Discussion of "Panda games: Corporate disclosure in the eclipse of search" by Wang, Yu, and Zhang

Douglas J. Skinner

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CHICAGO BOOTH

The University of Chicago Booth School of Business

Setting

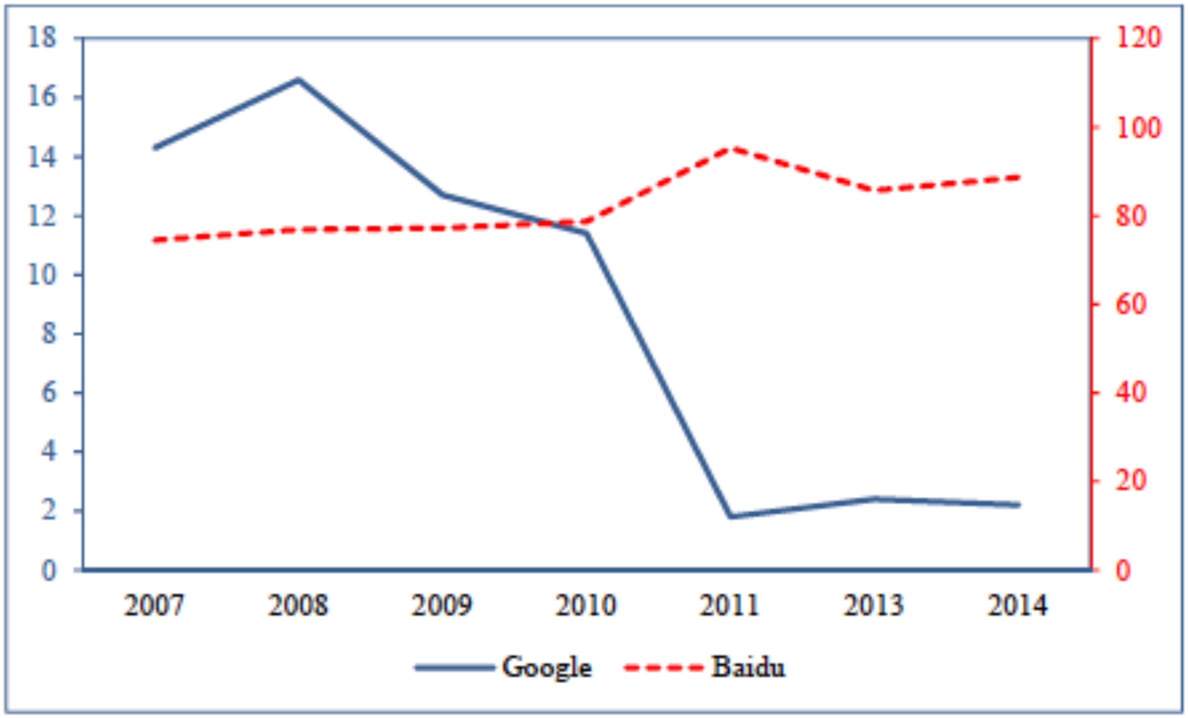
- Let's start with footnote 9: "… the king should 'consult with Zhao Zhang for internal affairs, and Yu Zhou for foreign affairs."
  - → Chinese rely on *Baidu* for local information about Chinese firms, and *Google* for non-local information (*Baidu's* search algorithm is slanted towards Chinese language content, while *Google's* is "unbiased").
  - → Thus, when Chinese firms have international operations, investors use *Google* to research how they're doing internationally.

Setting

- The Chinese market is dominated by individual investors, who tend to rely on search engines to analyze and price company information.
  - Is this correct? Not clear exactly why there are no other sources of information or more sophisticated arbitrageurs don't help correct inefficiencies in pricing.
- The authors exploit *Google's* exit from the Chinese market in early 2010, which meant that search for international information about firms became more difficult (assuming *Baidu* a poor substitute for such information).

Figure 1: Baidu and Google's Market Share in China

This figure compares the market shares (in %) between Baidu and Google in China during the sample period. The left Y-axis is the market share of Google, and the right Y-axis is the market share of Baidu. Source: China Internet Network Information Center (CNNIC)'s Statistic Report on Internet Development in China, 2007-2014.



A sharp drop-off in 2011. Does the demise of Google lead to changes in the investor base – if Google is important to Chinese investors, perhaps they reduce their holdings of these securities.

What, exactly, is the RQ?

What does Google's exit represent?

- A change in dissemination?
- A change in search (and research) costs, that leads to a reduction in independent monitoring by non-Chinese investors?
- A change in the information environment?

Would be nice to have the underlying treatment/construct more clearly specified.

What, exactly, is the RQ?

Authors argue that managers of firms with international operations take advantage of Google's exit, becoming overly optimistic in describing those operations.

→ Tone and sentiment of disclosures becomes more optimistic (no disciplining mechanism – but what about subsequent realizations?).

→ Stock prices higher, which allows managers to make profitable inside trades.

