

Internet Press Releases: Informative or Manipulative?

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Introduction

Voluntary disclosure and management discretion

- ▶ Importance of Internet press releases (IPRs) reporting annual results
 - Timing, unregulated, easy to understand, accessible for investors

Regulatory and litigation costs– Spanish context

- Low litigation environment
- Institutional and market forces



Internet-based Disclosure

Internet is an important corporate communication tool (Debrecey et al., 2002; Ettredge et al., 2001)

Internet provides greater flexibility for companies to design their communication process with users

Investors use the internet for investment-related activities (entering stock market, placing online orders) (Banber and Odean, 2001)

Internet may increase less reliable business reporting (Ashbaugh et al., 1999; Ettredge et al., 2001). It may create a perception of self-confidence and sense of control associated with online information.

Prior Research

- ▶ Prior research on internet corporate financial communication is descriptive (Gowthorpe, 2004)
- ▶ Recent research open new lines on drivers for internet-based disclosure (Aly et al. 2010, Oyelere et al, 2003), impact on firms value (Trueman et al, 2000), investors behaviour (Barber and Odean, 2001).
- ▶ Challenging line of research on timeless, accuracy and integrity of corporate financial information on the internet (Ettredge et al, 2002, Hussey and Sowinska, 1999)

Impression Management

Selection and presentation of the information in a way that could be misleading and distorts´ readers perception of corporate performance (Godfrey et al. 2003)

IM techniques

- Thematic manipulation: Clatworthy and Jones (2003)
- Emphasis-reinforcemnte: Brennan et al. (2009)
- Performance comparisons
Lewllen, Park and Ro (1996), Schrand and Walther (2000)
- Selectivity (non-GAAP figures and selection from P&L account):
- Attributritional bias: Aerts (2005)
- Positioning/Framing: Bowen et al. (2005)
- Qualitative vs. Quantitative informtion: Skinner (1994), Clatworthy and Jones (2006)



Research Questions

RQ1: Are there differences in the characteristics of information in the IPR of good- and bad-performing companies?

RQ2: What range of techniques in IPR potentially increase disclosure risk?

Research Methodology

Population and sample

- ▶ Spanish companies IBEX 35 2009 (2008 and 2009)
 - Only companies changing performance (performing well in 2008 and bad in 2009 or viceversa)
- ▶ **DATA Sources**
 - IPRs and ARs from companies websites
- ▶ 25 IPRs (12 for 2008 and 13 for 2009)



