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Do Analysts Follow Managers that Switch Companies? An Analysis of Relations in the Capital Markets

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Abstract:

We examine the importance of professional relationships developed between analysts and managers by investigating analyst coverage decisions in the context of CEO and CFO moves between publicly listed firms. We find that top executive moves from an origin firm to a destination firm trigger analysts following the origin firm to initiate coverage of the destination firm in 10% of our sample, which is significantly higher than in a matched sample. Analyst-manager “co-migration” is significantly stronger when both firms are within the same industry. Analysts who move with managers to the destination firm exhibit more intense and accurate coverage of the origin firm than they do in other firms and compared to other analysts covering the origin firm. The advantage no longer holds after the executive’s departure, and most of the analysts’ advantage does not carry over to the destination firm. However, the analysts do increase the overall market capitalization of firms in their coverage portfolio. Our results hold after Regulation Fair Disclosure, suggesting that these relationships are not based on selective disclosure. Overall, the evidence shows both the importance and limitations of professional relations in capital markets.

Keywords: Management turnover; Analyst coverage; Capital market relationships.

Data Availability: Data are publicly available from sources identified in the article.

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I. INTRODUCTION

Capital market participants often argue that relationships among entrepreneurs, capital providers and information intermediaries are central to a well-functioning marketplace. Yet, there is limited empirical academic research on relationships in financial markets. Further, individual relations play no role in traditional agency paradigms used to model financial markets. Combined, the current empirical and analytical research provides limited insights into these potentially important aspects of financial markets. In this paper, we study personal relations in financial markets by focusing on the analyst decision to initiate coverage when a manager in a currently covered firm moves to a new firm. Our goal is to use the important (and observable) economic event of initiating analyst coverage to identify and then investigate relations in financial markets. While valid identification of relationships in financial markets is a challenge, the highly visible nature of much of analysts' activities provides an opportunity to construct tests that provide insights into this important and relatively under-studied aspect of capital markets.

We predict and find that analysts are most likely to initiate coverage when the managers were previously at firms the analysts covered more intensively and accurately, both relative to other firms in that analyst's portfolio and to other analysts following the company. While analysts continue to follow the origin firm, their intensity and accuracy reverts to the mean of the firm once the manager departs. The analyst intensity and accuracy in the manager's new firm quickly becomes average despite it being relatively new to the analyst. Combined, these results show a pattern of coverage decisions which indicate some managers and analyst develop important, ongoing relations in capital markets.

Developing a valuable relationship requires investment of time and energy by the manager and analysts, presumably with the goal of long-term benefits to the analyst (who better

understands the firm) and the manager (who develops a conduit, and often supporter, in the financial markets). The costs in time and energy make it unlikely that all manager/analyst pairings can develop such a deep relationship. Thus, we expect that only a subset of analysts following any firm will develop a valuable relationship with the managers. However, once established, the analysts have incentives to maintain the relationship when managers move firms. These incentives arise from an enhanced understanding of the manager and the ability to gain access to a new firm. Indeed, a growing body of literature shows that managerial styles have a broad impact on the firm operations and its disclosure policies (Bertrand and Schoar 2003; Bamber, Jian and Wang 2010; Dyreng, Hanlon and Maydew 2010; Ge, Matsumoto and Zhang, 2011), suggesting that managerial characteristics are transportable across firms and that having a relationship with a manager that switches firms can benefit analysts who wish to expand their portfolios.¹

Our study is based on a large sample of management changes involving CEOs and CFOs between the years 1994 and 2007 for a sample of US firms covered by the Execucomp database. We identify the company the managers leave (origin firm) and the new company they join (destination firm). We then examine whether analysts who followed the origin firm initiate coverage in the destination firm over the first year of the manager's new job (which we refer to as "migrating"). By focusing on executives who move across firms, we identify a setting where we can separate firm- from manager-specific effects. Our control sample consists of matched firms that did not experience a management turnover.

¹ Our predictions are based on prior research, but relative to many other areas of academic enquiry, there is only a limited amount of research in this area. As an alternative, we also discussed the value of relationships with several analysts and managers. Many of the analysts indicated that the value of the relationship was a factor in deciding whether to initiate coverage in a new firm, though they also pointed out the structural constraints to the new coverage. Several managers and IR specialists indicated that they value prior analyst relationships and will actively attempt to attract those analysts when they move firms.

In unconditional tests of the entire sample we find that analysts initiate coverage in the manager's new firm in over 10% of the managerial moves. This is almost three times more frequent than in the control firms, indicating that relations have an impact on coverage decisions. While the magnitude may appear low, it is consistent not only with the idea that initiation of coverage is costly and analysts are only likely to incur these costs for a relatively valuable relationship, but also with the noise inherent in any indirect measurement of personal relationships. Further, these unconditional tests do not take into account the impact of structural issues that may affect the value (or even completely prohibit) of initiation of coverage.

Perhaps most binding, analysts are generally industry specialists. We find that analyst migration is much greater (22.90%) when the manager moves within the same industry.² We examine the effect of structural variables using a regression approach including several structural factors that may impact the decision to initiate coverage. We find industry to be a strong predictor of coverage (measured by SIC or the amount of analyst overlap between the two firms). Analysts are also more likely to move if there appear to be greater potential for benefits such as lower competition (measured by lower analyst following in the new firm) or greater investor interest (measured by migration of institutional investors and firm size). Combined, the evidence indicates that relationships impact coverage decisions, but that structural factors influence the ability of capital market participants to preserve these relationships.

Having shown that relationships have an impact on the decision to move, we explore the specific characteristics of the manager/analyst relationship that are likely to impact the co-migration. We recognize these relationships have many facets and use several proxies to capture the quality of the relationship. We compare the analyst activities/outcomes for our origin

² Untabulated results also indicate that 85% of the analysts who co-migrate with a manager across industries already cover the destination firm's industry, which further emphasizes the importance of industry as a structural barrier to migration.

(destination) firm to the activities in the other firms the analyst follows and to activities/outcomes of other analysts following the origin (destination) firm. We consider an analyst as having a *comparative* advantage when the analyst is more frequent/better with an activity in the origin (destination) firm compared to other firms covered by the same analyst. An analyst has a *competitive advantage* when they are more frequent/better than other analysts that cover the origin (destination) firm. We find evidence consistent with analysts responding to their own comparative advantages, as well as competitive advantages over other analysts.

We find that the likelihood of initiation is positively related to proxies for frequent interactions with management such as the length of time the analyst has covered the origin firm, the frequency with which the analyst issues forecasts, the number of horizons over which the analyst forecasts, and the likelihood that the analyst issues a report following a one-on-one meeting with management. Analysts are also more likely to migrate if they have been better able to forecast performance at the origin firm, suggesting that migrating analysts have a better understanding of the migrating managers operating or reporting style. While we expect that migrating analysts would hold a more positive view about the firm due to the better relationship, we do not find evidence to support this prediction nor do we find evidence of migration when prior recommendations have been more profitable.

We also find the migrating analysts lose their information advantage in the old firm once the manager leaves, suggesting that the strength of their coverage in the origin firm is driven by the manager/analyst relationship. While we find little evidence that their advantage is transferred to the destination firm, we do find that the analysts are quickly “average” in the new firm when compared to their own activities in other firms and with other analysts covering the new firm. While there is no evidence of superior information after the move, we do find that analysts are

more likely to meet with managers in the new firm and that the analysts' total coverage market capitalization increases, both suggesting that the analysts maintain access advantages that they can help provide to their institutional customers who are likely to value this access and compensate the analysts firm accordingly (Groysberg, Healy and Maber 2011; Bushee, Jung and Miller, 2011).

Finally, in contrast to Cohen, Frazzini and Malloy (2010), our results are generally consistent across the pre and post-Reg FD time periods, suggesting that the importance of the relationship is not driven by preferential access to material nonpublic information.³ This also indicates that the relations we identify are driven by different incentives and mechanisms than those in Cohen et al (2010). This suggests that multiple factors can influence relationships, indicating a need for more work in the area of capital market relations in general.

Overall, our results are consistent with the premise that capital market participant/managerial relationships induce some participants to “migrate” with a manager following an executive job change. There is relatively limited work in the area of relationships in financial markets. Early work focused on interactions between two institutions rather than individuals. For example, studies on investment banking relationships and favorable analyst recommendations (e.g., Lin and McNichols 1998; Dechow, Hutton and Sloan 2000) focused on how the brokerage firm's (one institution) incentives to get investment banking work impacted their coverage of various public companies (a second institution). While those studies show that institutional relations matter in capital markets, they do not shed light on the role of personal relations. More recent papers have investigated individual relationships (e.g., those between senior executives and research analysts), but again with a focus on how these relations may skew

³ Our results are also robust after controlling for Cohen et al. (2010) school ties by inclusion of their variable in the subsample of our firms for which we could obtain it. This provides further evidence that we have identified a unique aspect of capital market relationships.

or circumvent normal market functions (Westphal and Clement 2008; Cohen, Frazzini and Malloy 2008). These relations seem to have lost their benefits post-Reg FD (Cohen, Frazzini and Malloy 2010).

In contrast to the aforementioned studies, our paper examines whether personal relationships developed in the course of repeated interactions in a professional setting between sell-side analysts and corporate executives survive in a dynamic setting, i.e. when executives move to a new firm. Thus, we expand the understanding of relationships in financial markets beyond those that are based on the firm level or undertaken primarily to circumvent normal market operations. The paper also contributes to the growing literature on social networks by showing a dynamic process of a network adjusting (Brass et al. 2004), and to our understanding of the impact of managerial reputation on analyst coverage.

II. PRIOR LITERATURE

Prior research on managerial relations with analysts

The prior research on managerial relations with analysts has focused on incentives to bias analyst outputs. Early work focused on the company-based relationships, generally examining how broker affiliations impact analysts' coverage of the firm. Results suggests that underwriting relationships with companies caused analysts to provide more favorable views or to be slow in reporting bad news (McNichols and O'Brien, 1997; Lin and McNichols, 1998; Dechow, Hutton and Sloan, 2000).

A smaller body of more recent research examines personal relationships, but still focuses on relationships that skew analysts or managerial actions. Westphal and Clement (2008) document that analysts provide more favorable coverage when managers have granted them

favors.⁴ Granting of favors increases when managers are likely to miss expectations or when they make decisions likely to be viewed negatively by analysts (such as a diversification), suggesting this is an attempt to influence analysts interpretations of unrelated company news. Further, managers penalize analysts with negative views by reducing favors and curtailing access to management (Westphal and Clement, 2008; Mayew 2008).

While some of these relations arise from professional interactions, they also develop in social settings such as shared professional school affiliations (Cohen et al. 2010). All of this prior research indicates an attempt to derive an advantage through a preferred position, either of the manager or the analyst. Recent regulations, such as Reg FD and the global analysts settlement, have attempted to reduce the possibility of such actions, potentially decreasing the value of a personal relationship subsequent to regulation changes. The findings in Cohen et al. (2010) are consistent with such a reduction occurring.

