ABSTRACT

Title of Dissertation: NON-INVESTOR STAKEHOLDERS AND EARNINGS BENCHMARKS

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A firm has numerous non-investor stakeholders, such as customers, employees, and potential business partners, who provide needed monetary and nonmonetary support to the firm. In Essay One, I provide empirical evidence on the previously untested theoretical prediction that these stakeholders' views of a firm depend on its ability to meet relevant earnings benchmarks. Using published and proprietary reputation scores to capture stakeholder perceptions, I find in both levels and changes analyses that non-investor stakeholder perceptions are positively associated with a firm's ability to beat relevant earnings benchmarks and that the relevant earnings benchmark for each stakeholder group varies based on the nature of its claim. Specifically, customer perceptions are positively associated with a firm's ability to meet the profit benchmark. Potential business partner perceptions are positively associated with a firm's ability to meet both the analyst forecast benchmark and the earnings growth benchmark. Employee perceptions are positively associated with a firm's ability to meet the earnings growth benchmark. These findings highlight broader uses of and broader audiences for accounting information than previously documented.

In Essay Two, I examine whether and how firms consider their non-investor stakeholders when prioritizing which earnings benchmarks to meet or beat. Using a sample of publicly traded firms from 1990 to 2015, I identify which non-investor stakeholder group (i.e. consumers, employees, or potential business partners) is most critical to a firm based on a stakeholder dependency score, which measures the extent to which a firm relies on a particular stakeholder group. I find that, regardless of which non-investor stakeholder group is most critical to the firm, firms beat the analyst forecast benchmark several times more frequently than they beat other benchmarks. Because the analyst forecast is the most important benchmark to the capital market, this finding indicates that managers place greater weight on investors' preferences than on the preferences of their non-investor stakeholders when deciding which earnings benchmarks to meet or beat. Thus, capital market pressure appears to dominate the pressure from non-investor stakeholders. However, I also find that consumer-focused (employee-focused) firms meet or beat the profit benchmark (the increase benchmark) more often than non-consumer-focused firms (non-employee-focused firms) when the profit benchmark (the increase benchmark) is the most difficult to beat or when pre-managed earnings falls short of the associated benchmark. These results indicate that firms are more likely to meet or beat the specific earnings benchmark that is most relevant to a particular non-investor stakeholder group when that non-investor stakeholder group is most critical to the firm. These findings contribute to a better understanding of how managers incorporate non-investor stakeholders' preferences in their decisions about which earnings benchmarks to meet or beat.

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Dissertation submitted to the Faculty of the Graduate School of the
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Essay One: An Examination of Non-Investor Stakeholders' Use of Earnings Heuristics

Chapter 1: Introduction

An extensive body of prior empirical research documents that a firm's ability to meet relevant earnings benchmarks is important to equity and debt investors' assessments of the firm, as reflected in stock returns, credit ratings, and bond yields (Barth et al., 1999; Bartov et al., 2002; Lopez and Rees, 2002; Brown and Caylor, 2005; Graham et al., 2005; Jiang, 2008). Economic theory suggests that the importance of beating earnings benchmarks extends beyond investors to a broader group of stakeholders (Cornell and Shapiro, 1987; Bowen et al., 1995; Burgstahler and Dichev, 1997; Degeorge et al., 1999; Matsumoto, 2002; Graham et al., 2005). However, research to date has not examined whether non-investor stakeholders such as customers, employees, and potential business partners also consider a firm's ability to meet earnings benchmarks in forming and revising their assessments. I explore this previously unexamined theoretical possibility in this study. Specifically, I examine the association between a firm's ability to meet relevant earnings benchmarks and non-investor stakeholders' perceptions of the firm, as reflected in reputation ratings based on stakeholder surveys.

Given the economic significance of non-investor stakeholders' contributions to the firm, it is crucial to understand whether and how they use accounting information.[1] There are several similarities between traditional investors and non-investor stakeholders, which suggests that the previously documented importance of earnings benchmarks to investors may also apply to non-investor stakeholders. Just as investors provide economic support to the firm, non-investor stakeholders also provide necessary monetary and nonmonetary support. Just as investors use relevant information to determine the extent of and the terms of their support (i.e. how much

[1] Freeman and Reed (1983) argue that, without the support of stakeholders such as customers, employees, suppliers, potential business partners, and society, "the organization would cease to exist" (p.89).

capital to provide and the cost of capital), non-investor stakeholders also use relevant information to determine the level of support they provide to a firm and on what terms.

The conventional view of both academics and managers is that non-investor stakeholders look to a firm's accounting performance generally and its ability to meet earnings thresholds specifically when deciding the level of support they will provide to the firm (Titman, 1984; Bowen et al., 1995; Degeorge et al., 1999; Burgstahler and Dichev, 1997; Matsumoto, 2002; Graham et al.., 2005). In addition, survey evidence by Graham et al. (2005) indicates that managers believe beating earnings benchmarks is important to non-investor stakeholders. Although this belief is widely held, there is little empirical evidence for its validity.

The above similarities between investors and non-investor stakeholders make it reasonable to assume that the importance of earnings benchmarks to investors also extends to non-investor stakeholders. However, it is not obvious that prior empirical findings that earnings benchmarks are important to investors can be generalized to non-investor stakeholders. Earnings is designed specifically to facilitate the cash flow forecasts and risk assessments relevant to valuing equity and debt claims. In contrast, earnings does not directly measure a firm's performance in areas of specific concern to non-investor stakeholders such as product quality/safety, workplace benefits, and integrity. Thus, non-investor stakeholders may seek other more direct measures of nonfinancial performance. On the other hand, non-investor stakeholders face high information search and processing costs (Burgstahler and Dichev, 1997; Degeorge et al., 1999; Matsumoto, 2002). Because earnings is a convenient summary performance measure, non-investor stakeholders may avoid these information costs by using earnings benchmarks as heuristics to infer a firm's performance (Burgstahler and Dichev, 1997; Degeorge et al., 1999;

Habib and Hansen, 2008). Given these contrasting possibilities, it is essential to test whether prior findings of investors' use of earnings benchmarks extend to non-investor stakeholders.

Even if non-investor stakeholders rely on earnings benchmarks, it is equally important to examine whether there is variation among different stakeholder groups in the earnings benchmarks they prioritize. Prior research suggests that the importance of earnings benchmarks differs among investors based on the nature of their claims. Prior research shows that the analyst forecast benchmark is the most salient benchmark for shareholders and the profit benchmark is the most salient benchmark for creditors (Bartov et al., 2002; Kasznik and McNichols, 2002; Lopez and Rees, 2002; Brown and Caylor, 2005; Jiang, 2008). Given variation in the nature of non-investor stakeholders' claims, there may be similar differences among non-investor stakeholders in the earnings benchmarks they prioritize.

In this study, I use reputation scores, derived from surveys of stakeholder groups, to measure stakeholder perceptions. I obtain proprietary data for consumer perception scores of firms' reputations from Reputation Institute, a leading research and advisory company. I manually collect reputation survey data for employees and potential business partners from *Fortune* magazine and its online issues. Reputation scores can be used to gauge whether non-investor stakeholders view the firm more or less favorably in the areas most relevant to them. Much like stock returns (credit ratings) in the case of equity (debt) investors, information on stakeholder perceptions of the firm allows me to examine the importance of earnings benchmarks to non-investor stakeholders.

I create separate indicator variables for each stakeholder group based on whether a firm meets or exceeds the following thresholds: the profit benchmark, the earnings increase benchmark, and the analyst forecast benchmark. For each stakeholder group and for each

benchmark, I regress the stakeholder group's perception scores on the earnings benchmark indicator, the corresponding earnings control, and other determinants of stakeholder reputation, using both level and change (univariate and multivariate) analyses.

I find that stakeholder perceptions are positively associated with a firm's ability to beat relevant earnings benchmarks, which vary among stakeholder groups based on the nature of their claim. Specifically, customers' perceptions are positively associated with a firm's ability to meet the profit benchmark. This evidence corroborates Jiang's (2008) finding that the profit benchmark is most important to creditors and highlights the similarity between customer claims and creditor claims. Customer claims represent a firm's explicit and implicit warranty obligations, which are similar to debt (Maksimovic and Titman, 1991; Bowen et al., 1995; Jiang, 2008). My evidence suggests that, like creditors, customers use the profit benchmark to assess a firm's ability to meet its long-term obligations.

Potential business partner perceptions are positively associated with a firm's ability to meet both the analyst forecast benchmark and the earnings increase benchmark. Since prior research shows that the analyst forecast benchmark is the most important to shareholders, the importance of this benchmark to potential business partners highlights the similarity between potential business partner claims and equity claims. Specifically, potential business partner claims are like real options in that they represent the potential for each partner to share in the value created by potential future collaborations (Kogut, 1991; Folta and Miller, 2002; Reuer and Tong, 2010). Thus, the evidence suggests that potential business partners, like shareholders, use the analyst forecast benchmark to assess a firm's ability to generate a sufficient return on equity. The simultaneous importance of the increase benchmark indicates that potential business partners use this benchmark to assess future growth opportunities (Graham, 2005).

Employee perceptions are positively associated with a firm's ability to meet the earnings increase benchmark. Employee claims have components that are both like debt (such as fixed salary and defined benefit pension plans) and equity (such as stock options or stock related compensation). Thus, employee claims through the entire cross-section fall somewhere between debt and equity in the continuum of claims. Given that prior research associates the profit benchmark most closely with debt claims and the analyst forecast benchmark most closely with equity claims, the increase benchmark likely also falls between the profit and analyst forecast benchmarks. In addition, psychological studies indicate that employees gain satisfaction (i.e. their morale increases) from being associated with growing companies (Kays, 2011; Koch and Park, 2011; Quantum Workplace, 2015), which provides an additional explanation for the importance of the increase benchmark to employees.

To explore the underlying mechanisms that drive non-investor stakeholders' interest in earnings benchmarks, I conduct supplemental analyses to examine cross-sectional variation in the importance of the relevant earnings benchmark for each stakeholder group. Consumers rely more on the profit benchmark as a firm's leverage increases and rely less on the profit benchmark when a firm provides more transparent corporate social responsibility reports. Potential business partners rely less on the increase benchmark when firms have a proven track record of successful acquisitions. Employees rely less on the increase benchmark as labor strength increases. In addition, I find that the positive effect of beating the relevant benchmark on consumer (employee) perceptions declines (does not change significantly) in the magnitude of earnings, suggesting that additional profits do not enhance these stakeholders' perceptions once the relevant benchmarks have been satisfied. On the contrary, the positive effect of beating the relevant benchmark on potential business partner perceptions increases in the magnitude of

earnings, which indicates that potential business partners (like shareholders) prefer that firms maximize profits. These findings demonstrate that non-investor stakeholders' reliance on earnings benchmarks is contextual.

This paper makes a number of contributions. First, it provides empirical evidence on the previously unexamined theoretical possibility that non-investor stakeholders use earnings benchmarks as focal points in evaluating the status of their claims.

Second, this study highlights broader uses of accounting information than previously documented, which has significant implications for accounting research. In particular, it demonstrates that stakeholders use earnings benchmarks as heuristics differently based on the varying nature of their claims. This evidence is also of practical importance to managers as it highlights other users of accounting information to which a firm must be attentive when formulating accounting policies.

Finally, this study adds to our understanding of how firms build reputations. While prior research documents substantial benefits of a good reputation such as lower cost of capital, higher consumer loyalty, and more engaged employees (Ali et al, 2015; Anginer et al., 2015; Cao et al., 2012, 2015; Reputation Institute, 2015), "less research has focused on how a firm may build a [good] reputation" (Basdeo et al, 2006, p.1205). I show that a firm's reputation with different classes of stakeholders depends on its ability to meet the earnings benchmarks these stakeholders implicitly use as heuristics in their performance assessments.