Companies in the IBEX 35 2009

Company name	Industry	Net profit 2007	Net profit 2008	Net profit 2009	Year 2008 GP=1, BP=0	Year 2009 GP=1, BP=0
<i>Abengoa</i>	engineering and others	120,403,000	140,402,000	170,306,000	1	1
<i>Aberyst</i>	car parks and motorways	682,180,000	618,352,000	653,064,000	0	1
<i>Acciona</i>	construction	950,417,000	464,471,000	1,263,000,000	0	1
<i>Acerinox</i>	minerals, metals and transformation	312,304,000	(10,455,000)	(229,206,000)	0	0
<i>Arcelor Mittal</i>	minerals, metals and transformation	10,368,000	9,399,000	75,000	0	0
<i>Banco Bilbao Vizcaya Argentaria</i>	banks	6,126,000,000	5,020,000,000	4,210,000,000	0	0
<i>Banco de Sabadell</i>	banks	782,335,000	673,835,000	522,489,000	0	0
<i>Banco Popular</i>	banks	1,264,962,000	1,052,072,000	766,132,000	No PR	No PR
<i>Banco Santander</i>	banks	9,060,258,000	8,876,414,000	8,943,000,000	0	1
<i>Banesto</i>	banks	764,567,000	779,844,000	559,803,000	1	0
<i>Bankinter</i>	banks	361,863,000	252,289,000	254,404,000	0	1
<i>Bolsas y Mercados Españoles</i>	investment services	201,135,000	190,737,000	150,036,000	0	0
<i>Corporación MAPFRE</i>	insurance	731,000,000	901,000,000	926,850,000	1	1
<i>Criteria CaixaCorp</i>	portfolio and holding	1,725,862,000	1,058,617,000	1,316,628,000	0	1
<i>Enagás</i>	electricity and gas	238,286,000	258,885,000	298,031,000	1	1
<i>Endesa</i>	electricity and gas	2,675,000,000	7,169,000,000	3,430,000,000	1	0
<i>Fomento de Construcciones y Contratas</i>	construction	737,851,000	334,039,000	307,199,000	0	0
<i>Gamasa</i>	capital goods	220,050,000	320,224,000	114,666,000	1	0
<i>Gas Natural</i>	electricity and gas	759,000,000	1,057,000,000	1,195,000,000	1	1
<i>Grifols</i>	pharmacy products	87,774,000	121,728,000	147,570,000	1	1
<i>Grupo ACS</i>	construction	1,551,100,000	1,805,000,000	1,951,500,000	1	1
<i>Grupo Ferrovial</i>	construction	(104,000,000)	(812,000,000)	(92,000,000)	0	1
<i>Iberdrola</i>	electricity and gas	2,353,736,000	2,860,606,000	2,824,335,000	1	0
<i>Iberdrola Renovables</i>	renewable energy	117,538,000	390,160,000	371,079,000	1	0
<i>Iberia</i>	transport and distribution	327,000,000	32,000,000	(237,000,000)	0	0
<i>Inditex</i>	textiles, clothing and shoes	1,250,269,000	1,253,451,000	1,314,354,000	1	1
<i>Indra</i>	electronics and software	147,798,000	182,419,000	195,590,000	1	1
<i>Red Eléctrica de España</i>	construction	175,369,000	182,430,000	195,590,000	1	1
<i>Red Eléctrica de España</i>	electricity and gas	243,049,000	286,119,000	330,402,000	1	1
<i>Repsol</i>	petrol	3,188,000,000	2,711,000,000	1,559,000,000	0	0
<i>Sacyr Vallehermoso</i>	construction	946,389,000	(256,020,000)	505,959,000	0	1
<i>Técnicas Reunidas</i>	engineering and others	104,680,000	137,108,000	145,799,000	No PR	No PR
<i>Telecincó</i>	communication and publicity	320,392,000	269,222,000	48,442,000	No PR	No PR
<i>Telefónica</i>	telecommunications and others	8,906,000,000	7,592,000,000	7,776,000,000	1	0

Thematic Analysis

Example : Negative keyword (Endesa IPR 2008)

Cash flow from operating activities totalled Euro 5,214 million in 2008, **down** 1,9% from 2007.

Example : Positive keyword (Gamesa IPR 2008)

Taking into account the performance of the wind farms unit, integrated as intermittent operations, Gamesa Corporation Tecnológica's net consolidated profit in 2008 **reached** €320 million, 45% **more** than the figure **achieved** in 2007 and a record **maximum**.

Repetition

Example : Repetition of statement (Endesa IPR 2008)

Headline of the press release

Endesa reports 2008 net income of euro 7,169 million

Main body of the press release

Endesa reported net income of Euro 7,169 million in 2008, euro 4,494 million more than in 2007

Performance Comparisons

Example : Performance comparisons (Endesa IPR 2008)

Endesa reported net income of Euro 7,169 million in 2008, euro 4,494 million more than in 2007

Thematic Manipulation

Banco Santander performance

Net profit
(thousand €)

2007: 9,060,258
 ↓
 2008: 8,876,414
 ↑
 2009: 8,943,000

List of keywords Banco Santander IPR 2008 and 2009

Positive keywords 2008		Positive keywords 2009	
1. Growth (x 5 times)	Keyword+1, 2, 3, 4, 5	Improves (x 2)	Keyword+1, 2
2. Strength	Keyword+6	Increase (x 4)	Keyword+3, 4, 5, 6
3. Increase (x 2)	Keyword+7, 8	Doubles	Keyword+7
4. Reach (x 5 times)	Keyword+9, 10, 11, 12, 13	Grow (x 4)	Keyword+8, 9, 10, 11
5. Improves (x 3)	Keyword+14, 15, 16	Reach (x 2)	Keyword+12, 13
6. Expand	Keyword+17	High	Keyword+14
7. High	Keyword+18		
8. More	Keyword+19		