Managerial style and enhanced analysts understanding of the firm

While the above research suggests relationships often skew analysts' coverage of the firm, knowledge of firms' management may also help the analysts to better cover the firm, enhancing accuracy of forecasts and profitability of recommendations. Building on the upper echelon theory (Hambrick and Mason 1984), prior papers show that managerial styles impact operating decisions ranging from investment and financial policies (Bertrand and Schoar 2003) to their aggressiveness with tax strategies (Dyreng, Hanlon and Maydew 2010). Equally important to analysts/investors, managers also have unique financial reporting styles that impact financial communication (DeJong and Ling 2010; Ge, Matsumoto and Zhang 2011), use of forecasts (Bamber, Jiang and Wang 2010; Yang 2012) and aggressiveness with earnings

⁴ For example, business related favors such as helping with access to other business people or personal favors such as assisting a child's admission to a prestigious school or sponsoring a club membership.

management (Hribar and Yang 2010; Hwang and Kim 2010; Jiang, Petroni and Wang 2010). As analysts build a relationship with managers, they may develop a fuller understanding of the manager's operating and financial reporting styles. That understanding will allow the analyst to more effectively evaluate current actions and information as well as predict future firm activities. Managers have an incentive to ensure that analysts develop this competence and are able to correctly evaluate the firm, since they face career penalties for missing even short-term analysts forecasts (Mergenthaler, Rajgopal and Srinivasan, 2010). In fact, much of the investor relations activities are designed to provide a chance for managers to interact directly with analysts and important investors to build exactly this understanding (Bushee and Miller, 2012).

III. PREDICTIONS

Relations with managers and the initiation of coverage

The existing literature suggests both legitimate and self-serving incentives for analysts and managers to value their existing relations. While some relationship benefits may be firm-specific, many appear to be manager-specific. For example, once an understanding of a manager's operating and communication style has been developed, the analyst is likely to more accurately predict the performance of any firm in which the manager serves. Similarly, a manager who has done favors or granted preferred access while at one firm is likely to continue this if they change employment. While these arguments indicate the value of strong relationships, developing such relationships is costly to both the manager and analyst. Further, the benefits come directly from having an "inside" or unique advantage, suggesting they cannot exist between all managers and analysts. Thus, these relationships are likely to develop with only a subset of analyst and manager counterparts. Once analysts have developed such a unique,

valuable advantage, they have incentives to continue their relations with managers following employment changes. This will allow the analyst to continue to reap the benefits of the relationship and provide the enhanced advantage of an increased set of firms the analyst can effectively cover (Groysberg et al. 2011).⁵ Accordingly, we provide the following prediction:

H1: Relative to random firms, analysts are more likely to initiate coverage in firms that have recently hired executives from a firm covered by the analyst.

Structural catalysts and constraints to analysts' coverage initiation decisions

While we argue that the manager/analyst relation is valuable, it is clear that structural issues are likely to influence an analyst's ability/desire to initiate coverage of a new firm even if they value their relation. Thus, when considering the magnitude of initiation and its cross-sectional determinants, we must also consider the potential mitigating impact of these structural barriers. It both reduces our initial expectations of coverage and may skew the cross-sectional variation in firms for which coverage is initiated.

Analyst coverage is normally structured by industry and specialized knowledge is developed along those industry lines (Bushee and Miller, 2012; Bradshaw, Miller and Serafeim, 2009). Thus, analysts have lower cost to initiating coverage within industry as well as a higher benefit. Further, the analyst's understanding of managerial operating style is also most likely to translate effectively if the manager is staying within the same industry. Based on these decreased costs and increased benefits, we expect analyst initiation of coverage to be more pronounced

⁵ In addition to the traditional compensation for direct research in a firm, brokerage firms are increasingly being compensated based on the managerial access their analysts are able to provide to large shareholders (Groysberg et al. 2011; Bushee et al., 2012). When the analysts initiate coverage of a new firm, they increase the market capitalization for which they can provide both direct research and access, effectively enhancing their brokerage firm's ability to make money. If the existing relation reduces the costs and/or enhances the ability to provide either of these services in a broader set of firms, then it effectively creates a monetary benefit to the brokerage firm and analyst.

when a managers moves within industry. We measure industry using both a standard industry classification and the degree of analyst overlap between the origin and destination firm.

In addition to the structural issue of industry limitations, analysts are likely to initiate coverage in the new firm if they perceive a greater benefit. Specifically, if managers move to a firm with low current analyst coverage, then the analyst would face reduced competition in covering the firm and may be able to capture more benefits, such as providing managerial access to investors. Similarly, analysts may perceive a greater benefit to their relationship if investors from the origin firm also take a position in the new firm. This would indicate that the investors see value in the manager joining the firm, creating a demand for information regarding the manager in the new firm. The analyst can benefit from fulfilling such a demand.

We also expect analysts are more likely to move if the origin firm had more analysts following the firm, due to a larger set of analysts to form relationships and the potential that the large origin coverage indicates a manager is better at interacting with analysts in general. Finally, we expect a greater chance of an initiation if the firm is more attractive in general due to coverage incentives documented in prior literature such as size, book-to-market or prior strong returns. Combined, these predictions lead to our second hypothesis:

H2: Structural factors are likely to impact the analyst's decision to initiate coverage in the destination firm to which a manager has moved.

Evidence from analysts revealed preferences and analyst public output

While our prior predictions investigate the frequency and determinants of initiating coverage from a structural view, we are interested in developing an understanding of the role of relationships in impacting the manager/analyst comigration to a firm. We expect analysts' likelihood of initiating coverage in the destination firm to be increasing in the strength of their

relationship with the manager and the benefit they derive from that relationship, subject to (first-order) structural economic factors that drive analyst coverage. From an empirical standpoint, it is difficult to develop valid measures of relationships in most capital market settings. We take advantage of the public aspect of analysts' outputs (forecasting, recommendations etc.) and the revealed preferences created by the analyst decision to initiate/not initiate coverage in the new firm to create a research design that allows us to measure various dimensions of the analyst relationships with management and the potential benefits they accrue from this relationship. Our design allows us to examine these observables prior to the management move using the origin firm, which allows us to develop insight into the existing relationship. We are then able to examine whether the comigrating analyst's outputs change at the origin firm once the manager departs and the quality of the outputs at the destination firm. By using this time series of analyst outputs we are able to provide at least a partial isolation of the impact and value of the managerial relationship.⁶

Analysts who cover a firm more intensely have repeated interactions with the manager, providing them many opportunities to develop both an understanding of managerial style and to exchange favors. Thus, we measure coverage intensity as years of coverage, the level of forecasting activity (updates and various periods forecasted) and likelihood of reporting one-on-one meetings with management. We expect all of these to be positively related to the likelihood the analysts will initiate coverage in the managers' new firm.

⁶ We perform these tests *conditional* on having moved. Thus, we are examining analysts for which we can observe the structural constraints were not so binding as to prohibit the move. An alternative design would be to include all analysts/firm combinations in the analyses and simultaneously examine both structural constraints and proxies of the relationships. However, if the structural constraints are binding, we would effectively be combining two regimes and restricting the analyses to treat them as one. For example, if a move outside of industry is binding and thus the analyst cannot initiate coverage, then variation in our measures of intensity and accuracy would not matter for that firm. If we pooled those observations with situations where the analysts do have an option of initiating coverage it would lead to incorrect inferences.

The rich relationship may allow the analyst to provide more accurate forecasts due to a better understanding of the business and managerial style. Additionally, prior research indicates that analysts can benefit from preferential access to managers that can lead to informational advantages enabling the analyst to provide more accurate forecasts (Mayew 2008; Westphal and Clement, 2008). Thus, we predict analysts are more likely to initiate coverage in the destination firm when they have been better at forecasting performance in the origin firm and when they have more profitable recommendations. Note that these predictions are based on the belief that analysts value relationships that allow them to more effectively perform their job duties, not due to personal gain.⁷

We also expect analysts are more likely to initiate coverage of the new firm if they have provided more positive recommendations of the origin firm. These positive recommendations may be due to the belief that the manager is high quality. In that situation the analyst may believe the high-quality manager has the ability to identify a firm with high potential and is likely to succeed in the new firm, suggesting an opportunity for the analyst to identify a high potential stock. Furthermore, managers have shown preference in favors and access to analysts who provide higher ratings (Westphal and Clement, 2008; Mayew 2008). Analysts may initiate coverage to continue receiving these preferential treatments at the new firm even if they believe the recommendations are overstated.⁸ Combined, the arguments above lead to our next hypothesis:

⁷ Also note that while these advantages may provide independent incentives for an analyst to comigrate, they also may simply be a result of the more intensive interactions discussed above. That is, to the extent that the analyst activities lead to more accurate/profitable forecasts we may just be documenting the outcomes of those interactions. While this reduces our ex ante ability to validly interpret demonstrated results, our empirical findings discussed later in the paper actually find no relation with profitability of recommendations.

⁸ Ideally we would be able to separate the high recommendations into those that indicate a belief in quality management and those that indicate an attempt to curry favor. However, we can observe output, but not intention.

H3: Analyst are more likely to initiate coverage of the destination firm if they previously followed the origin firm more intensely, with greater interaction, forecasted more profitably and accurately and were more favorable towards the origin firm.

Consequences of the manager leaving the old firm

Above we have argued the relationship and related understanding between the manager and analyst have led to more intense interactions, more accurate predictions (of earnings and investment profitability) and more favorable recommendations. Following that argument, once the manager leaves the firm these actions and outcomes should revert to a more normal level. If the levels were to remain the same, it would suggest it is not the manager/analyst relationship driving the observed outcomes. Stated as a formal hypothesis:

H4: When the manager leaves the origin firm we expect the migrating analysts to reduce following intensity and interaction, to lose their advantages in forecasting accuracy and profitably and to become less favorable towards the origin firm.

Consequences of the analyst following the new firm

Similarly, the strength of the relationship between the manager and the analyst may enable the analyst to exhibit more intense, accurate and favorable coverage of the manager's new firm. Presumably, the analysts' decision to initiate coverage of the new firm suggests that they expect to benefit from such a move. If the analysts have a relationship-based advantage in covering the old firm, they will gain an advantage in the new firm as well. There are, however, several factors that may reduce these advantages. First, the learning curve when initiating coverage of the new firm may reduce the value of the relationship. In that case, the relationship would help them achieve no more than being on par with analysts already covering those firms (or their own coverage of other firms). Second, the incoming manager also faces a learning curve

in the new firm, limiting the effectiveness of the relationship in providing the analyst with superior knowledge about the firm. Finally, it may be the analysts' understanding was actually driven by the combination of the manager in a specific firm so that they will not carry over many of the benefits when following the same manager in a new firm (that is, the analyst will lose advantage in the old firm and not gain in the new firm). Thus, it becomes somewhat difficult to determine the proper benchmark for evaluating the impact of the relationship on the analyst's actions with the new firm. Despite this uncertainty, we provide the following hypothesis:

H5: Analyst will follow the destination firm more intensely, with greater interaction, forecast more profitably and accurately and be more favorable towards the destination firm.

