

**ACADEMIC RESEARCH**

# Open Access to Conference Calls

Weighing the Impact on  
Content and Trading

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OVER THE PAST DECADE, CONFERENCE CALLS HAVE BECOME AN increasingly popular method for managers to communicate nonfinancial performance measures and qualitative factors that they believe are critical to the success of the company. In contrast to the structured and regulated methods for disclosing financial performance measures, the discussion of nonfinancial measures through conference calls has been relatively unregulated.

As a result, managers have adopted diverse practices not only regarding whether to provide conference calls but also in deciding who should have access to the calls. Managers at times have restricted access to conference calls out of concern over the impact of letting unsophisticated investors listen to discussions that are geared toward financial analysts and large, sophisticated investors.

Perceived selective dissemination of information during conference calls was a driving force behind the Securities and Exchange Commission's passage of Regulation Fair Disclosure. The SEC expressed a desire to level the playing field with Reg FD, providing all investors with equal access to conference calls and equal opportunity to trade immediately based on information discussed during the call.

As reported in the Vol. 4, No. 1, 2001, issue of *Investor Relations Quarterly* devoted to discussion of Regulation FD, there has been wide-ranging disagreement over the regulation's impact on disclosure practices and stock market reactions to disclosure. This article contributes to the debate by discussing recent academic research on corporate characteristics that influence conference call disclosure policies and the effects of conference calls on trading activity and price movements during the call period.

## **DETERMINING WHO HAS ACCESS**

Traditionally conference calls were targeted to sophisticated market participants such as large investors and financial analysts. Previous academic studies have found that these groups benefit from their discussions with management.

A study by Robert Bowen, Angela Davis and Dawn Matsumoto ("Do Conference Calls Affect Analysts' Forecasts?" University of Washington working paper, June 2001) found a significant increase in the accuracy of financial analysts' earnings forecasts for firms that host conference calls, indicating that the information discussed during these calls is useful to analysts. A paper by Richard Frankel, Marilyn Johnson and Douglas Skinner ("An Empirical Examination of Conference Calls as a Voluntary Disclosure Medium," *Journal of Accounting Research*, Vol. 37, 1999) documented higher return volatility and trading volume during the conference call period, demonstrating that the market reacts to information that is released during these calls. They also report an increase in the average trade size during the call period, suggesting increased trading activity by large investors participating in the call.

In recent years new technologies have made it relatively easy and inexpensive for managers to provide unlimited access to real-time broadcasts of conference calls through

webcasts. Even so, before the passage of Reg FD, not all firms elected to offer open access to their conference calls.

This diversity in practice provided a great natural experiment to present evidence on two important questions related to the decision to broaden access to conference calls and the controversy surrounding Reg FD. First, why did some firms continue to restrict access to their calls? If managers were optimally tailoring disclosure practices to their investor base, Reg FD could have detrimental effects on firms that previously restricted access to their calls. Second, what effect did the decision to provide open access have on trading activity during the conference call? If small investors were not found to be trading during the call period when they were provided access, it would raise the question of whether Reg FD was even necessary.

We recently conducted a study to provide evidence on these two important questions. We obtained a sample of firms that provided unlimited access to their conference calls from BestCalls.com, a company that posts a free public directory of open conference calls on its Web site. To identify firms that restricted access to their conference calls, we used the conference call lists compiled by First Call Corporation, a global research network targeted primarily at institutional buy- and sell-side markets. In the sample, which covered the period March 1999 through June 2000, 55 percent of firms provided unlimited access to their conference calls.

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## **CHARACTERISTICS OF FIRMS THAT PROVIDE OPEN ACCESS**

We first examined the factors that influence a manager's decision to provide open access to the company's conference calls. We compared the two groups of firms—those providing open access to their calls and those restricting access—on several dimensions. Our results indicated a number of systematic differences between them.

Firms that provided open access to conference calls had lower institutional ownership and lower analyst following. These results suggest that the composition of a company's investor base is an important factor in the access decision. Large institutional investors and financial analysts are part of the selected group that is provided access to closed conference calls. Firms with significant following from these groups likely feel less pressure to provide open access to their calls than do firms with a higher percentage of individual investors.