The remainder of this study proceeds as follows. Chapter 2 discusses related theory and relevant literature. Chapter 3 develops hypotheses. Chapter 4 outlines the research design. Chapter 5 discusses the sample and descriptive statistics. Chapter 6 describes the empirical results. Chapter 7 discusses the robustness check. Chapter 8 concludes.

Chapter 2: Theory and Prior Research

2.1. Firm Stakeholders

A firm's stakeholders, who include equity and debt investors, employees, customers, and potential business partners, provide various forms of necessary support to the firm (Freeman and Reed, 1983; Freeman, 1984; Cornell and Shapiro 1987; Clarkson, 1995). Each type of stakeholder has a claim (or "stake") in the company based on its association with and support of the firm. These claims essentially represent commitments the company has made to stakeholders or expectations that the stakeholder has of the company. Each type of stakeholder assesses the status of its monetary and nonmonetary claims on an ongoing basis and decides, based on this assessment, whether to continue its support of the company and on what terms. Specifically, equity and debt investors' claims represent the future cash flows to which they are entitled based on the capital they have provided to the firm. Equity investors decide their willingness to provide additional equity capital and the cost of that capital based on the expected amount and riskiness of future cash flows. Debt investors decide their willingness to extend additional credit and at what interest rate based on their assessment of the firm's ability to satisfy its obligations. Non-investor stakeholders' claims include monetary components that are similar in nature to debt and equity claims as well as nonmonetary components that represent their more qualitative expectations of the company. For each type of non-investor stakeholder examined in this study (i.e. consumers, potential business partners, and employees), I discuss the form of support stakeholders provide and the specific nature of the stakeholder's claim below.

2.1.1. Customers

Customers decide whether to continue buying a company's products and at what price. Similar to creditors, customers base these decisions on their assessment of the firm's ability to

meet its explicit and implicit warranty obligations. A company makes explicit and implicit commitments to its customers for the "continuing supply of product or service [and] continuing availability of parts and service over the life of the product" (Bowen et al., 1995, p.259). These explicit and implicit warranties are similar to debt claims. Beyond these monetary commitments, customers have other expectations of the company such as product safety, an ethical production process, and price fairness.[2]

2.1.2. Potential Business Partners

Potential business partners decide whether to pursue collaborations with the firm or to include the firm in their networks for business opportunities. They base these decisions on their assessment of the firm's ability to generate a sufficient equity return. Potential business partner claims, like equity claims, represent the real option value they ascribe to the possibility of sharing in the value created from potential future collaborations with the firm (Fotla and Miller, 2002; Reuer and Tong, 2010). Beyond this contingent claim, potential business partners expect the firm to exhibit integrity and trustworthiness (Dyer and Singh, 1998; Becerra et al. 2008).

2.1.3. Employees

Employees decide their willingness to continue working for a company, their level of engagement, and the acceptable wage. They base these decisions on their assessment of the likely payouts from the debt-like and equity-like components of their compensation (Baker et al. 1988; Bowen et al., 1995) as well as their assessment of the firm's performance on more

[2] For example, prior research shows that consumers hold more positive attitudes for firms that take corporate social responsible (CSR thereafter) actions (Creyer and Ross, 1997; Ellen et al., 2000). CSR activities potentially inform consumers about firm's product quality and its ability to fulfill its future product assurances. Additionally, consumers expect price fairness and thus they may have negative perceptions of firms that pursue increasingly high profits "to take advantage of surplus demand or newly obtained monopoly power" (Bolton et al., 2003, p.474).

qualitative dimensions, such as competent management, workplace safety, and fairness (Cohen and Spector, 2001; Cropanzana et al., 2007; Men, 2012; Quantum Workplace, 2015).

2.2. Stakeholder Use of Earnings-Based Heuristics

As discussed in section 2.1, stakeholders determine the amount of support they provide to a company based on their assessments of the current status of their claims (i.e. a company's ability to meet its commitments). Prior theoretical and empirical research suggests that stakeholders will rely heavily on earnings as part of these assessments. The large amount of empirical evidence that stock and bond market returns respond to earnings news highlights the importance of earnings to debt and equity investors (Skinner and Sloan, 2002; Cheng and Warfield, 2005; Graham et al., 2005; Jiang, 2008). Although there is relatively scant empirical evidence that earnings is important to non-investor stakeholders, prior studies theorize that earnings is likely to be important to them as well (Cornell and Shapiro, 1987; Bowen et al., 1995; Burgstahler and Dichev, 1997; Degeorge et al.,1999; Graham et al., 2005). Matsumoto (2002) summarizes these theoretical arguments, stating that "[a] firm's other stakeholders—customers, employees, suppliers, and so forth—are also consumers of its financial information, [and] firm's financial image influences stakeholders' assessments of its ability to fulfill its implied commitments, leading to more favorable terms of trade with these stakeholders." (p.491)

Burgstahler and Dichev (1997) and Degeorge, Patel, and Zeckhauser (1999) point out that stakeholders, particularly non-investor stakeholders, rely on heuristics to process earnings information to cope with the cost of "retriev(ing) and process(ing) detailed information about earnings for all the firms with which they transact (explicitly and implicitly)" (Burgstahler and Dichev,1997, p.123). Specifically, Burgstahler and Dichev (1997) and Degeorge et al. (1999) theorize that stakeholders base their assessments on simple decision rules related to whether

firms meet or beat key benchmarks such as profit, earnings growth, and analyst forecast. Degeorge et al. (1999) theorize that non-investor stakeholders focus on earnings benchmarks due to a "threshold mentality," which reflects the pervasive tendency of humans to mentally categorize what they observe. In addition, the threshold mentality is consistent with Kahneman and Tversky's prospect theory (1979), which postulates that "decision-makers derive value from gains and losses with respect to a reference point, rather than from absolute levels of wealth" (Burgstahler and Dichev, 1997, p.123). Under this theory, stakeholders are particularly attentive to reference points like earnings benchmarks because the disutility per unit of loss relative to a reference point is greater than their utility per unit of gain relative to the same reference point.

Empirical evidence on whether stakeholders use earnings-based heuristics has focused primarily on shareholders. Shareholders are of particular interest to accounting researchers since they represent the primary intended audience for accounting information. In addition, the ready availability of stock returns facilitates the study of shareholders. The evidence indicates that the stock market rewards firms for beating earnings benchmarks and that the analyst forecast benchmark appears to be most important to shareholders, particularly in more recent years (Bartov et al., 2002; Brown and Caylor, 2005; Kasznik and McNichols, 2002; Lopez and Rees, 2002). Jiang (2008) provides evidence on debtholders' reliance on earnings benchmarks. He finds that credit ratings and bond yields are more favorable for firms which meet earnings benchmarks and that the profit benchmark appears to be most important to debtholders.

Interestingly, prior empirical research has not explored whether non-investor stakeholders also focus on earnings benchmarks. It is important to note that Burgstahler and Dichev (1997) and Degeorge et al. (1999) do not provide direct empirical evidence that non-investor stakeholders use earnings-based heuristics to form or revise their assessments of firms. Rather,

they offer this possibility as a theoretical explanation for why firms take actions to avoid falling short of earnings benchmarks. Practically, this view is also widely held by managers. Graham et al. (2005) document that almost 60% of surveyed CEOs believe that beating earnings benchmarks is important to assure stakeholders that the firm's business is stable. Thus, there is a need for empirical evidence on whether non-investor stakeholders actually do rely on earnings-based benchmarks as Burgstahler and Dichev (1997) and Degeorge et al. (1999) theorize and as managers believe according to Graham et al. (2005). In addition, it is important to know whether there is variation among non-investor stakeholders in the earnings benchmarks they prioritize in light of differences in their claims.

Chapter 3: Hypotheses Development

As discussed in section *2.2.*, both theory and survey evidence suggest that non-investor stakeholders will rely on earnings benchmarks to reduce the information search and processing costs when assessing a firm's ability to fulfill its implied commitments. However, there have been few empirical studies that directly examine the importance of earnings on non-investor stakeholder perceptions as well as how different stakeholders prioritize earnings benchmarks related to their claims.

As discussed in section 2.1, non-investor stakeholders have both monetary claims, which consist of debt and equity components, and non-monetary claims. Incentivized by those claims, non-investor stakeholders use different earnings benchmarks to evaluate areas of a firm's performance that are specifically relevant to them. As mentioned above, consumer claims are similar to debt claims. Therefore, I expect consumers, like creditors, will prioritize the profit benchmark. Potential business partner claims are comparable to equity claims. Therefore, I expect potential business partners, like shareholders, will prioritize the analyst forecast benchmark. Employee claims can be weighted between debt-like and equity-like components depending on the nature of their compensation. Therefore, it is unclear which benchmark employees will prioritize. Therefore, I propose the following hypotheses in alternative forms.

H1*: Ceteris paribus, beating earnings benchmarks (i.e. the profit benchmark) is positively associated with consumer perceptions of firms.*

H2*: Ceteris paribus, beating earnings benchmarks (i.e. the analyst forecast benchmark) is positively associated with potential business partner perceptions of firms.*

H3*: Ceteris paribus, beating earnings benchmarks is positively associated with employee perceptions of firms.*

Chapter 4: Research Design

4.1. Measuring earnings benchmarks

I construct annual earnings benchmarks as three dichotomous variables: the profit benchmark (*PROFIT*), the earnings increase benchmark (*INCR*), and the analyst forecast benchmark (*SURP*), based on earnings per share (*EPS*), changes in earnings per share from previous year to the current year (*CHG_EPS*), and the consensus of analyst forecast surprises in earnings per share (*UE_EPS*), respectively. The terms are defined in the Appendix.

4.2. Measuring stakeholders' perceptions of firms

Corporate reputation reflects stakeholder perceptions of firms. It is defined as a perceptual representation of an organization's past and future prospects that describes a firm's overall appeal and ability to deliver valued outcomes to its multiple stakeholders (Fombrun, 1996; Fombrun and Van Riel, 1997; Walker, 2010; Ali et al. 2015). A firm's reputation is generated by a large group of stakeholders and therefore is difficult for the firm to manipulate (Jackson, 2004, Walker, 2010). Additionally, diverse stakeholder groups (i.e. consumers, potential business partners, and employees) may assess the same firm differently depending on their varying claims to the firm.

4.2.1. Consumer perceptions of firm's reputation

To measure consumer perceptions of firms (*CONSUMER_PERCEPTION*), I use the annual overall reputation score (officially called *RepTrak^{TM} Pulse*) reported by Reputation Institute based on surveys of U.S. consumers, starting from 2006. Founded in 1997, the Reputation Institute (RI hereafter) is the world's leading research and advisory firm for corporate reputation (Wang et al, 2012). The institute releases an annual reputation report for different countries. I focus on U.S. companies in this study. Annually, there are over 55,000 company ratings

generated from 23,000 respondents who are between 18 to 64 years old. The data is collected annually from an online proprietary RI questionnaire in the first quarter. The respondents are required to be somewhat familiar with the rated companies (i.e. be able to rate the company on at least 4 out of 7 on the Likert familiarity scale) and need to be emotionally connected with the rated companies (i.e. be able to rate the company at least 3 out of 4 on Pulse statements) (Reputation Institute, 2015). After data collection, RI uses a standardized approach to compute an overall reputation score on a 0-100 scale for each company based on a set of 23 key performance indicators. Those indicators are then classified into seven dimensions that are developed from the Reputation Quotient approach (Fombrun et al., 2000, 2015): products & services, innovation, financial performance, workplace, governance, citizenship, and leadership. A higher overall RI reputation score (*RepTrak^{TM} Pulse*) indicates consumers perceive the firm more favorably.