We test H3, H4 and H5 by comparing the analyst to their actions at other firms they cover (comparative) and by comparing the analyst with other analysts following the origin firm (competitive).

We have focused primarily on informational advantages which are easily identifiable and presumably proxy for direct advantages that exist for the analysts. However, providing an informational insight is only one portion of analysts' jobs. Analysts are also a crucial conduit for providing investors access to managers. In fact, over one third of institutional commissions are allocated based on the analysts' ability to provide such access (Bushee, Jung and Miller, 2011). Our discussions with analysts indicate that they value this ability, which is built up over time, and that it is one of the primary benefits of maintaining relations with managers who move firms. That is, the analysts may be able to increase the number of firms for which they can provide access in a relatively quick and low cost manner in comparison to initiating coverage of a previously unknown firm. While we cannot directly observe this function of analysts, we can

examine whether they increase their overall market capitalization covered (that is, does the new firm increase their portfolio or just substitute).

Reg FD and the value of relationships

Much of this discussion has focused on preferential information and access. Reg FD was created to level the playing field by forbidding managers from disclosing material information to selective audiences such as sell-side analysts. Prior research has shown that Reg FD reduced the value of some relationships (Cohen et al., 2010). However, many of the benefits of a strong relationship discussed here are either not directly related to information (for example, professional and personal favors) or actually increase the analysts' ability to effectively understand and forecast the firm (for example, a deeper understanding of managerial operating or communication style). These benefits are less likely to have been impacted by Reg FD. In fact, the latter benefits may have become more important post-Reg FD as analysts must build their own expectations of performance rather than relying on inside information from managers. While it is difficult to predict the impact of Reg FD, we will examine its impact on the initiation of coverage.

IV. SAMPLE SELECTION AND MATCHING PROCEDURE

Sample selection

Our study focuses on executives (CEOs, CFOs, COOs, Presidents and Vice-Presidents) migrating between publicly listed companies. We use the Execucomp database as a starting point, by identifying instances of CEO or CFO turnover over the 1994-2007 period. We select pairs of origin and destination firms by identifying executives who either (1) join an Execucomp firm as CEO or CFO from a firm in which they held a senior executive position or (2) depart

from an Execucomp firm as CEO or CFO and join another company as a senior executive. We also include migrations where the incoming CEO or CFO is promoted to that position within three years after joining the destination company as a top executive. To identify origin/destination firms, we search the names of the executives joining and leaving Execucomp firms in the BoardEx database to retrieve their employment history. This enables us to track most executives joining and leaving Execucomp. Indeed, although BoardEx started only in 2000, the database is fairly comprehensive in covering the employment history of (i) former executives of companies still listed in the 2000s and (ii) individuals still active as executives or directors in the 2000s. Nevertheless, for some of the turnovers that occurred in the 1990s, we complement our search through Factiva and SEC filings to gather information on executives' employment history and turnover dates. We require that at least one analyst cover the origin firm as of the year prior to the executive migration. Analyst coverage is not required in the destination firm prior to the executive move, but both firms must be in the I/B/E/S database. Other variables are obtained from Compustat, CRSP and the Thomson-Reuters Mutual Fund Holdings database.⁹

Table 1 reports summary statistics on the sample selection procedure (Panel A) and characteristics of the executive turnovers in our sample (Panel B). As Panel A indicates, we start from a large number of external CEO and CFO turnovers involving at least one Execucomp firm. However, several data requirements reduce the sample eventually included in our analysis. The sum of CEO and CFO turnover observations (835) exceeds the total number of pairs of firms (829) due to six cases where the CEO and CFO of the destination firm move together from the

⁹ One concern with our results is that they are driven by our reliance on Execucomp to identify at least one of two firms in the origin/destination pairs. Indeed, recent research shows that Execucomp firms differ from the rest of the population along many characteristics (Cadman et al. 2010). To alleviate this concern, we collect additional turnover data (i) within the universe of U.S. firms covered by BoardEx but excluding Execucomp firms and (ii) among European companies also covered by BoardEx and I/B/E/S. Untabulated results indicate that the incidence of executive-analyst co-migration is similar to our main sample (10.67% for the 75 non-Execucomp US turnovers, 11.97% for the 142 European turnovers) and significantly greater than their respective matched samples. Hence, our results are not specific to large U.S. companies.

same origin firm. Panel B shows our full sample where destination firms are, on average, significantly smaller and followed by fewer analysts than origin firms. However, this need not mean that the migrations in our sample are “demotions”, although the median stock return in the origin firms is negative.¹⁰ Indeed, for strict CEO/CEO or CFO/CFO moves (94 and 325 observations, respectively), origin and destination firms are not significantly different from each other in terms of size and analyst coverage. In contrast, other CEO and CFO turnovers (219 and 197 observations, respectively) occur from origin firms that are substantially larger than the destination firms. These patterns are broadly consistent with prior research (Hayes and Schaeffer 1999; Fee and Hadlock 2004).

Matching procedure

To assess the significance of executive-analyst co-migration, we create a control sample consisting of pairs of companies matched with the turnover pairs based on propensity score matching. Propensity score matching is particularly useful in our context where the hypothesized causal variable (executive turnover) is likely endogenous and driven by multiple attributes of the origin and destination firms that are difficult to control for in a traditional step-wise matching procedure. To identify the closest matches, in the first step we estimate the conditional probability that an executive will migrate from one firm to another. To do so, we run the following logistic regression in two samples consisting of pairs of firms:

$$\Pr(\text{Turnover} = 1) = f(\text{Analyst Following Origin}, \text{Analyst Following Destination}, \\ \text{Same FourDigit SIC}, \text{Analyst Overlap}, \\ \text{Firm Size Origin}, \text{Firm Size Destination},$$

¹⁰ Ideally, we would like to identify managers whose departure from the origin firm is not voluntary, since they are less likely to be followed by analysts. However, to the extent that we require departing executives to join another publicly listed company, the incidence of forced turnover should be relatively low in our sample. Nevertheless, we partition the sample based on the origin firm’s stock return in an attempt to separate voluntary from forced departures. Untabulated results show no robust evidence of analyst migration significantly differing across partitions. Furthermore, we find no evidence that co-migration is more or less common when the executive moves to a lateral or higher position (not tabulated).

$$\begin{aligned} & \text{Book To Market Origin, Book To Market Destination,} \\ & \text{Stock Return Origin, Stock Return Destination,} \\ & \text{Recent Turnover, Industry and Time Fixed Effects)} \end{aligned} \quad (1)$$

Figure 1 illustrates the composition of each sample. The first sample consists of the migrating executives' origin firms paired with all firms in the destination firms' two-digit SIC group (see step (a) in Figure 1). The dependent variable *Turnover* is equal to one if the origin firm is paired with the actual destination firm, and zero otherwise. In this sample, we use Equation (1) to model the decision of an executive from the origin firm to join a certain destination firm. The second sample consists of the migrating executives' destination firms paired with all firms in the origin firms' two-digit SIC group and covered by at least one analyst in IBES (see step (b) in Figure 1). The dependent variable *Turnover* is equal to one if the destination firm is paired with the actual origin firm, and zero otherwise. In this sample, we use Equation (1) to model the destination firm's decision to hire an executive from a certain origin firm. All variables are defined in the Appendix. Equation (1) includes firm economic attributes that likely explain why a top executive working in the origin firm—but also an analyst covering the origin firm—would move to (initiate coverage of, respectively) the destination firm.

The second step of the propensity matching procedure is to identify (i) which firm the executive leaving the origin firm would be most likely to join among the destination's peers and (ii) which firm the executive joining the destination firm would be most likely to come from among the origin firm's peers. For that, we use the coefficient estimates from the first step to compute the propensity score for each observation and then select the non-turnover firms with the closest propensity scores to those of the turnover observations. This yields a matched destination firm from the first regression and a matched origin firm from the second regression. Finally, as illustrated in step (c) of Figure 1, our control sample combines the origin's and destination's matches into pairs of firms.

Table 2 presents summary results for the propensity score matching procedure. Panel A reports the coefficient estimates and corresponding z statistics from Model (1) in the two samples. The Coefficients are generally consistent with executives moving between firms that are economically more comparable (same four-digit SIC group and higher analyst coverage overlap), and that are relatively larger but underperform. Panel B reports univariate comparisons of turnover and matched observations along the firm-level attributes we use in our analysis of executive-analyst co-migration. The matched observations are insignificantly different from the turnover observations along most—but not all—of the dimensions. Hence, while the multivariate matching procedure yields a sample that is close to the turnover sample along firm characteristics of the origin and destination firms, we complement the univariate comparison of analyst migration between the two samples with a regression analysis.¹¹

V. INCIDENCE AND DETERMINANTS OF ANALYST MIGRATION

Incidence of analyst migration

¹¹ Throughout the paper, we imply that executive migration causes analysts to initiate coverage of the destination firm because of relationships initiated in the origin firm. It is plausible, however, that executive and analyst migration are endogenously determined. To address this concern, we conduct several tests.

First, we alter our matching procedure by replacing the matched destination firms with the actual destination firms. This allows us to assure it is not unobserved characteristics of the destination firms attracting analysts. We also perform our analysis by replacing the matched origin firms with the actual origin firms. Untabulated results indicate that executive-analyst co-migration is significantly higher for our turnover firms than in either altered matched sample.

Second, we partition our sample of executive migration by identifying plausibly exogenous turnovers. We use executive-board social ties as an instrument as they are likely to influence executive's decisions to join destination firms (and/or destination firms' boards to hire certain executives), but not analysts' coverage decisions. Using executives' and directors' educational background from BoardEx, we code executive migrations' as connected if the incoming executive went to the same university as any of the destination firm's board members (136 turnovers), and not connected otherwise (693 turnovers). Untabulated results indicate that analyst migration is significantly higher in our turnover firms than in the matched sample, regardless of whether the executive is connected to the destination firm's board. Relatedly, we also control for school ties between analysts and board members of the destination firm, but find no indication that those ties influence analyst migration (not tabulated).

While we cannot entirely rule out endogeneity of executive and analyst migration, the aforementioned results increase our confidence in attributing our main findings to executive-analyst relationships.

We first test Hypothesis 1 by comparing analyst migration at the univariate level in the turnover and the matched samples. We use two variables to assess the degree to which analysts move between origin and destination firms. *Migrate* is an indicator variable equal to one if at least one analyst migrates from the origin to the destination firm, zero otherwise. An analyst is said to migrate (1) if (s)he issues an EPS forecast in the origin firm (more than one year prior to the end of the last fiscal year prior to the departure of the migrating executive), and (2) if (s)he issues an EPS forecast for the first time in the destination firm by the end of the first full fiscal year after the migrating executive joins the firm. *Migrants* is the number of analysts migrating from the origin to the destination firm.

Table 3 Panel A presents the results for the full sample. At least one analyst from the origin firm initiates coverage of the destination firm following an executive move in 10.13% of our sample observations. This is significantly greater than the 2.90% migration in the matched sample. The mean number of migrants (13.87%) indicates that for every executive that switches jobs, 0.1387 analysts follow them. This is only slightly higher than the incidence of migration in the turnover sample, indicating usually only one analyst comigrates. However, it is significantly greater than the mean number of analysts migrating in the matched group (4.34%).

