Spanish Journal of Finance and Accounting
nº 115, April 2003
pp. 116-152

PRIVATE DISCLOSURE IN THE SPANISH CAPITAL MARKET: EVIDENCE FROM FINANCIAL ANALYSTS AND INVESTOR RELATIONS DIRECTORS

By

Manuel Larrán
University of Cadiz
and
William Rees[1]
University of Amsterdam

Manuel Larrán, Departamento of Economía de la Empresa, Facultad de Ciencias Económicas y Empresariales. C/ Duque of Nájera 8, Cádiz (11002) Spain,
Email address: manuel.larran@uca.es

William Rees, Universiteit van Amsterdam. Amsterdam Graduate Business School.
Roetersstraat 11, 1018 WB Amsterdam. The Netherlands.
Email address: brees@fee.uva.nl

[1] The authors appreciate comments from two anonymous reviewers.

PRIVATE DISCLOSURE IN THE SPANISH CAPITAL MARKET: EVIDENCE FROM FINANCIAL ANALYSTS AND INVESTOR RELATIONS DIRECTORS

ABSTRACT

The objective of this paper is to analyse cross-national differences in the predictive ability of This study analyses the market for voluntary information in the Spanish capital market. It covers the agents who operate in the capital market; the information which is disseminated; the perceptions of providers and users concerning the usefulness of financial information; the costs, benefits and importance of private channels for voluntary information; the different ways of supplying private information; how the market for information affects the behaviour of the capital market and how the information is disseminated.

The evidence comes from semi-structured interviews with 18 financial analysts and 26 investor relations directors, and responses to 60 questionnaires, which were sent to all companies quoted on the Madrid Stock Exchange and to all financial analysts members of the Spanish Association of Financial Analysts, and a further 38 responses were obtained from a separate survey of investor relations directors.

The results show that financial analysts and companies attach a positive value to the voluntary disclosure of private information through private channels largely because the costs associated with this are lower than for conventional channels, for both providers and users of financial information. The costs of possible competitive disadvantage, more than other factors, explain the existence of this 'parallel market' for voluntary information. In general our respondents and interviewees considered that the benefit from improved information flows outweighs the potential disadvantages from granting of privileged, price sensitive information to particular groups of users. These results are largely consistent with those from the UK. It is considered significant that we find the same phenomena in a different cultural and regulatory context.

KEYWORDS

Capital market, private information, financial analysts, investor relations

PRIVATE DISCLOSURE IN THE SPANISH CAPITAL MARKET: EVIDENCE FROM FINANCIAL ANALYSTS AND INVESTOR RELATIONS DIRECTORS

1. INTRODUCTION

In the market for financial information there exists a multiplicity of decision-makers both knowledgeable and sophisticated, with very diverse needs. The context we are facing is one of very different users and the consequential impossibility of satisfying all their information needs. Recently it has become increasingly evident how limited this system is and the dissatisfaction felt by specific groups of information users is growing. This situation has been publicised in various documents and proposals for change have been issued by various accountancy organizations.

One major change that has revealed the limitations in the relevance of mandated accounting disclosure is the significant increase in the concentration of share ownership. In most financial markets, to a greater or lesser extent, the institutional investor is the dominant shareholder of large companies. In Spain approximately 60% of the total shareholdings of quoted companies are now held by institutional investors (Calzado & Blanco, 2000; Sánchez et al., 1999). The implication of this developments is, firstly, that the identity and the information needs of this user group can be defined relatively easily; and secondly, that, given their importance, these users have a certain capacity to influence the control of companies institutionally, and to influence the process of disclosure of accounting information. Understandably, the accounting regulatory bodies show a certain resistance to making expensive in-depth changes to the mandated requirements. It is this unsatisfied demand for information that explains the emergence of voluntary (i.e. non-obligatory) information flows. The study of this voluntary market in Spain is the principal subject of this research paper.

Earlier papers have examined the disclosure of information to select groups of users through private information channels: for example Walmsley et al. (1992) in the United Kingdom, that of Frankel et al. (1999)[2] in the United States and Gómez et al. (2001) in Spain. Recently, in the United States the Securities Exchange Commission (SEC) has issued a response to the worries concerning the disclosure of share price sensitive information through

[2] As for the United Kingdom it is found that immediately following the tele-conferences, etc., held between analysts and directors of companies, there is an increased volume of share dealing and increased price volatility. This leads the authors to conclude that, in this type of meeting or communication, material information is disclosed and utilised by a limited group of investors, before being openly disseminated in the market.

private and selective channels, such as presentations, briefings, tele- and video- conferences, road shows, etc. The SEC solution would involve the utilisation of information technology to give a wide and rapid dissemination of the contents of these private disclosures[3]. Nevertheless, the standard that came into force in October 2000 has been criticised by companies and analysts. The Association for Investment Management Research (AIMR), in a comment on this standard issued on 8th August 2000, indicated its belief that the effect of the new standard would be the opposite of that intended, as companies would reduce the flow of information if this became obligatory, only publishing part of the information that previously had been disclosed privately and voluntarily. At the same time, the AIMR claimed that the effect of the information over-load on less sophisticated users could provoke greater price volatility. The National Investors Relation Institute (NIRI), in a survey of members of the American Association of Investor Relations, found that if the standard came to be implemented, 53.1% of companies would cease or reduce their practice of selected communication with analysts[4].

In Spain a new financial law proposes the reinforcement of the existing legislation with the objective of avoiding the selective disclosure of relevant information. Similarly, it is emphasised that over the last ten years, changes in the Spanish economic, social and legal scene have had a notable impact on the incentives and practices related to the supply and demand for information in the context of the capital market. According to Larrán (2001) among the most influential factors have been:

- The reform of the Capital market carried out in 1988.
- The accounting reform implemented in the early 1990's.
- The globalisation of the economy.
- The rapid introduction and widespread use of new technologies of communication.
- The increasing professionalism of financial analysis.
- The greater presence of foreign capital in the shareholdings of quoted companies and in investment institutions.

[3] This normative proposal may be consulted in http://www.sec.gov/rules/proposed/34-42259.htm. The definitive standard can be consulted in wysiwyg://7/http://www.sec.gov/rules/final/33-7881.htm
[4] See: http://www.sec.gov/rules/proposed/s73199/caccese1.htm.

- An increased presence of both institutional and individual investors in the equity of Spanish companies following the privatisation programme undertaken by the Government in recent years.

The aim of this study is to analyse the market for voluntary information in Spain. It covers the agents who operate in the capital market; the information which is disseminated; the perceptions of providers and users concerning the usefulness of financial information; the costs, benefits and importance of private channels for voluntary information; the different ways of supplying private information; how the market for information affects the behaviour of the capital market, and how the information is disseminated.

The evidence comes from semi-structured interviews with 18 financial analysts and 26 investor relations directors, 60 responses to questionnaires which were sent to all companies quoted on the Madrid Stock Exchange and to all financial analyst members of the Spanish Association of Financial Analysts, and 38 responses from investor relations departments[5].

The following section reviews previous research on this topic. In the third section, we explain the methodology used, and in the fourth we present the analysis of our results. The final section contains the conclusions.

2. PREVIOUS RESEARCH

Previous studies have dealt with a) the views of financial analysts concerning the importance of different sources of information and b) the provision of private information to financial analysts and others. The studies of financial analysts have a long history with considerable coverage of European markets, amongst others. These are largely based on surveys aimed at finding evidence concerning the methods and information resources most

[5] For a deeper discussion of these results the reader can see Larrán and Rees (1999, 2000) and Larrán (2001). This work attempted to connect the results of different works that use different methodologies and that are directed to different collectives.

commonly utilised. The evidence concerning private disclosure is more recent and less comprehensive. We will review the financial analyst studies first.

