To Share or not to Share?
Financial Analysts' Questioning in Conference Calls

Julia Haag, Christian Hofmann, Alexander Paulus, Nina Schwaiger, Thorsten Sellhorn

Motivation

- Public observability of conference calls and analysts' incentives lead to a strategic information exchange <u>*among*</u> analysts
- Analysts' trade-off:

Revealing knowledge in the question results in more accurate (less noisy) answers (Minson et al. 2018)	Sharing information enables "free-riding" (in line with Verrecchia 1982, Diamond 1985)

Hypotheses

- Analysts lose (*in relative terms*) from sharing their information endowment as peer analysts can listen to their questions

***H1:** Information sharing in questions during conference calls is associated with a decline in analysts' relative forecast accuracy.*

- Superior analysts care more strongly about keeping their relative information advantage

***H2:** Superior financial analysts share less information in their questions during conference calls.*

Corresponding author: paulus@lmu.de

Empirical Design

- *Analysts' information sharing*: Degree of thematic difference between questions and management presentation

$$Cos\,Sim_{a,i,t} = \frac{MP_{i,t} * Q\&A_{a,i,t}}{\|MP_{i,t}\| \, \|Q\&A_{a,i,t}\|}$$

$$InfoQ_{a,i,t} = 1 - Cos\,Sim_{a,i,t}$$

- *Analysts' relative forecast accuracy*: Abnormal forecast accuracy before and after conference call (Mayew 2008)

Results

H1: Information sharing in CCs $\xrightarrow{-***}$ Δ Relative forecast accuracy

H2: Ex-ante relative forecast accuracy $\xrightarrow{-**}$ Information sharing in CCs

- Results also hold for alternative specifications of analysts' ex-ante information advantage (i.e., firm-experience, last conference call participation)

Additional Analyses

- Analysts ask more (less) informative questions when exposed to higher information uncertainty (competition)
- Informative questions positively affect change in absolute forecast accuracy and reduce information uncertainty
- Capital market reacts negatively to information sharing (seeking) by analysts

Contributions

1. Analysts' incentives reduce informativeness of conference calls
2. Analysts may hinder their peers from learning from their actions

References

Diamond, D. W. (1985). Optimal Release of Information By Firms. *The Journal of Finance*, *40*(4), 1071–1094.

Mayew, W. J. (2008). Evidence of Management Discrimination Among Analysts during Earnings Conference Calls. *Journal of Accounting Research*, *46*(3), 627–659.

Minson, J. A., VanEpps, E. M., Yip, J. A., & Schweitzer, M. E. (2018). Eliciting the truth, the whole truth, and nothing but the truth: The effect of question phrasing on deception. *Organizational Behavior and Human Decision Processes*, *147*, 76–93.

Verrecchia, R. E. (1982). Information Acquisition in a Noisy Rational Expectations Economy. *Econometrica*, *50*(6), 1415–1430.