

Developing investment story during a crisis - A case study

Accounting
Master's thesis
Vilma Forsell
2012

DEVELOPING INVESTMENT STORY DURING A CRISIS A case study

PURPOSE OF THE STUDY

The purpose of the study is to investigate how the case company Sonera developed its investment story during 1999–2002, at the course of the dot-com bubble and UMTS acquisitions. In addition, the research examines how the events that occurred in and among Sonera explain the changes in the investment story development. During the dot-com bubble in the late 1990s and early 2000s, case Sonera was one of the most important and the most discussed events in Finland. The previous literature on investment story is mainly focused on textual analysis and the grounded theory based theoretical framework applied in this research has been built by examining companies under normal circumstances.

DATA

Data set consists of Sonera's interim and year-end reports, newspaper articles and seven interviews. The interim and year-end reports, 14 in total, are collected from the second quarter of 1999 to the third quarter of 2002. The newspaper articles are collected from Finnish financial papers and the main newspaper Helsingin Sanomat, and the articles contain straight quotations from Sonera's management considering the events taken place during 1999–2002. The interviews were conducted to five of Sonera's managers, one analyst and one prior board member. All interviewees were working for or otherwise linked to Sonera at the time of the crisis.

RESULTS

The results show that the investment story can be investigated with the given framework despite the crisis environment. The results support the findings in previous literature. Each investment story component has an individual influence on the investment story and they can even mediate a contradictory story to the market. The event analysis shows that events chosen do have an impact on the investment story. Especially endogenous events create contradictory investment story.

KEYWORDS

Investment story, financial disclosure management, crisis, Sonera

SIJOITUSTARINAN KEHITTYMINEN KRIISISSÄ

Case-tutkimus

TUTKIELMAN TAVOITTEET

Tutkimuksen tavoitteena on selvittää, miten Sonera sijoitustarina kehittyi IT-kuplan ja UMTS-kauppojen aikaan 1999–2002. Lisäksi tavoitteena on selvittää, miten Soneran ympäristössä ja yrityksessä tapahtuneet tapahtumat selittävät sijoitustarinan muutoksia. IT-kuplan aikaan 1990-luvun lopussa ja 2000-luvun alussa Soneran UMTS-kaupat saivat Suomessa osakseen paljon huomiota julkisessa keskustelussa. Aiempi sijoitustarinaa koskeva kirjallisuus keskittyy pääasiassa tekstianalyysiin ja tämän tutkimuksen teoriakehyksen pohjana oleva teoria on rakennettu tutkimalla yrityksiä normaalissa tilassa.

LÄHDEAINEISTO

Aineisto koostuu Soneran osavuosikatsauksista, uutisartikkeleista sekä seitsemästä haastattelusta. Osavuosikatsauksissa, joita on yhteensä 14, on huomioitu raportit vuoden 1999 toisesta kvartaalista vuoden 2002 kolmanteen kvartaaliin. Uutisartikkelit on kerätty suomalaisista talouslehdistä sekä Helsingin Sanomista ja ne sisältävät suoria lainauksia Soneran johdon puheista. Haastattelut koostuvat viidestä Soneran johtoon kuuluneen henkilön haastattelusta, yhdestä analyyttikkohaastattelusta sekä yhdestä Soneran entisen hallituksen jäsenen haastattelusta.

TULOKSET

Tulokset tukevat aiempia tutkimustuloksia ja osoittavat, että kriisitilasta huolimatta sijoitustarinaa voidaan tutkia käyttämällä normaalitilan yrityksille muodostettua teoriakehystä. Sijoitustarinan komponenteilla on yksilölliset tehtävät sijoitustarinan rakentumisessa ja ne voivat välittää markkinoille ristiriitaista tarinan juonta. Tapahtuma-analyysi osoittaa, että erityisesti yrityksen sisäisillä tapahtumilla on ristiriitainen vaikutus sijoitustarinan kulkuun.

AVAINSANAT

Sijoitustarina, taloudellisen tiedon hallinta, kriisi, Sonera

Table of Contents

1	Introduction	1
1.1	Motivation	1
1.2	Research goals	3
1.3	Research design, method and limitations	4
1.4	Key concepts.....	5
1.5	Structure of the study.....	6
2	Previous research on financial disclosure management and investment story.....	7
2.1	Financial disclosure and investment story.....	7
2.1.1	Investment story as the plot of financial disclosure.....	8
2.1.2	Means of disclosure	10
2.1.3	Characteristics of financial disclosure during the dot-com bubble.....	11
2.2	Financial disclosure management.....	13
2.2.1	Disclosure output.....	15
2.2.2	Disclosure management context.....	18
2.2.2.1	Institutional and economic environment	18
2.2.2.2	Disclosure Subunit Status.....	19
2.2.3	Disclosure management	22
2.2.3.1	Disclosure position.....	23
2.2.3.2	Disclosure issue	24
2.3	Theoretical framework to analysing investment story through financial disclosure ..	25
3	Background of the case example and research context	28
3.1	From liberalization of the telecommunications industry to UMTS auctions.....	28
3.2	UMTS licence competition.....	29
3.3	The New Economy.....	33
3.4	Sonera's strategy 1998–2002.....	35
4	Research data and method	40
4.1	Research question	40
4.2	Research data	40
4.3	Research method and variables	41
5	Development of Sonera's investment story	46
5.1	Overview of the investment story components.....	46
5.1.1	Tone.....	46
5.1.2	Time focus.....	49
5.1.3	Causal statements	51

5.1.4	Combined ex ante management components	53
5.1.5	Ex post management in news articles	56
5.2	Event analysis.....	57
5.2.1	Identifying the important events.....	57
5.2.2	Hype of the new technology in 1999	63
5.2.3	NASDAQ listing	66
5.2.4	UMTS hype in 2000 and licence auctions	67
5.2.5	Share price crash	71
5.2.6	Obtaining the licence in Germany	72
5.2.7	Redefined strategy	74
5.2.8	Failed merger attempt with Swedish Telia.....	76
5.2.9	Bottom of the share price.....	77
5.2.10	New strategy.....	78
5.2.11	Merger with Telia	80
5.2.12	UMTS write-offs	81
5.3	Summary of Sonera's investment story development	83
6	Discussion.....	85
7	Conclusion.....	91
7.1	Summary of findings.....	91
7.2	Theoretical contribution	93
7.3	Practical and policy implications	93
7.4	Limitations of the study	94
7.5	Suggestions for future research	95
	References.....	96
	Appendixes	

Table of Figures

Figure 1. Stages of financial disclosure management	15
Figure 2. Formation of Disclosure Subunit Status.....	20
Figure 3. Building investment story.....	26
Figure 4. Hype curve.....	34
Figure 5. Tone of disclosure on a yearly and quarterly basis	47
Figure 6. Comparison of tone of disclosure and tone of future prospects.....	48
Figure 7. Time focus of reports compared with ratio describing the whole year	49
Figure 8. Development of different combinations of investment story components	54
Figure 9. Appearance of articles with ex post interpretation management	56
Figure 10. Tone ratio and share price development.....	59
Figure 11. Time focus ratio and share price development	60
Figure 12. Causal statements placed on the share price development curve.....	60

Table of Tables

Table 1. Sonera in consortia	31
Table 2. Sonera's strategic goals according to the annual reports.....	36
Table 3. Comparison of time focus including and excluding future prospects sections	50
Table 4. Causal statements in disclosures.	52
Table 5. The development of investment story components in relation to the events	58

1 Introduction

1.1 Motivation

“Bankruptcy of expectations.”

Sonera’s share price development and UMTS operations were described with the quotation above in a Finnish financial magazine *Talouselämä* in April 2001 (Säntti 2001). The quotation does not only apply to Sonera but to the whole Internet and telecommunications sector during the turn of the new millennium. Internet boom had commenced in the USA in 1995. Telecommunications industry fast began creating new products applying Internet technologies, especially 3G, Sonera being one of the most advanced companies in the world. (Vesterinen 2009.) However, the hype took its toll and in 2000, the bubble burst. Investors’ beliefs in the industry disappeared and the previously fast climbing share prices sank dramatically. Nevertheless, Sonera did not give up its strategic vision of being a *“technologically advanced service provider specialized in telecommunications and data communication whose brands are internationally recognized”*. (Sonera 1998–2001; Säntti 2001.)

To influence investor behaviour, companies create and update their communication strategy. Indeed, one of managers’ main concerns should be if the company’s communication strategy is effective in helping firm’s business strategy and thus support expected future performance. The management should also communicate the relevant risks in order to provide sufficient information for the analysts and public so that they will be able to reliably estimate the future potential of new investments. (Palepu et al. 2007, 508.)

Not only does the communication strategy guide company’s disclosure activities. Listed companies are regulated by national and international legislation and guidelines that emphasize the shareholders’ information needs and demand for transparent and timely disclosure. (OECD 1999; AML.) Consequently, investors make their investment decisions based on information they receive from the company disclosures and the analysts. If this information is too optimistic they are subject to false decisions. Thus, investors are dependent on information provided to them by the company and disclosed investment story has a crucial role in the investment decision. Investment story is a written description of the company strategy and financial goals; how the company is positioned in the industry against its peers.

The story's main purpose is to make the company an attractive investment target. In order to provide the investors with sufficient and timely knowledge, the story needs to be updated. (Cole 2001; Ikäheimo & Mouritsen 2007; Virtanen 2010.)

Investment story is a component of a longer chain of disclosure management process. According to Gibbins et al. (1990; 1992), it begins from the context in which the financial disclosure is produced. The disclosure is composed of factors both inside and outside the company and it creates opportunities and constraints on the final disclosure output. Management perceives the event, issue or circumstance that has requirements, opportunities and other implications. The managerial process is triggered by the disclosure event in relation to the context. The disclosure array then results from all three previous components. Previous research on this so-called context model has mainly been on the ritualism-opportunism aspect taken it into account as part of a larger quantitative model. (Rutherford 2005.) Previous research on the formation of investment story is, on the other hand, mainly focused on genre and textual analysis of annual reports and earnings press releases (see e.g. Jameson 2000; Henry 2008; Beattie et al. 2004; Rutherford 2005). Similarly with this thesis, Henry (2008) has conducted his research with companies from the telecommunications and IT industries during the IT boom. In addition, Ikäheimo & Mouritsen (2007) and Virtanen (2010) have been examining the elements of investment stories. Beattie et al. (2004) criticise the previous researches of taking into account only parts of disclosures and thus being narrow. Vesterinen (2009) and Sälli (2010) have used the same case example, i.e. Sonera and UMTS crisis, in their studies. Vesterinen (2009) took the point of view of the business environment's influence on new innovations and Sälli (2010) was collecting evidence on the two-sided communication between the case company and the market.

During the dot-com bubble in the late 1990s and early 2000s, case Sonera was one of the most important and the most discussed events in Finland. During the upturn, analysts gave positive and optimistic estimates and investors believed in Sonera. This can be seen from the analyst reports as well as from the exceptionally buoyant share price development after going public in November 1998. Consequently, until the share price began to dive, Sonera had provided the investors with a credible investment story, that is, solid rationale why Sonera was a profitable investment. During the dot-com bubble, the investor behaviour was extreme and differed in many ways from the investor behaviour in the stable market situation. Market value of publicly traded Internet companies rose and fell dramatically. (Valliere et al. 2004.)

In Europe, companies were investing significant amounts in UMTS licences and new technological solutions. Besides in Finland, Sonera held also licences in four other countries. Especially the acquisition process in Germany made a splash in the media due to the extensive investment and write-off. Sonera invested solely in licences 4.1 billion euros. In addition, the licences obliged licence holders to invest significant amounts in additional fees. In the second quarter of 2002, Sonera wrote off 4.3 billion euros. Helsingin Sanomat and Kauppalehti wrote frequently about the company's actions. The press was showing doubts on the licence competition thus influencing the general feeling in the stock market. In September 2000, according to Helsingin Sanomat, the professionals of the telecommunications industry were starting to question the technological base of the UMTS network. No broad survey about the demand for the 3G networks had been conducted. Also, they expressed their opinion about the 3G being old when born. (Junkkari & Möttölä 2000; Junkkari 2000.)

Being an important state-owned company, Sonera was under a great pressure from many directions. When the market realized that the expected future performance was about to fail they started adjusting the value of the company to a more suitable direction. Finally, they lost confidence almost completely. If the state of Finland had not been the major shareholder of Sonera, the company would have been facing bankruptcy. In 2001, Sonera introduced a new strategy limiting investments in UMTS projects, continuing divestments, and concentrating on profitability instead of growth. Finally, in 2002, Sonera merged with Swedish Telia. (Sonera 1999–2001.)

1.2 Research goals

The objective of this study, and the research question, is why and how did financial disclosure management develop Sonera's investment story during 1999–2002. The research question is divided into two sub questions:

1. How does Sonera's investment story develop during 1999–2002?
2. How the events that occurred during 1999–2002 explain the changes in the investment story development?

This thesis is conducted using Sonera as a case company. The research takes the perspective of investor relations and seeks to find out how Sonera's investment story was managed and how it developed over the period of the UMTS crisis. The research takes into account prior

(ex ante) and subsequent (ex post) interpretation management as factors of financial disclosure management. The theoretical framework is built on Gibbins, Richardson and Waterhouse's (1990; 1992) model that takes into account the whole financial disclosure management process that is, the context to financial disclosure management, the disclosure management procedure and the final disclosure outputs.

This thesis seeks to fill the gap in previous literature by applying the Gibbins's et al. (1990; 1992) model when examining the development of investment story in written case data. So far previous research on investment story has been concentrating on textual analysis under communications studies. The goal of this study is to find reasons to certain disclosure characteristics by examining investment story in respect of its context. Investment story is composed of disclosure of strategy and financial goals, and is thus a financial disclosure management context factor according to Gibbins et al. (1990; 1992) model. Indeed, this thesis responds to a future research area pointed out by Gibbins et al. (1990): "*specific disclosure actions may be taken, not because they directly communicate information to markets, but because they enhance or impair a firm's credibility and reputation*". Starting from disclosure output and its consequences this study examines the context driven factors' relation to the extreme market reaction. In more detail, the basis of the research is the sudden change in investors' confidence in Sonera during the UMTS licence acquisition process (consequence). By examining the written financial disclosure outputs the changes in Sonera's investment story, i.e. disclosure on strategy, are identified and analysed.

1.3 Research design, method and limitations

This research is a qualitative, interpretive case study and it aims to interpret the information received from the interviews and written research material. The case study method allows to conduct a profound and in-depth research and thus to obtain a holistic picture of characteristics of this real-life event. In addition, a case study supports the convergence of evidence; simultaneous use of documents, observations, archival records and interviews that all together generate the fact (Yin 2003). As already stated, the research question will be examined using Sonera Oyj as a case company. Sonera was chosen because the UMTS crisis was a significant event in Finland during the IT bubble.

The research material consists of Sonera's interim reports and year-end reports from the second quarter of 1999 to the third quarter of 2002, interviews of operating managers, a former member of Sonera's board of director and an analyst from the time of the crisis, and newspaper articles containing interview quotes. Other researchers of the Department of Accounting have previously interviewed Sonera's board members, operating managers, and analysts from the time of the crisis. In this research seven interviews are used. The interviews create a basis to the analysis of findings in the texts.

The variables in this research are ex ante and ex post management. Ex ante management is examined through tone, time focus and causal statements in interim reports and year-end reports. Each paragraph is studied and the ones having some shading in tone and time are included in the sample. Causal statements are divided into two levels based on their in-depth analysis in the text, and to internal and external causal statements. Ex post management is examined from news in Helsingin Sanomat, Kauppalehti, Kauppalehti Optio, Taloussanomat and Talouselämä. Only the news containing straight interview quotations are included in the sample.

Due to the subjectivity of the applied research method, even though an agreement level test is used, the results might be somewhat different if conducted by another researcher. Due to only one case company and phenomenon, the results of this thesis only provide understanding. Thus, the results are not generalizable. Also, this research was conducted with rather small case data that is, interim and year-end reports and news articles. The results would be even more descriptive or detailed if the data was larger, containing also stock exchange releases.

1.4 Key concepts

Investment story	The written description of company strategy and financial goals. The objective of investment story is to convince investors about the attractiveness of the company as an investment.
Financial disclosure management	Financial disclosure management is the process the output of which is compulsory or voluntary financial

disclosure, that is, an annual or interim report, press release, or other disclosure on financial issues.

Internet bubble

Also referred to as the dot-com bubble. It started in the USA in the mid-1990s. Internet and telecommunications industries faced extreme stock price movements. When the market crashed the value of Internet companies sank dramatically and many small companies went bankrupt. In Finland, the bubble is mainly remembered for Sonera's UMTS licence acquisitions in Germany.

UMTS

Abbreviation of the Universal Mobile Telecommunications System. UMTS is a third-generation (3G) mobile communications technology that enables the usage of Internet via mobile phone.

1.5 Structure of the study

The thesis proceeds as follows. Chapter 2 presents the previous literature first introducing more closely the concept of investment story, the means of financial disclosure, and the characteristics of financial disclosure during the dot-com bubble. Then, the context model on financial disclosure management is introduced. The literature review is concluded by forming the theoretical framework of the study that combines the investment story and the Gibbins's et al. (1990; 1992) model. Chapter 3 introduces the background to the case study as well as the contextual environment during the period under research. In addition to Sonera's business environment and strategy, also hype as a phenomenon is briefly introduced to explain the context. Research data and method are reviewed in Chapter 4. Chapter 5 introduces the research findings and analyses the development of the investment story in relation to disclosure and interview evidence. First, the development of individual investment story components is introduced. Then, the most important events discussed in the interviews are analysed in respect of their influence in the investment story. Chapter 6 discusses the research findings and Chapter 7 concludes the thesis.

2 Previous research on financial disclosure management and investment story

Investment story is the corner stone of investor relations strategy. It is a tool to convince the investors that the company is worth investing and this way get company's fair value and market value approach each other. In practice, investment story emerges and evolves through variety of written and oral financial disclosure. Financial disclosure management is thus in a central position when deciding the goal of disclosure. (Virtanen 2010; Palepu et al. 2007; Ikäheimo & Mouritsen 2007.) This chapter introduces the previous literature and research about financial disclosure management and investment story. In addition, the means of financial disclosure and basic features of financial disclosure during financial crisis at the turn of the new millennium, more specifically during the dot-com bubble, are introduced.

2.1 Financial disclosure and investment story

The definition of financial disclosure has been evolving over time. Gibbins et al. (1990, 1992) have presented two complementary and broad definitions.

“Financial disclosure is any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or informal channels.”
(Gibbins et al. 1990.)

“Financial disclosure is the release outside the organization of information concerning the economic performance, position or prospects of the organization, particularly as measured in financial terms.” (Gibbins et al. 1992, 5.)

Suijs (2007) complements these definitions by recognizing also the tight link between investment story and financial disclosure.

“Disclosure then serves the purpose of attracting the investor's capital away from the risk free asset.” (Suijs 2007.)

As can be concluded from the definitions, what to disclose is a difficult choice for the management between protecting proprietary information and enhancing firm's value by disclosing as much as possible. Thus, the firm needs to hold on to its business secrets that might help the competitors if disclosed at the same time with disclosing all relevant information to the investors in a transparent manner. In addition to the question what to

disclose, the company also needs to decide under which circumstances it discloses voluntary information. (Palepu & Healy 1993; Cole 2001; Gibbins et al. 1990; Gibbins et al. 1992; Suijs 2007.)

2.1.1 Investment story as the plot of financial disclosure

Previous research on investment story is mainly genre and other textual analysis under communications sciences rather than accounting. (E.g. Henry 2008; Jameson 2000; Beattie et al. 2004; Rutherford 2005.) Investment story serves as a plot in the disclosure answering to questions “how the company wants to be perceived by the investors” and “how the company sees itself as an investment”. It is thus a written description of the company strategy and financial goals that tell what the company aims at in the near future and whether it has any financial figures guiding its operations. In addition, it comprises also possible risks. One of the most important aspects affecting the investor’s investment decision is how the company communicates its strategy implementation. Therefore, one essential task of the company’s IR function is to update the investment story. (Virtanen 2010; Cole 2001.)

Due to its narrative and strategy based nature, investment story has no official form. It is to be built on a strategically strong and clear base. In other words, how the firm is able to tackle fast changes in the business environment. The investment story tells how the company stands out in the industry that is, unique features in its strategy, vision, and operations. The company management’s estimations about the future have a special emphasis when the present and the near future cannot predict the future. Strategic credibility is a concept meaning how favourably the key stakeholders view the company’s overall strategy and its strategic planning process. Strategic credibility might also provide competitive advantages to a company that efficiently discloses its strategic targets. (Higgins & Bannister 1992.) Indeed, the investors’ assessment of the company’s future potential depends on the analysis of company’s objectives and strategy against its past and expected performance. Hence, the investors are not only interested in the overall description of the “game plan” but also in specific moves. (Cole 2001.) The credibility and the investor confidence are easily lost by too optimistic future prospects as well as by timely too late disclosure. Also, the fact that media, especially the financial press and news agencies, have an effect on the investors’ market behaviour is acknowledged. (Virtanen 2010; Cole 2001; Scholes & Clutterbuck 1998.)

In its IR strategy the company strives for disclosing in an open, transparent and honest manner in every situation, good or bad. (AML; Virtanen 2010; Palepu et al. 2007.) Narrative parts should be aligned with the numerical financial information in order to satisfy both investors' information needs and regulatory requirements. Disclosure policy is written instructions about the procedures and guidelines the company follows in all disclosures. The policy should include, among others, instructions on how to disclose about crisis situations. The company needs to capture the main point of its strategy in the story in order to attract the investors who need all the possible information to make the best investment decision. One possibility to classify investment story types is to divide them into growth, risk management and cash flow stories. Growth story emphasizes the growth of revenues and attracts investors who regard fast growth as important. Risk management story emphasizes the qualities of a valuable company and is often chosen in situations where company is undervalued, book value being higher than market value. The third category of IR stories is a cash flow story, which emphasizes company's ability to pay dividend to shareholders. (Virtanen 2010; Palepu et al. 2007; Rutherford 2005.)

Company credibility and investment story are strongly linked. Good reputation helps the company to be chosen by investors and thus lower its cost of capital. In addition, highly regarded companies are able to reassure investors and analysts about their credibility during times of low performance. Hence, in crisis situations good reputation serves as a cushion helping companies to recover from share price decline faster than companies with lower reputation. In addition to reputation of top management, company's reputation relies heavily on detailed and realistic presentation of strategic plans. Because the company strategy faces changes and uncertainties the causal links between trends, intents, actions, and results need to be written down and disclosed. Disclosing comprehensive and precise information reduces these uncertainties. Also, presenting the implementation plans and periodic follow-ups is essential since they help investors evaluate the company against its competitive context. If the presentation is incomplete investors and analysts are not able to make sense of company's strategic plans and environmental context and thus company's fair value and market value rather diverge than approach each other. (Mazzola et al. 2006; Ikäheimo & Mouritsen 2007.)

2.1.2 Means of disclosure

Various means of disclosure are valued differently among investors. At the time of the Internet bubble the main means of information for investors were communication with stockbrokers, the press, annual reports, reports by analysts and interim reports. Due to the fragmentation of financial markets, different shareholder groups demand for different type of information, which they gather from group specific information sources. (Ikäheimo 1996.) In addition to the actual media, the company makes choices about disclosing voluntary information. Holland (1998) discovered that, out of the main means of disclosure, especially periodic financial reports and result announcements include mainly mandatory information whereas in relationships and links with financial institutions, analysts and media mainly voluntary information is disclosed. After the 2000s, the Internet has established an essential position as a mediator of financial information. Internet financial reporting has new interactive and multimedia characteristics that encourage companies to disclose more information e.g. about social and environmental issues online than through conventional channels (Trabelsi et al. 2004).

Annual report is one of the most followed publications building the foundation of information and investor decisions. Its perspective is the management's perspective. In annual report, company management evaluates the past financial year from the perspective of the strategy. In addition, the annual report should include information on company's values and principles behind actions. A separate strategy in action report adds value to the investment decision – it is important to document the changes in the company's path. In order to influence the investors' view of company's fundamental value, the management can augment investors' understanding of the company's future prospects by providing them with focused and transparent discussion of business objectives and strategy. Consequently, the information itself in annual report is not new to investors who often follow also other, more frequently disclosed, reports such as interim reports and stock exchange releases. When taking into account that annual report is published only once a year, its value may be underestimated. However, previous research has shown that financial statement information is mainly used by financial analysts. (Cole 2001; Virtanen 2010; Ikäheimo 1996.)

The function of a stock exchange release is, among others, to support the communication of the company strategy. Through the releases, the investment story evolves and gains content of

practice. Information in stock exchange releases is timely and exact. In addition, previously disclosed information may be corrected via stock exchange releases. Investor should be able to form a coherent picture of the release's importance on the company share price. Interim reports can be seen as one, strictly regulated, type of stock exchange release. From the investors' point of view quarterly published interim reports provide timely and reliable information on company performance. Interim reports are mainly used by long-term investors. (Virtanen 2010; Ikäheimo 1996.) Ikäheimo (1996) found that small investors don't put much emphasis on information provided by analysts who provide larger investors with basic information on the company. However, analysts are not seen as timely source of information.

The market transforms the information it receives into actions. For shareholders, the overall atmosphere of the share market is important. The feeling and information on general economic conditions are usually received through press. In addition, the press reveals information on company's actions on the share market. The press provides investors with timely, basic facts on individual companies, their financial performance, and company management. However, information retrieved from the press can also be seen as unreliable or subjective. (Ikäheimo 1996.) If the press does not have a strong influence on the investment story development, it is however a mediator of the general feeling. Regardless, some shading of information management may be mediated when the journalist quotes company management.

2.1.3 Characteristics of financial disclosure during the dot-com bubble

Company behaviour during the Internet bubble can be summed up with one term: herd behaviour. IT companies were adopting similar strategies according to the "follow the industry" mentality – also in disclosure behaviour. Telecom operators were all following the trend of investing in third-generation licences that accumulated enormous debt to companies involved. (Stienstra et al. 2004.) Strategic renewal actions include for example mergers and acquisitions, alliances and reorganizing business operations that should be introduced and followed actively in financial disclosure. However, companies rather did not discuss about M&A plans until the specific target was publicly announced. (Cole 2001; Virtanen 2010; Stienstra et al. 2004.)