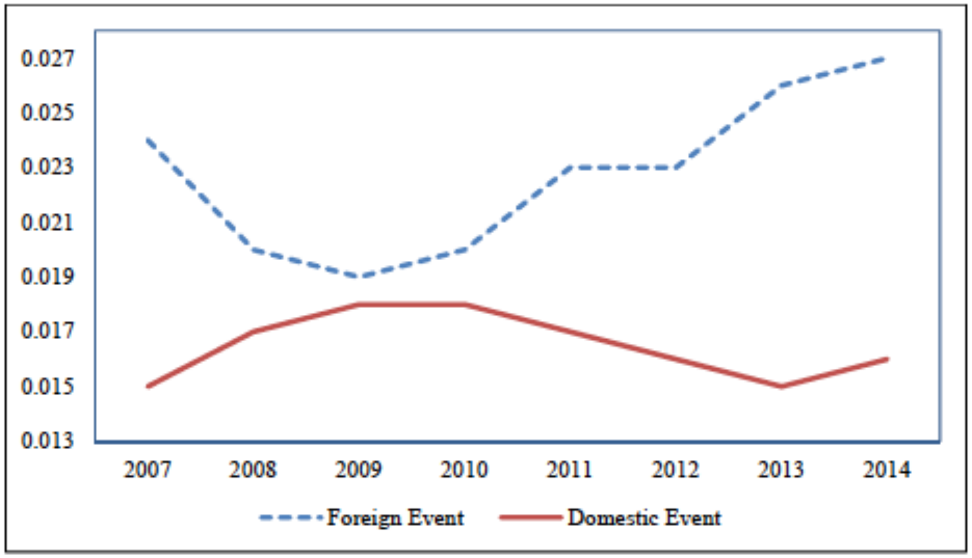
This is where paper becomes a little schizophrenic:

- Is it a paper about a decline in the quality of the information environment/dissemination – if so, then why not look at the conventional variables, like cost of capital and liquidity?
- Or is it a paper about managerial opportunism, in which they strategically report so that share price is biased upwards, transferring value to themselves?

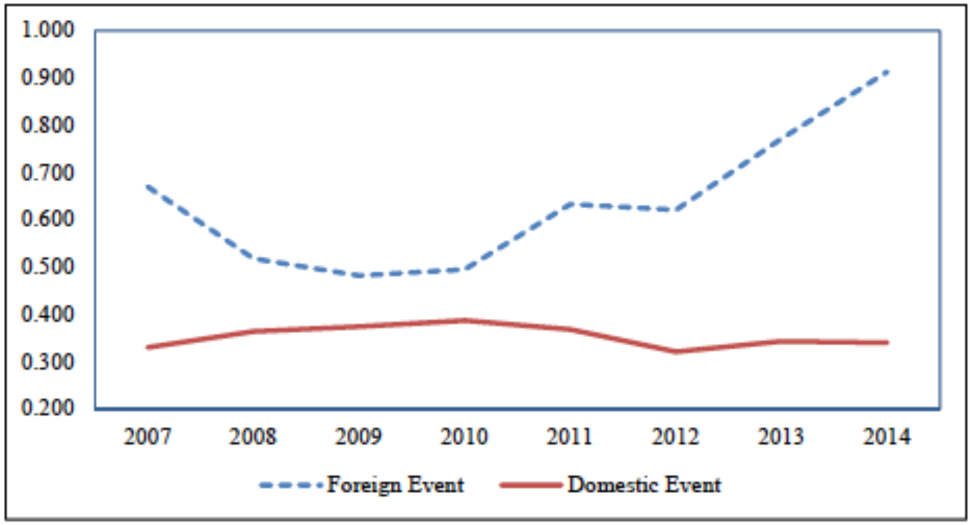
Figure 3: Tone and Sentiment in Corporate Press Releases Surrounding Google's Exit

This figure compares "Tone" (Panel A) and "Sentiment" (Panel B) in corporate press releases during the sample period. Google exited mainland China in March 2010.

Panel A: Tone of Corporate Press Releases



Panel B: Sentiment of Corporate Press Releases



Would we have expected a sharper effect in March 2010, when Google exited?

Panel A: Sample Distribution by Event Type

Event Type	Foreign Event	Domestic Event	# of obs.
Asset Restructuring	417	657	1,074
Major Contract	343	464	807
Borrowing	54	109	163
Collateral and Guarantees	711	1,240	1,951
Project Investment	910	1,646	2,556
Related Party Transaction	846	1,145	1,991
Fund Raising	486	923	1,409
Other Financing	567	1,347	1,914
Total	4,334	7,531	11,865

This is Panel A of a Table 1. It seems like the authors could do more here – some of these events offer more scope for undue optimism than others.

Similar comment about later analysis of MD&A -- some sections are more susceptible to manipulation than others.

Results

- Results (Table 2) on tone and sentiment are strong with no obvious alternative explanations, and are economically significant.
- Show us year-by-year effects?
- Cross-sectional splits works in predicted ways:
  - Results not apparent for firms with: foreign investors, analysts affiliated with foreign brokers, relatively low retail ownership.
  - This seems to imply this is a story about the disciplining effect of sophisticated intermediaries, rather than dissemination.

Some ideas

- It would be nice to really nail down the channel empirically. Some thoughts:
  - Is there something that can be done with earnings announcements? Here we know with some specificity what the news is and perhaps can isolate the importance of foreign operations – can we look at tone/sentiment for earnings releases, conference calls, etc.?
  - Can you zero in on specific parts of the MD&A that relate to foreign operations?
  - (And here's a dumb question: Are the annual reports in Chinese or English?)

Conclusion

- A very interesting setting.
- China is an unusual market – authors' results imply that market is influenced by small investors and that they behave in unsophisticated ways, which allows managers to behave opportunistically.
- Question is more about economic interpretation of search/Google exit – is it a disciplining channel, a dissemination channel, a change in costs of collecting private information, or something else?