A pioneering study on this subject was that conducted by Arnold and Moizer (1984) in the United Kingdom. The study was based on a series of structured interviews and a survey of UK based analysts. The results emphasised the importance of formal financial reports. Interviews and discussions with directors of the companies were also highly valued – albeit less so than the financial statements. More than 20% of the analysts used interviews with directors of one company on more than 3 occasions in a single financial year. The topics discussed in these interviews were normally limited to explanations of results in the past, details of the management's long-term objectives, and the reasons behind changes recorded in specific sections of the balance sheet.

A later study (Moizer and Arnold, 1984) differentiated between sell-side analysts and fund managers. The results showed that fund managers carried out a less detailed analysis, less often than financial analysts. The financial analysts attached more value to contacts with the relevant companies than did the fund managers, but the latter attached more value to the forecasts issued by other analysts.

Pike et al. (1993) contrasted results from the United Kingdom and Germany. Most notable among the findings were the following:

- In the United Kingdom the findings of Arnold and Moizer (1994a&b) were largely confirmed except that discussions with company directors were now found to dominate accounting information.
- In Germany more relevance was attached to the accounting information than to discussions with management.

Vergoosen (1993) studied the use and the importance attached to the various information channels and resources by financial analysts in the Netherlands. The users were divided into three groups – sell-side analysts, portfolio managers and heads of analysis departments. In the Netherlands the information most highly valued was the financial statements, followed by communication with the directors. The analysts make more use of accounting information, and the fund managers attach more importance to the forecasts and recommendations issued by other analysts.

Finally, Olbert (1994) analysed information use in Sweden. Again, and in conformity with the earlier results in the UK, the Netherlands and Germany, accounting information is valued more highly than contacts with companies. It is only the latest results from the UK (Pike et al. 1993) that suggest that direct contact with a firm's managers may be more important than the fundamental analysis of accounting information. However all the studies admit that direct contact is still very important.

Research related to the private provision of information has focused on interviews and/or questionnaires, with the heads of departments of investor relations. Although some research has been conducted in the United Kingdom, we can find no Spanish evidence[6].

Marston (1993, 1996) investigated the organisation of investor relations in the UK during 1991 and 1992. Of the 337 companies responding to her questionnaire, 52% had one senior executive assigned responsibility for Investor relations; companies that had been privatised and those that had a higher specific risk were those with greater propensity to include such a department in their organisation charts. Subsequent work extended this study to 47 continental Europe firms (Marston and Straker 2000). The results show that on average most companies have had an investor relations department for over 7 years, reporting to the Financial Director.

Holland (1997, 1998a, 1998b) interviewed 33 directors in the UK to study the process of financial communication, and contrasting private and public information flows. He found that the private disclosure of information and the published annual and interim accounting information are closely interlinked in a broader system of disclosure in which the Annual Report plays a central role. He also shows that the Annual Report constitutes a platform and a point of departure for discussions with analysts and institutional investors. However, the

[6] However, the Spanish Association for Investor Relations has recently published, in September 2000, a study based on questionnaires (although the number of companies comprising the sample is not indicated) aimed at

accounting information has its limitations, partly due to its role is meeting the needs of a variety of different users of information. Another limitation is the absence of information on aspects that are considered too delicate and important for general publication in the Annual Report, such as quality of management, the directors' views on strategies and competition, innovation, and brand development, amongst others. Holland (1998b) also finds evidence that the directors prefer to disclose such questions in private one-to-one meetings. Private dialogue creates a unique opportunity for the company to discuss questions with investors that could not be done in public, or in written documents. Thus, although the disclosure of private information may not, in itself, constitute selective, non-public disclosure of price sensitive information, the analysts and institutional investors involved become, by definition, better informed. They may, therefore, be better placed to evaluate new information. This enhanced knowledge becomes public knowledge when it is revealed through the issue of analysts' reports and the fund managers' share transactions. Marston's (1999) study is largely consistent with Holland's various papers.

Barker's (1998) paper is a mixture of the traditional survey of analysts information sources and practices with interviews with fund managers and financial directors as well as with the analysts. Some new insights are that companies are worried about being over- as well as under-valued and that portfolio managers do not delegate private communication to the financial analysts. Where there are concentrated shareholdings this function is too important to leave to the analysts. Furthermore the sell-side analysts may have objectives that differ from those of the fund managers.

In Sweden, one study concentrates on the strategies of disclosure, based on the construction of an index of voluntary information disclosure, and a survey of analysts from which the disclosure strategy of each company was identified (Adrem 1999). The author finds that the probability of a company having a pro-active strategy of disclosure increases with the size and the spread or dispersion of its share-ownership, and is lower if the company belongs to the retail or service sectors. Another finding is that those companies with more pro-active strategies of communication are monitored by more analysts, and one effect of this is that the

obtaining information on the effective implementation and the degree of institutionalisation of the Departments of Investor Relations in Spanish companies quoted on the stock markets (AERI, 2000).

spread in analysts' forecasts of profits per share is significantly lower than for other less active companies.

ICAS (1999) conducted a survey of 154 users of accounting information, followed by fifteen interviews. The population was formed by loan officers, fund managers, financial analysts, individual investors, financial director and auditors. Crucial results included:

- Widespread dissatisfaction exists with the lack of timeliness existing in the provision of information, particularly if the information is needed to evaluate the future of the company.
- Private meetings between companies and analysts and institutional investors are considered valuable for the good functioning of the market and should be encouraged, despite the resultant asymmetric distribution of the information.
- Users, in general, do not believe that a greater quantity of information would produce information overloads or harmful effects as a result of this.
- The first resource for assessing the trustworthiness and quality of the management of companies was direct interaction with directors followed by published accounts, with external auditing placed third.
- The quality of management was valued as the key factor determining the level of performance of the company. Therefore, the quality of the management, strategies and sources of risk were the aspects most valued by respondents in evaluating a company.

In the opinion of the author of the report, any change in the information system should be accompanied by greater frequency in the provision of information. Better access to the information should be given to those groups currently at a clear disadvantage in comparison with the more sophisticated users. There should be increased opportunities for interaction with the directors of companies, improved provision of relevant information not revealed in traditional accounting statements, more forward-looking and non-financial information, and firmer guarantees of the reliability and accuracy of the information. These are an interesting set of proposals that are to be facilitated by extensive development of disclosure via the internet. They may mitigate the problems of private disclosure and even reduce the need for it. However there is some way to go before they become reality.

In summary the extensive results of previous studies confirm that private disclosure is seen as a crucial aspect of information flows between firms, analysts and investors – although there is a dispute as to whether or not private disclosure dominates formal reporting via accounting statements. It is unclear who benefits. Certainly those with access to private disclosure may have the opportunity to make more informed investment decisions but equally the quality of information available to the market as a whole may be improved by private disclosure. It is also apparent that private disclosure is of increasing importance. This may be a function of the difficulty conventional accounting has in reporting on firms with increasing complexity, especially with regard to risks, and with increasing levels of intangible assets. The concentration of shareholdings in ever larger investment funds, which threatens the role of the intermediary, also encourages direct contact between investing institutions and firms.

3. METHODOLOGY

We have followed most previous studies in conducting both semi-structured interviews and surveys[7]. In the interviews we are looking to identify the issues of concern and to obtain detailed individual views on the issues at hand. We use the surveys to attempt to test whether the views obtained in the interviews can be generalised. Thus we seek subjective but rich insights from a small group and relatively objective but sparse information from a more representative sample.

We conducted 18 semi-structured interviews with analysts to generate detailed information on the nature of the work carried out by this group and as a basis for constructing and testing the questionnaire, which would later be sent to the full sample. The final questionnaire was tested and developed following the interviews, but it was also designed to be compatible with previous studies[8].

The survey was sent to the approximately 400 practicing members of the Spanish Institute of Financial Analysts. One mailing of questionnaires was made, following which 60 completed responses were received, of which 58 were properly completed. This represents a

[7] On this point readers may wish to consult: Orti (1992), Taylor and Bodgan (1986) and Rodríguez (1993).
[8] In particular, the questionnaire utilised by Arnold et al (1984) was made available to us by Professor Moizer.

response rate of 14.5% achieved. The questionnaire covered details about the analyst and his/her employer; techniques and methods utilised to value shares; and the importance of different sources of information and the factors considered when valuing shares. A conventional five-point (Likert) scale is used where respondents were asked for a graduated response.