Table 3 Panel B presents results for the subset of executives that move within an industry. Analyst migration remains three times as likely in the turnover sample (22.90%) compared to the matched sample (7.49%). Similar to the full sample, the average analyst migration involves approximately 1.37 analysts. A separate analysis of CEOs and CFOs indicates that within-industry CEO (CFO) turnover is associated with analyst migration in 29.03% (18.52%) of the sample observations, significantly higher than in the matched samples.

Table 3 Panel C presents results for pairs of origin and destination firms that do not belong to the same industry. When CEO and CFO turnovers are pooled, the incidence of migration is significantly higher in the turnover sample (5.32%) than in the matched sample (1.16%). In the CFO (CEO) sample, the difference between turnover and matched observations is (not) statistically significant.

Determinants of analyst migration

Research design

We use the following firm-level logistic regression to investigate the determinants of and structural constraints to analyst migration by pooling the turnover and matched samples:

$$\begin{aligned} \text{Migrate} = & \alpha + \alpha_1 \text{Turnover} + \beta_1 \text{Same Industry} + \beta_2 \text{Analyst Overlap} \\ & + \beta_3 \text{Analyst Following Origin} + \beta_4 \text{Analyst Following Destination} \\ & + \beta_5 \text{Migrate Funds} + \beta_6 \text{Firm Size Difference} \\ & + \beta_7 \text{Book To Market Difference} + \beta_8 \text{Stock Return Difference} + \varepsilon \end{aligned} \quad (2)$$

All variables are as defined in the Appendix. We also run a stacked regression where *Turnover* is interacted with all variables.¹²

Based on our prediction that relationships between managers and analysts lead to their co-movement across firms, we expect a significantly positive coefficient on *Turnover* (H1). As discussed in Section 2, we posit that industry is a first-order constraint on analysts' ability to follow managers across firms. Accordingly, we expect a positive coefficient on *Same Industry* and *Analyst Overlap* (H2). In terms of perceived benefits associated with co-migration, we expect a negative coefficient on the number of analysts following the destination firm, and a

¹² We also examine a specification using a conditional logistic model. That sample includes only pairs of turnovers and matches for which the response variable differs between the treatment and control observations, drastically reducing the sample and excluding the *Same Industry* indicator. The coefficient on *Turnover* remains significant (not tabulated).

positive one on *Migrate Funds* (H2). Additionally, we control for the number of analysts following the origin firm, which we expect to be positively associated with the likelihood of analyst migration. Finally, we include measures of size, stock performance and book-to-market ratio, which are common determinants of analyst coverage decisions (Bhushan 1989). We compute for each pair of firms the difference between the variable measured in the destination and the origin firm. For example, *Firm Size Difference* is the logarithm of the destination firm's total assets minus the logarithm of the origin firm's total assets.¹³

Regression results

Table 4 reports results for the regression analysis of analyst migration. The coefficients and marginal effects in the first two columns are estimated based on the full sample (turnover and matched observations). The significantly positive coefficient on *Turnover* (p-value < 0.01) is consistent with the earlier univariate results. The significantly positive coefficients on *Same Industry* and *Analyst Overlap* show that analysts are more likely to migrate between firms within the same industry, a result consistent with the specialization of analysts by industry. In contrast, analyst migration exhibits an insignificant association with the number of analysts following the destination firm. Analyst migration is positively associated with mutual fund migration (*Migrate Funds*), suggesting that analysts' decisions to initiate coverage of destination firms coincides with investor demand for more information about those firms. As expected, analyst migration exhibits a positive association with *Analyst Following Origin*, *Firm Size Difference* and *Stock Return Difference*, although the statistical significance is marginal for stock returns (p-value =

¹³ We also add measures of investment banking activity and annual trading volume in origin and destination firms as additional control variables in our tests of Model (2), since those are sources of revenue streams for analysts' employers. We find that those variables exhibit no significant association with analyst migration and do not affect the inferences on the turnover variable.

0.11). This suggests that analysts initiate coverage of relatively larger, better known and better performing firms. Finally, the coefficient on *Book To Market Difference* is not significant.

In terms of economic significance, the marginal effect of executive turnover on analyst migration is 3.76%, which is close to the effect of industry (4.52%). Given that the unconditional likelihood of analyst migration in the full sample is 6.51%, the relative effect of executive turnover is 58%, once accounting for structural constraints. Hence, while the incidence of analyst (co-)migration is modest, the conditional effect of executive turnover on analysts' moves is significant.

In the second regression, the sample is limited to the turnover observations. The signs of coefficients are overall consistent with the pooled regression. In the third regression, the sample includes only the matched observations. Comparing coefficients across both samples enables us to see if firm economic attributes affect analyst coverage decisions differently, depending on whether there is an executive move or not. The main difference with the pooled and turnover samples is the significantly positive coefficient on *Analyst Following Destination*. The fourth column reports Wald Chi-square statistics for the difference between coefficients from Column (2) and Column (3) from a stacked regression. The significant difference between the two intercepts ($p\text{-value} < 0.01$) shows that the significant coefficient on *Turnover* in Column (1) is robust to its interaction with all variables in the analysis. The negative coefficient on *Analyst Following Destination* in the turnover sample is also significantly different than in the matched sample, which suggests that the interpretation of this coefficient as the result of competition in the destination firm holds only in the context of executive turnover. The remaining differences between the turnover and matched samples are not statistically significant, consistent with those

economic factors being structural constraints that drive analysts' coverage decisions, irrespective of relationships.

VI. PROPERTIES OF MIGRATING ANALYSTS' COVERAGE AND FORECASTS

Having established that some sell-side analysts do follow executives across firms, we analyze properties of analyst coverage of the origin and destination firms around the migration to determine whether they appear to have a stronger relationship as proxied by (1) covering the stocks more actively, (2) an informational advantage, and/or (3) issuing more favorable recommendations.

We use the following analyst-level logistic regression model to examine analysts' outputs in their coverage of the origin and destination firms:

$$\begin{aligned} \text{Migrant} = & \alpha + \beta_1 \text{Years of Coverage} + \beta_2 \text{Frequency of Revisions} \\ & + \beta_3 \text{Forecast Horizon} + \beta_4 \text{Meeting With Management} \\ & + \beta_5 \text{Absolute Forecast Error} + \beta_6 \text{Recommendation Profitability} \\ & + \beta_7 \text{Strong Buy Recommendation} + \beta_8 \text{School Tie} + \beta_9 \text{Brokerage Overlap} \\ & + \Sigma \gamma_i \text{Fixed Effects} + \varepsilon \end{aligned} \quad (3)$$

All variables are defined in the Appendix. The unit of analysis is analyst-firm pairs. The sample consists either of all firms covered by migrating analysts during the period of interest (comparative advantage) or all analysts covering the origin or destination firm (competitive advantage). Accordingly, the dependent variable is a binary variable equal to one if the analyst is a migrating analyst and the covered firm is either the origin or the destination firm, depending on the context in which the manager/analyst relationship is assessed, and zero otherwise.

Origin firms, pre-executive departure

In origin firms, we expect migrating analysts to have more experience, i.e. a positive coefficient on *Years of Coverage*.¹⁴ We also expect migrating analysts to revise their forecasts more frequently and to be more likely to issue long-term forecasts (H3). To capture quality professional interactions we include *Meeting with Management*, an indicator variable equal to one if the analyst issues a report following an exclusive meeting with the firm's top management. We expect migrating analysts to be more likely to meet with management. We expect migrating analysts to issue more accurate forecasts and more profitable recommendations.¹⁵ Finally, if migrating analysts hold more favorable views of the managers they follow, we expect more positive recommendations. We control for differences across firms covered by migrating analysts by subtracting firm level medians for *Absolute Forecast Error*, *Recommendation Profitability* and *Strong Buy Recommendation* in comparative adjustments tests. This mitigates concerns that origin firms are simply easier to follow than other firms. We also include an indicator for school ties between analysts and executives, to ensure that our results are incremental to those documented in Cohen et al. (2010). Additionally, we control for incidences where the analyst's employer already covers the destination firm. We expect analysts to be less likely to displace their colleagues by migrating under those circumstances. We include broker and year fixed effects to control for differences across observations which are not captured by the variables of interest.¹⁶ We also include the firm-level variables from Model (1) in the competitive advantage tests.

¹⁴ We measure *Years of Coverage* regardless of the executive's tenure. We also use an alternative measure of *Years of Coverage* by censoring the variable at the executive's tenure length, if the analyst tenure exceeds it. Our results are qualitatively unchanged.

¹⁵ We also use target price forecast accuracy as a measure of information advantage. However, they are only available after 2000 and then for a subsample of analysts, reducing our analyses to one third of the sample. Untabulated results show no robust evidence of migrating analysts issuing more accurate target prices.

¹⁶ Except for *Meeting with Management*, the variables in this analysis are outputs from which we can only indirectly infer the likelihood that an analyst has a relationship with a manager. Coverage intensity and information advantage are functions of many variables such as analyst experience, talent, effort, etc. In untabulated results, we control for

Table 5 shows the results of the analysis of origin firm coverage before executives' departure. The univariate results in Panel A indicate migrating analysts have an average tenure of 3 years in the origin firm, which is significantly greater than the 2.07 years of coverage by non-migrating analysts. They issue one-year-ahead EPS forecasts per year in origin firms (4 vs. 3.18 for other firms and 3.6 for non-migrating). The average longest forecast horizon of migrating analysts in origin firms (2.20) is also significantly higher both comparatively and competitively. Analyst reports explicitly referring to meetings with management are also more frequent for migrating analysts in origin firms (7%) than other firms and other analysts (2%). Mean absolute value of one-year-ahead EPS forecast errors (scaled by price) are smaller for migrating analysts (1.11% for origin firms compared to 1.88 in other firms). However, inconsistent with expectations, their recommendations appear to be significantly less profitable in origin firms.

Panel B presents logistic regression results with migrating analysts/firm observations coded as one. The first and third columns report results for the full sample, respectively in terms of comparative and competitive advantage. In the first column, we find that migrating analysts have covered firms for more years, forecast more frequently, issue longer horizon forecasts and meet with management more often. Hence, migrating analysts' coverage of the origin firm exhibits greater intensity than their coverage of other firms, consistent with H3. The significantly negative coefficient on *Absolute Forecast Error* indicates that migrating analysts are more accurate in predicting annual EPS in the origin firm compared to other firms they cover. In the second column, we find no evidence of more profitable or favorable coverage in origin firms.¹⁷

various analyst and broker characteristics (analyst seniority in I/B/E/S, number of firms and industries covered, number of analysts employed by the brokerage house). While some of those variables exhibit a significant association with analyst migration, their inclusion does not affect the significance of our results. Also, note that comparative advantage tests implicitly control for analysts' characteristics.

