Fusing Identities: The 'I Am The Firm' Phenomenon in Eponymous Enterprises

Doron Kliger,* Yevgeny Mugerman,** and Ruth Rooz***

Abstract

In this study, we examine the psychological phenomenon of self-identification with firms, encapsulated in the maxim "I Am The Firm," a self-serving bias prevalent in eponymous firms—companies named after their owners. Drawing upon Louis XIV's assertion "*L'État, c'est moi,*" we investigate how this deep personal identification influences managerial forecasts, leading to a tendency among owners to project overly optimistic financial outlooks. This effect represents a unique blend of behavioral finance and corporate identity, where the boundaries between personal and corporate identities blur, impacting financial forecasting practices. Utilizing a novel dataset from Israel, where a regulatory framework provides a unique vantage for assessing forecast bias, we demonstrate that eponymous firms consistently issue more optimistic forecasts than their non-eponymous counterparts, an effect not wholly explainable by traditional rational financial theories. We further validate our findings through comparative analysis with management forecasts from European firms. This research fills a critical gap in understanding how owner identity can skew corporate financial forecasts, offering significant implications for behavioral finance and corporate governance.

Keywords: *management forecasts; cash flow forecasts; behavioral bias; eponymous firms; family ownership.*

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In this study, we examine the psychological phenomenon of self-identification with firms, encapsulated in the maxim "I Am The Firm," a self-serving bias prevalent in eponymous firms—companies named after their owners. Drawing upon Louis XIV's assertion "L'État, c'est moi," we investigate how this deep personal identification influences managerial forecasts, leading to a tendency among owners to project overly optimistic financial outlooks. This effect represents a unique blend of behavioral finance and corporate identity, where the boundaries between personal and corporate identities blur, impacting financial forecasting practices. Utilizing a novel dataset from Israel, where a regulatory framework provides a unique vantage for assessing forecast bias, we demonstrate that eponymous firms consistently issue more optimistic forecasts than their non-eponymous counterparts, an effect not wholly explainable by traditional rational financial theories. We further validate our findings through comparative analysis with management forecasts from European firms. This research fills a critical gap in understanding how owner identity can skew corporate financial forecasts, offering significant implications for behavioral finance and corporate governance.

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1. Introduction

Our study seeks to shed light on the phenomenon of optimism in financial forecasts of eponymous firms (i.e., companies named after their owners) and to shed light on the identity fusion mechanism that underlies this phenomenon.

Identity fusion is conceptualized in fusion theory as a profound sense of oneness within a group, prompting individuals to undertake actions that are beneficial to the group, often at a personal cost (e.g., Swann et al., 2012 and Swann and Buhrmester, 2015). We posit that while rational incentives and the behavioral biases documented in existing literature, such as self-serving belief (e.g., Heider, 1958; Greenberg, 1991; Campbell and Sedikides, 1999; Campbell, Sedikides, Reeder, and Elliot, 2000; Pal, 2007), wishful thinking (e.g., Kahneman and Lovallo, 1993; Koonce, Seybert, and Smith, 2011) or over confidence (e.g., Malmendier and Tate, 2005; Malmendier and Tate, 2015) contribute to managerial optimism, the deep personal identification of owners of eponymous firms with their companies significantly magnifies this optimism. We refer to this bias as the "I Am The Firm" effect, thus, diverging from other biases discussed in behavioral finance literature by rooting itself in this deep-seated identity fusion.

To study behavioral bias in forecast predictions of management, we utilize a unique regulatory setup that exists in Israel. Starting from 2008, the Israeli Security Agency (ISA) has required companies listed on the Tel-Aviv Stock Exchange (TASE) that have publicly traded bonds and are facing financial distress to disclose cash flow forecasts in their periodic financial statements. The forecasts, mandated by ISA, have a unique feature that makes it costly for firms to manipulate their numbers, as explained in the sequel. Management forecasts in other jurisdictions are voluntarily disclosed, raising concerns of selection bias, as well as a bias in the timing, horizon, and form of disclosure (Beyer, Cohen, Lys, and Walther, 2010). In contrast, our setting offers specific forward-looking information in the form of cash flow forecasts that are *mandatorily* disclosed and are closely regulated, as the ISA vigorously *enforces* the disclosure requirements and penalizes firms that do not provide adequate cash flow forecasts disclosure (section 3 provides detail description of our institutional setting). Furthermore, we disentangle the behavioral fusion identity bias "I Am The Firm" and the optimistic bias by classifying our data on the basis of a unique firm characteristic with an enhanced potential for behavioral identity features in the form of "eponymous firms," i.e., firms that carry the names of their owners.

The following example illustrates the heightened identity element that exists in eponymous firms: On February 23, 2010, Akio Toyoda, the President of Toyota Motor Corporation and its founder's grandson, declared to the U.S. Congress: "*My name is on every car. You have my personal commitment that Toyota will work vigorously and unceasingly to restore the trust of our customers*."[1] When Mr. Toyoda attempted to assuage Congress about safety issues that were discovered in Toyota's cars, he specifically invoked the name of the company – *his own name* – to provide comfort to the public. As this example suggests, when a firm carries an invested person's name, the unique intertwining of the executive personal identity with the corporate entity, epitomized by identity fusion, cultivates an elevated level of optimism, surpassing that explained by behavioral biases alone. In appendix D we provide a simple analytical conceptual model to support this line of thought.

Utilizing a web scraping tool we identify 384 firm-year cash flow forecasts disclosed for the years spanning 2011 to 2018[2]. The unique mandatory forecasts disclosure indicates that, unlike other management forecasts, in our setting, the ramifications would be costly in the event that a firm would bias its forecasts upward. This argument is supported by indicative evidence of penalties imposed by ISA against companies that disclosed unduly and unfounded optimistic forecasts, as well as by demonstrating a negative market reaction to optimistic forecasts (we elaborate on this in section 3.3 and 5.2 below). On the other hand, distressed firms are not motivated to provide forecasts that are particularly conservative since that might precipitate the process of bankruptcy. Therefore, firms face two competing forces that direct them to predict the most accurate possible forecasts since, on the one hand, they are limited in their ability to upward bias the forecasts (since forecasts are regulated); on the other hand, they are otherwise disincentivized from biasing forecasts downward (since they have bankruptcy concern).

Consistent with our hypothesis, we find that the likelihood of eponymous firms predicting optimistic forecasts is more than three times larger than of non-eponymous firms making such predictions, these results hold also when performing a propensity score matched sample between eponymous and non-eponymous firms and is robust to different specification of the matching procedure. The results persist despite our finding that eponymous firms are penalized

[1] For Details of the Toyota crisis case see Bennedsen, Mehrotra, Shim, & Wiwattanakantang (2021).
[2] Our data collection starts at 2010 with forecasts for 2011 even though the law was promulgated in 2008, since initially there was a lack of clarity as to the precise nature of the disclosure requirement; in 2010, ISA published a "clarification guidance" that set forth a coherent unified disclosure of cash flow forecasts. Moreover, we end the data collection at 2017 with forecasts for 2018, since two regulatory changes were promulgated in 2017 that changed the disclosure requirement and information environment of Israeli companies in the following years. We elaborate on our data collection in section 4.

more than non-eponymous firms by the market for disclosing overly optimistic forecasts, as evident in cumulative return around earning announcements. Moreover, we rule out the existence of rational incentives to disclose optimistic cash flow forecasts: first we test whether our results are driven by the number of shares held by the controlling family in eponymous firms relative to shares held by the largest block holder in non-eponymous firms; second, we test whether prior experience of firms in providing these cash flow forecasts, as well as deviation from prior forecasts, leads to more conservative predictions. We find that neither the number of shares held by the owning family nor their experience with prior deviation of forecasts can explain our results of unduly optimistic forecasts. Moreover, we do not find evidence that optimistic forecasts are associated with increased managerial effort.[3] We then extend our examination to a broader definition of family firms, which includes firms with two or more family members of the owning family serving on the board of directors or as high-level executives (as defined in prior literature, for example: Anderson and Reeb 2003; Villalonga and Amit 2006; Weiss, 2014; Bennedsen, Jian, and Yeh, 2015; Abudy, and Shust, 2022b). We find that our results attenuate when using a broader definition of family firms, which, consistent with our hypothesis, suggests that ITF effect is driven primarily by eponymous firms that have greater personal attachment to their firms and are therefore more prone to behavioral biases. Finally, we find that the number of family members in eponymous firms relative to other firms is not driving our results, suggesting that the level of involvement of eponymy executives is greater regardless of the actual official roles held by family members in the firm. Overall, we conclude that although eponymous firms have greater reputational concerns (Belenzon, Chatterji, and Daley, 2017) and are otherwise penalized for providing inordinately optimistic projections in our set-up, eponymous firms are tainted with ITF behavioral bias, where the owners' perception of the firm supersedes objective analysis, leading them to project an overly optimistic future, despite potential negative repercussions, such as regulatory sanctions.

In order to alleviate the concern that our results may be country-specific, we conducted our tests in another setting using the common voluntary disclosure of management forecasts. Employing Belenzon, Chatterji, and Daley's (2017) classification of eponymous firms on the

[3] We test whether the change in the probability of default (which we use to proxy for managerial effort in financially distressed firms) is associated with managerial optimism. The tests for examining managerial effort as implemented by the literature (see for example: Hilary, Hsu, Segal, and Wang 2016) are less adequate to our financially distressed firms' dataset.

Amadeus database, we consistently find that eponymous firms provide more optimistic forecasts than their non-eponymous counterparts.

Moreover, our results are validated with practitioners dealing with family firms, including private equity fund managers who specialize in such companies who confirmed that, indeed, their owners are overly optimistic with their conjectures about their firms.

Our contribution is threefold: first, our study identifies a new behavioral aspect of "I Am The Firm" that derives from identity fusion and provides an additional explanation for optimistic bias in management forecasts. Second, our research employs real financial data, rather than lab experiments, to study a behavioral aspect of financial forecasts.[4] Thus, our research contributes to the growing literature in accounting that uses archival data to study the effect of individuals' judgment and decision-making on financial reports (see Hanlon, Yeung, and Zuo, 2022, for a review of this literature). Third, our research is at the vanguard of the study of behavioral biases in eponymous firms - by using actual forecast data, we contribute to the understanding of the influence of eponymous on corporate decision making in general, and forecast prediction, from a behavioral point of view. Hence, ad hearing also to the call by Belenzon, Chatterji, and Daley (2020) to study the nexus between the individual and the firm.

The remainder of this paper is organized as follows. Section 2 reviews the related literature. Section 3 describes the institutional background. Section 4 describes our sample, data, measures and descriptive statistics. Section 5 presents the research design and the empirical findings. A further manifestation of the ITF effect is presented in Section 6. Section 7 concludes the paper.

2. Literature Review and Hypothesis Development

We focus on three prominent strands of literature to develop our hypothesis. The first strand deals with rational explanations for over-optimism in management forecasts, with a focus on firms confronting financial distress; the second strand elucidates behavioral explanations for over-optimism; and the final strand of literature focuses on the characteristics of eponymous and family firms.

[4] See For example: Libby and Rennekamp (2012) and Chen, Rennekamp and Zhou (2015) who study management forecasts in a lab experiment setting.