Of the 58 usable responses, 17 were from sell-side analysts, and 15 from buy-side analysts. The sample also included 15 fund managers, and 11 respondents not classifiable under the previous 3 categories, such as Directors of Research, etc.

TABLE 1. Types of analyst surveyed

	Nº	%
Financial intermediaries:		
- Sell-Side	17	29
- Buy-Side	15	26
Portfolio/fund managers	15	26
Others (Directors of Departments, etc.)	11	19
	58	100
Questionnaires withdrawn	2	
TOTAL responding	60	100

We conducted semi-structured interviews with the executives responsible for investor relations in 26 Spanish companies quoted on the Madrid Stock Market (all are quoted on the continuous market and form part of the General Index of the Madrid Stock Market; 16 of the companies are included in the IBEX35 index). These executives were encouraged to participate by the Spanish Association of Investor Relations, and were given notice of the subject matter to give them time to consider the topics. These interviews obtained evidence on the objectives of the financial communication, the channels of communication, and on the costs and benefits of each. The sample is relatively small but our results cover 65.46% of the total stock capitalisation of the Madrid Stock Market.

The interviews took place in Madrid during July 2000. A draft initial version of the results was sent to all the participants in September. As a result, three additional interviews were held during October. The interviews were presented and developed in a semi-structured way, each lasting about one and a half hours. This began by describing the profile of the company then went on to cover information in respect to each of the sections as already discussed. All interviews were recorded. Each interview has been transcribed in full, enabling us to cover as efficiently as possible the seven steps or levels in the processing and analysis of a number of significant cases, as suggested by Easterby-Smith et al. (1991).

Our questionnaire was based on that used by Marston (1996) but adapted to the Spanish context following our interviews and testing (including suggestions made by the Director of the Spanish Association for Investor Relations). The questionnaires were first sent to these companies at the beginning of July and the mailing was repeated in mid September. The total number of completed questionnaires returned was 38, a response rate of 26%.

4. RESULTS

We have divided our results into three sections. The first contains the information gathered from the users. The information used to develop this section has been commented on previously in Larran and Rees (1999), although the focus was rather different. We include it here as it complements the main body of our results that focus on the private provision of information. The second section reports the results from our interviews with investor relations managers and the third section contains the results from the survey of the same population.

4.1. Financial Analysts

In common with earlier studies we find that fundamental analysis is the basic technique applied by analysts. In the 18 interviews conducted, it was found that, apart from the cases of one fund manager and one analyst, no mention was made of either technical analysis or beta analysis. The questionnaires confirm this. Fundamental analysis is the most utilised (Average Likert score 1.33) but technical analysis (3.68) and beta analysis (3.28) is much less used. This is essentially the same as was found for the United Kingdom and United States (Arnorld and Moizer and Noreen, 1984), Sweden (Olbert, 1994) and the Netherlands (Vergoosen, 1993). This is consistent with all markets being information driven – although the studies cited tended to focus on public not private information.

Unsurprisingly we found some differences between the stated influence of private information depending on the research instrument. In the interviews initially held, the analysts tended to confirm that discussions with the directors were the most important source. Neither the behaviour of share prices nor the published accounting information were especially emphasised by any of them. It was clear that accounting information is important and is the basis for making projections. However an analyst commented that *'Accounting information is important, you can understand the development of the company by analysing accounting, but it is provided in the same way to all the analysts. However competitive advantage lies in forecasting the future, not in the knowledge of the past'.*

TABLE 2 we can presents a ranking of the importance of different information sources. For better presentation only those categories with an average overall score less than two have been included. The results, according to the survey, show, among other aspects, the following:

- Accounting information is seen as important, and consolidated information especially so.
- The second most important factor is direct contact with the directors of companies.
- Other significant information sources ranked as less important than direct contact include the statement of sources and application of funds, the analytical statement of profit and loss, the audit report, and quarterly accounting information.

These results are consistent with most studies referred to earlier. The exception is that of Pike et al (1993) which, for the UK, agreed with our interviews, in ranking direct contact above accounting information.

TABLE 2. Importance of information resources, classified by category of analyst

	Sell-Side Analysts		Buy-Side Analysts		Financial Intermediaries		Fund managers		Others		Total	
	$\overline{X}$	s	$\overline{X}$	s	$\overline{X}$	s	$\overline{X}$	s	$\overline{X}$	s	$\overline{X}$	s
Consolidated Profit and loss statement	1.00**	0.00	1.13	0.35	1.06	0.25	1.28	0.47	1.36	0.68	1.18	0.42
Consolidated Balance sheet	1.00**	0.00	1.20	0.41	1.09	2.97	1.35	0.49	1.63	1.02	1.26	0.58
Annual Report of the company	1.29	0.47	1.27	0.59	1.28	0.52	1.5	0.65	1.36	0.67	1.35	0.58
Contacts with directors of Companies	1.12**	0.33	1.27	0.46	1.19	0.40	1.64***	0.74	1.54	0.82	1.36	0.62
Consolidated Report	1.23	0.56	1.53	0.92	1.37	0.75	1.57	0.65	1.45	0.69	1.44	0.71
Sources and Application of Funds	1.35**	0.60	1.73	0.59	1.53	0.62	1.5	0.52	1.81	1.08	1.57	0.71
Sector statistics	1.41*	0.79	1.87	0.64	1.62	0.75	1.86	0.66	2.27**	1.00	1.80	0.81
Analytical Statement of Profit & Loss	2.00	1.26	1.66	0.90	1.83	1.09	1.71	0.73	1.90	1.04	1.82	0.99
Audit report	1.76	0.97	2.13	1.30	1.93	1.13	2.00	0.96	1.54	0.69	1.87	1.01
Accounting information: quarterly	1.53*	0.80	2.27***	0.96	1.87	0.94	1.86	0.77	2.09	0.94	1.91	0.89
Management report	2.00	1.07	1.87	0.74	1.93	0.91	1.78	0.80	2.36	1.20	1.98	0.95

* Significant to1%, ** Significant to 5%, *** Significant to 10%

The importance of private information has possible implications for the behaviour of analysts. Larrán and Rees, (2000) have demonstrated that forecasts from analysts are optimistic and one explanation for this is the need to maintain good relationships with the managers who provide valuable privileged information. In the present study we find that:

- In order not to prejudice relationships with a company, analysts find it difficult to recommend selling its shares, and, if this has to be done, it must be more strongly justified than a recommendation to buy. The recommendation to sell may often be softened or disguised by using ambiguous terminology.
- Companies react in various ways, sometimes aggressively, sometimes not, when an analyst makes a recommendation to sell or a pessimistic forecast.
- The accounting information is taken as the key for making future projections but it is the information obtained from management that gives the analyst competitive advantage, since it is this that allows the analysts to extrapolate predictions from historical information.

Our survey allows us to reinforce these conjectures. We asked those surveyed what would be the main reasons that would induce them to revise a forecast or a recommendation. TABLE 3 contains the results that show that 52 out of 60 cite new information as almost always or normally the cause of a changing forecast or recommendation (Likert score 1.72). Next most important are changes in macro-economic variables (36/60 score 2.31), accounting disclosures (33/60 score 2.34) and price changes (36/60 score 2.36) with other analysts output and pressure from management ranked low. One can think of reasons why respondents might not be fully forthcoming with regards to the last two points but this does not negate the influence of private information.