Key: Keyword + : Positive; -: Negative

Reinforcement

Bankinter performance

	2007: 361,863	↓
Net profit		
(thousand €)	2008: 252,289	↑
	2009: 254,404	

Example : Bankinter IPR 2008
 “The margins show notable increases..”

Example : Bankinter IPR 2009
 “The margins in the income statement notably increase...”

Performance Comparisons

Telefonica performance

	2007: 8,906,000	↓
Net profit		
(thousand €)	2008: 7,592,000	↑
	2009: 7,776,000	

Example: Telefonica IPR headline 2008
 “Telefonica met group guidance at the top end of the range and posted net profit of 7,592 million euro in 2008”.

Example: Telefonica IPR headline 2009
 “Telefonica net profit up 2.4% in 2009 to 7,776 million euro”

Performance Comparisons

Telefonica performance

	2007: 8,906,000	
Net profit		↓
(thousand €)	2008: 7,592,000	
		↑
	2009: 7,776,000	

Example: Telefonica IPR headline 2008
 “Telefonica met group guidance at the top end of the range and posted net profit of 7,592 million euro in 2008”.

Example: Telefonica IPR headline 2009
 “Telefonica net profit up 2.4% in 2009 to 7,776 million euro”

Selectivity

Acciona performance

	2007: 950,417	
Net profit		↓
(thousand €)	2008: 464,471	
		↑
	2009: 1,263,000	

Example: Acciona IPR 2008
 “Acciona EBITDA doubles to 2.83 billion euro”.

Example: Acciona IPR 2009
 “Acciona reports net profit of 1,263 million euro”

Selectivity

Acciona performance

	2007: 950,417	
Net profit		↓
(thousand €)	2008: 464,471	
		↑
	2009: 1,263,000	

Example: Acciona IPR 2008

“Acciona **EBITDA** **doubles** to 2.83 billion euro”.

Example: Acciona IPR 2009

“Acciona reports **net profit** of 1,263 million euro”

The Headline

- ▶ Skilled newspaper readers spend most of their reading time scanning the headlines rather than reading the stories (Dor, 2003)
- ▶ Headlines should optimize the relevance of the story for the readers to allow the optimal context for interpretation (Dor, 2003)
- ▶ Rabin and Schrag (1999) establish a model of *confirmatory bias* whereby the information which is presented sets up a first impression that then tends to be confirmed by later information.



Misleading Headline: Qualitative vs. Quantitative

Bankinter performance

	2007: 361,863
Net profit	
(thousand €)	2008: 252,289
	2009: 254,404



Example: Bankinter IPR headline 2008

“Bankinter closes 2008 improving results from prior period and with the lowest deferred payment ratio among the rest of European banks”

Example: Bankinter IPR headline 2009

“Bankinter closes 2009 with a net profit of 254,4 million euro, this is an improvement from prior period, the deferred payment ratio is the lowest of the system”

Misleading Headline: Qualitative vs. Quantitative

Bankinter performance

	2007: 361,863
Net profit	
(thousand €)	2008: 252,289
	2009: 254,404



Qualitative
format

Quantitative
format

Example: Bankinter IPR headline 2008

“Bankinter closes 2008 **improving results** from prior period and with the lowest deferred payment ratio among the rest of European banks”

Example: Bankinter IPR headline 2009

“Bankinter closes 2009 with a net profit of **254,4 million euro**, this is an improvement from prior period, the deferred payment ratio is the lowest of the system”

