This paper studies the capital market consequences of managers establishing an individual forecasting style. Using a manager-firm matched panel dataset, I examine whether and when manager-specific credibility matters. If managers' forecasting styles affect their perceived credibility, then the stock price reaction to forecast news should increase with managers' prior forecasting accuracy. Consistent with this prediction, I find that the stock price reaction to management forecast news is stronger when information uncertainty is high and when the manager has a history of issuing more accurate forecasts, indicating that individual managers benefit from establishing a personal disclosure reputation.

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market response to both good and bad news forecasts is stronger for managers with greater prior accuracy when there's higher uncertainty in the information environment.\(^2\)

Ex ante, it is not clear whether investors should exert effort to understand differences between manager- and firm-specific forecasting behavior if they are only concerned about the firm's overall forecasting accuracy. However, prior research finds that investors and analysts tend to expect better performance from reputable CEOs (Malmendier and Tate, 2009), indicating that manager-specific attributes do affect the beliefs of market participants. It thus follows that the market response to management forecasts could vary with manager credibility—one important attribute of a manager's overall reputation. Because past forecasting performance is a signal of the manager's forecasting skill and credibility (Mercer, 2005), market participants should assign greater (less) weight to forecasts issued by managers with higher (lower) prior forecasting accuracy. Moreover, research in psychology and management finds that idiosyncratic personal differences are more likely to affect decision-making processes when individuals are faced with complex situations involving high uncertainty (Hambrick and Mason, 1984; Caspi and Moffitt, 1993; Hambrick, 2007). This suggests that there are conditions under which manager-specific effects will play a more important role in determining forecast properties.

To address my research question, I follow the methodology introduced by Bertrand and Schoar (2003), which tracks managers across firms over time to identify a set of CEOs and CFOs who are employed by at least two firms during my sample period and also issued management forecasts during their tenure at each firm. This sample selection restriction makes it possible to separate the effects of managers from the stationary firm characteristics (firm fixed effects), time-specific cross-sectional effects (year fixed effects), and time-varying firm characteristics (control variables). Moreover, the advantage of the fixed-effect approach is that it generates parameter estimates of manager- and firm-specific forecast accuracy. Following prior research (Jennings, 1987; Williams, 1996; Rogers and Stocken, 2005; Hutton and Stocken, 2009), I measure forecast credibility as the stock price reaction to management forecast news. I first examine whether the market reaction is stronger for forecasts issued by managers with higher prior forecasting accuracy, and find that the market response to forecast news is positively associated with manager-specific forecasting accuracy. However, further tests show that this effect is subsumed when I control for firm-specific forecasting records. This result is consistent with Williams (1996) and Hutton and Stocken (2009), who find that security analysts and investors are more responsive to forecast news when firms develop a reputation for issuing more accurate forecasts in the past.

While the results discussed above suggest that investors do not distinguish between manager- and firm-specific forecasting styles unconditionally, research in management and psychology suggests that individual differences play a larger role in behavior when uncertainty is high. This suggests that investors should apply Bayesian updating and assign more weight to the highly skilled managers when they are uncertain about the overall precision of the forecast. In this analysis, I use principal components analysis to form two factors that capture different dimensions of uncertainty: information uncertainty and earnings uncertainty. The results show that when information uncertainty is high, the market response to both good and bad news forecasts is stronger for managers with the highest prior forecasting accuracy. I also find that the price reaction to bad news forecasts is stronger for firms with the highest prior forecasting accuracy when information uncertainty is high. However, while the stock price reaction varies with a firm's forecasting record when earnings uncertainty is high, it does not vary with the manager's forecasting record. Taken together, these results suggest that manager-specific credibility matters when individual-specific effects are likely to be accentuated.

Although I attempt to distinguish between manager- and firm-specific effects by following a methodology that has been employed in several recent studies, CEOs and CFOs are not assigned to firms randomly. A manager may be perceived as highly accurate because he/she happens to be at a firm with a record of issuing accurate forecasts. If this leads him/her to be hired by another firm that also wishes to initiate such a forecast policy even without hiring a new manager externally, then I would overestimate a high forecast accuracy fixed effect for that manager. Although I explicitly control for firm-specific forecast accuracy in the market reaction tests, the manager fixed effect estimates are still likely to be measured with error, and the results should be interpreted with this caveat in mind.

Subject to the limitation discussed above, this paper makes the following contributions: First, this is the first study to document the economic consequences of managers having a style of his/her own. While several studies in the economics, management, finance, and accounting literatures document the existence of individual manager styles, none of these studies examines whether the capital market responds to differences among individual managers’ unique styles. My paper extends several recent accounting studies that employ a similar methodology to investigate whether managers have unique styles of their own that are reflected in their earnings forecasts, financial reporting, and tax avoidance choices of the firm for which they are employed at (Bamber et al., 2010; Dejong and Ling, 2010; Dyreng et al., 2010; Ge et al., 2010).\(^3\)

I show that the persistence of the manager- and firm-specific forecast accuracy effects differ, which has implications for how investors incorporate managers’ and firms’ forecasting records into their responses to current management forecasts.

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\(^2\) I focus on management earnings forecasts because (1) they are one of the most important and widely investigated forms of voluntary disclosure (Hirst et al., 2008), (2) they have information content, as suggested by the market reaction to these announcements (Baginski et al., 1993; Rogers and Stocken, 2005; Aniolowski et al., 2007), and (3) management forecast truthfulness is easy to verify ex post, which allows me to examine whether managers and firms can build a reputation by issuing accurate forecasts (Williams, 1996; Stocken, 2000; Hutton and Stocken, 2009).

\(^3\) Dyreng et al. (2010) examine the effects of managers on firms’ accruals. Ge et al. (2010) focus on CFOs and examine their effects on a range of corporate financial reporting choices and outcomes such as operating leases, earnings smoothing, the likelihood of meeting/beat analysts’ forecasts, and the likelihood of accounting misstatements.
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