4.2.2. Potential business partner perceptions of firm's reputation

To capture potential business partner perceptions of firms (*BUSIPARTNERS_PERCEPTION*), I use the overall scores from *America's Most Admired Companies List,* which has been widely used as a measure of reputation in many academic disciplines (Fombrun and Shanley, 1990; Roberts and Dowling, 2002; Cao et al, 2012, 2015). Since 1984, this list has been published annually by *Fortune* magazine and online issues around late February or early March. I use the scores from *Fortune's* Most Admired (MA) companies and Contender (C) companies[3] list as a proxy for company reputation. A higher score reflects a firm's better reputation among potential business partners. Since these are *Fortune 1000* companies, I include annual *Fortune 1000* companies in the sample and set the reputation scores for non-MA and non-C companies as zero, starting from year

[3] Contender (C) companies are competitors with Most Admired companies in the same industry. I obtain the scores for contender companies from *Fortune's* online issues from 2006 to 2012 (i.e. http://archive.fortune.com/magazines/fortune/most-admired/2012/full_list/) and from the representative of *Fortune's* data from 2013 to 2015.

1996[4]. The respondents in the survey are American industry experts such as senior executives, directors, and securities analysts in the same industry. These business experts can identify firms as potential business partners to pursue further growth and expansion. Companies are rated on a 0-10 scale along a number of dimensions: innovation, people management, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, quality of products or services, and global competitiveness. The overall scores are generated based on the aggregation of those dimensions.

4.2.3. Employee perceptions of firm's reputation

The employee perception data is sourced from the annual list of the *100 Best Companies to Work for in America*, which is produced by *Great Place to Work* Institute, a business consulting and research firm founded in 1991. This list was first published in March 1984 (Levering et al., 1984), and was updated in February 1993 (Levering and Moskowitz, 1993).[5] Since 1998, *Fortune* magazine has annually released the list around late January or early February. As part of this ranking process, employees are randomly selected in each firm to complete the 57-item Trust Index Employee Survey anonymously, and return their responses directly to the Institute (Edmans, 2011; Garrett et al, 2014). The survey topics include: management credibility, job satisfaction, fairness, and pride/camaraderie. After standardizing the overall score, the institute publishes the names of the 100 companies with the highest overall scores each year. Due to the data limitation, I use a binary variable[6] to measure employee

[4] The data could not be traced back earlier than release year 1996 mainly due to the unavailability of *Fortune* 1000 data.
[5] The 100 company list (with top 10 rankings) for release years 1984 and 1993 are also available on the website of the Great Place to Work Institute. http://www.greatplacetowork.net/bestworkplaces/a2480000005kCEP
[6] I use binary variable rather than overall scores because among the top 100 ranked companies, a number of surveyed companies are not publically available. Additionally, due to the confidentiality policy, *Great Place to Work* Institute cannot release information on other surveyed companies outside of the top 100 ranked companies. I understand the potential data limitation, and am exploring alternatives. So far, this is the best data source (with the largest number of publically available firms when compared to other sources, i.e. glassdoor) I have found to directly measure employee's perceptions.

perceptions of firms. (i.e. *EMPLOYEE_PERCEPTION*=1 if the firm's ranking is within 1 to 50, and 0 if the firm's ranking is within 51 to 100).

4.3. Level and Change Regression Models for Main Tests (H1-H3)

I test the impact of beating earnings benchmarks on the perceptions of various non-investor stakeholders (consumers, potential business partners, and employees) by estimating both level regressions and changes analyses (univariate and multivariate) on the pooled sample of firm-years. Additionally, I further control for earnings performance and other determinants of stakeholder perceptions.

$$STAKEHOLDER\_PERCEPTION_{i,t+1}=f(\alpha_0+\alpha_1 BENCHMARKS_{i,t}+\alpha_2 EARNINGS\_CONTROLS_{i,t}+\alpha_3 OTHER\_CONTROLS_{i,t}) \quad (1)$$

$$\Delta STAKEHOLDER\_PERCEPTION_{i,t+1}=f(\theta_0+\theta_1 \Delta BENCHMARKS_{i,t}^{7}+\theta_2 \Delta EARNINGS\_CONTROLS_{i,t}+\theta_3 \Delta OTHER\_CONTROLS_{i,t}) \quad (2)$$

I measure *STAKEHOLDER_PERCEPTION* alternatively as consumer perceptions (*CONSUMER_PERCEPTION*), potential business partner perceptions (*BUSIPARTER_PERCEPTION*), and employee perceptions ((*EMPLOYEE_PERCEPTION*). To capture consumer perceptions of firms (*CONSUMER_PERCEPTION*), I use the annual overall reputation scores of companies in the consumer survey from Reputation Institute, and the change in consumer perceptions (*ΔCONSUMER_PERCEPTION*) is captured by its first difference. I use the annual overall reputation scores of companies in *America's Most Admired Companies List* (magazine and online) and in *Fortune 1000 Companies List* to measure potential business partner perceptions of firms (*BUSIPARTER_PERCEPTION*). The change in potential business partner perceptions (*ΔBUSIPARTER _PERCEPTION*) equals one if its first difference is no less than zero and equals zero otherwise.

[7] As discussed in section 6, I further decompose $\Delta BENCHMARKS_{i,t}$ into change in the earnings benchmarks status from missing to beating (*MISS_TO BEAT*) and change in the earnings benchmarks status from beating to missing (*BEAT_TO_MISS*).

Employee perceptions of firms (*EMPLOYEE_PERCEPTION*) equals one if a firm's annual ranking from the *100 Best Companies to Work for in America* is within top 50, and zero otherwise. The change in employee perceptions of firms (*ΔEMPLOYEE_PERCEPTION*) equals one if its first difference is no less than zero and zero otherwise.

The earnings benchmarks (*BENCHMARKS*) take one of the following specifications: The profit benchmark (*PROFIT*) equals one if a firm's basic earnings per share before extraordinary items is no less than zero and zero otherwise; the earnings increase benchmark (*INCR*) equals one if the change in a firm's earnings per share before extraordinary items is no less than zero, and zero otherwise; and the analyst forecast benchmark (*SURP*) equals one if the consensus of analyst forecast error, defined as the difference between a firm's actual earnings per share and the most recent earnings forecast of each analyst, is no less than zero, and zero otherwise. Change in earnings benchmarks (*ΔBENCHMARKS*) equals one if the firm missed the earnings benchmark (the profit benchmark, the increase benchmark, or the analyst forecast benchmark) in the previous year but beats that earnings benchmark in the current year (*MISS_TO_BEAT*), and equals negative one if the firm beat the earnings benchmark in the previous year but misses that benchmark in the current year (*BEAT_TO_MISS*), and equals zero if the firm has no change in that earnings benchmark.

EARNINGS_CONTROLS takes one of the following continuous earnings variables, *EPS*, *CHG_EPS*, and *UE_EPS*. *EPS* corresponds to the profit benchmark, and is defined as a firm's earnings per share before extraordinary items divided by its stock price at the end of the previous year. *CHG_EPS,* corresponds to the increase benchmark, and is defined as the change in a firm's earnings per share before extraordinary items divided by its stock price at the end of the previous year. *UE_EPS,* corresponds to the analyst forecast benchmark, and is defined as the consensus

analyst forecast error, which is computed as a firm's actual earnings per share minus the most recent analyst's earnings forecast for the current year, divided by its stock price at the end of the previous year. $\Delta EARNINGS\_CONTROLS_{i,t}$ takes one of the following change in earnings variables ΔEPS, $\Delta CHGEPS$, and $\Delta UEEPS$, which are the first differences in *EPS*, *CHG_EPS*, and *UE_EPS*, respectively.

To test H1-H3, I use level regressions and change analyses (univariate and multivariate). For level regressions, I estimate equation (1) to test the association between firms' ability to beat earnings benchmarks and non-investor stakeholder (consumer, potential business partner, and employee) perceptions of firms. In the univariate analyses, I test the mean and median difference in change of non-investor stakeholder perceptions of firms between the sample that changes earnings benchmark status (i.e. *MISS_TO_BEAT* or *BEAT_TO_MISS*) and the sample that has no change in benchmark status. To ensure robustness and alleviate the concern of the omitted variables with the level regression, I further apply the change regressions. By estimating equation (2), I examine the effect of change in firm's ability to beat earnings benchmarks on the change in non-investor stakeholder perceptions of firms. I estimate equations (1) and (2) using OLS/ Robust regressions or logit regressions with year and industry fixed effects. Standard errors are clustered by firm and year.

For each model, I focus on one earnings benchmark. I also add the corresponding continuous earnings variables for each benchmark to control for a firm's financial performance. Similar to Jiang (2008), I argue that the coefficient of each earnings benchmark represents the average effect of exceeding earnings benchmark on perceptions of various stakeholders incremental to firm performance and other potential determinants of stakeholder perceptions.

Based on the evidence discussed in section *2.1.*, consumers are concerned with a firm's ability to fulfill its ongoing implicit claims for products and are likely to rely on the profit benchmark to evaluate firms. It follows that consumer perceptions should be more favorable if firms beat the profit benchmark (*PROFIT*). Therefore, I expect the coefficients of the profit benchmark and the change in the profit benchmark in equations (1) and (2) to be significantly positive.

As discussed above, potential business partner monetary claims are similar to equity claims. Just as shareholders rely heavily on the analyst forecast benchmark (*SURP*), potential business partners may also rely on this benchmark. Therefore, I expect the coefficients of the analyst forecast benchmark and the change in the analyst forecast benchmark in equations (1) and (2) to be significantly positive.

In addition, as mentioned in section *2.2.*, employee compensation has both debt-like and equity-like components. Employees might use earnings benchmarks to assess a firm's ability to fulfill its implied pension obligation as well as the firm's potential growth. It follows that employee perceptions of firms should be more favorable for firms that beat relevant benchmarks. Therefore, I expect the coefficients of the earnings benchmark and the change in earnings benchmark in equations (1) and (2) to be significantly positive.

I control for various firm's characteristics that may potentially influence stakeholder perceptions: firm size (*SIZE*), firm age (*FIRM_AGE*), R&D expenses (*RD_EXP*), advertising expenses (*ADS_EXP*), sales growth (*GROWTH*), additional financial performance (*ROA*), annual stock return (*STOCK_RET*), operating cash flows (*CFO*), times-to-interests-earned ratio (*TIMES*), book-to-market ratio (*BM*), and financial risk measures (the dispersion of equity returns (*LN_STD_RET*), leverage (*LEV*), and financial distress (*FIN_DISTRESS*)).

Furthermore, following the literature, I include variables that are uniquely related to each stakeholder group perceptions. For the consumer sample, I include measures for a firm's CSR performance (*CSR_SCORE*), corporate governance (*E_INDEX*), and consumer satisfaction scores (*SAT_SCORE*).[8] For the potential business partner sample, I add the number of analysts (*NUM_ANALYST*), industry concentration (*HERF_INDEX*), the firm's corporate governance (*E_INDEX*), the number of business segments (*N_SEG*), gross margin (*GROSS_MARGIN*), and an indicator for acquisition and merger activities (*M&A*). For the employee sample, I further include labor intensity (*LABOR_INTEN*), employee productivity (*EMP_PRODUCT*), labor strength (*LABOR_STRENGTH*), CEO total compensation (*CEO_TOTAL_COMP*), and the number of employees (*NUM_EMPLOYEE*). Details of all the variables are defined in the Appendix.

[8] I did include consumer satisfaction score as a robustness check. Due to limited space and drastic sample reduction, I did not tabulate the results. I will discuss details in the section of the Robustness Check.

