

Our findings shed light on potential unintended consequences associated with enhancing segment reporting comparability. While regulators and investors value enhanced segment comparability (FAF 2012; FASB 2016; CFA 2018), our results suggest that more comparable segment reports could cause *more* competition focused managers to focus more on competitor-oriented objectives and make decisions that may not maximize firm value. Given the importance of comparability to financial statement users, it is important for regulators and investors to understand such an unanticipated negative impact of enhanced segment comparability. Furthermore, our results suggest that such a negative impact of enhanced segment comparability

is unlikely to be mitigated by the requirements in the recently issued segment reporting update (ASU 2023-07).

However, consistent with the FASB's current segment reporting recommendations and in line with investors' calls for more transparent segment reports, we document that the requirement to disclose additional segment information combined with enhanced segment comparability could improve resource allocation efficiency for *less* competition focused managers. Importantly, to achieve this efficiency improvement, our results suggest that both enhanced segment comparability and additional segment disclosures need to be present at the same time. Therefore, given the new segment reporting requirements, one way to avoid the negative impact of enhanced segment comparability and potentially improve managers' resource allocation decisions is to alter managers' competitive views, which may be accomplished through de-emphasizing peer comparisons in firm training (Armstrong and Collopy 1996).

As with all research, our study has limitations. First, our study uses an advertising resource allocation decision to test our research question. Future research may examine whether results are consistent using other resource allocation decisions. Second, although our reporting regime manipulation is motivated by and consistent with ASU 2023-07 (FASB 2023), future research may examine the effect of other attributes of updated segment disclosures on managers' resource allocation decisions. Third, we do not explicitly test the impact of other managerial incentives, such as management compensation schemes or divisional managers' incentives (Scharfstein and Stein 2000; Rajan et al. 2000), within the scope of this study. We encourage future research to examine how common managerial incentive structures may influence managers' competitive views and their resource allocation decisions.

## Appendix A

### *Investment Return Information in ALL Conditions*

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The **Cell Phone segment** is considered to be your firm's (Firm X's) primary segment because its revenue constitutes the majority of Firm X's overall revenue. As such, **investors pay particular attention to the performance of your Cell Phone segment**. **Smart Home Products** and **Home Appliances** are considered to be secondary segments.

Nonetheless, as the market for **Smart Home Products** is growing rapidly, projections indicate that the **Smart Home segment** will have **HIGHER** returns than the **Cell Phone segment**, given the same amount of advertising investment. Specifically, an investment of \$6 million in the Cell Phone segment is expected to increase revenue by \$10 million, while the same \$6 million investment in the Smart Home segment is expected to boost revenues to \$12 million. As a result, **Firm X's total revenue is expected to be \$2 million higher if you chose to invest the advertising budget in the Smart Home segment compared to the Cell phone segment**. Please see detailed information in the table below:

Table 1: Comparison of Revenue between Two Strategies

<b>Investment Strategy</b>	<b>Firm X (Your Firm)</b>	
	Revenue ( <i>in millions</i> )	
<i>If invest in Cell Phone</i>	Cell Phones	95
	Smart Home	10
	Home Appliances	21
	Total	126
<i>If invest in Smart Home</i>	Cell Phones	85
	Smart Home	22
	Home Appliances	21
	Total	128

## Appendix B

### *Manipulation of Segment Comparability*

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*[More comparable condition]*

**Revenue** (in millions)

		<b>Firm X (Focal)</b>	<b>Firm Z (Competitor)</b>
<i>If Invest in Cell Phone</i>	Cell Phone	95	Cell Phone
	Home Products	<u>31</u>	Home Products
	Total	126	Total
<i>If Invest in Smart Home</i>	Cell Phone	85	Cell Phone
	Home Products	<u>43</u>	Home Products
	Total	128	Total

**Operating Income** (in millions)

		<b>Firm X (Focal)</b>	<b>Firm Z (Competitor)</b>
<i>If Invest in Cell Phone</i>	Cell Phone	29	Cell Phone
	Home Products	<u>13</u>	Home Products
	Total	42	Total
<i>If Invest in Smart Home</i>	Cell Phone	25	Cell Phone
	Home Products	<u>19</u>	Home Products
	Total	44	Total

*[Less comparable condition]*

**Revenue** (in millions)

		<b>Firm X (Focal)</b>	<b>Firm Z (Competitor)</b>
<i>If Invest in Cell Phone</i>	Cell Phone	95	Appliances
	Home Products	<u>31</u>	Smart Devices
	Total	126	Total
<i>If Invest in Smart Home</i>	Cell Phone	85	Appliances
	Home Products	<u>43</u>	Smart Devices
	Total	128	Total

