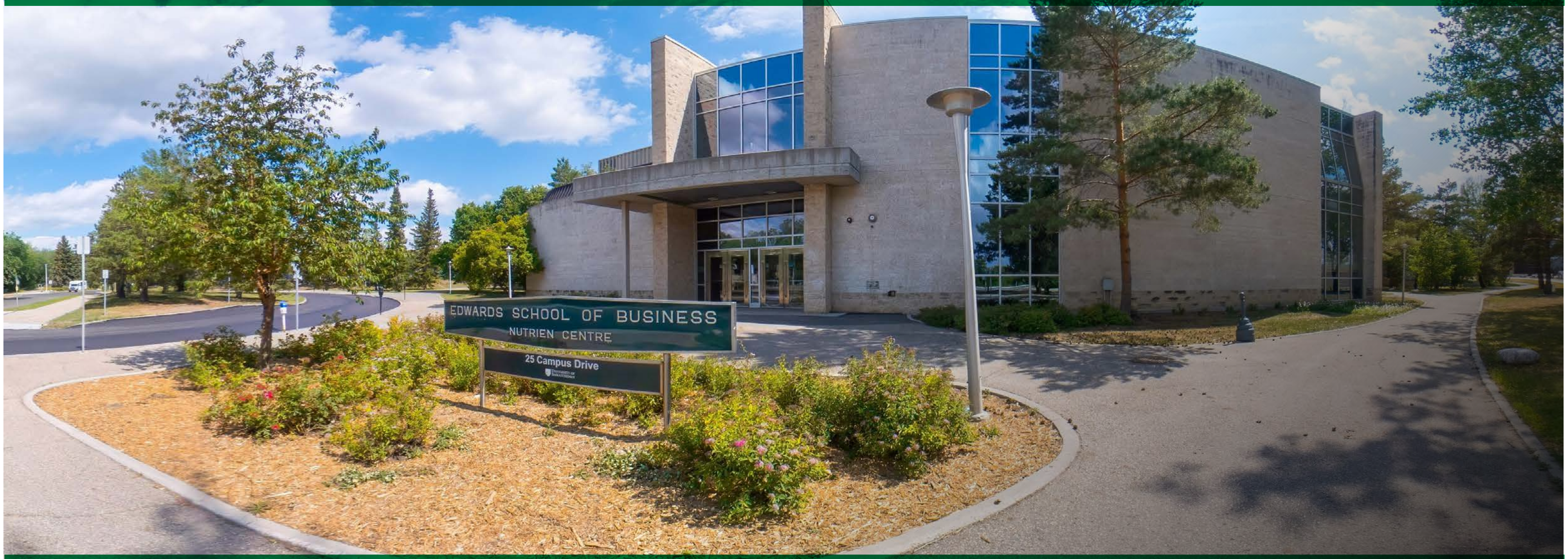
RESEARCH SEMINAR

EDWARDS SCHOOL OF BUSINESS
UNIVERSITY OF SASKATCHEWAN



November 19, 12:00pm - 12:45pm

Virtual: Zoom

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Accounting

Nudging Towards Better Earnings Forecasts

Abstract: Even professionals making judgments under uncertainty resort to heuristics, such as herding, to help in their decision making (Kahneman 2011). Nudges—simple, costless, yet powerful tools—have been deployed within the public and private sectors to gently steer people away from or towards certain decisions (Thaler and Sunstein 2008; Halpern 2015). We test the effects of a simple nudge designed to reduce herding behavior among forecasters of earnings by highlighting a social norm where greater forecasting effort is encouraged, and examine its implications for forecast quality and financial markets. We find that nudging leads to less pessimistically biased and more accurate individual earnings forecasts. Additionally, we find that nudging results in a forecast consensus that is more accurate, less biased, and more representative of the market's true earnings expectations. However, we also find that although nudging reduces herding behavior, it also reduces forecaster participation. Forecasters with a greater tendency to herd before being nudged issue fewer forecast revisions, cover less firms, and are more likely to stop forecasting altogether after being nudged. Our findings suggest that nudging does not bring out the "best" nor the "worse" in forecasters, but simply helps them act on their true intentions—those who initially care about the forecasting task become less likely to herd, and those who are initially indifferent about forecasting are more likely to abandon forecasting altogether in the near future.

TOGETHER

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