The market informativeness of analyst forecasts in family firms

Olga Pavlopoulou Leonidas Doukakis Afroditi Papadaki

Athens University of Economics and Business
School of Business
Department of Accounting and Finance

INTRODUCTION

The market informativeness of analyst forecasts in family firms

- The paper empirically investigates whether family control affects the way the markets value public information.
- This is the first study to examine the market informativeness (value relevance) of financial analyst news issued for family-owned corporations.

The market informativeness of analyst forecasts in family firms

- Using an international diversified sample of listed firms (period 2007-2019) we document that analysts' earnings news of family firms is priced by the market by at least 50% more than that of non-family firms.
- The pricing increases further for family firms that have also issued management guidance for the reference fiscal period.
- We propose that one primary driving factor of the increased value relevance of analyst news in family firms is the superiority of information conveyed by the management guidance issued by those firms.
- The disaggregation of analyst news into management guidance and residual information components empirically supports this conjecture.

The market informativeness of analyst forecasts in family firms

- Financial analysts under-react to the management guidance issued by family firms, particularly following negative guidance surprises.

- Investors are aware of the superiority of forward-looking information conveyed by the management guidance of family firms and over-price their analyst news to correct the analyst under-reaction tendency.

The market informativeness of analyst forecasts in family firms

- Accounting equity valuation entails predicting the expected profitability of the firm to derive the series of implied future earnings and discounting this series to obtain an estimate of intrinsic value.
- Analyst expectations of corporate performance are a representation of the unobservable market expectations, and the markets tend to move in the direction of these forecasts (e.g., Abarbanell et al., 1995; Cheng, 2005; Clement and Tse, 2003; Frankel et al., 2006; Kothari et al., 2016).

The market informativeness of analyst forecasts in family firms

- Family-owned corporations are unique in terms of their information environment and strategic decision-making process and contribute significantly to the global economy (Anderson and Reeb, 2003; Chen et al., 2008; Prencipe et al., 2014).
- Prencipe et al. (2014) identify and discuss four theoretical frameworks employed by the family literature, the agency theory, the stewardship theory, the resource-based theory, and the most recent socioemotional wealth preservation theory.

The market informativeness of analyst forecasts in family firms

- The discussion about family ownership has mainly centered around agency conflicts predominantly focusing on the issues of earnings quality, corporate performance, accounting conservatism, voluntary disclosures, and corporate governance (e.g., Anderson and Reeb, 2003; Bennedsen et al., 2007; Maury, 2006; Villalonga and Amit, 2006).
- The literature, however, on analyst expectations in family firms is limited.

The market informativeness of analyst forecasts in family firms

- Ali et al. (2007) find that family firms are more likely to have larger analyst following, lower dispersion of analysts' forecasts, smaller forecast errors and less volatile forecast revisions. Family firms also provide fewer earnings forecasts and conference calls but more earnings warnings (Ali et al., 2007; Chen et al., 2008).
- Consistent with family owners having greater litigation and reputation cost concerns as well as a longer investment horizon, a management information signal that might be incorporated in analysts' news.

The market informativeness of analyst forecasts in family firms

- Despite the importance of efficient analyst forecasts for reliable estimates of intrinsic value as well as the uniqueness of family ownership, there is a lack of capital markets-based research on family firms (Prencipe et al., 2014).

- Thus, the need arises to thoroughly investigate whether family control affects the way the markets value public information.

Agency theory

- Family ownership can affect the quality of the firm's information environment through two competing channels: the alignment (incentive) effect and the entrenchment effect.
- Alignment hypothesis: Reduction of Type I agency conflicts between owners and managers (greater alignment of interests) tends to reduce managerial incentives to misreport , (Wang, 2006).
- Entrenchment hypothesis: Increase of Type II agency conflict between majority family owners and minority shareholders, increased risk of wealth expropriation at the expense of minority shareholders, (Schulze et al., 2003).

Socioemotional wealth preservation theory

- Family-owners derive utility from the non-financial aspects of their firm; the family firms' need for socioemotional wealth preservation (affective endowment) can thus explain behavioral differences between family and non-family firms in managerial decision making (Kalm and Gomez-Meija, 2016; Gomez-Mejia et al., 2011)
- Reputation concerns, transgenerational sustainability
- Contingency factors (family firm stage, firm size, and the presence of nonfamily shareholders) that may moderate the influence of socioemotional wealth preservation as a point of reference.