2.1 Rational Incentives for Over Optimism

Prior literature exhibits rational incentives of firms in disclosing optimistic/upward biased forecasts. Frost (1997) suggests that distressed firms have incentives to provide encouraging news in order to reduce the probability of bankruptcy, acquisition, or hostile takeover. Rogers and Stocken (2005) hypothesize that firms in financial distress have incentives to disclose encouraging forecasts; yet, using US data, they find that the willingness of financially distressed firms to issue optimistic forecasts varies with the investors' ability to detect the misrepresentation. Kato, Skinner, and Kunimura (2009) examine management forecasts in Japan, where forecasts are effectively mandated, as the Tokyo stock exchange strongly encourages firms to disclose sales and net income forecasts. The authors argue that since, *de facto*, most firms disclose those forecasts, they are effectively mandated; however, these Japanese firms have considerable latitude over the numbers they release. They find that forecasts are systematically upward biased and conclude that managers tend to provide optimistic forecasts when forecasts are relatively unconstrained by legal or regulatory forces. Hilary, Hsu, Segal, and Wang (2016) provide rational evidence for positive earnings management forecasts, which generate higher managerial effort that improves firm profitability and market value. Considering the vast literature on analysts' forecasts, Michaely and Womack (1999) document optimistically biased recommendations by analysts affiliated with the underwriter, and test whether such optimistic bias is explained by a genuine belief that the firms they underwrite are the most exceptional or, alternatively, if it is explained by incentives to provide optimistic recommendations. Surveying investment bankers and investment managers, Michaely and Womack find evidence that is consistent with the latter explanation of rational incentives to provide optimistic biased recommendations.

Overall, the literature above suggests that regulated forecasts should attenuate the incentives and ability of firms to disclose upward biased forecasts. Yet, some behavioral aspects in management forecasts play an important role as well,[5] as is discussed next.

2.2 Behavioral Explanations for Over Optimism

[5] The notion that optimism bias combines both rational and emotional process is formalized in Bracha and Brown (2012) who suggest a strategic model of choice under risk and uncertainty, with two cognitive processes, rational and emotional.

The literature provides behavioral explanations, in addition to the incentive explanation for optimistic forecasts. Kahneman and Lovallo (1993) explain how overconfidence, illusion of control as well as the inside vs. outside views of problems by manager/individuals lead them to provide bold forecasts. DellaVigna (2009) provides certain underlying behavioral reasons, such as the "projection bias" and the "law of small numbers," in explaining optimistic bias. Self-serving belief bias is another possible explanation for optimistic bias, as managers may have a greater tendency to interpret ambiguous evidence as supporting a desirable conclusion. The body of the psychological literature in the realm of self-serving bias is vast, Heider (1958) was the first psychology to articulate the self-serving bias, he observed that, in ambiguous situations, attributions are colored by "a person's own needs or wishes". The literature refers to self-serving bias as a defense mechanism that protects or enhances one's self-concept, by taking credit for personal success and blaming external factors for personal failure (see for example: Greenberg, 1991; Campbell, and Sedikides, 1999; Campbell, Sedikides, Reeder, and Elliot, 2000; Pal, 2007).

Libby and Rennekamp (2012) provide evidence that both self-serving bias and over confidence affects managers' decision to disclose (optimistic) forecasts. They utilize an abstract experiment and a survey of financial managers and suggest that overconfidence stems from a self-serving bias of managers that tend to attribute internal (rather than external) factors to good performance, which increases their confidence in increased future performance and, therefore, with their willingness to provide forecasts.

Chen, Rennekamp, and Zhou (2015) examine the quality of disaggregated forecasts with and without the existence of performance-based incentives; utilizing an abstract experiment, they find that when performance-based incentives are absent, disaggregated forecasts are more accurate -- yet, when performance-based incentives exist, disaggregated forecasts are unduly optimistic. Chen, Rennekamp, and Zhou (2015) suggest that motivated reasoning is the underlying explanation for such optimistic forecasts.

Moreover, a recent literature review by Hanlon, Yeung, and Zuo (2022), summarizes recent evidence for behavioral biases in financial reporting, using archival data. Additionally, there is a growing literature that looks at over optimism of managers as reflected in their tone, for example, Hendricks, Lang, and Merkley (2022) show that founder led firms are characterized by excess optimism "tone" reflected in their 10-K financial reporting text. Hendricks et al. do

not specify a direct channel for this over optimism but suggest that personal idiosyncratic traits of founders is the source for such over optimism.

In our setting, over-confidence, wishful thinking, and other behavioral biases may explain to some extent the optimistic forecasts. Yet, such biases cannot fully explain why forecasts are significantly more optimistic in eponymous vs. non eponymous firms. We suggest that an additional psychological element plays a role - "identity fusion," as elucidated by Swann et al. (2012) and Swann and Buhrmester (2015). Identity fusion is conceptualized in fusion theory as a profound sense of oneness within a group, prompting individuals to undertake actions that are beneficial to the group, often at a personal cost.

Distinct from social identity theory, fusion theory underscores the importance of interpersonal relationships within the group. This theory posits that factors such as individual and collective self-awareness, and perceived shared characteristics among group members, intensify the propensity towards pro-group behaviors. Notably, fusion theory's unique explanatory strength lies in the role of personal agency and familial-like bonds within the group, which mediate the link between identity fusion and pro-group behaviors. Applying this to eponymous firms, identity fusion emerges as a compelling explanatory factor.

Thus, our main hypothesis posits that while rational incentives and the behavioral biases documented in existing literature contribute to managerial optimism, the deep personal identification of owners of eponymous firms with their companies significantly magnifies this optimism. Specifically, the unique intertwining of the manager's identity with the corporate entity, epitomized by identity fusion, cultivates an elevated level of optimism, surpassing that explained by behavioral biases alone.

In the next sub-section, we describe the literature on eponymous firms, a sub-group of firms in which, we claim, the behavioral aspect is more pronounced.

2.3 Eponymous characteristics

Prior research has delved into the decisions of owners/entrepreneurs to designate their own names to their firms. Belenzon, Chatterji, and Daley (2017) suggest that attaching the owner's identity to the firm's name is a strategic decision that serves as an important signal. Belenzon et al. find that, although eponymous firms are associated with better performance, such firms are relatively uncommon (only 19 percent of firms in their European data); they conclude that

reputational concerns are enhanced in eponymous firms, which is the main explanation for the less common phenomena of naming firms after the owners and founders.[6] Eponymous firms are also studied in the context of family firms; Anderson, Mansi, and Reeb (2003) hypothesize that founding family firms have fewer agency conflicts between equity and debt claimants, and find that founding families have consistently lower cost of debt. Anderson, Mansi and Reeb attribute their findings to the reputational concerns that are more pronounced in family-owned firms and provide additional robustness tests for a subgroup of eponymous family firms. Consistently, Chen, Song, Truong, and Zhang (2023) also suggest that naming a firm after the owners is a mechanism used by small firms to signal their commitment to fulfill debt contract obligations. They find that small eponymy, private firms in Europe enjoy a lower cost of debt and have access to debts with a long-term to maturity. Building on the reputational concern of eponymous firms, together with lower agency conflicts and the independence of management's reward on financial outcomes, Minichilli, Prencipe, Radhakrishnan, and Siciliano (2021) find that eponymous firms in Italy are associated with higher quality of financial reporting and lower cost of debt. These results are consistent with prior research regarding family firms, which are defined in various ways: Ali, Chen, and Radhakrishnan (2007) determine that family firms have higher quality disclosures, Martin, Campbell, and Gomez-Mejia (2016) find that family firms practice less earnings management, D'Aurizio, Oliviero, and Romano (2015) provide evidence that the family ownership attenuates the agency conflict between borrowers and lenders mainly by better communicating soft information. Weiss (2014) observes few material weaknesses in the internal controls of family firms, and Abudy and Shust (2022b) find that family firms exhibit anti-sticky cost behavior (i.e., their selling, general, and administrative costs tend to be less sensitive to changes in business activities, relative to non-family firms). In contrast, Muller, Peter, and Urzúa (2023) find that owner-level privacy concerns lead firms named after their owner to provide more opaque disclosure, when disclosure exposes sensitive owner information.

Overall, these findings indicate that eponymous firms, and family firms in general, have lower agency conflicts and greater reputation concerns, and are therefore expected to disclose more accurate and less biased forecasts. On the other hand, Sageder, Mitter, and Feldbauer-Durstmüller (2018) claim that families have personal attachments, and are more identified with, their firms, and tend to be more involved in its management. Such personal ties

[6] Prior studies suggested other types of strategic decisions to signal reputation, for e.g., Weigelt and Camerer (1988) refer to product market strategic decision such as price of products and advertisement expense to signal reputation.

could motivate these family firms to imagine more optimistic outcomes. These two contradicting hypotheses (i.e., reputation concern vs. personal involvement in the firm) lead us to examine more directly the mechanism through which our results manifest. We predict that involvement and personal attachment with the firm plays a greater role then reputation concern in affecting corporate projections. Appendix C provides an analytical model that formalizes our hypotheses. In section 5.6 we perform empirical tests to examine our hypothesis.

3. Institutional Background and Methodology

3.1 Mandatory Disclosure of Cash-Flow Forecasts

In 2008, in the midst of the global credit crisis, many companies encountered difficulties in repaying their debt to bondholders.[7] As a response, ISA has required companies listed on the (TASE) that have bonds held by the public and are facing financial distress to disclose cash flow forecasts for the upcoming two years in their periodic financial statements.[8]

The ISA mandatory disclosure requirement exemplifies one aspect of dealing with financial distress – transparency. It attempts to draw investors' attention to the risk of liquidity, or lack thereof, that the investee might be facing in repaying future upcoming debt payments at an early stage of financial distress. Specifically, ISA requires companies to disclose their cash flow forecasts in the event that the following two conditions are met:

1. Some of the company's traded bonds were held by the general public, i.e., by less savvy investors that lack access to more sophisticated channels of financial information. Firms whose traded bonds were held solely by institutions are excluded from the disclosure regulation.

2. The firm encountered financial distress identified by certain "warning signals," as reflected by intimations of adverse values of one or more financial figures, including equity deficit, negative working capital and ongoing negative cash flow from operations, or "emphasis of matter" in the auditors' report. According to an interview we conducted with a senior ISA officer, these warning signals were selected by reverse engineering, i.e., identifying early signs of firms that subsequently went bankrupt or were subjected to a debt reorganization. We note

[7] Chen, Gavious and Steinberg (2019) study additional sources to the confluence of reorganization by Israeli firms.
[8] See ISA Annual Report for 2008, http://www.isa.gov.il/download/isafile_4543.pdf.

that these financial warning signals are indeed also part of the O-Score model for predicting bankruptcy (Ohlson, 1980).

Thus, the cash flow forecasts provide essential information with respect to firms that are in financial distress (Rooz and Segal, 2023), and are a key factor in alleviating the "going concern" assumption (the assumption being that the firms are viable businesses that will meet their financial obligations) that is crucial to the preparation of financial statements. Moreover, to emphasize the importance of the mandatory cash flow forecasts in such firms, we note that ISA requires the board of directors to discuss the forecasts and approve it. Thus, the forecast is an important piece of information that is considered at the highest levels in the firm.