Our study also examined whether the quality of a firm's financial information

influences the decision to provide open access to conference calls. A paper by Sarah Tasker (“Bridging the Information Gap: Quarterly Conference Calls as a Medium for Voluntary Disclosure,” *Review of Accounting Studies*, Vol. 3, 1998) reported that firms whose financial statements do not fully capture the value of the organization — those with significant unrecorded intangible assets, for example — are more likely to host conference calls for sophisticated user groups. However, while sophisticated market participants may understand the valuation implications of intangible assets, less sophisticated users, such as individual investors, are more likely to misinterpret this type of information. Thus, managers of firms with significant intangible assets would be expected to want to direct their comments to a restricted audience of more sophisticated users. Consistent with this theory, our study found that firms with high levels of reported intangible assets were less likely to open their calls, requiring individual investors to receive their information from a filtered source such as a financial analyst’s report.

Finally, our study showed that larger firms in high-tech industries are more likely to open their conference calls. This finding likely reflects the tendency for high-tech firms to embrace new technologies faster than other companies.

Overall, the results suggest that in the pre-Reg FD period, managers were strategically choosing the level of access to conference calls based on the demands of their investor base and the quality of their financial information.

## **EFFECTS ON TRADING ACTIVITY AND PRICE MOVEMENTS**

Next, our study examined the effects on trading activity and price movements of allowing individual investors open access to conference calls. One of the SEC’s goals in passing Reg FD was to reduce the information advantage of large investors and provide individual investors the opportunity to trade on information released during the call.

In our pre-Reg FD sample, we found that individuals exploited their opportunity to trade during conference calls when provided open access. There is a relatively greater increase in small trades — under \$10,000 — for open calls versus closed calls. Moreover, open and closed conference calls exhibit similar increases in medium trade sizes — those between \$10,000 and \$50,000 — and large sizes — greater than \$50,000 — suggesting similar trading activity by larger investors.

Thus, providing open access to conference calls has the biggest impact on the trading activity of small investors, who capitalize on the opportunity that open access

to conference calls affords them to trade on information in real time.

Finally, our study examined open conference calls' effect on price volatility during the call. One concern often expressed by managers opposed to Reg FD is that providing unsophisticated investors with direct access to information during conference calls will result in increased volatility.

We find that open conference calls are associated with a relatively greater increase in price volatility during the time of the call compared with calls that remain closed to individuals. Whether this increased volatility represents naïve trading by unsophisticated investors or improved information flow resulting from broader dissemination practices is unclear and difficult to determine. However, the results do support the concerns of managers regarding greater price volatility around broadly disseminated disclosures.

## CONCLUSIONS

A number of conclusions can be drawn from our study and the prior studies on conference calls.

First, managers make the decision of how broadly to provide access to conference calls strategically based on investors' demands for information and the perceived effectiveness with which the information will be used by those receiving it.

Second, the information disclosed in these calls is clearly important to those receiving it. Trading activity is higher during conference call periods, and the evidence suggests that the increased activity comes from those who have access to the information. Notably, when individuals are allowed access to conference calls, their trading increases to a greater extent than when they are not allowed access to the call.

Finally, while leveling the playing field by providing broader access to information is a key concern of regulators, the evidence suggests that doing so results in higher price volatility. Thus, by requiring all firms to provide unlimited access to conference calls, Reg FD could result in some firms experiencing increases in individual investor following and in price volatility surrounding disclosure events.

Managers who are adjusting their disclosure policies in response to Reg FD should consider the implications of these findings. Concerns over selective disclosure in the wake of Reg FD have limited informal discussions between managers and investment professionals. As a result, conference calls have increased in importance because they represent one of the few accepted opportunities for interactive dialogue between managers and sophisticated investors. However, managers must be aware that less sophisticated

individuals are likely to listen to and trade on the information provided during these calls. Thus, it is important to package conference call information in ways that provide the information needed by sophisticated investors while limiting the potential for unsophisticated investors to misinterpret its implications.

Given the need to respond in real time on conference calls, this packaging is likely to provide a significant challenge to many executives. Accordingly, it is important for investor relations professionals to anticipate areas that are likely to be difficult for unsophisticated investors to understand and to prepare executives to discuss these items appropriately. Additionally, as new technologies develop and managers are faced with ever-increasing choices for information dissemination, from e-mail alerts to real-time access to financial statements, they will need to consider the impact of these decisions on communicating with different types of investors and the related impact on trading activity and price volatility. ■