RESEARCH QUESTIONS & HYPOTHESIS DEVELOPMENT

Hypothesis Development

H1

RQ1: Is the incremental information conveyed by analyst earnings news of family firms more value-relevant than the information conveyed by the news of non-family firms?

- Analyst expertise hypothesis
- Analyst effort hypothesis
- Analyst reliance hypothesis
- Overreaction Hypothesis
- Monitoring environment, agency conflict between owners and management (Management guidance superiority hypothesis)

Hypothesis Development

RQ1: Is the incremental information conveyed by analyst earnings news of family firms more value-relevant than the information conveyed by the news of non-family firms?

H1: The market informativeness of analysts' news of family firms is higher than that of non-family firms

Hypothesis Development

H2

RQ2: Is the differentiation between the market informativeness of analyst news between family and non-family firms affected by management disclosure?

- Choi et al. (2011) find that future earnings response coefficients are greater for firms that provide management guidance, indicative of the market placing a high value on management earnings guidance issued by the firm
- Better monitoring of management and a lower information asymmetry between owners and managers in the family firm environment
- Long-term view of the firm value, reputational and affective endowment concerns more heightened, less concern for the disclosure of negative expectations

Hypothesis Development

RQ2: Is the differentiation between the market informativeness of analyst news between family and non-family firms affected by management disclosure?

H2: The superior market informativeness of analyst news of family firms mainly derives from the management information disclosure of those firms.

Hypothesis Development

H3

RQ3: Are the benefits of management guidance for analyst efficiency differentiated between family and non – family firms?

- Behavioral biases such as overconfidence and anchoring, however,
- Knowledge, experience and expertise (Gu and Chen, 2004)
- High quality research resources
- Main objective is to provide buy-sell-hold recommendations based on their view on future company performance
- Value highly expanded voluntary disclosure (Healy et al., 1999), and examine managers' reputation and prior accuracy (Williams, 1996)
- Unbiased

Hypothesis Development

H3

RQ3: Are the benefits of management guidance for analyst efficiency differentiated between family and non – family firms?

H3: Financial analysts' earnings news is efficient with respect to the incorporation of management news and surprises in both family and non-family firms.

RESEARCH METHODOLOGY

Research Methodology

H1

H1: The market informativeness of analysts' news of family firms is higher than that of non-family firms

$$CAR_{t+1,i} = \beta_0 + \beta_1 FFDEF_{t,i} + \beta_2 ANEWS_{t+1,i} + \beta_3 ANEWS_{t+1,i} \times FFDEF_{t,i} + CONTROLS + COUNTRYFE + INDUSTRYFE + YEARFE + \varepsilon \quad (1)$$

We estimate Model 1 using pooled ordinary least squares (OLS) regressions. The regressions control for country, industry, and year fixed effects. Standard errors clustered at the firm level. The model controls for several market, fundamental and analyst variables (*SIZE, B/M, BETA, GROSSPROFIT, SGA, DEPAMORT, INTEREST, TAXES, ANALYST, ADISPERSION*).

CARt+1	Size-adjusted abnormal buy-and-hold stock returns corresponding to the analysts' forecast horizon period for fiscal period t+1 (from actual results t announcement date to actual results t+1 announcement date). We follow the matching return approach to a benchmark portfolio based on market capitalization. The abnormal return (CARt+1) for a firm i of the sample is the difference between the raw return (RETt+1) and the matching return of the benchmark portfolio (BRETt+1) to which the firm belongs. Source: Eikon Refinitiv
ANEWSt+1	Analyst News (for t+1) = *AFt+1 – CEARN*
AFt+1	The mean consensus analyst forecast of earnings for firm i and fiscal year t+1 *EPSMean*. Deflated by closing share price at the beginning of t. Source: Eikon Refinitiv
CEARN	Actual reported earnings per share for firm i and fiscal year t. Deflated by share price at the beginning of t. Source: Eikon Refinitiv