Chapter 5: Sample and Descriptive Statistics

I use three samples, corresponding to the three stakeholder groups I focus on in this study: (1) consumers, (2) potential business partners, and (3) employees. For the consumer sample, I obtain proprietary consumer perception scores of rated U.S. companies from RI between 2006 and 2015. For the potential business partner sample, I manually collect the perception scores of potential business partners (*America's Most Admired Companies list*, *contenders* and *Fortune 1000 companies list*) from *Fortune* Magazine and online issues from 1996 to 2015. For the employee sample, I hand collect employee perception scores from *Fortune* Magazine to get the *100 Best Companies to Work for in America* from 1998 to 2015 and I get similar information for 1984 and 1993 from *Great Place to Work* Institute website. Similar to Jiang (2008), I exclude public utilities (two-digit SIC code 49) and financial service firms (two-digit SIC codes between 60 and 67) due to those firms' different operating characteristics. I impose additional data requirements for each sample based on the control variables used in each sample. After these procedures, the consumer sample contains 842 firm-years, the potential business partner sample contains 7,488 firm-years, and the employee sample contains 550 firm-years.

Panels A, B, and C of Table 1 provide descriptive statistics for consumers, potential business partners, and employees, respectively. As shown in Panel A of Table 1, the consumer perception scores vary from 20.914 to 82.066 with a mean of 66.990 (out of 100), indicating substantial variation among consumer perception of firms. In addition, most firms are able to beat the profit earnings benchmark with a mean of 0.954. As shown in Panel B of Table 1, potential business partner perception scores range from 0 to 8.330 with a mean of 3.181 (out of 10), suggesting that potential business partner perceptions of firms vary substantially. Similar to the consumer sample, the majority of firms in the potential business partner sample exceed

earnings benchmarks (i.e. the mean of the increase benchmark is 0.605 and the mean of the analyst forecast benchmark is 0.622). As shown in Panel C of Table 1, the employee perception scores also vary widely with a mean of 0.411 (out of 1). As with the other samples, the majority of the firms in the employee sample beat earnings targets (i.e. the mean of the increase benchmarks is 0.602). These findings indicate that, consistent with the literature discussed in section *2.2.*, managers are incentivized/ pressured to beat earnings benchmarks.

Panels A, B, and C of Table 2 present the univariate correlation for consumers, potential business partners, and employees, respectively. Panel A of Table 2 shows that a firm's ability to beat the profit benchmark is significantly positively correlated with consumer perceptions of firms. Similarly, Panel B of Table 2 presents that the correlation between a firm's ability to beat earnings benchmarks and potential business partner perceptions of firms is significantly positive for all three benchmarks. Finally, Panel C of Table 2 shows that a firm's ability to beat the increase benchmark is significantly positively correlated with employee perceptions of firms. These findings suggest that non-investor stakeholders perceive firms that beat the earnings benchmarks most relevant to each stakeholder group more favorably. Many untabulated control variables are significantly related to these non-investor stakeholder perceptions of firms with the expected signs (i.e. CSR performance, advertising expenses, firm size, the number of analysts, firm age, and stock volatility).

Chapter 6: Empirical Results

6.1. Results for Main Tests (H1-H3)

6.1.1. Level Regressions and Change Analyses for Consumers (H1)

Table 3 presents the results for the consumer sample by estimating equation (1). Consistent with my expectations, the coefficient of the profit benchmark is significantly positive ($\alpha_1 > 0$; $p < 0.01$) in both OLS and robust regressions with year and industry fixed effects. This finding suggests that consumer perceptions are more favorable for firms that satisfy the profit benchmark, providing support for H1. However, I do not find similar results for other earnings benchmarks. This means that the profit benchmark is the most salient earnings benchmark for consumers to infer a firm's ability to fulfill its commitments, similar to the argument that debtholders use it to assure a firm's viability to pay back future debt (Jiang, 2008).

In Table 3, many control variables load as expected. For example, the coefficients of firm's CSR performance, growth, and advertising expenses (stock volatility) are significantly positively (negatively) associated with consumer perceptions, indicating that consumers favor firms that are socially responsible, growing, and effectively promoting products, and that consumers are skeptical of firms that are volatile in the stock market.

Table 4 reports the results of univariate analysis, which tests the impact of a change in a firm's profit benchmark on consumer perceptions. As Panel A shows, consumer perceptions significantly improve (with a mean of 2.243) when firms go from missing to beating the profit benchmark, while there is no significant change in consumer perceptions when firms have no change in the profit benchmark. The mean and median differences in consumer perceptions between the two groups (the profit benchmark changes from missing to beating vs. no change) are significantly positive ($p < 0.01$). This finding suggests that consumer perceptions become

more favorable once a firm goes from missing to beating the profit benchmark. As expected, in Panel B, there is an obvious reduction in consumer perceptions of firms when firms start missing the profit benchmark. However, the mean and median differences are not significant.

Table 5 presents the results for the consumer sample by estimating equation (2). Consistent with my expectations, the coefficient of the change in the profit benchmark is significantly positive ($\theta_1 > 0$; $p < 0.05$) in both OLS and robust regressions with (and without) industry and year fixed effects. This finding provides further support for H1. Additionally, after partitioning the change in the profit benchmark into the categories of change from missing to beating (*MISS_TO_BEAT*) and change from beating to missing (*BEAT_TO_MISS*), I find consistent results that are in the univariate analysis. The coefficient of *MISS_TO_BEAT* is significantly positive ($p < 0.01$). This implies that consumer perceptions are improved when a firm goes from missing to beating the profit benchmark.

Given these results, I find that compared to other earnings benchmarks, the profit benchmark is the most salient for consumers. This finding echoes Burgstahler and Dichev (1997)'s argument that stakeholders (particularly consumers) have a greater aversion to losses than to earnings declines.

6.1.2. Level Regressions and Change Analyses for Potential Business Partners (H2)

Table 6 presents the results for the potential business partner sample by estimating equation (1). Interestingly, I find that the coefficients of the analyst forecast benchmark and the increase benchmark are all significantly positive ($\alpha_1 > 0$; $p < 0.01$) in both OLS and Robust regressions with year and industry fixed effects. This finding means that potential business partner perceptions of the firm are more favorable when the firm satisfies either of these benchmarks, providing support for H2. This also indicates that the analyst forecast benchmark is

vital for business partners in assessing whether a firm is potentially a qualified collaborator to create value in future collaborations. Additionally, the increase benchmark is important for business partners in foreseeing the firm's future growth/ expansion opportunities.

In Table 6, many control variables load as expected. For example, the coefficients of size, number of analysts, firm age, R&D expenses, and advertising expenses are significantly positive across specifications, indicating that business partners prefer firms that are large, followed heavily by analysts, young, innovative, and that have effective external communications.

Table 7 reports the results of univariate analysis, which tests the impact of a change in a firm's earnings benchmark on potential business partner perceptions. As Panel B and Panel D show, the mean and median differences in business partner perceptions between the two groups (the earnings benchmark changes from beating to missing vs. no change) are significantly negative ($p < 0.01$) for both the increase benchmark and the analyst forecast benchmark. This finding implies that business partners perceive firms less favorably once firms fail to beat earnings benchmarks. However, in Panel A (C), I do not find significant mean and median differences between firms that have no change in beating or missing the earnings benchmarks and firms that go from missing to beating the indicated earnings benchmarks.

Table 8 presents the results for the potential business partner sample by estimating equation (2). Consistent with my expectations, the coefficient of the change in the increase benchmark is significantly positive ($\theta_1 > 0$; $p < 0.05$) in logit regressions with (and without) industry and year fixed effects. This finding further supports H2. Additionally, after partitioning the change in the increase benchmark variable and the analyst forecast benchmark variable into the categories of change from missing to beating (*MISS_TO_BEAT)* and change from beating to missing (*BEAT_TO_MISS*), I find results that are consistent with the univariate analysis. The

coefficient of *BEAT_TO_MISS* for the increase benchmark is significantly negative ($p < 0.01$). Although the coefficient of the change in the analyst forecast benchmark variable is insignificant, I do find that coefficient of *BEAT_TO_MISS* for the analyst forecast benchmark is significantly negative ($p < 0.05$). These results indicate that potential business partner perceptions worsen when firm fails to keep beating the increase and analyst forecast benchmarks.

As a whole, the results indicate that the increase benchmark and the analyst forecast benchmark are the most relevant earnings benchmarks for potential business partners, corresponding with executives' opinions on the importance of those two benchmarks to potential business collaborators (Graham et al. 2005).

6.1.3. Level Regressions and Change Analyses for Employees (H3)

Table 9 presents the results for the employee sample by estimating equation (1). Interestingly, the coefficient of the increase benchmark is significantly positive ($\alpha_1 > 0$; $p < 0.05$) in logit regressions with (and without) industry and year fixed effects. This result suggests that employee perceptions are more positive for firms that beat the increase benchmark, which supports H3. This finding indicates that the increase benchmark is the most salient earnings benchmark for employees in assessing firms. It follows that the increase benchmark could potentially reflect the net effects of the equity-like and debt-like elements of employee claims.[9]

In Table 9, many control variables load as expected. For example, the coefficients on size and labor strength (leverage, firm age, and Herfindahl-Hirschman Index) are significantly positive (negative) across specifications, indicating that employees favor firms that are large and

[9] In untabulated analysis, I provide evidence on this conjecture. Specifically, I partition the sample alternatively based on a firm's pension expense and on a firm's stock option grant. I argue that firms with relatively high pension expense have employee compensation that most closely resembles debt and firms with relatively high portion of stock option granted have employee compensation that most closely resembles equity. I find that the profit benchmark is positively associated with employee perceptions of firms with relatively high pension expense, consistent with prior findings that the profit benchmark is most relevant to debtholders (Jiang, 2008). I find that the analyst forecast benchmark is positively associated with employee perceptions of firms with relatively high stock option granted, consistent with prior findings that the analyst forecast benchmark is most relevant to shareholders.

have strong labor unions, and are skeptical of firms that are highly leveraged, old, and have superior market power (which allow firms to exploit employee benefits and wages) .

Table 10 reports the results of the univariate analysis, which tests the impact of a change in a firm's increase benchmark on employee perceptions. As Panel B shows, the mean and median differences in employee perceptions of the firm between the two groups (the increase benchmark changes from beating to missing vs. no change) are significant ($p < 0.05$). This finding suggests that employees perceive firms less favorably once firms fail to beat the increase benchmark. However, in Panel A, the mean and median differences between the two groups (the increase benchmark goes from missing to beating vs. no change) are not significant.

Table 11 presents the results for the employee sample by estimating equation (2). Consistent with my expectations, the coefficient of the change in the increase benchmark is significantly positive ($\theta_1 > 0$; $p < 0.05$) in logit regressions with (and without) industry and year fixed effects. It provides further support for H3. Additionally, after partitioning the change in increase benchmark variable into the categories of change from missing to beating (*MISS_TO_BEAT*) and change from beating to missing (*BEAT_TO_MISS*), I find results that are consistent with the univariate analysis. The coefficient of *BEAT_TO_MISS* is significantly negative ($p < 0.05$). This finding indicates that employees downgrade their perceptions of a firm that starts missing the increase benchmark.

Collectively, the results indicate that the increase benchmark is the most salient benchmark for employees. It helps employees foresee firm's future prospects and growth opportunities, consistent with psychological theories that employees gain satisfaction and workplace engagement from being associated with growing companies (Kays, 2011; Koch and Park, 2011; Quantum Workplace, 2015).

6.2. Supplemental Tests of Cross-Sectional Variation in the Importance of Earnings Benchmarks

I further examine cross-sectional variations in the importance of the relevant earnings benchmark for each stakeholder group. Specifically, I augment equation (1) with additional interaction terms between the benchmark variable and various potential sources of cross-sectional variation in the importance of the benchmark variable as well as the main effect of each source of cross-sectional variation.