3.2 The Costs of Disclosing Biased Cash-Flow Forecasts

The ISA's cash flow forecast disclosure regulation includes thorough requirements to incorporate detailed cash inflows and outflows. Firms are instructed to include cash flows only if the likelihood of receiving such flows is feasible, which differs from voluntary forecasts where firms have far greater latitude over the numbers they include in their forecasts. The use of cash flow forecasts, relative to earnings forecasts or other quality measure forecasts, has an inherent advantage since cash flows are *less prone to earning manipulation* (Wasly and Wu 2006; Dechow 1994) and are relatively more important than earnings with respect to maintaining the viability of financially distressed firms (Lee, Glasscock, and Park 2016). Additionally, firms are required to disclose, in their subsequent periodic statements, if the realization of the cash flow forecast deviated significantly from their forecasts.[9] Moreover, in 2010, in light of flaws that were detected by ISA's inspections of firms' cash flow forecasts, ISA published a revised disclosure requirement that clarified and calibrated its prior mandate. For example, ISA elucidated that firms should disclose expected cash flows on a "solo" level (and not a consolidated level), and that firms may not include expected dividends from a subsidiary as cash inflows if such dividends are not feasible. ISA regulates and enforces the forecast requirement vigorously, as reflected by several precedents of ISA requiring firms to revise and resubmit the cash flow forecasts, and cases of ISA penalizing firms that failed to

[9] In Israel too (the setting for our study), an increase in information salience plays a significant role in affecting investor attention (Mugerman, Steinberg, and Wiener, 2022).

provide adequate forecasts.[10] Moreover, as will be demonstrated below, in section 5.2, the market penalizes firms that disclose unduly optimistic forecasts as well.

In short, the cash flow forecasts constitute an essential component of information, generated and provided by the highest executive levels within the firm, and are rigorously enforced both by regulatory and market forces, all of which provide an ideal setting for our research project.

3.3 The Israeli Corporate Bond Market

The development of the Israeli corporate bond market expanded dramatically in the first decade of the 2000s, as the aggregate market cap of corporate bonds increased from $6 billion in 2003 to $73 billion in 2009 (Abudy and Wohl 2018). Abudy and Wohl find that despite its relatively small size, the Israeli market is quite liquid, characterized by high trading volumes and low spreads relative to the US corporate bond market. One of the reasons for the development of the Israeli bond market was local regulatory changes that relaxed prior limitations on long-term corporate bond investing by long-term saving institutions. The significant increase in capital supply proliferated the offerings of corporate public bonds, causing firms to substantially increase their leverage ratios and raised the concern that firms will not be able to repay their debt obligations. The disclosure regulation was therefore aimed at informing debt investors. In section 5.2 below, we utilize the liquid Israeli bond market to examine the bond reaction to optimistic forecasts.

3.4 Methodology

In our empirical approach, we first develop a simple analytical model that conceptualizes the costs associated with maximizing management forecast via a utility function that includes both a rational and behavioral component (Appendix C). We then provide empirical evidence that supports our argument that the mandatory forecasts disclosure is costly to bias, by performing an event study that examines the market reaction to optimistic forecasts (section 5.2 below). We further provide anecdotal evidence of actual enforcement by ISA. Disentangling behavioral

[10] See, for example, Israel Petrochemical Enterprises Ltd. v. Israel Securities Authority Tel-Aviv, http://www.isa.gov.il/%D7%97%D7%A7%D7%99%D7%A7%D7%94%20%D7%95%D7%90%D7%9B%D7%99%D7%A4%D7%94/Enforcement/Financial_sanctions/EITZUMIM/Documents/120717.pdf (a court case regarding an Israeli energy company being penalized by ISA for disclosing non-conservative cash-flow forecasts, in Hebrew).

biases from other incentives to bias forecasts upward is not obvious (Shefrin 2001); thus, utilizing a mandatory disclosure requirement that is costly to bias and which sets out limited discretion to management with respect to the timing and form of disclosure, mutes the ability and incentives to bias forecasts.

We then partition our data into eponymous and non-eponymous firms and perform univariate test and multivariate tests. In the multivariate tests, we perform an OLS regression model and Probit model, to examine our main hypothesis, that eponymous firms are more optimistic than non-eponymous firms. The multivariate tests are executed on an unmatched sample as well as using a propensity score match between eponymous and non-eponymous firms. Moreover, we control for profitability, leverage, size as well as other observables to alleviate the concern that more distressed firms with incentives to bias forecasts upward is the driver of our results (section 5.3 provides more detail on the multivariate empirical analysis). Moreover, we perform additional tests to rule out other possible alternative explanations for optimistic bias in eponymous firms (sections 5.4 and 5.5) and provide evidence that our results are robust and can be generalized to other settings, such as voluntary forecasts in eponymy European firms (section 6).

Lastly, we examine a possible channel through which identity fusion leads to over-optimism in eponymous firms, by examining differences in the involvement of family members in eponymous vs. non-eponymous firms (section 5.6)

4. Data and Descriptive Statistics

We collect data on mandatory projected cash flows that were included in annual financial statements, commencing in 2010 and ending in 2018 (to observe the realization of forecasts issued in 2017).[11] Utilizing a web scraping tool, together with a manual search of financial

[11] Our data collection starts at 2010 with forecasts for 2011 even though the law was promulgated in 2008, since initially there was a lack of clarity as to the precise nature of the disclosure requirement; in 2010, ISA published a "clarification guidance" that set forth a coherent unified disclosure of cash flow forecasts. Moreover we end the data collection at 2017 with forecasts for 2018, since two regulatory changes were promulgated in 2017 that changed the disclosure requirement and information environment of Israeli companies in the following years: 1. The ISA has issued guidance requiring more stringent conditions of warning signals to occur in order to require the disclosure of the mandatory forecasts, for example, only if warning signals are exhibited in both the consolidated and the solo financial reports a company will be mandated to disclose the cash flow forecasts. This new guidance has diminished the number of companies required to disclose the cash flow forecasts; 2. The ISA has allowed small companies to disclose financial reports on a semi-annual rather than quarterly basis, many of the companies in our database are considered small companies and applied this regulatory ease. To avoid contamination of our results with other significant regulatory changes, we eliminate the data collection to 2017.

statements, we identify 384 firm-year observations of cash flow forecasts that belong to 143 distinct firms.[12] We complement the manually collected forecasts with subsequent-year cash-flow realizations, which were collected manually from the firms' solo financial statements. To measure the level of optimism in management forecasts, we construct two variables. The first variable, which we call I Am The Firm (ITF), measures the difference between the firm's projected- and realized-cash flow, normalized by the absolute value of the projected cash flow. Higher ITF represents an increased belief by management with regard to cash flow forecasts. To deal with extreme observations, we winsorize ITF at 2.5 percent and 97.5 percent of its distribution. As indicated in Table 1, the average (median) ITF in our sample is 0.08 (0.5), i.e., the firms in our sample forecasted cash flows that were, on average, 8 percent higher than their realized cash flows. We introduce a second variable, which we call ITF_DUM, a dummy variable that equals 1 if ITF is positive and zero otherwise. Table 1 indicates that 72 percent of our firm-year observations predicted ex-post optimistic cash flows. We then proceeded to combine our I Am The Firm measures with financial data available from the Super-Analyst Database.[13] As set forth in Table 1, the average firm size, measured as the natural log of total assets, is 13.42, translated into $185 Million.[14] LEV is the leverage ratio, measured as total liability scaled by total assets; the mean (median) leverage of our firm-year observation is 1.14 (0.85), indicating the intense level of debt overhang of the firms in our data. The average profitability, measured by ROA [return on assets], is negative, consistent with the fact that the companies in our sample were confronting financial difficulties. DD is the distance to default

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In section 6 we provide additional tests using European data to ensure that our results are not limited to our specific unique data and to ensure that it can be generalized.

[12] Firms that were in financial distress were not easily identifiable since ISA requires distress signs to be checked in both the consolidated financial statement and the solo financial statements of firms, but databases of financial statements include only consolidated data. In order to overcome the concern that we would not identify all firms with cash flow forecasts, we employed a web scraping tool and extracted all the annual financial statements from the (TASE) website (MAYA.TASE.CO.IL). Through this process, we downloaded 4430 annual files. With the downloaded financial statements in hand, we now had the capacity to perform textual searches to identify firms that disclosed cash flow forecasts. We then searched for "cash flow forecast" (and related phrases: "forecast of cash flows", "forecast of flows", "flows forecasts") in all the downloaded files; this search result yielded 1299 financial statements that were suspected to have cash flow forecasts. We manually opened each file in further pursuit of the collection of the disclosure of cash flow forecasts validating that the disclosure is provided due to the mandatory regulation. Furthermore, we eliminate 859 observations that had the phrases cash flow forecasts but did not include cash flow forecasts (mainly because the firm discusses that it examined its obligation to disclose the mandatory forecast and was not obligated to do so). This process yields 440 observation of cash flow forecasts. Next, in 56 observations data regarding cash flows realization or additional financial information was missing. Our final sample consist of 384 firm-years observations of cash flow forecasts that belong to 143 distinct firms.

[13] Super-Analyst Database is the source of information reported in financial statements filed with ISA.

[14] The actual value is NIS 667M, which is the equivalent of $185M on the basis of the 2017 average exchange rate.

measure, based on Merton model, which we received from the bank of Israel. DD is not available for all companies since some of the firms do not have traded stocks.

Israeli firms are legally required to disclose family relationship of directors and officers to stakeholders in the corporation, in their annual financial statements.[15] We manually collect the number of directors and officers with such family relationship, as well as the percentage shares held by the related stakeholder[16] and their family name, from the annual financial statements of the companies, and code an eponymous firm indicator, EO, receiving the value 1 if the firm carries the name of the largest shareholder and 0 otherwise.[17] We observe 50 firm-year observations that carry the family name. Thus, 13 percent of the firms in our sample are eponymous firms, in consistency with prior research findings by Belenzon, Chatterji, and Daley (2017), where 19 percent of European firms in the Amadeus database were eponymous firms. Following Abudy and Shust (2022b), we also collect data on the number of family members serving on boards of directors or as executives and constructed a dummy variable, FM_2, that equals 1 if two or more family members serve the company in such a fiduciary capacity. As indicated in Table 1, 45 percent of firm-year observations in our sample have at least two family members serving as directors or executives. FM_A counts the number of family members who carry active roles in the company as top-level executives (i.e., CEO/CFO) or chairperson of the board. FM_A ranges between 0 to 3. LBH is the percentage shares held by the largest block-holder, on average, 71 percent of firm's aggregate outstanding shares of the company are held by large block-holders.[18] A maximum LBH of 1 indicates that some firms in our data are private firms with 100 percent of their shares held by one block-holder, and bonds are the only financial instrument of these companies that is available to the public. We denote by EXPR the number of years that the firm is disclosing cash flow forecasts and indicate by DISC_DEV whether the firm's prior cash flow forecast deviated ex-post from its realized cash flows. ISA

[15] Under the Israeli Security Law, a stakeholder is an individual or a company holding at least 5% of the firm outstanding shares. Family relationship is defined as: Spouse, brother, parent, parent of a parent, descendant or descendant of the spouse, or the spouse of any of these.

[16] If a stakeholder is family related to another one or more stakeholders, we combine the shares held by all the family members.

[17] In most companies in our data, stakeholders hold a vast majority in the company and serve as directors or officers (7 EO firm-year observation in our data had a controlling shareholder that his company carried his family name but he or a family member did not serve as directors or officers, our results are robust to the exclusion of these observations). Most family members and stakeholders carry the same family name, in cases where family name differ among family members, an EO firm is marked as such if the family name of the firm coincide with one or more of the family members/stakeholders in the firm.

[18] For family firms and eponymous firms in our data, the family or the eponymy is the largest shareholder in the firm. Note, that the Israeli corporate market is characterized by highly concentrated ownership among all firms. According to Hamdani, Lauterbach, and Mugerman (2020) between 80 percent to 90 percent of traded firms in Israel have a controlling shareholder, that is not an institutional investor.

requires such a disclosure when the deviation is significant, and nearly 40 percent of our firm-year observations disclosed this deviation. As to industry affiliation, 50 percent of our firm-year observations belong to the real-estate industry, 22 percent belong to the holding and investment industry and the remainder is dispersed among various other industries. This distribution is not representative of the Israeli economy but is consistent with evidence that Israel's corporate bond market tends to over-represent companies in the real estate sector (Brodeski, 2021; Hamdani, Mugerman, Rooz, Steinberg and Yafeh, 2023).