FFDEFt	An indicator variable = 1 for family firms and 0 otherwise. FFDEF1: defines a firm as family firm when the family ownership represents the largest voteholder. FFDEF2: defines a firm as family firm when the family ownership represents the largest shareholder. FFDEF3: defines a firm as family firm when the family ownership stake is more than 20% of the votes. FFDEF4: defines a firm as family firm when the family stake is the largest voteholder and at least one member of the family is on the Board of Directors. Source: NRG database

Research Methodology

H1

$$CAR_{t+1,i} = \beta_0 + \beta_1 FFDEF_{t,i} + \beta_2 ANEWS_{t+1,i} + \beta_3 ANEWS_{t+1,i} \times FFDEF_{t,i} + CONTROLS + COUNTRYFE + INDUSTRYFE + YEARFE + \varepsilon \quad (1)$$

In line with prior research documenting analyst earnings forecasts are positive signals for the capital markets, we expect estimated regression coefficient **β2** to be statistically significant and positive.

In line with H1 that predicts family firms' analyst news market pricing will be higher than that for non-family firms, we expect estimated regression coefficient **β3** to also be statistically significant and positive.

H2: The superior market informativeness of analyst news of family firms mainly derives from the management information disclosure of those firms.

$$ANEWS_{t+1,i} = \beta_0 + \beta_1\, MNEWS_{t+1,i} + \beta_2\, MFE_{t,i} + COUNTRYFE + INDUSTRYFE + YEARFE + \varepsilon \quad (2)$$

We then substitute *ANEWSt+1* in the stock returns model with the fitted (predicted) values and the residual values resulting from this first stage regression (second stage regression, Model 3).

$$CAR_{t+1,i} = \beta_0 + \beta_1 FFDEF_{t,i} + \beta_2 ANEWSFITTED_{t+1,i} + \beta_3 ANEWSFITTED_{t+1,i} \times FFDEF_{t,i} + \beta_4 ANEWSRES_{t+1,i} + \beta_5 ANEWSRES_{t+1,i} \times FFDEF_{t,i} + CONTROLS + COUNTRYFE + INDUSTRYFE + YEARFE + \varepsilon \quad (3)$$

MNEWSt+1	Management Guidance News (for t+1) = *MFt+1 – CEARN*
MFt+1	Mean earnings per share guidance issued by the management of firm i for fiscal year t+1. Deflated by share price at the beginning of t. Alternatively, if EPS guidance is not available we use net income guidance standardized by the weighted average of diluted number of shares (deflated by price). Source: Eikon Refinitiv, Capital IQ
MFEt	Management earnings forecast error for period t = *CEARN – MeanEPSGt / price* where *MeanEPSGt* is the average earnings forecast issued for firm i and fiscal year t by the management of firm i. Source: Eikon Refinitiv, Capital IQ

Research Methodology

H2

$$CAR_{t+1,i} = \beta_0 + \beta_1 FFDEF_{t,i} + \beta_2 ANEWSFITTED_{t+1,i} + \beta_3 ANEWSFITTED_{t+1,i} \times FFDEF_{t,i} + \beta_4 ANEWSRES_{t+1,i} + \beta_5 ANEWSRES_{t+1,i} \times FFDEF_{t,i} + CONTROLS + COUNTRYFE + INDUSTRYFE + YEARFE + \varepsilon \quad (3)$$

In line with H2 we expect the estimated coefficient **β3** to be positive and significant.

The linear combination coefficient [**β2+β3**] is expected to be significantly higher than [**β4+β5**].

Research Methodology

H3

H3: Financial analysts' earnings news is efficient with respect to the incorporation of management news and surprises in both family and non-family firms.

$$ANEWS_{t+1,i} = \beta_0 + \beta_1\ FFDEF_{t,i} + \beta_2 MNEWS_{t+1,i} + \beta_3 MNEWS_{t+1,i} \times FFDEF_{t,i} + \beta_4\ MFE_{t,i} + \beta_5\ MFE_{t,i} \times FFDEF_{t,i} + CONTROLS + COUNTRYFE + INDUSTRYFE + YEARFE + \varepsilon \quad (4)$$

$$AFE_{t+1,i} = \beta_0 + \beta_1\ FFDEF_{t,i} + \beta_2 MNEWS_{t+1,i} + \beta_3 MNEWS_{t+1,i} \times FFDEF_{t,i} + \beta_4\ MFE_{t,i} + \beta_5\ MFE_{t,i} \times FFDEF_{t,i} + CONTROLS + COUNTRYFE + INDUSTRYFE + YEARFE + \varepsilon \quad (5)$$

