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Market Reaction to Management Earnings Forecasts in Thailand

การตอบสนองของตลาด ต่อพยากรณ์กำไรของผู้บริหารในประเทศไทย

ABSTRACT

This study provides empirical evidence on market reaction to management earnings forecasts of Thai listed companies. We obtained management earnings forecast disclosures of companies listed on the Stock Exchange of Thailand during January 2005 – June 2007 from Jarutakanont and Supattarakul (2012). Consistent with prior research, our empirical evidence shows that the magnitude of cumulative market-adjusted abnormal returns surrounding management earnings forecast dates are significantly greater than zero, suggesting thatmanagement earnings forecastsof Thai listed firms are informative, regardless of industries the forecast firms are in, forecast timing, and forecast horizons.Our results indicate that firms are more likely to provide good news forecasts than bad news forecasts. We also find that market reaction to good news forecasts is greater than market reaction to bad news forecasts, regardless of industries the forecast firms are in, forecast timing, and forecast horizons.

Keywords: Management earnings forecast, Voluntary Disclosure, Market Reaction

Market Reaction to Management *Earnings Forecasts in Thailand*

บทคัดย่อ

งานวิจัยนี้แสดงหลักฐานเชิงประจักษ์เกี่ยวกับการตอบสนองของตลาดทุนต่อข้อมูลการพยากรณ์โดยผู้บริหารของบริษัทจดทะเบียนกับตลาดหลักทรัพย์แห่งประเทศไทยระหว่างเดือนมกราคม ปี พ.ศ. 2548 ถึงเดือนมิถุนายน ปี พ.ศ. 2550 โดยข้อมูลการพยากรณ์ดังกล่าวได้รับมาจากงานวิจัยของ Jarutakanont and Supattarakul (2012) ผลการวิจัยพบว่าขนาดของผลตอบแทนเกินปกติสะสมในช่วงเวลาที่มีการเปิดเผยข้อมูลพยากรณ์โดยผู้บริหารมีค่ามากกว่าศูนย์อย่างมีนัยสำคัญ แสดงว่าข้อมูลพยากรณ์โดยผู้บริหารของบริษัทจดทะเบียนกับตลาดหลักทรัพย์แห่งประเทศไทยเป็นข้อมูลที่มีประโยชน์ โดยไม่ขึ้นอยู่กับประเภทของอุตสาหกรรม ช่วงเวลาที่เปิดเผยข้อมูล และระยะเวลาของการพยากรณ์ นอกจากนี้คณะผู้วิจัยยังพบว่าบริษัทมักจะเปิดเผยข้อมูลพยากรณ์ซึ่งเป็นข่าวดีมากกว่าข่าวร้าย และการตอบสนองของตลาดทุนต่อข่าวดีมีขนาดใหญ่กว่าการตอบสนองของตลาดทุนต่อข่าวร้าย โดยไม่ขึ้นอยู่กับประเภทของอุตสาหกรรม ช่วงเวลาที่เปิดเผยข้อมูล และระยะเวลาของการพยากรณ์

คำสำคัญ : กำไรที่พยากรณ์โดยผู้บริหาร การเปิดเผยโดยสมัครใจ การตอบสนองของตลาดทุน

1. INTRODUCTION

A management earnings forecast is one type of voluntary disclosures released prior to an earnings announcement date. Management earnings forecast is an important source of information to market participants since management has access to superior information which is not generally available to investors. Literatures on management earnings forecasts traditionally examines (i) the information content of management earnings forecasts [e.g., Patell (1976), Nichols and Tsay (1979), Penman (1980), and Waymire (1984)], (ii) management motives to issue management earnings forecasts [e.g., Cox (1985), Imhoff (1978), Ruland et al. (1990), Kasznik and Lev (1995)], and (iii) differential market reactions to management earnings forecasts [e.g., Pownall et al. (1993), Atiase et al. (2005 and 2006)]. These studies are limited to management earnings forecasts of firms in the United States.