Table 12 presents the analysis for consumers. The coefficient of the interaction term between the profit benchmark and the level of CSR disclosures is significantly negative ($p < 0.01$) in column (1)-(2) and column (7)-(8), meaning that the profit benchmark is less important for firms with more transparent corporate social responsibility (CSR) disclosures. This finding indicates that consumers rely less on the profit benchmark when there is more readily available information (in the form of CSR reports) about a firm's product quality. In addition, the coefficient of the interaction term between the profit benchmark and firm's leverage is significantly positive ($p < 0.05$) in column (3)-(4) and column (7)-(8), meaning that the profit benchmark is more important to consumers for firms with greater leverage. This finding implies that consumers rely more on the profit benchmark to help them assess a firm's ability to honor its implicit contacts if the firm experiences financial difficulty.

Table 13 presents the analysis for potential business partners. Panel A (B) focuses on the increase benchmark (the analyst forecast benchmark). For both benchmarks, the coefficient of the interaction term between the benchmark and the firm's acquisition activities is significantly negative ($p < 0.01$ for Panel A and $p < 0.05$ for Panel B) in columns (1)-(2) and columns (5)-(6). This finding suggests that the increase benchmark is less important for firms that have successfully completed acquisitions in the past. This also indicates that potential business

partners rely less on the earnings benchmarks to assess a firm's potential as a collaborator when the firm already has a proven track record of expansion and exploiting growth opportunities.

Table 14 presents the analysis for employees. The coefficient of the interaction term between the increase benchmark and the level of firm's labor strength is significantly negative ($p < 0.01$) in columns (1)-(2) and columns (5)-(6), signifying that the importance of the increase benchmark declines as a firm's labor strength increases. This finding implies that employees rely less on the increase benchmark when a firm has a strong labor union that negotiates employee benefits and possibly pressures the firm to fulfill its obligations to employees.

I also examine whether the magnitude of profits impacts how beating benchmarks affects stakeholder perceptions. I find that the positive effect of beating the relevant benchmark on consumer perceptions declines in the magnitude of earnings (as shown in column (5)-(8) of Table 12), which indicates that greater profits do not enhance consumer perceptions once the relevant benchmark has been satisfied. Thus, consumers appear to be satisficers with respect to accounting performance. A possible explanation is that excessive profits raise consumer concerns about price fairness. In contrast, the positive effect of beating the relevant benchmark on potential business partner perceptions increases in the magnitude of earnings (as shown in column (3)-(6) of Table 13), which indicates that greater profits enhance potential business partner perceptions even after the relevant benchmarks have been satisfied. Thus, potential business partners (like shareholders) prefer that firms maximize profits. Collectively, these findings indicate that as for investors, non-investors' use of earnings benchmarks is contextual.

Chapter 7: Robustness Checks

I conduct several additional tests (untabulated) to examine the sensitivity of the results. First, for each non-investor sample, I estimate all equations using different specifications: with year fixed effect, with industry fixed effect, and with both fixed effects. I also cluster the standard errors by firm, year or both. I further exclude earnings controls (*EPS*, *CHG_EPS*, *UE_EPS*) and *ROA* to examine the robustness of the benchmark results. On the other hand, I put all the earning benchmarks and earnings controls back together in one regression. The results hold tightly in all the cases discussed above.

To reduce potential problems of the omitted variables, I factor in certain potentially relevant variables to each sample.[10] For the consumer sample, I include variable consumer satisfaction scores (*SAT_SCORE*), which I hand collect from *American Customer Satisfaction Index (ACSI)*, and the net product quality strength score from KLD. After I add these variables, the positive coefficient of the profit benchmark still holds at 1% significance level. For the potential business partner sample, I include the percentage of institutional ownership and number of institutional holdings. I also replace the M&A variable with a strategic alliance variable from SDC platinum. The results continue to hold. For the employee sample, I further include variables such as managers' ability and firms' efficiency. The results are not sensitive to the inclusion of these variables.

[10] These variables are not included in the tabulated results because the data requirements result in substantial sample reduction.

Chapter 8: Conclusion

Prior theories and related studies suggest that non-investor stakeholders also use earnings benchmarks to determine the level of support they provide to a firm. In this paper, I investigate whether a firm's ability to beat earnings benchmarks influences non-investor stakeholder perceptions of firms. I measure each stakeholder group's perception of a firm based on reputation scores from three different survey data sources. I find that non-investor stakeholder perceptions are positively associated with a firm's ability to beat relevant earnings benchmarks. In addition, I find that each stakeholder group prioritizes different earnings benchmarks based on the nature of their claim.

Specifically, similar to debtholders, consumer perceptions are more favorable for firms that beat the profit benchmark, consistent with consumers using this benchmark to assess firms' ability to fulfill future implicit claims. Like shareholders, potential business partner perceptions are more favorable for firms that beat the analyst earnings benchmark and the increase benchmark. Moreover, employee perceptions are more favorable for firms that beat the increase benchmark, which is a balanced benchmark that reflects the debt-like and equity-like components of employee claims. Finally, I document several sources of cross-sectional variations in stakeholders' reliance on earnings benchmarks, which highlights that their use of earnings benchmarks is contextual.

This study makes several contributions to the literature. First, this paper presents empirical evidence that validates the unexamined theoretical prediction that non-investor stakeholders use earnings benchmarks to evaluate the status of their claims, and that each stakeholder group utilizes earnings benchmarks differently based on its unique claim. Second, this study adds to our understanding of how firms build reputations. Finally, this study highlights

broader uses of accounting information than previously documented, which is important to accounting research and practice.

Appendix. Variable Definitions[11]

Variables	Definitions
Main Dependent Variables: Non-investor Stakeholders' Perception of Firms	
CONSUMER_PERCEPTION	The annual overall reputation scores of companies in the consumer survey generated by the Reputation Institute
BUSIPARTER_PERCEPTION	The annual overall reputation scores of companies in *America's Most Admired Companies List and Fortune 1000 Companies List*
EMPLOYEE_PERCEPTION	A dummy variable which equals one if the firm's annual ranking from the *100 Best Companies to Work for in America* is within top 50, and equals zero if the firm's ranking is within 51 to 100
ΔCONSUMER_PERCEPTION	The first difference in *CONSUMER_PERCEPTION*
ΔBUSIPARTER _PERCEPTION	A dummy variable which equals one if the first difference in *BUSIPARTER_PERCEPTION* is no less than zero, and zero otherwise
ΔEMPLOYEE_PERCEPTION	A dummy variable which equals one if the first difference in *EMPLOYEE_PERCEPTION* is no less than zero, and zero otherwise
Main Independent Variables: Earnings Benchmarks	
PROFIT	A dummy variable which equals one if a firm's basic earnings per share before extraordinary items is no less than zero, and zero otherwise
INCR	A dummy variable which equals one if changes in a firm's earnings per share before extraordinary items is no less than zero, and zero otherwise
SURP	A dummy variable which equals one if the consensus of analyst forecast error, the difference between a firm's actual earnings and the most recent earnings forecast of each analyst, is no less than zero, and zero otherwise
ΔPROFIT	A variable which equals one if a firm missed the profit benchmark in the previous year but beats it in the current year, and equals negative one if a firm beat it in the previous year but misses it in the current year, and equals zero if a firm has no change in the profit benchmark
ΔINCR	A variable which equals one if a firm missed the increase benchmark in the previous year but beats it in the current year, and equals negative one if a firm beat it in the previous year but misses it in the current year, and equals zero if a firm has no change in the increase benchmark
ΔSURP	A variable which equals one if a firm missed the analyst forecast benchmark in the previous year but beats it in the current year, and equals negative one if a firm beat it in the previous year but misses it in the current year, and equals zero if a firm has no change in that benchmark
MISS_TO_BEAT	A firm missed the earnings benchmarks in the previous year but beats it in the current year
BEAT_TO_MISS	A firm beat the earnings benchmarks in the previous year but misses it in the current year

[11] All continuous variables are winsorized at the 1% and 99% level.

Earnings Controls	
EPS	A firm's earnings per share before extraordinary items in the current year divided by its stock price at the end of the previous year; corresponds to the profit benchmark
CHG_EPS	The changes in a firm's earnings per share before extraordinary items from the previous year to the current year, divided by its stock price at the end of the previous year; corresponds to the increase benchmark
UE_EPS	The consensus of analyst forecast error, defined as the difference between firm's actual earnings per share and the most recent analyst's earnings forecast for the current year; corresponds to analyst forecast benchmark
ΔEPS	The first difference in *EPS*
ΔCHGEPS	The first difference in *CHG_EPS*
ΔUEEPS	The first difference in *UE_EPS*
Other Controls	
ROA	A firm's net income in the current year deflated by total assets at the beginning of the current year
SIZE	The natural log of a firm's market value of equity at the end of the current year
LEV	A firm's total debt (current debt +long-term debt) divided by total assets at the end of the current year
BM	The natural log of a firm's book value of equity divided by its market value of equity, both measured at the end of the current year, following Jiang (2008, 384)
RD_EXP	A firm's research and development expense in the current year deflated by total assets at the beginning of the current year, following Jiang (2008, 384)
ADS_EXP	A firm 's advertising expense in the current year deflated by total assets at the beginning of the current year
CSR_SCORE	A firm's net CSR scores of strengths and concerns on all the seven dimensions at the end of the current year
FIRM_AGE	The natural log of a firm's lifetime, defined as the number of month from the firm's IPO date (or first date listed on CRSP if IPO date is missing) to the current date
Ln_STD_RET	The natural log of standard deviation of a firm's daily stock returns during the year
NUM_ANALYST	The number of analysts issuing earnings forecasts for a firm during the year
CFO	A firm's operating cash flows scaled by total assets at the beginning of the current year, following Francis et al. (2005, 302) and Jiang (2008, 384)
TIMES	The natural log of (1 + times-to-interests-earned ratio). The times-to-interests-earned ratio, defined as a firm's operating income before depreciation and interest expense divided by interest expense both at the current year, following Jiang (2008, 384)
HERF_INDEX	The sum of squared market shares of a firm within the industry (three-digit SIC code) during the current year

E_INDEX	A score between 0 and 6, computed based on six provisions a firm has: staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for mergers and charter amendments, following Bebchuk et al. (2009,3)
SAT_SCORE	Consumer satisfaction scores from *American Customer Satisfaction Index (ACSI)*
GROSS_MARGIN	A firm's gross profit in the current year scaled by its total revenue at the beginning of the year
CEO_COMP	A CEO's total compensation deflated by firm's total asset at the beginning of the current year
N_SEG	The number of business segments of a firm at the end of the current year
GROWTH	A firm's revenue changes from the previous year to the current year divided by its revenue in the previous year
FIN_DISTRESS	Z_score model defined by Altman (1968, 2000). $Z=1.2X_1+1.4X_2+3.3X_3+0.6X_4+0.999X_5$ where X_1 = working capital/total assets X_2 = retained earnings/total assets X_3 = earnings before interest and taxes/total assets X_4 = market value equity/book value of total liabilities X_5 = sales/total assets
M&A	A dummy variable which equals one if the firm acquired U.S. or non-U.S. targets with a deal value no less than 10 million in the previous year, and zero otherwise (data obtained from SDC platinum)
LABOR_INTEN	A firm's number of employees in the current year scaled by its total assets at the beginning of the year
EMP_PRODUCT	A firm's total revenue divided by its number of employees
EMP_NUM	The natural log of the number of employees at a firm at the end of the current year
CSR_DIS	A dummy variable which equals one if the firm releases reasonably good CSR disclosures (i.e. declaring the application level at least B on Global Reporting Initiative website) in the current year, and zero otherwise
LABOR_STRENGTH	The interaction of a firm's labor intensity with unionization rate. Labor intensity is defined above. Unionization rate is computed as the percentage of employees in the industry who are represented by a union (data obtained from U.S. Bureau of Labor Statistics)
STOCK_RET	A firm's annual compounding stock returns based on monthly return data
PENSION_EXP	The natural log of firm's pension and retirement expenses (*XPR*) from Compustat
OPTION_GRANT	A firm's number of options granted divided by the number of shares outstanding at the end of the previous year

TABLE 1

Descriptive Statistics

Panel A presents descriptive statistics for the main variables used in the consumer sample; Panel B presents descriptive statistics for the main variables used in the potential business partner sample; Panel C presents descriptive statistics for the main variables used in the employee sample. Variable definitions are provided in the Appendix.