Research Methodology

H3

- As per H3 we expect the analysts to incorporate management guidance - related news in an efficient manner in both non-family and family firms. As a result, estimated regression coefficients [$\boldsymbol{\beta_2 - \beta_5}$] in Model 4 are expected to be significant. Accordingly, estimated regression coefficients [$\boldsymbol{\beta_2 - \beta_5}$] in Model 5 are expected to be non-significant.
- We also segment the sample into firm-years with positive management guidance surprises and negative management guidance surprises to examine whether the results are differentiated based on the direction of the management prediction error.

SAMPLE DESCRIPTION

Sample Description

- We derive our initial sample from NRG Metrics. NRG Metrics is a unique database that provides a wide range of refined measures of family ownership sourced by publicly available documents such as annual reports and press releases.
- Refinitiv Eikon is used as a source for the buy-and-hold returns used to construct the abnormal returns, analyst forecasts, and analyst characteristics.
- For management earnings guidance we use Refinitiv Eikon and Capital IQ.
- For firm fundamentals and other market variables the study uses Refinitiv Eikon and Datastream Worldscope.

Table 1. Sample Selection		
Panel A. Entire Sample	**Firm-Years**	**Distinct Firms**
Initial firm-years with NRG data on family ownership definitions and characteristics	49,649	7,282
Retain: firm-years with available earnings forecasts for t+1	42,555	6,443
Retain: firm-years with available earnings realizations for t to compute ANEWS	41,860	6,335
Retain: firm-years with available data on beginning of period share price (deflator)	40,980	6,157
Retain: firm-years with no missing abnormal buy-and-hold returns	38,998	5,978
Retain: firm-years with data on control variables	26,044	4,014
Main regressions	**26,044**	**4,014**

Sample Description

Sample Description

- We obtain all available management earnings forecasts issued in the period studied (indicatively, we have 10,758 management news vs 40,980 analyst news observations).
- The management earnings forecasts can be in the form of a point estimate or range estimate. In the case of a range the midpoint of the range is computed.
- For the management guidance superiority hypothesis, we additionally need to have management earnings guidance for t+1 which leads to 6,664 observations from 1,152 distinct firms.

Sample Description

Table 2. Distributional Descriptive Statistics

Variable	Entire Sample Obs	Entire Sample Mean	Entire Sample SD	Family Firms (1) Obs	Family Firms (1) Mean	Family Firms (1) SD	Non-family firms (2) Obs	Non-family firms (2) Mean	Non-family firms (2) SD	(2)-(1) ΔMeans	T-test
FFDEF1	***=1 when family ownership represents the largest voteholder.***										
Main variables											
ANEWSt+1	26,044	0.0061	0.0707	4,778	0.0061	0.0687	21,266	0.0061	0.0712	0.0061	0.0061
CARt+1	26,044	0.0155	0.4017	4,778	0.0265	0.4189	21,266	0.0131	0.3977	-0.0134	-2.0880**
AFEt+1	26,044	-0.0021	0.0257	4,778	-0.0030	0.0275	21,266	-0.0018	0.0253	0.0012	2.9135***
Controls											
SIZE	26,044	22.4975	2.6147	4,778	22.1457	2.6130	21,266	22.5765	2.6086	0.4308	10.3126***
B/M	26,044	0.6470	0.8344	4,778	0.6484	0.9209	21,266	0.6467	0.8138	-0.0017	-0.1238
BETA	26,044	1.0556	0.4679	4,778	1.0183	0.4367	21,266	1.0640	0.4743	0.0457	6.1044***
GROSSPROFIT	26,044	0.3479	0.3875	4,778	0.3768	0.3989	21,266	0.3414	0.3846	-0.0354	-5.7146***
SGA	26,044	0.2566	0.3552	4,778	0.2808	0.3717	21,266	0.2511	0.3511	-0.0297	-5.2260***
DEPAMORT	26,044	0.0669	0.0908	4,778	0.0640	0.0924	21,266	0.0676	0.0904	0.0036	2.4828***
INTEREST	26,044	0.0232	0.0479	4,778	0.0254	0.0564	21,266	0.0226	0.0457	-0.0027	-3.5735***
TAXES	26,044	0.0199	0.0302	4,778	0.0216	0.0316	21,266	0.0196	0.0298	-0.0020	-4.2184***
ANALYST	26,044	2.2216	0.8720	4,778	2.1330	0.9469	21,266	2.2415	0.8530	0.1086	7.7851***
ADISPERSION	26,044	1.5546	6.0720	4,778	0.9565	4.8873	21,266	1.6890	6.2999	0.7325	7.5429***