Disclosure behaviour in Internet and telecommunications industry, i.e. new economy companies, differed from the disclosure behaviour of the old economy companies. Holland (2005) has identified that old economy companies tended to exercise secrecy in disclosing during the dot-com bubble. Companies did not want to disclose boost expectations in order to avoid rapid share price increase, which would finally be followed by big disappointments. This management behaviour is also called prior interpretation management. (Gibbins et al. 1992.) In addition, old economy companies tended to develop Internet strategies to match the prevailing fashion. (Holland 2005.)

Holland (2005) found that, during the dot-com bubble, Internet and telecommunications companies focused basically only on share market changes and portfolio actions as primary sources of information and ignored fundamental and value creation information. New economy companies were disclosing future prospects and expectations more freely. Holland (2005) also discovered that in telecommunications industry new market conditions led companies to focus narrowly on only one chosen strategic storyline, mainly UMTS and 3G, relevant to the company. This then led to fast changing valuation and information needs as well as fast changing share price that are independent of company's disclosure of actions. This suggests that too much weight was placed on the most recent data, which led to overconfidence and overacting. According to Virtanen (2010), many stock exchange listed companies failed in managing the investor expectations during the IT-bubble when stating too optimistic and groundless future prospects. Miller (2009) emphasizes that overly optimistic disclosures were intentional and systematic in nature. Mazzola (et al. 2006) found when examining Telecom Italia's reputation at the end of 1990s that the presentation of company's strategic plans, its content and figures, contained serious discrepancies. This then affected negatively on company's reputation and credibility in financial markets.

There are two sides to overly optimistic forecasts. On one hand, overly optimistic long-term forecasts may be due to a natural tendency for managers to be optimistic in their business outlooks. Also, optimistic long-term forecasts are consistent with management incentives to maximize share prices by encouraging high market expectations of future earnings. On the other hand, Miller's (2009) research evidence indicates that some managers were engaging in disclosure behaviour designed to intentionally influence their firm's share price, often with the intention of increasing prices. These actions were conducted by modifying investment story. Designed disclosures are classified as opportunistic that is, they stand to benefit

management and current shareholders at the expense of other non-shareholder investors and other stakeholders. Indeed, management's opportunistic disclosure behaviour can influence investors' earnings expectations and share price, and thus strategic manipulation of judgements of investors is possible. A contradiction arises. Although opportunistic disclosures may be consistent with the objective of maximizing shareholder value, they are inconsistent with the objectives of broader theories of management responsibility that focus on maximizing benefits for all stakeholders and the public at large. (Miller 2009.)

In the late 1990s companies tended to commence disclosing more voluntary information to keep the investors updated what comes to the fast changing business environment. A growing number of firms began reporting non-GAAP-based earnings measures¹ alongside with required GAAP earnings. Pro forma information is found more informative than GAAP earnings and together with GAAP reporting it increases the quality of GAAP disclosure. Even though the companies' intention was to disclose more than required the regulators were concerned that the rapid growth and unregulated nature of non-GAAP disclosures would mislead investors. (Miller 2009.)

Not only company's disclosures but also newspapers had their share in the dot-com bubble. In the beginning, articles handled the new innovations and extremely high prices that were paid of the company shares and then, during the UMTS auctions, they focused on the sharp drop in market values of telecommunication companies after these auctions. (Van Damme 2002.) The press has a role of communicating the general feeling in the market. (Ikäheimo 1996.) This was also suggested by Kimmo Sasi, the Minister of Transport, in Helsingin Sanomat (Rantanen 2002) when he accused the press for heating up the conversation and thus creating the Sonera-hype.

2.2 Financial disclosure management

It is not only the choice of information provided and the nicely painted picture of the strategy that the company needs to take into consideration. Previous literature has identified differences in costs and benefits arising from disclosure among firms as well as to investors. Direct benefits to investors are, for example, improved risk sharing opportunities and

¹ generally referred to as 'pro forma earnings'

increased equity values. Disclosure may also increase firm profitability when disclosure to competing companies leads to mutually beneficial adjustments in production. In addition, more disclosure might result in closer monitoring of company management that reduces agency costs. On the other hand, disclosure might also raise costs. Direct costs include costs of information production and dissemination. Credibility increases costs in respect of auditing and creating credible signals or creating misleading information. Executive time and loss of management opportunities by spending time in communicative actions can be perceived costly to the company. In addition, regulatory environment triggers costly disclosure actions. (Gibbins et al. 1990; Gibbins et al. 1992; Palepu & Healy 2001, Holland 1998.) Higher company credibility can also be perceived as a benefit as suggested by Holland (1998).

Financial disclosure management can be seen as stable and two-dimensional where the first dimension deals with uncritical acceptance of rules and norms and the second dimension with the propensity to seek firm-specific advantages. The managed attributes of financial disclosure include, for example, information content, timing, and interpretation. (Gibbins et al. 1990.) These attributes are introduced in Chapter 2.2.1 Disclosure output. Company management may disclose information both to influence its opportunities and threats, and to respond to disclosure of other companies. Responding to market reactions and to other disclosures finally results in two-way communication, which then defines the desired and factual valuation of the company that is, the difference between firm's market value and fair value. By experience the company then learns what and how to disclose in interaction with other market players. (Ikäheimo & Mouritsen 2007; Sälli 2010; Gibbins et al. 1993; Beyer 2008.) In order to produce a disclosure output, an internal or external stimuli needs to appear. Hence, the disclosure output is a response to those stimuli and the nature of the output is their function. Disclosure choice is thus subject to reporting standards, stock exchange rules, corporate financial communication capabilities, confidentiality and competitive issues, as well as to internal culture of secrecy and tendency to opportunism. (Holland 2005.)

The Gibbins's (et al. 1990; 1992) model of financial disclosure management is a grounded theory of disclosure. The theoretical model is formed on the grounds of empirical evidence. The observations are categorized and coded in order to build a framework. The theory is criticized for being only poorly understood, albeit often cited. (Partington 2000.) The aim of the studies is to understand the broad drivers and components of public disclosure behaviour. (Holland 2005.) Grounded theory of disclosure has also been applied, for example, by

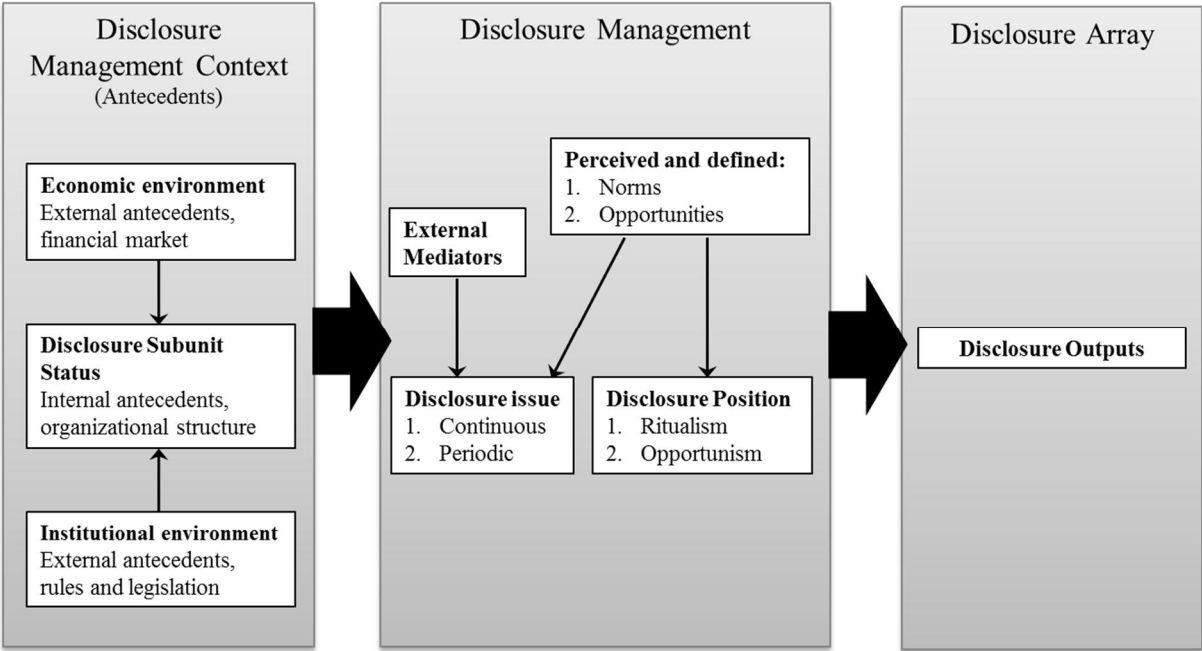
Holland and Stoner (1996) when examining voluntary corporate disclosure and Barker (1998) when examining market information in respect to stock market information flows.

2.2.1 Disclosure output

In order to disclose, the company management faces different stimuli. Figure 1 illustrates the stimuli/output function introduced by Gibbins et al. (1990) and later amended by Gibbins et al. (1992). It demonstrates how the disclosure outputs, or disclosure array, are formed and managed. The challenge is to form disclosures that are informative and less complicated since investors may consider disclosure too complex, which increases the information cost to investors, and thus investors do not use the information they receive in their decision-making. To conclude, output of financial disclosure management is a complex array of information and management activities. (Gibbins et al. 1990; 1992.) Different means of disclosure outputs have already been introduced in Chapter 2.1.2 Means of financial disclosure.

Figure 1. Stages of financial disclosure management

This figure is a combined presentation of Gibbins’s et al. two models from 1990 and 1992.



As can be identified from figure 1, the disclosure array is preceded by two phases: disclosure management context and disclosure management. Context includes antecedents, or environmental and internal factors whereas disclosure management is composed of disclosure position, issue, and norms and opportunities perceived by the management. Throughout the process, eight disclosure output components are managed (Gibbins et al. 1990; 1992, 16–23):

1. Data organization and information set
2. Data content
3. Redundancy
4. Timing
5. Ex ante management
6. Ex post management
7. Medium
8. Credibility

Gibbins et al. (1990) examine these eight components in respect of ritualism and opportunism that are introduced in Chapter 2.2.3.1. Data organization means how information is presented in the disclosure. It is the organization, arrangement and classification of information. Information set refers to “*set of pigeonholes for data, existing in advance and waiting to be filled*”. This means that some information is placed on a standard format that exists in advance whereas some information is disclosed in freer format.

Data content is the basic numbers and words disclosed. It is the raw data of the disclosure that is subject to management, for example to earnings management. Gibbins et al. (1990) state that managing this category may go beyond managing numerical content. The company management may arrange the business based on the desired disclosure outcome. For example, letter to shareholders, used by Gibbins et al. (1990), can vary in length and content. They used the data content in letters to shareholders as basis of their research material collection by analysing other output factors in respect of data content. (Gibbins et al. 1990.)

Redundancy is selecting a subset of information for some recipients, releasing same information in more than one way or at more than one time. Redundancy implies that successive information releases, which reach the market through different media, may be serially dependent. Redundancy, however, does not signify disclosing inconsistent or false information to some recipients. For example, the company may use part of the interim report in press release or in annual report and use the previous interim report as the basis of the second by only changing the text needing to be changed. (Gibbins et al. 1990; Gibbins et al. 1992.)

Timing refers to date and frequency of the disclosure; when the announcement is given in respect of the event date. It is managing both the date and time of day as well as timing relative to other disclosure. Timing is calculated by calculating the days between the end of the disclosure period and the date of disclosure. Timing and timeliness issues are widely examined in the fields of accounting and finance. For example, Gigler and Hemmer (2001) contribute to the timeliness research when studying the relations between financial reporting and manager's incentives to issue timely voluntary disclosures. Gibbins et al. (1993), on the other hand, examine the timing in labour negotiations, especially in strike situations. They found that company's disclosure activity was elevated during the strike periods.

Ex ante management refers to all attempts by the discloser to manage interpretation and visibility of disclosure before the information is public; attempts to educate the user. The discloser may, for example, choose the data in order to achieve a desired interpretation. Ex ante interpretation management may take place for example management analyses and in face-to-face events where the discloser may observe and test the reactions and interpretation of information. In addition to the information itself, also the visibility of the disclosure may be influenced. Ex post management means the company management's attempts to influence the users' interpretation after the information is released, for example correcting news stories or suggesting to analysts that forecasts are inaccurate. It is another disclosure whose focus is on prior disclosure. Gibbins et al. (1990) found when examining shareholders' letters that 61 per cent of points had some positive or negative shading or explicit causal attribution. They also identify the firm-specificity and individuality in the ex ante and ex post interpretation as well as in timing.

Variety of media is used to mediate the information to the public. The traditional media for disclosing financial information are annual reports, interim reports, and press and stock exchange releases. In addition to written media, companies disclose information for example through the Internet and through speeches, road shows, interviews and other public appearances. (Ikäheimo 1996.) Different media are introduced in Chapter 2.1.2.

Credibility of the data is improved by involving senior executives or external mediators to the disclosure. Credibility refers also to the perceived quality of the disclosure. Even though credibility is in the eye of the reader, it can be managed. In addition to involving external mediators, the company can include different certificates (e.g. sustainability initiatives GRI or

United Nations' Principles to Responsibility Investment PRI), slogans, and awards to create credibility to both the disclosure and the company. (Gibbins et al. 1992.) Credibility rests on company's disclosure reputation. Credibility and company reputation are discussed in more detail in Chapters 2.1.1 and 2.1.3.

2.2.2 Disclosure management context

The first building block of disclosure management process is the disclosure management context that describes organization's relationship to its environment. Context consists of economic environment, institutional environment, and disclosure subunit status. In the first of two models of Gibbins et al. (1990) context was named as antecedents that are internal and external conditions.

2.2.2.1 Institutional and economic environment

External antecedents (in Gibbins et al. 1990) are comparable to institutional and economic environment (in Gibbins et al. 1992); they relate to institutional factors and to financial markets. Institutional environment is the environment in which the disclosure occurs and it refers to institutions as rules enabling and constraining interaction. These factors are for example legislation and regulations, industry norms for disclosure, and interorganizational networks where companies have agreed on sharing financial information. In addition to national laws, also OECD Principles of Corporate Governance (1999) and Finnish Corporate Governance Code (2010), among others, concern corporate disclosure. Financial disclosure is thus seen as a communicative process that is embedded in a network of social relationships. (Gibbins et al. 1990, 1992.)

Previous literature suggests that firms tend to mimic the innovators in the industry so that disclosure practices spread among a group in which all companies are linked by a common interest. Especially, this behaviour has been recognized when examining the IT-bubble. (Dahlgren & Hørlück 2001; Miller 2009; Cole 2001; Holland 2005.) Organization's reaction to movements and changes in its institutional environment is strategic. Company adopts strategies that are a result of a complex interaction, a communication process, between the environment in which the company operates and the internal management process. As a conclusion, disclosure affects the company's position in financial market and financial

disclosure affects the competitive position as already briefly discussed. The institutional environment emphasizes the financial environment where the disclosure occurs. (Gibbins et al. 1990, 1992.)

Economic environment considers the above introduced cost/benefit aspect of financial disclosure. That is, in what situations the costs of disclosure exceed the benefits and non-disclosure becomes more attractive, for example, when deciding about disclosing proprietary information. The complexity of economic environment suggests that different disclosure management opportunities exist. These different opportunities create cross-sectional implications on financial disclosure what comes to capital and industry structure, investment opportunities, and regulatory environment. Capital structure relates to raising capital and keeping the company in investors' eyes. Depending on the level of proprietary costs the company can either disclose more on new projects and collect equity capital or disclose less and rely on debt and internal financing. However, regulators tend to increase the cost of non-disclosure and thus set incentives to incur direct disclosure costs. As already acknowledged when discussing about institutional environment, industry structure influences through proprietary costs associated with competitors' actions. In growth industries active disclosure is expected, for example in situations where the company has many profitable investment opportunities. (Palepu & Healy 1993; Gibbins et al. 1990; 1992.)

2.2.2.2 Disclosure Subunit Status

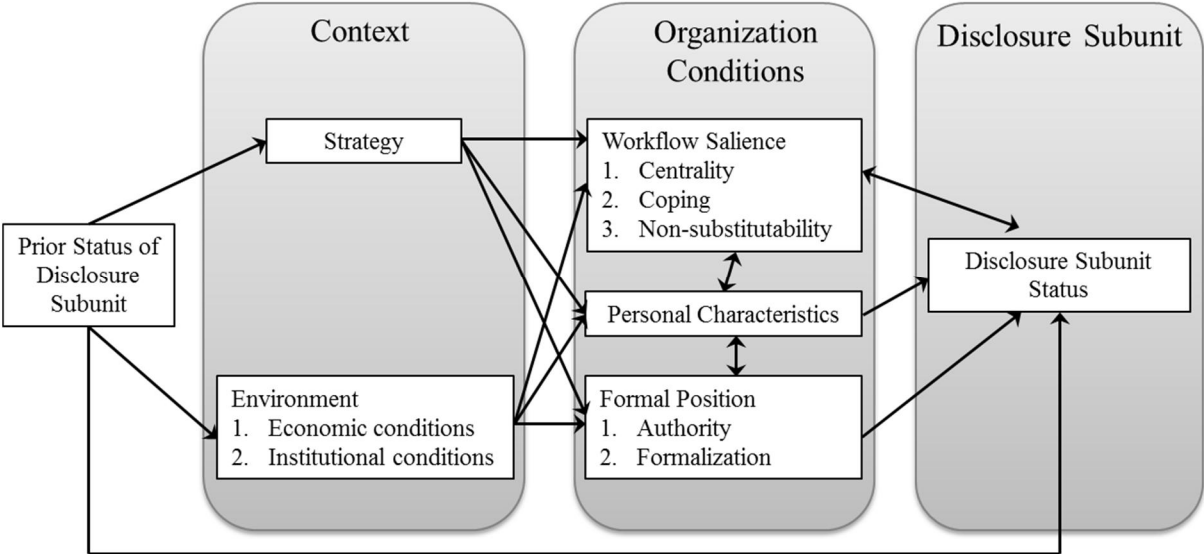
External factors of disclosure management context are mainly explained through benefits and costs incurred as a result of disclosure decision. Internal factors, on the other hand, take into account also the personal characteristics of the management as well as the strategic decisions. Disclosure subunit status represents the organization structure's influence on disclosure and seeks answers to why the company is devoting resources to disclosure activities. It is the firm's capacity to manage disclosure not how the disclosure is managed. Aspects behind disclosure subunit status also referred to as internal antecedents, relate to traditions and consequences of previous disclosures. Traditions influence the way the disclosure is managed. Management also reflects the consequences of previous disclosures. In cases where the investor response to voluntary disclosure has been disadvantageous the company may choose not to disclose certain information due to uncertain responses. This suggests that disclosure management results in learning from previous actions. The disclosure subunit status is hence

formed in a process where every aspect either increases or diminishes the status. (Gibbins et al. 1992; Suijs 2007.)

Disclosure subunit is a function of the organization, for example marketing, research and development or accounting. A subunit consists of experts, specialists having experience and training in disclosure, who identify and solve problems and thus have an influence on financial disclosure. Experienced specialists tend to see business problems as containing a disclosure dimension. Gibbins et al. (1992, 61) state that it is actually the specialists in the subunits who determine whether the company attends to disclosure management. However, since a company is an entity of several disclosure subunits it is challenging to identify the actual influence of one subunit on financial disclosure. This fact gives an explanation to why disclosure subunit status is rather the ability of one subunit to influence the behaviour of other subunits and consequently influence the organization’s disclosure outputs. (Gibbins et al. 1992, 61.) The formation of disclosure subunit status is illustrated in figure 2 below.

Figure 2. Formation of Disclosure Subunit Status

Reference: Gibbins et al. 1992, 61



As can be seen from figure 2, in addition to environmental factors, also chosen corporate strategy is an essential context factor that carries along disclosure norms. As previously stated, disclosure of business strategy is among investors’ top ten information needs. (Cole 2001.) Corporate strategy is a product of complex interaction between company’s business environment and internal management process. Adapting to changes in business environment might also mean a need to reshape the strategy, which then has an effect on disclosure

management. Hence, different strategic choices demand for different kind of information as well as different kind of disclosure. (Gibbins et al. 1990; 1992.) Company strategy and disclosure are also linked what comes to the company size. Higgins and Bannister (1992) found that the more diversified the company the greater the need to convey strategy information to stakeholders. Evaluation of focused firms is more concentrated on financial and market measures on performance and risk.

Internal characteristics introduced above and environment related context factors introduced in Chapter 2.2.2.1 are summed up under disclosure subunit status which, hence, completes the earlier framework introduced by Gibbins et al. (1990). Disclosure subunit status illustrates how the organization structure influences the disclosure output and it describes organization's capacity to act on disclosure issues. Disclosure subunit status is thus composed of environment, strategy, and organizational conditions as can be identified from figure 2. Disclosure subunit being composed of specialists, the more disclosure involved specialists the higher the disclosure subunit status. (Gibbins et al. 1992.)

Organizational conditions arise from corporate strategy and environmental factors. However, they can also influence the firm's choices of strategy. Organizational conditions are divided into workflow salience, formal position and management characteristics. Taking the perspective of contingency theory², workflow salience is composed of workflow centrality, coping with uncertainty and non-substitutability and it is derived from the disclosure subunit's involvement in production, financing, and operating decisions. Workflow centrality reflects the interconnections of different subunits and their activities. It is the extent to which disclosure issues, introduced in Chapter 2.2.3, are seen to be relevant to organization's activities. Organizations face uncertainties what comes to economic or institutional factors and coping with them means whether disclosure activities are able to reduce this uncertainty about contingencies. In the changing business environment especially the strategy is subject to risks and uncertainties associated with forecasting the future conditions. The more the uncertainty is reduced the higher the workflow salience and thus also the higher the disclosure subunit status. Non-substitutability refers to whether the service can be provided through alternative means, e.g. outside experts, or whether non-disclosure mechanisms exist for

² Contingency theory suggests that there is no general and best organization structure or leadership style but they are shaped in relation to existing environmental conditions. Different leadership styles fit in different social relationships and structures.

dealing with important contingencies. Possibility to either use external mediators or not to disclose both decreases workflow salience and disclosure subunit status. (Cole 2001; Gibbins et al. 1992.)

Formal position of the disclosure activities is a measure of internal structure and it includes the degree of formalization in job role descriptions, location of the disclosure subunit in the organization's authority structure and personal characteristics. Internal structure is based on policies and procedures about how the responsibility of the disclosure management is assigned and guided in the company. Degree of formalization in job role description reflects the organizational structure and is the degree to which rules and procedures are explicitly formulated. The disclosure subunit status increases to the extent that it legitimates disclosure-oriented roles and implies a long-term commitment to such positions. Formalization decreases status to the extent that it decreases adaptability and creates rigidities that interfere with needed response to change. The perspective of location means those who hold the responsibility and how close or far in the organization those specialists are. The greater the disclosure subunit's formal authority, the greater the status. (Gibbins et al. 1990; 1992.)

Personal characteristics refer to the management of the subunit. The goals and ambitions of the management are at stake. Talented individuals may, for example, seek out opportunities to provide services to the organization that less able leaders would not. Internal policies, and thus also the disclosure output, reflect the managements' and especially CEO's attitudes. (Gibbins et al. 1990; 1992.)

2.2.3 Disclosure management

Disclosure management is the phase where decisions concerning the actual information management take place. Gibbins et al. (1992) divide disclosure management into disclosure position, or predisposition, and disclosure issue. Disclosure management is based on disclosure management context introduced in previous chapters. Economic and institutional environments entail behavioural opportunities that organizations act on with help of disclosure subunit status. The behaviour and response chosen then depend on company's disclosure position. Disclosure issue, on the other hand, is the stimulus for disclosing arising either inside or outside the company. (Gibbins et al. 1990.)

2.2.3.1 *Disclosure position*

Disclosure position determines the company's expected response to a disclosure issue under normal circumstances and has thus a strong effect on disclosure outputs. It is a "*relatively stable preference for the way the disclosure is managed*" (Gibbins et al. 1990, 130). Organizational factors like history, financial performance, personality and preference of CEO, size and extent of internal agreement influence the disclosure position. The change in the relations between these context factors changes also the firm's disclosure position. (Gibbins et al. 1990, 1992.)

Gibbins (et al. 1990) divides disclosure position into ritualism and opportunism that reflect external and internal antecedents, or financial disclosure context factors. Company's formal structure establishes routines for identifying and reacting to disclosure issues. Both ritualism and opportunism, even though distinct in respect of certain disclosure, are managerial predispositions to behave in a particular way. Ritualism refers to a rather passive attitude and established and bureaucratic procedures. Industry norms and disclosure are adhered without criticism and the disclosure issue is reacted to passively and repetitively. Thus, when external norms exist the company is more likely to behave ritualistically. (Trabelsi et al. 2004; Gibbins et al. 1990; 1992; Henry 2008.)

Opportunism is defined as seeking firm-specific advantages in the disclosure of financial information. (Gibbins et al. 1990.) This means, for example, that the management works actively the company's or specific interest group's interest in mind even though the predispositions would guide them to behave in a certain way. Opportunistic disclosure strategy might be in relation to management's share price based incentives. However perceived as unethical, through strategic manipulation of investors' judgements, which encourages high market expectations, the share price can be maximized. (Miller 2009.) Gibbins et al. (1990) found that the more the company is dependent on the capital market the more opportunistically it behaves. Feedback from the capital market also results in learning and eventually in changing disclosure position. (Holland 2005.) Graham et al. (2006) argue that learning from market reactions might also result in avoiding negative market reactions. In addition, the concept of corporate disclosure position or strategy offers considerable potential for explaining voluntary financial disclosure that was recognized as characteristic to new economy companies during the dot-com era. This is due to the attempt to diminish the cost of searching for information that incurs to investors. Voluntary information is thus

disclosed in order to enhance the information available to investors and reduce the incurring cost. (Gibbins et al. 1990; 1992.)