¹⁷ Note that the coefficients on other variables (years of coverage, frequency of forecast revisions, etc.) tend to lose some of their significance when we include recommendations and/or school ties, as the results in columns 3 and 4 indicate. However, further investigation indicates that the weaker results are due to the reduced power in the smaller

The results in terms of competitive advantage are qualitatively similar, suggesting that migrating analysts cover origin firms more intensely and accurately (but less profitably) than other analysts do. Interestingly, brokerage overlap is positively and significantly associated with migration, suggesting that relationships may in fact be strong enough to induce brokerage houses to re-assign analysts covering the destination firm.

Origin firms, post-executive departure

We report the results of the analysis of origin firm coverage after executives' departure in Table 6. According to H4, we expect migrating analysts to no longer exhibit any advantage in covering the origin firms. In Panel A, the univariate results indicate that migrating analysts exhibit no significant comparative or competitive advantage in their coverage of the origin firm post executive departure, except in terms of meetings with management, and recommendation profitability (competitively). In Panel B, the regression results show that, except for their significantly greater propensity to meet with the new management team (positive coefficient on *Meeting with Management* in the first column) and issue more favorable recommendations (positive coefficient on *Strong Buy Recommendation* in the second column) for the origin firm than other firms they cover, migrating analysts do not exhibit any significant difference in their coverage of the origin firm. Hence, while the positive coefficients on *Meeting with Management* and *Strong Buy* suggests that analysts who do not drop coverage of the origin firm may try to establish a relationship with the incoming manager by meeting with them and issuing more favorable recommendations, the results in Table 6 are broadly consistent with H4, i.e. that once the old manager has left, migrating analysts exhibit no advantage in covering the origin firm.¹⁸

sample rather than collinearity between the variables included in both models and analyst recommendations (not tabulated).

¹⁸ We draw our inferences in Table 6 by comparing coefficients to zero (H4). As an alternative, we could compare their pre- and post-coverage properties. In untabulated results, we find that migrating analysts exhibit a statistically

Destination firms

Finally, we look at properties of migrating analysts' coverage in destination firms, to test whether the relationship they developed with the migrating executive transfers from the origin to the destination firm in terms of coverage intensity and information advantage (H5).

Table 7 presents the results. In Panel A, the univariate results fail to indicate any statistically significant advantage for migrating analysts, either comparatively or competitively, except that they report meeting with management more frequently (0.06) than other analysts (0.02).

In Panel B, the regression results indicate that migrating analysts exhibit no significant comparative advantage in their coverage of the destination firm (first two columns). They do, however, issue significantly more positive recommendations for the destination firm, which is likely a revealed higher belief in the new management team they decided to follow.

In terms of competitive advantage, in the third column, we find weak evidence of some advantage. The migrating analysts meet with management more often. In the full sample they also are more accurate than their peers in predicting the destination firm's EPS, but this result is no longer significant when restricted to the sample of firms for which we have recommendations. Overall, we find limited evidence that the executive-analyst relationships carry over in terms of one-on-one meetings and forecast accuracy, but the significance remains limited.¹⁹

significant reduction in their frequency of forecast revisions, and a marginally significant reduction in forecast accuracy compared to other analysts.

¹⁹ We also consider restricting our competitive advantage analysis to the sample of analysts who initiate coverage of the destination firm around the same time as the migrating analysts, in order to create a sample where all analysts face the same learning curve. However, we find qualitatively similar results, but not stronger, compared to those documented in the full sample (not tabulated). We further examine the possibility that migrating analysts face a learning curve by extending the post-migration time period to three years. We find no evidence of improvement over time (not tabulated). We also partition the sample based on whether destination firms issue earnings forecasts, which could affect the information advantage of migrating analysts. We find some evidence that migrating analysts are more accurate in destination firms that do *not* issue earnings guidance, which suggests that knowing the manager gives them some advantage when others cannot rely on firm-provided forecasts (not tabulated). Lastly, we

VII. ADDITIONAL ANALYSES

Migrating analysts' incentives

The limited evidence in terms of migrating analysts' information advantage in the destination firms raises questions of whether they benefit from co-migration. Groysberg et al. (2011) investigate sell-side analyst compensation, finding aggregate market capitalization of the portfolio of firms analysts cover is an important determinant. We compare the change in portfolio size for migrating analysts to that of their peers within the same employer (i.e., we select the analyst with closest portfolio size) and among other analysts who cover the origin firms (by selecting analysts from brokers that employ a similar number of analysts). Portfolio size is measured as the logged aggregate market capitalization of all firms covered by an analyst.

Panel A of Table 8, shows that migrating analysts experience a significantly greater increase in the aggregate market capitalization of their portfolio compared to their peers. The coefficient on *Migrating Analyst* is positive and statistically significant whether the benchmark is in-house peers (first column) or similar-employer peers (second column). This suggests that migrating analysts may benefit from following managers and creating a greater market capitalization for which they can now provide institutions access to managers.

The benefits of executive-analyst co-migration need not only accrue to analysts. While we do not consider executives' incentives in our setting, we briefly examine the consequences of the moves for destination firms. Insofar as greater analyst coverage brings about more visibility and liquidity to firms (Healy et al. 1999), destination firms may benefit from the added coverage by migrating analysts. In Panel B of Table 8, we report regression results where the dependent

distinguish between migrating analysts who continue to cover the origin firm and those who cease to (15%). The latter exhibit more accurate forecasts in the destination firm, which suggests that dropping coverage of the origin firm is a revealed preference indicative of a stronger relationship (not tabulated).

variable is change in analyst coverage scaled by firm size, and compare coefficients between the turnover sample and matched sample from the analyses in Tables 3 and 4. In the turnover sample, the significantly positive coefficient on *Number of Analysts Migrating* indicates that firms that hire managers that co-move with analysts experience a significantly greater change in coverage than those that hire executives who do not co-move with analysts. In contrast, the coefficient is not significant in the matched sample, and the coefficient is significantly higher in the turnover than in the matched sample. That is, the effect of executive-analyst co-migration on destination firms' coverage is significantly greater than that of analyst migration driven by other factors. Hence, the potential benefits of migratory relationships need not be limited to the individual executives and analysts.

Regulation Fair Disclosure

Prior research shows that Reg FD affected the interaction between firm managers and sell-side analysts (Francis, Nanda and Wang, 2006; Wang, 2007; Cohen et al., 2010). To verify that our main results hold throughout different institutional regimes, we re-run the analysis by splitting the sample between turnovers that occurred from 1994 to 2000 included (pre-Reg FD) and from 2001 to 2007 (post-Reg FD).

Table 9 presents summary results for the post-Reg FD subset. The firm-level results in Panel A indicate that executive-analyst co-migration is significantly greater than in the matched sample post-Reg FD, although not for CEO migrations. In Panel B, the analyst-level results are qualitatively similar to those reported for the full sample in Table 5, indicating that migrating analysts tend to exhibit more intense coverage of origin firms before the executives' departures. As in the full sample, the analysts' advantage does not transfer to the destination firms, although the evidence suggests that they are more likely to meet with the new manager. Untabulated

regression results also confirm that our main results hold after the passage of Reg FD. Overall, the post-Reg FD evidence supports our hypothesis that the relationships we observe are not driven by selective disclosure between executives and analysts.

VIII. Conclusion

This paper examines whether manager/sell-side analyst relations developed through repeated business interactions provide incentives for analysts to “migrate” to a new firm when managers change employment. We argue that capital market participants are likely to undertake such migrations in order to maintain valuable relationships with the managers. However, structural constraints are likely to prevent analysts from moving. We find analysts are likely to initiate coverage of the new firm, but to a limited extent. Ten percent of executive job switches trigger about 1.3 analysts to “follow” them, though the frequency of executive-analyst co-migration climbs to 23% for within industry migration. Both amounts are approximately three times the level of analyst initiation observed for a matched sample without a management change.

Many of the outputs of analyst/managerial interactions are observable to outsiders. We take advantage of this fact to provide greater insight into the attributes that make analysts more likely to initiate coverage conditional on a managerial move. Our evidence suggests that analysts make the decision to initiate coverage following a managerial move based on the intensity of the relation with the manager, for example time covered or number of private meetings, as well as their ability to accurately forecast the firm’s earnings. However, we find that analysts’ advantages in covering the executive’s origin firm disappear once the executive leaves the firm. The analyst’s following of the new firm quickly becomes “average” in most aspects and

meetings with management exceed that of the norm. Finally, we provide evidence that co-migrating analysts have increased the overall market capitalization that they cover while still maintaining their average accuracy, suggesting a potential financial benefit for analysts compensated on market capitalization.

We also examine the impact of Reg FD, but find it does not weaken our results. This suggests that the manager/capital market relationships are much deeper than a simple preference in access to information, unlike results documented in prior literature (Cohen et al., 2010).

Our results contribute to the literature's fundamental understanding of manager/capital market relationships by showing that relationships extend beyond the specific firm in which they are created. They also contribute to the growing literatures on the importance of managerial style and the role of social networks by providing dynamic evidence of how such items impact analysts' activities, which should be of interest to accounting scholars, as the profession seeks to develop an understanding of capital markets beyond what traditional agency paradigms predict. Future research may explore theoretical explanations for the development and survival of relationships across firms.

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Appendix: Variable definitions

Firm-level variables	Sources: I/B/E/S, Compustat, CRSP, Thomson-Reuters Mutual Fund Holdings
<i>Analyst Following</i>	Number of analysts who cover* the firm in the year prior to the executive's appointment in the destination firm.
<i>Analyst Overlap</i>	Number of analysts who cover* the origin <i>and</i> the destination firms in the year prior to the executive's appointment in the destination firm.
<i>Book To Market</i>	Book value of common stockholder equity divided by market value of equity as of the end of the most recent fiscal year preceding the executive's transition.
<i>Firm Size</i>	Natural logarithm of the total assets of the firm as of the end of the most recent fiscal year preceding the executive's transition.
<i>Migrate</i>	An indicator variable equal to one if at least one analyst covering* the origin firm for more than a year prior to the executive's departure initiates coverage of the destination firm by the end of the first full fiscal year following the executive's appointment, and zero otherwise.
<i>Migrate Funds</i>	An indicator variable equal to one if at least one mutual fund holding at least 0.0001% of the shares of the origin firm prior to the executive's departure starts investing in the destination firm and holds at least 0.0001% of the shares by the end of the first full fiscal year following the executive's appointment, and zero otherwise.
<i>Migrants</i>	Number of analysts from the origin firm who initiate coverage of the destination firm by the end of the first full fiscal year following the executive's appointment.
<i>Recent Turnover</i>	An indicator variable equal to one if the origin or destination firm hires or promotes a new CEO or CFO in the prior year, and zero otherwise.
<i>Same Four-Digit SIC</i>	An indicator variable equal to one if the origin and destination firms are in the same four-digit SIC group, and zero otherwise.
<i>Same Industry</i>	An indicator variable equal to one if the origin and destination firms are in the same two-digit SIC group, and zero otherwise.
<i>Stock Return</i>	Cumulative market-adjusted return over the most recent fiscal year preceding the executive's transition.
<i>Turnover</i>	An indicator variable equal to one if a top executive migrates from the origin to the destination firm, and zero otherwise.

