Public Pessimism: How and Why Do Managers Use Public Forecasts to Guide the Market?

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Abstract

We study Japanese public companies who must make public forecasts of sales and profits annually and who also make confidential forecasts in a large-scale government survey. While both forecasts meaningfully predict corporate policy, public forecasts are pessimistic relative to confidential forecasts. Firms with higher capital market pressure and executive compensation incentives are more pessimistic publicly. This public pessimism explains earnings surprises, earnings announcement returns, future annual returns, and future compensation for company officers but not rank-and-file employees. Moreover, the public pessimism turns into public optimism when equity-dependent firms are financially constrained. Our results suggest public firms strategically trade off revealing positive information to capital markets in exchange for optimizing manager goalposts.

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