**Operating Income** (in millions)

		<b>Firm X (Focal)</b>	<b>Firm Z (Competitor)</b>
<i>If Invest in Cell Phone</i>	Cell Phone	29	Appliances
	Home Products	<u>13</u>	Smart Devices
	Total	42	Total
<i>If Invest in Smart Home</i>	Cell Phone	25	Appliances
	Home Products	<u>19</u>	Smart Devices
	Total	44	Total

## Appendix C

### *Manipulations of Reporting Regime*

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#### *[Main Experiment: Post-ASU condition]*

##### **Firm X (Focal) Footnote**

<i>If Invest in Cell Phone</i>	Significant expenses include \$6 million in marketing for the cell phone segment, which increases segment revenue by \$10 million, providing a return on investment of 66.67%.
<i>If Invest in Smart Home</i>	Significant expenses include \$6 million in marketing for the home products segment, which increases segment revenue by \$12 million, providing a return on investment of 100%.

\* This table is absent in the pre-ASU condition of the main experiment.

#### *[Supplemental Experiment: Post-ASU condition]*

Importantly, whether you choose to invest in the Cell Phone segment or the Smart Home segment, current accounting regulations **require** that you disclose significant expenses for each reported segment and a reconciliation to segment operating income.

In this case, you will be required to disclose the advertising expense associated with your investment decision and describe how it influences segment revenue and operating income. Investors **will** be able to see your disclosure in the segment report.

#### *[Supplemental Experiment: Pre-ASU condition]*

Importantly, whether you choose to invest in the Cell Phone segment or the Smart Home segment, current accounting regulations **DO NOT** require that you disclose significant expenses for each reported segment or a reconciliation to segment operating income.

In this case, you will **NOT** be required to disclose the advertising expense associated with your investment decision nor describe how it influences segment revenue and operating income. Investors will **NOT** be able to see such a disclosure in the segment report.

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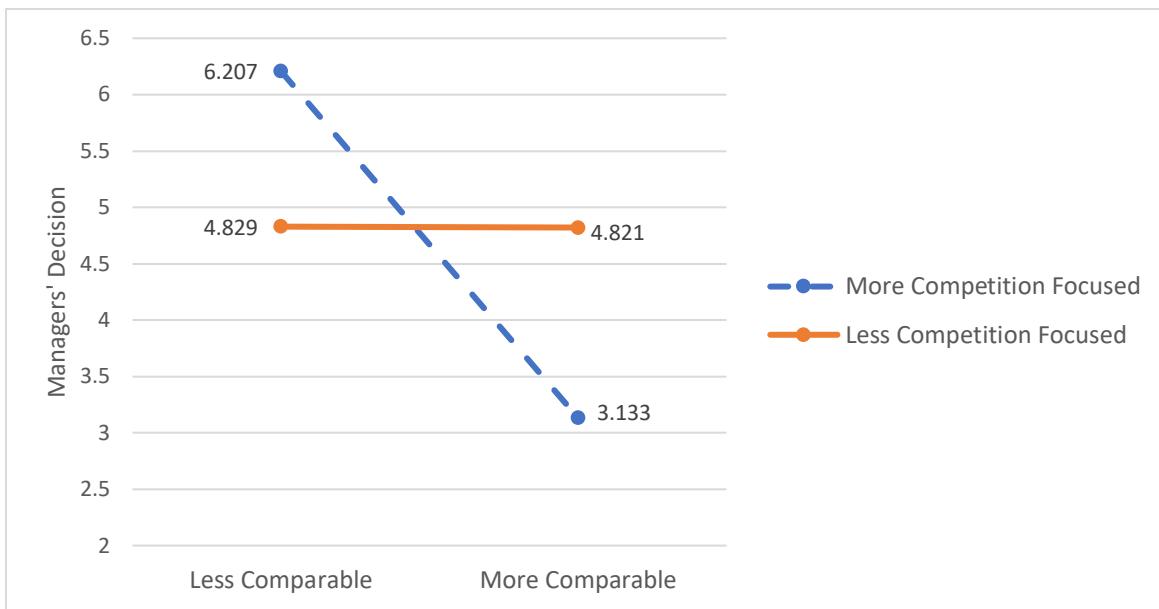
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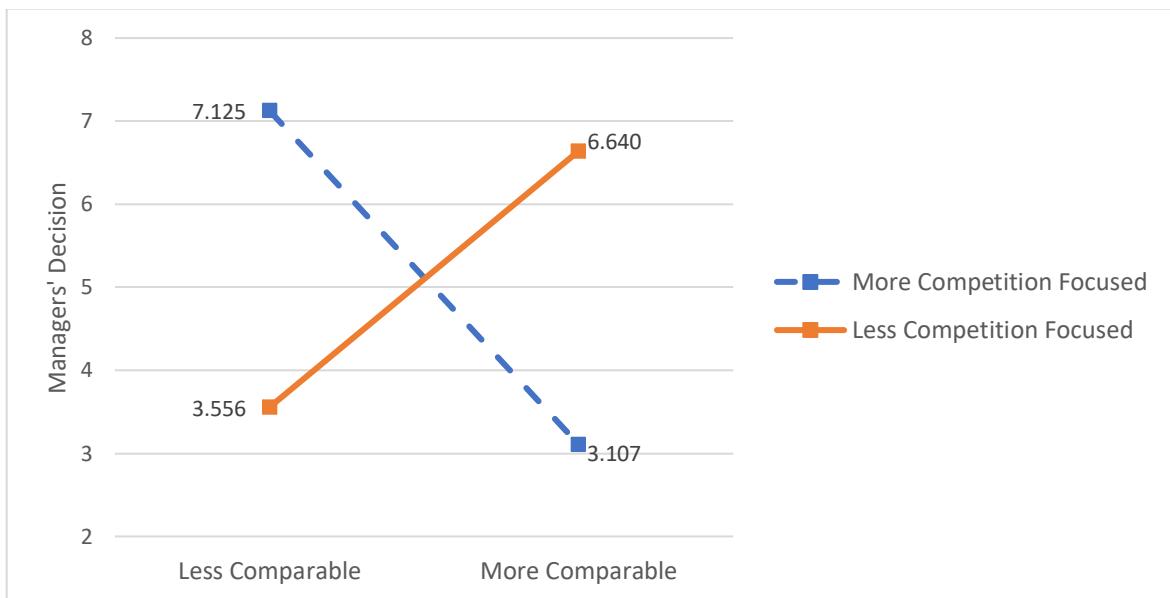
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**Figure 1** Main Experiment Results

