

Argumentation in earnings conference calls. Corporate standpoints and analysts' challenges



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ABSTRACT

Earnings conference calls (ECCs) have received considerable attention within accounting and finance studies which found that such voluntary disclosures provide investors with useful and relevant information. Starting from the hypothesis that argumentation is a crucial factor explaining the informational value of ECCs, we analyze the Q&A part of six ECCs focusing on the types of standpoints companies advance and on the types of questions analysts ask. We found that companies frequently justify evaluative and predictive standpoints. Analysts solicit these standpoints not by directly challenging managers, but by requesting opinions which create the occasion for argumentation or confirmation of plausible inferences.

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1. Introduction

Conference calls with financial analysts are nowadays an established and widespread communication practice for companies listed in the stock market. With the development of IT tools for distance communication, corporate leaders have been exploiting this channel to present to and discuss with the financial community their quarterly results and significant corporate events such as proposals of mergers and acquisitions (Palmieri, 2008b). In the late 1990s, companies started organizing earnings conference calls (henceforth ECC) under the form of audio teleconferences to which only a restricted number of analysts could participate. Over the years this genre of business discourse has evolved in several respects (Crawford Camiciottoli, 2013).

First, access to calls has become open to the wider financial investment community of analysts and professional investors. This applies especially for the US where the *Regulation Fair Disclosure*¹ introduced in 2000 practically terminated the practice of inviting only a restricted group of analysts which instead is still present in Continental Europe (see Bassemir, Novotny-Farkas, & Pachta,

2013). Moreover, participants can often follow the conference via webcast and receive in advance the slides of the corporate presentation. Last but not least, the transcripts of the whole ECC is today available to the general public and can be found on the Internet, either on the company's website or on online platforms for financial information such as *Reuters*, *Seeking Alpha*, *Nasdaq*, *Morning Star*, etc.

The diffusion of conference calls as a medium of voluntary disclosure has received scholarly attention in finance and accounting research (e.g. Bushee, Matsumoto, & Miller, 2003; Brown, Hillegeist, & Lo, 2004; Bushee & Leuz, 2002; Frankel, Johnson, & Skinner, 1999; Tasker, 1998) as well as in linguistic-based business communication studies (e.g. Crawford Camiciottoli, 2007, 2009, 2010, 2011, 2013; Doran, Peterson, & McKay Price, 2012; Hollander, Pronk, & Roelofsen, 2010; Palmieri, 2008b). Such a multidisciplinary interest brought to investigate in different manners and through various methodologies the linguistic content of these disclosure events in order to define their actual informational value. Numerous studies provide evidence of the incremental information role of ECC, which, by reducing information asymmetries between firms and investors, would enhance the soundness of investment decisions, on the one side, and decrease the firm's cost of capital (and thus the firm's ability of raise funds), on the other side. However, less evidence exists on the actual causes and sources of such informativeness.

This paper constitutes the first step of a larger research project which starts from the hypothesis that a relevant factor making the content of ECC informationally useful and price sensitive is the

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¹ The Regulation Fair Disclosure (Reg FD) is intended to reduce information asymmetry between individual and institutional market participants. Reg FD prohibits selective disclosure of material information and requires broad, non-exclusionary disclosure of such information. <http://www.sec.gov/rules/final/33-7881.htm>.

presence of argumentation both in the corporate presentation (first part of a call) and in the dialogs between managers and financial analysts, which characterize the Q&A session (second part of a call). This hypothesis originates from the acknowledgment of the crucial role played by inference (reasoning) in financial interactions. Argumentation is, in fact, a particular form of discourse in which an inference is communicated (Pinto, 2001; Rocci, 2006) to justify an opinion and obtain its acceptance from an audience of tentatively reasonable assessors or deciders. As we better explain later in the paper, disclosed information and investment decisions are connected precisely by an argumentative process, in which information constitutes the set of premises for inferential procedures having investment decisions as conclusion. It is not by chance that numerous, if not all, financial communication activities involve, more or less predominantly, the advancement of reasons (arguments) to defend or attack a certain standpoint (Palmieri & Palmieri, 2012). By exploring the linguistic content of ECC transcripts from an argumentative perspective, we aim at establishing where argumentation intervenes, by whom and for which purposes it is used.

Our paper intends to enhance the study of financial communication by highlighting the fundamental component of argumentation in disclosure documents and other texts published and exchanged in the financial context (Palmieri & Palmieri, 2012; Rocci, 2011). Indeed, despite the pervasiveness of argumentation in financial activities, research on argumentation in financial communication is still limited (Brennan, Daly, & Harrington, 2010; Filimon, 2009; Miecznikowski, Rocci, & Zlatkova, 2012; Palmieri & Rigotti, 2010; Palmieri, 2008a, 2008b, 2009, 2012a, 2012b, 2014; Zlatkova, 2012). More specifically, our study contributes to research on the language of earnings conference calls (see Section 2.2) by emphasizing the relevance of argumentation for explaining the informational value of these important financial communication events. Finally, our paper adds to argumentation studies, which over the last years have become increasingly interested in investigating contextualized argumentative practices (Rigotti & Greco Morasso eds. 2009), such as conference calls, in order to better understand how different kinds of contextual factors affect the possibility for arguing and the design of argumentative strategies (van Eemeren, 2010).