There are a few studies addressing the issues for management earnings forecasts of firms in other countries but most of them are limited to management earnings forecasts which are disclosed on a mandatory basis such as management earnings forecasts issued by IPO firms which are required to provide management earnings forecasts in prospectuses. These studies investigate management earnings forecast disclosures provided by Taiwan IPO firms [Jaggi et al. (2006)], Malaysian IPO firms [Jelic et al. (1998)], and Danish IPO firms [Gramlich and Sorensen (2004)]. Kato et al. (2006) examine management earnings forecast disclosures in Japan in a general setting; however, management earnings forecast disclosures in Japan are on a mandatory basis.Management earnings forecast disclosures in Thailand are on a voluntary basis and Jarutakanont and Supattarakul (2012) explore management earnings forecast disclosure practices in Thailand. This study extends Jarutakanont and Supattarakul (2012) by providing empirical evidence on market reaction to management earnings forecasts of Thai listed firms.

Our sample includes management earnings forecast disclosures issued by companies listed on the Stock Exchange of Thailand (SET) during 12-month period starting January 2005 and 12-month period starting July 2006 obtained from Jarutakanont and Supattarakul (2012).This study investigates whether management earnings forecasts of Thai listed firms are informative and documents that the magnitude of cumulative market-adjusted abnormal returns surrounding management earnings forecast dates are significantly greater than zero, suggesting that management earnings forecast disclosures are informative. Our results are consistent with prior studies on information content of management earnings forecasts of US firms.Partitioning the sample in various subsets, our empirical evidence shows that industries forecast firms are in, forecast timing, and forecast forms do not seem to affect information content of management earnings forecasts. Specifically, management earnings forecasts of firms in all industries are informative; management earnings forecasts issued prior to and after the end of accounting period are both informative; and management earnings forecasts in all forecast horizons are informative.

We also examine whether Thai stock market differently reacts to good news and bad news forecasts. Partitioning management earnings forecasts into bad news and good news forecasts by using a sign of cumulative abnormal returns associated with management earnings forecasts, we find that firms are more likely to provide good news forecasts than bad news forecasts. We also find that market reaction togood news

forecasts is greater than market reaction to bad news forecasts. The results are not sensitive to industries forecast firms are in, forecast timing, and forecast horizon.

Our results provide contributions to many parties, namely, capital market participants, management, and the Stock Exchange of Thailand.This study also provides a contribution to the academic literature, specifically to accounting research in Thailand. This study provides empirical evidence oninformativeness of management earnings forecasts in Thailand. The findings will assist academic researchers in investigating other aspects of accounting research on management earnings forecast disclosures.

Discussion of prior research on management earnings forecast disclosures is presented in section 2. Empirical results are discussed in section 3 while a conclusion is discussed in section 4.

2. PRIOR RESEARCH

A long-standing prior research finds empirical evidence that management earnings forecasts are informative. Early empirical research investigates price reactions to management earnings forecasts. For example, Patell (1976), Nichols and Tsay (1979), and Penman (1980) find that good news forecasts are associated with significant positive stock price reaction around forecast date while they do not observe significant negative stock price reaction for bad news forecasts. Waymire (1984) examines the information content of both good and bad news forecasts by using analyst's forecasts as a proxy for expected earnings and finds good (bad) news forecasts are associated with significant positive (negative) abnormal returns around the date of forecast. Ajinkya and Gift (1984) also document informativeness of management earnings forecasts. They find that financial analysts revise their forecasts in response to management earnings forecast disclosures.

More recent studies also document the information content of management earnings forecast disclosures. For example, Kasznik and Lev (1995), Atiase et al. (2005 and 2006) and Supattarakul (2003 and 2007) find a positive association between earnings news conveyed through management earnings forecasts and price reaction around forecast dates.Prior studies mentioned above are limited to management earnings forecasts of US firms.