2.2.3.2 Disclosure issue

Alongside with the disclosure position, disclosure issue as well as perceived and defined norms and opportunities influence the disclosure output. Disclosure issue is an internal stimulus for disclosure and perceived by the company management. Disclosure management context factors introduced in Chapter 2.2.2 have a strong influence on the perception. Perceived opportunities define the benefits and costs that the management believes are associated with specific disclosure issue. In some cases the management might have an incentive to disclose more voluntary information whereas in other cases the risk of unfavourable response by investors is too high and thus leads to non-disclosure. (Gibbins et al. 1990; Gibbins et al. 1992; Suijs 2007.)

In previous literature disclosure issues are divided into two: continuous and periodic issues. Continuous disclosure issues arise from on-going everyday activities and when perceived they result in disclosure at any time during the financial year. Disclosures in question are for example stock exchange releases that are to disclose when significant events occur. Periodic disclosure issues, on the other hand, are routinized and arise with the passage of time. Periodic disclosures lead, for example, to quarterly and annual earnings announcements. (Gibbins et al. 1992.)

Disclosure management is interaction between disclosure position and disclosure issue. Opportunities perceived by the management relate strongly with opportunistic disclosure position whereas perceived presence of external norms activates the ritualistic thinking. For example, filing a prospectus is strictly regulated what comes to timing, content, and media. Earnings forecasts, on the other hand, follow both external and internal norms. According to Gibbins et al. (1992) disclosure opportunities refer to economic context that includes also positioning in product markets. Whether the opportunities are perceived depends on the disclosure position and on the strength of the economic stimuli. Companies have a possibility to exploit external mediators in identifying disclosure issues as well as related norms and opportunities. External mediators encompass consultants, advisors and auditors who also

provide help to identifying laws and regulations associated with a particular disclosure in order to add disclosure's credibility. (Gibbins et al. 1990; 1992, 73; Suijs 2007.)

Gibbins (et al. 1990) found that information set that is, the standard format, is larger for opportunistic firms whereas ritualistic companies' disclosure outputs are more descriptive and more time neutral than those of opportunistic firms. However, opportunistic companies tend to release earnings news quicker than ritualistic companies.

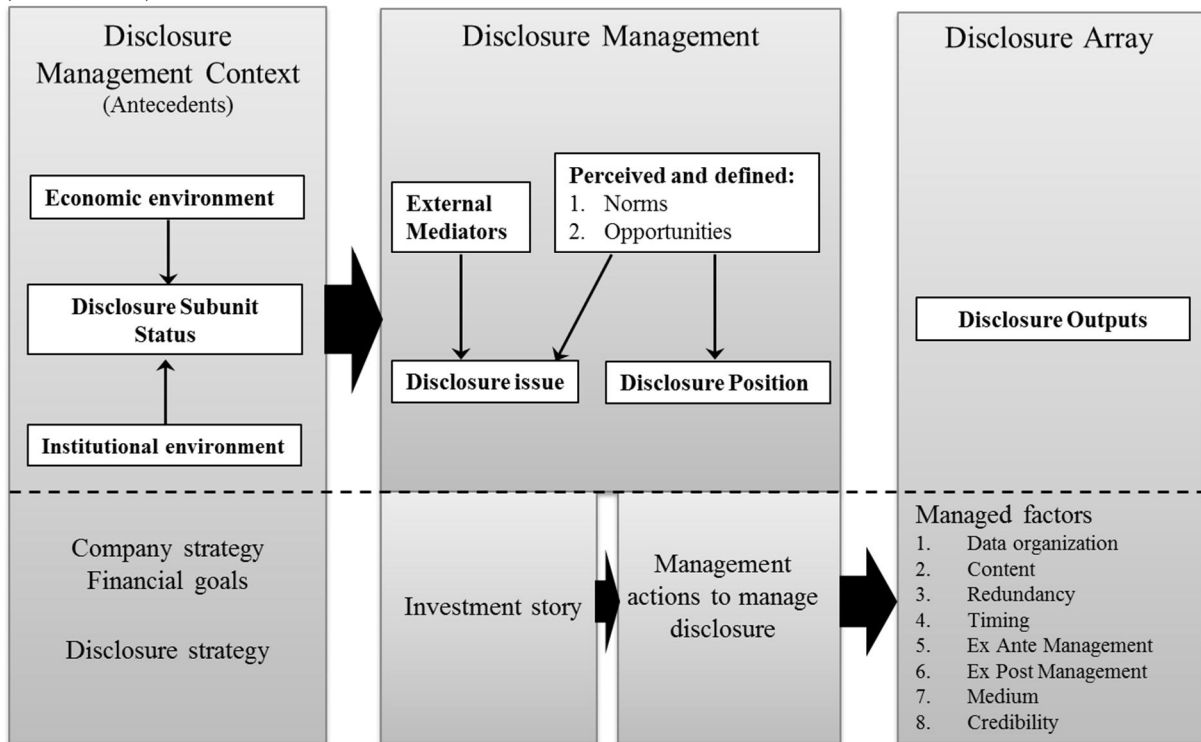
2.3 Theoretical framework to analysing investment story through financial disclosure

As can be concluded from the definitions, financial disclosure is a release of financial information outside the organization concerning economic performance, position or prospect of the organization as measured in financial terms. The purpose of the disclosure is to attract investors. Investment story, on the other hand, is the communicated company strategy and financial goals. The story type can be, among others, a growth story, a risk management story, or a cash-flow story and it aims to mediating the desired picture of the company to current and potential investors. Investment story should answer to questions "how do we want to be perceived by investors" and "how do we see ourselves as investment". (Virtanen 2010.)

Gibbins's et al. (1990; 1992) theoretical framework of financial disclosure management consists of three components: disclosure management context, disclosure management, and disclosure array. The model has been built based on research material observations and instead of forming a theory it aims at illustrating how different theoretical perspectives help to organize the concept of managing financial disclosure. Due to the grounded theory base the amendments to the theory are rather difficult to directly place to the old model. Indeed, the model has some overlaps. For example learning, which is a consequence of opportunistic disclosure behaviour, is present in both, financial disclosure management context and financial disclosure management. Figure 3 gathers together the disclosure management model and building process of investment story as introduced in Chapter 2.

Figure 3. Building investment story

This figure presents the building process of the investment story according to the Gibbins's et al. (1990; 1992) model.



According to the definition, investment story is composed of how company strategy and financial goals are written out in different disclosures and presentations. Company strategy is included in disclosure subunit status thus being a disclosure management context factor. Company strategy and learning from previous disclosures forms the company's disclosure strategy that is also part of the disclosure management context. The company management is responding to different disclosure issues based on its disclosure position. This is where the financial disclosure management takes place. Investment story is based on the company's disclosure strategy. Eight disclosure factors, which can be observed from the outputs, are managed: data organization, data content, redundancy, timing, ex ante and ex post management, medium and credibility. Especially ex ante and ex post management can be seen as significant factors when examining investment story. Ex ante and ex post interpretation management are meant to affect the way the company is perceived by the investors. Ex ante management attempts to influence the readers' interpretation before the disclosure is out in the public. Ex post management, on the other hand, occurs after the disclosure has been published and is, for example, stock exchange or news releases solely referring to a previous release correcting it. Investment story is the storyline of the company's strategy and goals and is thus the final disclosure output.

To conclude, credibility is central to effective disclosure since investors make their decisions based on that information. Building reputation requires consistency in behaviour within the organization and through time as well as capacity to simultaneously address coexisting pressures for continuous growth through value creating innovations and successful strategic practices. The reputation can be enhanced by clearly articulated internal policies and by establishing organizational rules and procedures to manage disclosure. (Gibbins et al. 1990; Mazzola et al. 2006.)

3 Background of the case example and research context

In order to understand the speciality of the business environment of the telecommunications industry in Finland during 1999–2002, it is important to introduce the special features of the period under review. This chapter provides descriptions of the business environment and essential events from the time of the UMTS crisis. The business environment is characterized by the liberalization of the industry that culminated to extreme market conditions. In case Sonera the hype was shown in rapid creation of new services and conquering new markets. Finally, the UMTS licence acquisition process ended in extensive write-offs.

3.1 From liberalization of the telecommunications industry to UMTS auctions

The origin of the dot-com bubble can be identified to the launching of Internet browser company Netscape's IPO in August 1995 in the USA. Telecommunications Competition and Deregulation Act (S.652, 104th Cong. § 3, 1995) enacted in the United States in 1996, followed by the Telecommunications Directive of 1997 in the EU (96/19³), launched the privatization and liberalization process in the western world. In European Union, the telecommunications market liberalized in the beginning of 1998 even though the European Court of Justice had included the telecommunications industry in the orbit of competition rules. Right from the beginning the industry was showing signs of competition as well as urge to develop new innovative products. Deregulation and the possibility to international operations led to major mergers and alliances in both Europe and the United States, which then became the prevailing trend. Finland's telecommunications market commenced opening to competition stage by stage in 1987, which was an essential factor in developing the domestic market. In Finland, the deregulation had already taken place in 1994 that is, four years earlier than in the rest of Europe. (Vesterinen 2009; Stienstra et al. 2004; Sonera 1998; Sonera 1999; Mayer-Schönberger & Strasser 1999.)

Due to early deregulation of telecommunications market in Finland, the development was already fast and Finland was a leader in mobile phone and Internet penetration rates during the late 1990s. Globally, the market leaders were the companies who learned fast the new rules of the game. New service development created competitive advantages to Sonera and

³ Amending Commission Directive 90/388/EEC

other telecommunications companies in Finland and the expertise was spread around the world in forms of minority shareholdings and partnerships. Sonera's mobile phone penetration rates were rising in all of its market areas and the mobile phone was becoming a personal tool for also other functions than calling and sending text messages. Internet was a key concept and phones were expected to be used, for example, as bank, cash, source of information, and entertainment. (Sonera 1999; Vesterinen 2009; Thrift 2001.)

“We were operating on an advantageous test market where new innovations kept on arising, and where all the equipment manufacturers were interested in being involved and developing new. And Finland is, even now, a nice market to test new innovations because it's not too expensive.” (Interviewee D, manager)

As already mentioned, the liberalization included also privatization of incumbent state-owned operators. Sonera, previously Telecom Finland, was fully state-owned until 1998. On July 1, 1998 Sonera and Post of Finland became independent companies and Sonera was introduced to the stock exchange. Sonera's shares have been quoted in the Helsinki Stock Exchange (NASDAQ OMX Helsinki) since November 1998 and in NASDAQ (technology list) between 1999 and 2004. The Finnish State sold to the public 22.2% of Sonera's shares and the state holding fell to 77.8%. Trading of the shares commenced on the Main List on November 17, 1998. In 1999, the State again sold Sonera's shares and the holding fell to 57.9%. In 2000, the State organized two share issuances and one issuance of bonus shares that left the State with 52.8 per cent holding of Sonera.

“In the prospectus the state pledged to give up its major shareholding as fast as possible and that was an essential fact raised during the road show around the world.” (Interviewee D, manager)

3.2 UMTS licence competition

UMTS (Universal Mobile Telephone System) is the third generation broadband mobile communications standard that draws mobile communications and Internet content services closer together. It is considered to be a European innovation. UMTS network enables the browsing of Internet pages with a mobile phone as well as the transmission of video image. Thus, it made developing of new services possible and as is stated in Sonera's (1998) annual report *“the use of mobile phones will thus gain decisively in diversity compared with their present role of transmitting voice and text-based services”*. Since the market demanded for

more capacity, the 3G mobile network was a direct answer to consumers' needs. (Sonera 1998; 2000.)

At the end of 1998 Finland's Ministry of Transport and Communications, becoming the first ministry in the world to take this step, invited applications for UMTS network licences. In January 1999, Sonera then submitted two applications for licences to operate nationwide and regionally. Finally in March 1999, the Finnish Government granted Sonera a licence for a UMTS based 3G national mobile network according to the applications. Sonera was to utilize its existing mobile networks in building the new network. The network became operational stage-by-stage beginning in 2002 and it strengthened Sonera's market position also bringing more responsibilities. (Sonera 1998; 1999.)

In addition to national operations, Sonera was in the vanguard of international development work on the new mobile communications systems. According to its strategy, Sonera was working in cooperation with other telecommunications operators and service producers. Due to Internet being delivered as part of the mobile network via content and service providers, the owner of a network licence occupied a strong position. The cooperation relations opened new sources of revenues to the operators compared to previous solely customer invoicing based revenues. Sonera was seeking new sources of revenue for example from the interface between service and content providers. Often, the operator itself set up as a service provider. This was called the European approach to UMTS network and its prime elements were quality of service, the extent of the network and a high level of mobility. However, during 2000, UMTS standard reinforced its position as a worldwide standard especially in the United States. (Sonera 1998–2000.) What comes to disclosure, Higgins and Bannister (1992) suggest that when the company becomes more diversified it should also increase disclosure on strategic issues in order to provide enough information to investors.

In 2000, European countries began granting third generation mobile network licences. The selection process was based either on an auction or on a beauty contest. Nordic countries and Spain, in particular, were using the beauty contest to award the licences. Van Damme (2002) suggests that for these countries generating revenue was not a goal but to establish a competitive telecommunications market as well as provide citizens with new network and provide companies with new development and growth possibilities. Also, the auctions were thought to increase consumer prices and delay innovation, which created some reservations to

the European Council. The countries using auctions were having confidence on their efficiency properties. (Van Damme 2002; Sonera 2000.)

As a part of consortia, Sonera achieved its UMTS licence objectives in 2000 when it obtained licences in Germany and Italy in an auction. Other two licences were a result of beauty contests. All in all, Sonera obtained in total four licences in Germany, Spain, Italy and Norway covering more than 180 million people. In addition, in Sweden and Portugal Sonera was part of consortia, which did not obtain a licence, and in Great Britain the consortium in which Sonera participated withdrew from the auction. Sonera's shareholding in different consortia, UMTS licence obtaining date and investments are presented below in Table 1. Total licence price comprises the licence price for the consortia. (Sonera 2000.)

Table 1. Sonera in consortia

This table indicates the different consortia Sonera participated when acquiring UMTS licences. (Sonera 2000, 21)

Country	Consortia	Sonera's share	Total licence price (€)	Licence obtained
Spain	Xfera Móviles with Vivendi of France and Spain's ACS	14.25%	130 MEUR	Beauty contest, March 2000
Germany	Group 3G with Spanish Telefónica	42.8%	8 470 MEUR	Auction, August 2000
Italy	Ipse 2000 with Telefónica	12.55%	3 260 MEUR	Auction, October 2000
Norway	Broadband Mobile ASA with Norwegian Entel	50.00%	25 MEUR	Beauty contest, November 2000

In some countries, after receiving licences the consortium companies established licence holding companies. For example in Italy, Ipse 2000 consortium established the Ipse 2000 S.p.A shares of which all joint venture companies subscribed in relation to their share in the consortium. (Sonera 2000.)

UMTS licences and the consolidation within the industry enabled Sonera to expand its market area and thus increase the distribution of its services. In line with its strategy, Sonera moved ahead in 2000 with the internationalization of its new services, such as the mobile portal Zed

and its electronic directory business. During 2000, Sonera paid about 4 billion euros of licence fees allowing the company, in cooperation with its partners, to stake out a significant position in Western Europe. The company was keen on making internationally most of the experience it had gained in the Finnish market. Despite the refusal of licence application in Sweden, Sonera was exploring alternative ways of operating in Sweden. (Sonera 2000.)

As previously presented, telecommunications operators followed the general industry example of investing in expensive third-generation licences causing many operators in Europe to burden themselves with substantial debt. To reduce this debt the incumbent operators had to restructure both the organization and the business model. Sonera began investing in the new technology in Finland in 2000 and the annual investments were estimated to remain at some EUR 180 million. (Sonera 1999, 2001; Stienstra et al. 2004.) Sonera's investments to other licence holding joint ventures are presented in Table 1.

In 2001, the business environment changed to which Sonera's management needed to adapt quickly. Sonera began down scaling its service businesses to improve profitability and the company put a cap on the maximum amount of future investments in UMTS projects in Germany, Spain and Italy limiting them solely to contractual obligations. However, despite the downturn, the first intercontinental UMTS call was made on November 15, 2001 between the Minister of Transport and Communications Olli-Pekka Heinonen, in Tokyo, and Anni Vepsäläinen, the head of Sonera Mobile Operations, in Helsinki. Finally, in January 2002, Sonera opened its Finnish 3G UMTS network to test use in accordance with the licence conditions. (Sonera 2001.)

Whether the UMTS was good or not has been widely discussed especially in the press. Sonera's president at the time, Kaj-Erik Relander, suggests that UMTS licence auctions and beauty contests have led to a higher market entry threshold. (Sonera 2000.) The UMTS "game" was being played during 2000 in many countries and the companies learned how to play better. In the beginning, the companies were working as individuals and finally the market was led by consortia. The companies realized that in auctions it was better to cooperate to achieve success. (Van Damme 2002.)

3.3 The New Economy

The prevailing market situation during the time period under review can be described with one word: hype. Also called the new economy, it emphasizes the role of Internet and technology. (Dahlgren & Hørlück 2001.) Dahlgren and Hørlück (2001) explain the rapid rise and fall of the stock prices through three factors: money, hype, and interest. Investors were investing large amounts of money to the bullish market, especially to companies belonging to the Internet and TMT (technology, media, telecom) sector feeding the hype. Also, general public adopted Internet and telecommunication technology at an impressive speed.

In Finland, Sonera was introducing many new technologies feeding the hype. According to the interviewees, hype starts from inside the company when the company starts bringing out new innovations:

“Everyone was just thinking that there aren’t any limits in applying the new technology” (Interviewee E, board member)

“Hype [...] doesn’t work unless you have many interested bidders” (Interviewee C, manager)

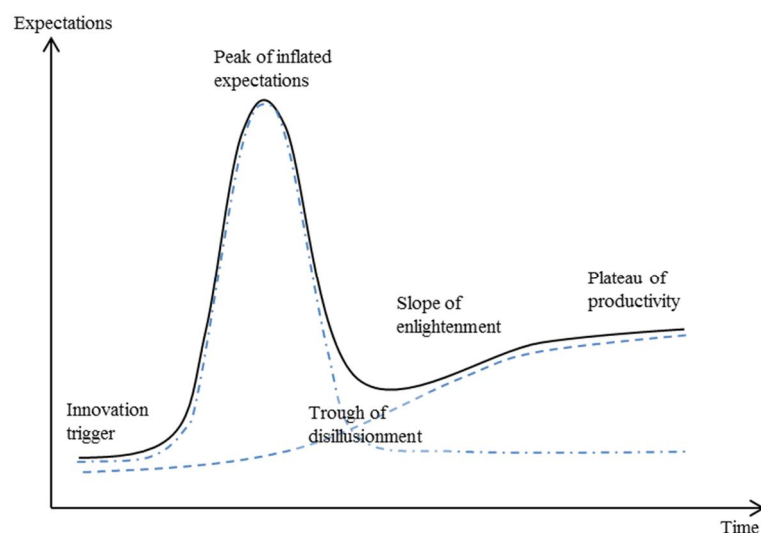
“It happens so that [...] I’ll take three people from the street and say to the first one that this object is unique. And he’ll bid 5 euros. Then I’ll take the next person and say that someone already offered € 5 and that this is unique. That you’d have all rights to this product. He might bid € 6. I’d manage this circus ‘cause I can’t make him bid of billions of euros. You just can’t get that price. You’ll take delegations, you’ll make business plans, and then you’ll see...” (Interviewee C, manager)

During bullish hype led market situation in the late 1990s, investor behaviour was challenging to forecast and both investors and companies were showing signs of herd behaviour. (Stienstra et al. 2004; Fenn & Raskino 2008, 29.) However, telecommunications industry being only one segment of the Internet and TMT sector it did not face as rough changes in stock valuation as companies in vaster Internet industry. Internationally, the volatility was the highest among Internet shares. (Dahlgren & Hørlück 2001.)

Hype can also be explained using a framework, hype curve introduced by Gartner Group (see e.g. Fenn & Raskino 2008; Dahlgren & Hørlück 2001; Ruef & Markard 2010) that can be found in figure 3. Hype cycle describes the market reactions when a new innovation is introduced. Thus, it reflects different responses to an innovation. Hype curve is composed of the hype-driven expectations, enthusiasm and disappointment (bell curve) and the maturity of innovation that is, how the performance improves slowly (S curve). Thus, the hype cycle arises from two factors: human nature and the nature of innovation. Even though the hype curve describes expectations, Internet stock valuation in the late 1990s has been identified having similar characteristics with the curve. (Coltman et al. 2001; Fenn & Raskino 2008, 25–26.) This same share price development curve applies also to Sonera whose share price curve is presented in Appendix 1.

Figure 4. Hype curve

Reference: Fenn & Raskino 2008



The hype starts from unawareness, proceeds to curiosity and excitement until it reaches the extreme hype. Introduction of new innovation, whether a written plan or a draft model, triggers a period of inflated expectation. During the hype upturn, the market's interest is focused on positive aspects of the innovation. These aspects are seen as overwhelming and revolutionary possibilities to change business practices and the society. The rapid excitement is followed by rapid disillusionment neither one of which matches the current reality of what the innovation can do. After March 2000, when the hype began to wane, the focus transferred to negative aspects and shortcomings, for example to mistakes made by managers and analysts. Finally, Internet, telecom, media and technology companies started to collapse.

Dahlgren and Hørlück (2001) state that during the upturn phase of the dot-com bubble the market disregarded analysts' warnings. When the Internet stock finally crashed the Internet enthusiasts lost their credibility. Where the upturn was hyped, also the pessimism of 2001 was an overreaction. Finally, the audience's reactions settle down and understanding of the innovation evolves the confidence and adoption grow and finally the market starts recovering growing through the slope of enlightenment to plateau of productivity. (Coltman et al. 2001; Dahlgren & Hørlück 2001; Fenn & Raskino 2008, 25.)

Interviewee G named volatility and credibility as crucial factors pushing down the market price:

“If it goes too far, the way that a too optimistic picture of the company is perceived and its value and we notice later that these promises can't be expected, the share prices will fall. The value comes down. (Interviewee G, analyst)

“If the market feels that the picture of the company is clearly a bit too optimistic and the one drawing the picture, there is a slight problem of confidence. And after, communicating the fair value might get more difficult. Because if you don't trust anymore in what is being pictured, even though you would be as optimistic as possible when telling the fair value, the market doesn't buy it.” (Interviewee G, analyst)

Internationally, the dot-com bubble's hype cycle lasted five to six years. However, for example WAP-based mobile commerce innovations went through the whole hype cycle in only 18 to 24 months. (Dahlgren & Hørlück 2001, Sonera 1999–2002.) Since mid-year 2000 when the market blunted the Dow Jones European telecom index lost two-thirds of its value. Investors began selling shares when they perceived the new technology companies' shares becoming illiquid. Despite the crash, Internet usage continued to grow strongly throughout the world and traditional telecom companies began developing applications for Web technology. (Sonera 2000–2001; Coltman et al. 2001, van Damme 2002, Vesterinen 2009.)

3.4 Sonera's strategy 1998–2002

This chapter introduced Sonera's strategy as it was written out in the annual reports during the period of 1998–2002. The strategic targets from 1998 to 2001 can be seen in Table 2. In 1998, at the year of going public, Sonera's strategic objective was to develop its leader position in

Finland and to leverage the expertise obtained in international operations in selected areas. Being the premier provider of mobile, data and media communications services it had set its financial targets high. In the period of three to five years the revenue growth target amounted to 10 per cent. In addition, Sonera had set the minimum level of profit from international operations to one third. Other financial targets were return on investment ratio bigger than 15 per cent, equity-to-assets over 40 per cent and net debt-to-capital ratio less than 50 per cent. Dividend pay-out ratio was set to one fourth of net income. (Sonera 1998.)

Table 2. Sonera's strategic goals according to the annual reports

This table indicates the development of Sonera's strategy on a yearly basis according to strategic themes.

Strategic theme	1998	1999	2000	2001
Market position	Developing role within Finnish market	Maintaining a strong market position in Finland	Present 2G operations will be expanded further	
	Strengthening position in Finland	Strengthen leadership within mobile communications		
	Maintaining position in domestic fixed network services			
Growth	Expanding portfolio of international investments	International growth within mobile communications	Sonera will participate in the on-going consolidation process to ensure scale economies	Continued organic growth
			3G operations will be launched in Europe	Maintaining growth opportunities
Profitability				Restructured balance sheet Sharply improved profitability
Services	Developing innovative mobile and data communications businesses	Offer data security for transaction services	Services businesses will be started up in selected markets in Europe, Asia and the United States	Enhanced customer focus: One Sonera
	Improving productivity and efficiency on all business areas	Orient the fixed network toward developed data services		Maintaining innovation opportunities
		Create new services for mobile phones		

Sonera was spending annually 3–4 per cent of its revenues on research and development, emphasizing the role of client satisfaction in its operations. Sonera was concentrating on fast growing data solutions and creating new Internet services. When it comes to traditional fixed line operations in Finland, Sonera was aiming at providing cost-effective connections and customer-oriented service packages. In addition, expanding customer base was seen to have a key role and segmentation was the basis of increasing the use of Sonera's services. Also

reseller and call centre networks were strengthened. Being committed to growth in all business areas, Sonera was gaining international growth by looking for cooperation possibilities. When investing, Sonera offered its expertise to its partners. The last point concerning improving productivity and efficiency refers to introducing new information systems and recruiting highly educated technology and business professionals. Also, the company was preparing for incorporation of telecommunications maintenance and installation functions in 1999. (Sonera 1998.) Since 1998, neither financial targets nor strategic objectives were written out as straight and precise manner as in 1998.

In 1999, Sonera's strategy's overall emphasis had now transferred from Finland to international expansion and it specified to mobile communications and new mobile services. The company was making significant investments in international telecommunications companies in growing market areas. The aim was to increase capacity and speed of its mobile communications network. From the future, Sonera was expecting strong demand for broadband mobile services around the world. In 1999, Sonera had created two new mobile services: WAP technology based wireless Sonera Zed mobile portal and security technique service Sonera SmartTrust. Fixed network and market position goals remained unchanged from 1998. (Sonera 1999.)

In 2000, Sonera's way of presenting its strategy changed even though the ultimate thought remained unchanged. The vision was to develop into a global telecommunications operator by uniting mobile communications and Internet services in an unbiased manner. The strategic approach was a two-path model: developing new international service businesses and significantly expanding its market area. The paths were parallel and complementary. All in all, the strategy was 3G centred and based on Sonera's core expertise that is, the innovative development of services and efficient network operations. In order to reach its strategic targets, Sonera was actively studying alternatives for participating in alliances and partnerships, which was the general market trend as stated in Chapter 3.1.