- In line with prior literature, analyst forecast errors are negative on average (left skewed distribution) denoting over-optimistic forecasts on average for both family and non-family firms.
- For all family firm definitions used, the analysts are less accurate (more biased) for family firms.

EMPIRICAL FINDINGS

Empirical Findings

H1

TABLE 3. Market informativeness of analyst news in family firms.

	(1)	(2)	(3)	(4)	(5)
DEP.VAR.=	*CARt+1*	*CARt+1*	*CARt+1*	*CARt+1*	*CARt+1*
FF Definition	*n/a*	*FFDEF1*	*FFDEF2*	*FFDEF3*	*FFDEF4*
FFDEF		0.014**	0.014**	0.021***	0.017**
		(2.006)	(1.962)	(2.638)	(2.436)
ANEWSt+1	1.048***	0.948***	0.955***	0.951***	0.962***
	(17.361)	(14.494)	(14.592)	(14.919)	(14.761)
ANEWSt+1× FFDEF		0.583***	0.557***	0.796***	0.546***
		(3.840)	(3.655)	(4.902)	(3.476)
Intercept	-0.190***	-0.189***	-0.191***	-0.189***	-0.192***
	(-3.444)	(-3.415)	(-3.455)	(-3.426)	(-3.470)
Controls	Included	Included	Included	Included	Included
Country Effects	Included	Included	Included	Included	Included
Industry Effects	Included	Included	Included	Included	Included
Year Effects	Included	Included	Included	Included	Included
Clustering S.E.	Firm	Firm	Firm	Firm	Firm
Liner combination coefficient tests:					
ANEWS + ANEWS×FFDEF	n/a	1.531***	1.512***	1.747***	1.508***
R^2	0.054	0.056	0.055	0.056	0.055
Adjusted R^2	0.051	0.053	0.053	0.054	0.053
Observations	26,044	26,044	26,044	26,044	26,044

Empirical Findings H2

TABLE 4. Market informativeness of analyst news in family firms who issue management earnings guidance.

	(1)	(2)	(3)	(4)	(5)	(6)
DEP.VAR.=	*CARt+1*	*CARt+1*	*CARt+1*	*CARt+1*	*CARt+1*	*CARt+1*
FF Definition	*n/a*		*FFDEF1*		*FFDEF2*	
Guidance sub-sample	*Guidance*	*No Guidance*	*Guidance*	*No Guidance*	*Guidance*	*No Guidance*
FFDEF			0.024	0.012	0.020	0.013*
			(1.509)	(1.623)	(1.305)	(1.693)
ANEWSt+1	1.182***	1.015***	1.105***	0.899***	1.110***	0.906***
	(9.364)	(15.049)	(8.937)	(11.995)	(8.961)	(12.098)
ANEWSt+1× FFDEF			1.884***	0.582***	1.823***	0.559***
			(2.761)	(3.693)	(2.636)	(3.537)
Controls	Included	Included	Included	Included	Included	Included
Country Effects	Included	Included	Included	Included	Included	Included
Industry Effects	Included	Included	Included	Included	Included	Included
Year Effects	Included	Included	Included	Included	Included	Included
Clustering S.E.	Firm	Firm	Firm	Firm	Firm	Firm
Linear combination coefficient tests						
ANEWS + ANEWS×FFDEF	n/a	n/a	2.989***	1.481***	2.932***	1.465***
Regression Coefficient Difference Tests (Hausman) *[FFDEF1_mean]variable - [FFDEF0_mean]variable = 0*						
chi2 *(Prob>chi2)*						
ANEWSt+1 (non-family)	1.37		2.03		1.98	
	(0.2423)		(0.1544)		(0.1593)	
ANEWSt+1 + ANEWSt+1× FFDEF (family)	n/a		5.00		4.60	
			(0.0254)		(0.0320)	
ANEWSt+1× FFDEF (family incr)	n/a		3.57		3.27	
			(0.0590)		(0.0705)	
R^2	0.095	0.059	0.099	0.061	0.099	0.061
Adjusted R^2	0.087	0.056	0.091	0.058	0.090	0.057
Observations	7,533	18,511	7,533	18,511	7,533	18,511

