

Companies do not always release important information

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The study, led by Karen Lightstone, PhD, CA, of Saint Mary's University in Nova Scotia, Canada, focused on companies that had received a cease-trading order (CTO), indicating that the investor could not sell shares and that the company could not issue more shares as a way of raising money.

The analysis examined press releases issued by the companies and reviewed the optimistic language (words such as “new,” “potential,” “satisfied,” and “pleased”) or the factual and forthright information (such as mentioning growing concern issues) that was included. The tone of the press release was categorized into groups such as optimistic, realistic, aggressive, and deceptive.

All of the companies reviewed were going to receive a CTO and thus had the opportunity to disclose this information before it occurred.

However, many of the companies behaved unethically. In some cases, no press releases were issued at all leading up to the CTO. Companies that issued a limited number of press releases included no mention of the CTO. Companies that issued more than four press releases leading up to the CTO appeared to use a variety of strategies to downplay any concerns. In other cases, it appeared the company attempted to convince the reader that the company activities were unaffected by the regulatory warnings or violations. Not surprisingly, disclosure of bad news was often delayed in such cases.

What was particularly interesting was the way that some companies blended optimistic information with bad news, perhaps trying to convey that a CTO was “just another announcement.”

“Our research provides evidence that company managers may behave unethically” the authors conclude. “Investor welfare and ultimately societal well-being are negatively affected by non-transparent disclosure. Shareholders deserve factual, detailed information of company activities.”

Source: Wiley

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