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# Profit warnings: will openness be rewarded?

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## Abstract

We investigate the information content of profit warnings released by firms on the abnormal returns for a sample of 149 firms listed on the Euronext Amsterdam in 2000–2002. We propose that firms can diminish the negative influence of profit warnings on shareholder's returns by releasing detailed information, thereby reducing the information asymmetry between shareholders and management. We find empirical evidence that a greater degree of disclosure has a significantly positive impact on the abnormal returns of firms with multiple successive profit warnings. We argue that negative abnormal returns will occur with firms which provide external reasons in their press releases indicating that the causes of the current situation are a market-wide phenomenon and beyond their scope. We report a negative – but not significant – impact of information regarding external reasons on the abnormal returns to shareholders of firms with profit warnings. Our research findings offer valuable insights into the practical implications of the information content of profit warnings.