Panel A: *Pre-ASU* managers' resource allocation decisions

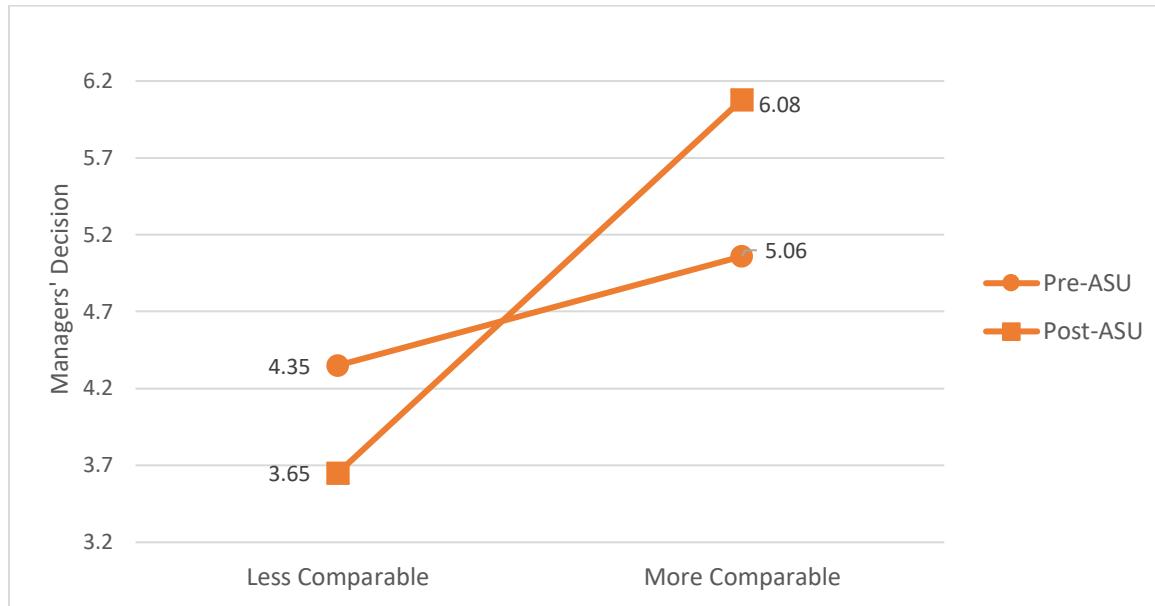


Panel B: *Post-ASU* managers' resource allocation decisions



This figure presents the main experiment results on managers' resource allocation decision. Panel A presents results for managers' resource allocation decisions in the *Pre-ASU* reporting regime and Panel B presents results for managers' resource allocation decisions in the *Post-ASU* reporting regime. We code the decision to invest in the Smart Home segment as "+1" and the decision to invest in the Cell Phone segment as "-1." We then multiply the decision by the strength of preference for that particular choice (0 = very weak preference; 10 = very strong preference) to generate our dependent variable, ranging from -10 (strong preference to invest in the Cell Phone segment) to +10 (strong preference to invest in the Smart Home segment). A higher (lower) value indicates a more (less) efficient capital allocation decision.

**Figure 2** Supplemental Experiment Results—*Less Competition Focused Managers*



This figure presents the supplemental experiment results on *less* competition focused managers' resource allocation decision. We code the decision to invest in the Smart Home segment as “+1” and the decision to invest in the Cell Phone segment as “-1.” We then multiply the decision by the strength of preference for that particular choice (0 = very weak preference; 10 = very strong preference) to generate our dependent variable, ranging from -10 (strong preference to invest in the Cell Phone segment) to +10 (strong preference to invest in the Smart Home segment). A higher (lower) value indicates a more (less) efficient capital allocation decision.

TABLE 1  
Results on Managers' Resource Allocation Decisions – All Conditions

**Panel A:** Descriptive statistics—mean (standard deviation), n = sample size

	Pre-ASU			Post-ASU		
	More competition focused	Less competition focused	Total	More competition focused	Less competition focused	Total
Less Comparable	6.207	4.829	5.453	7.125	3.556	5.492
	(5.164)	(5.983)	(5.626)	(3.013)	(6.676)	(5.296)
	n = 29	n = 35	n = 64	n = 32	n = 27	n = 59
More Comparable	3.133	4.821	3.948	3.107	6.640	4.774