Panel A: Descriptive Statistics for the Consumer Sample

Variables	N	Mean	Std Dev	Min	Q25	Q50	Q75	Max
CONSUMER_PERCEPTION	842	66.990	8.206	20.914	62.990	67.996	72.811	82.066
PROFIT	842	0.954	0.210	0.000	1.000	1.000	1.000	1.000
EPS	842	0.064	0.073	-0.772	0.051	0.067	0.088	0.301
INCR	842	0.675	0.469	0.000	0.000	1.000	1.000	1.000
CHG_EPS	842	0.014	0.113	-0.621	-0.007	0.008	0.017	1.366
SURP	842	0.679	0.467	0.000	0.000	1.000	1.000	1.000
UE_EPS	842	0.001	0.008	-0.095	0.000	0.001	0.002	0.063
ROA	842	0.073	0.061	-0.254	0.033	0.068	0.108	0.345
SIZE	842	10.054	1.281	6.382	9.174	10.089	10.967	12.854
LEV	842	0.226	0.148	0.000	0.117	0.199	0.301	0.783
BM	842	-0.973	0.731	-3.738	-1.453	-0.917	-0.462	1.134
RD_EXP	842	0.021	0.037	0.000	0.000	0.000	0.025	0.276
CFO	842	0.120	0.073	-0.091	0.072	0.113	0.162	0.419
CSR_SCORE	842	2.526	5.017	-10.000	-1.000	2.000	6.000	16.000
FIRM_AGE	842	5.899	0.366	3.829	5.740	6.127	6.127	6.252
LN_STD_RET	842	-4.049	0.446	-4.950	-4.378	-4.103	-3.763	-2.436
GROWTH	842	0.059	0.146	-0.581	-0.003	0.054	0.111	0.883
ADS_EXP	842	0.189	0.303	0.000	0.000	0.041	0.247	2.012
TIMES	842	2.794	1.048	-0.467	2.198	2.685	3.274	8.444
E_INDEX	842	2.298	1.144	0.000	2.000	2.000	3.000	6.000
STOCK_RET	842	1.113	0.300	0.145	0.921	1.124	1.288	2.161
CSR_DIS	842	0.094	0.292	0.000	0.000	0.000	0.000	1.000

Panel B: Descriptive Statistics for the Potential Business Partner Sample

Variables	N	Mean	Std Dev	Min	Q25	Q50	Q75	Max
BUSIPARTNER_PERCEPTION	7488	3.181	3.210	0.000	0.000	4.125	6.340	8.330
PROFIT	7488	0.911	0.284	0.000	1.000	1.000	1.000	1.000
EPS	7488	0.050	0.086	-1.575	0.033	0.057	0.078	0.892
INCR	7488	0.605	0.489	0.000	0.000	1.000	1.000	1.000
CHG_EPS	7488	0.016	0.118	-0.858	-0.013	0.009	0.019	2.000
SURP	7488	0.622	0.485	0.000	0.000	1.000	1.000	1.000
UE_EPS	7488	0.000	0.012	-0.350	-0.001	0.000	0.002	0.087
ROA	7488	0.067	0.070	-0.364	0.028	0.062	0.101	0.345
SIZE	7488	8.529	1.400	3.748	7.560	8.405	9.443	12.446
LEV	7488	0.226	0.153	0.000	0.112	0.215	0.318	0.945
BM	7488	-0.956	0.691	-4.059	-1.352	-0.902	-0.500	1.595
RD_EXP	7488	0.024	0.044	0.000	0.000	0.000	0.028	0.278
HERF_INDEX	7488	0.216	0.172	0.013	0.099	0.169	0.266	1.000
ADS_EXP	7488	0.011	0.026	0.000	0.000	0.000	0.008	0.225
NUM_ANALYS	7488	19.552	10.706	1.000	11.000	18.000	26.000	54.000
LN_STD_RET	7488	-3.871	0.418	-4.956	-4.170	-3.901	-3.602	-2.215
FIRM_AGE	7488	2.867	0.584	0.000	2.639	2.996	3.258	3.584
E_INDEX	7488	2.680	1.314	0.000	2.000	3.000	4.000	6.000
N_SEG	7488	2.479	1.538	1.000	1.000	2.000	3.000	7.000
GROSS_MARGIN	7488	0.385	0.240	-0.092	0.214	0.328	0.491	1.484
STOCK_RET	7488	1.152	0.373	0.144	0.919	1.136	1.339	3.693
M&A	7488	0.139	0.346	0.000	0.000	0.000	0.000	1.000

Panel C: Descriptive Statistics for the Employee Sample

Variables	N	Mean	Std Dev	Min	Q25	Q50	Q75	Max
EMPLOYEE_PERCEPTION	550	0.411	0.492	0.000	0.000	0.000	1.000	1.000
PROFIT	550	0.962	0.192	0.000	1.000	1.000	1.000	1.000
EPS	550	0.041	0.040	-0.592	0.023	0.040	0.058	0.197
INCR	550	0.602	0.490	0.000	0.000	1.000	1.000	1.000
CHG_EPS	550	0.001	0.043	-0.664	-0.007	0.003	0.011	0.471
SURP	550	0.695	0.461	0.000	0.000	1.000	1.000	1.000
UE_EPS	550	0.001	0.002	-0.013	0.000	0.000	0.001	0.013
ROA	550	0.123	0.088	-0.408	0.069	0.111	0.168	0.610
SIZE	550	9.502	1.615	5.941	8.284	9.488	10.711	13.054
LEV	550	0.132	0.127	0.000	0.004	0.110	0.203	0.560
BM	550	-1.598	0.725	-4.562	-2.021	-1.506	-1.158	0.536
RD_EXP	550	0.074	0.080	0.000	0.000	0.058	0.119	0.638
HERF_INDEX	550	0.158	0.156	0.032	0.065	0.098	0.196	1.000
CFO	550	0.205	0.103	-0.068	0.137	0.190	0.260	0.742
FIRM_AGE	550	5.796	0.335	4.511	5.620	5.866	6.127	6.267
LABOR_INTENSITY	550	6.715	2.282	0.107	1.623	3.475	7.727	15.004
GROWTH	550	0.163	0.195	-0.393	0.060	0.125	0.235	1.225
EMP_NUM	550	2.202	1.385	0.107	0.550	1.285	4.410	8.400
STOCK_RET	550	1.203	0.430	0.338	0.936	1.150	1.380	3.886
LABOR_STRENGTH	550	2.953	2.237	0.000	0.198	0.811	2.589	18.711
FIN_DISTRESS	550	11.718	3.666	-0.072	4.936	7.511	13.965	28.177
EMP_PRODUCT	550	0.004	0.004	0.000	0.002	0.003	0.005	0.043
CEO_COMP	550	2.723	5.237	0.000	0.515	1.218	2.826	60.283

TABLE 2

Correlations

Panel A reports correlations for the consumer sample; Panel B reports correlations for the potential business partner sample; and Panel C reports correlations for the employee sample. Spearman (Pearson) correlations are above (below) the diagonal. Correlations in bold are significant at the 10% level. See the Appendix for variable definitions.

Panel A: Correlations for the Consumer Sample

Variables	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
(1)CONSUMER_PERCEPTION		**0.069**	-0.113	0.033	-0.021	0.046	0.002
(2) PROFIT	**0.056**		**0.364**	**0.197**	**0.188**	**0.127**	**0.109**
(3) EPS	-0.056	**0.670**		**0.400**	**0.489**	**0.178**	**0.266**
(4) INCR	0.045	**0.197**	**0.286**		**0.812**	**0.191**	**0.190**
(5) CHG_EPS	0.007	**0.157**	**0.250**	**0.352**		**0.213**	**0.272**
(6) SURP	0.047	**0.127**	**0.120**	**0.191**	**0.068**		**0.808**
(7) UE_EPS	**0.063**	**0.160**	0.054	**0.147**	**0.139**	**0.415**	

Panel B: Correlations for the Potential Business Partner Sample

Variables	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
(1)BUSIPARTNER_PERCEPTION		**0.091**	-0.002	**0.043**	0.004	**0.057**	**0.025**
(2) PROFIT	**0.071**		**0.492**	**0.267**	**0.309**	**0.190**	**0.193**
(3) EPS	**0.043**	**0.589**		**0.462**	**0.538**	**0.231**	**0.322**
(4) INCR	**0.035**	**0.267**	**0.311**		**0.847**	**0.227**	**0.247**
(5) CHG_EPS	0.001	**0.234**	**0.388**	**0.354**		**0.255**	**0.319**
(6) SURP	**0.048**	**0.190**	**0.176**	**0.227**	**0.123**		**0.840**
(7) UE_EPS	**0.038**	**0.270**	**0.372**	**0.141**	**0.185**	**0.331**	

Panel C: Correlations for the Employee Sample

Variables	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
(1)EMPLOYEE_PERCEPTION		-0.007	-0.151	**0.083**	0.063	0.032	0.019
(2) PROFIT	-0.007		**0.332**	**0.226**	**0.260**	0.012	0.018
(3) EPS	-0.149	**0.440**		**0.422**	**0.523**	0.056	**0.213**
(4) INCR	**0.083**	**0.226**	**0.330**		**0.848**	**0.130**	**0.182**
(5) CHG_EPS	0.029	**0.361**	**0.708**	**0.409**		**0.210**	**0.285**
(6) SURP	0.032	0.012	0.023	**0.130**	**0.083**		**0.798**
(7) UE_EPS	-0.010	-0.044	0.030	**0.160**	-0.017	**0.503**	

