Faculty of Economics and Business

Brown Bag Seminar | 24th November

The impact of the institutional environment on analysts' herding behavior: Evidence from broker acquisitions

From: Louis Mangeney
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DATE & TIME
Tuesday 24th November 2020
13.00

PLACE
Online
- Webex -

Abstract:

We examine the influence of institutional factors on herding behavior by exploiting changes in security analysts' institutional environments. Specifically, we identify analysts employed at privately held brokers subsequently acquired by a publicly listed institution (hereafter, "treated analysts"). We posit that, after the treatment, analysts are less independent (e.g. due to increased peer pressure or more regulated environments), and thus, issue more herding forecasts. Using a staggered difference-in-differences design, we find that treated analysts issue significantly more herding forecasts in the post-treatment period. However, we do not find a change in herding behavior for analysts subject to acquisitions by non-public brokers, indicating that the institutional change from private to public, not the acquisition per se, drives our inferences. Consistent with the decreasing independency explanation, we find stronger treatment effects for less experienced analysts, more substantial organizational changes, institutional changes associated with higher job uncertainty, and in periods of stricter regulation of public institutions. Taken together, our findings suggest a causal link between the institutional environment and herding behavior.

Presenter:
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Thesis topic: *"The effect of institutional factors on financial analysts' herding behavior"*

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