There are a few studies investigating the information content of management earnings forecast disclosuresof firms in other countries but most of them are limited to management earnings forecasts issued by IPO firms. Most of IPO firms in many countries are required to provide management earnings forecasts in their prospectuses. Therefore, most of management earnings forecasts of IPO firms are on a mandatory basis, not a voluntary basis.Jaggi et al. (2006) examine 759 management earnings forecasts issued by Taiwan IPO firms from 1994 to 2001. They find that firms are likely to provide optimistic forecasts than conservative forecasts. To meet their targets, those firms subsequently manage reported earnings instead of revise their forecasts. Gramlich and Sorensen (2004) investigate 58 Danish IPO firms that issue management earnings forecasts between 1984 and 1996. Their evidence strongly supports that Danish IPO firms engage in earnings management to meet their management earnings forecasts. Jelic et al. (1998) examine the accuracy of management earnings forecasts in

prospectuses of Malaysian IPO firms and find that on average, the absolute forecast error is 55%.

Kato et al. (2006) examine management earnings forecast disclosures in Japan in general setting, not restrict to IPO firms. However, management earnings forecast disclosures in Japan are provided on a mandatory basis. Examining management earnings forecasts issued in 1997 to 2006, they find that management earnings forecasts in each year are over optimistic. In spite of their systematic over-optimism, management earnings forecasts in Japan are also informative, although the stock price reaction associated with these forecasts is not as large as the stock price reaction associated with management earnings forecasts typically observed in the United States.

In summary, prior studies document that management earnings forecast disclosures are informative. However, most of them are restricted to management earnings forecasts issued by US firms or management earnings forecasts provided on a mandatory basis.The information content of management earnings forecasts of Thai firms which are disclosed on a voluntary basis remains unexplored. Therefore, this study aims at providing empirical evidence on information content of management earnings forecasts of firms listed on the Stock Exchange of Thailand (SET).

3. EMPIRICAL RESULTS

The main objective of this study is to investigate the information content of management earnings forecast disclosures in Thailand. Samples in this study are management earnings forecast disclosures issued during two 12-month periods: (1) 12-month period starting January 2005 and (2) 12-month period starting July 2006[1]. We obtained management earnings forecasts fromJarutakanont and Supattarakul (2012)[2].

3.1. Descriptive Statistics – Forecast Vs. Non-forecast Firms

From the 4,483 management earnings forecasts from 287 firms obtained from Jarutakanont and Supattarakul (2012), we remove management earnings forecasts of each firm which are redundant forecasts in each quarter. In doing so, we obtain 1,368 firm-quarters in our sample. We also remove 98 (79) firm-quarters without stock returns (earnings) data available in the DATASTREAM database. Finally, we obtain 1,191 firm-quarters from 263 firms.

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[1]The Stock Exchange of Thailand (SET) issued the disclosure guidelines for listed companies in March 2006; therefore, management forecasts disclosed three months before and after the issuance of the disclosure guidelines are excluded.

[2]Jarutakanont and Supattarakul (2012)hand-collected management forecasts issued during 12-month period starting January 2005 and 12-month period starting July 2006 from the NEWSCENTER database and the SETSMART database. In Thailand, other than the Stock Exchange of Thailand (SET) channel (i.e., the SETSMART database), management mostly releases its forecasts through the business press. The NEWSCENTER database is a database containing news articles published in Thailand. In the collection process, they set the criteria to collect management forecast data as follows: (1) the forecast must contain various keywords such as “expects”, “estimates”, “targets”, etc. and (2) the forecast must be attributed to company officials. See more details in Jarutakanont and Supattarakul (2012).

Table 1 separately provides descriptive statistics of all Thai listed firms: forecast firms and non-forecast firms. In addition to means, median, and standard deviations for price-deflated unexpected earnings (UE), earnings variations (EV), return variations (RV), and market capitalization (MV).

Table 1: Descriptive Statistics

	UE	EV	RV	MV
All Firms				
Mean	-10.42	125,783.710	0.879	10,545.020
Std. Deviation	811.839	449,216.437	31.121	43,855.961
Median	0.136	25,920.618	0.021	1,680.000
N	2,663	2,663	2,663	2,663
Forecast Firms				
Mean	0.294	209,926.254	1.936	18,932.133
Std. Deviation	225.649	636,496.578	46.507	61,586.677
Median	0.714	38,552.542	0.022	3,206.000
N	1,191	1,191	1,191	1,191
Non-forecastFirms				
Mean	-13.140	63,147.861	0.023	3,745.151
Std. Deviation	1,171.214	224,401.427	0.015	17,507.702
Median	-0.729	18,034.518	0.020	1,052.940
N	1,472	1,472	1,472	1,472

UE is price-deflated unexpected earnings.