TABLE 3

The Effects of Beating Earnings Benchmarks on Consumer Perceptions of Firms

This table reports the results for the consumer sample by estimating Equation (1) to test H1 in both OLS and Robust Regressions. *CONSUMER_PERCEPTION* is the dependent variable. Columns (1)-(2) show results for the profit benchmark (*PROFIT*). Columns (3)-(4) show the results for increase benchmark (*INCR*). Column (5)-(6) show results for the analyst forecast benchmark (*SURP*). Both industry and year fixed effects are included. All variables are defined in the Appendix. *p*-values in parentheses are calculated using standard errors clustered by firm and year (for OLS). *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
			CONSUMER_PERCEPTION			
VARIABLES	Profit Benchmark		Increase Benchmark		Surprise Benchmark	
PROFIT	3.581***	4.172***				
	(0.000)	(0.001)				
EPS	-2.464	-2.593				
	(0.255)	(0.504)				
INCR			0.103	-0.177		
			(0.742)	(0.688)		
CHG_EPS			0.357	0.336		
			(0.769)	(0.850)		
SURP					0.278	-0.067
					(0.642)	(0.879)
UE_EPS					-3.424	-3.947
					(0.229)	(0.163)
ROA	-1.902	-1.408	-1.441	1.037	-2.224	0.103
	(0.296)	(0.222)	(0.591)	(0.845)	(0.588)	(0.984)
SIZE	-1.076***	-0.830***	-1.061***	-0.842***	-1.032***	-0.840***
	(0.001)	(0.000)	(0.002)	(0.000)	(0.002)	(0.000)
LEV	-4.520	-1.713	-4.626	-1.910	-4.666	-2.003
	(0.214)	(0.392)	(0.198)	(0.345)	(0.190)	(0.322)
BM	-1.235	-1.818***	-1.166	-1.749***	-1.197	-1.801***
	(0.131)	(0.000)	(0.154)	(0.000)	(0.138)	(0.000)
RD_EXP	-0.675	-0.925	-2.019	-0.364	-2.004	-0.241
	(0.948)	(0.898)	(0.852)	(0.960)	(0.851)	(0.974)
CFO	0.025	-2.714	-2.139	-6.142	-2.540	-6.437
	(0.997)	(0.571)	(0.796)	(0.195)	(0.762)	(0.170)
CSR_SCORE	0.392***	0.322***	0.397***	0.330***	0.398***	0.333***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
FIRM_AGE	1.144	1.050**	1.044	0.943**	1.033	0.975**
	(0.143)	(0.014)	(0.194)	(0.029)	(0.203)	(0.023)
Ln_STD_RET	-3.129**	-2.192***	-3.432**	-2.524***	-3.463***	-2.482***
	(0.021)	(0.006)	(0.010)	(0.002)	(0.008)	(0.002)
GROWTH	4.380***	3.136**	4.543***	3.463**	4.909***	3.734***
	(0.002)	(0.022)	(0.000)	(0.013)	(0.001)	(0.007)
TIMES	0.333	0.339	0.383	0.371	0.408	0.389
	(0.420)	(0.278)	(0.331)	(0.240)	(0.283)	(0.218)

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TABLE 3 (Continued)

ADS_EXP	3.481**	3.202***	3.336**	3.040***	3.366**	3.126***
	(0.036)	(0.000)	(0.036)	(0.000)	(0.037)	(0.000)
E_INDEX	0.326	-0.039	0.308	-0.067	0.324	-0.055
	(0.322)	(0.846)	(0.362)	(0.737)	(0.346)	(0.785)
STOCK_RET	-0.123	-0.297	0.068	-0.119	0.168	0.016
	(0.898)	(0.694)	(0.948)	(0.875)	(0.848)	(0.983)
CONSTANT	3.383***	3.787***	3.189***	3.450***	3.471***	3.173***
	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Regression	OLS	ROB_REG	OLS	ROB_REG	OLS	ROB_REG
Observations	842	842	842	842	842	842
R-square	0.570	0.602	0.566	0.592	0.568	0.595

TABLE 4

Change Effects of Beating the Profit Benchmark on Consumer Perceptions of Firms: Univariate Analysis

This table presents the results for the consumer sample using the univariate analysis, which tests the effects of change in the profit benchmark on the change in consumer perceptions of firms. The mean and median of change in consumer perceptions of firms *(ΔCONSUMER_PERCEPTION)* are reported as whether the profit benchmark goes from missing to beating (*ΔPROFIT*=1), from beating to missing (*ΔPROFIT*= -1), or no change (*ΔPROFIT* = 0). Panel A shows the comparison between the profit benchmark going from missing to beating and no change. Panel B presents the comparison between the profit benchmark going from beating to missing and no change. All variables are defined in the Appendix. *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: Profit Benchmark Goes from Missing to Beating and No Change

VARIABLES	*ΔPROFIT* = 1	*ΔPROFIT* = 0	Difference	*P*-Value
ΔCONSUMER_PERCEPTION (Mean)	2.243	0.556	1.687***	0.001
ΔCONSUMER_PERCEPTION (Median)	2.935	0.517	2.418***	0.001

Panel B: Profit Benchmark Goes from Beating to Missing and No Change

VARIABLES	*ΔPROFIT* = -1	*ΔPROFIT* = 0	Difference	*P*-Value
ΔCONSUMER_PERCEPTION (Mean)	-0.197	0.556	0.753	0.270
ΔCONSUMER_PERCEPTION (Median)	0.797	0.517	0.280	0.794

TABLE 5

The Change Effects of Beating the Profit Benchmark on Consumer Perceptions of Firms: Multivariate Analysis

This table reports the results for the consumer sample by estimating Equation (2) in both OLS and Robust Regressions. It further tests H1 by alleviating the concern of the omitted variables associated with level regressions. *ΔCONSUMER_PERCEPTION* is the dependent variable**.** Columns (1)-(3) show the results when the profit benchmark changes (*ΔPROFIT*). Column (4)-(6) show the results when the profit benchmark goes from missing to beating (*MISS_TO_BEAT*) and from beating to missing (*BEAT_TO_MISS*). *p*-values in parentheses are calculated using standard errors clustered by firm and year (for OLS). All variables are defined in the Appendix. *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	ΔCONSUMER_PERCEPTION					
VARIABLES	Change Status on the Profit Benchmark			Change from Miss to Beat or Beat to Miss		
ΔPROFIT	1.190***	1.111***	1.401**			
	(0.000)	(0.000)	(0.021)			
MISS_TO_BEAT				2.625***	2.715***	2.684***
				(0.000)	(0.000)	(0.006)
BEAT_TO_MISS				-0.249	-0.026	-0.197
				(0.559)	(0.950)	(0.812)
ΔEPS	-0.142	0.220	-0.232	-0.757	0.366	-0.488
	(0.959)	(0.932)	(0.914)	(0.761)	(0.877)	(0.824)
ΔROA	-3.340	-3.907	-3.987	-3.096	-3.723	-4.124
	(0.452)	(0.353)	(0.354)	(0.466)	(0.359)	(0.344)
ΔSIZE	0.271	0.233	-0.216	0.437	0.399	0.338
	(0.732)	(0.747)	(0.725)	(0.588)	(0.577)	(0.616)
ΔLEV	-1.152	-2.206	-2.457	-1.768	-1.951	-3.072
	(0.760)	(0.569)	(0.502)	(0.840)	(0.617)	(0.414)
ΔBM	-0.106	-0.040	0.089	0.000	0.075	0.162
	(0.837)	(0.928)	(0.849)	(1.000)	(0.851)	(0.738)
ΔRD_EXP	3.989	3.706	3.493	2.162	2.893	2.892
	(0.560)	(0.584)	(0.816)	(0.983)	(0.905)	(0.953)
ΔCFO	-7.602**	-7.623*	-5.080	-7.615**	-7.692*	-5.325
	(0.048)	(0.068)	(0.157)	(0.047)	(0.073)	(0.141)
ΔFIRM_AGE	-2.395	-4.214*	1.391	-2.750	-4.439**	-2.970
	(0.273)	(0.056)	(0.714)	(0.214)	(0.039)	(0.460)
ΔSTD_RET	-1.355	-1.128	-1.096	-1.506	-1.263	-1.041
	(0.152)	(0.310)	(0.822)	(0.111)	(0.250)	(0.176)
ΔGROWTH	0.343	0.514	-0.595	0.372	0.550	0.027
	(0.683)	(0.570)	(0.430)	(0.641)	(0.515)	(0.973)
ΔTIMES	2.681	2.036	2.012	2.330	2.009	2.055
	(0.139)	(0.455)	(0.476)	(0.144)	(0.469)	(0.552)
ΔADS_EXP	-0.391	-0.352	-0.139	-0.390	-0.350	-0.323
	(0.184)	(0.271)	(0.232)	(0.172)	(0.260)	(0.159)
ΔE_INDEX	-0.104	-0.157	-0.150	-0.086	-0.128	-0.143
	(0.555)	(0.212)	(0.965)	(0.698)	(0.454)	(0.690)
ΔSTOCK_RET	-0.236	-0.280	0.341	-0.236	-0.281	-0.087
	(0.652)	(0.566)	(0.329)	(0.642)	(0.554)	(0.825)

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TABLE 5 (Continued)

CONSTANT	1.023***	1.404***	0.545**	1.042***	1.543***	1.726***
	(0.000)	(0.000)	(0.013)	(0.000)	(0.000)	(0.008)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	No	Yes	Yes	No	Yes	Yes
Regressions	OLS	OLS	REG	OLS	OLS	REG
Observations	726	726	726	726	726	726
R-squared	0.064	0.103	0.095	0.070	0.109	0.097

TABLE 6

The Effects of Beating Earnings Benchmarks on Business Partner Perceptions of Firms

This table reports the results for the potential business partner sample by estimating Equation (1) to test H2 in both OLS and Robust Regressions. *BUSIPARTNER_PERCEPTION* is the dependent variable. Columns (1)-(2) present results for the profit benchmark (*PROFIT*). Columns (3)-(4) show results for the increase benchmark (*INCR*). Column (5)-(6) show results for the analyst forecast benchmark (*SURP*). Both industry and year fixed effects are included. All variables are defined in the Appendix. *p*-values in parentheses are calculated using standard errors clustered by firm and year (for OLS). *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	BUSIPARTNER_PERCEPTION					
VARIABLES	Profit Benchmark		Increase Benchmark		Surprise Benchmark	
PROFIT	0.116	-0.139				
	(0.511)	(0.338)				
EPS	0.861	0.968**				
	(0.210)	(0.039)				
INCR			0.171***	0.177***		
			(0.008)	(0.009)		
CHG_EPS			0.236	0.240		
			(0.200)	(0.383)		
SURP					0.174***	0.202***
					(0.000)	(0.003)
UE_EPS					-1.662	-2.013
					(0.540)	(0.452)
ROA	0.787	-0.936	0.849	-1.012	0.470	-0.620
	(0.482)	(0.176)	(0.301)	(0.186)	(0.588)	(0.282)
SIZE	1.382***	1.501***	1.389***	1.506***	1.382***	1.500***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
LEV	1.348***	1.496***	1.360***	1.501***	1.425***	1.581***
	(0.008)	(0.000)	(0.005)	(0.000)	(0.005)	(0.000)
BM	0.519***	0.565***	0.539***	0.584***	0.552***	0.599***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
RD_EXP	2.887	2.873***	3.046	3.035***	2.905	2.909***
	(0.200)	(0.007)	(0.135)	(0.005)	(0.200)	(0.006)
HERF_INDEX	-0.369	-0.398*	-0.381	-0.417*	-0.345	-0.372*
	(0.441)	(0.077)	(0.412)	(0.064)	(0.471)	(0.099)
ADS_EXP	7.791***	8.503***	7.880***	8.531***	7.841***	8.526***
	(0.002)	(0.000)	(0.002)	(0.000)	(0.002)	(0.000)
NUM_ANALYST	0.040***	0.042***	0.040***	0.041***	0.040***	0.042***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Ln_STD_RET	-0.207	-0.168	-0.209	-0.171	-0.218	-0.176
	(0.388)	(0.172)	(0.248)	(0.156)	(0.341)	(0.143)
FIRM_AGE	0.273**	0.347***	0.274**	0.344***	0.278**	0.353***
	(0.012)	(0.000)	(0.016)	(0.000)	(0.011)	(0.000)
E_INDEX	0.164	-0.075	0.107	-0.205	0.195	-0.207
	(0.901)	(0.799)	(0.887)	(0.839)	(0.913)	(0.782)
N_SEG	0.624	0.555**	0.462	0.553**	0.613	0.454**
	(0.219)	(0.029)	(0.253)	(0.036)	(0.230)	(0.031)

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TABLE 6 (Continued)

GROSS_MARGIN	-3.000***	-3.344***	-3.048***	-3.387***	-3.055***	-3.404***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
STOCK_RET	0.142	0.162*	0.128	0.144	0.122	0.133
	(0.140)	(0.070)	(0.143)	(0.108)	(0.212)	(0.143)
M&A	1.083	1.074	1.089	1.079	1.082	1.071
	(0.499)	(0.419)	(0.460)	(0.389)	(0.510)	(0.436)
CONSTANT	-1.933***	-1.000***	-1.144***	-1.209***	-1.161***	-1.222***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Regressions	*OLS*	*ROB_REG*	*OLS*	*ROB_REG*	*OLS*	*ROB_REG*
Observations	7,488	7,488	7,488	7,488	7,488	7,488
R-squared	0.421	0.437	0.421	0.437	0.421	0.438