In 2000, Sonera took steps towards internationalization of new services, such as Sonera Zed. In addition, the company began striving for UMTS licences. Sonera wanted to be profiled through services and know-how based on its pioneer position. Significant trust was placed on technological solutions enabling new services that differentiate Sonera from its competitors. To Sonera, UMTS network indicated new earnings potential and taking part in operating in

the network was considered vital. In service and content provider area, Sonera had many strengths including operational efficiency and experience in customer segmentation.

“It is strategically important for Sonera to take part in defining the specifications for new network solutions and to be involved in building the service platforms of the future” (Sonera 2000)

Nevertheless, in October 2000 Sonera reviewed its UMTS strategy. In the third quarter interim report the company defines that they will concentrate on the already acquired licences, on Baltic countries, and with small portions on other European markets. The main market area is in Europe.

One year later, in October 2001 Sonera again introduces a new strategy. The investment story type changed from growth story into profitability story. In addition, customers were again at focus. The strategic development was aiming at accelerating the organization’s short and long-term operations. The organization structure changed encompassing finally only three main functions. The overall objective of sales and marketing was to increase customer satisfaction and revenues. The changed strategy intended to make Sonera’s resources and know-how in wider and more efficient use. Also the relationship between customers and Sonera was simplified with the basic idea of “easier to do business with Sonera”. (Sonera 2001.)

UMTS crisis in Finland culminated on TeliaSonera merger in 2002. The official announcement was given on March 23, 2002 and the share entered the stock exchange on December 10, 2002. The strategy of the new group continued the same line with Sonera’s strategy with few exceptions. The emphasis was in home market development that is, in Scandinavia and in Baltic countries, and in customer satisfaction. As in 2001, profitability and getting over the crisis were in key focus. In addition to strengthening operations in home markets, synergies of the merger were emphasized.

To conclude, during 1998–2002 Sonera’s strategic alignments start from traditional operator services moving into international third generation mobile network and services and continue to concentrating on profitability. Also, the concept of home markets was changed from Finland to Scandinavia and Baltic countries. The investment story type changed from growth story to profitability story. The changes in Sonera’s strategy followed the market sentiment.

First, the company aimed at internationalization and productivity, which both describe the phase of hype. After, in 2000, Sonera participated in the 3G licence competitions obtaining four licences in Europe. When the market sentiment changed at the end of the year the company revised its strategy. Year 2001, on the other hand, did not include major changes in strategy until in October, when the new strategy was introduced. Instead of growth, the company now focused on profitability by limiting investments in UMTS licences. Year 2002 brought along TeliaSonera merger and the new group strategy. Even though the market demanded for new services throughout the period under review, Sonera did not abandon its basic business, fixed line connections that brought them stable income.

4 Research data and method

4.1 Research question

The objective of this study is to examine how Sonera's investment story was developed through disclosure management during 1999–2002. The findings are compared against the interview evidence on what had actually happened in the company and its environment during the crisis. The study takes a perspective of investment story that is, how the company strategy and financial goals were written out in chosen disclosure outputs.

The research question is divided into two sub-questions:

1. How does Sonera's investment story develop during 1999–2002?
2. How the events that occurred during 1999–2002 explain the changes in the investment story development?

The research question is examined through two variables used in the grounded theory based model of Gibbins et al. (1990, 1992): *ex ante* and *ex post* interpretation management. Despite the grounded theory based theoretical framework, the intention of this study is not to provide the model with new aspects but rather to illustrate how Sonera's management has managed the investment story during the period under review using *ex ante* and *ex post* interpretation management. The interview evidence provides understanding on the behaviour of the variables – what kind of an influence did the events have on the investment story.

4.2 Research data

In order to obtain broad data for the research and gain a good overview about the investment story building, both written and interview material from the time of the dot-com bubble are used. Sonera was formed on July 1, 1998 when the demerger of PT Finland took place. The beginning of the time frame is, however, set to September 1, 1999. On December 10, 2002 Sonera merged with Swedish Telia that date being the last date of the material collection period. The written material is collected from the beginning of the second quarter of 1999 until the TeliaSonera merger, more precisely the date when the trading of TeliaSonera shares commenced: December 9, 2002.

The written material consists of Sonera's interim reports, year-end reports and newspaper articles quoting Sonera's management. Material is detailed in Appendix 3. The reports were collected from TeliaSonera's Finnish website. Year 1998 and the first interim report of 1999 were excluded due to availability problems. The second and third quarter interim reports from 1999 and the first quarter of 2001 were collected from an online archive of Finnish economic magazine Kauppalehti. All other written research material being in Finnish, these three interim reports were available only in English.

Interim reports were chosen because of their specified and clear form. Their content is material, they describe the company development, and they are looking at the future. (Virtanen 2010, 148.) In addition, their intention is to inform investors about achieving financial goals and strategic targets. They are compact packages that are published regularly and thus provide a solid base of developing the investment story. The newspaper articles were chosen because through the press the company management can seek to influence the general feeling and readers' interpretation. Articles taken into account have been published in Finnish magazines Helsingin Sanomat, Kauppalehti, Kauppalehti Optio, Taloussanomat and Talouselämä during the period under review. In order to identify the interpretation management, only the articles containing straight quotations from Sonera's management and members of the board of directors were accepted as part of the research material. The final amount of applicable articles amounts to 20 (see Appendix 3).

The seven interviews were executed during 2009–2010 by researchers of the Department of Accounting. They have been made for other research projects concerning Sonera and the UMTS period. The seven interviewees were all involved in Sonera during the period under review either as board members, operating managers, or analysts. The table of the interviewees can be found in Appendix 2. The interview material is used to identify events based on which the investment story develops. The interviewees explain how the events influenced Sonera and the decision-making.

4.3 Research method and variables

This study is a qualitative case study that combines different types of research evidence. The starting point to this research is the disclosure outputs and the market behaviour. The chosen disclosure outputs are placed in the stock price development curve to roughly see what has

happened in the market during the time of each disclosure. In this research, the disclosure management is examined through two variables ex ante and ex post interpretation management as well as through interview evidence. Interim reports and year-end reports are analysed through ex ante factors and newspaper articles through ex post management. Interview evidence provides the basis of the event analysis.

Besides strategy, in Gibbins's et al. (1990, 1992) model also institutional and economic environmental factors are part of the disclosure management context. These factors are considered as given and hence only described in Chapter 3. The description is based on annual reports, interviews, and press articles as well as previous research on the case Sonera. Other components of the disclosure subunit status than strategy are not taken into account in this research. Financial disclosure management is composed of disclosure issue, disclosure position, perceived and defined norms and opportunities, and external mediators. The disclosure issue is assumed as periodic due to the nature of quarterly reporting. Disclosure position is not taken into account in this research. Thus, especially perceived and defined opportunities are under examination in Chapter 5.

The variables used in the study are ex ante and ex post interpretation management. Ex ante interpretation management refers to management attempts to influence the interpretation of the final disclosure before the disclosure has been released. It is management decisions about accounting measurement or classification policies to produce a desired outcome as well as anything the management adds to the data, including management analysis, oral remarks, burying sensitive information or highlighting good news. Ex ante management takes place through both releases and face-to-face interaction. Ex ante interpretation management was used during the dot-com bubble as depicted in Chapter 2.1.3. Gibbins et al. (1992) recognize the difficulty of distinguishing ex ante management from narrative data. This is considered as a challenge when conducting this thesis.

Ex ante interpretation management is examined from interim reports using tone, time focus and causal statements as components as in Gibbins et al. (1990). Some shading in these factors can be seen as indication of ex ante management. Similarly with Gibbins et al. (1990), texts are divided into points, one point being one paragraph in the text. Prior to analysing the points, chapters concerning Sonera's share, group structure, board of directors decisions and year 2000 program were excluded because they were only telling objective facts with no

intention to influence the shareholders. Positive and negative tones expressed in adjectives, nouns and verbs indicate use of ex ante management. The tone of each point is defined. Points with neutral tone are not taken into account since they indicate that no management has taken place. Tone refers to the affect or feeling of the communication and it is a function of both content and word choices. Separated from promotionalism⁴, tone consists of both content and words in collected points. A positive tone can be achieved, for example, by focusing on positive outcomes, by describing outcomes in a positive way, or by offering positive comments about future performance. The tone of each interim and year-end report was defined by using a simple equation shown below where the count of negative paragraphs is deducted from the count of positive paragraphs and the remainder is divided by the sum of both negative and positive paragraphs. The outcome being negative signifies a negative tone and vice versa. (Henry 2008.) Previous research has shown that the tone of earnings press releases influences investors, which can be noticed from the market reaction (Jameson 2000; Henry 2008). The equation is modified based on an equation applied by Henry (2008) who used count of words instead of count of paragraphs. The modification is made in order to fit the equation with the Gibbins et al. (1990) model when analysing the points.

Tone ratio is calculated as

$$Tone = \frac{Positive\ paragraphs - Negative\ paragraphs}{Sum\ of\ positive\ and\ negative\ paragraphs}, \quad \begin{array}{l} -1 < Tone < 0 = Negative \\ 0 < Tone < 1 = Positive \end{array}$$

Time focus refers to past, present and future orientation and it tells to what extent the disclosure narratives refer to past and future. Present tense refers to those paragraphs in the text that describe the situation at the publication date. The text is written in past tense when it describes events occurred during and before the period under review and the period between the reporting period and the publication date. Future orientation refers to paragraphs that describe events after the publication date. If the text in the report refers to events happened prior to or after the date of publication the point is shaded by time and hence taken into account when examining time focus. Present tense is thus excluded. Applying the

⁴ The promotional purpose of the business text is to influence readers' view of company performance. Promotionalism is expressed with word choices, such as negative versus positive words, way of announcing good news and suppressing bad news, choosing benchmarks favorable for the company, and emphasizing metrics that allow the company to give a more positive impression of their performance than what it actually is. (Henry 2008.)

modification of Henry's (2008) equation of defining the tone the time focus ratio of different reports is calculated.

Time focus ratio is calculated as

$$Time\ focus = \frac{Past\ paragraphs - Future\ paragraphs}{Sum\ of\ past\ and\ future\ paragraphs}, \quad \begin{array}{l} -1 < Time\ focus < 0 = Past \\ 0 < Time\ focus < 1 = Future \end{array}$$

Due to the subjectivity of defining tone and time focus, an agreement level test was executed. Out of the original sample of 1060 points 120 points were randomly chosen to the test. These 120 points were evaluated by two peer groups, 60 points each. Tone and time focus of the points were evaluated. Both peer groups consist of four master students of Aalto University School of Economics. In order to test the author's objectification Fleiss' kappa is applied. (Ikäheimo & Kostander 2012.) The kappa measure expresses the agreement between the author and each peer group member. The average Fleiss' kappa of overall agreement is 0.51 (median 0.48) indicating moderate agreement. The average Fleiss' kappa of time focus only is 0.49 (median 0.55) and of tone as low as 0.32 (median 0.28). Especially the agreement level of tone is significantly low signifying fair agreement. Disagreements between peer group members explain the moderate agreement.

Causal statements measure the level of explaining financials, events and goals and they are classified to internal to the firm or external to the environment. Thus, how the changes in financials and other events occurred can be explained through company's actions or through changes in the environment. (Gibbins et al. 1990; 1992.) In addition, causal statements are divided into level one and level two statements depending on the level of in-depth analysis of the event, for example a causal statement "*the growth came particularly from increased use of basic text messages*" is classified as level one and external to the company. Analysis or explanation of why the usage of text messages has increased would raise the statement to level two.

In order to provide a deep analysis of the influence of different ex ante interpretation management variables on the investment story, the variables are also examined in pairs of two. In addition, the development of individual variables is placed on the share price curve. In order to better identify the crucial turn points in the share price development, the share price is presented as natural logarithm.

Ex post management is the attempts to correct or reinforce interpretation of the disclosure on hand after the information has been released. Disclosed information is considered as ex post management when it has a clear and straight reference to previous disclosure, for example correcting press stories or suggesting to analysts that their forecasts are inaccurate. (Gibbins et al. 1990, 1992.) In this research, ex post management is examined from newspaper articles. Only the articles including straight quotations of Sonera's management or members of the board of directors are taken into account. Indirect presentation is excluded because they reflect the subjective voice of the journalist and may not mediate the correct message in respect of the goal of this research.

The interviewee evidence is used to identify significant events that took place during the time period under review. Eleven events were depicted. The criterion used was that the event was to be discussed at a large extent at least in one interview. The findings of the analysis of separate investment story components are reviewed against the chosen events. The interviewees discuss their perspective of what happened during each event and thus provide a platform to the evaluation of investment story development. They also discuss about events that have not been disclosed bringing out the insider perspective. At this point, also the ex post interpretation management aspect is taken into account. Interviews were conducted with general interview guide approach by other researchers of the Department of Accounting. The interviewer only made sure the interviewee stayed on the general subject of Sonera during the UMTS crisis. The interviews provide information, however subjective, about what actually happened in Sonera during the time under review. The objective of the analysis is to find explanations to why the investment story developed as it did.

5 Development of Sonera's investment story

This chapter focuses on explaining and analysing the research findings. Chapter 5.1 introduces the development of individual investment story components in the course of the review period. Chapter 5.2 introduces the investment story components in respect of Sonera's share price development. After, the events are retrieved from the interview data and their significance and connection to the development of the investment story is analysed. Chapter 5.4 sums up the research findings. Findings are discussed in Chapter 6.

5.1 Overview of the investment story components

Out of 1086 points analysed 26 points had no shading in any three categories and they were excluded from the sample. The final sample consists of 1060 points out of which 35.3 per cent have shading in tone, 98.3 per cent shading in timing and 23.0 per cent have causal statements (whether level 1 or 2). Gibbins et al. (1990) found that 61 per cent of points in their study had shading in tone or explicit causality. In this thesis the equivalent percentage is only 45, which points out the firm-specific nature of the study method also identified by Gibbins et al. (1990).

5.1.1 Tone

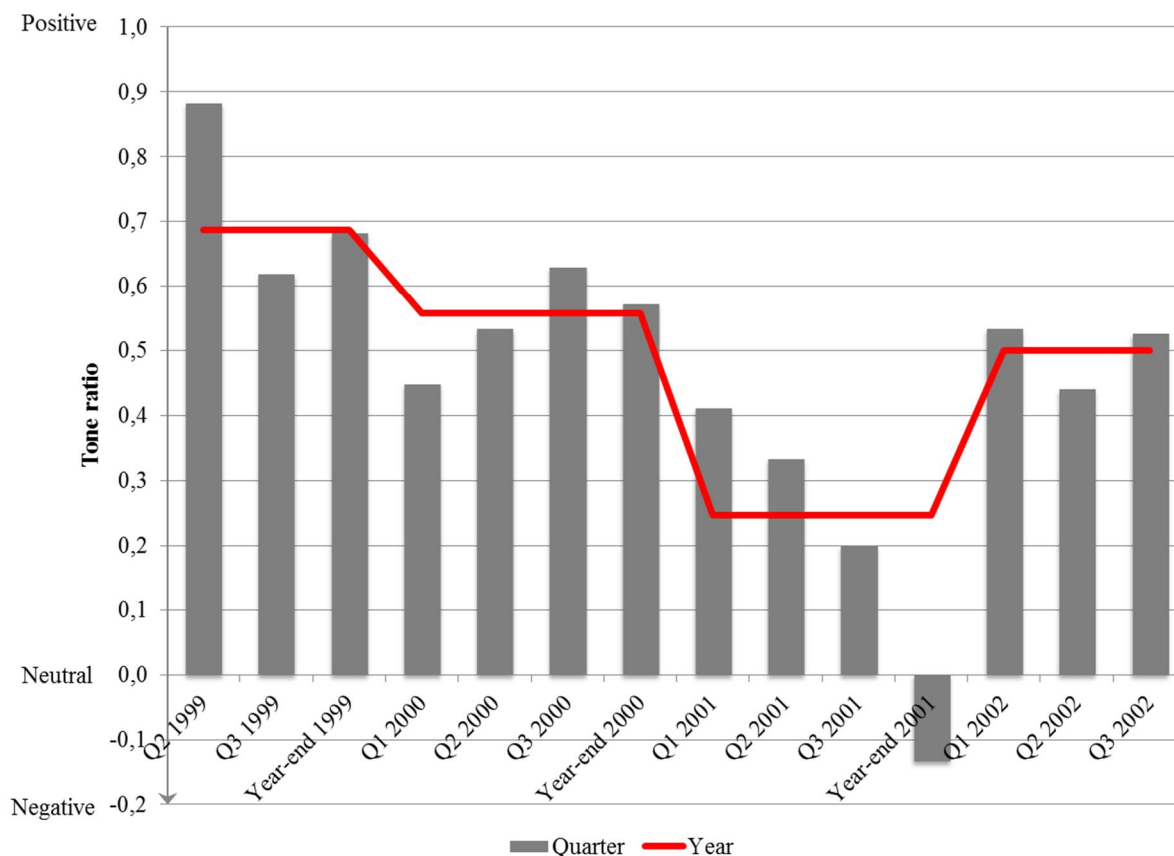
Figure 5 describes the tone ratio of interim and year-end reports on a quarterly and yearly basis. The tone is classified as positive when it gets a value between 0 and 1, as neutral when it is 0 and as negative when it gets a value between -1 and 0. Figure 5 depicts that the tone ratio varies significantly throughout the period under review. The value rises to its most positive (0.88) in the second quarter of 1999 and declines to its most negative (-0.13) in the year-end report of 2001. Overall, year 1999 is the most positive and year 2001 the most negative when measured with tone as can be identified from the year-curve in Figure 5.

Figure 5 points out that the tone ratio of the first quarter of 2000 is considerably lower than in 1999. However, the tone begins turning more positive during the year and the third quarter is slightly higher than the lowest quarter of 1999 getting a value of 0.63. From the fourth quarter of 2000 until the fourth quarter of 2001 the tone declines significantly ending to slightly

negative, which signifies difficulties during the year. After, year 2002 is considerably more positive than year 2001 with an overall value of 0.5.

Figure 5. Tone of disclosure on a yearly and quarterly basis

This figure expresses the tone ratio of interim and year-end reports. Tone ratio indicates the positive/negative shading in disclosure. Tone ratio is negative when $-1 < n < 0$, neutral when $n = 0$, and positive when $0 < n < 1$.

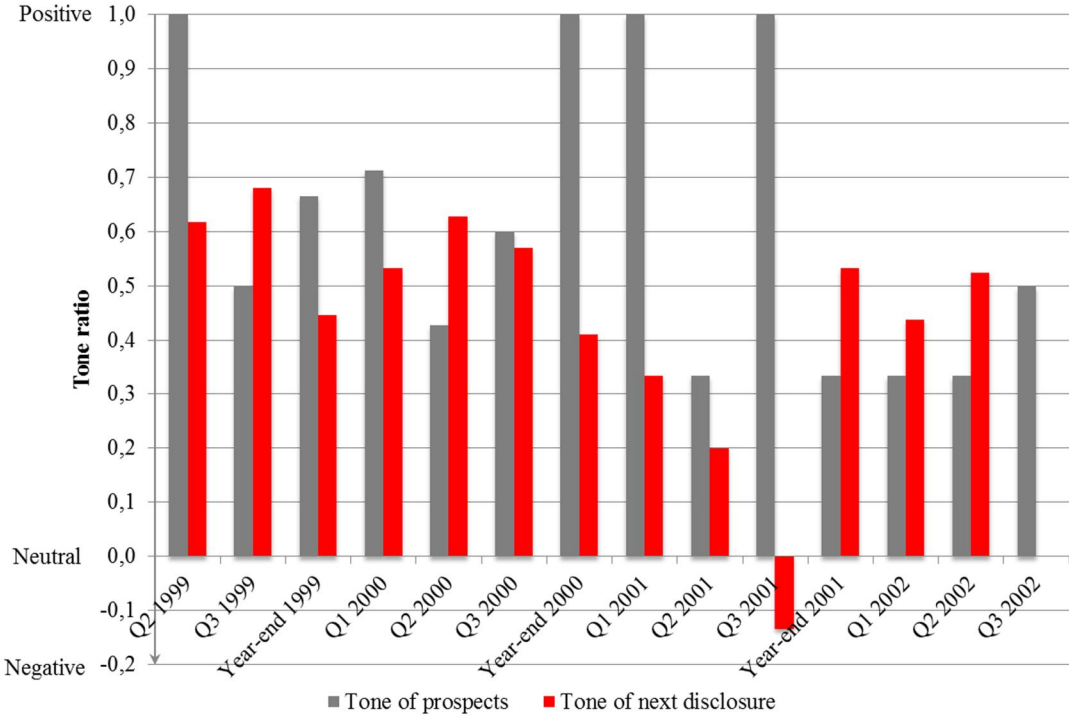


Tone ratio is calculated separately to the future prospects section of each disclosure in order to obtain information about the management's perception of the future (see Figure 6). The tone ratios of future prospects sections are compared to the tone ratio of the subsequent quarters in order to examine if the tone of future prospects is transferred to the subsequent disclosure. The examination implies that in eight cases out of 13 the future seems more positive than what actually took place in the subsequent quarter. The biggest difference between the tone of complete disclosure and the future prospects section is in the third quarter of 2001. Thus, it can be concluded that either the future seems significantly brighter than the past or the company management takes actions to disclose optimistic statements about the future in order to influence the share price development, which is recognized as a characteristic of the hype. (Virtanen 2010; Mazzola et al. 2009.)

As can be identified from Figure 6 below, the tone differs significantly when comparing future prospects sections and subsequent disclosures. Before the year-end report of 2001, the tone of future prospects is, with two exceptions, more positive than the tone of the next period’s disclosure.

Figure 6. Comparison of tone of disclosure and tone of future prospects

This figure expresses the tone ratio of interim and year-end reports in comparison with the tone ratio of next disclosure. Tone ratio is negative when $-1 < n < 0$, neutral when $n = 0$, and positive when $0 < n < 1$.



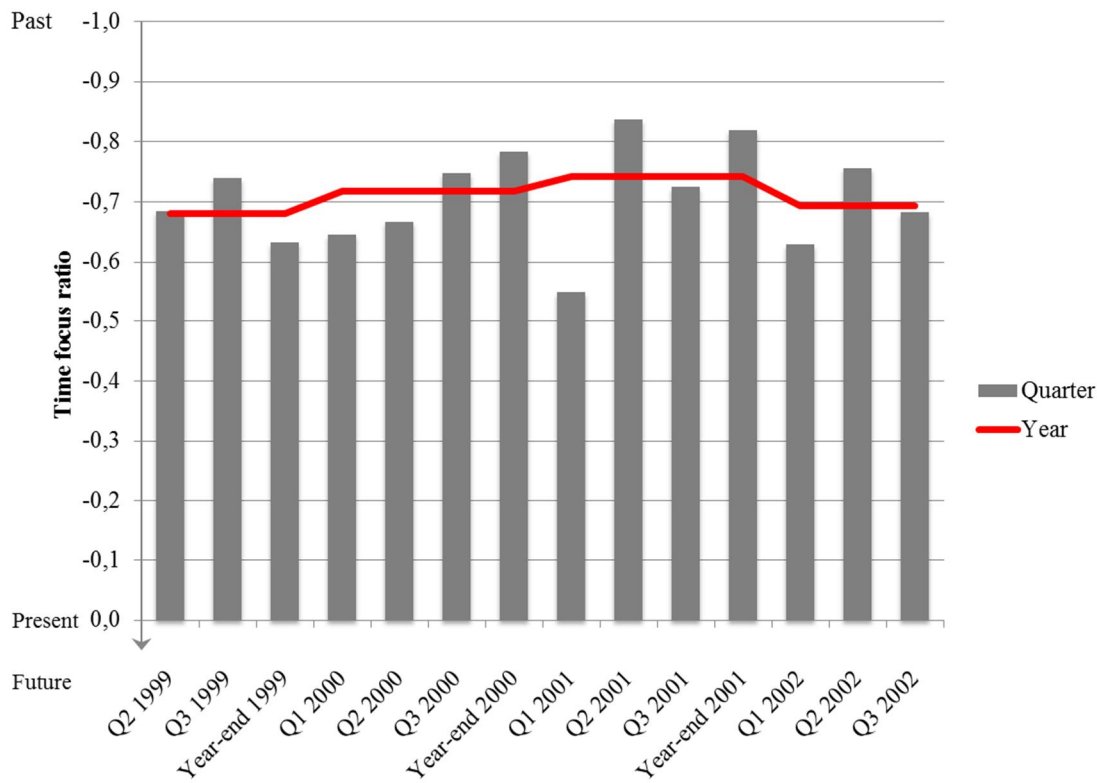
From the third quarter of 2000 to the third quarter of 2001 the future outlook sections are more positive than the next disclosure. This indicates attempts to influence the investor behaviour by discussing more optimistically about the future than what it actually appears. Indeed, Sonera’s share price was at the lowest during 2001 (see Appendix 1). The third quarter of 2001 is interesting due to the significant difference between the third quarter future prospects and the year-end report. Disclosures after the year-end of 2001 behave differently in comparison to the previous quarters. The tone is more positive in subsequent report than in the future prospects chapter. The market conditions had begun to stabilize and no significant growth was anticipated. The TeliaSonera merger took place during 2002 as well as the UMTS licence write-off. These events are not significantly improving the perception of the company’s future.

5.1.2 Time focus

Time focus relates to the extent to which the company discloses information concerning past or future events or present conditions. Due to the nature of interim and year-end reports, almost every point in the data has some shading in time, mainly past. Out of original 1086 points 41 were classified as present and excluded from the sample when examining time focus. Figure 7 below presents the time focus ratio on a yearly and quarterly basis. The time focus in each report is past and generally the development is relatively stable.

Figure 7. Time focus of reports compared with ratio describing the whole year

This figure expresses the time focus ratio of interim and year-end reports on a quarterly and yearly basis. Time focus is past when $-1 < n < 0$, present when $n = 0$, and future when $0 < n < 1$.