EV is the standard deviation of reported earnings.

RV is the standard deviation of stock returns.

MV is market value or market capitalization (in million baht).

Mean of unexpected earnings (UE) of forecast firms is positive (UE = 0.294) while that of non-forecast firms is negative (UE = -13.140). However, mean of UE for forecast firms is insignificantly greater from mean of UE for non-forecast firms (t statistic = 0.390). This does not support the notion that larger earnings surprise firms are more likely to provide management earnings forecast than are smaller earnings surprise firms [Ajinkya and Gift (1984), Kasznik and Lev (1995),and Supattarakul (2003 and 2007)].

Mean of earnings variations (EV) for forecast firms is significantly greater than that of non-forecast firms (t statistic = 7.583), suggesting that higher earnings variation firms are more likely to provide management earnings forecasts than are lower earnings variation firms. This evidence is inconsistent with prior studies which find that forecast firms have less earnings variability than non-forecast firms [Imhoff (1978), Cox (1985), and Waymire (1985)]. The plausible reason is that high earnings variation firms are likely to reduce their risk by providing more relevant information to align market expectation.

Mean of RV for forecast firms is insignificantly greater than that of non-forecast firms (t statistic = 1.420). This evidence is inconsistent with prior studies which find that higher return variation firms are more likely to issue management earnings forecasts than are lower return variation firms [Chen (2003) and Supattarakul (2003 and 2007)].Finally, Mean of MV for forecast firms is significantly greater than that of non-forecast firms (t statistic = 8.245). This is consistent with the notion that larger firms are more likely to issue management earnings forecasts than smaller firms [Imhoff (1978), Cox (1985), Kasznik and Lev (1995) and Supattarakul (2003 and 2007)].

3.2.Market Reaction to Management earnings forecasts

This study investigates the information content of management earnings forecasts of Thai listed firms by examining the market reaction to management earnings forecasts when they are released. The market reaction to management earnings forecasts can be measured by cumulative market-adjusted abnormal returns around management earnings forecast release date[3]. This study focuses on the magnitude of market reaction associated with management earnings forecasts; therefore, absolute cumulative abnormal returns (ACAR) are a variable of interest.

From the 4,483 management earnings forecasts from 287 firms obtained from Jarutakanont and Supattarakul (2012), we remove 2,028 forecasts having other events in 14 days surrounding forecast date. Next, we remove 91 forecasts without stock returns data available in the DATASTREAM database. Finally, we obtain 2,364 management earnings forecast disclosures from 260 firms.

Consistent with prior studies which find that management earnings forecast disclosures provide useful information for capital markets, our results on the three-day (-1,+1), five-day (-2,+2), and seven-day (-3,+3) absolute cumulative market-adjusted abnormal returns (ACAR) centered on management earnings forecast date reported in table 2 reveal the significant market reaction to management earnings forecasts. Specifically, ACAR in all three windows are significantly greater than zero in the sample period.

[3]We also employ the cumulative market-model abnormal returns using a 100-day estimation period (from day t-107 to day t-8) for beta estimation. Results (not reported) are qualitatively identical.

Table 2: Market Reaction to Management Earnings Forecast (MEF) Disclosure

Distribution of MEF Disclosures	No. of Disclosures	ACARa (-1,+1)	ACARa (-2,+2)	ACARa (-3,+3)
Total Sample	2,364	0.043***	0.056***	0.064***
Forecast Timing				
Before End of Period	1,636	0.035***	0.043***	0.053***
After End of Period	728	0.061***	0.084***	0.087***
Total	2,364			
Forecast Horizon				
Stand-alone Quarterly Forecast	225	0.030***	0.036***	0.048***
Stand-alone Annual Forecast	1,054	0.038***	0.052***	0.061***
Concurrent Annual-Quarter Forecast	1,085	0.050***	0.064***	0.070***
Total	2,364			
Industry				
Agro & Food	145	0.027***	0.036***	0.042***
Consumer Products	45	0.027***	0.040***	0.051***
Industrials	429	0.033***	0.052***	0.059***
Property & Construction	871	0.064***	0.071***	0.083***
Resources	225	0.027***	0.035***	0.039***
Professional Services	364	0.030***	0.052***	0.058***
Technology	285	0.032***	0.047***	0.053***
Total	2,364			

