

## Words and Deeds: Communication in Capital Markets

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Communication plays a critical role for the success of corporations; nonetheless, our knowledge of what explains variation in the style of managerial communication, of what investors can learn from some soft or implicit facets of communication, and of how companies achieve credible communication is still limited. This research project aims to make progress on these issues.

A first project considers verbal communication by managers, words. One dimension we study is the negativity/positivity of the speech (the tone); second, we develop and use measures of dishonest forms of communication that do not quite amount to outright lying but that are arguably nonetheless potentially misleading for receivers. The paper focuses on what managers reveal between the lines, namely, what the speech used in particular in conference calls suggests for future real performance (including a possible bankruptcy). Knowing what markets infer from communication is of interest to understand the role of quantitative vs. "soft" models of valuation and resource allocation.

The second project emphasizes that the reaction of the stock market to many corporate decisions depends critically on the credibility that management has in communicating the rationale for the decisions. For example, investors may worry that managers engage in seasoned equity offerings (SEOs) primarily to cash in on overpriced stock. Thus, companies suffer significant adverse selection costs when they cannot communicate credibly. This project explores whether firms with managers who demonstrated more truthful deeds in other settings (despite personal costs of doing so) or generally communicate more truthfully benefit from a smaller adverse selection discount in SEOs and in other settings when their credibility is at stake.

The third project also investigates the issue of credible communication, but focuses on public communication as a possible commitment device in a cheap talk setting. It asks: Under which circumstances do senders, who face multiple receivers, choose to communicate privately or publicly? This paper will investigate this issue theoretically and experimentally; indeed, a laboratory experiment offers an ideal way of simplifying the complex issues surrounding communication.

### Research Team

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### Fields of Research

Corporate Finance

Experimental and Behavioral Finance