* An analyst covers a firm in a given year if (s)he issues at least one forecast for the firm's current fiscal year EPS.
Note: for *Analyst Following*, *Firm Size*, *Book To Market* and *Stock Return*, the suffix *Origin (Destination)* indicates that the variable is measured in the origin (destination) firm, while the suffix *Difference* indicates that the variable is calculated as the difference between the destination firm and the origin firm (e.g., *Stock Return Difference* is the market-adjusted return in the destination firm minus the market-adjusted return in the origin firm).

Appendix – continued

Analyst-level variables	Sources: I/B/E/S, Thomson Research, CRSP
<i>Absolute Forecast Error</i>	The analyst' average annual absolute forecast error for the firm (based on the first annual EPS forecast issued for the current fiscal year) scaled by stock price as of the latest earnings announcement.
<i>Brokerage Overlap</i>	An indicator variable equal to one if the brokerage house that employs the analyst who covers the origin firm also covers the destination firm before the executive departure, and zero otherwise.
<i>Forecast Horizon</i>	A discrete variable equal to one, two or three, depending on the longest horizon over which the analyst reports a forecast for the firm (one, two or three years ahead).
<i>Frequency of Forecast Revisions</i>	The average number of one-year-ahead EPS forecasts issued in a given year by an analyst for a given firm.
<i>Meeting with Management</i>	An indicator variable equal to one if the analyst issues a report following a one-on-one meeting with the firm's management, and zero otherwise. To identify those reports, we conduct a full text search of analyst reports in Thomson Research using the following keyword combinations: (management or company) NEXT (meeting or visit or tour). We then manually check that those reports are written following a one-on-one meeting between the analyst and top management.
<i>Recommendation Profitability</i>	The average profitability of the analyst's recommendations. Profitability for buy and strong buy (sell and strong sell) recommendations is the six-month size-decile adjusted stock return following the recommendation date (multiplied by minus one). Hold recommendations are excluded.
<i>School Tie</i>	An indicator variable equal to one if the analyst and the departing executive went to the same university (not necessarily at the same time, school or degree level), and zero otherwise. Educational background is collected from various sources (BoardEx, LinkedIn, Zoominfo.)
<i>Strong Buy Recommendation</i>	An indicator variable equal to one if the average recommendation by the analyst is strictly below 2 on the 1 to 5 I/B/E/S scale (1= strong buy, 5 = strong sell), and zero otherwise.
<i>Years of Coverage</i>	The number of years between the first forecast issued by an analyst for a firm and the end of the last full fiscal year of employment for departing executives in origin firms or the end of the first full fiscal year of employment for executives joining destination firms, depending on whether the variable is measured pre- or post-executive migration.

Figure 1: Illustration of Matching Procedure

This figure illustrates the procedure we use to match the turnover sample firms with similar firms unrelated to each other by an executive turnover. For all of our firm-level tests, one observation consists of two firms. An observation is said to be from the turnover sample if an executive goes from one (the origin) to the other (the destination):

(a) Identification of matches for destination firms

(b) Identification of matches for origin firms

(c) Construction of pairs of matched firms

Table 1: Sample selection and descriptive statistics

This table reports sample selection and descriptive statistics for the executive migration sample. Panel A reports the impact of key sample selection criteria on the number of observations that constitute the final sample. Individual observations are pairs of “origin” and “destination” firms, and executives are said to migrate from origin to destination firms. An observation is classified as CEO (CFO) turnover if an executive joins or departs from an Execucomp firm as CEO (CFO). Panel B presents mean median firm characteristics for origin and destination firms for the full sample and by turnover type. The sample period is from 1994 to 2007.

Panel A: Sample Selection

Sample selection step	Number of observations	
	CEO	CFO
External turnover (in or out of Execucomp)	1,891	2,345
Origin and destination firms in Compustat	946	1,311
At least one analyst following the origin firm in I/B/E/S	601	869
Data available for control variables	353	585
Matched on propensity score (with data available for control variables in matched observations)	313	522

Panel B: Firm characteristics for origin firms compared to destination firms

	Origin firms		Destination firms		<i>p-value for differences</i>	
	Mean	Median	Mean	Median	Mean	Median
Full sample (n=829)						
<i>Analyst following</i>	17.57	15.00	12.78	10.00	<.01	<.01
<i>Total Assets (\$ billion)</i>	28.44	2.50	8.80	0.98	<.01	<.01
<i>Stock Return (%)</i>	3.29	-3.41	2.59	-7.54	0.84	0.03
CEO to CEO moves (n=94)						
<i>Analyst following</i>	15.00	13.00	15.04	11.00	0.98	0.20
<i>Total Assets (\$ billion)</i>	12.57	1.31	19.95	1.28	0.53	1.00
<i>Stock Return (%)</i>	-4.71	1.39	-7.94	-10.09	0.63	0.04
Other CEO turnovers (n=219)						
<i>Analyst following</i>	22.77	20.00	11.75	9.00	<.01	<.01
<i>Total Assets (\$ billion)</i>	52.81	7.92	4.59	0.66	<.01	<.01
<i>Stock Return (%)</i>	-0.36	-4.49	-7.09	-13.07	0.15	0.03
CFO to CFO moves (n=325)						
<i>Analyst following</i>	13.16	11.00	12.72	10.00	0.57	0.35
<i>Total Assets (\$ billion)</i>	9.60	1.17	8.80	0.98	0.73	0.18
<i>Stock Return (%)</i>	3.28	-9.51	8.04	-7.28	0.47	0.70
Other CFO turnovers (n=197)						
<i>Analyst following</i>	20.78	19.00	12.92	10.00	<.01	<.01
<i>Total Assets (\$ billion)</i>	40.00	7.86	8.85	1.15	<.01	<.01
<i>Stock Return (%)</i>	10.68	-1.45	7.77	-4.01	0.67	0.17

Differences are boldfaced if significant at the 0.10 level.

Table 2: Matching procedure and descriptive statistics

Panel A reports logistic regression results for the estimation of the conditional probability that an executive moves between two firms. The dependent variable is an indicator equal to one if an executive switches between the two firms forming a pair, and zero otherwise. The independent variables are defined in the Appendix. The first sample consists of the origin firms from which executives are departing paired with all firms in the same two-digit SIC group as the destination firms they are joining. The second sample consists of the destination firms that the executives are joining paired with all firms in the same two-digit SIC group as the origin firm covered by at least one analyst in I/B/E/S. Columns (1) and (2) report coefficient estimates for the first and second samples, respectively.

Panel B reports mean and median values for the control variables in our sample. The sample consists of 829 pairs of companies where a top executive migrates from the origin to the destination company, and 829 pairs of companies with no executive turnover matched on propensity score. The sample period is 1994-2007.

Panel A: Logistic regression to calculate propensity scores

	Destination firm choice, holding origin firm constant		Origin firm choice, holding destination firm constant	
	Coefficients	Z-Stats	Coefficients	Z-Stats
<i>Recent Turnover</i>	-13.19	-0.21	-6.17 ***	-4.24
<i>Firm Size Origin</i>	0.04 *	1.75	0.65 ***	17.97
<i>Firm Size Destination</i>	0.47 ***	17.82	0.01	0.00
<i>Book To Market Origin</i>	0.03	0.53	0.03	0.63
<i>Book To Market Destination</i>	0.00	0.12	0.00	0.23
<i>Stock Return Origin</i>	-0.04	-0.71	-0.12 *	-1.82
<i>Stock Return Destination</i>	-0.11 **	-2.28	-0.01	-0.30
<i>Analyst Following Origin</i>	-0.01 **	-2.98	-0.01	-1.50
<i>Analyst Following Destination</i>	0.01 *	1.84	-0.01 **	-2.56
<i>Same Four-Digit SIC</i>	0.82 ***	6.51	0.88 ***	6.66
<i>Analyst Overlap</i>	0.05 ***	5.89	0.08 ***	7.30
N / Pseudo-R ²	219,591	18.23%	93,670	24.13%
Fixed Effects	Industry and Year		Industry and Year	

*, **, *** indicate significance at the 0.10, 0.05, 0.01 two-tailed levels respectively.

Table 2 – continued

Panel B: firm characteristics for turnover observations compared to matched observations

Variable	Turnover sample (n=829)		Matched sample (n=829)		p-value for differences	
	Mean	Median	Mean	Median	Mean	Median
<i>Same Industry</i>	27.38	0.00	27.38	0.00	N/A	N/A
<i>Analysts Overlap</i>	1.87	0.00	1.11	0.00	<.01	<.01
<i>Analyst Following Origin</i>	17.57	15.00	17.49	14.00	0.90	0.62
<i>Analyst Following Destination</i>	12.78	10.00	12.82	9.00	0.94	0.47
<i>Migrate Funds</i>	0.66	1.00	0.29	0.00	<.01	<.01
<i>Firm Size Origin</i>	8.05	7.83	7.86	7.83	0.05	0.96
<i>Firm Size Destination</i>	7.04	6.89	7.08	7.08	0.62	0.11
<i>Firm Size Difference</i>	-1.02	-0.78	-0.77	-0.73	0.03	0.73
<i>Book To Market Origin</i>	0.47	0.40	0.45	0.37	0.43	0.35
<i>Book To Market Destination</i>	0.43	0.41	0.14	0.43	0.34	0.22
<i>Book To Market Difference</i>	-0.04	0.02	-0.31	0.04	0.37	0.52
<i>Stock Return Origin</i>	3.29	-3.41	5.00	-2.64	0.55	0.52
<i>Stock Return Destination</i>	2.59	-7.54	1.20	-5.38	0.69	0.22
<i>Stock Return Difference</i>	-0.70	-4.71	-3.81	-7.24	0.46	0.30

Differences are boldfaced if significant at the 0.10 level.

Origin (Destination) indicates that the variable is measured in the origin (destination) firm.*Difference* indicates that the variable is measured as the difference between the destination and the origin firm.

Table 3: Analyst migration – univariate analysis

This table reports univariate results for the analysis of sell-side analyst migration between pairs of origin and destination firms. The sample consists of 829 pairs of companies where a top executive migrates from the origin to the destination company, and 829 pairs of companies with no executive turnover matched on propensity score. The sample period is 1994-2007. *Migrate* indicates observations where at least one analyst migrates from the origin to the destination firm. *Migrants* is the number of analysts migrating from the origin to the destination firm. All reported means are multiplied by 100.