*** Statistically significant at two-tailed 0.01 level.

aAbsolute Cumulative Abnormal Returns (ACAR) is computed by compounding market-adjusted abnormal returns on selected windows and then taking the absolute term on cumulative market-adjusted abnormal returns.

Jarutakanont and Supattarakul (2012) find that Thai firms in property and construction, resources, and technology industries are more likely to provide management earnings forecasts than others.Most of firms in these industries are large firms (i.e., have large market capitalization). Theyalso find that forecast firms are more likely to disclose management earnings forecasts before end of accounting period than after end of accounting period and that half of management earnings forecast disclosures are annual management earnings forecasts. Moreover, Freeman (1987) suggests that stock markets differently react to accounting numbers of firm depend

on its size. Anilowski et al. (2007) document that timing of forecasts affect information content of management earnings forecasts. Pownall et al. (1993) indicate that quarterly management earnings forecasts are more informative than annual management earnings forecast. Therefore, we provide additional test to examinewhether industries the forecast firms are in, forecast timing, and forecast horizon affect informativeness of management earnings forecasts.

To do so, we partition our sample byforecast timing (e.g., before or after the end of an accounting period), forecast horizon (e.g., quarterly or annual forecast), and forecast firm industry. To assess the forecast timing effect, we classify management earnings forecasts into two groups: forecasts which are issued before and after the end ofan accounting period. The results in table 2 show that management earnings forecasts released both before and after the end of an accounting period are informative. Specifically, ACAR of management earnings forecasts released before and after the end of an accounting period are greater than zero in all three windows.Nontabulated results show an insignificant difference in ACAR between forecasts issued before and after end of period.

We investigate the forecast horizon effect by dividing management earnings forecasts into three groups. Forecasts in the first group are stand-alone quarterly forecasts. Forecasts in the second group are stand-alone annual forecasts. Forecast in the last group are concurrent quarterly and annual forecasts. The results in table 2 show that management earnings forecasts in all three forecast horizons are informative. Specifically, we find significantly positive ACAR in all three windows for all three forecast horizon groups.Nontabulated results show that information content of management earnings forecasts among three different forecast horizons is insignificantly different.

For forecast firm industries, empirical results in table 2 show significantly positive ACAR in all three windows for all industries, suggesting that management earnings forecasts of firms in all industries are informative.Nontabulated results show that information content of management earnings forecasts among all firm industries is insignificantly different.

Next, we examine whether the stock market differently reacts to good news and bad news forecasts. To do so,weclassify management earnings forecast disclosures into two groups (i.e., bad news and good news groups)based on signs of their cumulative abnormal returns. Specifically, management earnings forecasts associated with positive (negative) cumulative market-adjusted abnormal returns are considered good (bad) news forecasts.Results in panel A of table 3 reveal that number of good news forecasts is significantly greater than that of bad news forecasts in all three windows.The results also show that market reaction to good news forecasts measured by cumulative abnormal returns is significantly greater than that of bad news forecasts in all three windows. The results are consistent with prior studies documentingthat management discloses good news forecasts more often than bad news forecasts [Patell (1976), Penman (1980), Waymire (1984), and Lev and Penman (1990)]. However, more recent study [Kasznik and Lev (1995)]reveals that the disclosure of bad news is more frequently than the disclosure of good news