	(6.907)	(6.389)	(6.658)	(6.338)	(4.689)	(5.846)
	n = 30	n = 28	n = 58	n = 28	n = 25	n = 53

**Panel B:** Three-way ANOVA

Source	S. S.	df	M. S.	F	p-value
Segment Comparability (Comp)	58.359	1	58.359	1.758	0.186
Managers' Competitive View (View)	0.270	1	0.270	0.008	0.928
Reporting Regime (Regime)	7.484	1	7.484	0.225	0.635
Comp × View	374.508	1	374.508	11.282	<0.001*
Comp × Regime	16.700	1	16.700	0.503	0.479
View × Regime	0.434	1	0.434	0.013	0.909
Comp × View × Regime	58.994	1	58.994	1.777	0.092*
Error	7501.909	226	33.194		

This table presents results from the main experiment. The independent variables are segment comparability, reporting regime, and managers' competitive view. The dependent variable is managers' resource allocation decisions. Panel A presents the descriptive statistics. Panel B presents the results of the three-way ANOVA.

\*One-tailed equivalent p-values given directional predictions.

TABLE 2  
Results of the Pre-ASU and Post-ASU Sub-Groups

<b>Panel A: Pre-ASU Two-way ANOVA</b>					
Source	S. S.	df	M. S.	F	p-value
Segment Comparability (Comp)	71.844	1	71.844	1.905	0.085*
Managers' Competitive View (View)	0.726	1	0.726	0.019	0.890
Comp × View	71.179	1	71.179	1.888	0.086*
Error	4449.304	118	37.706		
<i>Simple effects:</i>					
Effect of Comp (more vs. less) for <i>Less</i> Competition Focused		118	< 0.001	0.996	
Effect of Comp (more vs. less) for <i>More</i> Competition Focused		118	-1.922	0.029*	

<b>Panel B: Post-ASU Two-way ANOVA</b>					
Source	S. S.	df	M. S.	F	p-value
Segment Comparability (Comp)	6.050	1	6.050	0.214	0.645
Managers' Competitive View (View)	0.009	1	0.009	<0.001	0.986
Comp × View	350.293	1	350.293	12.393	<0.001*
Error	3052.605	108	28.265		
<i>Simple effects:</i>					
Effect of Comp (more vs. less) for <i>Less</i> Competition Focused		108	2.090	0.020*	
Effect of Comp (more vs. less) for <i>More</i> Competition Focused		108	-2.920	0.002*	

This table presents the results from the main experiment. The independent variables are segment comparability, reporting regime, and managers' competitive view. The dependent variable is managers' resource allocation decisions. Panel A and Panel B present two-way ANOVA results and simple effect results for the Pre-ASU and Post-ASU sub-groups, respectively.

