Negative News and Investor Trust: The Role of $Firm and #CEO Twitter Use

W. Brooke Elliott
University of Illinois at Urbana-Champaign

Stephanie M. Grant
Frank D. Hodge
University of Washington

EXPERIMENTAL MATERIALS: PRIMARY EXPERIMENT
ALL CONDITIONS

- In this study, assume you own a diversified portfolio of stocks. As part of your annual review of your portfolio holdings, you are considering investing in the confectionary industry to maintain a diversified portfolio.
- One of the firms you are considering is Armano.
- You will receive information about the company from late 2011 through the end of 2013. You will then use this information to make a decision about whether to invest in Armano.
- On the next page you will receive background information about Armano. In the following pages, you will view both financial and nonfinancial information about Armano as events occurred and as information was released about the company.
- Please do not seek outside information while completing the task. There are no correct or incorrect responses—we are interested in your responses to the specific information provided.
- Additionally, it is important that you complete the task in one session, so please ensure that you have approximately 30 minutes before proceeding.
- As you work through the materials, please do not use your browser’s back button to return to previously-viewed pages.
ALL CONDITIONS

Company Overview

- Armano is a medium-sized, international confectionery manufacturer and retail operator in the United States, Canada, and Europe.
- Armano has a strong management group (led by Chief Executive Officer, Dan Athens), steady financial performance, a reputation for high-quality financial reporting, and a demonstrated ability to capitalize on opportunities for growth.
- The company offers an extensive line of premium chocolates and other confectionery products.
- Armano’s 53,000 square-foot facility in the Midwest has the capacity to produce hundreds of different chocolate candies and other confectionery products for its over 300 worldwide retail locations.
- The number of financial analysts following Armano has increased steadily, a testament to management’s reputation for open and honest communication with the investment community.

On the pages that follow you will receive multiple press releases from Armano that you need to make your investment decision.
A SWEET VICTORY FOR ARMANO AS NASF ANNOUNCES 2011 AWARD WINNERS

(BUSINESS WIRE) - October 4, 2011 - Armano, a premium chocolate manufacturer, won the 2011 Most Outstanding Chocolate Award yesterday at the 42nd Annual Product Awards sponsored by the National Association for Specialty Foods (NASF). Armano’s mouthwatering, peppermint-infused chocolate truffles were the clear favorite of the distinguished panel of judges who sampled hundreds of chocolate delights before awarding Armano the highly coveted prize. In response to the news, analysts revised their forecasts of annual earnings upward for the year ended December 31, 2011. Analysts anticipate a significant increase in sales of Armano’s award-winning chocolate during the upcoming holiday season.
WEBSITE/CEO CONDITION

A sweet victory for Armano as NASF Announces 2011 Award Winners (bit.ly/a1b2)
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Armano included the following performance highlights in their earnings press release:

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TWITTER/IR CONDITION

**Armano Investor Relations @armano**

**Tweets**

*Armano Chocolate @armano 11:30:00 AM - 22 Jan 2012*  
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WEBSITE/CEO CONDITION

Health-Conscious Chocolate Lovers Anticipate Armano's New Exotic Collection: [bit.ly/1b2]

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Recall that you own a diversified portfolio of stocks. As part of your annual review of your portfolio holdings, you are considering investing in the confectionary industry to maintain a diversified portfolio. One of the firms you are considering is Armano. It is March 3, 2013, and you are performing an initial assessment of Armano. After considering any additional information, you will then make a final assessment.
ALL CONDITIONS

Directions: For the following questions, please consider the information you have read.

(1) How attractive is an investment in Armano stock as part of your diversified portfolio?

- [ ] 0 Very unattractive
- [ ] 10
- [ ] 20
- [ ] 30
- [ ] 40 Neither attractive nor unattractive
- [ ] 50
- [ ] 60
- [ ] 70 Very attractive
- [ ] 80
- [ ] 90
- [ ] 100

(2) How likely are you to invest in Armano stock as part of your diversified portfolio?