The time focus ratio development can be divided into two phases. The first phase consists of years 1999 and 2000. During that time the development is following a pattern. First, the time focus shifts into more past and in the fourth quarter gets significantly more future oriented even though the yearly investigation depicts a shift into more past orientation during 2000 when compared to 1999. The second phase of the time focus ratio development, 2001 and 2002, does not follow any trend. The ratio rises and declines from disclosure to another as depicted in figure 7. The yearly development of the time focus ratio reflects the easier and more difficult years; 1999 and 2002 are more future oriented than 2000 and 2001. During

better years the company has courage to disclose more concerning its hopes about the future. During challenging years the company concentrates on describing the events already occurred.

The far ends of the time focus ratio take place in the first and the second quarters of 2001. The most future oriented value is -0.55 in the first quarter and the most past oriented value -0.84 in the second quarter. The year-based time focus ratios even up the differences being more constant than the quarter based ratios. On a yearly basis, year 1999 is the most future oriented with a ratio value of -0.68. Year 2001, on the other hand, is the most past oriented with a yearly value of -0.74.

The time focus is also observed by comparing time focus ratio of the whole disclosure to the ratio that does not include the future prospects section. This examination demonstrates that the influence of the future prospects section on the time focus of disclosure is significant as can be identified in Table 3.

Table 3. Comparison of time focus including and excluding future prospects sections

This table indicates how the time focus of complete disclosures is influenced by the future prospects sections. Time focus is past when $-1 < n < 0$, present when $n = 0$, and future when $0 < n < 1$. The effect of future prospects is measure on a scale from 0 to 1, the smaller the value the smaller the influence.

Disclosure	Time(complete disclosure)	Time(no prospects)	Effect of future prospects
Q2 1999	-0.68	-0.81	0.13
Q3 1999	-0.74	-0.86	0.14
Year-end 1999	-0.63	-0.80	0.17
Q1 2000	-0.65	-0.86	0.21
Q2 2000	-0.67	-0.89	0.23
Q3 2000	-0.75	-0.91	0.16
Year-end 2000	-0.78	-0.91	0.12
Q1 2001	-0.55	-0.67	0.13
Q2 2001	-0.84	-1.00	0.16
Q3 2001	-0.72	-0.92	0.20
Year-end 2001	-0.82	-0.98	0.16
Q1 2002	-0.63	-0.78	0.15
Q2 2002	-0.76	-0.86	0.10
Q3 2002	-0.68	-0.90	0.22
Mean	-0.71	-0.87	0.16
Median	-0.70	-0.88	0.16

Evidently, the disclosures are significantly more future oriented due to the future outlook section. When examining the positive effect of the future outlook section on the complete

disclosure, on a scale from 0 to 1, the smaller the value the smaller the influence. The time focus ratios that exclude the future prospects section in Table 3 indicate that the amount of future description outside the future prospects section is rather vague. The future outlook section has the greatest positive influence on the time focus ratio in the second quarter of 2000. The influence is the smallest in the fourth quarter of the same year.

In the second quarter of 2001, the future orientation appears only in the outlook section and the time focus ration excluding future prospects gets a value of -1, entirely past oriented. This aspect explains why the second quarter interim report of 2001 is the most past oriented of the disclosures. When compared to lengths of future prospects sections (see Appendix 4) the length does not explain the past orientation of this particular disclosure. The future outlook section of the second quarter interim report of 2001 is exactly the median and only slightly below the average of the whole sample. The most future oriented ratio value of time focus without future prospects is in the first quarter of 2001. This signifies that the disclosure has the largest amount of future orientation also in other parts of the report than in the future outlook section. This same interim report is also the most future related when taken into account the complete disclosure.

5.1.3 Causal statements

Causal statements represent the explanations of events and they are classified in two levels based on their profundity and in internal or external to the company. The relative amounts of causal statements in different disclosures can be seen in Table 4 below. Due to varying lengths of disclosures, causal statements are measured in relative terms and calculated as proportion of total amount of points in the disclosure. The mean of the internal and external causal statements is somewhat similar to Gibbins et al. (1990). In their study the means are 81 per cent of internal and 19 per cent of external causal statements. The equivalent means in this research are 77 per cent of internal and 32 per cent of external. The difference is assumed to be a consequence of both firm specific factors and different environmental circumstances.

Table 4. Causal statements in disclosures.

This table presents the appearance of causal statements in each disclosure as well as the mean and median in each category. The relative amount of causal statements is calculated as percentage of report length. The relative amount of different levels and internal/external causal statements is calculated as percentage of total amount of causal statements in each category.

Disclosure	Report length	Causal statements in total	% of causal statements	Level 1 Internal (%)	Level 1 External (%)	Level 2 Internal (%)	Level 2 External (%)
Q2 1999	57	14	24.56%	71.43%	28.57%		
Q3 1999	71	17	23.94%	58.82%	35.29%		5.88%
Year-end 1999	92	34	36.96%	67.65%	32.35%		
Q1 2000	63	16	25.40%	62.50%	31.25%	6.25%	
Q2 2000	86	18	20.93%	77.78%	22.22%		
Q3 2000	96	18	18.75%	83.33%	11.11%	5.56%	
Year-end 2000	102	16	15.69%	87.50%	12.50%		
Q1 2001	56	12	21.43%	83.33%	16.67%		
Q2 2001	52	9	17.31%	66.67%	33.33%		
Q3 2001	59	13	22.03%	61.54%	30.77%		7.69%
Year-end 2001	90	18	20.00%	61.11%	38.89%		
Q1 2002	78	21	26.92%	71.43%	23.81%		4.76%
Q2 2002	94	28	29.79%	71.43%	25.00%	3.57%	
Q3 2002	90	21	23.33%	80.95%	19.05%		
Mean	78	18	23.36%	71.82%	25.77%	5.13%	6.11%
Median	82	18	22.68%	71.43%	26.79%	5.56%	5.88%

The relative amount of causal statements is relatively high during 1999; all values are above the mean and the median. In addition, the level of external causal statements exceeds the mean and the median in each quarter. In 2000, the amount of causal statements declines significantly the year-end relative amount being only 15.7 per cent. After, the amount increases but it does not reach the mean and median levels until in 2002. Years 2000 and 2001 remain below the mean and median amounts of causal statements. All in all, when examining the yearly amounts of causal statements, difficult years 2000–2001 have less causal statements in relation to the length of disclosure than the good years 1999 and 2002. When examining the appearance of causal statements, Sonera is thus depicted to tend to provide more explanations in good times than in more difficult years.

Gibbins et al. (1992, 17) refer to a research of Daveni and McMillan (1990, in Gibbins et al. 1992) concluding that the annual report's letter to shareholders tends to have more information about the external environment when the company has survived from a financial crisis. If the company has not survived from the crisis, the letter tends to have more information about internal issues. Based on this statement it is suggested that when the

company is doing well the level of external causal statements increases and when the company has difficulties the level of internal causal statements increases. Hence, the changes in appearance of internal and external causal statements imply the company's situation and position perceived by the management.

In the sample, a notable amount of level one internal causal statements is explaining the causality between two financial ratios. Generally speaking, during the period under review Sonera was not searching for explanations from its business environment but inside the company. When reflecting against findings of Gibbins et al. (1992), this behaviour signifies a challenging situation. The distribution of the first and second level statements signifies that the company did not analyse the reasons for events but rather settled for short explanations. The research evidence includes only six second level causal statements and they concern the NMT network change into GSM network, changes in customer behaviour, the law and accounting policy changes concerning Sonera and its associated company Turkcell, as well as changes in Sonera's joint ventures' UMTS strategies and actions. The changes in internal and external causal statements follow a pattern in one-year series. When compared to prior disclosure as of the fourth quarter of 1999, the trend of external causal statements is declining. In the fourth quarter of 2000, it turns into increase until it begins declining again in the beginning of 2002. This implies that Sonera was doing better from the fourth quarter of 2000 until the fourth quarter of 2001. The highest percentage of external statements is, however, in periods between the second quarter of 1999 and the first quarter of 2000, and the second quarter of 2001 and the fourth quarter of 2001. The company perceives the situation being the best possible in respect of prevailing circumstances. Events during the two time periods are positive from the company's point of view with regard to future expectations. The highest percentages during the first of the two time periods can be explained with the extreme hype and expectations related to NASDAQ listing. The second time period is shaded with finally stabilising share price development and implementation of the new company strategy.

5.1.4 Combined ex ante management components

All in all, the ex ante management based investment story develops as identified in figure 8 that presents the combination of tone ratio and time focus ratio, causal statements and time focus ratio, and tone ratio and causal statements. When examining the disclosures in figure 8.1, the tone varies significantly while the time focus remains rather stable over the period

under review. Thus, out of these two components, the principal component influencing Sonera’s investment story is tone. In that respect, years 2000 and 2002 seem to be the most similar compared to 1999 and 2001 that represent the far ends. Year 1999 is the most future oriented and at the same time the most positive. This clearly indicates hype that took place in 1999 and 2000. Year 2001 is the least positive and the most past oriented reflecting a difficult year for the company.

Figure 8. Development of different combinations of investment story components

Figure series 8.1–8.3 express the development of investment story components in disclosures on a yearly basis from 1999 to 2002. In figure 8.2, tone ratio of causal statements is calculated as the tone of disclosure but taking into account only the tone of causal statements. In figure 8.3, time focus of causal statements is calculated as the time focus of disclosure but taking into account only the time orientation of causal statements. The percentage of causal statements is calculated as number of causal statements divided by number of points in disclosure.

Figure 8.1. Tone ratio and time focus

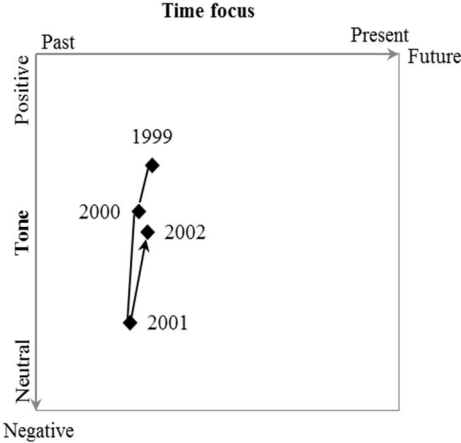


Figure 8.2. Causal statements and time focus

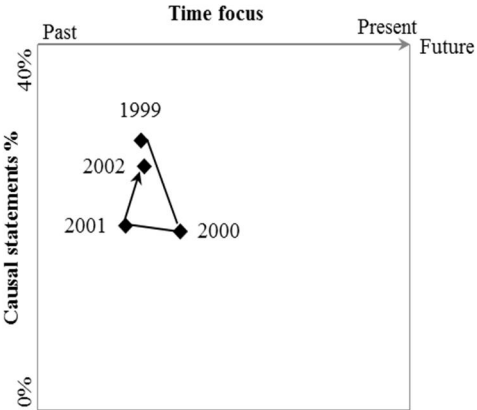


Figure 8.3. Causal statements and tone

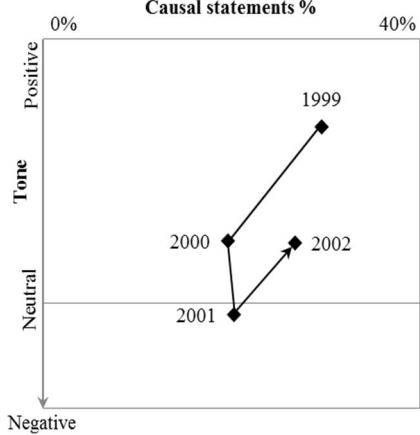


Figure 8.2 depicts that time focus of causal statements behaves differently when compared to the time focus of disclosures. Time focus in 2000 is the most future oriented and the relative amount of causal statements is the lowest. In addition, year 2001 is the most past oriented in causal statements. All in all, the time orientation of causal statements varies significantly more than in complete reports. In figure 8.3 the tone ratio of causal statements is depicted to develop accordingly with the tone ratio of complete reports. However, the drop in positivity from 1999 to 2000 is significantly deeper in causal statements than in the complete report. Year 2001 gets a negative value when causal statements are measured, the negativity of the trend of 2001 until the year-end report is evident. The development of causal statements' tone indicates that the tone plays a bigger role in causal statements than in the complete reports. Causal statements explain the positive or negative events and thus get more frequently shading in tone. This expounds on the negative tone ratio of 2001 and also the larger drop from 1999 to 2000 in causal statements' tone ratio.

When taking into account the time focus of different levels of causal statements on a yearly basis what can be concluded is that definitely the most causal statements are internal and past oriented. On the other hand, the biggest difference in appearance is in external past oriented statements. An interesting observation is made: year 1999 is characterized with hype and when examining the time focus of the disclosures it is the most future oriented. In this respect, time focus of causal statements and time focus of the disclosure are contradictory. When examining causal statements year 1999 is less future oriented than 2000. The contradiction can be explained with the nature of causal statements. In 1999, Sonera focuses on explaining the positive events taken place during the quarter at hand whereas in 2000 the emphasis is on forthcoming new services and 3G. Similarly with tone-time combination, year 2001 is the most past oriented also when measured against causal statements.

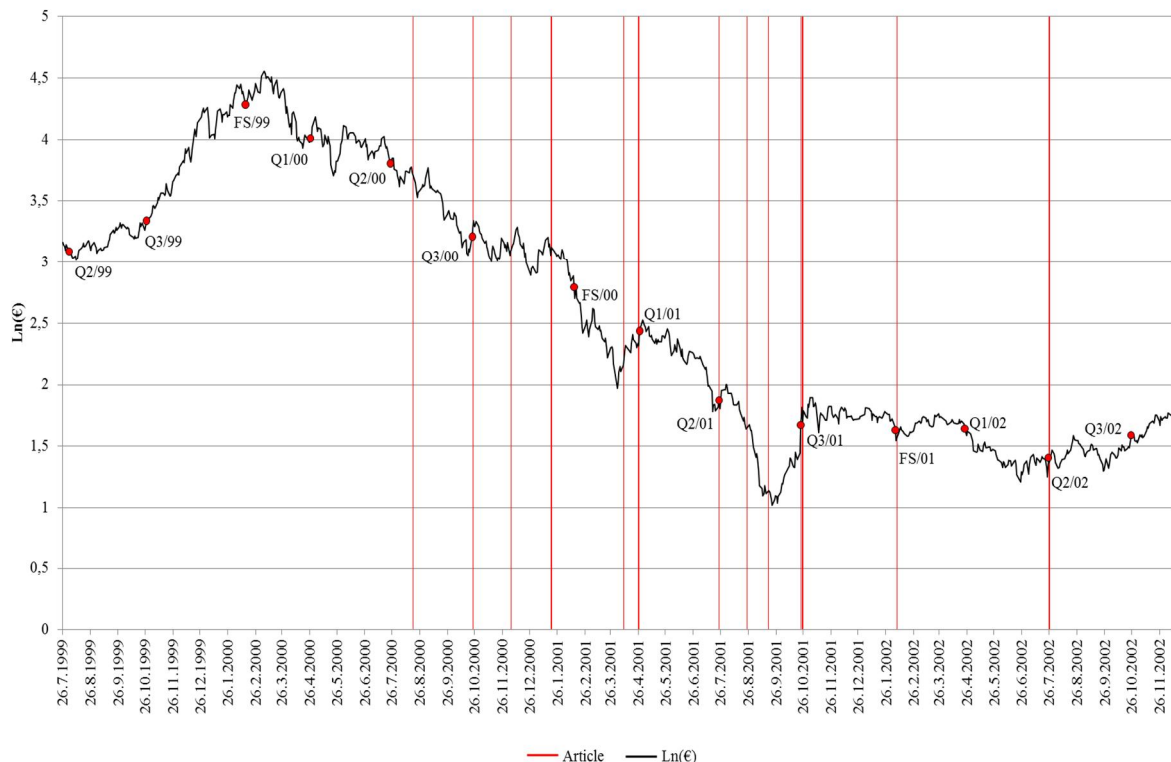
In 1999 and 2001, the level of past oriented statements is significantly higher than during 2000 and 2002. Years 1999 and 2002 have exactly the same relative amount of past and future oriented causal statements, 86 per cent of past oriented and 14 per cent of future oriented statements. Year 2000 is the most future oriented and year 2001 the less future oriented in respect of causal statements. Year 2001 is shaded with the UMTS failure in Europe, which explains the negativity. The appearance of different time focuses in causal statements suggests that when something extraordinary has happened in the market during the past quarter it is explained more than the perceived future events.

5.1.5 Ex post management in news articles

The amount of ex post interpretation management in news articles is rather small. Only 20 articles include ex post management, that is, straight management quotations that refer to already published information. List of articles applied in this research can be found in Appendix 3. Many articles, which are not taken into consideration in this study, published during the period under review could be considered having interpretation management but since they do not contain ex post interpretation management they were left out from the final list of articles. The small quantity of such articles in Finnish main newspaper and financial newspapers was surprising. There was no ex post management found in articles concerning the financial year 1999. From year 2000 eight articles were selected, from 2001 nine articles, and from 2002 two articles. Figure 9 describes the distribution of the articles containing ex post factors in relation to the share price development.

Figure 9. Appearance of articles with ex post interpretation management

This figure expresses the distribution of articles containing ex post interpretation management quotations in relation to the share price development. Share price development is presented as natural logarithm of the share price. The bars indicate the publication dates of ex post newspaper articles.



In figure 9, the bars indicate the publication dates of newspaper articles that include quotations with ex post interpretation management. What can be concluded from the graph is

that the articles accumulate to the time period of the share price dive as well as to the dates of the interim and year-end reports. During the third and fourth quarters of 2000, the articles, however, are situated also in between the disclosure dates. This observation about the appearance of ex post management suggests that the more articles containing ex post management the more difficult the company's situation in the market. This suggestion is, however, not in line with findings about appearance of internal and external causal statements. Appearance of articles containing ex post management indicates that Sonera's difficult time situates between the second quarter of 2000 and third quarter of 2001. Causal statements, on the other hand, suggest that Sonera's difficult time situates to the first three quarters of 2000 and to year 2002. Causal statements are considered more credible measures of good and bad time due to interim report's longer time frame. News articles observe only one event.

5.2 Event analysis

This chapter seeks to further analyse the ex ante and ex post interpretation management in chosen disclosures. The overall development of the investment story is introduced by placing the interpretation management components on the share price development curve and the influence and importance of different events on investment story during the review period are analysed. The selected, most important, events under observation are presented on the share price curve in Appendix 1.

5.2.1 Identifying the important events

In this chapter, the important events are recognized from the interview evidence. In order to identify the investment story development from one event to another, different components of investment story are placed on the share price development curve. The seven interviewees emphasize 11 events from the time period under review and they are listed in Table 5 that also illustrates the development of different investment story components during each event. The events are discussed chronologically in Chapters 5.2.2–5.2.12 and they are placed on the share price curve in Appendix 1. Some events take place on one day only whereas other events refer to special themes during a longer period of time. Due to the difference in the time periods of appearance some events overlap.

Table 5. The development of investment story components in relation to the events

This table presents the events chosen from the interview evidence. Quarters are compared to the previous quarter. In tone ratios, “+” signifies more positive and “-“ more negative. In time focus “+” signifies more future oriented and “-“ more past oriented. In causal statements, “+” signifies increase and “-“ decline. 0 signifies no change from the previous year.

Event	Date / time frame	Disclosure	Tone	Tone of prospects	Time focus	Causal statements Internal	Causal statements External
Internet hype	September – December 1999	Q2 1999					
		Q3 1999	-	-	-	-	+
		FS 1999	+	+	+	+	-
NASDAQ listing	13.10.1999	FS 1999	+	+	+	+	-
UMTS hype and auctions	January– August 2000	Q1 2000	-	+	-	+	-
		Q2 2000	+	-	-	+	-
		Q3 2000	+	+	-	+	-
Share price crash	6.3.2000	Q1 2000	-	+	-	+	-
Obtaining the UMTS licence in Germany	17.8.2000	Q3 2000	+	+	-	+	-
Announcement of redefined strategy	23.10.2000	FS 2000	-	+	-	+	-
Failed merger with Telia	January 2001	Q1 2001	-	0	+	-	+
Bottom of the share price	21.9.2001	Q3 2001	-	+	+	+	-
Announcement of new strategy	23.10.2001	FS 2001	-	-	-	0	0
TeliaSonera merger	26.3.2001	Q1 2002	+	0	+	+	-
UMTS write-offs	25.7.2002	Q3 2002	+	+	+	+	-

Figures 10–12 illustrate how the ex ante interpretation management components develop during the period under review in relation to the share price. The share price development is presented as natural logarithm, which better demonstrates the changes in the share price. Also the publication dates of the interim reports and the year-end reports are identified on the curve. Interim and year-end reports are special in nature when it comes to data organization and information set. Reports are built on top of each other on a yearly basis and thus contain large amount of same information compared to the foregoing quarters of the same year. In other words, the data content itself changes but the text around the numbers changes only to a lesser degree. Also, the explaining chapters are often constant from one quarter to another until the first interim report of the subsequent year.

Figure 10. Tone ratio and share price development

This figure expresses the tone ratio development of whole disclosure and of future prospects section in different disclosure. Share price development is expressed as natural logarithm of the share price. Tone ratio is negative when $-1 < n < 0$, neutral when $n = 0$, and positive when $0 < n < 1$.

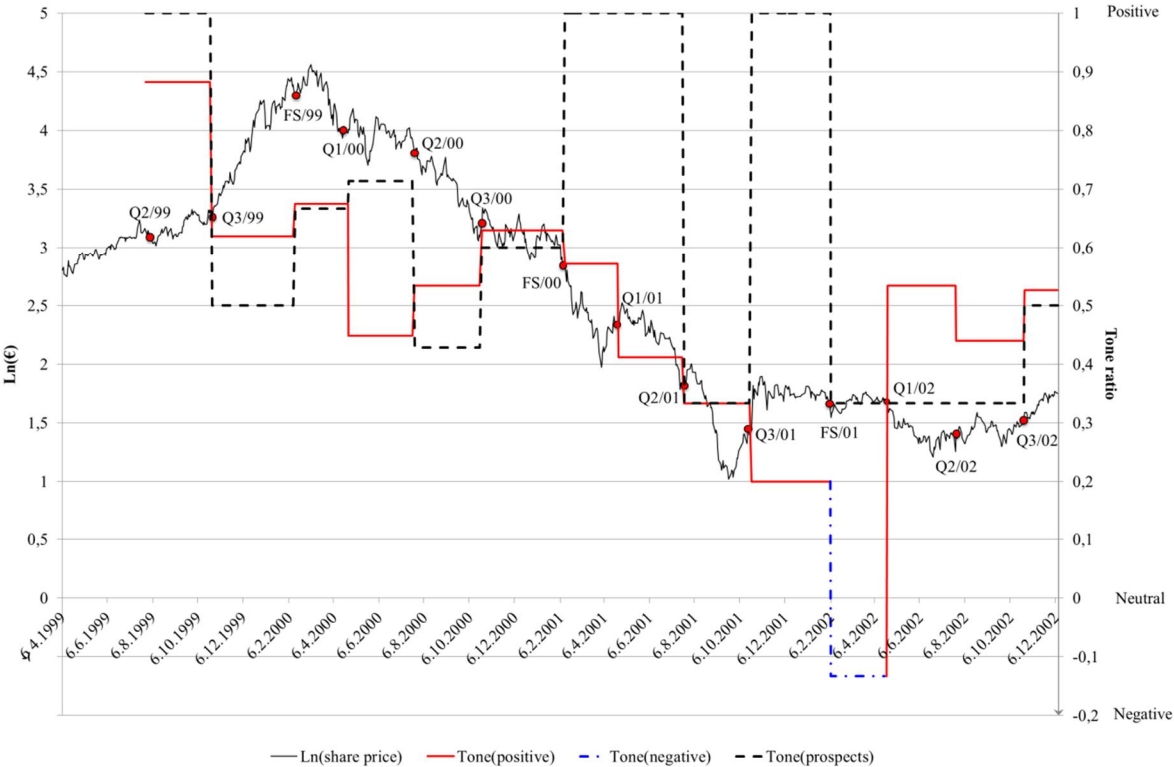


Figure 11. Time focus ratio and share price development

This figure expresses the time focus ratio on the share price curve. The development of the share price is presented as natural logarithm. Time focus is past when $-1 < n < 0$, present when $n = 0$, and future when $0 < n < 1$.