Empirical Findings

H2

TABLE 5. Market Informativeness of analyst news in family firms stemming from management guidance information and residual sources.

	(1)	(2)	(3)	(4)
DEP.VAR.=	*CARt+1*	*CARt+1*	*CARt+1*	*CARt+1*
FF Definition	*FFDEF1*	*FFDEF2*	*FFDEF3*	*FFDEF4*
FFDEF	0.016	0.012	0.015	0.012
	(1.040)	(0.767)	(0.739)	(0.762)
ANEWSFITTED	0.587***	0.586***	0.654***	0.617***
	(2.705)	(2.701)	(3.017)	(2.832)
ANEWSFITTED × FFDEF	3.891***	3.867***	3.263***	3.083***
	(6.271)	(6.242)	(4.765)	(4.239)
ANEWSRES	1.488***	1.495***	1.440***	1.495***
	(9.955)	(9.973)	(9.595)	(10.029)
ANEWSRES × FFDEF	1.773*	1.658	3.069**	0.948
	(1.718)	(1.621)	(2.418)	(0.846)
Controls	Included	Included	Included	Included
Country Effects	Included	Included	Included	Included
Industry Effects	Included	Included	Included	Included
Year Effects	Included	Included	Included	Included
Clustering S.E.	Firm	Firm	Firm	Firm
ANEWSFITTED + FFDEF interaction	4.477***	4.453***	3.917***	3.699***
ANEWSRES + FFDEF interaction	3.262***	3.153***	4.509***	2.444**
R^2	0.118	0.117	0.117	0.115
Adjusted R^2	0.108	0.108	0.107	0.106
Observations	6,664	6,664	6,664	6,664

Empirical Findings

H3

TABLE 6. The association between analyst news and management news in family firms.

	(1)	(2)	(3)	(4)	(5)
DEP.VAR.=	*ANEWSt+1*	*ANEWSt+1*	*ANEWSt+1*	*ANEWSt+1*	*ANEWSt+1*
FF Definition	*n/a*	*FFDEF1*	*FFDEF2*	*FFDEF3*	*FFDEF4*
FFDEF		0.000	0.000	-0.001	-0.002
		(0.210)	(0.195)	(-0.487)	(-0.964)
MNEWS	0.833***	0.864***	0.864***	0.835***	0.844***
	(16.703)	(17.793)	(17.815)	(16.078)	(16.264)
MNEWS × FFDEF		-0.474***	-0.480***	-0.123	-0.266
		(-2.744)	(-2.771)	(-0.967)	(-1.615)
MFE	0.304***	0.322***	0.322***	0.302***	0.304***
	(6.083)	(6.451)	(6.460)	(5.787)	(5.744)
MFE × FFDEF		0.064	0.060	0.113	0.170
		(0.360)	(0.337)	(0.711)	(1.042)
Controls	Included	Included	Included	Included	Included
Country Effects	Included	Included	Included	Included	Included
Industry Effects	Included	Included	Included	Included	Included
Year Effects	Included	Included	Included	Included	Included
Clustering S.E.	Firm	Firm	Firm	Firm	Firm
Liner combination coefficient tests:					
MNEWS + MNEWS × FFDEF	n/a	0.389**	0.384**	0.712***	0.579***
MFE + MFE × FFDEF	n/a	0.386**	0.383**	0.415***	0.474***
R^2	0.453	0.461	0.461	0.454	0.456
Adjusted R^2	0.448	0.455	0.455	0.448	0.451
Observations	6,778	6,778	6,778	6,778	6,778

Empirical Findings

H3

TABLE 7. The association between analyst news and management news in family firms for positive and negative management surprises.