- [ ] 0 Very unlikely
- [ ] 10
- [ ] 20
- [ ] 30
- [ ] 40 Neither likely nor unlikely
- [ ] 50
- [ ] 60
- [ ] 70 Very likely
- [ ] 80
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2 must be answered
At the end of the following fiscal year, Armano will release 2013 results. Soon you will make your final investment assessment.
WEBSITE/IR CONDITION

Armano Reports 2013 Results: (bit.ly/a1b2)
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</tr>
</tbody>
</table>
(BUSINESS WIRE) - January 24, 2014 - Earlier today Armano released earnings for the year ended December 31, 2013. The Company reported revenues of $7.83 billion, an approximately 11% decrease from the previous year, and net income of $598 million, an approximately 11% decrease from 2012. "There is no doubt that 2013 was a difficult and disappointing year for Armano as sales and earnings fell significantly short of our, as well as the market's, expectations," said Dan Athens, Armano's Chief Executive Officer. "This was largely the result of customer service and order fulfillment problems. Armano's nationwide order-taking and distribution system was disrupted." Athens continued: "This is particularly frustrating because the U.S. confectionary market remains healthy at this time. As we look to the new year, we expect to resolve the remaining order fulfillment issues and restore our service levels to our customers' satisfaction."

Armano included the following performance highlights in their earnings press release:

**FINANCIAL HIGHLIGHTS**

(in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>7,833,004</td>
<td>8,801,128</td>
<td>7,251,657</td>
</tr>
<tr>
<td>Operating income</td>
<td>934,720</td>
<td>1,051,379</td>
<td>861,379</td>
</tr>
<tr>
<td>Net Income</td>
<td>598,221</td>
<td>672,637</td>
<td>551,283</td>
</tr>
</tbody>
</table>
ALL CONDITIONS

It is time to make your final investment assessment. Please note that your answer to each question should reflect your final investment assessment, not how you would adjust your preliminary assessment.

(1) How attractive is an investment in Armano stock as part of your diversified portfolio?

- 0 Very unattractive
- 10 Neither attractive nor unattractive
- 20 Very attractive

(2) How likely are you to invest in Armano stock as part of your diversified portfolio?

- 0 Very unlikely
- 10 Neither likely nor unlikely
- 20 Very likely

2 must be answered
Please answer the following questions.

1. If I share my concerns with Dan Athens, I feel he would listen.

2. When making important decisions, I feel Dan Athens acts in the best interest of me and other Armano shareholders:

3. I would feel a sense of personal loss if Dan Athens left Armano:

4. In the future, I feel I could count on Dan Athens to consider how his decisions and actions will affect me and other Armano shareholders:

5. I feel Dan Athens would display a warm and caring attitude towards me and other Armano shareholders:
ALL CONDITIONS

Please answer the following questions.

(1) Dan Athens approaches his job with professionalism and dedication:

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Neither agree nor disagree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>10</td>
<td>20</td>
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<td>30</td>
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<td>80</td>
</tr>
<tr>
<td>90</td>
<td>100</td>
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</tbody>
</table>

(2) Given Dan Athens’ track record, I see no reason to doubt his competence and preparation for the job:

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Neither agree nor disagree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>10</td>
<td>20</td>
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<td>30</td>
<td>40</td>
<td>50</td>
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<td>80</td>
</tr>
<tr>
<td>90</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

(3) I can rely on Dan Athens not to make my job of evaluating Armano more difficult by careless work:

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Neither agree nor disagree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>10</td>
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<td>80</td>
</tr>
<tr>
<td>90</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

(4) Most people, even those who aren’t close friends of Dan Athens, likely trust and respect him:

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Neither agree nor disagree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
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<td>0</td>
<td>10</td>
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<td>90</td>
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</tr>
</tbody>
</table>

(5) Others who must interact with Dan Athens likely consider him to be trustworthy:

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Neither agree nor disagree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
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<tr>
<td>90</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>
ALL CONDITIONS

(1) Please list below 1 to 3 key factors supporting your investment decision:

1. 
2. 
3. 