TABLE 3. Reasons for making a change to the forecast of profits per share and to the buy/sell recommendation

REASONS	Almost always (96-100)		Normally (66-95)		Sometimes (36-65)		Rarely (6-35)		Almost never (0-5)		Mean	Typical deviation
	N	%	N	%	N	%	N	%	N	%		
New information supplied by the company	22	37.9	30	51.7	6	10.3					1.72	0.64
Accounting information disclosed	6	10.3	27	46.6	19	32.8	3	5.2			2.34	0.75
Changes in the prices of shares	10	17.2	26	44.8	12	20.7	3	5.2	4	6.9	2.36	1.07
Pressure exerted by the company	1	1.7			14	24.1	25	43.1	15	25.9	3.96	0.84
Publication of the recommendations and forecasts made by other analysts	2	3.4	8	13.8	21	36.2	17	29.3	8	13.8	3.37	1.02
Changes occurring in macroeconomic variables	11	19	25	43.1	17	29.3	3	5.2	2	3.4	2.31	0.96

The analysts met with the directors of the companies that they analyse, on average, 1.80 times per year. The sell-side analysts meet management on average 4.23 times per year whilst the fund managers do so about once a year.

Of the subjects discussed with the directors, those repeated most often are, in order of importance, the discussion of long term objectives and plans, the reasons behind the past results, explanations of changes in the balance sheet, and comments on the analysts forecast or recommendations. Operational matters – changes in product line, changes in key personnel and details of R&D projects – score relatively lowly. When segmented by category of analyst, it is notable that discussion of the directors' comments on the analyst's forecasts is mentioned more frequently by sell-side analysts and others (such as directors of investment research etc.).

TABLE 4. Reasons and motives for private communication with the directors

Motives/topics discussed	Sell-Side	Buy-Side	Fund managers	Other	Total
Details of changes in product lines	2.35	2.36	2.64	2	2.36
Details of R&D projects	3.23	2.5	2.71	3.18	2.91
Long term objectives and plans	1.29*	1.7	1.87	1.54	1.60
Changes in key personnel	2.82	3.07	2.71	2.63	2.82
Reasons behind the past results	1.52	1.85	2.14***	1.45	1.75
Reasons for changes in the balance sheet	1.70	2.05	1.87	1.54	1.81
Comments of the directors on the analysts' own forecasts	1.58	2.33**	2.21	1.54***	1.91

* Significant to a level of 1%
** Significant to a level of 5%

Given the importance attached by analysts to the private information and the possible harm that might result if a company withdraws cooperation, analysts mention two ways of dealing with this:

- They could advise their clients, normally by telephone, making recommendations different from those that appear in their published reports.
- They could use expressions that could be considered ambiguous or at least indirect, to soften their "sell" recommendation.

In relation to the first of these possibilities, 24 (out of 60) analysts reported making recommendations different from those that appear in their written report, using other means of communication to convey the underlying message. Sell-side analysts disagree with this generalisation whereas buy-side analysts seem to view it as common.

TABLE 5. Opinion in respect of the question: "On occasions, are the recommendations that are made in your report different from those that are made to your clients by other means of communication?"

	N	%
Fully agree 1	5	8.6
Agree 2	19	32.8
Neutral 3	18	31.0
Disagree 4	10	17.2
Totally disagree 5	4	6.9
Global mean	2.80	
Sell-Side mean	3.52*	
Buy-Side mean	2.33***	
Fund managers mean	2.5	
Other financial analysts mean	2.70	

* Significant to 1%
*** Significant to 10%

Finally, with regards to the analysts, it is suggested that sell-side analysts whose firms offer corporate finance or brokerage facilities to the subject company may be particularly liable to mitigate their criticism of the firm. 22 analysts expressed support for this assertion, 20 were neutral, and 14 tended to disagree.

4.2. Interviews Company Managers

4.2.1 General Comments

In the communication process the accounting information has a vital importance, since a large part of the strategic message is expressed in terms of their impact on the financial parameters of the various accounting statements. The managers interviewed are conscious of the importance of the accounts for evaluating the past performance of the company's management. They also see its importance, when combined with discussions about prospects, in the forecasting process, and for inter-company comparisons. One of the managers interviewed commented on the role of the accounts as follows:

"It is the foundation …, the accounts are the bones on which we construct the body..., it is a base on which a valuation of the company can be made, once you know or can estimate the strategies and the direction you want to go" (Case R).

Managers also appreciate a) the accounting information's standardised calendar of publication in respect to annual and quarterly results, marking out the activities to be carried out by the IR department (including presentations, meetings and road shows), b) that the published accounts create a climate of confidence, and c) that the accounts provide a framework for explaining the firms activities to various groups of users.

However, as in the UK, a series of limitations in accounting information were apparent (Holland, 1997, 1998a, 1998b). These included the lack of timeliness; the lack of prospective information; the lack of competitive advantage to the user (as the information is publicly available); the limited information on the risks facing the company, and the level of uncertainty associated with its future expectations (factors largely outside the control of the company and unknown); and the lack of information on intangible assets and, in particular, on the company's intellectual capital (Sierra and Moreno, 2000).

Thus, accounting information is seen by the investor relations managers interviewed as the minimum framework of information to be provided, and represents an initial mechanism for providing information and making a diagnosis of the health of a company. It also sets the agenda for a later dialogue, establishing a common language between the issuer and the recipient of the information. To alleviate the accepted limitations, companies usually employ two types of voluntary disclosure, differentiated by the channels that are used:

- Some companies react by providing non-obligatory information in their annual and intermediate accounts. For example, all the companies interviewed, in the interim statements, provide the balance sheet and profit and loss account, even though the legislation only requires turnover and profits. Equally, the segmented data in many of the companies studied is not limited to the prescribed overall turnover but is widened to include other variables, such as profits before tax. For the property companies investigated, the accounts give the valuation of the assets (total assets in one case and specified by type in another) under alternative criteria such as the market or liquidated value according to an independent valuer. Other companies with international profiles provide results according to US or IASB accounting principles.

- They may also extend the information given via private channels, through collective meetings with members of different organisations (presentations of annual or quarterly results, video and tele-conferences, participation in specialist conferences and seminars, etc.) and special meetings with members of a single institution.

We categorise the general or collective presentations as private channels since they are only open to specialists, although it is also true that these specialists disseminate the information via reports and stock trades which influence share prices. As a minimum, there is usually an annual presentation of results in the stock market of Madrid, usually organised by the Spanish Federation of Investment Analysts. This type of presentation is intended for both analysts and investors, although they are attended mainly by sell-side analysts. In some cases, two presentations are made, one directed at sell-side analysts and the other at institutional investors.

"It (presentations to investors) consists of showing the fund managers the attention they deserve, since the sell-side analyst in the fund is an intermediary. Thus we address ourselves directly to the investment group, rather than getting involved with persons who are not directly investors. In respect of the United States, at the present time, we are holding one conference a year directed at investors. To the analysts the quantitative and more detailed information is of more interest, whereas to the institutional investors, in contrast, the strategy and the qualitative aspects of the business are of more interest" (Case U).

In order to comply with the regulation on privileged information the content of the presentation is sent beforehand to the CNMV (*Comisión Nacional del Mercado de Valores*, Spanish Securities Exchange Commission), which publishes this in its web page. According to the interviewees, confirmed by direct reference to the web page, the content is a set of transparencies, graphs and synthesised data which are only a summarised schematic of what is actually communicated, and, furthermore, cannot include the questions and answers that are a key part of the total information content of the actual presentation.

There is a trend to limit the presentations of quarterly results via physical presentations held in the stock market to a single occasion per year. In 8 of the companies analysed, the system of tele conferencing (*conference calls*) is utilised as the most direct form of communication for this type of information. The conference usually begins with an introduction, generally, by the Chairperson or President of the company, and then a question and answer session is opened, in which all those connected can participate, through a moderator. They are usually held in the afternoon, to allow time for the information to be published by the CNMV, making sure that the Spanish market is closed, and providing access to investors located in the USA (due to time differences).

"Although video conferences and conference calls are being increasingly used, it must be taken into account that investors prefer to have direct contact with the directors of the company, even though this is more costly. Video conferences are good, but the human contact will never lose its importance and relevance. The investor likes to see the face of the manager, likes to see the offices of the company, to see the employees, the atmosphere, the facilities" (Case N).