\*One-tailed equivalent p-values given directional predictions.

TABLE 3  
Intrinsic Comparison Pressure

**Panel A:** Descriptive statistics—mean (standard deviation), n = sample size

	<i>More</i> competition focused	<i>Less</i> competition focused	Total
Less comparable	5.49 (2.01) n = 56	5.73 (1.99) n = 51	5.60 (2.04) n = 107
	6.28 (1.87) n = 53	5.64 (2.17) n = 44	5.99 (2.02) n = 97
	5.88 (2.02) n = 109	5.68 (2.62) n = 95	5.79 (2.04) n = 204
Total			

**Panel B:** Two-way ANOVA

Source	S. S.	df	M. S.	F	p-value
Segment Comparability (Comp)	6.248	1	6.248	1.518	0.219
Managers' Competitive View (View)	2.149	1	2.149	0.522	0.471
Comp × View	9.819	1	9.819	2.385	0.062 *
Error	823.339	200	4.117		

**Panel C:** Simple effects

Source	df	t	p-value
Effect of Comp (more vs. less) for <i>More</i> Competition Focused	200	2.037	0.022 *
Effect of Comp (more vs. less) for <i>Less</i> Competition Focused	200	-0.214	0.831

This table presents results on *Intrinsic Comparison Pressure*. We measure *Intrinsic Comparison Pressure* by asking participants to assess the extent to which they agree that they feel the pressure that their primary segment underperforms that of the peer firm (0 = strongly disagree; 10 = strongly agree). The independent variables are segment comparability and managers' competitive view. Panel A presents the descriptive statistics. Panel B presents two-way ANOVA results. Panel C presents simple effects.

\*One-tailed equivalent p-values given directional predictions.

TABLE 4  
Investor Comparison Pressure

**Panel A:** Descriptive statistics—mean (standard deviation), n = sample size

	<i>More</i> competition focused	<i>Less</i> competition focused	Total
<i>Pre-ASU</i>	6.53 (2.02) n = 59	6.77 (2.32) n = 63	6.65 (2.18) n = 122
<i>Post-ASU</i>	7.13 (1.88) n = 50	6.34 (1.96) n = 32	6.82 (1.94) n = 82
Total	6.80 (1.97) n = 109	6.63 (2.21) n = 95	6.72 (2.08) n = 204

**Panel B:** Two-way ANOVA

Source	S. S.	df	M. S.	F	p-value
Managers' Competitive View (View)	3.492	1	3.492	0.810	0.369
Reporting Regime (Regime)	0.379	1	0.379	0.088	0.767
View × Regime	12.635	1	12.63	2.931	0.044*
Error	862.24	200	4.311		

**Panel C:** Simple effects

Source	df	t	p-value
Effect of View ( <i>more</i> vs. <i>less</i> competition focused) for <i>Pre-ASU</i>	200	-0.650	0.517
Effect of View ( <i>more</i> vs. <i>less</i> competition focused) for <i>Post-ASU</i>	200	1.673	0.048*

This table presents results on managers' perceived investors comparison pressure of the primary segment (*Investor Comparison Pressure*). We measure *Investor Comparison Pressure* by asking participants to assess the extent to which they agree that they feel that investors are comparing the performance of their firm's primary segment to that of the competitor's primary segment (0 = strongly disagree; 10 = strongly agree). The independent variables are managers' competitive view and reporting regime. Panel A presents the descriptive statistics. Panel B presents two-way ANOVA results. Panel C presents simple effects.

\*One-tailed equivalent p-values given directional predictions.