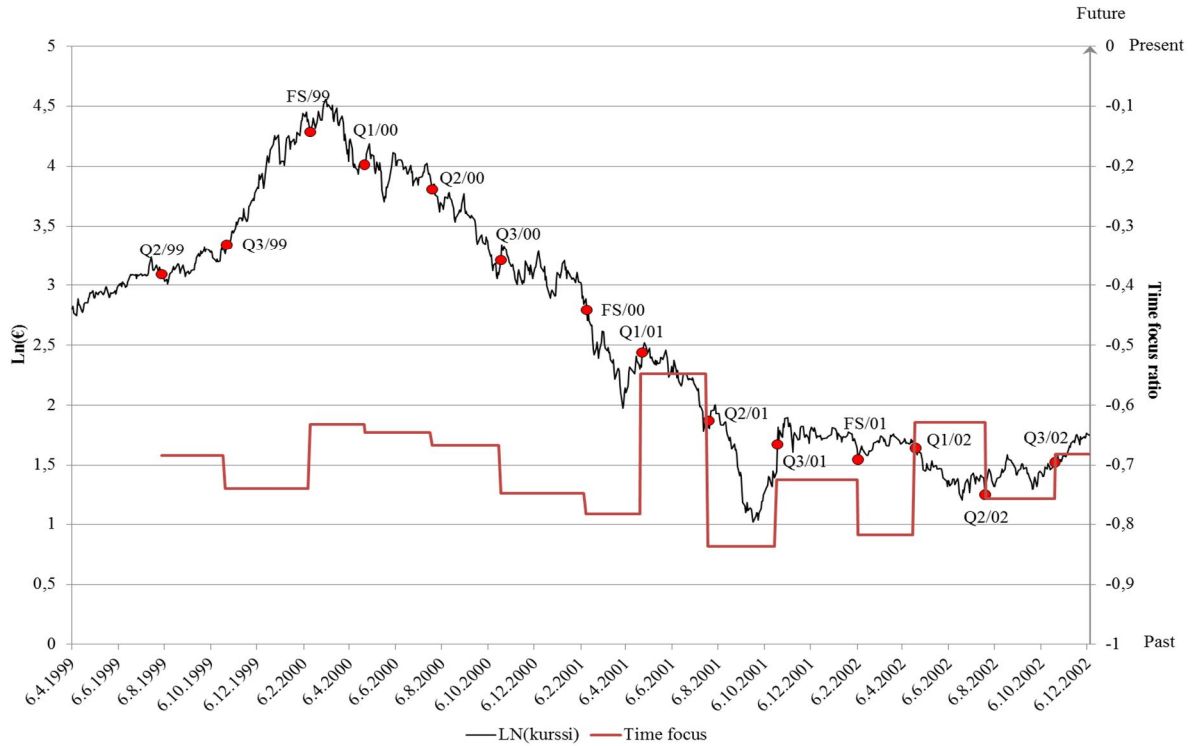
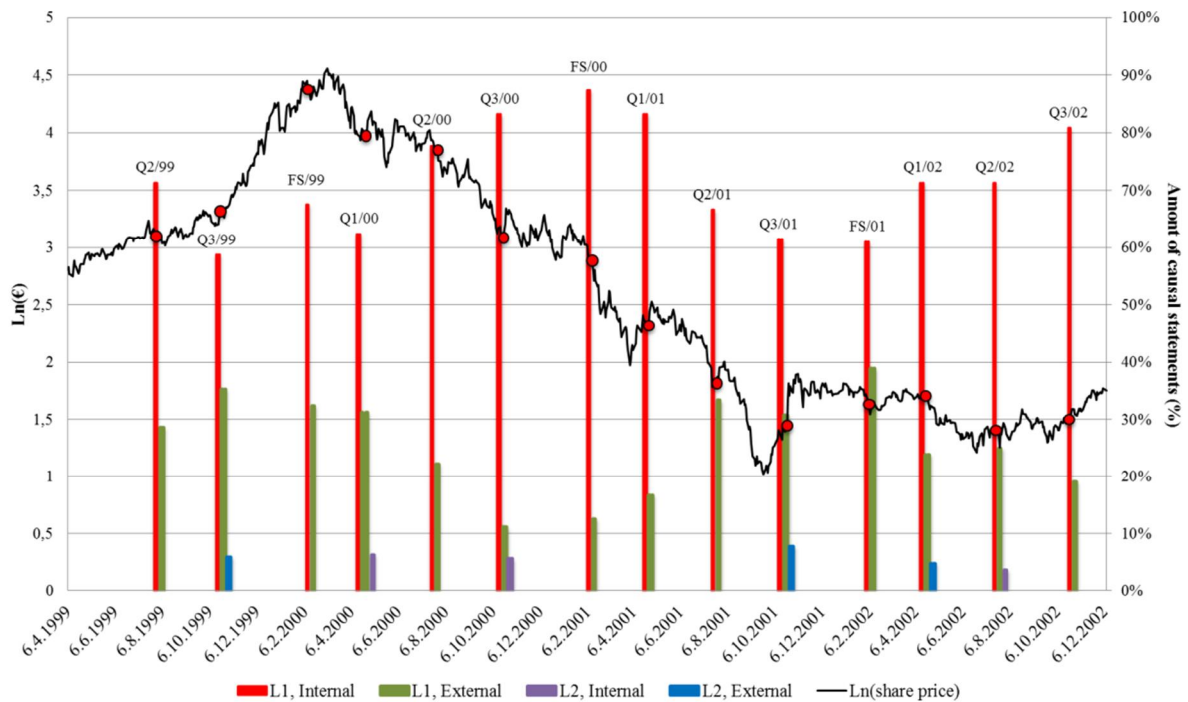


Figure 12. Causal statements placed on the share price development curve

This figure expresses the share price development as natural logarithm of the share price and compares it to the development of different levels and internal/external aspect of causal statements. Different causal statement types are expressed as percentage of the total amount of causal statements in each disclosure.



The hype of 1999 was led by the Internet and the new technology. In Figures 10–12, the hype is depicted in fast increasing share price. The trading of Sonera's shares in NASDAQ began on October 13, 1999. The listing accelerated the Sonera hype during the fourth quarter of the year. Thus, the first and second events in Table 5 are closely connected. During the third and fourth quarters of 1999, the tone ratio first drops significantly from the second quarter and then increases slightly as can be identified in Figure 10. Both tone types, the complete disclosure and the future outlook section, develop similarly in 1999. However, the tone of future prospects changes more strongly. Time focus shifts towards the future end and the level of external causal statements is significantly higher than the mean and the median signifying good time for the company. The level of internal statements is the lowest of the review period indicating good performance. When examining year 1999 on a quarterly basis the hype is not clearly identifiable. However, the yearly numbers express the hype: extremely high tone and future orientation, the highest relative amount of causal statements, and high level of external causal statements (see Figures 5–6 and Table 4).

Year 2000 was raised above other years in the interviews when the interviewees discussed four important events taken place during the year: UMTS hype and the auctions, the share price crash, the UMTS licence acquisition in Germany, and the announcement of the redefined strategy. Where the hype of 1999 was led by new technology, the hype of 2000 is characterized by UMTS emphasis. Preparation for the UMTS auctions and beauty contests began during the spring of 2000 and were completed by September. During the first quarter of 2000, the tone ratio behaves interestingly. Tone of future prospects keeps increasing into more positive but the tone of complete disclosure dives towards negative. During the same quarter Sonera's share price collapsed, which is assumed to influence the negative development of the overall tone ratio. Tone ratio of future prospects declines significantly into more negative during the second quarter and increases again into more positive in the third. The tone of disclosure increases in both quarters. During the first and the second quarters of the year both tone ratios develop conversely and in the third quarter they end up close to each other. When reviewing the time focus ratio from 1999 to 2002 it seems to follow the share price development. During the first three quarters of 2000 when the UMTS hype reigned over the market, the time focus ratio declines towards the past orientation. The drop during the third quarter is considerable. With the declining share price also the level of external causal statements declines and the level of internal statements increases.

Sonera introduced the redefined strategy on October 23, 2000. In the year-end report of 2000 the tone shades into more negative but the tone of future prospects reaches its maximum value of +1, extremely positive. At the same time, the time focus ratio continues declining towards negative and first level internal causal statements reach their highest value of the review period. An event that is not identified from interim or annual reports but is discussed in the interviews is the failed merger between Sonera and Swedish Telia in January 2001. Congruent with Cole (2001), Virtanen (2010), and Stienstra et al. (2004), there was no evidence found that this merger plan would have been announced to the public. The tone ratio of the first quarter interim report of 2001 declines from the previous quarter and the tone of future prospects stays in the maximum value of +1. Time focus ratio jumps upwards and reaches its greatest value during the review period. The level of external causal statements begins increasing identifying improving situation.

Sonera's share price reached its bottom on September 21, 2001. In the third quarter of the year the tone ratio is less positive but does not yet reach its smallest value of the review period as could be assumed. Surprisingly, the tone ratio of future prospects rises back to +1. In addition, the time focus gets more future oriented and the level of external causal statements increases. The company published its new strategy on October 23, 2001. When compared to previous events the investment story components behave differently. The tone ratio of full disclosure and tone ratio of future prospects change significantly turning into more negative. Tone of disclosure even gets a negative value. Also, the time focus ratio shades into more past. Similar trend in development continues during 2002. On March 26, 2002 Sonera announced its merger with Swedish Telia. The interim report of the first quarter of the year is rather positive what comes to the tone and time ratios. Tone of disclosure increases significantly into more positive, and the tone of prospects stays at the level of the previous quarter. Time focus ratio increases approaching future orientation. In addition, reversely with tone, the level of internal causal statements increases. At the end of July, Sonera wrote off the German and the Italian licences worth 4.6 billion euros. This move was welcomed with positive market reaction and similarly with the first quarter of the year, both tone ratios and time ratio increase. Again, the level of internal causal statements increases.

To conclude, the events discussed cover all besides the second quarters of 2001 and 2002. What is significant is that both tone ratios and time focus ratio develop similarly only in 1999 and 2002 (see Table 5). Both of these years are positive from Sonera's perspective. Tone and

external causal statements both increase only in first quarter of 2000, fourth quarter of 2000, and third quarter of 2001. Tone of prospects and external causal statements behave similarly only during one quarter, the second quarter of 2000. In 1999, the hype increases Sonera's market value and possibilities in the business environment. In 2002, the share price development settled down and the write-off in July gave the market value a positive boost. When Sonera's share price dived as of March 2000, the company was aiming at settling down the drop with extremely positive future outlook sections as identified in Figure 10. The tone of outlook sections shade into more positive from the end of 1999 until the third quarter of 2001 with one exception. The development of causal statements in respect of internal/external focus indicates, when observed against the share price curve, that when the company faces difficulties the higher degree of explanations to changes are sought from the company's actions than from the business environment. On the other hand, when the difficulties continue, the company adapts to the situation and the level of external causal statements begins increasing indicating more positive perception about the company's prevailing situation. This is in line with the suggestion of Gibbins et al. (1990; 1992) that increase in external causal statements implies that the company has survived from the crisis.

5.2.2 Hype of the new technology in 1999

The new technology was hyped in 1999 when Sonera's share price growth reached its full speed. Sonera was adapting to new technological solutions. Manager F calls Sonera's story during 1998–1999 a mobile story, a story of an advanced small mobile society that had exotic and interesting 2G investments in Turkey, in Baltic countries, in Russia and in the USA. The reputation of a “mobile wonderland” set expectations. (Interviewee F, manager.) Due to this reputation of an advantageous market many investors were suggesting that Sonera should abandon the base business of telephone operator and fixed connections. Sonera, however, explained the necessity of the old telecom business with profitability and its task as a national operator. In later years, it was realized that the promotion of new technology came too soon. (Interviewee E, board member.) Due to the forerunner position, Sonera needed to carefully consider the stability of the basis of its business: whether it was possible to create service concept innovations and intellectual property that could be commercialized later. (Interviewee A, manager.) Manager D argues that during the hype the investors were mainly interested in future prospects. Also Sonera was targeting new innovations, products and services.

The strong base business provided a platform for “*a possible birth of Internet related innovations*”. (Interviewee A, manager.) Spurred by demand for new innovations and favourable increase in the share price, Sonera was developing a broad range of unique mobile services. Sonera Zed and Sonera SmartTrust were launched during 1998–1999. This increased the company’s confidence on chosen strategy. (Interviewee D, manager.) Finally, Sonera’s value was based on these two elements: the base business and the new services. (Interviewee A, manager.)

“And at the end of the 90s Sonera was actively purchasing patents and ideas for building this service package.” (Interviewee D, manager)

Hype was not concerning only Sonera but the whole telecommunications sector. Sonera’s share price development followed the development of the new technology enterprises in general. Manager F argues that only an extremely strong strategy and possibilities to reach the goals might have a slight influence on the valuation of the company in the financial market. He emphasizes that what the companies write about the future, especially if it is not in line with the prevailing trend, is insignificant. (Interviewee F, manager.) In order to meet the markets’ requirements, Sonera created a specific image to itself and to its services based on the new technology. The spirit of the era was “*marketing, marketing, and marketing*” and the company was expected to give more and more promises every day. The vast amount of information about the new technology got the market confused. (Interviewee E, board member.) Interviewee E states the essence of ex ante interpretation management during the hype when saying:

“... the user market didn’t understand what is coming. You have to educate them, you have to build the market when this technology development has been so speedy one.” (Interviewee E, board member)

The enormous increase in Sonera’s market value was realized being only temporary and instead of building business on hype the company was aiming at building permanent competences. (Interviewee A, manager.) The investment story components behave differently in 1999 when compared to the following years 2000 and 2001. The tone ratio and the time focus ratio both decline indicating that the company had recognized the extremely positive market expectations and by disclosing significantly more negative and past oriented interim reports Sonera was seeking more optimistic image in the market. However, the increase in external causal statements reveals the management’s positive view of the business

environment and its development. Indeed, during the third quarter of 1999 the relative amount of external causal statements is the highest in the review period amounting to 41 per cent. Interviewee A describes how the company was taking measures to slow down the share price development due to their own beliefs about the future.

“But at that point [when the price was increasing] many of course guessed or knew that the bubble is being built...” (Interviewee G, analyst)

“Inside Sonera they had their goals high but not as high as the market thought. That’s how I perceived it. Sonera was thinking of changing into a service house.” (Interviewee F, manager)

In an overheated market situation the company faces a question of how much “cold water” is needed to cool the situation down. This aspect can be seen in the ex ante interpretation management during 1999. The tone and time focus ratios decline towards negative and past during the third quarter and the level of external causal statements increases (see Table 5). The investment story components in the year-end report of 1999 develop conversely with the third quarter report. The tone ratio of both the disclosure and the future prospects section rebounds but does not reach the high level of the second quarter. This implies that the company adheres to the cooling down measures. The increment in level of internal causal statements reflects that the company had realized that the hype couldn’t go on for long, as analyst G and manager A state.

Interviewee G, the analyst, criticises the companies’ hype culture. He states that during the IT-bubble companies even tended to disclose false stock exchange releases in order to meet the short-term targets. Also earnings management was recognized as common because companies preferred positive surprises to negative. Finally, when a company disclosed new information the analysts had reservations concerning the credibility of information. (Interviewee G, analyst.) A dilemma arises. The analyst blames investors, mediators, companies, and the media for being too optimistic and the managers of Sonera emphasize the analysts’ role in building the bubble. Interviewee A, a manager, states that in press releases Sonera advised investors to use their judgement and that Sonera’s top management had some disagreements concerning the level of optimism in the disclosure. When examining the investment story components, in Sonera’s case the cooling down measures are recognized during the period under review, not the overly optimistic statements suggested by the analyst

G. The hype was realized inside Sonera, its board of directors and top management were anticipating a catastrophe to arrive. (Interviewee E, board member.)

“The formation of the bubble was believed in already and when the company was giving comments they weren’t trusted because the common hype was seen in them.”

(Interviewee G, analyst)

5.2.3 NASDAQ listing

In the late 1990s Sonera was seeking growth in the USA and American investors only invested in shares listed in their domestic market. Sonera followed the trend and went to the USA and to NASDAQ in October 1999. Trading began on October 13, 1999. (Interviewee A, manager.) After the listing hype spurted, which can be identified in Figures 10–12. The NASDAQ listing made Sonera revise its strategy according to the changed business environment. (Interviewee D, manager) As a forerunner, Sonera’s introduction to NASDAQ was expected. The NASDAQ index had a technology emphasis the regulatory requirements of which were easily met. However, all interviewees are not totally for going to the US. Manager A thinks that Sonera’s governance was not yet ready for such a move at such speed.

The original plan behind the stock exchange listing was to collect means of payment for internationalization, expansion and acquisitions. In addition, the company was aiming at achieving means of bonus systems and personnel policy. However, the financing plans were turned down by the Finnish government. (Interviewee B, manager; Interviewee D, manager; Interviewee F, manager.)

“It was turned down [using shares in M&A] time after time and that finally drove Sonera to a situation where the only way to continue the internationalization strategy created at the end of the 90s was to purchase licences or scopes of action abroad with pure money.”(Interviewee D, manager)

The year-end report of 1999 is more positive and more future oriented compared to the third quarter. Tone ratios increase but do not reach the high levels of the second quarter. The more future oriented time focus reflects the positive future expectations brought by the listing. Tone and causal statements tell a contradictory story. The level of internal causal statements increases, which implies that the company is not fully confident to its situation in the environment – some uncertainties exist. Originally the company strategy consisted of

investing in minority shareholdings. Sonera was reaching for foothold in broad areas where their expertise was valued and where the other big players were not operating. Turkey, the Baltic countries and the whole of Eastern Europe were perceived as those, one of the most profitable investments being Turkcell in Turkey. Some exotic countries were, however, left out. (Interviewees A, manager; Interviewee D, manager.)

“We were also offered deals from Africa. If we had concluded the deal in South Africa, I don’t know, it would have been the outstandingly best deal ever. But it was perceived as too politically risky.” (Interviewee A, manager)

The interview evidence has some discrepancies. While some interviewees are for the strategy of minority shareholdings others are strongly against it. Manager A finds one big problem in the internationalization strategy: minority shareholdings did not bring money to the company. After a CEO change in January 1999 also the strategy was revised as manager D states below. Here the already mentioned contradiction between the company and the Finnish government realizes.

“We had this group of people from the finance world, led by Relander, who thought like bankers tend to think, that wherever you go you need to have control over the company, they were aiming at majority shareholdings, but they were also well noticing that we had no resources before obtaining shares that could be used as money.” (Interviewee D, manager)

5.2.4 UMTS hype in 2000 and licence auctions

UMTS hype and licence auctions took place during the three first quarters of 2000. Creating new services was central in the UMTS hype, which was built especially around mobile services. The feeling in the telecom market was excessively positive. (Interviewee B, manager) Sonera was aggressively implementing and utilizing new technology, among others Sonera Zed and Sonera SmartTrust that had been endogenously created already during 1998–1999. Until the value collapse in September–October 2000, the valuations of Sonera SmartTrust and Sonera Zed were tens of billions even though the companies had no revenues but the valuations were not questioned. (Interviewee B, manager.)

The hype based method of operating aroused contradictions among the company. In other words, Sonera was operating in two layers: the managers in contact with the public and the

people running the ordinary business. The development of new services was not in line with market demand. (Interviewee E, board member.) Interviewee A argues that if the market had been opposing, the company would have invested less. The 3G data promise was credible and several market players had similar goals boosting the new technology. (Interviewee A, manager.)

“Thinking about the relationship with this sector and the investor’s society, that everything was built on expectations and nobody knew exactly how it would develop.”
(Interviewee B, manager)

Also analysts had their share in feeding the hype. They published too optimistic analyses about Sonera aiming at explaining the constantly increasing price to the market. So at least to some extent the analysts and banks are being blamed for Sonera’s hype. (Interviewee F, manager.) In addition to the third generation, also the fourth generation was discussed. (Interviewee E, board member.)

“...they [the analysts] had come to some theoretical profit which was then published and through that a certain market value was fixed. I remember that the company communicated strongly with the investment banks at this stage, that why an earth were they publishing this information. That it has no real basis.” (Interviewee F, manager)

In spite of the alignment from 1999 of not participating in the UMTS fuss, when the earnings potential grew the decision of joining the 3G network business became evident. The market was expecting new services to be launched despite the fact that the trust in the sector was beginning to fracture. Without investing in the licences Sonera would have lost the expertise it had gained over the past years. In presentations, the 3G network and services were introduced as fast to mobilize (Interview F, manager; Interviewee B, manager.) Manager F calls Sonera’s strategy at the time a crab claw strategy. The company provided investors with presentations about fast transfer to 3G networks and services. The company wanted to be present where the money is. (Interviewee F, manager.)

Sonera’s bright outlook is not reflected in time focus, which declines towards the past during the three first quarters of 2000. The constant decline in time focus ratio implies that Sonera was concentrating on disclosing past events. Future did not have a significant role in the disclosures. The time focus ratio rather reflects the management’s concerns about the excessive attraction towards Sonera’s new services. The company was continuously aiming at

stabling the expectations and began to realize what was about to happen in the share market. Manager A highlights the situation being challenging. The state-ownership made the circumstances even more difficult due to the political aspect. (Interviewee A, manager.)

“Sometimes one tends to think that it’s nice when the share price is high but if it’s too high then it’s a big problem for everyone. Because someone needs to discharge the expectations and the disappointments. They will erupt through some mechanism and usually they are nasty mechanisms.” (Interviewee A, manager)

Despite the concerns about the excessive attention, Sonera believed in the earnings potential of 3G. Manager A says that there was indication that the average usage in euros per subscriber had no ceiling. (Interviewee A, manager.) What was not taken into account at this point was the concentrated risk arising from focusing on only one market area. (Interviewee D, manager.)

“The average revenue per user, the estimates for five years forward were somewhere in 80 euros per customer and there’s still today 25 euros or so, what they were at that time as well maybe even higher.”(Interviewee B, manager)

The trust in new technology, high future expectations, and the earnings potential of 3G services influence the tone ratio that first shades into more negative in the first quarter and then increases into more positive during the second and third quarters of 2000. The decline results from the share price crash in the beginning of March as will be discussed in Chapter 5.2.5. The declining tone ratio of the first quarter refers also to cooling down measures taken in order to stabilize the hype. The tone of future prospects, however, increases in the first quarter, next it turns slightly more negative, and in the third quarter increases again. The increasing tone ratio implies that Sonera’s management mediated to the market messages of trust in the UMTS. Again, the contradiction between tone and causal statements appears. The growth trend in internal causal statements is assumed to signify company’s lack of trust in the market position and suggest that uncertainties about the future exist.

At the same time with Sonera’s increasing confidence in 3G, the market confidence was starting to fracture. Finally, investor criticism towards the licence competitions and the UMTS networks increased and the debate became negative due to lack of end market. (Interviewee E, board member; Interviewee F, manager.) The negativity of the market is reflected in more positive tone ratio with which the company aims at positively influencing

the market sentiment. However, in order to keep some optimism, Sonera did not quantify⁵ its value before the execution of the 3G investments. Manager F explains this with pressure from the investors' and banks' side. The company was prepared to publish information about the quantified values not prior to one year after introduction to the stock exchange that is, at the end of 2000. The company even advanced the release of quantified values due to high demand.

“But what was found there pleased no one. All in all, during fall 2000 the market situation had not yet gotten cold, asset value decline was about to begin at the telecom-side. We were seeking stability and we wanted, since our unawareness aroused perturbation, we needed to nail something in order to stabilize the situation.”
(Interviewee F, manager)

During the second quarter, Sonera signed up for the UMTS licence auction in Germany. This put pressure on the company, since at the same time it withdrew from an auction in Great Britain. (Interviewee A, manager.) The positive tone in the interim reports was needed in order to explain to investors why winning the auction was favourable for the company. The German market was chosen because, among others, they did not require immediate network building but instead it was to be built in stages during a longer period of time. In addition, for the Finnish companies Germany was a target country, a big and attractive market. (Interviewee B, manager.) The licence in Germany was obtained in August 2000.

“...right after there was quite a buyer's remorse going on.” (Interviewee A, manager)

In late August, Sonera announced its participation in Italian licence acquisition. The announcement was recognized in the media. Sonera perceived this market in a different, more realistic, way than the German market, which is also apparent in the ex post statements. The company acknowledges the time-demanding network building and the importance of long-term planning.

“The market is at the moment fairly developed.” (Kauppalehti 24.8.2000)

“Investments are made for several years in advance but the share price development happens daily. A lot has happened before we will be building the UMTS.” (Kauppalehti 24.8.2000)

⁵ Sonera did not calculate a numerical value to itself or to its services.

5.2.5 Share price crash

“Sometimes your ambitions are too high.” (Interviewee E, board member)

Sonera’s share price crashed on March 6, 2000. Before the collapse, telecommunications companies were taking corrective measures to cool down the fast climbing share price and after the collapse to stop the dive. Companies were under the impression that the measures taken had been enough to settle down the dip. Only when the share price reached its bottom and began to find the balance the companies realized the reality of the situation. (Interviewee G, analyst.)

“At that time it wasn’t yet realized how everything would be left like after a bomb...”
(Interviewee G, analyst)

Tone and time focus ratios support Sonera’s negative market development. Despite the boosting investment story measures, a company needs to consider also the prevailing market situation. The tone of the first quarter interim report is the most negative in 2000. Tone ratio of future prospects increases describing the UMTS hype and strong trust in the future. The time focus becomes more past oriented even though the decline is only minor. Nevertheless, time focus is the most future oriented of the year. The analyst G names two reasons for the share price collapse: volatility and changing market sentiment. The promises, that are too good to be true, decrease the market value of the company and raise confidence issues. After the company has lost the market confidence communicating to the market becomes more difficult.

Sonera’s share price decline is significant as can be identified in the Figures 10–12 and Appendix 1. The interview evidence, however, proves that the industry-wide UMTS hype did not slow down until after the summer 2000. The investors and the industry were thus living in different worlds. The investment story components do not support the hype during the first quarter of 2000 but rather the negative market development. Only the tone ratio of future prospects is more positive compared to the year-end report of 1999. Tone and time focus ratios decline and the level of internal causal statements increases slightly. According to Gibbins et al. (1990; 1992) this implies that the company perceives that it has not yet survived from the crisis. The situation at the disclosure date had already changed into more positive

even though the company did not support the hype anymore at this point. (Interviewee A, manager.)

Interviewee G, the analyst, remembers thinking that the company had seriously drifted apart from its base factors. The extreme increase in share prices happened only during few months, which does not happen in normal market situation. As a result, Sonera had abandoned its emphasis on fixed line and 2G mobile networks and began concentrating on new technology services such as Sonera Zed and SmartTrust. Manager A argues that it is companies' responsibility to look in the future and model the coming moves. This was conducted during the period of hype but the UMTS project was executed in the overheated market situation in which it was not yet ready to be evaluated with financial measures. The measurement criteria were also overheated. Wrong timing ended in the share price crash and declining investor confidence.

“So does it matter how the company is communicating in a situation like this?”
(Interviewee G, analyst)

5.2.6 *Obtaining the licence in Germany*

The UMTS auction in Germany took place in August 2000. Sonera had high expectations towards the auction and strong confidence in the joint venture and the German market. One background force for bidding as high amount as 8.5 billion euros for the licence was the experience from previous auctions. Sonera had seen other operators profit considerable amounts of money and believed that the trend was long lasting. (Interviewee D, manager.)

Sonera's UMTS story in Germany commenced as positive. The joint venture of Orange, Telefónica and Sonera was considered as a dream team due to its strength and innovativeness. The prevailing assumption was that the technology and services develop fast and the urge towards the German market led the decision-making. Board member E and manager F remind that the urge towards the German market was substantially higher than what the final licence fee indicates: Sonera's limit was three times bigger, some 12 billion, than Sonera's share of the final fee. (Interviewee E, board member; Interviewee F, manager.) In addition, prior to obtaining the German licence Sonera had closed a successful deal in the US, which encouraged Sonera to take part in the auction in Germany. (Interviewee A, manager.) Nevertheless, the financial market perceived the fee paid higher than expected. Analyst G

states that the investors were concerned that the additional investments would keep on burdening the company – only putting a cap on the investments would stop the market value reduction. (Interviewee G, analyst.) In public, Sonera was blamed for not having executed enough risk assessment. Board member E argues that Sonera had made detailed and professional analyses in which resources were balanced. However, he admits that the investments were calculated inaccurately. (Interviewee E, board member.) As the crisis deepened, the asset prices dropped to one tenth of their value, which complicated the refinancing the following year. (Interviewee F, manager; Interviewee G, analyst.) Manager F's quotation below indicates Sonera's invincible trust in the German acquisition.