4.2.2 Advantages of group meetings or tele-conferences.

The interviewees reported a number of advantages of group meetings with investment analysts or fund managers. The principal ones were:

- Group presentations or tele conferencing allows the company to explain what has happened, the events that are reflected in the financial statements and, above all, to discuss in what direction the company wants to go in the future. The outlining of future possibilities and prospects, rather than describing the past, appears to be the focus of the analysts' interest. Therefore after the information has been communicated, the company makes its own analysis, leaving the analysts to ratify it, expand it or else change it, before issuing their own value judgment or assessment of the company. Thus they fulfil an educational function.

"The information that figures in the presentations is basically the analysis of the quality of the profit and loss account, this is not the same as noting that some items may have

grown more than others, the items are broken down by their nature, by business area, by geographic areas. Explanations are given as to why market share has or has not increased, the progress of mergers, their terms and agreements, the strategic alliances, the purchases made in Latin America, the strategic components, etc." (Case U).

- Another benefit of this channel is the faster communication of more knowledge about the company to the market. The presentations benefit the quality of the estimations and of the reports prepared by analysts. The margins of possible error are greater when analysts only learn about the company and its business from other sources without being able to check information directly with the company itself.
- After these presentations the analysts write the notes that are disseminated, usually the next day, to their clients, thus ensuring that the investors have access to this information within a fairly short time.

"*One function that the presentation fulfils is to make the job of the analyst easier, since it is about analysing, simplifying and visualising the company in a short space of time, providing calculations and comparisons. It is an opportunity to have data first hand and to be able to go out into the street with an opinion on the quality of the results and their perspectives/prospects" (Case U).*

- In most of the companies, the presentations are attended by the Financial Director, the Managing Director or Chief executive, and, depending on the emphasis the company wishes to give to the more specific topics, the directors of functional areas. In some cases, the presentations are prepared in a Committee, where directors of the different functional areas participate, each being responsible for contributing their own message and for anticipating the questions that might be raised. The presentations therefore allow analysts and investors to make contact with the senior management, put faces to the names behind the strategic comments that are issued daily by the company, and to directly question them so as to resolve their doubts about certain aspects of the company.

- They also obtain feedback from the market, informing the company of worries, uncertainties, lack of understanding, etc. that should allow it to modify the contents of future presentations. This may be especially important for the smaller companies that are monitored by fewer analysts; the presentations enable them to get to know the market better.

"For us, it allows us to observe rapidly what the market sees as positive, what preoccupations the market may have at particular times, what it is valuing and what it is penalising, etc., in short, what they think of certain strategies. These could then be adjusted, changed or better explained" (Case U).

4.2.3 Disadvantages of group meetings or tele-conferences.

Set against the preceding advantages, a series of limitations arose in the interviews:

- Although the content of the presentations is deposited with and published by the CNMV, problems could arise from the selective, non-public disclosure of privileged price sensitive information. The quality of the answers management give during the session are considered very important and, thus, companies prepare answers to expected questions. Of course this part of the discussion is not available on CNMV.

"*Experience leads us to find out before the event some 80% of the questions that are going to be raised (...) Nothing is ever left unanswered, but any answer can be given in more or less depth. Special care must be taken to say nothing relevant that has not previously been made public. More problems can occur when the presentations are attended by a managing director who may not be up-to-date with the company's relations with the stock market; to avoid this, both for presentations and meetings, and for road shows, we arrange a prior meeting with the directors who are going to attend, with the aim of unifying the message, defining what can and cannot be said" (Case N).*

- There exists an aversion on the part of the company to publish or disclose any kind of information that could damage its competitive advantage. This question appears to worry some companies, such as those of the petroleum and construction sectors, more than others, such as those in the property or motorways sectors.

- The additional and voluntary information provided, whether qualitative or quantitative does not have any objective guarantee of its reliability, since it has not been included in the auditing procedures.
- The advantages that some analysts have over others, and similarly with institutional investors, lie in their knowledge of the company and in their capacity for correct analysis. This means that in a collective meeting, there will be a reluctance to formulate certain questions that might give away the analysts advantage.

"When a presentation is held, there are both analysts and institutional investors who do not wish to ask certain questions so as not to alert other participants, possible competitors, to their interest in certain aspects of the business. It may happen that they have discovered a particular point about the company that seems analytically relevant to them and that they do not wish the others to be aware of (....) Also since this type of meeting is held with the management of the company, the analysts and investors are made to feel valued, in that they are being provided with a personalised service" (Case R).

4.2.3 Comments on individual meetings.

During the interviews we asked interviewees about meetings with individual analysts or fund managers – or groups from one institution. As the content of a general presentation is usually deposited in advance with the CNMV the information released and transmitted in these individual one-to-one meetings can have greater risks of being considered privileged and, therefore, of breaking certain legal precepts. However, they differ from collective meetings in the following ways:

- This type of meeting is seen to fulfil an initial training role, when the analyst or investor does not have a very extensive knowledge of the company. This can result from the high job rotation in the field of analysis, or because the company is in a relatively specialised sector.

"Analysts and investors do not have time to assimilate all the information that comes out of new sectors, even that concerning the sectors in which they are more specialised (....) It is not so easy keeping up-to-date in a sector. In the meetings that we hold with investors and analysts we perform this function, so that they might know the company and the sector better…it is as if we are giving classes in theory, or even evangelising" (Case N).

"If it is a first visit ,a lot of time is devoted to explaining who our company is, and in what ways it is different from others, from the competition, the evolution of its principal financial parameters, the reasons why it is in each business, the strategies, why we may have just sold a subsidiary or made a specific investment. On second or third meetings, the discussion revolves around the drafting of a report, and more specific questions, such as the production capacity of particular factories, etc." (Case A).

- In general, investors prefer individual meetings. As with the analysts, they can raise those questions that would not be asked in collective meetings. They may wish to keep insights private or may fear that a question will indicate their intention to take a larger or smaller holding in the company in question.
- These meetings may serve to provide more detailed information on particular aspects in which the investors and/or analysts may be interested. The demand for more detailed information depends on the institution's knowledge of the sector and the company, as well as on the analytical capacity that the fund manager or analyst may have.

"The quantity and quality of information given to each analyst and institutional investor will depend on the type of questions that they may ask and on the level of knowledge they possess on the company. We know very well the limits of what we are able to inform. But you can be sure there are many people who know the company very well and who are going to prod you where it is most painful, and you have to explain a whole lot of things that you wouldn't want to explain to someone else" (Case M).

"Everything that has been communicated previously as relevant fact is explained in detail. The general news serves to generate interest in the market, to draw attention to a

company that is active, that is doing things, that has prospects. The quantification and the details are provided in the one-to-one presentations and meetings" (Case P).

"The quality of the meetings depends on the knowledge that the investor has of our group, if the investor does not know the group, then the meeting will be fairly generic/general and very superficial. When this knowledge exists, we go deeper and in more detail into those specific questions in which the investor may be interested" (Case T).

- This type of meeting also helps the analysts to get to know the directors personally, to hear their message at first hand, to get a feel of the degree of conviction in the statements made about strategy. At the same time, it allows the analysts and investors to see the facilities and to sense the working atmosphere.

"These investors do not have much time, they want to get a feeling for the real strategy of the company, the commitment of the management to particular projects. They want to see and know the people who are managing their money, to know at first hand about new projects, the changes, to have a fluid communication with the company. Increasingly, but without breaking the rules of the game, without disclosing privileged information, what the company seeks is a very fluid relationship with the investor, so that the investor is always aware of what is happening in the company. They see our company in a competitive environment, they know our competitors, they visit them, their opinion on our strategies and those of the competition is very valuable. The continuous and fluid relationship is mutually beneficial" (Case O).

- These private meetings can be mutually beneficial, and constitute a reinforcement of the process of mutual learning to which we referred when analysing the general presentations. The company enjoys direct contact with investors and analysts specialising in particular sectors, who are in a good position to offer advice or guidance on questions of strategy and valuable information for interpreting the previous actions and known decisions of competitors.