[Insert Table 1 Here]

Panel A of Table 2 compares the characteristics of eponymous and non-eponymous firms. Consistent with Belenzon, Chatterji, and Daley (2017), we observe that eponymous firms are somewhat more profitable than non-eponymous firms, as indicated by the mean difference in ROA of 0.074 (t-stat 2.14). We do not observe other significant differences between eponymous vs. non-eponymous firms in our sample with regard to size, leverage, number of years providing the cash-flow forecasts (EXPR), disclosing material deviation in forecasts (DISC_DEV), or with regard to their distance to default (DD). Panel B of Table 2 compares family firms vs. non-family firms. Following the literature (e.g., Anderson, and Reeb 2003; Villalonga, and Amit 2006; Weiss, 2014; Abudy, and Shust, 2022b), we define family firms if such companies have at least two family members serving on the board of directors or as top-tier executives, i.e., FM_2 equals one. We find that family firm-year observations in our sample manifest larger firm size than the non-family firm-year observations, with a difference in mean of 0.709 (t-stat 2.10); family firm-year observations are less leveraged relative to non-family firms, with a difference in mean of -0.424 (t-stat -2.10) and have a marginally higher average ROA than their non-family firm counterparts.

[Insert Table 2 Here]

5. Empirical Findings

5.1 Univariate Analysis Results

We begin by comparing univariate differences in our ITF variables of interest between eponymous versus non-eponymous firms. Table 3 indicates that ITF in eponymous firms (mean of 0.65) is significantly higher than in non-eponymous firms (mean of -0.003) statistically ($p<0.001$) and economically. Table 3 also indicates that the proportion of firms with positive ITF, as indicated by ITF_DUM, is significantly higher ($p<0.001$) in eponymous firms relative to non-eponymous firms: 90 percent of cash-flow forecasts in eponymous firms were greater than realized cash flows, whereas only 69 percent of cash-flow forecasts in non-eponymous firms were greater than realized cash flows. These revelatory discrepancies suggest that upward-biased forecasts in eponymous firms are not random.

[Insert Table 3 Here]

5.2 Biased Forecasts are Costly

As discussed in Section 3 above, our research design choice includes the examination of a unique mandatory disclosure requirement of cash flow forecasts at financially distressed firms, together with splitting our sample into eponymous and non-eponymous firms. This mandatory disclosure requirement enables us to isolate rational incentives from behavioral tendencies to bias forecasts since the distinctive features and enforcement mechanisms of the disclosure requirement make the skewing of forecasts more expensive. First, the cash-flow forecasts are disclosed mandatorily (not voluntarily as is common worldwide), thus eliminating the inherent self-selection bias of firms in choosing whether or not to disclose forecasts, which characterizes the voluntary disclosure regime. Furthermore, in our setting, the cash-flow forecasts are being vigorously enforced by the regulator both *ex-ante*, by providing detailed guidance for the form and content of the forecasts' disclosures, and *ex-post* by rigorously penalizing firms that failed to adequately provide disclosures. Such penalties do not characterize voluntary disclosures – in fact, the SEC, as well as other regulatory bodies, encourage firms to provide forecasts voluntarily and afford them with safe harbor protection (Bozanic, Dietrich, and Johnson, 2017). Moreover, cash flow forecasts in financially distressed firms provide essential information that exposes the severity of firms' financial condition. Such forecasts are indeed the quintessential opposite of routine decision making, requiring discussion and approval by the board of directors. Finally, we provide evidence that the market itself penalizes firms that disclose biased forecasts.

We claim that the cost of providing biased forecasts intensifies in companies where the concern of its reputation is at stake, as is characteristic of eponymous firms (Belenzon, Chatterji, and Daley, 2017). To support this assertion, we empirically test the market reaction to firms' biased forecasts, conditioning our analysis upon such firms' earnings surprises. We perform an event study, whereby we examine the cumulative bond return[19] with respect to an 11-day window CBR(-5+5),[20] immediately preceding and following the financial statements' filing date[21] (with "zero" as the filing date). We classify our data into 4 groups: companies with positive vs. non-positive ITF, and each of these groups we classify into eponymous and non-eponymous firms. We calculate the average cumulative bond return CBR(-5+5) for each of the groups. We hypothesize that firms with positive ITF, i.e., forecasts that were unduly optimistic, predicting substantially higher numbers than the realized outcome, ceteris paribus, will be penalized by the market, relative to firms with negative ITF, and such outcomes are intensified in eponymous firms relative to non-eponymous firms. Since cash flow forecasts and its realization are disclosed together with the annual financial statement filings, we examine the market response while conditioning it on the earnings news conveyed in such filings. As demonstrated in Figure 1, conditional on firms reporting "good news" (defined as a positive change in earnings, in the current year relative to the prior year[22]),[23] we observe that the average cumulative bond market response of eponymous firms reporting positive ITF is significantly lower than eponymous firms reporting non-positive ITF (with a difference of -2.25 percent in the average CBR(-5+5) between the groups and t-stat of 6.68), and is also significantly lower than non-eponymous firms reporting positive ITF (with a difference of -0.73 percent in the

[19] We use bond rather than stock returns since some of the firms in our data are privately owned and have only their bonds traded on the (TASE). Moreover, the purpose of the regulation was to provide relevant information to bond holders. Additionally, our data is comprised of financially distressed firms, and the literature suggests that, when a firm is susceptible to default, bond holders become more sensitive to changes in asset values and tend to act more like equity holders (see, for example, Lok, and Richardson, 2011). For each firm-year observation, we use one representative bond (in cases where firms have more than one series of bonds). The representative bond was selected by picking the bond with the highest average volume during the 30 days prior to the event window [(-10-39)].

[20] It is important to note that although the Israeli bond market is quite liquid, it is still a bond market which requires a longer event window relative to stock markets. Longer event windows in bonds event studies are common in the literature, see for example Easton, Monahan, and Vasvari (2009), who employ an even longer window.

[21] Note, that in Israel firms do not report an early earnings announcement. Therefore, the filing date of the annual financial statements is the relevant zero day in the event window.

[22] Note, that most companies in Israel are not covered by analysts (i.e., we cannot use analysts forecasts as our market expectation). Therefore, we estimate unexpected earnings as the change in current earnings relative to prior earnings, which is common in accounting literature (see for example Easton, Monahan, and Vasvari, 2009, with regard to bond response to earnings).

[23] Since we do not have sufficient data with respect to eponymous firms reporting bad news, we concentrate on the market response of firms reporting good news.

average CBR(-5+5) between the groups and t-stat of 2.32). Thus, it is apparent that eponymous firms are "punished" by the market for disclosing upward biased forecasts more severely than non-eponymous firms or other eponymous firms disclosing more conservative cash-flow forecasts. Yet, even though eponymous firms would be better off disclosing more conservative forecasts, it appears that there is an underlying behavioral explanation for this phenomenon.

[Insert Figure 1 Here]

To validate the results in Figure 1 we further examine a two-dimensional earnings response model, where our dependent variable is CBR(-5+5) and our independent variable of interest is the interaction between EO and ITF. We control for earnings news by adding CH_EARN, which is the change in earnings in the current year relative to the prior year, deflated by total assets. We also include year fixed effect, and cluster our standard error at the firm level. Results reported in Appendix B indicate that the coefficient on the interaction term EO*ITF is negative and significant, suggesting that an increase of one percent in ITF by eponymous firms decreases the 11-day cumulative bond return by about 2 percent. Our results remain qualitatively similar when we extend the cumulative bond return to a 19-day window immediately preceding and following the financial statement filing date, as reported in column 3 and 4 of Appendix B. Overall, the results of this sub-section support our prediction, that the market penalizes firms that disclose biased forecasts.

5.3 I Am The Firm Effect and Eponymous Firms

We proceed to examine whether the self-identification of the controlling owner with its firm is larger in case of eponymous (EO) ownership. We test this by examining whether, *ceteris paribus*, eponymous firms are associated with significantly more optimistic mandatory cash flow forecasts, referred to as ITF. More specifically, we test the following regression equations:

Eq. 1.

$$ITF_{it} = \beta_0 + \beta_1 EO_{it} + \beta_3 SIZE_{it} + \beta_2 ROA_{it} + \beta_4 LEV_{it} + \varepsilon_{it}$$

Eq. 2.

$$Prob(ITF\_DUM_{it}) = f[\beta_0 + \beta_1 EO_{it} + \beta_3 SIZE_{it} + \beta_2 ROA_{it} + \beta_4 LEV_{it}] + \varepsilon_{it}$$

In Equation 1, we estimate a pooled cross-sectional linear regression where the dependent variable is a continuous variable that measures the percentage difference between projected cash flows to realized cash flows of firm i at year t. Higher rates of ITF represent increased optimistic bias by management with regard to cash flow forecasts. Our independent variable of interest is EO - an eponymous measure that receives the value one in the event that the firm name and family name coincide and gets zero otherwise. We control for: firm SIZE; profitability level measured by ROA; and the capital structure measured by LEV.[24] We also include year and industry fixed effects to control for potential unobserved heterogeneity in years and industries, and cluster the standard errors by firm to eliminate autocorrelation and heteroscedasticity.[25]

In Equation 2, we model the probability of estimating optimistic forecasts as a function of EO. Therefore, our independent binary variable ITF_DUM receives the value 1 if ITF is positive, and it gets zero otherwise. All other explanatory variables and controls, including fixed effects and clustering are similar to Eq.1. The results for these two specifications are reported in Columns 1 and 4 of Table 4, which demonstrate that the coefficient on EO is significantly positive and economically large. In Column 1, eponymous firms disclose 65.7 percentage point greater ITF - upward biased forecasts (with t-stat of 4.79). To understand the economic significance of self-firm effect, we compare the increase within the ITF distribution. For example, an EO firm moves upward the ITF in the distribution from the 38th percentile to the 75th percentile, which constitutes more than a full quartile of ITF distribution.[26] In Column 4, we report the odd ratio of the logistic regression model (Eq. 2), and find consistently that the likelihood of eponymous firms predicting optimistic forecasts is more than 3 times larger than of non-eponymous firms making such predictions (with t-stat of 2.08).

[Insert Table 4 Here]

We further examine whether the upward forecast bias that we observed in eponymous firms exists also in family firms. We test this by examining Eq. 1 and Eq. 2 while substituting

[24] We do not include DD to avoid losing observations (since more than third of our observations do not have DD). Nevertheless, in Appendix D we provide results with DD as an additional control variable and find qualitatively similar results.

[25] In Appendix D we report results with only the first management forecast disclosed by each firm, to avoid over estimation, and find consistent results.

[26] To rule out the possibility that few influential outlier observations drive our results, we calculate Cooks' Distance and run the regression while excluding observations with high Cooks' D (i.e., with Cooks' D>4/sample size). Results are reported in Appendix D and are qualitatively similar to the results reported here.

eponymous firm (EO) with a common measure of family firm, using FM_2 – a binary variable that receives 1 if there are at least two family members that serve on the board of directors or as executive officers in firm i at time t, and gets zero otherwise. Column 2 of Table 4 indicates that family firms are associated with significant self-firm effect forecasts, though the magnitude of such forecasts is almost half the magnitude in eponymous firms. The coefficient on FM_2 is 0.3 (t-stat of 2.15); meaning that, ceteris paribus, on average, family firms' self-firm effect level is 30 percentage point greater than the level of non-family firms. Moreover, the logistic regression results reported in Column 5 of Table 4 indicate that the likelihood that family firms will predict optimistic forecasts is 1.7 times larger than non-family firms making such forecasts (with t-stat of 2). In Columns 3 and 6 of Table 4, we include both EO and FM_2 as independent variables and find that the primary effect holds above and beyond the family firm effect.[27] In Panel B of Table 4, we show results for a matched sample between eponymous and non-eponymous firms. We use a propensity score match estimated using a Probit model to estimate the probability of being eponymous with the covariates: profitability; leverage; size; industry; and year. The matching procedure was performed using a one-to-many match, without replacement and with a caliper of 0.1.[28] The results in Panel B of Table 4 indicate that eponymous firms provide forecasts that are significantly more optimistic relative to a matched sample of non-eponymous firms, thus, alleviating the concern of endogeneity coming from functional form misspecification.