TABLE 5  
Return Concern

**Panel A:** Descriptive statistics—mean (standard deviation), n = sample size

	<i>Less comparable</i>	<i>More comparable</i>	Total
<i>Pre-ASU</i>	6.70 (1.53) n = 64	5.94 (1.80) n = 58	6.33 (1.70) n = 122
	5.83 (1.54) n = 43	6.51 (1.58) n = 39	6.15 (1.59) n = 82
	6.35 (1.59) n = 107	6.17 (1.73) n = 97	6.26 (1.66) n = 204
<i>Total</i>			

**Panel B:** Two-way ANOVA

Source	S. S.	df	M. S.	F	p-value
Segment Comparability (Comp)	0.065	1	0.065	0.025	0.876
Reporting Regime (Regime)	1.045	1	1.045	0.396	0.530
Comp × Regime	25.616	1	25.616	9.706	0.001*
Error	527.814	200	2.639		

**Panel C:** Simple effects

Source	df	t	p-value
Effect of Comp (more vs. less) for <i>Pre-ASU</i>	200	-2.581	0.006*
Effect of Comp (more vs. less) for <i>Post-ASU</i>	200	1.913	0.057

This table presents results on managers' concern about investment return (*Return Concern*). We measure *Return Concern* by asking participants to indicate the extent to which they agree with four statements: they are concerned about 1) the investment return and 2) profitability in the primary segment relative to that of the secondary segment, 3) managers' concern about the overall firm performance relative to that of the peer firm, and 4) managers' concern about being viewed by others as making the right decision. All four questions are measured on 11-point scales (0 = strongly disagree; 10 = strongly agree). We use the average of these four questions as our measure of *Return Concern*. The independent variables are segment comparability and reporting regime. Panel A presents the descriptive statistics. Panel B presents two-way ANOVA results. Panel C presents simple effects.

\*One-tailed equivalent p-values given directional predictions.

TABLE 6  
Supplemental Experiment Results—Less Competition Focused Managers

**Panel A:** Descriptive Statistics—Mean (SD), n = Sample Size

	<i>Less Comparable</i>	<i>More Comparable</i>	Total
<i>Pre-ASU</i>	4.35 (6.315) n = 57	5.06 (5.913) n = 71	4.74 (6.081) n = 128
<i>Post-ASU</i>	3.65 (7.164) n = 82	6.08 (4.876) n = 73	4.79 (6.292) n = 155
Total	3.94 (6.813) n = 139	5.58 (5.418) n = 144	4.77 (6.187) n = 283

**Panel B:** Two-Way ANOVA

Source	S. S.	df	M. S.	F	p-value
Segment Comparability (Comp)	171.54	1	171.54	4.537	0.017*
Reporting Regime (Regime)	1.795	1	1.795	0.047	0.828
Comp × Regime	52.054	1	52.054	1.377	0.242
Error	10549.	279	37.810		

**Panel C:** Simple Effects

Source	df	t	p-value
Effect of Comp (more vs. less) pre-ASU	279	0.645	0.519
Effect of Comp (more vs. less) post-ASU	279	2.462	0.007*

This table presents results from the supplemental experiment, within the *less* competition focused manager subsample. The independent variables are segment comparability and reporting regime. The dependent variable is managers' resource allocation decision. Panel A presents the descriptive statistics. Panel B presents two-way ANOVA results. Panel C presents simple effects.

\*One-tailed p-values given directional predictions.

TABLE 7

## Supplemental Experiment – Less Competition Focused Managers’ Return Concern

**Panel A:** Descriptive statistics—mean (standard deviation), n = sample size

	<i>Less comparable</i>	<i>More comparable</i>	Total
<i>Pre-ASU</i>	6.43 (1.37)	6.32 (1.84)	6.37 (1.65)
	n = 57	n = 71	n = 128
<i>Post-ASU</i>	6.18 (1.93)	6.78 (1.67)	6.46 (1.83)
	n = 82	n = 73	n = 155
Total	6.28 (1.72)	6.55 (1.77)	6.42 (1.75)
	n = 139	n = 144	n = 283

**Panel B:** Two-way ANOVA

Source	S. S.	df	M. S.	F	p-value
Segment Comparability (Comp)	4.225	1	4.225	1.393	0.239
Reporting Regime (Regime)	0.774	1	0.774	0.255	0.614
Comp × Regime	8.421	1	8.421	2.777	0.049*
Error	846.121	279	3.033		

**Panel C:** Simple effects

Source	df	t	p-value
Effect of Comp (more vs. less) for <i>Pre-ASU</i>	279	-0.327	0.743
Effect of Comp (more vs. less) for <i>Post-ASU</i>	279	2.121	0.018*

This table presents results on managers’ concern about investment return (*Return Concern*) in the supplemental experiment. We measure *Return Concern* the same way as in the main experiment. The independent variables are segment comparability and reporting regime. Panel A presents the descriptive statistics. Panel B presents two-way ANOVA results. Panel C presents simple effects.

\*One-tailed equivalent p-values given directional predictions.