" You can learn from the market, from the analysts and investors, above all in such an innovative, changing and advance sector as the technologies of information. The leading analysts see all the big competitors, have analysed their strategies, and their opinion is important. There have been many strategic decisions that have been taken in function of what has been transmitted to us by the market, or in function of how we believe the markets are going to interpret them" (Case I).

Within the scope of special meetings, we could also include telephone conversations and the fluid communication that is maintained with financial analysts. The advantage for the analyst of this method of communication is that their competitors do not share this information (unless the company holds a similar private meeting with their competitors). In general, the publication of Annual Accounts and intermediate results gives rise to a significant number of telephone calls from analysts to the company, in order to improve their interpretation of the financial statements before they proceed with the preparation of a report. All the companies interviewed reported that they usually receive drafts of reports before their publication. They also usually confirm them or else correct what the analyst may not have correctly interpreted, such as certain strategies or facts communicated by the company, important errors in the objective quantification and projection of certain variables, as well as the fact that the estimates may differ significantly from those made by the company itself. However, they do not usually give their opinion on the models established, or on the rates of discount, unless they are significantly different from those generally utilised on average. Similarly, in some cases, the internal regulation of conduct obliges them to refrain from giving any information one week ahead of the presentation of results.

4.2.5 The legal implications for individual meetings.

Companies that wish to build a relationship with investors, possibly to help in raising finance or to fight off an unwanted take-over bid, try to increase the level of knowledge and confidence in the company. These situations take place in a framework of confidence, with the commitment of the user of information not to disclose it to others. The Olivencia Code[9] gives a warning in respect of such meetings, in section 8.6:

[9] It is a voluntary Code of corporate governance in Spain.

"*With respect to the use of non-public information, the Commission has detected the existence of a certain preoccupation in the markets for the asymmetric distribution of information among shareholders and for the access of the significant shareholders to reserved company information. The Board must be vigilant in case this type of situation arises, to determine if there has been any anomaly or leak, with the objective of demanding the corresponding responsibilities. In any case, it will do no harm to consider extending to the significant shareholders the duty of confidentiality and of not exploiting privileged information*".

On this particular aspect, we present some opinions expressed by those interviewed:

"When you are sitting in a meeting with an investor, a potential investor is not the same as another who already holds, say, 6% of the capital. The information that you give to both can never be the same." (Case W).

"The institutional investors are taken into account in some decisions, there are investors of this type who handle thousands of millions, and who, at any time, can remove someone from the management team and designate someone else" (Case Z).

- The information to which we have previously referred may not be relevant at the time of publication but will allow the analyst or fund manager to have more knowledge of the company. When an announcement is made this analyst or fund manager will be better placed to assess and quantify the impact of this news on the value of the company; this therefore will represent a position of advantage in respect to the interpretation of future facts, enabling advice to be given or positions to be taken in better conditions than those of their competitors. Although it may not be defined as privileged in itself, this information will confer a kind of privileged capacity for future analysis, to the disadvantage of other investors.
- Even though these channels do not contravene the law, there is no doubt that they fall into a grey zone. The information provided is not privileged at the time of disclosure but inevitably enables the recipients or users of this information to act in the future when further publicly available information is obtained, in advantageous and privileged conditions with enhanced powers of interpretation. The critics of this type

of communication point to the unequal or inequitable distribution of information that is created among the various agents in the market. In contrast, the defenders argue that the institutional investors and analysts are equivalent to “democratic representatives” of the totality of the market and that this information advantage is offset by the cost of having access to this greater volume and detail of information, and the cost of enjoying a superior capacity of analysis. However, the benefits derived from this advantage are clearly expected to far exceed the costs. For such an equal distribution to exist in practice, there would need to be an efficient mechanism of making public the contents not only of all the general or collective presentations with all the questions and answers, but also all the individual meetings, telephone and other personal conversations.

- In this type of meeting, companies are more disposed to give information on the more sensitive, delicate questions that would never be discussed in public, such as quality of management, performance of particular lines of business, R&D projects, new product development, personnel policies, etc., always provided that this could not be considered as privileged information.

- As stated in an earlier section of this paper, the Spanish legislation defines privileged information as any fact or decision that, when published, would noticeably affect the share price or value of the company. The information is privileged if the price is sensitive to it, but the degree of sensitivity is not quantified. No percentage of variation is defined as the threshold for such sensitivity. There is only a list provided in the Circular Letter 14/98 of the CNMV, of possible facts that could fall within this category, and companies are obliged to publish them when a material movement in prices is foreseeable. Such publication is advised whenever the company has doubts in this respect, i.e. they should err on the side of caution. The perception obtained in the interviews regarding how they detect or determine if a specific piece of information is privileged or not, was that companies associate this categorisation more with the nature of the fact or decision than with the possible quantified impact on the share price.

One question that arises from consideration of all the foregoing is whether the existence of a more rigorous regulation with greater demand for more obligatory disclosure of information would reduce the activity of certain channels of communication. Increased informational requirements on companies could create overload and difficulties of interpretation for some users, and could increase business costs especially as a result of the loss of competitive advantage and legal costs. What is more, given the competition between agencies and/or institutional investors, such a change would still leave the better-informed segments requiring more detailed information, through a differentiation effect. However, if companies were obliged to disclose information that is now only voluntary, this would make it possible for individual investors to enjoy the same quality of information as analysts, institutions and other professionals. On this point, the proposed regulation of the SEC has met with rejection by the organisations representing the professionals of both the investment sector and investor relations in companies, who claim that this type of less selective disclosure would provoke greater volatility in the market and a reduction in the flow of information between companies and the sophisticated users.

Conflicts could arise from asymmetric treatment, in reference to the disclosure of information, between sophisticated users of financial information and individual investors. No published evidence exists on whether individual shareholders actually perceive themselves to be at a disadvantage from not being invited to the meetings to which other information users have access, but such evidence is probably unnecessary. However, the costs and time involved in attending many such meetings regularly would effectively make such an option unrealistic. It remains to be seen if the utilisation of the Internet as a channel of financial communication develops to become a means of eliminating or reducing such differences in access to information among all classes of investor.

All the interviewees use ideas related to market efficiency in its semistrong form. They adduce that the information spreads almost immediately once it is publicly available, although market reaction to the news and company events is not so quick as it should be given the few resources dedicated to the analysis in the Spanish case.

Therefore, the analyst can anticipate to the market if the price reaction to new information doesn't happen immediately and can get net gains if the difference between the output of his investments and the cost of the obtained information is positive. This fact explains that the information spread is gradual instead of immediate (Bernstein, 1995, p. 19). Next we include some explicit opinions about this spread process:

"The spread of information is very quick, the quality of the information transmitted is mediocre and many times the amount of time dedicated to the discount and information analysis is scarce. One of our tasks is trying to revise analysts' drafts in order to avoid commentaries that were not in accordance to the reality (…). Information spreads very quickly but its fairness and objectiveness is not always appropriate. The basic problem is that there are few resources dedicated to this task (…) There are meetings in which one spend 60% of the time saying something previously explained in the introduction (…) Notwithstanding there is a minority that create an opinion; it is an elite that diffuses and creates opinions" (Case R).

"There exists a war between analysts in order to see who writes quicker, who writes the quickest note. The objective is to spread the information between their clients given that their commissions and reputation depend on the quality of their analysis but on the response capacity as well" (Case L).

The greater knowledge that a part of the market has as a consequence of a better understanding and processing of the information that affects prices is contrary to the idea of market efficiency in its semistrong form, which postulate an unbiased and quick aggregate market response to new public information. This reaction as a hole takes place gradually and departs from the behaviour of the best-informed agents to the rest. According to Holland (1998b), the fact that the competitive advantage of some market agents was based on private information (but within the limits of the laws about privileged information) can imply that they allow the market to be closer to an efficiency situation in its semistrong form. Therefore, the memory, knowledge, sophistication, and response capacity of the best-informed user help to explain market efficiency in its semistrong form. However, one of the interviewees gave his opinion about the Spanish case, and said that the possibilities of the communication of pseudo-privileged information are not null given the lack of independence between primary and secondary markets.