Overall, the results thus far are consistent with our prediction, indicating that eponymous firms are significantly more prone to adapting self-firm effect bias.

5.4 The Owners' Share of the Firm

We further examine whether the owners' share in the firms plays a role in forecasting. We conjecture that the owner's share in the firm is negatively associated with greater optimistic forecasts since such forecasts increase the likelihood of being penalized, which will adversely affect firm value. This hypothesis is consistent with our analytical model prediction (detailed in Appendix C) and the literature that suggest that families with a greater stake of their firms are more incentivized to preserve the family reputation (Bennedsen, Nielsen, Pérez-González,

[27] Our results are robust to using alternative definition of family firm, that requires at least three (rather than two) family members to serve in the board of directors or as executive officers (Abudy, and Shust, 2022b, 2022a).

[28] This matching specification is commonly used in accounting literature (see Shipman, Swanquist, and Whited, 2017). Yet, we perform additional robustness tests to ensure that alternative specifications do not change our inference (i.e., we change the matching procedure to one-to-one match instead of one-to-many; and we change the caliper to 0.03 instead of 0.1 and find consistent results).

and Wolfenzon, 2007) and to report more conservative financial statements (Chen, Chen, and Cheng, 2014). We therefore add an additional explanatory variable of LBH [largest block-holder] to Eq. 1 and Eq. 2, and estimate the following regressions in Table 5:

Eq. 3

$$ITF_{it} = \beta_0 + \beta_1 EO/FM\_2_{it} + \beta_2 LBH_{it} + \beta_3 SIZE_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

Eq. 4

$$Prob(ITF_{it}) = f[\beta_0 + \beta_1 EO/FM\_2_{it} + \beta_2 LBH_{it} + \beta_3 SIZE_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it}] + \varepsilon_{it}$$

LBH measures the number of shares held by the largest block-holder relative to the aggregate outstanding shares of the firm. The results reported in Table 5 demonstrate that the coefficient on LBH is not consistently negative and is not significantly different than zero. Thus, the stake of the largest stockholder in the firm does not consistently indicate either negative or positive relation to optimistic forecasts. It is important to note that the Israeli market is characterized by concentrated ownership among *all* firms (and not just eponymous or family firms) as is evident in Panel A of Table 2: the average and median percentage of shares in the general market held by the largest block holders is above 70 percent, which could explain the fact that we do not find the stakeholders among family and eponymous firms, in particular, associated with optimistic forecasts.

[Insert Table 5 Here]

5.5 Prior Deviation in Cash Flow Forecasts

We next examine whether optimistic forecasts are a function of prior deviation in cash flow forecasts as well as the experience of the firm in disclosing such forecasts. We hypothesize that prior deviation in forecasts and the experience of the firm in providing forecasts will be negatively associated with optimistic forecasts in the current period. Moreover, if rational explanation plays a substantive role in our set-up, then we would expect to see a decline in the magnitude of EO when including prior deviation in cash flow forecasts or the experience of the firm in disclosing such forecasts. We therefore introduce two explanatory variables: DISC_DEV – a binary variable that receives the value one if the firm disclosed that prior

forecasts deviated significantly relative to the realized cash flows; and EXPR – a variable that counts the number of years that the firm has been disclosing cash flow forecasts. We estimate the following two regression equations:

Eq. 5:

$$ITF_{it} = \beta_0 + \beta_1 EO/FM\_2_{it} + \beta_2 DISC\_DEV_{it} + \beta_3 EXPR_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it} + \varepsilon_{it}$$

Eq. 6:

$$Prob(ITF\_DUM_{it}) = f[\beta_0 + \beta_1 EO/FM\_2_{it} + \beta_2 DISC\_DEV_{it} + \beta_3 EXPR_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it}] + \varepsilon_{it}$$

Results reported in Table 6 indicate that EXPR and DISC_DEV are indeed negatively associated with optimistic forecasts, yet not in a significant manner. Consistent with our primary hypothesis that self-firm effect bias is driving our results, we observe in Table 6 that the magnitude level of EO and its significant level remains similar to those reported in Table 4.

[Insert Table 6 Here]

5.6 Active Family Members

The literature suggests that the level of involvement of the family in active roles in the firm has a substantial effect upon the behavior of family firms (see, e.g., Anderson, and Reeb, 2003; Maury, 2006; Abudy, and Shust, 2022b). However, in eponymous firms, self-firm effect is not necessarily affected by active family members since the reputation concern that is at stake plays a role in the involvement of the family without regard to the official roles held by the family in the firm. More specifically, we test the following regression equation:

Eq. 7:

$$ITF_{it} = \beta_0 + \beta_1 EO_{it} + \beta_2 FM\_ACTIVE_{it} + \beta_3 EO_{it} * FM\_ACTIVE_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it} + \varepsilon_{it}$$

FM_ACTIVE measures the number of active, top roles in the firm (i.e., as high-level executives: CEO, CFO or as the chairperson of the board) that are being held by a family member at year t.

In Table 7, we report the result, showing that EO is positive and significant whereas the interaction of EO with FM_ACTIVE is not different than zero, indicating that the self-serving optimistic bias that characterizes eponymous firms takes place without regard to the actual active roles held by the family. This indicates that indeed in eponymous firms the formal position held by the family does not necessarily represent their involvement de-facto (i.e., since the name of the family is at stake, the family involvement in corporate decision making perhaps takes place behind the seen and not necessarily through official roles).

[Insert Table 7 Here]

6. Additional Evidence using European Data

As discussed above, the use of our unique setup of mandatory management forecasts disclosure has inherent advantages, yet we believe that our results can be generalized beyond the specific setup and extended to other settings as well. In this section we employ our tests on European firms from Amadeus, utilizing the classification of eponymous firms from Belenzon, Chatterji and Daley (2007).[29] We merge the data on firms from the Amadeus database with management earnings forecasts and the realization of these forecasts, from S&P Capital IQ. Many of the European firms in the Amadeus database are privately owned, for which management forecasts were not available. Therefore, we extracted earnings forecasts data from S&P Capital IQ for 1,023 firm-year observations. We then filter out 27 firm-year observations with no available data for realization of the forecasts and are left with 996 observations for which nine percent of them are of firms that are classified as eponymous. When a forecast is not a point forecast but rather a range forecast, we use the midpoint forecast (i.e., the average between the low and high forecasts) to construct our ITF measure. Table 8, columns 1 and 2 of Panel A presents our

[29] These data were generously shared with us by Sharon Belenzon.

results, indicating that eponymous firms provide forecasts that are significantly more optimistic than non-eponymous firms. In columns 3 and 4, we report the odds ratio of the logistic regressions, and find consistently that the likelihood of eponymous firms predicting optimistic forecasts is more than 3 times larger than of non-eponymous firms.

We further investigate our ITF measure using an alternative more conservative method, where we consider only the lowest range forecast for firm providing range forecast, in our ITF measure. Panel B of Table 8 presents the results with this alternative measure, indicating that even when considering the lowest range forecast eponymous firms are more optimistic relative to non-eponymous firms and the results are consistently significant in all specifications and are robust to the inclusion of control variables, industry, and year fixed effects as well as firm clustering. In Panel C we present results for a propensity score matched sample between eponymous and non-eponymous firms, in a similar manner to the propensity score matched performed earlier. Results from this Section demonstrate that the ITF phenomenon is persistent and generalizable to other settings.

[Insert Table 8 Here]

7. Concluding Remarks

In this paper, we explore the "I Am The Firm" effect, where the personal identity of the owners in eponymous firms merges with their corporate identity, profoundly impacting the quality of corporate forecast disclosures. This investigation, inspired by Louis XIV's declaration "l'État, c'est moi," reveals that the boundaries between personal and corporate identities in eponymous firms are not merely blurred but are deeply integrated, affecting financial forecasts significantly. Our analysis, rooted in a unique regulatory environment in Israel, confirms that eponymous firms issue more optimistic cash flow forecasts than their non-eponymous counterparts at a rate three times greater, underscoring a bias not fully explainable by rational incentives such as reputational concerns.

Our findings extend the literature by integrating personal identity theories with financial forecasting behavior, illustrating how deeply personal and psychological ownership in firms can skew rational financial projections. This integration offers a new perspective on forecasting accuracy in family-owned or eponymous businesses, suggesting that traditional theories might

underappreciate the psychological dimensions of financial decision-making.

For practitioners, especially those in corporate governance and financial forecasting, recognizing the "I Am The Firm" bias is crucial. It suggests a need for more rigorous checks on forecasting processes in eponymous firms, perhaps advocating for external audit practices that specifically address the potential for optimism bias. This insight is particularly valuable for investors and regulators who must scrutinize the financial disclosures of eponymous firms more critically.

While our study leverages unique data from Israel and comparative analysis from European firms, its findings are constrained by the geographical and regulatory specificity of the data. Future research could explore whether the "I Am The Firm" effect holds in different regulatory environments and with non-public data, providing a broader validation of our results.

Further, investigating the implications of the "I Am The Firm" effect on strategic decision-making beyond financial forecasting, such as investment decisions and risk management, could yield additional insights. A particularly intriguing future research avenue is exploring the valuation implications of this bias during major corporate transitions, such as mergers and acquisitions or the process of taking private eponymous firms.

Lastly, the reflection of Louis XIV on his deathbed, "Je m'en vais, mais l'État demeurera toujours" – "I depart, but the State shall always remain," serves as a metaphorical caution for eponymous firms. It suggests the enduring impact of founder identities on firm survival and the importance of distinguishing between personal legacy and corporate sustainability.