Misleading Headline: Performance Comparisons

Gamesa performance

	2007: 220,050	↑
Net profit (thousand €)	2008: 320,224	
	2009: 114,666	↓

Example: Gamesa IPR headline 2008
 “Gamesa ´ net profit rose by 45% to reach €320 million”

Example: Gamesa IPR headline 2009
 “Gamesa reports net profit of 115 million euro”

Misleading Headline: Performance Comparisons

Gamesa performance

	2007: 220,050	↑
Net profit (thousand €)	2008: 320,224	
	2009: 114,666	↓

Example: Gamesa IPR headline 2008
 “Gamesa ´ net profit rose by 45% to reach €320 million”

Example: Gamesa IPR headline 2009
 “Gamesa reports net profit of 115 million euro”

Misleading Headline: Sales vs. Profits

Sacyr Vallehermoso performance

	2007: 946,389	
Net profit		↓
(thousand €)	2008: (256,020)	↑
	2009: 505,959	

Example: Sacyr Vallehermoso IPR headline 2008
 “In 2008 SyV`s turnover amounted to €5,379 million, up 2.7% with respect to 2007”

Example: Sacyr Vallehermoso IPR headline 2009
 “SYV earns 506 million in 2009 and a the turnover amount increases 9% to reach 5,858 million euro”

Misleading Headline: Sales vs. Profits

Sacyr Vallehermoso performance

	2007: 946,389	
Net profit		↓
(thousand €)	2008: (256,020)	↑
	2009: 505,959	

Reporting turnover

Reporting net profit and turnover

Example: Sacyr Vallehermoso IPR headline 2008
 “In 2008 SyV`s turnover amounted to €5,379 million, up 2.7% with respect to 2007”

Example: Sacyr Vallehermoso IPR headline 2009
 “SYV earns 506 million in 2009 and a the turnover amount increases 9% to reach 5,858 million euro”

Headlines and tone of bad performing companies

Company name and year	Headline	Tone
Abertis 2008	"Abertis reports 2008 net profit of €618mill"	Neutral
Acciona 2008	"Acciona EBITDA doubles to 2.83 billion euro"	Positive
Banco Santander Central Hispano 2008	"Banco Santander obtained in 200 a net profit of 8,876 million euro, an increase of 9% excluding surplus"	Positive
Banesto 2009	"Banesto obtained in 2009 a net profit of 824 million euro, 0.3% more than prior year"	Positive
Bankinter 2008	"Bankinter closes 2008 improving results from prior period and with the lowest deferred payment ratio among the rest of European banks"	Positive
Criteria CaixaCorp 2008	"Criteria to pay a dividend of €0.21 per share, equivalent to an annual yield of 7.5%"	Neutral
Endesa 2009	"Earnings up 1% like-for-like driven by the Spanish deregulated market and Latin America"	Positive
Gamesa 2009	"Gamesa reports net profit of 115 million euro"	Neutral
Grupo Ferrovial 2008	No ARPR	NA
Iberdrola 2008	"Iberdrola net profit exceeds €2.8 billion in 2009"	Positive
Iberdrola Renovables 2009	"Iberdrola Renovables output rose by 26.4% in 2009"	Positive
Sacyr Vallehermoso 2008	"In 2008 Sacyr's turnover amounted to €5,379 million, up 2.7% with respect to 2007"	Positive
Telefónica 2008	"Telefonica met group guidance at the top end of the range and posted net profit of 7,592" million euro in 2008"	Neutral

Attributional Bias

Iberdrola performance

Net profit
(thousand €)

2007: 2,353,736

2008: 2,860,606

2009: 2,824,335

Example: Iberdrola IPR 2009

"A solid business model provided the foundation for improved results, despite deterioration in Spain"

Example: Iberdrola IPR 2009

"Operating profit rose despite a difficult business environment, specially a decline in Spain, by weak demand, falling prices and the impact of the sterling exchange rate"

Conclusions

Companies performing poorly are inclined to use more IM practices

Potentially misleading disclosure practices in the most prominent location of firm press releases

The headline does not reflect the firm performance

Companies change their disclosure practices conditional to their performance