4.3. Questionnaires responses from Investor Relations Directors.

We received 38 responses from our survey of investor relations directors. The main conclusions were:

- All the companies analysed (38) have an executive or director responsible for Investor Relations (IR). In 29 cases, this function constitutes their principal activity, and in the other 9, it is shared with other activities. Only 3 of the companies analysed do not have a 'Department' for IR defined in their organisation chart. In 20 cases, the IR department reported directly to the Financial Director or equivalent.
- Of the 37 companies that gave information, the number of persons reporting to the head of IR ranges from 0 to 15 with an average of 3. In 22 of the cases they were employed solely on this activity.
- The companies were asked about the methods used to communicate with the market and the relative importance that was attributed to each method. As means of communication, the general meetings with representatives of different organisations, such as presentations in the stock market, were differentiated from the specific and more private meetings with members of one organisation. The importance of the means of communication was related to the particular information users who were the target of the communication - sell-side analysts, buy-side analysts, portfolio managers and specialist press.
- For sell-side analysts, the means of communication most highly valued by companies are telephone conversations, electronic mail, general meetings, and management's response to draft reports. The special meetings, perhaps because they are more oriented towards specific institutional investors, are considered of less importance according to the responses made in the interviews.
- Buy-side analysts and portfolio managers, representatives of institutional investors, attach more importance to the special or private meetings than to the general presentations and meetings. The specialist press value all contact somewhat less than do the analysts or fund managers.

- In general, the private channels of information are very highly valued by companies, more for communicating with institutional investors than with sell-side analysts. It is significant that, in comparison with the rest of the channels, these companies still attach very little importance to the Internet as a means of communication.
- Considering the dangers of disclosure of sensitive information affecting the formation of share prices in this type of meeting, one would expect that companies would keep records of the information released at meetings. Specifically, 87% of the companies surveyed keep records related to the general meetings held, and a slightly lower proportion (84%) in the case of special meetings. The evidence from Spain shows a high level of preoccupation for this - more so than in the case of the United Kingdom (Marston, 1996), where the corresponding percentages found were 57% and 49%, respectively.
- Apart from the general and special meetings, another important means of communication, basically for sell-side analysts, is telephone conversations, which tend to intensify in the days immediately before and after the preparation of reports and notes on the company by the analysts. In this case, the risks of the selective disclosure of privileged information are even higher than in the types of meeting already considered. In our study all the companies hold telephone conversations with analysts. Usually it is the Director of Investor Relations and the Financial Director who deals with these requests for information. Only 6 of the companies surveyed retain any kind of written record of the conversations maintained with analysts. A significant percentage of all the reports written on the company are sent to the company before being released. 35 companies reported that they correct material errors in the drafts of reports, and in 29 cases, they offer comments on the accuracy of the forecasts made by analysts. This latter activity could imply actual involvement of the company in supposedly independent financial analysis. Where the company believes the analyst estimate to be reasonable half of our sample firms would confirm this to the analyst and half would make no comment. If the company thinks that the analyst's forecast is unreasonable 26 firms would point this out and 18 would also give the analyst guidance on correcting their estimate.

5. CONCLUSIONS

We find, in common with most earlier studies, that analysts value published financial statements more than other sources of information. Nevertheless, they express serious dissatisfaction with them. They look for more information enabling them to judge the quality of the management and more details regarding strategy, intangibles and forecasts. Personal contacts with the management are also highly valued, and are seen as a means of compensating for some of the deficiencies of published accounting information.

Published accounting information is seen as facilitating communication and providing a "common language" between company and information users. Its publication, annually, quarterly or six-monthly, marks the calendar for other activities of communication, and provides the reference base for further information for sophisticated users, such as analysts and institutional investors. The lack of qualitative information and information on risks and forecasts, together with the difficulties in making international comparisons, are signalled as weaknesses. In general, all the groups involved, information providers and users, agree that the published information is insufficient for making a reliable valuation of a company. There is general agreement on the need for other selective channels for the disclosure of voluntary information.

The private channels of communication with analysts and institutional investors are generally considered beneficial for the proper functioning of the market. In no case is it believed that the recent legislation relating to general codes of conduct, to the protection of the interests of investors and concerning privileged information might reduce the flow of information with the market.

Open meetings are usually held for the presentation of the annual or intermediate results, and for special purposes such as the announcement and explanation of a merger project. This type of meeting enables the chairperson and directors to transmit information to a wide audience, covering the strategies and reasons behind the changes in the main parameters of the company. They also play an educational role, and allow for rapid dissemination of information. This type of meeting also allows the company to obtain rapid feedback of the market's reaction to the information disclosed. Among the disadvantages are the risks of unintentionally divulging information that could damage the company competitively, or imparting share price sensitive information to a privileged group.

Specific meetings with members of a single organisation, usually the staff of an institutional investor, enable the company to create and foster good relations and collaboration with this key class of investor. Such meetings provide opportunities for investors and analysts to ask questions and obtain detailed information. They would prefer to do this in private so as not to divulge their positions, or their particular interest in certain aspects of the company. In this manner the company can communicate information that is oriented to the future but might be competitively damaging. Although this may not be considered privileged in terms of allowing the investor to make an immediate profit, it would give it advantages in the future, providing it is capable of exploiting this knowledge when it comes to interpreting future facts and decisions of the company. Clearly there is a greater danger that share prices could be sensitive to the selective disclosure of information in one to one meetings.

In summary, a minimum and regulated supply of information coexists with a market of voluntarily disclosed information that is disclosed and transmitted mainly through private channels of communication. The users of this extra information are mainly financial analysts and institutional investors. Although the information divulged through these selective, non-public channels need not necessarily be classified as privileged or prejudicial to the interests of other parties, it does give rise to some worries in this respect. Many of our respondents and interviewees think that this market for voluntary information contributes to the improved functioning of the markets and to efficiency in price formation. The increased use of information technology might mitigate conflicts of interest by providing improved access.

BIBLIOGRAPHY

ADREM, A. H. (1999): Essays on Disclosure Practices in Sweden- Causes and Effects. Lund University Press. Malmö. Sweden.1999.

AERI (2000): Las Relaciones con Inversores en las Empresas Españolas. Revista de AERI. www.aeriesp.net. Trabajo elaborado por el Director de la Asociación Española para las Relaciones con Inversores, David López.

ARNOLD, J., MOIZER, P. Y NOREEN, E. (1984): "Investment Appraisal Methods of Financial Analysts: A Comparative Study of US and UK Practices". International Journal of Accounting, Education Research. 19(2). Pp. 1-18..

AICPA (1994): Accounting Standards Executive Committee. Statement of position: Disclosure of Risks and Uncertainties and Financial Flexibility (SOP 94-6).

AICPA (1994): Improving Business Reporting-A customer focus: Meeting Information Needs of Investors and Creditors. A Comprehensive Report of the Special Committee on Financial Reporting. American Institute of Certified Public Accountants. El comité fue dirigido por Edmund L. Jenkins, socio de la firma de auditoría Arthur Andersen.

BARKER, R. G.(1998): "The market for information-evidence from finance directors, analysts and fund managers". Accounting and Business Research. Vol. 29. Nº 1. Pp. 3-20. Winter. 1998.

CALZADO, B. Y BLANCO, R. (2000): "La propiedad de las acciones en España". Revista de la Bolsa de Madrid. Nº 93. Noviembre 2000. Pp. 25-27.

CARTA CIRCULAR 14/98 De La Cnmv relativa a Hechos relevantes y su comunicación a la CNMV y al mercado. 28 de diciembre de 1998.

CRAVEN, B.M. Y MARSTON, C.L. (1999): "Financial Reporting on the Internet by leading UK companies". The European Accounting Review. Volumen 8, Nº 2, pp. 321-334.

DAY, J.F.S. (1986): "The use of Annual Reports by UK Investments Anaysts".Accounting and Business Research, Autumn, 295-307.

EASTERBY-SMITH, M., THORPE, R. Y LOWE; A. (1991): Management Research- An Introduction. Sage. London.

