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Further evidence on the strategic timing of earnings news: Joint analysis of weekdays and times of day ☆

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ABSTRACT

Using combinations of weekdays and times of day (before, during, and after trading hours) of earnings announcements, we examine whether managers attempt to strategically time these announcements. We document that the worst earnings news is announced on Friday evening and find robust evidence that only Friday evening announcements represent managers' rational opportunistic behavior. Friday evening announcements are followed by insider trading in the direction of earnings news and the largest post-earnings announcement drift. Managers also attempt to reduce interaction with investors and hide more than just earnings news by announcing on Friday evening. We find that Friday evening announcements occur later in the evening than announcements on other evenings, firms have a reduced propensity to hold conference calls, and major firm restructuring events are relatively more likely to occur after Friday evening announcements.

1. Introduction

How firms disseminate information to financial markets, how the market responds to this information, and how the mechanism of information dissemination affects the market response are of great importance (e.g., Grossman and Stiglitz, 1980; Merton, 1987). Perhaps the most common and most important vehicle by which firms release information to the market is through their earnings announcements. In particular, one of the decision variables is the exact timing of the earnings release. If the timing of the release affects the market's response to firms' earnings, then firms may release news strategically, for instance, to hide bad news. Prior studies examining the choice of weekday and, separately, time during the day for earnings announcements show that there is a higher concentration of bad news on Friday than on other weekdays (Penman, 1987; Damodaran, 1989; DellaVigna and Pollet, 2009; Doyle and Magilke, 2009; deHaan, Shevlin, and Thornock,

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2015) and in the evening (after trading hours) than at other times of day (Patell and Wolfson, 1982; Doyle and Magilke, 2009; deHaan et al., 2015). Recent studies have recognized that the mere concentration of bad news on Friday and in the evening is not sufficient to establish the existence of strategic announcement timing. Doyle and Magilke consider opportunistic announcement switching and find no evidence that managers switch announcements of bad earnings news to Friday or evening. deHaan, Shevlin, and Thornock analyze variation in investor attention and find evidence consistent with rational strategic announcing in the evening but not on Friday.

Our study extends the existing literature and contributes to the debate of whether and when firms strategically announce their earnings news in two ways. First, because firms choose the weekday and time of their announcements jointly, we introduce the analysis of day-time combinations to the literature on opportunistic announcement timing. Second, we provide new implications of strategic announcing, with a special focus on whether managers have potential benefits from their announcement timing.

The analysis of announcement timing at the level of day-time combinations provides us with new insights about managers' strategic timing behavior. The higher concentration of bad news on Friday and, separately, in the evening found in the prior studies leads to a natural conjecture: Announcements on Friday evenings, which are the intersection of Fridays and evenings, have the worst news and, thus, are the most susceptible to opportunistic announcing behavior. This conjecture is also consistent with both the popular wisdom that firms and even government agencies tend to release bad news on Friday afternoon after 4 PM (Penman, 1987) and common knowledge in the financial industry that analysts and other professional investors are less likely to be at work on Friday evenings (e.g., Quenqua, 2010). We find that Friday evening announcements indeed contain by far the worst news of all day-time combinations.

In support of the strategic announcing hypothesis, we find that firms switch to Friday evening when they have bad news. A host of additional findings concerning the post-earnings announcement drift (PEAD), insider trading, delistings, and conference calls point out that strategic announcing occurs only on Friday evening. We also find that managers benefit from their strategic choice through reduced market scrutiny and delayed market response to news announced on Friday evening. The PEAD after Friday evening announcements allows managers to profit through post-announcement buying and selling of the company's stock in the direction of the surprise. The delayed market response to bad news can also provide managers with greater job security and benefits associated with continued employment in the firm (Kothari et al., 2009).

To analyze day-time combinations, we divide earnings announcements into three time-of-day slots—morning (between midnight and 9:30 AM), during-trading (between 9:30 AM and 4 PM), and evening (between 4PM and midnight)—and five weekdays, which creates a matrix of 15 timing cells. We use a comprehensive dataset of earnings announcement timestamps for the period from 1999 to 2013, which we hand-collect from newswires to avoid the systematic errors in IBES timestamps (Bradley et al., 2014; Michaely et al., 2014). The timing cell resolution allows us to uncover new patterns in opportunistic announcements, and it also puts in perspective the well-documented results regarding bad news on Friday and in the evening. We find that Friday evening announcements are responsible for a disproportionately large portion of the bad news on Fridays documented in the literature—Friday evening announcements constitute 17% of Friday announcements but produce one third of the negative difference in earnings surprise between Fridays and other weekdays. We also find that while evenings have only marginally worse news than other times of the day, without Friday evening announcements in the sample, the evening effect completely disappears.

By itself, the high concentration of bad news at one time is insufficient to conclude that strategic announcement timing is occurring. We answer the question whether and when strategic announcement timing exists by focusing on firms' decisions to switch the times and weekdays of their announcements depending on their earnings surprise. We begin by analyzing to which timing cells firms switch when they have worse news relative to the previous quarter (Doyle and Magilke, 2009). We also conduct a difference-in-differences test to examine whether firms that switch to a given cell have a greater decline in earnings surprise than firms that do not switch, i.e., that have stayed in this cell since the previous quarter. We find that among all weekdays, times of day, and timing cells, only Friday evening robustly indicates strategic switching behavior.

Next, we test an important implication of the opportunism motive that managers are rational when they time earnings announcements, which means that they can ultimately benefit from timing such announcements. Successfully hiding news implies that the market does not fully incorporate the news into prices and has a delayed reaction to the earnings announced at a given timing cell. Further, opportunistic announcements may allow insiders to benefit from trading the company's shares after the public information is released and before the information is fully impounded into prices. While the literature typically views opportunistic announcements as a strategy related to bad news, insiders can also benefit from buying shares before a delayed market reaction to good news. To test the conjecture that firms making announcements strategically can benefit from delayed market reaction, we analyze the PEAD and document patterns in it after announcements at different combinations of weekdays and times of day.

We find that both positive and negative news on Friday evening are followed by the largest drift in comparison to other timing cells. The PEAD after good news on Friday evening lasts for up to 13 months, and the PEAD after bad news is longer, approximately 2 years. A strategy with a long position in firms that announce positive news and a short position in firms that announce negative news yields 24.4% in 13 months for Friday evening versus the average of 4.2% over all fifteen timing cells. Our analysis of insider trading suggests that executives may be aware of the drift following Friday evening announcements. We find that, after these announcements, insiders tend to trade in the direction of the surprise, in contrast to the overall pattern of contrarian trading by insiders (Huddart et al., 2007; Jenter, 2005).