Economic consequences of earnings and analysts’ forecasts management for multi segment firms

June 30, 2017, 14h30, ISCTE-IUL, Auditorium ONE1 (Building I)

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[Abstract]: This paper examines whether multi segmentation affects the probability of meeting analysts’ forecasts, and whether the ‘diversification’ discount that multi segment firms seem to suffer from is mitigated/exacerbated when these firms meet/miss analysts’ forecasts. We find that multi segment firms exhibit lower probability of meeting analysts’ forecasts relative to single segment firms, but find no evidence that meeting/missing analysts’ forecasts mitigates/exacerbates the diversification discount. In contrast, single segment firms experience significant premium (discount) when they meet (miss) forecasts. Our further analyses reveal a significant incremental multi segment discount if earnings and/or forecast management activities are used as instruments to meet analysts’ forecasts. We interpret these findings as indicative of (1) relatively less benefits from meeting the forecasts and (2) significant costs from employing earnings and/or forecasts management activities as tools for meeting forecasts, both of which reduce multi segment firms’ incentives to meet analysts’ forecasts by means of earnings and forecasts management.