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Figure 1:

Bond Response to Biased Forecasts in Eponymous Vs. Non-Eponymous Firms Conditioning on Firms Reporting "Good News"

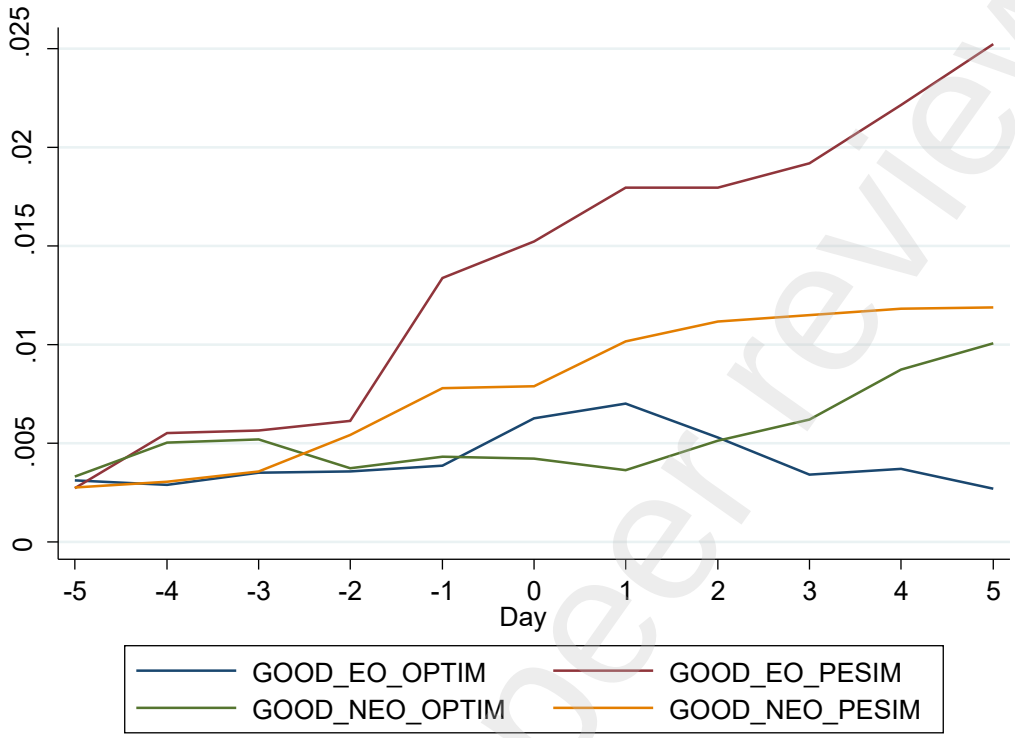

Figure 1 plots the cumulative average bond return (CBR) at a window of 11 days immediately preceding and following the financial statements filing date (i.e., -5 +5 days around the filing; day 0 is the filing date). We calculate CBR for firms that reported optimistic forecasts (i.e., ITF_DUM equals one) vs. pessimistic forecasts (i.e., ITF_DUM equals zero), separately for eponymous and non-eponymous firms, conditioning that firms reported good news. The blue line is the CBR of eponymous firms that reported optimistic forecasts (denoted as GOOD_EO_OPTIM); the green line is the CBR of non-eponymous firms that reported optimistic forecasts (denoted as GOOD_NEO_OPTIM); the red line is the CBR of eponymous firms that reported pessimistic forecasts (denoted as GOOD_EO_PESIM); the orange line is the CBR of non-eponymous firms that reported pessimistic forecasts (denoted as GOOD_NEO_PESIM). Optimistic/pessimistic forecasts are classified according to ITF_DUM; if ITF_DUM is 1(0), we refer to it as optimistic (pessimistic) forecasts. ITF_DUM gets 1(0) if ITF is positive (negative). Good news is classified according to the change in earnings in the current year relative to the prior year. A positive change in earnings indicates good news. EO indicates whether it is an eponymous firm; EO gets 1 if the firm carries the name of the family members that serve on the board of directors or as executives.

Table 1: Descriptive Statistics for Entire Population

Variable	*N*	*Mean*	*Median*	*Std*	*Min*	*Max*
ITF	384	0.081	0.509	1.272	-5.114	1
ITF_DUM	384	0.721	1	0.449	0	1
EO	384	0.130	0	0.337	0	1
FM_2	384	0.451	0	0.498	0	1
FM_A	384	0.518	0	0.768	0	3
LBH	384	0.709	0.746	0.215	0.055	1
SIZE	384	13.419	13.330	1.941	8.497	18.064
LEV	384	1.140	0.848	1.394	0.214	11.553
ROA	384	-0.068	-0.020	0.268	-1.139	1.248
DISC_DEV	384	0.393	0	0.489	0	1
EXPR	384	2.497	2	1.660	1	8
DD	249	1.192	0.938	2.209	-8.85	8.56

This table provides a summary statistic of our data at a firm-year level. ITF is the difference between projected cash flows and realized cash flows , deflated by the absolute value of the projected cash flow; ITF_DUM is a dummy variable that receives the value 1 if *ITF* is positive, and 0 otherwise; EO is a dummy variable that receives the value 1 if the firm carries the family name of the controlling family, and 0 otherwise; FM_2 receives the value 1 if the number of family members serving as directors or officers is at least two, and 0 otherwise; FM_A is the number of active, top-tier roles in the firm (CEO, CFO and the chairperson of the board); LBH is the number of shares held by the largest block-holder relative to the outstanding shares of the firm; DISC_DEV is a dummy variable that receives 1 if the firm prior forecasts deviated significantly from actual cash flows and 0 otherwise; EXPR is number of years that the firm is disclosing cash flow forecasts; DD is the Merton distance to default measure; SIZE is the natural log of total assets; LEV is total liabilities to total assets; ROA is net income scaled by total assets. A detailed definition for the variables can be found in Appendix A. We winsorized continuous variables at 1% and 99% of their distribution, excluding ITF which was winsorized at 2.5% and 97.5% of its distribution.

Table 2: Descriptive Statistics Partitioned by Eponymy Firms and Family Firms

Panel A - Descriptive statistics partitioned by eponymous firms

	EO = 1		*EO = 0*		*Difference*	
Variable	***N***	***Mean***	***N***	***Mean***	***Diff***	***T-stat***
SIZE	50	13.436	334	13.416	0.020	(0.04)
LEV	50	1.074	334	1.150	-0.077	(-0.30)
ROA	50	-0.004	334	-0.078	0.0737**	(2.14)
DISC_DEV	50	0.38	334	0.395	-0.015	(-0.12)
EXPR	50	2.62	334	2.479	0.141	(0.40)
DD	34	1.027	215	1.218	-0.191	(-0.45)

Panel B - Descriptive statistics partitioned by family firms

	FM_2 = 1		*FM_2 = 0*		*Difference*	
Variable	***N***	***Mean***	***N***	***Mean***	***Diff***	***T-stat***
SIZE	173	13.808	211	13.099	0.709**	(2.10)
LEV	173	0.908	211	1.331	-0.424**	(-2.10)
ROA	173	-0.039	211	-0.092	0.053*	(1.93)
DISC_DEV	173	0.422	211	0.370	0.0523	(0.72)
EXPR	173	2.618	211	2.398	0.22	(0.93)
DD	110	1.098	139	1.267	-0.169	(-0.46)

This table provides a descriptive statistic and mean comparison test between eponymous vs. non-eponymous firms in panel A, and between family firms vs. non-family firms in panel B. Eponymous firms are classified by the variable EO. Family firms are classified by the variable FM_2. A definition for the variables can be found in Appendix A. T-statistics, clustered by firm, are reported in parentheses. ***, **, and * indicate a significance level of 0.01, 0.05, and 0.10, respectively.

Table 3: I Am The Firm in Eponymous vs. Non-Eponymous Firms (Univariate Analysis)

Panel A - Entire Population

	EO		Non-EO
ITF	0.657	> (sig < 0.01)	-0.004
ITF_DUM	90%	> (sig < 0.01)	69%

Panel B - Within Family Firms

	EO		Non-EO
ITF	0.670	> (sig<0.01)	0.142
ITF_DUM	90%	> (sig<0.05)	76%

This table describes the mean differences in our variables of interest between eponymous and non-eponymous firms. The first row describes the differences in ITF measured as the difference between projected cash flows to realized cash flows, relative to the absolute value of the projected cash flows. Higher rates of ITF represent increased sentiment of self-serving belief by management with regard to cash flow forecasts. The second row describes the differences in the binary variable ITF_DUM that measures the proportion of firms with positive ITF. EO is a binary variable that gets one for eponymous firms i.e., firms that carry the name of the family members that serve on the board of directors or as executives and gets zero otherwise.

Table 4: I Am The Firm Effect

Panel A: Full Sample

	ITF (OLS)			*ITF_DUM (Logit)*		
	1	**2**	**3**	**4**	**5**	**6**
EO	0.657***		0.579***	3.296**		2.847*
	(4.79)		(3.88)	(2.08)		(1.78)
FM_2		0.300**	0.193		1.7**	1.485
		(2.15)	(1.32)		(2.0)	(1.47)
SIZE	0.014	-0.003	0.007	1.046	1.021	1.034
	(0.38)	(-0.08)	(0.19)	(0.6)	(0.27)	(0.45)
ROA	0.460**	0.501***	0.457**	3.414*	3.517*	3.343*
	(2.47)	(2.64)	(2.45)	(1.86)	(1.95)	(1.88)
LEV	0.01	0.009	0.0125	0.966	0.958	0.968
	(0.2)	(0.17)	(0.24)	(-0.38)	(-0.50)	(-0.35)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Ind FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm Clustering	Yes	Yes	Yes	Yes	Yes	Yes
Observations	384	384	384	384	384	384
Adj R^2 / Pseudo R^2	0.04	0.024	0.042	0.082	0.076	0.087

Panel B: Matched Sample

	ITF *(OLS)*			**ITF_DUM** *(Logit)*		
	(1)	(2)	(3)	(4)	(5)	(6)
EO	0.616***		0.571***	3.02*		2.7*
	(4.49)		(3.66)	(1.94)		(1.68)
FM_2		0.248	0.106		1.59	1.32
		(1.48)	(0.59)		(1.42)	(0.81)
SIZE	0.00935	-0.0131	0.00352	1.04	1.00	1.02
	(0.20)	(-0.27)	(0.07)	(0.41)	(0.01)	(0.25)
ROA	0.485*	0.568**	0.490*	4.13	4.52*	4.13*
	(1.86)	(2.14)	(1.87)	(1.62)	(1.78)	(1.66)
LEV	0.0107	0.0069	0.0112	1.02	0.99	1.01
	(0.15)	(0.10)	(0.15)	(0.14)	(-0.07)	(0.10)
Intercept	0.106	0.368	0.157	0.949	1.391	1.091
	(0.15)	(0.54)	(0.23)	(0.65)	(0.94)	(0.76)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Ind FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm Clustering	Yes	Yes	Yes	Yes	Yes	Yes
Observations	287	287	287	287	287	287
Adj. R2/Pseudo R2	0.02	0.01	0.01	0.053	0.042	0.05

Notes: In this table, columns 1, 2 and 3 report the estimation results of Eq. 1:

$$ITF_{it} = \beta_0 + \beta_1 EO/FM\_2_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \varepsilon_{it}$$

Columns 4, 5 and 6 report the estimation results of Eq. 2:

$$Prob(ITF\_DUM_{it}) = f[\beta_0 + \beta_1 EO/FM\_2_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it}] + \varepsilon_{it}$$

Panel A reports the results for our full sample. Panel B reports the results for our propensity score matched sample. The dependent variable in columns 1, 2 and 3 is ITF measured as the difference between projected cash flows to realized cash flows, relative to the absolute value of the projected cash flows. Higher rates of ITF represent increased sentiment of self-serving belief by management with regard to cash flow forecasts. The

dependent variable in columns 4, 5 and 6 is ITF_DUM, a binary variable that measures the proportion of firms with positive ITF. Our primary independent variable, EO, is reported in columns 1 and 4; EO gets 1 if the firm carries the family name of the controlling shareholder, and 0 otherwise. In columns 2 and 5, we substitute EO with FM_2, a binary variable that gets the value 1 if the firm has at least 2 family members serving as directors or executives. Columns 3 and 6 include both EO and FM_2. All regressions include year and industry fixed effects. ITF is winsorized at 2.5% and 97.5% of its distribution, all other continuous variables are winsorized at 1% and 99% of their distribution. T-stat clustered by firms are reported in parentheses. In columns 4-6, we report the odds-ratios instead of the coefficients. ***, **, and * indicate a significance level of 0.01, 0.05, and 0.10, respectively.