	(1)	(2)	(3)	(4)	(5)
DEP.VAR.=	*ANEWSt+1*	*ANEWSt+1*	*ANEWSt+1*	*ANEWSt+1*	*ANEWSt+1*
FF Definition	*n/a*	*FFDEF1*	*FFDEF2*	*FFDEF3*	*FFDEF4*
			MFE >0		
		Pessimistic management guidance (positive surprises)			
FFDEF		-0.002	-0.002	-0.004	-0.003
		(-0.662)	(-0.720)	(-1.047)	(-1.206)
MNEWS	0.699***	0.687***	0.687***	0.686***	0.684***
	(13.732)	(12.932)	(12.942)	(13.004)	(12.780)
MNEWS × FFDEF		0.311*	0.311*	0.426**	0.354**
		(1.722)	(1.704)	(2.003)	(2.127)
MFE	0.522***	0.510***	0.510***	0.507***	0.506***
	(8.291)	(7.926)	(7.929)	(7.926)	(7.848)
MFE × FFDEF		0.354	0.358	0.554	0.413
		(1.201)	(1.200)	(1.443)	(1.473)
Controls	Included	Included	Included	Included	Included
Country Effects	Included	Included	Included	Included	Included
Industry Effects	Included	Included	Included	Included	Included
Year Effects	Included	Included	Included	Included	Included
Clustering S.E.	Firm	Firm	Firm	Firm	Firm
Linear combination coefficient tests					
MNEWS + MNEWS × FFDEF	n/a	0.998***	0.998***	1.112***	1.038***
MFE + MFE × FFDEF	n/a	0.864***	0.868***	1.060***	0.919***
R^2	0.286	0.288	0.288	0.288	0.288
Adjusted R^2	0.276	0.277	0.277	0.278	0.278
Observations	4,648	4,648	4,648	4,648	4,648

Empirical Findings

TABLE 7. The association between analyst news and management news in family firms for positive and negative management surprises.

	(6)	(7)	(8)	(9)	(10)
DEP.VAR.=	*ANEWSt+1*	*ANEWSt+1*	*ANEWSt+1*	*ANEWSt+1*	*ANEWSt+1*
FF Definition	*n/a*	*FFDEF1*	*FFDEF2*	*FFDEF3*	*FFDEF4*
			MFE <0		
		Overoptimistic management guidance (negative surprises)			
FFDEF		0.008***	0.008***	0.005	0.008**
		(3.152)	(3.140)	(1.434)	(2.574)
MNEWS	0.866***	0.939***	0.939***	0.876***	0.897***
	(10.816)	(12.457)	(12.466)	(10.328)	(10.546)
MNEWS × FFDEF		-0.797***	-0.801***	-0.463***	-0.626***
		(-5.638)	(-5.700)	(-4.506)	(-3.766)
MFE	0.054	0.090	0.089	0.051	0.039
	(0.469)	(0.762)	(0.754)	(0.413)	(0.311)
MFE × FFDEF		0.390*	0.391*	0.305	0.519**
		(1.751)	(1.760)	(1.431)	(2.230)
Controls	Included	Included	Included	Included	Included
Country Effects	Included	Included	Included	Included	Included
Industry Effects	Included	Included	Included	Included	Included
Year Effects	Included	Included	Included	Included	Included
Clustering S.E.	Firm	Firm	Firm	Firm	Firm
Linear combination coefficient tests					
MNEWS + MNEWS × FFDEF	n/a	0.143	0.137	0.413**	0.271*
MFE + MFE × FFDEF	n/a	0.480**	0.480**	0.356*	0.557***
R^2	0.644	0.672	0.672	0.649	0.661
Adjusted R^2	0.634	0.662	0.662	0.638	0.650
Observations	2,085	2,085	2,085	2,085	2,085

Empirical Findings H3

TABLE 8. The association between analyst surprises and management news in family firms for positive management surprises.

