

219 Views | 49 CrossRef citations to date | 0 Altmetric

EQUITY INVESTMENTS

# Global/Industrial Diversification and Analyst Herding

Chansog (Francis) Kim & Christos Pantzalis

Pages 69-79 | Published online: 02 Jan 2019

Cite this article <https://doi.org/10.2469/faj.v59.n2.2515>

Sample our  
Economics, Finance,  
Business & Industry Journals

>> **Sign in here** to start your access  
to the latest two volumes for 14 days

References Citations Metrics Reprints & Permissions

Read this article

Share

## We Care About Your Privacy

We and our 880 partners store and access personal data, like browsing data or unique identifiers, on your device. Selecting I Accept enables tracking technologies to support the purposes shown under we and our partners process data to provide. Selecting Reject All or withdrawing your consent will disable them. If trackers are disabled, some content and ads you see may not be as relevant to you. You can resurface this menu to change your choices or withdraw consent at any time by clicking the Show Purposes link on the bottom of the webpage .Your choices will have effect within our Website. For more details, refer to our Privacy Policy. [Here](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device

I Accept

Reject All

Show Purpose



the 1980-  
graphical  
ward herding  
analysts  
y. We  
rating on  
behavior  
lysts  
e market  
pronounced

services in

the United States, an important issue is whether a relationship exists between the

quality of analyst coverage and characteristics of the companies analysts choose to cover. The ability of security analysts to disseminate information and provide monitoring of corporate managements depends on a company's degree of organizational complexity and potential for agency conflicts. These characteristics, which are more common among diversified companies, could lead to large forecast errors coupled with unusually high levels of consensus in analyst forecasts. This phenomenon is referred to as "herding." Because such behavior is synonymous with ineffective analyst coverage, herding could account for differences in valuations in a cross-section of companies with different degrees of diversification.

We used security analysts' summary earnings forecast data for a large panel of companies in the 1980-98 period to detect whether security analysts' herding behavior is related to characteristics of the companies they follow. We operationalized herding among analysts as cases of clustering of analyst earnings forecasts coupled with large forecast errors. We maintain that, given the different nature of diversified and nondiversified companies, the extent and quality of analyst coverage of domestic companies that are industrially focused is different from the extent and quality of analyst coverage of diversified companies. Consequently, we expected analysts' propensity toward herding to be different when they were covering domestic/industrially focused companies from when they were covering geographically and/or industrially diversified companies.

Diversified companies are generally more transparent and less prone to agency conflicts and problems. Following the disclosure of earnings, analysts are more likely to follow the lead of the market and herd, especially in the case of diversified companies. For both. If the market is monitoring the company's earnings, the consensus is likely to be higher, and the propensity toward herding is likely to be lower.

We used measures of analyst propensity toward herding (herding indexes) for each company. We then used



panel-data regressions to test the following hypotheses:

- (H1) Herding behavior is more pronounced among analysts following diversified companies than among those following domestic, industrially focused companies.
- (H2) Herding increases with the degree of both geographical and industrial diversification.
- (H3) Market value declines with analyst propensity toward herding.
- (H4) The impact of herding on market value is stronger for diversified companies.

Our empirical results support all four hypotheses. Our findings indicate that analyst forecasts for geographically or industrially diversified companies display more herding, on average, than forecasts for domestic/focused companies. The results also provide strong support for the notion that herding increases with the degree of both industrial and geographical diversification. In addition, when we estimated two-stage least-squares regressions, we found that herding results in lower market valuations, which implies that the market penalizes security analysts' propensity toward herding. We found this effect to be stronger in the case of diversified companies.

The author  
providing

for

Rel



## Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

## Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

## Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

## Help and information

- Help and contact
- Newsroom
- All journals
- Books

## Keep up to date

Register to receive personalised research and resources by email

 Sign me up



Copyright

Accessib

Registered  
5 Howick Pl

or & Francis Group  
orma business