Table 5: I Am The Firm Controlling for the Numbers of Shares Held by the Largest Block Holder

	ITF (OLS)			*ITF_DUM (Logit)*		
	1	2	3	4	5	6
EO	0.662***		0.586***	3.023*		2.645*
	(4.52)		(3.79)	(1.94)		(1.67)
FM_2		0.296**	0.195		1.638*	1.459
		(2.07)	(1.31)		(1.85)	(1.39)
LBH	-0.0395	0.0893	-0.063	2.017	2.298	1.92
	(-0.11)	(0.24)	(-0.17)	(1.15)	(1.38)	(1.09)
SIZE	0.0148	-0.00394	0.008	1.039	1.016	1.029
	(0.38)	(-0.10)	(0.21)	(0.5)	(0.21)	(0.39)
ROA	0.459**	0.504***	0.454**	3.504*	3.589**	3.412*
	(2.46)	(2.65)	(2.43)	(1.95)	(2.05)	(1.96)
LEV	0.00929	0.0102	0.012	0.974	0.969	0.976
	(0.19)	(0.2)	(0.22)	(-0.28)	(-0.35)	(-0.26)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Ind FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm Clustering	Yes	Yes	Yes	Yes	Yes	Yes
Observations	384	384	384	384	384	384
Adj R^2 / Pseudo R^2	0.037	0.022	0.039	0.085	0.081	0.091

Notes: In this table, columns 1, 2 and 3 report the estimation results of Eq. 3:

$$ITF_{it} = \beta_0 + \beta_1 EO/FM\_2_{it} + \beta_2 LBH_{it} + \beta_3 SIZE_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

Columns 4, 5 and 6 report the estimation results of Eq. 4:

$$Prob(ITF\_DUM_{it}) = f[\beta_0 + \beta_1 EO/FM\_2_{it} + \beta_2 LBH_{it} + \beta_3 SIZE_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it}] + \varepsilon_{it}$$

In Eqs.3 and 4 (relative to Eqs. 1 and 2), we add LBH as an explanatory variable. LBH measures the number of shares held by the largest block-holder relative to the outstanding shares in the firm. The dependent variable in columns 1, 2 and 3 is ITF measured as the difference between projected cash flows to realized cash flows, relative to the absolute value of the projected cash flows. Higher rates of ITF represent increased sentiment of self-serving belief by management with regard to cash flow forecasts. The dependent variable in columns 4, 5 and 6 is ITF_DUM, a binary variable that measures the proportion of firms with positive ITF. EO is reported in columns 1 and 4; EO gets 1 if the firm carries the family name of the family members serving as directors or executives of the firm, and 0 otherwise. In columns 2 and 5, we substitute EO with FM_2, a binary variable that receives the value 1 if the firm has at least 2 family members serving as directors or executives. Columns 3 and 6 include both EO and FM_2. All regressions include year and industry fixed effects. ITF is winsorized at 2.5% and 97.5% of its distribution, all other continuous variables are winsorized at 1% and 99% of their distribution. T-stat clustered by firms are reported in parentheses. In columns 4-6, we report the odds-ratios instead of the coefficients. ***, **, and * indicate a significance level of 0.01, 0.05, and 0.10, respectively.

Table 6: I Am The Firm Controlling for Prior Deviation in CF Forecasts

	ITF (OLS)			*ITF_DUM (Logit)*		
	1	2	3	4	5	6
EO	0.683***		0.585***	3.713**		3.061**
	(5.31)		(4.53)	(2.35)		(1.97)
FM_2		0.336**	0.218		1.831**	1.542
		(2.29)	(1.46)		(2.18)	(1.55)
DISC_DEV	-0.174	-0.182	-0.179	0.783	0.776	0.773
	(-1.12)	(-1.18)	(-1.18)	(-0.93)	(-0.97)	(-0.98)
EXPR	-0.030	-0.061	-0.037	0.909	0.861	0.896
	(-0.51)	(-1.09)	(-0.68)	(-0.87)	(-1.40)	(-1.03)
SIZE	0.009	-0.010	0.001	1.060	1.024	1.042
	(0.25)	(-0.25)	(0.04)	(0.77)	(0.31)	(0.55)
ROA	0.431**	0.476**	0.420**	3.158*	3.310*	3.058*
	(2.24)	(2.46)	(2.17)	(1.75)	(1.86)	(1.74)
LEV	0.005	0.005	0.010	0.983	0.974	0.988
	(0.11)	(0.1)	(0.21)	(-0.18)	(-0.29)	(-0.13)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm Clustering	Yes	Yes	Yes	Yes	Yes	Yes
Observations	384	384	384	384	384	384
Adj R^2 / Pseudo R^2	0.03	0.015	0.033	0.057	0.051	0.064

Notes: In this table, columns 1, 2 and 3 report the estimation results of Eq. 5:

$$ITF_{it} = \beta_0 + \beta_1 EO/FM\_2_{it} + \beta_2 DISC\_DEV_{it} + \beta_3 EXPR_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it} + \varepsilon_{it}$$

Columns 4, 5 and 6 report the estimation results of Eq. 6:

$$Prob(ITF\_DUM_{it}) = f[\beta_0 + \beta_1 EO/FM\_2_{it} + \beta_2 DISC\_DEV_{it} + \beta_3 EXPR_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it}] + \varepsilon$$

In Eqs. 5 and 6 (relative to Eqs. 1 and 2), we add DISC_DEV and EXPR as explanatory variables. DISC_DEV receives the value 1 if the firm disclosed at time t that the realization of cash flow forecasts deviated significantly from the predicted cash flows, as disclosed at t-1, and receives 0 otherwise. EXP counts the number of years that the firm is disclosing cash flow forecasts, i.e., its experience in forecasting cash flows. If it is the first time that the firm is disclosing the forecasts, EXPR will receive the value 1, and so forth. The dependent variable in columns 1, 2 and 3 is ITF measured as the difference between projected cash flows to realized cash flows, relative to the absolute value of the projected cash flows. Higher rates of ITF represent increased sentiment of self-serving belief by management with regard to cash flow forecasts. The dependent variable in columns 4, 5 and 6 is ITF_DUM, a binary variable that measures the proportion of firms with positive ITF. EO is reported in columns 1 and 4; EO gets 1 if the firm carries the family name of the family members serving as directors or executives of the firm, and 0 otherwise. In columns 2 and 5, we substitute EO with FM_2, a binary variable that receives the value 1 if the firm has at least 2 family members serving as directors or executives. Columns 3 and 6 include both EO and FM_2. All regressions include year and industry fixed effects. ITF is winsorized at 2.5% and 97.5% of its distribution, all other continuous variables are winsorized at 1% and 99% of their distribution. T-stat clustered by firms are reported in parentheses. In columns 4-6, we report the odds-ratios instead of the coefficients. ***, **, and * indicate a significance level of 0.01, 0.05, and 0.10, respectively.

Table 7: I Am The Firm and Active Family Members

	ITF	***ITF***
	(1)	(2)
EO	0.570***	0.670***
	(2.70)	(3.13)
FM_ACTIVE	0.173*	
	(1.85)	
EO*FM_ACTIVE	-0.0665	
	(-0.59)	
FM_ACTIVE_DUMM		0.156
		(1.05)
EO*ACTIVE_DUMM		-0.110
		(-0.47)
SIZE	0.0121	0.0115
	(0.32)	(0.30)
ROA	0.447**	0.453**
	(2.37)	(2.41)
LEV	0.0136	0.0110
	(0.26)	(0.21)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Firm Clustering	Yes	Yes
Observations	384	384
Adj R^2	0.042	0.037

Notes: The table reports the estimation results of Eq. 7:

$$ITF_{it} = \beta_0 + \beta_1 EO_{it} + \beta_2 FM\_ACTIVE_{it} + \beta_3 EO_{it} * FM\_ACTIVE_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it} + \varepsilon_{it}$$

The dependent variable ITF is measured as the difference between projected cash flows to realized cash flows, relative to the absolute value of the projected cash flows. Higher rates of ITF represent increased sentiment of self-serving belief by management with regard to cash flow forecasts. Our primary independent variables are: EO – eponymous firm indicator; FM_ACTIVE - a continuous variable that counts the number of active, top-tier roles (i.e., leading executives (CEO, CFO) or the chairperson of the board) held by family members, at year t; and the interaction between EO and FM_ACTIVE. In column 2, we replace FM_ACTIVE with FM_ACTIVE_DUMM - a binary variable that gets 1 if FM_ACTIVE is greater than 1, and gets 0 otherwise. We also include in column 2 the interaction of EO with FM_ACTIVE_DUMM. All regressions include year and industry fixed effects. ITF is winsorized at 2.5% and 97.5% of its distribution, all other continuous variables are winsorized at 1% and 99% of their distribution. T-stat clustered by firms are reported in parentheses. ***, **, and * indicate a significance level of 0.01, 0.05, and 0.10, respectively.

Table 8: Additional Evidence for ITF using European Data

Panel A: Full sample, considering midpoint in range forecasts

	ITF		ITF_DUM	
	(1)	(2)	(3)	(4)
EO	0.228**	0.251*	3.418***	3.251***
	(2.23)	(1.67)	(4.92)	(4.61)
SIZE		-0.141*		1.002
		(-1.89)		(0.04)
ROA		1.714		0.038**
		(1.45)		(-2.31)
Leverage		0.0176		1.036
		(0.82)		(0.99)
Year FE	Yes	Yes	Yes	Yes
Industry FE	No	Yes	No	Yes
Firm Clustering	Yes	Yes	Yes	Yes
N	996	865	996	865
adj. R^2	0.003	0.067	0.044	0.054

Panel B: Full sample, considering lower bound for range forecasts

	ITF		ITF_DUM	
	(1)	(2)	(3)	(4)
EO	0.228**	0.250*	2.68***	2.60***
	(2.23)	(1.66)	(3.79)	(3.60)
SIZE		-0.142*		0.987
		(-1.90)		(-0.35)
ROA		1.745		0.174***
		(1.47)		(-2.84)
Leverage		0.0182		1.019
		(0.85)		(0.49)
		(-0.82)		(0.49)
Year FE	Yes	Yes	Yes	Yes
Industry FE	No	Yes	No	Yes
Firm Clustering	Yes	Yes	Yes	Yes
N	996	865	996	865
adj. R^2	0.003	0.067	0.039	0.05

Panel C: Propensity Score Matched Data with Midpoint for range forecasts

	ITF		ITF_DUM	
	(1)	(2)	(3)	(4)
EO	0.241**	0.249*	3.286***	3.209***
	(2.00)	(1.66)	(4.70)	(4.48)
SIZE		-0.143*		0.999
		(-1.90)		(-0.00)
ROA		1.721		0.036**
		(1.45)		(-2.34)
Leverage		0.0213		1.034
		(0.97)		(0.91)
Year FE	Yes	Yes	Yes	Yes
Industry FE	No	Yes	No	Yes
Firm Clustering	Yes	Yes	Yes	Yes
N	859	859	859	859
adj. R2	0.002	0.068	0.041	0.052

Notes: In this table, we employ our main tests, using the data of European firms from the Amadeus Database, received from the authors of Belenzon, Chatterji, and Daley (2017) and merged with management earnings forecasts from S&P Capital IQ. Panel A and B report the results for the full sample. In Panel A we include the midpoint forecast in the ITF calculation and in Panel B we include the lower bound forecasts, for firms that disclosed range forecasts rather than point forecast. Panel C reports the results for our propensity score matched sample considering the midpoint forecasts for firms disclosing range forecasts. The dependent variable in columns 1 and 2 is ITF measured as the difference between earnings forecasts to realized earnings, relative to the absolute value of the earnings forecasts. The dependent variable in columns 3 and 4 is ITF_DUM, a binary variable that measures the proportion of firms with positive ITF. EO is and indicator for eponymous, as was received from the authors of Belenzon et al. All regressions include year fixed effects. In column 2 and 4 we control for size; profitability; leverage and include industry fixed effects. All continuous variables are winsorized at 1% and 99% of their distribution. T-stat clustered by firms are reported in parentheses. In columns 3 and 4, we report the odd ratios instead of the coefficients. ***, **, and * indicate a significance level of 0.01, 0.05, and 0.10, respectively.