	(1)	(2)	(3)	(4)	(5)
DEP.VAR.=	*AFEt+1*	*AFEt+1*	*AFEt+1*	*AFEt+1*	*AFEt+1*
FF Definition	*n/a*	*FFDEF1*	*FFDEF2*	*FFDEF3*	*FFDEF4*
			MFE >0		
			Pessimistic management guidance (positive surprises)		
FFDEF		-0.002	-0.002	-0.003*	-0.001
		(-1.566)	(-1.573)	(-1.861)	(-0.761)
MNEWS	0.022	0.013	0.013	0.013	0.016
	(1.220)	(0.784)	(0.783)	(0.791)	(0.945)
MNEWS × FFDEF		0.219	0.223	0.271	0.139
		(1.403)	(1.418)	(1.510)	(0.812)
MFE	0.026	0.018	0.018	0.017	0.020
	(1.062)	(0.725)	(0.723)	(0.707)	(0.838)
MFE × FFDEF		0.216	0.220	0.296*	0.135
		(1.577)	(1.588)	(1.697)	(0.862)
Controls	Included	Included	Included	Included	Included
Country Effects	Included	Included	Included	Included	Included
Industry Effects	Included	Included	Included	Included	Included
Year Effects	Included	Included	Included	Included	Included
Clustering S.E.	Firm	Firm	Firm	Firm	Firm
Linear combination coefficient tests					
MNEWS + MNEWS × FFDEF	n/a	0.233	0.237	0.284	0.155
MFE + MFE × FFDEF	n/a	0.233*	0.238*	0.313*	0.155
R^2	0.039	0.046	0.046	0.047	0.042
Adjusted R^2	0.026	0.032	0.032	0.033	0.028
Observations	4,645	4,645	4,645	4,645	4,645

Empirical Findings

H3

TABLE 8. The association between analyst surprises and management news in family firms for negative management surprises.

	(6)	(7)	(8)	(9)	(10)
DEP.VAR.=	*AFEt+1*	*AFEt+1*	*AFEt+1*	*AFEt+1*	*AFEt+1*
FF Definition	*n/a*	*FFDEF1*	*FFDEF2*	*FFDEF3*	*FFDEF4*
			MFE <0		
		Overoptimistic management guidance (negative surprises)			
FFDEF		-0.001	-0.001	-0.001	-0.002*
		(-0.856)	(-0.989)	(-0.684)	(-1.671)
MNEWS	0.029	0.020	0.020	0.023	0.016
	(1.463)	(0.923)	(0.914)	(1.105)	(0.782)
MNEWS × FFDEF		0.109*	0.112*	0.159**	0.194***
		(1.868)	(1.893)	(2.029)	(3.162)
MFE	0.017	0.017	0.017	0.013	0.012
	(0.640)	(0.579)	(0.571)	(0.449)	(0.432)
MFE × FFDEF		-0.101	-0.100	-0.039	-0.056
		(-1.147)	(-1.137)	(-0.366)	(-0.652)
Controls	Included	Included	Included	Included	Included
Country Effects	Included	Included	Included	Included	Included
Industry Effects	Included	Included	Included	Included	Included
Year Effects	Included	Included	Included	Included	Included
Clustering S.E.	Firm	Firm	Firm	Firm	Firm
Linear combination coefficient tests					
MNEWS + MNEWS × FFDEF	n/a	0.129**	0.132**	0.182**	0.210***
MFE + MFE × FFDEF	n/a	-0.084	-0.084	-0.026	-0.044
R^2	0.101	0.115	0.115	0.109	0.123
Adjusted R^2	0.075	0.088	0.088	0.082	0.097
Observations	2,085	2,085	2,085	2,085	2,085

Conclusions

- The market pricing of analyst news issued for family firms is at least 1.5 times the market pricing of analyst news for non-family firms.

- This enhancement primarily derives from a superiority in the information content of the management guidance of those firms. Disaggregating analyst news into a management guidance - related component and residual information component empirically supports this proposition.

Conclusions

- Analysts covering family firms are inclined to under-react to management guidance, particularly following a negative surprise (over-optimistic guidance) by the management.

- Investors highly price management guidance of family firms and are aware of the analyst skepticism following negative guidance surprises for those firms, thus over-pricing the analyst news of the family firms who also issue earnings guidance as a form of market correction.