Panel A: full sample

Type of turnover		Turnover sample	Matched sample	T-stat for difference
All	<i>Migrate</i>	10.13	2.90	6.03***
(n=829)	<i>Migrants</i>	13.87	4.34	4.71***
CEOs	<i>Migrate</i>	11.18	4.47	3.14***
(n=313)	<i>Migrants</i>	16.61	6.71	2.41**
CFOs	<i>Migrate</i>	9.39	2.06	5.20***
(n=522)	<i>Migrants</i>	12.07	3.00	4.42***

Panel B: within industry

Type of turnover		Turnover sample	Matched sample	T-stat for difference
All	<i>Migrate</i>	22.90	7.49	4.67***
(n=227)	<i>Migrants</i>	31.28	11.45	3.31***
CEOs	<i>Migrate</i>	29.03	10.75	3.19***
(n=93)	<i>Migrants</i>	45.16	16.13	2.36**
CFOs	<i>Migrate</i>	18.52	5.07	3.59***
(n=135)	<i>Migrants</i>	21.48	7.97	2.64***

Panel C: across industries

Type of turnover		Turnover sample	Matched sample	T-stat for difference
All	<i>Migrate</i>	5.32	1.16	4.09***
(n=602)	<i>Migrants</i>	7.31	1.66	3.65***
CEOs	<i>Migrate</i>	3.64	1.82	1.17
(n=220)	<i>Migrants</i>	4.55	2.73	0.83
CFOs	<i>Migrate</i>	6.20	1.01	3.88***
(n=387)	<i>Migrants</i>	8.79	1.27	3.62***

*, **, *** indicate significance at the 0.10, 0.05, 0.01 two-tailed levels respectively.

Table 4: Analyst migration – multivariate analysis

This table reports logistic regression results for the analysis of sell-side analyst migration between companies. The dependent variable is an indicator variable equal to one if at least one analyst from the origin firm initiates coverage of the destination firm, zero otherwise. The sample consists of 829 pairs of origin/destination companies where a top executive from the origin company joins the destination company, and 829 pairs of companies with no executive turnover matched on propensity score. The sample period is 1994-2007.

	Predicted sign	Turnover and matched sample		Turnover sample (1)		Matched sample (2)		(1) – (2)
		Coefficients (<i>p-values</i>)	Marginal Effects	Coefficients (<i>p-values</i>)	Marginal Effects	Coefficients (<i>p-values</i>)	Marginal Effects	Chi-Square (<i>p-values</i>)
Intercept		–5.06*** (<i><.01</i>)		–3.84*** (<i><.01</i>)		–5.30*** (<i><.01</i>)		7.11*** (<i><.01</i>)
<i>Turnover</i>	+	1.13*** (<i><.01</i>)	3.76					
<i>Same Industry</i>	+	1.36*** (<i><.01</i>)	4.52	1.19*** (<i><.01</i>)	7.05	1.82*** (<i><.01</i>)	3.02	1.11 (<i>0.29</i>)
<i>Analysts Overlap</i>	+	0.03*** (<i><.01</i>)	0.33	0.15*** (<i><.01</i>)	0.88	0.04 (<i>0.15</i>)	0.06	6.28** (<i>0.01</i>)
<i>Analyst Following Origin</i>	+	0.04*** (<i><.01</i>)	0.11	0.05*** (<i><.01</i>)	0.27	0.02 (<i>0.14</i>)	0.03	1.77 (<i>0.18</i>)
<i>Analyst Following Destination</i>	–	–0.01 (<i>0.34</i>)	–0.03	–0.03** (<i>0.04</i>)	–0.18	0.01 (<i>0.34</i>)	0.02	4.25** (<i>0.04</i>)
<i>Migrate Funds</i>	+	0.62** (<i>0.02</i>)	2.05	0.47 (<i>0.11</i>)	2.79	0.82* (<i>0.05</i>)	1.37	0.44 (<i>0.51</i>)
<i>Firm Size Difference</i>	+	0.12* (<i>0.08</i>)	0.41	0.18* (<i>0.06</i>)	1.07	0.07 (<i>0.57</i>)	0.11	0.51 (<i>0.48</i>)
<i>Book To Market Difference</i>	–	0.01 (<i>0.72</i>)	0.03	0.00 (<i>0.97</i>)	0.01	0.04 (<i>0.66</i>)	0.07	0.17 (<i>0.68</i>)
<i>Stock Return Difference</i>	+	0.07 (<i>0.51</i>)	0.23	0.13 (<i>0.26</i>)	0.78	–0.05 (<i>0.83</i>)	–0.09	0.47 (<i>0.49</i>)
N		1,658		1,658		1,658		
Pseudo R ²		22.35%		22.36%		17.77%		

*, **, *** indicate significance at the 0.10, 0.05, 0.01 two-tailed levels respectively. Reported marginal effects are multiplied by 100.

Table 5: Migrating analysts' coverage of the origin firms – pre-executive departure

This table reports univariate and regression results for the analysis of properties of migrating analysts' coverage in origin firms compared to (1) their coverage in other firms (comparative advantage) and (2) other analysts covering the origin firms (competitive advantage). The variables are measured over year -2 and -1, where year 0 is the year where the executive joins the destination firm. Units of observations are analyst-firm pairs. In Panel B, the dependent variable is equal to one if the analyst subsequently initiates coverage of the departing executive's new firm and if the covered firm is the origin firm, and zero otherwise.

Panel A: univariate analysis

	Comparative advantage			Competitive advantage		
	Origin firm (n=115)	Other firms (n=1955)	<i>t-stats</i>	Migrating (n=115)	Non-Migrating (n=1987)	<i>t-stats</i>
<i>Years of coverage</i>	3.00	2.66	1.42	3.00	2.07	3.85***
<i>Frequency of forecast revisions</i>	4.12	3.18	4.33***	4.12	3.60	2.35**
<i>Forecast horizon</i>	2.20	2.13	3.09***	2.20	2.10	1.65*
<i>Meeting with management</i>	0.07	0.02	1.79*	0.07	0.02	1.97*
<i>Absolute forecast error (%)</i>	1.11	1.88	-3.89***	1.11	1.16	-0.35
<i>Recommendation profitability (%)</i>	-1.16	0.71	-2.08**	-1.16	0.05	-1.76*
<i>Strong buy recommendations</i>	0.27	0.21	1.20	0.27	0.23	0.65
<i>School Tie</i>	0.03	0.03	0.15	0.03	0.02	0.29

Panel B: regression analysis

	Predicted sign	Comparative advantage		Competitive advantage	
		Coefficients (<i>p-values</i>)	Coefficients (<i>p-values</i>)	Coefficients (<i>p-values</i>)	Coefficients (<i>p-values</i>)
<i>Years of Coverage</i>	+	0.84*** (<i><.01</i>)	0.14* (<i>0.09</i>)	0.10** (<i>0.01</i>)	0.12 (<i>0.19</i>)
<i>Frequency of Forecast Revisions</i>	+	0.10** (<i>0.01</i>)	0.15** (<i>0.05</i>)	0.11*** (<i><.01</i>)	0.18** (<i>0.03</i>)
<i>Forecast Horizon</i>	+	0.11*** (<i><.01</i>)	0.12 (<i>0.77</i>)	0.65*** (<i>0.01</i>)	0.35 (<i>0.30</i>)
<i>Meeting with Management</i>	+	0.65*** (<i>0.01</i>)	1.17** (<i>0.04</i>)	1.56*** (<i><.01</i>)	0.86 (<i>0.36</i>)
<i>Absolute Forecast Error (%)</i>	-	-1.56*** (<i><.01</i>)	-0.71 (<i>0.17</i>)	-0.16*** (<i><.01</i>)	-0.13 (<i>0.31</i>)
<i>Recommendation Profitability</i>	+		-4.07* (<i>0.08</i>)		-4.84** (<i>0.04</i>)
<i>Strong Buy Recommendation</i>	+		0.71 (<i>0.13</i>)		0.24 (<i>0.62</i>)
<i>School Tie</i>	+		0.29 (<i>0.75</i>)		-8.37*** (<i><.01</i>)
<i>Brokerage Overlap</i>	-			0.84*** (<i><.01</i>)	1.76*** (<i><.01</i>)
Firm-level controls		-	-	Included	Included
Broker & Year fixed effects		Included	Included	Included	Included
N		1,859	718	1,934	889
Pseudo R ²		5.93%	11.79%	14.37%	20.90%

*, **, *** indicate significance at the 0.10, 0.05, 0.01 two-tailed levels respectively. Standard errors are clustered by analyst.

Table 6: Migrating analysts' coverage of the origin firms – post-executive departure

This table reports univariate and regression results for the analysis of properties of migrating analysts' coverage in origin firms compared to (1) their coverage in other firms (comparative advantage) and (2) other analysts covering the origin firms (competitive advantage). The variables are measured over year 0 and +1, where year 0 is the year where the executive joins the destination firm. Units of observations are analyst-firm pairs. In Panel B, the dependent variable is equal to one if the analyst initiates coverage of the departing executive's new firm and if the covered firm is the origin firm, and zero otherwise.

Panel A: univariate analysis

	Comparative advantage			Competitive advantage		
	Origin firm (n=87)	Other firms (n=2058)	<i>t</i> -stats	Migrating (n=87)	Non-Migrating (n=1847)	<i>t</i> -stats
<i>Years of coverage</i>	4.19	2.40	5.70***	4.19	2.34	6.17***
<i>Frequency of forecast revisions</i>	3.62	3.48	0.47	3.62	3.69	0.21
<i>Forecast horizon</i>	2.28	2.26	0.28	2.28	2.28	-0.07
<i>Meeting with management</i>	0.07	0.03	2.27**	0.07	0.02	2.00**
<i>Absolute forecast error (%)</i>	2.50	2.53	-0.04	2.50	2.07	0.53
<i>Recommendation profitability (%)</i>	2.66	2.15	1.13	2.66	0.47	2.19**
<i>Strong buy recommendations</i>	0.31	0.21	1.62	0.31	0.19	1.59
<i>School Tie</i>	0.03	0.03	0.29	0.02	0.02	0.19

Panel B: regression analysis

	Predicted sign	Comparative advantage		Competitive advantage	
		Coefficients (<i>p</i> -values)	Coefficients (<i>p</i> -values)	Coefficients (<i>p</i> -values)	Coefficients (<i>p</i> -values)
<i>Years of Coverage</i>	+	0.29*** (<i><.01</i>)	0.45*** (<i><.01</i>)	0.20*** (<i><.01</i>)	1.93* (0.05)
<i>Frequency of Forecast Revisions</i>	+	-0.04 (0.54)	-0.21 (0.14)	-0.10 (0.31)	0.05 (0.80)
<i>Forecast Horizon</i>	+	0.62 (0.11)	1.61** (0.02)	0.55 (0.15)	2.43 (0.21)
<i>Meeting with Management</i>	+	1.96*** (<i><.01</i>)	2.49 (0.12)	1.69 (0.12)	2.20 (0.29)
<i>Absolute Forecast Error (%)</i>	-	-0.48 (0.34)	0.78 (0.66)	0.01 (0.34)	-0.15 (0.25)
<i>Recommendation Profitability</i>	+		-3.88** (0.04)		9.47 (0.38)
<i>Strong Buy Recommendation</i>	+		2.58*** (<i><.01</i>)		3.47 (0.26)
<i>School Tie</i>	+		-0.21 (0.91)		-6.23*** (<i><.01</i>)
<i>Brokerage Overlap</i>	-			0.77 (0.13)	1.76*** (<i><.01</i>)
Firm-level controls		-	-	Included	Included
Broker & Year fixed effects		Included	Included	Included	Included
N		1,972	648	1,620	559
Pseudo R ²		13.82%	30.18%	15.26%	56.62%

*, **, *** indicate significance at the 0.10, 0.05, 0.01 two-tailed levels respectively. Standard errors are clustered by analyst.