1 must be answered
ALL CONDITIONS

(1) Based on the limited information provided, please rate the riskiness of an investment in Armano stock relative to that of an average firm of equivalent size in the same industry.

Very low risk

Neither high nor low risk

Very high risk

(2) How forthcoming is Armano in providing information to investors?

Very unforthcoming

Neither forthcoming nor unforthcoming

Very forthcoming

2 must be answered
ALL CONDITIONS

(1) Armano’s 2013 net income decreased from 2012:

- True
- False

(2) Armano’s 2013 revenue increased from 2012:

- True
- False

(3) The U.S. confectionary market remains healthy:

- True
- False

(4) Armano’s 2013 poor performance was attributed to customer service and order fulfillment:

- True
- False

(5) In 2014 Armano expects to restore service levels to customers’ satisfaction:

- True
- False

5 must be answered
ALL CONDITIONS

(1) How did the firm disclose its financial information?

- The firm sent tweets via Twitter and provided links to the financial information
  
  10:01:05 AM - 4 Oct 2011
  #Armano, a premium chocolate manufacturer, won the 2011 Most Outstanding Chocolate Award (1 of 4)

  10:00:00 AM - 4 Oct 2011
  A sweet victory for #Armano as @NASF Announces 2011 Award Winners: (bit.ly/a1b2)

- The firm only provided links to the financial information
  
  A sweet victory for Armano as NASF Announces 2011 Award Winners (bit.ly/a1b2)

(2) Which picture was shown every time the firm issued a press release?

- Armano CEO, Dan Athens

- Armano Investor Relations

2 must be answered
Please answer the following questions about your general beliefs:

(1) Most corporate CEOs will lie if they can benefit personally from doing so:

- [ ] 0 Strongly disagree
- [ ] 10
- [ ] 20
- [ ] 30
- [ ] 40
- [ ] 50
- [ ] 60
- [ ] 70
- [ ] 80
- [ ] 90
- [ ] 100 Strongly agree

Neither agree nor disagree

(2) Corporate America cannot be trusted:

- [ ] 0 Strongly disagree
- [ ] 10
- [ ] 20
- [ ] 30
- [ ] 40
- [ ] 50
- [ ] 60
- [ ] 70
- [ ] 80
- [ ] 90
- [ ] 100 Strongly agree

Neither agree nor disagree

2 must be answered
ALL CONDITIONS

In order to help us better understand why your responses might differ from those of other participants in this study, please answer the following questions.

1. How often do you use Twitter for any purpose?
   - 1. Never
   - 2. Less than once per month
   - 3. Every month
   - 4. Every week
   - 5. Every day

2. Which class are you receiving extra credit for taking this survey?
   - 1. Accy 202
   - 2. Accy 301
   - 3. Accy 303
   - 4. Accy 405
   - 5. Other

3. How many accounting courses have you taken, including the courses in which you are currently enrolled? (Fill in the blank below)

4. How many finance courses have you taken, including the courses in which you are currently enrolled? (Fill in the blank below)

5. How many times have you evaluated a company’s performance by analyzing its financial statements (in a course or as part of an actual investment decision)?
   - This is the first time
   - 1 - 5 times
   - 6 - 10 times
   - More than 10 times

6. Have you ever bought or sold an individual company’s common stock or debt securities, either individually or through a mutual or pension fund? (Please check one)
   - Yes
   - No

7. Do you plan to invest in an individual company’s common stock or debt securities in the next five years? (Please check one)
   - Yes
   - No

8. Please indicate your gender.
   - Male
   - Female

9. Which of the following statements best describes your first language? (select one)
   - English is my first language
   - English is not my first language. My first language is:

9 must be answered