Appendix A: Variables Definition

Variable Name	Description
$ITF_{i,t}$	The difference between firm i's projected cash flows at time t+1 and realized cash flows for time t+1, disclosed at time t, deflated by the absolute value of the projected cash flow. $$ITF_{i,t} = \frac{PROJECTED\_CF_{i,t} - REALIZED\_CF_{i,t}}{\lvert PROJECTED\_CF_{i,t} \rvert}$$
$ITF\_DUM_{i,t}$	Receives the value 1 if $ITF_{i,t}$ is positive, and 0 otherwise.
$EO_{i,t}$	Receives the value 1 if the firm carries the family name of the controlling family, and 0 otherwise.
$FM\_2_{i,t}$	Receives the value 1 if the number of family members serving as directors or officers is at least two, and 0 otherwise.
$FM\_A_{i,t}$	The number of active, top-tier roles in the firm (i.e., as leading executives (CEO, CFO) or as the chairperson of the board) held by a family member at year t.
LBH	The number of shares held by the largest block-holder relative to the outstanding shares of the firm.
$DISC\_DEV_{i,t}$	Receives the value 1 if the firm disclosed at time t that the realization of the cash flow forecast deviated significantly from the predicted cash flows, as disclosed at t-1, and 0 otherwise.
EXPR	The number of years that the firm has disclosed cash flow forecasts, i.e. its experience in forecasting cash flows. If it is the first time that the firm is disclosing the forecasts, EXPR receives the value 1, and so forth.
SIZE	Natural log of total assets.
LEV	Total liabilities scaled by total assets.
ROA	Net income scaled by total assets.
CBR (-5+5)	Cumulative bond return at a window of 11 days immediately preceding and following the financial statements filing date (i.e., -5 +5 days around the filing date; day 0 is the filing date).

Appendix B: Cumulative Bond Return Around Earnings News and Cash Flow Forecasts

	CBR (-5+5)	CBR (-5+5)	CBR (-9+9)	CBR (-9+9)
	(1)	(2)	(3)	(4)
CH_EARN	0.0104	0.011	0.0188*	0.0172*
	(1.22)	(1.27)	(1.87)	(1.7)
EO	0.0104	0.0093	0.0095	0.0075
	(1.25)	(1.07)	(1.07)	(0.83)
ITF_{t-1}	0.0008	0.0008	0.0043	0.0041
	(0.24)	(0.22)	(0.9)	(0.86)
EO $* ITF_{t-1}$	-0.0221**	-0.0197*	-0.0234**	-0.0205*
	(-2.24)	(-1.88)	(-2.16)	(-1.88)
Year FE	No	Yes	No	Yes
Firm Clustering	Yes	Yes	Yes	Yes
N	227	227	227	227
Adj R^2	0.007	0.001	0.016	0.006

Notes: The table reports the cumulative bond return (CBR) immediately preceding and following earnings news and deviation from prior cash-flow forecasts in eponymous vs. non eponymous firms. Columns 1 and 2 report the cumulative bond return at a window of 11 days immediately preceding and following the financial statements filing date (i.e., -5 +5 days around the filing date; day 0 is the filing date). Columns 3 and 4 report the cumulative bond return at a window of 19 days immediately preceding and following the financial statements filing date (i.e., -9 +9 days immediately preceding and following the filing date; day 0 is the filing date). CH_EARN is the change in earnings in the current year relative to the prior year deflated by total assets. ITF_{t-1} is the difference between projected cash flows for time t as reported in time t-1 to realized cash flows, relative to the absolute value of the projected cash flows. EO is an eponymous firm indicator and is the interaction term. ITF is winsorized at 2.5% and 97.5% of its distribution, all other continuous variables are winsorized at 1% and 99% of their distribution. T-stat clustered by firms are reported in parentheses. ***, **, and * indicate a significance level of 0.01, 0.05, and 0.10, respectively.

Appendix C: Conceptual Framework

Following is a simple analytical model that establishes several hypotheses that are tested empirically in the paper. We assume that the firm's owner maximizes her subjective utility (SU), composed of a psychological (self-esteem) factor (PF), and an economic factor (EF).

$$SU = PF + EF$$

To elaborate, the first component of the subjective utility model involves the firm owner's *current* feelings with respect to the firm, and the second component captures the firm's economic value, which depends on future realizations.

PF depends on the owner's degree of self-identification with the firm (SID), multiplied by the firm's currently perceived potential (PP):

$$PF = SID \cdot PP$$

EF depends on the owner's share in the firm (α), multiplied by the net present value of the firm (NPV):[30]

$$EF = \alpha \cdot NPV$$

Plugging the above into the owner's subjective utility function yields:

$$SU = SID \cdot PP + \alpha \cdot NPV$$

We turn now to the factors affecting the variables in the two utility components. SID is larger in case of eponymous ownership (EO). Further, SID is positively related to the number of family members serving in the firm (FM):[31]

$$\frac{\partial SID}{\partial X} > 0;\ X \in \{EO, FM\}$$

PP is increasing and concave in the value of the projected cashflow (PCF):

$$\frac{\partial PP}{\partial PCF} > 0,\ \frac{\partial^2 PP}{\partial PCF^2} < 0$$

[30] For simplicity, we ignore here issues of capital structure, assuming an unleveraged firm. This is inconsequential to the model's hypotheses for the current research.

[31] To ease notation, we treat all variables as continuous, even though EO, for example, is not continuous. Rather, EO is an indicator which equals one with respect to eponymous firms, and zero otherwise. This ease of notation is inconsequential with regard to our model's hypotheses.

Increasing is straightforward: the higher (i.e., more optimistic) the PCF, the more self-serving it is. Concavity results from the fact that the higher the PCF, the less self-convincing is its validity (the owner may fool herself to some degree, but exaggerating makes the forecast less reliable, even to the self).

NPV is composed of the firm's discounted net cash flow from its activities (NPV_a), plus a negative component proportional to the damage due to misreporting the cash flow. That damage may be formulated as the probability of the to-be-realized cash flow to be larger than the realized cash flow reported in the forecast (Q), multiplied by the probability of sanctions given a violation (PSANC)[32] and multiplied by the economic size of the sanction (Fine).[33,34] Thus, NPV is represented as:

$$NPV = NPV_a - Q(PCF) \cdot PSANC(PCF) \cdot Fine$$

Logically, the term $(Q \cdot PSANC)$ is increasing in the value of the projected cashflow (PCF), i.e., the higher the PCF, the more likely it is to be inflated, and also the more likely it is that ISA would sanction the firm, i.e., $\frac{\partial Q}{\partial PCF} > 0$ and $\frac{\partial PSANC}{\partial PCF} > 0$. Therefore, we may concisely write that:

$$\frac{\partial(Q(PCF) \cdot PSANC(PCF))}{\partial PCF} > 0$$

Furthermore, we assume that $(Q \cdot PSANC)$ is convex in PCF, mainly because ISA would be more likely to focus on punishing the extreme violators. Thus:

$$\frac{\partial^2(Q(PCF) \cdot PSANC(PCF))}{\partial PCF^2} > 0$$

Thus, the firm's owner chooses PCF such as to solve:

$$Max(SU) = SID(EO,FM) \cdot PP(PCF) + \alpha \cdot (NPV_a - Q(PCF) \cdot PSANC(PCF) \cdot Fine)$$

The first order condition for Max (SU) is:

$$\frac{\partial SU}{\partial PCF} = SID(EO,FM) \cdot \frac{\partial PP(PCF)}{\partial PCF} - \alpha \cdot \frac{\partial(Q(PCF) \cdot PSANC(PCF))}{\partial PCF} \cdot Fine = 0$$

[32] A sanction could be imposed by the regulator and/or by the market, as will be discussed below.
[33] In an augmented model, we would formulate PSANC and Fine as functions of PCF; here, for simplicity, they are kept constant.
[34] To maintain a parsimonious model here, we assume that Fine is exogenous. Taking Fine as endogenous is straightforward and retains our testable hypotheses.

So, F.O.C implies:

$$SID(EO,FM)\cdot\frac{\partial PP(PCF)}{\partial PCF}=\alpha\cdot\frac{\partial(Q(PCF)\cdot PSANC(PCF))}{\partial PCF}\cdot Fine$$

Yielding PCF*, as the optimal (from the viewpoint of the firm's owner) cashflow forecast level.

Note that $SID(EO,FM)$, $\alpha,Fine>0$. Further, recall that:

$$\frac{\partial^2 PP}{\partial PCF^2}<0;\ \frac{\partial^2(Q(PCF)\cdot PSANC(PCF))}{\partial PCF^2}>0$$

Thus, we derive the following comparative statics, that are implemented as testable hypotheses, and are tested in section 6 in the paper:

$H(i)$: $\frac{\partial PCF^*}{\partial Fine}<0$; According to H(i) projected cash flows are negatively correlated with the fine.

$H(ii)$: $\frac{\partial PCF^*}{\partial EO}>0$; According to H(ii) projected cash flows are positively correlated with eponymous firms.

$H\ (iii)$: $\frac{\partial PCF^*}{\partial FM}>0$; According to H(iii) projected cash flows are positively correlated with family firms.

$H(iv)$: $\frac{\partial PCF^*}{\partial \alpha}<0$; According to H$(iv)$ projected cash flows are negatively correlated with the owner's share in the firm.

Appendix D – Robustness to Extreme Observation and Distance to Default

	Dependent Variable: ITF			
	First Disc.	DD	Cooks D	DD+Cooks D
	(1)	(2)	(3)	(4)
EO	0.614**	0.594***	0.337***	0.370**
	(2.27)	(3.22)	(3.26)	(2.31)
SIZE	-0.0613	0.00660	0.0121	0.0378
	(-1.13)	(0.16)	(0.46)	(1.17)
ROA	0.592**	0.0765	0.341**	0.00707
	(2.15)	(0.29)	(2.12)	(0.03)
LEV	-0.0614	0.0663	-0.00164	0.0882*
	(-1.04)	(1.20)	(-0.06)	(1.85)
DD		0.0128		0.0236
		(0.31)		(0.71)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
N	143	249	364	241
adj. R^2	0.044	0.001	0.077	0.074

Notes: This table, reports the estimation results of Eq. 1:

$$ITF_{it} = \beta_0 + \beta_1 EO/FM\_2_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \varepsilon_{it}$$

In column 1 we include only the first management forecast disclosed by each firm to avoid over estimation. In column 2 and 4 we add Merton distance to default measure (DD) as a control variable. In column 3 and 4 we exclude extreme observations – with high Cooks' D measure (i.e., with Cooks' D>4/sample size). The dependent variable ITF is measured as the difference between projected cash flows to realized cash flows, relative to the absolute value of the projected cash flows. Higher rates of ITF represent increased sentiment of self-serving belief by management with regard to cash flow forecasts. Our primary independent variable, EO, gets 1 if the firm carries the family name of the family members serving as directors or executives of the firm, and 0 otherwise. All regressions include year and industry fixed effects. ITF is winsorized at 2.5% and 97.5% of its distribution, all other continuous variables are winsorized at 1% and 99% of their distribution. T-statistics are reported in parentheses. In column 2, 3 and 4 the T-stat is clustered by firm. ***, **, and * indicate a significance level of 0.01, 0.05, and 0.10, respectively.