Table 3: Market Reaction to MEF DisclosuresClassified by Sign of CAR

Panel A: Total MEF disclosures

Distribution of MEF Disclosures	Window					
	(-1,+1)		(-2,+2)		(-3,+3)	
	CAR	N	CAR	N	CAR	N
Total	0.021	2,364	0.028	2,364	0.030	2,364
Bad news	-0.025	1,036	-0.030	1,062	-0.037	1,073
Good news	0.057	1,328	0.076	1,302	0.086	1,291
Difference	0.082***	292***	0.106***	240***	0.123***	218***

Panel B: MEF disclosures classified by forecast timing

Distribution of MEF Disclosures	Window					
	(-1,+1)		(-2,+2)		(-3,+3)	
	CAR	N	CAR	n	CAR	N
Before End of Accounting Period						
Total	0.013	1,636	0.016	1,636	0.020	1,636
Bad news	-0.024	721	-0.030	743	-0.037	736
Good news	0.043	915	0.054	893	0.066	900
Difference	0.067***	194***	0.084***	150***	0.103***	164***
After End of Accounting Period						
Total	0.038	728	0.056	728	0.054	728
Bad news	-0.026	315	-0.031	319	-0.037	337
Good news	0.087	413	0.124	409	0.131	391
Difference	0.113***	98***	0.155***	90***	0.168***	54**

*** Statistically significant at two-tailed 0.01 level.

** Statistically significant at two-tailed 0.05 level.

* Statistically significant at two-tailed 0.1 level.

Table 3: Market Reaction to MEF Disclosures Classified by Sign of CAR (Continued)

Panel C: MEF disclosures classified by forecast horizon

Distribution of MEF Disclosures	Window					
	(-1,+1)		(-2,+2)		(-3,+3)	
	CAR	N	CAR	Disclosures	CAR	N
Quarterly Forecast						
Total	0.009	225	0.013	225	0.014	225
Bad news	-0.024	104	-0.026	102	-0.036	105
Good news	0.036	121	0.044	123	0.058	120
Difference	0.060***	7	0.070***	21	0.094***	15
Annual Forecast						
Total	0.017	1,054	0.026	1,054	0.030	1,054
Bad news	-0.024	453	-0.029	463	-0.034	471
Good news	0.048	601	0.070	591	0.082	583
Difference	0.072***	148***	0.099***	128***	0.116***	112***
Quarterly & Annual Forecast						
Total	0.027	1,085	0.034	1,085	0.034	1,085
Bad news	-0.026	479	-0.033	497	-0.039	497
Good news	0.069	606	0.090	588	0.095	588
Difference	0.095***	127***	0.123***	91***	0.134***	91***

*** Statistically significant at two-tailed 0.01 level.

** Statistically significant at two-tailed 0.05 level.

* Statistically significant at two-tailed 0.1 level.

Table 3: Market Reaction to MEF Disclosures Classified by Sign of CAR (Continued)

Panel D: MEF disclosures classified by firm industry

Distribution of MEF Disclosures	Window					
	(-1,+1)		(-2,+2)		(-3,+3)	
	CAR	N	CAR	Disclosures	CAR	N
Agro&Food						
Total	0.006	145	0.011	145	0.006	145
Bad news	-0.024	63	-0.029	63	-0.037	70
Good news	0.029	82	0.041	82	0.047	75
Difference	0.053***	19	0.070***	19	0.084***	5
Consumer Products						
Total	0.017	45	0.020	45	0.022	45
Bad news	-0.016	14	-0.035	13	-0.043	15
Good news	0.032	31	0.042	32	0.054	30
Difference	0.048***	17***	0.077***	19***	0.097***	15***
Industrials						
Total	0.011	429	0.022	429	0.021	429
Bad news	-0.025	186	-0.034	190	-0.042	195
Good news	0.039	243	0.067	239	0.073	234
Difference	0.064***	57***	0.101***	49**	0.115***	39*
Property&Construction						
Total	0.039	871	0.041	871	0.048	871
Bad news	-0.028	392	-0.033	396	-0.039	387
Good news	0.093	479	0.103	475	0.118	484
Difference	0.121***	87***	0.136***	79***	0.157***	97***
Resources						
Total	0.039	225	0.041	225	0.048	225
Bad news	-0.018	118	-0.023	113	-0.029	115
Good news	0.037	107	0.048	112	0.050	110
Difference	0.055***	-11	0.071***	-1	0.079***	-5

