



**FACULTEIT ECONOMIE  
EN BEDRIJFSKUNDE**

**TWEEKERKENSTRAAT 2**

**B-9000 GENT**

**Tel. : 32 - (0)9 - 264.34.61**

**Fax. : 32 - (0)9 - 264.35.92**

## **WORKING PAPER**

# **Does High-Quality Corporate Communication Reduce Insider Trading Profitability<sup>\*</sup>**

**Debby Van Geyt<sup>†</sup>**

**Philippe Van Cauwenberge<sup>‡</sup>**

**Heidi Vander Bauwhede<sup>§</sup>**

May 2011

2011/718

---

<sup>\*</sup> We would like to thank Millicent Chang for her useful comments. Furthermore, we gratefully acknowledge the financial support from the “Special Research Fund” (BOF, Bijzonder Onderzoeksfonds).

<sup>†</sup> Department of Accountancy and Corporate Finance, Ghent University, Kuiperskaai 55/E, B-9000 Ghent, Debby.VanGeyt@UGent.be.

<sup>‡</sup> Corresponding author, Department of Accountancy and Corporate Finance, Ghent University, Kuiperskaai 55/E, B-9000 Ghent, Philippe.VanCauwenberge@UGent.be.

<sup>§</sup> Department of Accountancy and Corporate Finance, Ghent University, Kuiperskaai 55/E, B-9000 Ghent, Heidi.VanderBauwhede@UGent.be

## ABSTRACT

**Manuscript Type:** Empirical

**Research Question/Issue:** Using a unique database on insider trading in Belgium, we investigate whether high-quality corporate communication, as proxied by disclosure scores of professional financial analysts, reduces the profitability of insider trading.

**Research Findings/Insights:** We find a significant negative association between corporate communication quality and insider trading profitability. Closer inspection of the different communication channels shows that the quality of press releases and investor relation activities is more relevant in explaining insiders' abnormal returns than the quality of annual reports and corporate websites.

**Theoretical/Academic Implications:** This study provides evidence that high-quality communication contributes to reducing insider trading profitability and information asymmetry. In addition, the quality of voluntary disclosure channels like press releases and investor relation activities seems to be relatively more effective in reducing information asymmetry than mandatory annual reports.

**Practitioner/Policy Implications:** Our findings demonstrate concrete benefits of high-quality communication. In particular, outside investors benefit from better communication as it creates more of a level playing field between investors. Also, companies benefit from better communication as it reduces information asymmetry, which in turn results in a lower cost of capital.