“The financing seemed to be in order, I'm emphasizing the words seemed to be in order.” (Interviewee F, manager)

The investment story components indicate that Sonera was still in hype mindset. The tone of the third quarter interim report is considerably more positive than the tone ratio of the previous quarter. Also, the tone of future prospects becomes more positive. The interview evidence supports the tone ratios; Sonera was aiming at influencing the investors' perception. Despite the negative market sentiment, Sonera had strong belief in the German market. Time focus that shades into past signifies that Sonera was concentrating on disclosing information about the events already occurred – in the interim report Sonera concentrates to explain the acquisition. The examination of causal statements indicates that uncertainties exist: the level of internal causal statements increases. Manager A explains that the bad business decision – the UMTS acquisitions – took place in a situation where the market had given positive feedback about the growth. Sonera acknowledged that the growth would not maintain at the same level with the past decades but at least they would stay in the top of development. (Interviewee A, manager.) The quotation of manager A sums up the result of the UMTS licence auction in Germany.

“Yes, we won the auction and sometime it happens that when you win the auction you lose the game, and that's what happened.” (Interviewee A, manager)

The ex post management quotations reflect the positivity of the interim report. Both of the two articles discussing the issue are positive in nature and seek to convince the investors that Sonera is now better off. Sonera's acting deputy CEO at the time, Kaj-Erik Relander, comments the company's expansion in the European market and the licence price in Helsingin Sanomat and in Kauppalehti. He rationalizes the possibilities brought by the

geographical choice and the final price paid of the licence in Germany. The articles reflect Sonera's high expectations of the licence auctions and that the company did not see the acquisition as a bad deal.

"We are very pleased. Sonera has now foothold on the biggest single European market with vast development potential." (Helsingin Sanomat 18.8.2000)

"The licence price was a positive surprise and of course being part until the end of the auction signals that the price was at the correct level the whole time." (Kauppalehti 18.8.2000)

5.2.7 Redefined strategy

"It was total confuse and those people who had been doing that did not anymore see any potential to go to the investors and tell the story because no one really wanted to hear that anymore." (Interviewee E, board member)

During the fall 2000, the acceptance of UMTS investments became strongly critical and the market reaction was hostile to every new UMTS investment. To investors, Sonera was explaining how investments in services, in bigger markets, and in transforming already realized potential of 2G-networks into 3G-networks were necessary. Already during 1999 there were some contradictions between the two organizational layers in the company: managers and employees. Deteriorating market confidence in Sonera entailed turbulence among the leading team of the organization. (Interviewee E, board member.) Part of the team began slowing down the UMTS fuss during the fall when the other part was still lobbying for the 3G saying that standing aside would be a big mistake. (Interviewee A, manager.) Interviewee A criticises the lobbying part of the management:

"When the capital market is so strongly against this the top management needs to react." (Interviewee A, manager)

Finally, on October 23, 2000 Sonera announced its redefined UMTS strategy concentrating on already acquired licences on the Baltic area and on minor holdings in other European markets. (Sonera 2000) Through this action Sonera was seeking to influence the share price in the market. The redefined strategy anticipates Sonera's new strategy in one year's time. The interview evidence shows that the company did not perpetrate disclosing false information,

action that is claimed to be used during the hype. (Interviewee G, analyst.) Manager F says he trusted the accuracy of reported information due to internal control mechanisms. In fact, at the time, Sonera developed control systems when preparing for the upcoming merger. Manager F recognizes the importance of the new strategy on market sentiment.

“How the road show on October 2000 influenced the market, and the new cautious strategy. Well, it slowed down the share price decline. It was a fair but inadequate action.” (Interviewee F, manager)

The redefined strategy did not have a positive influence on the tone ratio, which becomes more negative in comparison to the previous quarter. Also the time focus ratio continues descending towards the past-end of the scale. These reflect the issue in quotation of manager F, who says that the strategy change was not an adequate measure to improve the company's situation. Nevertheless, the tone ratio of future prospects continues the increasing trend – Sonera is aiming at changing the investors' perception of the company's future. As expected, the level of internal causal statements increase, which indicates Sonera's retreating market value.

Sonera's redefined strategy was also written about in the press right after announcement. The main message in ex post statements in the articles is the risks concerning the UMTS investments. Sonera's CEO and deputy CEO comment critically the states' additional fees and consequently rationalize the decision of the new strategic direction. Sonera's management explain the basis of the strategy especially with external causes such as negative market sentiment. They do not make bones about the riskiness of the investments but highlight the political and financial change in the business environment. The overall tone of the articles is somewhat negative reflecting the tone of the year-end report. Despite the negative feeling in the ex post statements, the management is also aiming at softening the belly-landing of the UMTS investments by adding a positive side to the adventure in Germany. This is, however, only a small positive addition compared to the rest of the quotations. Company's responsibility to the financial market is emphasized in the second quotation below where Sonera opens up its new and more cautious direction of UMTS investments.

“Even if the deal with Deutsche Telecom had been cancelled we would still be significantly stronger and more developed company.” (Helsingin Sanomat 24.10.2000)

“In addition, we participate selectively and with small portions in other European markets. We will not attend the French licence competition and we consider Switzerland critically.” (Taloussanommat 24.10.2000)

5.2.8 Failed merger attempt with Swedish Telia

Manager A discusses the first attempts of a merger between Sonera and Swedish telecom operator Telia. The third, and last, of these attempts took place in January 2001. The merger was, however, rejected by the Finnish government. (Interviewee B, manager.) According to manager A, Prime Minister Lipponen was the force behind the rejection because he was afraid of a political scandal to arise if the merger happened. Sonera’s CEO, Mr Relander, had suggested a 40–60 ownership division in the new company, head office located in Stockholm. Sweden had not concluded the decision on selling its entire holding of Telia and the Finnish government regarded any state ownership as risky; cash flows would have been directed to Sweden. By this time Finland had already decided on selling the remaining Sonera shares to the public. (TeliaSonera history.)

Manager A states that in the beginning of 2001 Sonera was a stronger company than Telia and if the merger had taken place as planned Sonera would have been better off. The deal would have allowed Sonera to finance international operations without direct access to the capital market. (Interviewee A, manager.) Sonera’s strong position did not remain throughout the year. In annual report of 2001 it is stated that the company’s year was shaded with strong value decrease. (Sonera 2001.)

“The expectations were high all over, so if the reality is like this then this is not going to work.” (Interviewee A, manager)

The merger plans are in accordance with the prevailing market trend of consolidation. Interviewee A remembers that Sonera had preliminary merger negotiations also with other European operators in case that the Telia merger would backfire. Negotiation partners were, among others, Vodafone, T-Mobile and Orange. Individual operators were aware that surviving in the market would be difficult alone. Finally, even though the third merger attempt failed, the interviewees do not mention any further negotiations taken place between Sonera and any of other operators.

The failure does not change the direction of the tone ratio development, which retains its declining trend towards negative. Tone ratio of future prospects sections remains at the level of the previous year confirming the company's perception of the future. Time focus, on the other hand, changes into more future oriented. Even though the merger with Telia was rejected the other, albeit preliminary, negotiations with other European operators upgrade the future orientation. The time focus ratio of the first quarter of 2001 is the closest to the future of all quarters under review. The increasing level of external causal statements suggests that the company's situation in the market has become less distressing.

5.2.9 Bottom of the share price

The bottom of the share price dive took place on September 21, 2001. Due to continuous decline in the share price development trend, Sonera had commenced downscaling actions earlier in September at the same time with new CEO Harri Koponen starting in his new position. The efficiency-boosting program aimed at increase in profitability, which is the basis of the new strategy announced in October the same year. Analyst G points out in his interview that at the time of the bottom the companies were in a really bad shape. He emphasizes that Sonera was not the only company the share price of which reached the bottom around the same time. The market values of new technology companies and telecommunications operators behaved similarly during and in the aftermath of the hype.

“The share price dropped below the normal level. The companies were in extremely bad shape.” (Interviewee G, analyst)

The investment story components of the third quarter interim report of 2001 are linked to the share price dive. The declining tone ratio of disclosure reflects the fall and bottom of the share price but at the time of the disclosure in October 2001 the recovery has begun. The tone ratio of future prospects section, being +1 and thus extremely positive, indicates the more positive future ahead. Also, the time focus of the disclosure increases rather significantly compared to the previous quarter indicating, in addition to the more stable future, the new strategy disclosed the following day. However, the level of internal causal statements increases signifying that the company is still struggling in the crisis situation – the situation is not yet recovered.

5.2.10 New strategy

On October 1, 2001 Harri Koponen was appointed CEO and on October 23 Sonera announced the new strategy. The business environment and the market sentiment had permanently changed from growth towards profitability and Sonera was to adapt to the new situation. These changes are the background force for the strategy. (Sonera 2001.) The capital market had an influence on the formation of the new strategy through changing market expectations and prevailing market situation. Manager A concludes that sudden changes from growth strategy into a profitability strategy are significant and the company needs to work hard to rebuild the trust. (Interviewee A, manager.)

Despite the new strategy's positive nature and positive market reaction, the positivity does not carry until the year-end report. The tone of the disclosure declines to negative and also the tone of the future prospects section decreases. Time focus ratio behaves similarly with tone ratio and becomes more past oriented. Causal statements remain unchanged. New strategy does not seem to have an influence on the investment story of the fourth quarter. What rather can explain the development of the investment story components are the low but more stable share price development and the lay-offs resulting from the new strategy based efficiency-boosting program that began already during the third quarter of the year.

The new strategy limited the amount of UMTS investments and directs the company's focus to profitability. The benefits of new strategy will realize later in the future which explains the past orientation of the year-end report. There are also disadvantages in respect of the new strategy lay-offs being one of the most discussed disadvantages. Sonera began downscaling its operations already in September when preparing the strategic changes by announcing cuttings in labour years. Manager A remembers how the trade union was expecting the lay-offs *"and that's what caused all the fuss"*. The interviewees mainly concentrate on the necessity of the downscaling actions but the press discusses both sides of the facts; the management explains and defends especially the labour negotiations. With the efficiency-boosting program, the company was seeking significant cost savings and increase in profitability. In the quotation below Sonera's president of the board Tapio Hintikka explains the giving of employee notice in Taloussanommat in late August.

"It is clear that with this high amount of employees the situation cannot be solved through internal arrangements and retirement." (Taloussanommat 24.8.2001)

News articles cover different aspects of the new strategy. Sonera's acting CEO at the time, Harri Koponen, comments the strategy in three different newspapers. The articles concentrate on the reasons behind the new strategy, such as the reduction of employment years, and not the consequences. The statements in Helsingin Sanomat on October 23 are the most negative leaving the future uncertain.

"No one can promise anything." (Helsingin Sanomat 23.10.2001)

The articles in Taloussanomat and Kauppalehti are less negative and more future minded. Especially the Kauppalehti article concentrates on the client aspect of the new strategy, that is, *"creating a clear interface between Sonera and the client in all services"*. (Kauppalehti 23.10.2001) The management quotations in these articles reflect the future orientation of the year-end report. Even though the tone of these quotations is defensive and realistic the negativity of the year-end report is not, however, mediated through these statements. Especially in Taloussanomat (23.10.2001), CEO Harri Koponen excuses the new revised UMTS strategy with *"delayed introduction of new technology and commercialization"*. Considering the tone, the ex post management quotations reflect the more positive approach of the future prospects section as the quotation below presents.

"Sonera will not become a department store; we need to adhere to innovativeness."
(Kauppalehti 23.10.2001)

During the early fourth quarter the ex post management quotations were realistic with positive shading. Article published in Kauppalehti on February 7, 2002 continues discussing the new strategy. Three months after the prior ex post statements the tone has changed to more negative now supporting the negativity of the year-end report. The company states the reality of the current, new, and still unstable situation that directs the company towards the upcoming merger. The difference between the quotation below and the quotations above can be explained with the release date. In October the company had just disclosed its new strategy whereas in February the company disclosed its final result for 2001. The new strategy had been in action for some months and Sonera had gotten experience of where it will lead the company. In addition, the quotation below indicates that the hype-based mindset has finally been abandoned.

"The growth will not reach the level we anticipated few years back. We will not count on hype." (Kauppalehti 7.2.2002)

5.2.11 Merger with Telia

The TeliaSonera merger was announced on March 26, 2002. Already at the time of the UMTS licence acquisitions in 2001 the European market believed in major consolidation. The telecommunications operators realized that the market was too large to conquer alone. Sonera's share price development had settled down as of 2001, which provided trust to the market. The tone ratio of disclosure becomes more positive and the tone of prospects remains unchanged. The time focus ratio increases moving closer to the future orientation. Also the internal causal statements continue increasing indicating that the company perceives the crisis not yet being beaten. Finally, the consolidation was only a part of the hype and did not arrive in expected scale. (Interviewee B, manager.)

“Telia and Sonera are almost the only cross border merger that has taken place. [...] Which [belief of only two or three big market players] of course added to the valuation of the hype.” (Interviewee B, manager)

Interviewee E, the board member, describes how Telia gave a strong picture of itself but in the end the company was in financial trouble. Telia's weak situation explains the increase in internal causal statements, that is, despite positive future outlook some uncertainties considering the future remain. The interviewees (E, C) argue that the merger had become a weaker deal compared to the previous attempts. These statements are contradictory with the investment story components that all get more positive. When the two companies were planning the merger, the perception of Telia's financial standing was different in Telia's managers and Telia's board of directors.

“They had six hour meeting but the story what was told to the board was completely different what he saw when he was preparing himself to be the CEO for the company. That's the Swedish way of running the company, state-owned.” (Interviewee E, board member)

The decisions made during the UMTS period have an impact on TeliaSonera today. Interviewee A says that Sonera's fundamental business was effective, international investments were mainly successful, and the company was innovative. (Interviewee A, manager.)

5.2.12 UMTS write-offs

Before writing off the UMTS investments in Germany and Italy on July 25, 2002, Sonera had executed regular impairment testing for the licences already in 2001. No grounds for the impairment existed before the second quarter of 2002. (Sonera 2001–2002.) When Sonera began the impairment testing the aim was at focusing and guaranteeing the cash flow and that the people inside the organization did not have too high expectations. What is notable is that Sonera was not the only telecommunications operator writing off the licence investments. During the first years of the 2000s, also Spanish Telefónica and Orange from Great Britain wrote off significant amounts. (Interviewee E, board member.) Group 3G who possessed the licence in Germany changed its UMTS strategy and decided to wind up the business due to poor future outlook. Sonera, holding only a minority in the joint venture, was able to eliminate the extra burden caused by the licences. Telefónica, Sonera's partner in the German auction, took the responsibility and thus carried the risks in Germany as the major shareholder. After the write-off the future of Sonera turned bright. Manager B states that before the write-off was executed *“it was the whole consensus starting to change like month after month, you don't see the development of the data uses and so on. It happened pretty quickly.”* (Interviewee B, manager.)

The interviews reveal that the impairment tests and the write-off were not a surprise to the market. It was rather a question of whether to write off the whole investment or only part of it. In the early 2000s the impairments received a positive market reaction because *“it clears the risk table”*. (Interviewee B, manager.) This was also the case with Sonera; the market reaction was positive as can be identified in Appendix 1. Not only was the market reaction positive to the write-off. Sonera was disclosing in a more positive manner. Tone of disclosure and tone of future prospects section become more positive and time focus moves closer to the future. Especially the future prospects section gets a significantly more positive tone compared to the previous quarters of the year. The company was finally ready for the future in Nordic cooperation and the UMTS adventure was concluded.

“It was part of the story that this company can survive.” (Interviewee E, board member)

The board member E's comment about the survival and the increasing appearance of causal statements are in line with findings of Gibbins et al. (1990; 1992). They find that when the

company has survived from a crisis it discloses more external issues than internal issues. The increase in internal causal statements is significant from the year-end report of 2001 to the third quarter interim report of 2002. The level of internal causal statements is high also in 2000 when Sonera took corrective measures to slow down the share price dive. The significant increase in internal causal statements implies that the company perceives its position in the environment and its situation as a company uncertain.

Two articles have features of ex post management and they both discuss the write-off. Sonera's deputy CEO Aimo Eloholma comments the announced write-off in Kauppalehti. He corrects the rumour that the write-offs of companies possessing licences in Germany would have been agreed on. He emphasizes that when the impairment tests are conducted in the given situation by professionals and by the book the outcome is and ought to be similar.

“For long there has been pressure to execute the write-offs. It was good that the action was taken simultaneously so that no additional pressure was put to the other party.”
(Kauppalehti 26.7.2002)

The CEO of Sonera at the time, Harri Koponen, and the CFO Kim Ignatius comment the original planning of the UMTS project in Taloussanomat when interviewed about the second quarter result. The significant change in the business environment is highlighted when rationalizing the process from high expectations to auctions and further to the write-offs. The quotations in the articles are slightly more positive and instead of only stating the necessary they give reasons. The nature of these ex post statements is more declarative than persuasive because the share price development at the time had already settled down and the market reaction had been positive in similar cases in Europe. With the explaining comments Sonera seeks to give a positive picture about need and demand for the write-off.

“The project was not planned carelessly. When entering the UMTS business the situation was very different. It's easy to say afterwards that the decision was right or wrong.” (Taloussanomat 26.7.2002)

“The development of the mobile market in Germany is the slowest in Europe and launching the operations have not progressed as wished.” (Taloussanomat 26.7.2002)

5.3 Summary of Sonera's investment story development

Sonera's investment story development is investigated through four components: tone, time focus, causal statements and ex post interpretation management. Tone and causal statements are identified as main components and in seven cases out of eleven they develop reversely. Tone ratio gets its most positive values during 1999 and late 2000. The most negative values appear during 2001, the year-end report having the only negative tone during the review period. When the tone is positive, Sonera is mediating a contrary story through causal statements. External causal statements are the highest during the late 1999 and early 2000, and during the three last quarters of 2001. Time focus is not a significant component in investment story development. Especially, when the future prospects sections are excluded, the variation in time focus is minor. Time focus rather gives insight into the level of explaining past events versus future events. Due to the nature of interim report, they explain mainly past events.

Several interviewees discuss the cooling down measures, that is, how Sonera was aiming at settling down the share price boost and after slowing down the dive. The tone ratio, especially the tone of future prospects section is identified as means of cooling down the extreme market behaviour. Out of the eleven events, the two endogenous events relating to strategy changes express how the investment story can be different in similar situations. In other words, even though the events are similar the investment story is constructed in relation to its context that is, the prevailing business environment.

This research indicates that the appearance of internal and external causal statements measures well how the company perceives its market situation. Also ex post interpretation management in newspaper articles concentrates on the years of the deepest crisis. As Gibbins, Richardson, and Waterhouse (1990; 1992) suggest, increase in external causal statements implies that the company is more certain about its position and its future. During the hype of 1999, before the IT-bubble was evident and recognized by the company, Sonera used more external causal statements. Around 2000–2001 when the share price first reached its peak and then crashed, the level of internal causal statements increases signifying more uncertain period. When the share price reaches the bottom, the level of external causal statements begins increasing again implying that the bottom was expected. The uncertain phase at the time of the TeliaSonera merger is characterized by varying increase and decline of causal

statements. More importantly, the events analysed support the investment story development in this respect.

The research indicates a link between the events and the investment story development. Sonera adapted the investment story to the prevailing situations. The interviewees discuss mainly the same events, also a non-disclosed one. The analysed events match well with the findings of investment story component examination. The most discussed events are the two periods of hype of which each interviewee has one's own perspective. The biggest differences in the interview evidence are in timing. The interviewees placed same events even to different years. The most significant difference in interview evidence is the contradictions in analyst and managers' opinions about who is to blame for the hype. The analyst states that companies were overly optimistic in their disclosure and the managers argue that analysts were publishing false valuations. There were also some disagreements whether the NASDAQ listing was a wise move. The least discussed events, on the other hand, are the bottom of the share price and the failed merger that are both discussed only by one interviewee. All in all, the investment story analysis points out factors influencing the company's perception in the market and demonstrates the importance of considering investment story management as part of the disclosure strategy.

6 Discussion

Previous literature on investment story from the fields of accounting and business communications has mainly investigated companies under normal circumstances (see e.g. Gibbins et al. 1990; Gibbins et al. 1992; Jameson 2000; Beattie et al. 2004; Rutherford 2005). Henry (2008), on the other hand, has examined IT and telecommunications companies' disclosures in the dot-com bubble, 1998–2002. This thesis is conducted using only one case company and thus provides interesting and more detailed observations that are consistent with the previous research, especially Henry's (2008) and Gibbins's et al. (1990; 1992). The findings of this thesis suggest that a crisis company's investment story management does not significantly differ from the investment story management under normal circumstances. However, in uncertain circumstances the investment story development is quicker, more reactive, and more volatile. Sonera's cooling down actions signify a rather reactive approach to disclosure.

As a case company, Sonera is a book example of a dot-com crisis company. Sonera's share price development follows the hype curve modelled by Gartner Group (see e.g. Fenn & Raskino 2008), the liberalization process did not progress as planned, the expectations about the future remained high in the company despite the sudden share price retreat, Sonera invested significant amounts in the new technology, and finally suffered significant losses. The characteristics of the bubble are evident in this study in both analyses: investment story components and events. During the bubble, companies mimicked the innovators in the industry and their reaction to movements and changes in institutional environment was strategic influencing the investment storylines. (Dahlgren & Hørlück 2001; Miller 2009; Cole 2001; Holland 2005.) Especially the analyst interviewed focused on Sonera's tendency to disclose too optimistic information thus increasing cost to investors and other stakeholders who needed to filter the groundless information from the fair. The information cost plays a significant role also in previous literature. (Gibbins et al. 1990; Gibbins et al. 1992; Palepu & Healy 2001, Holland 1998.)

The theoretical framework applied in this research is based on the context model of Gibbins et al. (1990; 1992). The model does not recognize the uniqueness of crisis situations but the disclosure position determines the company's expected response to a disclosure issue under normal circumstances. The empirical analysis in this study is distinguished from the original

also what comes to the research material. Gibbins et al. (1990) use letters to shareholders whereas this research applies interim and year-end reports. Letters to shareholders are problematic due to their once a year appearance. Annual reports only gather the information published during the financial year and thus contain no new information to investors who make their investment decisions based on more frequently disclosed information. Interim reports provide a more detailed picture of the investment story development by including information that is new to investors. (Virtanen 2010; Ikäheimo 1996.) The results indicate that interim reports change greatly from one quarter to another when observed from the investment story components' point of view.

Gibbins et al. (1990) found that 61 per cent of points in their study had shading in tone or explicit causality. In this thesis the equivalent percentage is only 45, which points out the firm-specific nature of the study method also identified by Gibbins et al. (1990). The difference can also be explained with Sonera's crisis situation and different research material. Letters to shareholders used by Gibbins et al. (1990) are more descriptive and subjective in content than interim reports.

In the findings, tone rises as central component influencing the investor behaviour. This is consistent with findings of Henry (2008). The mean of the tone ratio in Henry's research is 0.568 and median 0.600. The mean and median in this research are slightly lower, mean being 0.477 and median 0.530. The difference in calculating the tone ratio and also different research material explain the differences. Henry (2008) uses earnings press releases and calculates the tone ratio with positive and negative words whereas in this research positive and negative points are applied in accordance with Gibbins et al. (1990; 1992). Rutherford (2005) found that especially annual reports tend to have general bias towards positive language. The same trend is reflected also in Sonera's interim reports with one exception, the fourth quarter of 2001, which gets a negative tone ratio. According to the results, the language in interim reports is positive but does not reach the positivity of annual reports and earnings press releases. This suggests that interim reports during the UMTS licence acquisitions were more objective in respect of tone.

Out of the investment story components taken into account in this study, the analysis of causal statements seems to be in line with Gibbins et al. (1990; 1992). A contradiction is observed between the appearance of external causal statements and tone. Previous research

does not take into account the relations of different components or their role in the formation of investment story. Notable, in seven events out of eleven analysed the tone and external causal statements develop reversely. The data indicate that, when measured with causal statements, Sonera perceived having the best situation from the business perspective from the fourth quarter of 2000 until the end of 2001. During that time the share price development was weak, time focus the most past oriented, and tone closest to the negative. Sonera believed in market consolidation and UMTS investments. In addition, the new strategy limiting new investments increased Sonera's confidence in business decisions. The finding suggests that disclosing external issues does not only describe the company's survival from a crisis as suggested by Gibbins et al. (1990; 1992) but also internally perceived stability and predictability of company's future. The data also indicate that the more difficult the quarter in respect of share price development, the less the company tends to explain.

The investment story analysis suggests that during the dot-com bubble Sonera strove for influencing the share price development. Especially the cooling down measures taken during the hype in order to stabilize the expectation boost prove the accuracy of the grounded theory based context model of Gibbins et al. (1990; 1992). Even though the interviewees place the slowing down actions to year 2000 the results depict that Sonera was taking corrective actions until the end of the review period. The research also indicates that in downturn it appears to be difficult to improve the share price even if the company would disclose positive news and have a positive and future oriented investment story. In upturn, however, it is easier for the company to boost the good share price development. This finding is slightly contradictory with findings of Henry (2008) who argues that until some point positive tone increases the market reaction of positive earnings announcements. Sonera reported increasing revenues during the entire review period. Despite the revenue increase Sonera began showing loss in late 2001. Sonera's share price had already crashed almost two years earlier. The profit and profitability declines were mainly explained with positive issues such as investments in new businesses and research and development.

Henry (2008) found that profitable firms have shorter earnings press releases. When comparing the report lengths and appearance of internal and external causal statements, they give somewhat similar results. The highest percentages of external causal statements and shortest report lengths appear in periods from the second quarter of 1999 to the first quarter of 2000, excluding the fourth quarter of 1999, and from the first quarter of 2001 to the third

quarter of 2001. This congruence gives proof of the applicability of causal statements as measures of internally perceived company performance also in crisis situation, not only under normal circumstances as suggested by Gibbins et al. (1990; 1992).