In the next section, we synthetically review the existing ECC literature that is relevant for the purpose of our study. Since the argumentative component of conference calls has been rarely taken into account, in Section 3 we explain argumentation in order to build our main hypothesis and formulate our research questions. Section 4 is devoted to the data and method of analysis. In Section 5, we present and discuss our results. In the concluding section, we summarize our findings and sketch the agenda for a wider research program on argumentation in ECC, of which this paper represents a first phase.

2. Prior relevant literature

2.1. The characterization of ECCs as a discourse genre

Earnings conference calls are teleconferences held by corporate leaders with financial analysts immediately following the quarterly earnings announcement. The main communicative participants to ECCs and the structure of these communicative events can be easily retrieved from existing linguistic and finance research on the topic (see below Section 2.2.). The participants to this event can be divided into the following three categories:

- (1) *Corporate representatives*. Due to their importance, ECCs are always held by the Chief Executive Officer (CEO) and the Chief

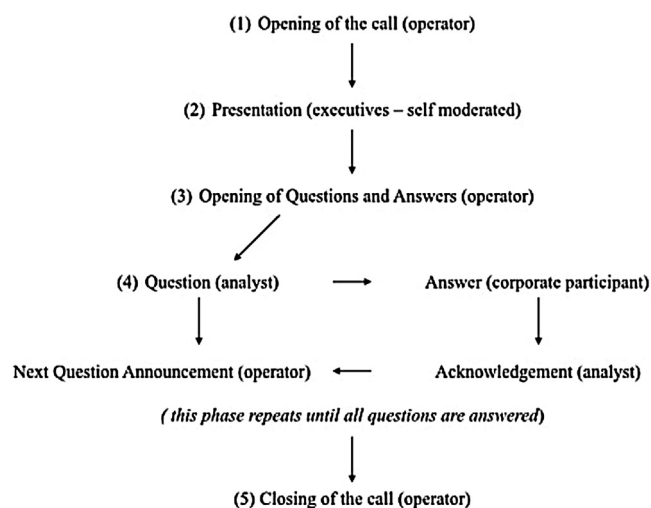


Fig. 1. The macrostructure of an ECC.

Source: Crawford Camiciottoli (2007).

Financial Officer CFO² and often by the Chief Operating Officer (COO) and the Head of Investor Relations department.

- (2) *Investment community*. ECCs mainly address financial analysts, in particular, those who regularly follow the company and actively participate to the call by asking questions. Institutional and professional investors may also attend an ECC.
- (3) *Operator*. The main phases of the conference (see below) are managed by an external operator from an independent specialized firm.

In several works, Crawford Camiciottoli has characterized ECCs as a discourse genre (2006; 2007; 2014), distinguishing two main parts of the conference. The first part, *corporate presentation* (CP), consists of monological interventions in which the corporate representatives expound in detail the quarterly results to the investment community, temporarily set in a listen-only mode. In the second part, *Questions & Answers* (Q&A), analysts have the possibility to ask questions to corporate representatives, who answer them immediately. Crawford Camiciottoli has also outlined a more detailed macrostructure (2007: 118), which includes five phases as the schematic representation in Fig. 1 illustrates. In Phase 1 “the operator opens the teleconference by welcoming the participants and giving technical instructions” (2006: 123). The second phase corresponds to the presentation by the corporate executives,³ which is preceded by the reading of a safe harbor disclaimer. In Phase 3 the operator opens the Q&A part, the latter coinciding with Phase 4. This fourth phase is composed by a set of question-and-answer exchanges between one analyst and corporate representatives (CR). The analyst either acknowledges the answer or asks a follow-up question to which the CR replies. Then the operator gives the floor to another analyst. After all questions are answered, the operator closes the conference (Phase 5).

Focusing on conference calls occurring after the announcement of mergers and acquisitions (see also Kimbrough & Louis, 2011), Palmieri (2008b) proposes to characterize conference calls as a communicative activity type.⁴ Following the model of

² In M&A calls, also the Chairman of the board of directors is present (Palmieri 2008).

³ In Crawford Camiciottoli (2010) this second phase is further divided in four sections: an introduction by IR officer or the CEO, the financial overview of the CEO, the financial detail of the CEO and the wrap up part.

⁴ The notion of activity type has been first introduced by Levinson (1979/1992) who used it for referring to “a fuzzy category whose focal-members are goal-defined,

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