Table 3: Market Reaction to MEF Disclosures Classified by Sign of CAR (Continued)

Panel D: MEF disclosures classified by firm industry

Distribution of MEF Disclosures	Window					
	(-1,+1)		(-2,+2)		(-3,+3)	
	CAR	N	CAR	Disclosures	CAR	N
Professional Services						
Total	0.008	364	0.026	364	0.026	364
Bad news	-0.025	161	-0.027	178	-0.034	170
Good news	0.034	203	0.076	186	0.078	194
Difference	0.059***	42**	0.103***	8	0.112***	24
Technology						
Total	0.016	285	0.024	285	0.025	285
Bad news	-0.022	102	-0.029	109	-0.032	121
Good news	0.038	183	0.058	176	0.068	164
Difference	0.060***	81***	0.087***	67***	0.100***	43**

*** Statistically significant at two-tailed 0.01 level.

** Statistically significant at two-tailed 0.05 level.

* Statistically significant at two-tailed 0.1 level.

We also partition our sample by forecast timing (e.g., before or after the end of an accounting period), forecast horizon (e.g., quarterly or annual forecast) and forecast firm industry.

For forecast timing, the results in panel B of table 3 reveal thatnumber of good news forecasts is significantly greater than that of bad news forecasts in all three windows for management earnings forecasts issued both before and after the end of an accounting period. The results also show that market reaction to good news forecasts measured by cumulative abnormal returns is significantly greater than that of bad news forecasts in all three windows, regardless of forecast timing. Additionally, we examine whether management provides bad news forecast earlier than good news forecasts. Inconsistent with our expectation, nontabulated results indicate that management does not provide bad news forecasts significantly earlier than good news forecasts. On average, management issues bad (good) news forecasts 108 (106) days before the end of an accounting period.

For forecast horizons, the results in panel C of table 3 indicate thatnumber of good news forecasts is significantly greater than that of bad news forecasts in all threewindows for all three forecast horizons. The results also reveal that market reaction to good news forecasts measured by cumulative abnormal returns is significantly greater than that of bad news forecasts in all three windows, regardless of forecast horizons.

For forecast firm industry, the results in panel D of table 3 show that number of good news forecasts is significantly greater than that of bad news forecasts in all threewindows for all industries. The results also show that market reaction to good news forecasts measured by cumulative abnormal returns is significantly greater than that of bad news forecasts in all three windows, regardless of forecast firm industries.

Taken together, our results show that forecast firms are more likely to provide good news forecast than bad news forecasts, regardless of industry firms are in, forecast timing, and forecast horizon. Moreover, we also find that market reaction to good news forecasts are significantly greater than market reaction to bad news firms, regardless of industry firms are in, forecast timing, and forecast horizon.

4. CONCLUSION

This study aims at providing empirical evidence on the information content of management earnings forecast disclosures on Thai firms.Specifically, this study investigates whether management earnings forecasts of Thai listed firms are informative and documents that the magnitude of cumulative abnormal returns around management earnings forecast dates is significantly greater than zero, suggesting that management earnings forecast disclosures are informative. Results are consistent with prior studies on the information content of management earnings forecasts of firms in the United States. Additionally, results on the information content of management earnings forecastsare not vulnerable by industry forecast firms are in, forecast timing, and forecast horizon.

We also classify management earnings forecasts into bad news and good news forecasts. We find that forecast firms are more likely to issue good news forecasts than bad news forecasts. We also document that market reaction to good news forecasts is greater than market reaction to bad news forecasts. Those results are not vulnerable by industry forecasts firms are in, forecast timing, and forecast horizon.

The study is the first study that provides empirical evidence on the informativeness of management earnings forecasts in Thailand. Our results provide contributions to financial analysts and investors, management, and the Stock Exchange of Thailand. This study also provides a contribution to the academic literature, specifically to accounting research in Thailand. The findings will assist accounting researchers in investigating other aspects of accounting research on management earnings forecast disclosures.

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