The event analysis provides evidence about the linkage of events and investment story development. Gibbins et al. (1990) argue that different strategic choices demand for different kind of information and disclosure. Especially observing the two endogenous events relating to changes in company strategy support the statement and provide interesting results that well describe the contradiction between investor beliefs and Sonera's perceptions. When the strategy was first redefined in 2000 Sonera was aiming at positively influencing the investors. The high level of internal causal statements implies, however, something different. The action was rather an attempt to positively influence the investors even though Sonera perceived its situation in the market unstable. One year later, when the strategy was renewed more thoroughly the tone was negative but the level of external causal statements highest in the review period.

Investment story has a significant role in building strategic credibility. (Higgins & Bannister 1992, Mazzola et al. 2006.) The interview evidence suggests that Sonera's credibility suffered from the crisis not only due to the overall market situation but also due to an unstable investment story. Sonera's storyline changes dramatically, especially tone changes from overly positive to negative during a short period of time. The market did not believe in Sonera's possibilities in the UMTS competition but Sonera's perception of itself was strong. In order to maintain credibility, Sonera's tone of future prospects section got highly positive values especially during the share price retreat. Even though Sonera made effort in influencing the investor behaviour, the overall negative market sentiment negatively affected Sonera's efforts. It can be concluded that by means of investment story it is easier to boost the share price increase than slow down the retreat.

Another interesting event relates to the UMTS game introduced by van Damme (2002). The game-like situation and learning how to play it became evident also in the interviews. The companies learned that they could not survive alone in the competition and began searching for partners of cooperation. Cole (2001) and Stienstra et al. (2004) argue that companies did not disclose M&A plans until the deal was closed. Sonera did behave similarly with its merger plans with Telia. The failed merger does not change significantly the investment story

development. The most interesting aspect is the time focus that is the most future oriented of the review period. Due to non-disclosure of the event, Sonera was strongly focusing on the future also the effect of time focus of future prospects section being relatively low.

In uncertain situations investor behaviour is challenging to forecast. (Stienstra et al. 2004; Fenn & Raskino 2008.) Under normal circumstances, companies can disclose more proactively the investor behaviour being more stable and easier to forecast. In uncertain situations the disclosure actions are more reactive. Gibbins's et al. (1990; 1992) model presents the company's disclosure process as proactive, proactivity defined as company being actively present in the financial markets and carefully planning its disclosure activity in accordance with its disclosure strategy. (Virtanen 2010.) This thesis gives proof that in crisis situation, even though the disclosure strategy is proactive, the company needs to react fast to changing environment and investor behaviour, and the disclosure activity gets more reactive characteristics. However, the results do not significantly vary from the results of previous research, which implies that Sonera was able to follow the proactive disclosure strategy also in the unstable crisis situation.

The proactive and reactive disclosure reaction derives from learning from market reactions to previous disclosure (Gibbins et al. 1990; 1992). Sonera's disclosure position changes also due to learning from the capital market feedback. As a result of the learning process company might begin, for example, avoiding negative market reactions. (Holland 2005; Graham et al 2006; Suijs 2007.) Especially the long lasting cooling down and slowing down actions identified in event analysis and verified by tone ratio analysis are a result of a learning process. The interview evidence reveals that when Sonera realized the bubble formation it began taking measures to flatter the peak in the share price development. At the same time the company was planning measures to proactively react to evident retreat and slow down the dive. Fast and significant changes in tone ratio development reflect the reactivity in disclosure strategy. When Sonera was aiming at slowing down the share price retreat it was disclosing what it expected the market wanting to read. The measures include telling less about the future and not disclosing anything that would boost the optimistic future prospects. Sonera was listening to the market (Sälli 2010).

According to Gibbins et al. (1990; 1992), disclosure position is influenced by the extent of internal agreement through disclosure subunit status. The problematic decision-making

process is also acknowledged by Brunsson (1982) who argues that decisions are often completed based on biased information and improper weighing. The company's decision-making process, indeed, always leaves out some perceptions of group members. The perceptions are thus reduced and the disclosure finally includes a biased view of the disclosure issue and based on this biased information the investors make their investment decisions. (Brunsson 1982.) The research evidence depicts how contradictions inside the company influence the disclosure. The interview evidence points out contradictions inside Sonera. These contradictions, evidently, are not apparent in interim reports or written down in newspaper articles. These disagreements might have influenced the process of disclosure management, especially the reversal development of tone and level of external causal statements. The interim reports can thus include information that does not reflect the perception of the company but of some managers only. Consequently, the investment story might be distorted and not give a true picture of how the company would like to be seen in the market.

7 Conclusion

This master's thesis examines the development of the Finnish telecommunications company Sonera's investment story during the UMTS crisis in 1999–2002. The objectives are to identify how the investment story developed and to what extent the events that occurred during the review period influenced the development. At the time, Sonera experienced extensive hype around its products and invested several billion euros in expensive UMTS licences in five countries. At the end of the review period, in July 2002, Sonera executed a complete write-off of two licences.

7.1 Summary of findings

The research provides evidence about the importance of considering the interpretation management factors in company's disclosure strategy. In addition, the research indicates that in crisis situation the company can still engage in proactive disclosure strategy but the investment story management process gets more reactive, quick and volatile features. The uncertain investor behaviour leads to changing disclosure position and to reactivity. The case study setting and context provide an adequate base for the research. The case example is unique in nature, which makes it interesting to examine. Thus, the findings of this study provide some perspective to other unique and current cases such as the hype around Facebook.

The theoretical framework applied is Gibbins's et al. (1990; 1992) model that recognizes the disclosure management context, the disclosure management actions and the final output. Also, the existence of investment story in every stage of the model is identified in the framework. Despite the fact that Gibbins's et al. (1990; 1992) model has been built based on evidence from companies operating under normal circumstances, the research proves the applicability of the framework when examining the investment story development in crisis circumstances such as Sonera's. Even though challenging as Gibbins et al. (1992) suggest, ex ante and ex post management factors are reflected in texts. The research suggests that during the dot-com bubble, Sonera strove for influencing the share price development: to cut the peak of the hype and the bottom of the dive. According to the framework, companies learn from previous disclosures and especially under uncertain circumstances the disclosure is more

reactive. There is evidence that Sonera's management was considering what and how to disclose.

Different investment story components have a different influence on the development of investment story. The results show that the more unstable the company's situation on the market the more the disclosures have internal causal statements and the more the company has ex post management. Tone is the component that most evidently aims at influencing the investors. Time focus indicates to what extent the company discloses about occurred events and future expectations and is not recognized as a significant factor when measuring investment story. Causal statements describe the company's perception of its situation and position on the market. Ex post interpretation management in newspapers grows alongside with company's distress.

Tone and causal statements are identified as the most significant components. The overall tone of disclosure shades into more negative from 1999 to 2001. In 2002, the tone begins shading into more positive. During 2001, the future is identified as extremely positive. Causal statements, on the other hand, depict the company's situation being better in 1999 and 2001, which is in contradiction with tone. Especially during the hype of 1999 and 2000 Sonera was aiming at influencing first the share price increase and then the share price crash with tone, which is depicted as the easiest to format in the course of disclosure process. Time focus, on the other hand, indicates that Sonera was concentrating the most on past events during the UMTS crisis in 2000 and 2001. The findings indicate that in downturn it appears to be difficult to raise the share price even if the company would have a positive and future oriented investment story. In upturn, however, it is easier to boost the good share price development. In addition, the contradictions inside Sonera can be assumed to have had an influence on the objectivity of the disclosure.

The event analysis shows that events did have an influence on the development of Sonera's investment story. Especially endogenous events such as the changes in company strategy are depicted to have contradictory influence on the company's storyline. The quotation below by Interviewee A (manager) describes Sonera's management thoughts almost 10 years after the crisis and well sums up also the investment story development.

“Yes, we won the auction and sometime it happens that when you win the auction you lose the game, and that's what happened.”

7.2 Theoretical contribution

There has been little research on investment story in the field of accounting. The previous research has mainly been genre and textual analysis. Case Sonera has been examined by Sälli (2010) and Vesterinen (2009). The theoretical framework applied in this thesis is based on the Gibbins's et al. (1990; 1992) model that takes into account the complete disclosure management process under normal circumstances. This study proves the applicability of the seldom used model also in cases under uncertain and crisis situations. In addition, the research material differs from the original study. Instead of letters to shareholders, more timely disclosures are applied in this thesis: interim reports and newspaper articles.

The means of analysing the data combine two different approaches: context driven model and textual analysis based calculation method. The calculation method for tone of disclosure introduced by Henry (2008) is modified to fit to Gibbins's et al. (1990; 1992) model. The calculation method is applied also to measure time focus. Despite the modification, the results are congruent with the previous research and imply that companies tend to behave somewhat similarly in normal and crisis situations. The case study method provides means to find more detailed explanations to investment story development. The explanations were sought by analysing events that were emphasized in the interviews.

Previous research does not take into account the relations of different components or their role in the formation of investment story. This study combines and compares different investment story components. Especially the findings concerning the causal statements are interesting and complement the previous literature. This study gives proof of the applicability of causal statements as measures of internally perceived company performance also in crisis situation. External causal statements do not only describe the company's survival from a crisis but also internally perceived stability and predictability of company's future. Crisis situation is not that special from the investment story's point of view.

7.3 Practical and policy implications

Even though the results are not generalizable due to the unique context factors and the fact that only one case company is used, based on the herd behaviour it can be proposed that the similar trend to influence the share price by managing disclosure applies also to other

companies in similar situations. For companies facing crisis, it is important to recognize the influence of the uncertain situation on disclosure credibility. In order to succeed in the investment story building, the company needs to consider the different building blocks in its disclosure strategy. A contradictory investment story has a negative influence on the company credibility in the market. The research indicates that in upturn it is easier to boost good share price development by means of investment story. In downturn, the improvement is more difficult even if the company would disclose positive news and have a positive and future oriented investment story. The success of the disclosure strategy is thus dependent on the prevailing market situation as well as on the strength of the strategy. Sonera was able to follow the proactive disclosure strategy also in unstable situation.

Also the overall market sentiment has a significant role in the way companies are seen in the market. Thus, in the disclosure process, the information flows also to another direction – from the market to the company whose disclosure position changes due to learning from the capital market feedback. It is important to maintain a logical and stable investment story at the same time with reacting to market demands for disclosure.

The third aspect influencing the investment story is the level of agreement among the company. Company decision-making process always leaves out some individual opinions and a biased view is mediated to the market. Contradictions are not written out in disclosures but they influence the process of disclosure management. Because tone and causal statements reflect different perspectives, contradictions result in contradictory development of the two components. Disclosure can thus include information that does not reflect company's perception of the situation. Disagreements may result in distorted investment story.

7.4 Limitations of the study

This thesis includes some limitations. Due to the subjectivity of the research method, even though an agreement level test is applied, the results might be somewhat different if conducted by another researcher. Because only one case company and phenomenon are investigated, the results of this thesis mainly provide understanding of how the investment story develops in respect of events taken place in the company and its environment. Also, the events chosen for the analysis are not the only events that took place during the period under

review and do not provide a complete set of explanations from the investment story's point of view.

Sonera is only one market player and its actions were influenced by other telecommunications companies as well as by other new economy companies. The research environment is thus created in larger context and Sonera's share price followed the prevailing trend – the herd behaviour occurred. Sonera's actions to meet goals set in order to improve the share price development might not have had the desired influence due to information that the investors received from the telecommunications market as a whole.

Interim reports provide only a glimpse to the disclosure array. This research does not take into account for example stock exchange releases that are amongst the timeliest disclosures. The results would be even more descriptive and detailed if the data was larger, containing also for example stock exchange releases. In addition, Sonera's interim reports were published almost two months later than the events occurred, which means that the company had time to weigh words and prospects. In this respect, investigating stock exchange releases would provide even more timely insight into financial disclosure management decisions.

7.5 Suggestions for future research

The research raises several suggestions for future research. In the future, a research can be conducted with a quantitative research method by investigating the correlation between the share price development and investment story development. In this case, a larger data would provide better results. Interim reports do not provide a full picture of the development of investment story. Hence, also other more frequently disclosed publications such as stock exchange releases could be added in order to provide more detailed results. Also other European telecommunications companies could be included in the research in order to expound on what extent Sonera's investment story develops in accordance with the peer group.

In the discussion chapter, the influence of contradictions among the company management on disclosure objectivity is discussed. All views and opinions might not be listened to when preparing disclosures, especially when disagreements occur. The influence of contradictions on disclosure, investment story and investor behaviour would be interesting to examine.

References

AML (Arvopaperimarkkinalaki, Finnish Securities Markets Act) 26.5.1989/495

Barker, Richard G. 1998. The market for information – evidence from finance directors, analysts and fund managers. *Accounting and Business Research* 29(1), 3–20.

Beattie, Vivien & McInnes, Bill & Fearnley, Stella 2004. A methodology for analysing and evaluating narratives in annual reports: a comprehensive descriptive profile and metrics for disclosure quality attributes. *Accounting Forum* 28, 205–236.

Beyer, Anne 2008. Financial analysts' forecast revisions and managers' reporting behaviour. *Journal of Accounting and Economics* 46, 334–348.

Brunsson, Nils 1982. The irrationality of action and action rationality: decisions, ideologies and organizational actions. *Journal of Management Studies* 19(1), 29–44.

Cole, Cathy J. 2001. Communicating Key Business Strategies to Investors. *The Journal of Corporate Accounting & Finance*, 13(1), 23–31.

Coltman, Tim & Devinney, Timothy M. & Latukefu, Alopi & Midgley, David F. 2001. E-business: revolution, evolution, or hype? *California Management Review* 44(1), 57–86.

Dahlgren, Tomi & Hørlück, Jens 2001. *Internet hype overreaction – and what we can learn from it*. Helsinki school of economics and business administration working papers W-298

Fenn, Jackie & Raskino, Mark 2008. *Mastering the hype cycle. How to choose the right innovation at the right time*. Harvard Business Press, Boston, Massachusetts.

Gibbins, Michael & Richardson, Alan & Waterhouse, John 1990. The Management of Corporate Financial Disclosure: Opportunism, Ritualism, Policies, and Processes. *Journal of Accounting Research* 28 (1), 121–143.

Gibbins, Michael & Richardson, Alan & Waterhouse, John 1992. *The Management of Financial Disclosure: Theory and Perspectives*. The Canadian Certified General Accountants' Research Foundation. Monograph Nr. 20.

Gibbins, Michael & Richardson, Alan & Waterhouse, John 1993. Strategic Financial Disclosure: Evidence from Labour Negotiations. *Contemporary Accounting Research* 9(2), 526–550.

Gigler, Frank, B. & Hemmer, Thomas 2001. Conservatism, Optimal Disclosure Policy, and the Timeliness of Financial Reports. *The Accounting Review* 76(4), 471–493.

Graham, John, R. & Harvey, Campbell R. & Rajgopal, Shiva 2006. Value destruction and financial reporting decisions. *Financial Analysts Journal* 62(6), 27–39.

Henry, Elaine 2008. Are investors influenced by how earnings press releases are written? *Journal of Business Communication* 45(4), 363–407.

Higgins, Richard B. & Bannister, Brendan D. 1992. How Corporate Communication of Strategy Affects Share Price. *Long Range Planning* 25(3), 27–35.

Holland, John 2005. A grounded theory of corporate disclosure. *Accounting and Business Research* 35(3), 249–267.

Holland, John 1998. Private voluntary disclosure, financial intermediation and market efficiency. *Journal of Business Finance & Accounting* 25(1–2), 29–68.

Holland, John & Stoner, Greg 1996. Dissemination of price-sensitive information and management of voluntary corporate disclosure. *Accounting and business research* 26(4), 295–313.

Ikäheimo, Seppo & Mouritsen Jan 2007. Investor relations and the production of fair values and market values. *Total Quality in Academic Accounting – Essays in honour of Kari Lukka*, toim. Grandlund Markus. Turun Kauppakorkeakoulu, sarja C3:2007, 63–79.

Ikäheimo, Seppo 1996. *Communication in the share markets*. Publications of the Turku School of Economics and Business Administration, Sarja A-9:1996.

Ikäheimo, Seppo & Kostander, Leena 2012. “Independent” Consultants’ Role in the Executive Remuneration Design Process under Restrictive Guidelines. *Corporate Governance: An International Review* 20(1), 64–83.

Jameson, Daphne A. 2000. Telling the Investment Story: A Narrative Analysis of Shareholder Reports. *Journal of Business Communication* 37(7), 7–38.

Mayer-Schönberger, Viktor & Strasser, Mathias. A Closer Look at Telecom Deregulation: the European Advantage. *Harvard Journal of Law & Technology* 12(3), 562–587.

Mazzola, Pietro & Ravasi, Davide & Gabbioneta, Claudia 2006. How to build reputation in financial markets. *Long Range Planning* 39, 385–407.

Miller, Jeffrey 2009. Opportunistic Disclosures of Earnings Forecasts and Non-GAAP Earnings Measures. *Journal of Business Ethics* 89, 3–10.

Palepu, Krishna G. & Healy, Paul M. 1993. The Effect of Firm’s Financial Disclosure Strategies on Stock Prices. *Accounting Horizons*, Vol. 7 (1), 1–11.

Palepu, Krishna G. & Healy, Paul M. 2001. Information Asymmetry, Corporate Disclosure, and the Capital Markets: A Review of the Empirical Disclosure Literature. *Journal of Accounting and Economics* 31, 405–440.

Palepu, Krishna G, & Healy, Paul M. & Bernard, Victor L. & Peek, Erik 2007. *Business analysis and valuation, IFRS edition*. Thomson Learnin, London.

Partington, David 2000. Building Grounded Theories of Management Action. *British Journal of Management* 11(2), 91–102.

Ruef, Annette & Markard, Jochen 2010. What Happens After a Hype? How Changing Expectations Affected Innovation Activities in the Case of Stationary Fuel Cells. *Technology Analysis & Strategic Management* 22(3), 317–338.

Rutherford, Brian A. 2005. Genre analysis of corporate annual report narratives. A corpus linguistics-based approach. *Journal of Business Communication* 4(4), 349–378.

Scholes, Eileen & Clutterbuck, David 1998. Communication with Stakeholders: An integrated approach. *Long Range Planning* 31(2), 227–238.

Suijs, Jeroen 2007. Voluntary disclosure of information when firms are uncertain of investor response. *Journal of Accounting and Economics* 43, 391–410.

Stienstra, M. & Baaij, M. & Van Den Bosch, F. & Volberda, H. 2004. Strategic Renewal of Europe's Largest Telecom Operators (1992-2001): From Herd Behaviour Towards Strategic Choice? *European Management Journal* 22(3), 273–280.

Sälli, Laura 2010. *Sijoittajaviestintä osakemarkkinoiden ja yrityksen välisenä vuorovaikutusmekanismina. Casetutkimus kriisiyrityksessä*. Helsingin kauppakorkeakoulu, 12231.

Thrift, Nigel 2001. "It's the romance, not the finance, that makes the business worth pursuing": disclosing a new market culture. *Economy and Society* 30(4), 412–432.

Trabelsi, Samir & Labelle, Réal & Laurin, Claude 2004. The Management of Financial Disclosure on Corporate Websites: A Conceptual Model. *Canadian Accounting Perspectives* 3(1), 235–259.

van Damme, Eric 2002. The European UMTS-auctions. *European Economic Review* 46(4/5), 846–858

Valliere, Dave & Peterson, Rein 2004. Inflating the bubble: examining dot-com investor behaviour. *Venture Capital* 6(1), 1–22.

Vesterinen, Johanna 2009. *Equity markets and firm innovation in interaction – A study of a telecommunications firm in radical industry transformation*. Helsinki School of Economics, Series A-346,

Virtanen, Marjatta 2010. Sijoittajasuhteet johdon vastuuna. WSOYpro, Helsinki.

Yin, Robert K. 2003. *Case study research: Design and methods*. 3rd edition. Sage Publications, Thousand Oaks (CA).

Magazine articles:

Junkkari, Marko & Möttölä, Matias 2000. Sonera sai taas uuden kosijan. *Helsingin Sanomat* 19.8.2000.

Junkkari, Marko 2000. "Umts on jo syntyessään vanha". *Helsingin Sanomat* 4.9.2000.

Säntti, Hanna 2001. Odotusten konkurssi. *Talouselämä* 6.4.2001

Rantanen, Miska 2002. Liikenneministeri kaalimaan vartijana. Suuri Sonera-seikkailu (jatkuu). *Helsingin Sanomat* 11.8.2002

Annual reports of Sonera:

Financial years 1998 – 2002

Available online:

1998: <http://web.lib.hse.fi/FI/yrityspalvelin/company/111.html>

1999 – 2002: <http://www.teliasonera.com/News-and-Archive/Reports-and-presentations/>

Electronic references:

TeliaSonera history. Retrieved 15.3.2012. Available online at:

<http://www.teliasonerahistory.com/>

Finnish Corporate Governance Code 2010. Suomen arvopaperimarkkinayhdistys/Corporate Governance Finland . Available online (retrieved 10.9.2011):

http://www.cgfinland.fi/images/stories/pdf/2010_koodi/suomen%20listayhti%F6iden%20hallinnointikoodi%20-%20cg2010.pdf

OECD 1999. OECD Principles of Corporate Governance. European Corporate Governance Institute. Available online (retrieved 23.4.2011):

http://www.ecgi.org/codes/documents/principles_en.pdf

APPENDIX 1.

Sonera's share price development and events chosen for the analysis.



APPENDIX 2.

List of interviewees

Interviewee	Title	Date	Duration
Interviewee A	Operating manager	3.12.2009	
Interviewee B	Operating manager	7.4.2010	40 min
Interviewee C	Operating manager	7.9.2010	1h 23min
Interviewee D	Operating manager	7.5.2010	1h 25min
Interviewee E	Board member	4.8.2010	1h 5min
Interviewee F	Operating manager	07.01.2010	
Interviewee G	Analyst	25.11.2009	

APPENDIX 3.

List of written research material

Report type	Quarter	Publication date
Interim report	2nd quarter 1999	02.08.1999
Interim report	3rd quarter 1999	25.10.1999
Year-end report	1999	14.02.2000
Interim report	1st quarter 2000	26.04.2000
Interim report	2nd quarter 2000	24.07.2000
Interim report	3rd quarter 2000	23.10.2000
Year-end report	2000	12.02.2001
Interim report	1st quarter 2001	25.04.2001
Interim report	2nd quarter 2001	23.07.2001
Interim report	3rd quarter 2001	22.10.2001
Year-end report	2001	06.02.2002
Interim report	1st quarter 2002	23.04.2002
Interim report	2nd quarter 2002	25.07.2002
Interim report	3rd quarter 2002	25.10.2002

Newspaper	Article name	Publication date
Helsingin sanomat	Sonera sai Saksan-valloitukseen rahaa Turkista ja Yhdysvalloista	18.08.2000
Helsingin sanomat	Markkinat pakottivat Soneran painamaan jarrua umts-kisassa	24.10.2000
Helsingin sanomat	Sonera valitsi Nokian umts-verkkonsa toimijaksi	05.12.2000
Helsingin sanomat	Tietoenatorin osakkeiden myynti piti Soneran plussalla	26.04.2001
Helsingin sanomat	Sonera keskittyy nyt kotimaahan	23.10.2001
Kauppalehti	Sonera 21 miljardin investoinnilla Saksan matkapuhelinmarkkinoille	18.08.2000
Kauppalehti	Sonera odottaa Italian umts-luvan irtoavan halvalla	24.08.2000
Kauppalehti	Sonera nieli umts-intonsa	24.10.2000
Kauppalehti	Sonera varoitti, osake vajosi	09.04.2001
Kauppalehti	Soneran umts-kumppani julki syksyllä	24.07.2001
Kauppalehti	Sonera: 3G-yhteistyö helpottaa yhtiön rahoitusasemaa	17.09.2001
Kauppalehti	Koponen iski puumerkkinsä strategiaan	23.10.2001
Kauppalehti	Soneran tekemä 3G-rajais koskee myös Turkia ja Baltiaa	25.10.2001
Kauppalehti	Sonera uudistaa keväällä jälleen strategiansa	07.02.2002
Kauppalehti	Umts-seikkailu maksoi Soneralle yli neljä miljardia	26.07.2002
Taloussanommat	Sonera jarruttaa rynnistystä umts-verkkoihin	24.10.2000
Taloussanommat	Sonera kertoi yllättäen odotettua huonommasta tuloksesta	19.01.2001
Taloussanommat	Sonera karsii rajusti väkeään	24.08.2001
Taloussanommat	Sonera lyhentää jättivelkaansa suunnatulla osakeannilla	23.10.2001
Taloussanommat	Sonera pudotti Saksan umts-lisenssin arvon nolnaan	26.07.2002

APPENDIX 4.

The table expresses the report length, the relative length of future prospects section as percentage of report length, the amount of different causal statement levels, and the relative amount of causal statements as percentage of the report length.

Disclosure	Report length	Relative length of future prospects section	Level 1 Internal	Level 1 External	Level 2 Internal	Level 2 External	Causal statements in total	% of causal statements
Q2 1999	57	7.02%	10	4			14	24.56%
Q3 1999	71	7.04%	10	6		1	17	23.94%
Year-end 1999	92	8.70%	23	11			34	36.96%
Q1 2000	63	11.11%	10	5	1		16	25.40%
Q2 2000	86	11.63%	14	4			18	20.93%
Q3 2000	96	8.33%	15	2	1		18	18.75%
Year-end 2000	102	5.88%	14	2			16	15.69%
Q1 2001	56	7.14%	10	2			12	21.43%
Q2 2001	52	7.69%	6	3			9	17.31%
Q3 2001	59	10.17%	8	4		1	13	22.03%
Year-end 2001	90	6.67%	11	7			18	20.00%
Q1 2002	78	7.69%	15	5		1	21	26.92%
Q2 2002	94	6.38%	20	7	1		28	29.79%
Q3 2002	90	11.11%	17	4			21	23.33%
Mean	78	8.33%					18	23.36%
Median	82	7.69%					18	22.68%