Table 7: Migrating analysts' coverage of the destination firms

This table reports univariate and regression results for the analysis of properties of migrating analysts' coverage in destination firms compared to (1) their coverage in other firms (comparative advantage) and (2) other analysts covering the origin firms (competitive advantage). The variables are measured over year 0 and +1, where year 0 is the year where the executive joins the destination firm. Units of observations are analyst-firm pairs. In Panel B, the dependent variable is equal to one if the analyst initiates coverage of the departing executive's new firm and if the covered firm is the origin firm, and zero otherwise.

Panel A: univariate analysis

	Comparative advantage			Competitive advantage		
	Dest. Firm (n=115)	Other firms (n=2034)	<i>t-stats</i>	Migrating (n=115)	Non-Migrating (n=1848)	<i>t-stats</i>
<i>Years of coverage</i>	0.70	2.57	-8.57***	0.70	1.60	-4.76***
<i>Frequency of forecast revisions</i>	3.17	3.51	-1.37	3.17	3.29	-0.59
<i>Forecast horizon</i>	2.21	2.26	-0.21	2.21	2.23	-0.38
<i>Meeting with management</i>	0.06	0.03	1.64	0.06	0.02	1.82*
<i>Absolute forecast error (%)</i>	1.96	2.56	-0.61	1.96	3.73	-1.40
<i>Recommendation profitability (%)</i>	4.22	2.13	0.65	4.22	1.23	0.95
<i>Strong buy recommendations</i>	0.25	0.21	1.25	0.25	0.22	0.71
<i>School Tie</i>	0.03	0.03	0.11	N/A	N/A	N/A

Panel B: regression analysis

	Predicted sign	Comparative advantage		Competitive advantage	
		Coefficients (<i>p-values</i>)	Coefficients (<i>p-values</i>)	Coefficients (<i>p-values</i>)	Coefficients (<i>p-values</i>)
<i>Years of Coverage</i>	+	-0.43*** (<i><.01</i>)	-0.45*** (<i><.01</i>)	-0.28** (<i>0.01</i>)	-0.37*** (<i>0.01</i>)
<i>Frequency of Forecast Revisions</i>	+	-0.04 (<i>0.51</i>)	-0.05 (<i>0.47</i>)	-0.01 (<i>0.87</i>)	-0.06 (<i>0.36</i>)
<i>Forecast Horizon</i>	+	0.10 (<i>0.71</i>)	0.08 (<i>0.80</i>)	0.05 (<i>0.82</i>)	-0.05 (<i>0.86</i>)
<i>Meeting with Management</i>	+	0.47 (<i>0.42</i>)	0.29 (<i>0.64</i>)	1.28*** (<i>0.01</i>)	2.26*** (<i><.01</i>)
<i>Absolute Forecast Error (%)</i>	-	0.00 (<i>0.98</i>)	0.00 (<i>0.99</i>)	-0.02** (<i>0.05</i>)	-0.05 (<i>0.22</i>)
<i>Recommendation Profitability</i>	+		0.71 (<i>0.17</i>)		0.58 (<i>0.42</i>)
<i>Strong Buy Recommendation</i>	+		0.68** (<i>0.02</i>)		0.05 (<i>0.89</i>)
Firm-level controls		-	-	Included	Included
Broker & year fixed effects		Included	Included	Included	Included
N		1,972	1,011	1,780	1,150
Pseudo R ²		9.85%	13.12%	12.76%	15.03%

*, **, *** indicate significance at the 0.10, 0.05, 0.01 two-tailed levels respectively. Standard errors are clustered by analyst.

Table 8: Consequences of executive-analyst co-migration

This table reports regression results for the analysis of changes in analysts' portfolio size and firms' analyst coverage around executive and analyst migration. In Panel A, the dependent variable is the change in the natural logarithm of the total market capitalization of firms covered by analysts from year -1 to year $+1$, where year 0 is the year where an executive joins the destination firm. The sample consists of migrating analysts, their two closest peers among other analysts covering the origin firm (in terms of brokerage firm size) and their closest peer among other analysts working for the same brokerage firm (in terms of portfolio size as of year -1). *Migrating Analyst* indicates that the analyst migrated from the origin to the destination firm. *S&P 500 Return* is the buy-and-hold return on the S&P 500 Index from year -1 to year $+1$ included. *Seniority* is the number of years the analyst has been employed by the same brokerage house, based on their first forecast issued in I/B/E/S with the same broker/analyst code. *Beginning Portfolio Size* is the natural logarithm of the total market capitalization of firms covered by analysts as of the end of year -1 . In Panel B, the dependent variable is the net change in analyst coverage of destination firms from year -1 to year $+1$, where year 0 is the year where an executive joins the destination firm. The sample consists of all destination firms joined by executives in our sample, and their matches. *Number of Analysts Migrating* is the number of analysts covering the incoming executive's origin firm (or its matched firm) who initiate coverage of the destination firm. *Mutual Fund Migration* indicates firms in which mutual funds that previously invested in the origin firm (or its matched firm) take a position. *Analyst Following*, *Firm Size*, *Book to Market* and *Stock Return* are as defined in the Appendix.

Panel A: Change in analyst portfolio size for migrating analysts

		Matched with in-house peer		Matched with peers in competing firms	
	Predicted sign	Coefficient	(<i>p-value</i>)	Coefficient	(<i>p-value</i>)
<i>Intercept</i>		0.51***	(<i><.01</i>)	0.48***	(<i><.01</i>)
<i>Migrating Analyst</i>	+	0.32**	(<i>0.02</i>)	0.26***	(<i><.01</i>)
<i>S&P500 Return</i>	+	-0.46	(<i>0.19</i>)	0.01	(<i>0.97</i>)
<i>Seniority</i>	?	-0.03**	(<i>0.03</i>)	-0.01	(<i>0.26</i>)
<i>Beginning Portfolio Size</i>	-	-0.09***	(<i><.01</i>)	-0.15***	(<i><.01</i>)
Fixed effects		Broker		Broker	
N		204		324	
Adj. R ²		9.00%		7.51%	

Panel B: Change in analyst following, scaled by firm size, in the destination firm

		Turnover Sample		Matched Sample		
	Predicted sign	Coefficient	(<i>p-value</i>)	Coefficient	(<i>p-value</i>)	<i>T-Stat for difference</i>
<i>Intercept</i>		0.08	(<i>0.48</i>)	0.06	(<i>0.49</i>)	<i>0.13</i>
<i>Number of Analysts Migrating</i>	+	0.24***	(<i><.01</i>)	0.03	(<i>0.69</i>)	<i>1.91*</i>
<i>Analyst Following</i>	-	-0.03***	(<i><.01</i>)	-0.01***	(<i><.01</i>)	<i>-3.70***</i>
<i>Firm Size</i>	+	0.01	(<i>0.66</i>)	0.01	(<i>0.28</i>)	<i>-0.32</i>
<i>Mutual Fund Migration</i>	+	0.28***	(<i><.01</i>)	0.09*	(<i>0.06</i>)	<i>2.59***</i>
<i>Stock Return</i>	+	0.19***	(<i><.01</i>)	0.25***	(<i><.01</i>)	<i>-0.71</i>
<i>Book-to-Market</i>	-	0.00	(<i>0.94</i>)	0.01***	(<i><.01</i>)	<i>-0.11</i>
N		829		829		
Adj. R ²		19.01%		9.81%		

*, **, *** indicate significance at the 0.10, 0.05, 0.01 two-tailed levels respectively.

Table 9: Summary Results for Post-Reg FD Period

This table reports univariate results for the post-Reg FD period of our sample. Panel A presents univariate results for the analysis of sell-side analyst migration between pairs of origin and destination firms. The sample consists of 479 pairs of companies where a top executive migrates from the origin to the destination company, and 479 pairs of companies with no executive turnover matched on propensity score. Panels B and C report univariate results on properties of migrating analysts' coverage of origin and destination firms around executives' departures compared either to their own coverage and forecasts in other firms (comparative advantage) or to other analysts covering the origin firms (competitive advantage). The sample is limited to origin/destination firms where at least one analyst migrates. Panel B (C) reports those results for analysts' coverage of origin (destination) firms before (after) executives' departure.

Panel A: Univariate analysis – Analyst migration

		Turnover sample	Matched sample	T-stat for difference
All	<i>Migrate</i>	10.86	3.55	4.41***
(n=479)	<i>Migrants</i>	13.57	5.64	3.24***
CEOs	<i>Migrate</i>	11.11	6.54	1.41
(n=153)	<i>Migrants</i>	13.07	9.80	0.70
CFOs	<i>Migrate</i>	10.74	2.15	4.53***
(n=326)	<i>Migrants</i>	13.80	3.68	3.55***

Reported means are multiplied by 100.

Panel B: Univariate analysis – Migrating analysts' coverage of origin firms, pre-executive departure

	Comparative advantage			Competitive advantage		
	Origin firm (n=65)	Other firms (n=1019)	<i>t-stats</i>	Migrating analyst (n=65)	Other analysts (n=1180)	<i>t-stats</i>
<i>Years of coverage</i>	2.57	2.48	0.32	2.57	1.80	2.73***
<i>Frequency of forecast revisions</i>	4.25	3.42	2.70***	4.25	3.58	2.20**
<i>Forecast horizon</i>	2.42	2.25	2.36**	2.42	2.22	2.71***
<i>Meeting with management</i>	0.09	0.04	1.59	0.09	0.03	1.69*
<i>Absolute forecast error (%)</i>	1.06	1.71	-2.64***	1.06	1.00	0.23
<i>Recommendation profitability (%)</i>	-0.60	0.85	-1.24	-0.60	0.49	-1.03
<i>Strong buy recommendations</i>	0.21	0.18	0.55	0.21	0.24	-0.42

Panel C: Univariate analysis – Migrating analysts' coverage of destination firms

	Comparative advantage			Competitive advantage		
	Dest. Firm (n=65)	Other firms (n=1157)	<i>t-stats</i>	Migrating analyst (n=65)	Other analysts (n=1227)	<i>t-stats</i>
<i>Years of coverage</i>	0.75	2.41	-8.03***	0.75	1.66	-3.30***
<i>Frequency of forecast revisions</i>	3.17	3.80	-2.22**	3.17	3.44	-0.89
<i>Forecast horizon</i>	2.26	2.37	-0.49	2.26	2.32	-0.84
<i>Meeting with management</i>	0.11	0.04	1.80*	0.11	0.03	2.06**
<i>Absolute forecast error (%)</i>	1.48	2.50	-1.09	1.48	1.21	0.52
<i>Recommendation profitability (%)</i>	1.23	1.47	-0.12	1.23	1.29	0.03
<i>Strong buy recommendations</i>	0.15	0.15	0.18	0.15	0.16	-0.20

*, **, *** indicate significance at the 0.10, 0.05, 0.01 two-tailed levels respectively.