ELSHARKARWY, A.E. Y GARROD, N. (1996): "Investor Sophistication and Price Response".

FINANCIAL ACCOUNTING STANDARDS BOARD (2001): "Improving Business Reporting: Insights into Enhancing Voluntary Disclosures". Steering Committee Report. Business Reporting Research Project. FASB. Enero de 2001. Disponible en http://www.rutgers.edu/Accounting/raw/fasb/project/busreport.html.

FRANKEL; R., JOHSON, M. Y SKINNER, D. (1999): "An empirical examination of conference calls as a voluntary disclosure medium". Journal of Accounting Research. 37 (1). Pp. 47-61.

GARCIA, D. Y GARRIDO, J. (2000): "El comportamiento de los valores españoles". Revista de la Bolsa de Madrid. Nº 90. Julio 2000. Pp. 16-23.

GLOCK, C.Y. (1967): "Survey Research in the Social Sciences". Russell Sage Foundation, New York.

GOMEZ, J.C., GIL, A. Y POVEDA, F. (2001): Revisión de expectativas en las presentaciones de empresa ante los analistas financieros. Documento de Trabajo. Universidad de Alicante.

HOLLAND, J. (1997): Corporate Communications with Institutional Shareholders: Private Disclosures and Financial Reporting. The Institute of Chartered Accountants of Scotland (ICAS). Edinburgh. 1997.

HOLLAND, J. (1998ª): "Private Disclosure and Financial Reporting". Accounting and Business Research. Vol. 24. Nº. 4. Pp. 255-269.

HOLLAND, J. (1998B): "Private Voluntary Disclosure, Financial Intermediation and Market Efficiency". Journal of Business, Finance and Accounting. Vol. 25. Nº 1 y 2. January/March. Pp. 29-68.

ICAS (1988): Making Corporate Reports Valuable . A Discussion Document by the Research Committee of the Institute of Chartered Accountants of Scotland. Ed. By McMonnies, P.N.

ICAS (1999): Business Reporting: The inevitable change. Edited by Vivien Beattie. Edinburgh.

ICAS (2001): Business Reporting: Harnessing the power of the internet for users. Researchers: Beattie, V. & Pratt, K. Edinburgh.

INSTITUTE OF DIRECTORS (1985): Guide to Boardroom Practice Nº 7: Insider dealing. 2ª edic. Institute of Directors. Londres.

LAFFARGA, J. Y RUIZ, I. (1999): El riesgo en los estados financieros: normas y recomendaciones. Comunicación presentada al X Congreso de AECA. Zaragoza.

LARRÁN, M. (2001): El Mercado de Información Voluntaria en las Bolsas de Valores. ICAC. Madrid. 2001.

LARRÁN, M. Y REES; W. (1999): Técnicas, recursos informativos y prácticas seguidas por los analistas financieros en España: Un estudio empírico. Instituto Español de Analistas Financieros. Madrid. 1999.

LARRÁN, M. Y REES; W. (2000).: "Incentivos de los Analistas Financieros para pronosticar con sesgo optimista". Revista de Contabilidad. Vol.36. Nº 6.

LEE, T.A. Y TWEEDIE, D.P. (1975A): "Accounting Information: An investigation of Private Shareholder Usage".Accounting and Business Research, Winter 3-17.

LEE, T.A. Y TWEEDIE, D.P. (1981): "The institutional Investor and Financial Information". London: The Institute of Chartered Accountants in England and Wales.

LEE, T.A. Y TWEEDIE, D.P. (1975A): "Accounting Information: An investigation of Private Shareholder Understanding".Accounting and Business Research, Autumn 280-91.

LEV, B. (1992): " Information Disclosure Strategy". California Management Review. Vol. 34. Summer. Pp. 9-32.

LEV, B.(1996): The Boundaries of Financial Reporting and How to Extend them. SEC. Symposium on Financial Accounting and Reporting of Intangible Assets. April. 1996.

MARSTON (1993): Company Communications with Analysts and Fund managers. PhD. University of Glasgow.

MARSTON, C.(1996): "The Organization of the Investor Relations Function by Large Quoted Companies". Omega. Vol. 24. Nº 4. Pp. 477-488.

MARSTON, C. (1999): Investor Relations Meeting: Views of Companies, Institutional Investors and Analysts. The Institute of Chartered Accountants of Scotland. Glasgow. 1999.

MARSTON, C. Y STRAKER, M. (2000): A Survey of European Investor Relations. Comunicación presentada al Congreso de la European Accounting Association. Munich. 2000.

MOIZER, P. Y ARNOLD, J. (1984): "Share Appraisal by Investment Analysts-Portfolio vs. Non-Portfolio Managers". Accounting and Business Research. Otoño. Pp. 341-348.

MOSER, A.A. Y KALTON, G. (1985): "Survey Methods in Social Investigation", Heinemann.

NATIONAL INVESTOR RELATIONS INSTITUTE (NIRI) (1994): The Body of Investor Relations Knowledge. Vienna, V.A. 1994.

NATIONAL INVESTOR RELATIONS INSTITUTE (NIRI) (1995): Issues in Investor Communications and Corporate Disclosure. NIRI & Braznell & Company. Londres 1995.

OLIVENCIA, M. (1997): Informe de la Comisión Especial para el estudio de un Código Etico de los Consejos Administrativos de las sociedades. El Gobierno de las sociedades cotizadas. BOICAC. NUM. 33.

OLBERT, L. (1994): "Stock Valuation Methods of Financial Analysts in a thin Stock Market in Sweden, with comparisons to the United Kingdom and the United States". The International Journal of Accounting. Nº 29. Pp. 123-135.

ORTI, A. (1992): La Apertura y el Enfoque Cualitativo o Estructural: La Entrevista Abierta Semidirectiva y la Discusión de Grupo. En GARCIA, M., IBAÑEZ, J. Y ALVIRA, F.: El Análisis de la realidad social. Métodos y Técnicas de Investigación Social. Alianza Universidad. 1986. Reimpresa en 1992. Pp.171-203.

PIKE, R., MEERJANSSEN, J. Y CHADWICK, L. (1993): "The Appraisal of Ordinary Shares by Investment Analysts in the UK and Germany". Accounting and Business Research. Autumn. Pp. 489-499.

RODRIGUEZ, J.L.(1993): La Entrevista en la empresa. Eudema. Madrid.

RUIZ, I., LAFFARGA, J. Y JIMENEZ, S. (2000): La información sobre riesgos revelada por las empresas españolas: Un análisis preliminar. Comunicación presentada al IX Encuentro de Profesores Universitarios de Contabilidad. ASEPUC. Las Palmas de Gran Canaria.

SANCHEZ, Mª J., GARCIA, D. Y GARRIDO, J. (1999): “La posesión de acciones en Europa”. Revista de la Bolsa de Madrid. Nº 76. Abril. Pp. 4-10.

SIERRA, G. Y MORENO, I. (2000): La información contable sobre el Capital Humano: La opinión de analistas financieros. Comunicación presentada al IX Encuentro de Profesores Universitarios de Contabilidad. ASEPUC. Las Palmas de Gran Canaria. Mayo del 2000.

TAYLOR, S.J. Y BODGAN, R. (1986): Introducción a los Métodos Cualitativos de Investigación. Buenos Aires. Paidos.

VERGOOSEN, R. (1993): "The Use and Perceived Importance of Annual Reports by Investment Analysts in the Netherlands". European Accounting Review. Sepetember. Pp. 219-244.

WALMSLEY, T., YADAV, P.K. Y REES, W. (1992): “The information content of the company meeting programme of the Society of Investment Analysts: 1985-1990”. Journal of Business, Finance and Accounting. 19 (4). Junio. Pp. 571-584.

WILLIAMS, P.A., MOYES, G.D., PARK, K. (1996): "Factors Affecting Earnings Forecast Revisions for the Buy-Side and Sell-Side Analyst". Accounting Horizons. Vol. 10. Nº 3. Septiembre