TABLE 7

The Change Effects of Beating Earnings Benchmarks on Business Partner Perceptions of Firms: Univariate Analysis

This table presents the results for the potential business partner sample using the univariate analysis, which tests the effects of change in the earnings benchmarks on the change in business partner perceptions of firms. The mean and median of change in business partner perceptions of firms *(ΔBUSIPARTNER_PERCEPTION)* are reported as change of the profit benchmark, which goes from missing to beating (*ΔINCR*=1 (*ΔSUPR*=1)), from beating to missing (*ΔINCR*= -1 (*ΔSUPR*= -1)) or no change (*ΔINCR*=0 (*ΔSUPR*=0)). Panel A shows the comparison between the increase benchmark going from missing to beating and no change. Panel B presents the comparison between the increase benchmark going from beating to missing and no change. Panel C shows the comparison between the analyst forecast benchmark going from missing to beating and no change. Panel D presents the comparison between the analyst forecast benchmark going from beating to missing and no change. All variables are defined in the Appendix. *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: Increase Benchmark Goes from Missing to Beating and No Change

VARIABLES	*ΔINCR* = 1	*ΔINCR* = 0	Difference	*P*-Value
ΔBUSIPARTNER_PERCEPTION (Mean)	0.283	0.278	0.005	0.625
ΔBUSIPARTNER_PERCEPTION (Median)	0.000	0.000	0.000	0.625

Panel B: Increase Benchmark Goes from Beating to Missing and No Change

VARIABLES	*ΔINCR*= -1	*ΔINCR* = 0	Difference	*P*-Value
ΔBUSIPARTNER_PERCEPTION (Mean)	0.229	0.278	0.049***	0.000
ΔBUSIPARTNER_PERCEPTION (Median)	0.000	0.000	0.000***	0.000

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TABLE 7 (Continued)

Panel C: Analyst Forecast Benchmark Goes from Missing to Beating and No Change

VARIABLES	*ΔSURP* = 1	*ΔSURP* = 0	Difference	*P*-Value
ΔBUSIPARTNER_PERCEPTION (Mean)	0.261	0.273	0.012	0.244
ΔBUSIPARTNER_PERCEPTION (Median)	0.000	0.000	0.000	0.244

Panel D: Analyst Forecast Benchmark Goes from Beating to Missing and No Change

VARIABLES	*ΔSURP*= -1	*ΔSURP* = 0	Difference	*P*-Value
ΔBUSIPARTNER_PERCEPTION (Mean)	0.240	0.273	0.033***	0.001
ΔBUSIPARTNER_PERCEPTION (Median)	0.000	0.000	0.000***	0.001

TABLE 8

The Change Effects of Beating Earnings Benchmarks on Business Partner Perceptions of Firms: Multivariate Analysis

This table reports the results for the potential business partner sample by estimating Equation (2) in logit regressions. It further tests H2 by alleviating the concern of the omitted variables associated with level regressions. *ΔBUSIPARTNER_PERCEPTION* is the dependent variable**.** Columns (1)-(3) show results when the earnings benchmarks change (*ΔINCR or ΔSURP*). Column (4)-(6) show results when the earnings benchmarks go from missing to beating (*MISS_TO_BEAT*) and beating to missing (*BEAT_TO_MISS*). *p*-values in parentheses are calculated using standard errors clustered by firm and year. Panel A shows the change effects for the increase benchmark on business partner's perceptions of firm. Panel B shows the change effects for the analyst forecast benchmark on business partner's perceptions of firm. All variables are defined in the Appendix. *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: Change Effects for the Increase Earnings Benchmark

	(1)	(2)	(3)	(4)	(5)	(6)
	ΔBUSIPARTNER_PERCEPTION					
VARIABLES	Change Status on the INCR Benchmark			Change from Miss to Beat or Beat to Miss		
ΔINCR	0.103***	0.100**	0.108***			
	(0.010)	(0.013)	(0.009)			
MISS_TO_BEAT				-0.059	-0.061	-0.042
				(0.469)	(0.453)	(0.609)
BEAT_TO_MISS				-0.264***	-0.259***	-0.256***
				(0.001)	(0.000)	(0.001)
ΔCHGEPS	-0.170	-0.158	-0.185	-0.103	-0.095	-0.126
	(0.347)	(0.388)	(0.333)	(0.563)	(0.609)	(0.511)
ΔROA	1.585*	1.581**	1.521**	1.567*	1.580**	1.522**
	(0.055)	(0.032)	(0.041)	(0.056)	(0.031)	(0.040)
ΔSIZE	0.460**	0.459**	0.518**	0.458**	0.456**	0.514**
	(0.038)	(0.030)	(0.013)	(0.043)	(0.035)	(0.016)
ΔLEV	-0.564	-0.136	-0.081	-0.543	-0.119	-0.060
	(0.550)	(0.882)	(0.929)	(0.565)	(0.897)	(0.947)
ΔBM	-0.061	-0.057	-0.027	-0.064	-0.060	-0.032
	(0.699)	(0.712)	(0.863)	(0.684)	(0.700)	(0.839)
ΔRD_EXP	-2.809	-3.549	-3.894	-3.124	-3.831	-4.155
	(0.566)	(0.431)	(0.416)	(0.526)	(0.396)	(0.386)
ΔFIRM_AGE	-2.003**	-1.974**	-2.187***	-1.971**	-1.952**	-2.163***
	(0.018)	(0.024)	(0.003)	(0.019)	(0.025)	(0.003)
ΔSTD_RET	-0.230	0.054	0.028	-0.228	0.060	0.033
	(0.228)	(0.748)	(0.875)	(0.237)	(0.720)	(0.850)
ΔNUM_ANALYST	0.005	0.005	0.002	0.005	0.005	0.002
	(0.490)	(0.589)	(0.797)	(0.506)	(0.593)	(0.811)
ΔADS_EXP	4.257	4.131	3.083	4.187	4.060	3.004
	(0.494)	(0.477)	(0.617)	(0.504)	(0.489)	(0.630)
ΔHERF_INDEX	2.972**	2.405**	2.762**	3.005**	2.431**	2.806**
	(0.021)	(0.041)	(0.017)	(0.021)	(0.042)	(0.016)
ΔN_SEG	-0.062	-0.065	-0.079	-0.062	-0.065	-0.080
	(0.193)	(0.219)	(0.103)	(0.203)	(0.225)	(0.106)

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TABLE 8 (Continued)

ΔSTOCK_RET	-0.037	-0.008	-0.009	-0.037	-0.007	-0.009
	(0.617)	(0.908)	(0.895)	(0.624)	(0.915)	(0.899)
ΔGROSS_MARGIN	-0.291	-0.452	-0.469	-0.298	-0.464	-0.479
	(0.406)	(0.126)	(0.104)	(0.408)	(0.128)	(0.105)
ΔE_INDEX	-0.038	-0.115*	-0.117*	-0.041	-0.113*	-0.115*
	(0.331)	(0.083)	(0.087)	(0.281)	(0.088)	(0.093)
CONSTANT	-0.900***	-1.602***	-2.053***	-0.820***	-1.525***	-1.988***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Year FE	No	Yes	Yes	No	Yes	Yes
Industry FE	No	No	Yes	No	No	Yes
Regressions	*Logit*	*Logit*	*Logit*	*Logit*	*Logit*	*Logit*
Observations	6,271	6,271	6,232	6,271	6,271	6,232
Pseudo R2	0.057	0.079	0.095	0.056	0.081	0.094

TABLE 8 (Continued)

Panel B: Change Effects for the Analyst Forecast Earnings Benchmark

	(1)	(2)	(3)	(4)	(5)	(6)
	ΔBUSIPARTNER_PERCEPTION					
	Change Status on the SURP Benchmark			Change from Miss to Beat or Beat to Miss		
VARIABLES						
ΔSURP	0.035	0.019	0.026			
	(0.428)	(0.609)	(0.476)			
MISS_TO_BEAT				-0.118	-0.137	-0.106
				(0.156)	(0.108)	(0.216)
BEAT_TO_MISS				-0.189**	-0.175**	-0.158**
				(0.016)	(0.023)	(0.041)
ΔUEESP	-1.869	-2.156	-2.387	-1.614	-1.877	-2.163
	(0.252)	(0.218)	(0.195)	(0.326)	(0.429)	(0.238)
ΔROA	1.875**	1.883***	1.784**	1.830**	1.846**	1.758**
	(0.017)	(0.006)	(0.011)	(0.022)	(0.013)	(0.012)
ΔSIZE	0.309	0.295	0.359*	0.304	0.288	0.352*
	(0.173)	(0.161)	(0.072)	(0.179)	(0.163)	(0.078)
ΔLEV	-0.681	-0.120	-0.135	-0.716	-0.152	-0.160
	(0.429)	(0.883)	(0.867)	(0.406)	(0.853)	(0.844)
ΔBM	-0.111	-0.099	-0.064	-0.112	-0.101	-0.066
	(0.495)	(0.565)	(0.716)	(0.494)	(0.556)	(0.709)
ΔRD_EXP	-3.178	-3.785	-4.129	-3.261	-3.861	-4.204
	(0.525)	(0.411)	(0.403)	(0.509)	(0.408)	(0.389)
ΔFIRM_AGE	-2.246**	-2.311**	-2.599***	-2.276**	-2.353***	-2.632***
	(0.017)	(0.018)	(0.003)	(0.016)	(0.005)	(0.003)
ΔSTD_RET	-0.189	0.178	0.181	-0.187	0.179	0.182
	(0.398)	(0.343)	(0.361)	(0.404)	(0.356)	(0.357)
ΔNUM_ANALYST	0.002	0.001	0.000	0.002	0.002	0.001
	(0.833)	(0.921)	(0.976)	(0.796)	(0.876)	(0.940)
ΔADS_EXP	2.674	2.437	1.298	2.654	2.474	1.362
	(0.661)	(0.667)	(0.833)	(0.663)	(0.621)	(0.823)
ΔHERF_INDEX	3.480***	2.998***	3.193**	3.505***	3.018***	3.214***
	(0.003)	(0.006)	(0.010)	(0.002)	(0.004)	(0.009)
ΔN_SEG	-0.027	-0.028	-0.040	-0.024	-0.026	-0.038
	(0.639)	(0.635)	(0.478)	(0.673)	(0.671)	(0.487)
ΔSTOCK_RET	-0.014	0.013	0.009	-0.005	0.020	0.015
	(0.850)	(0.832)	(0.890)	(0.941)	(0.749)	(0.821)
ΔGROSS_MARGIN	-0.146	-0.367	-0.378	-0.154	-0.375	-0.388
	(0.659)	(0.172)	(0.156)	(0.640)	(0.203)	(0.144)
ΔE_INDEX	-0.031	-0.108*	-0.111	-0.032	-0.108	-0.112
	(0.397)	(0.097)	(0.106)	(0.387)	(0.114)	(0.107)
CONSTANT	-0.866***	-1.719***	-2.226***	-0.805***	-1.654***	-2.186***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Year FE	No	Yes	Yes	No	Yes	Yes
Industry FE	No	No	Yes	No	No	Yes
Regressions	Logit	Logit	Logit	Logit	Logit	Logit
Observations	6,271	6,271	6,232	6,271	6,271	6,232
Pseudo R2	0.053	0.072	0.089	0.049	0.076	0.091

TABLE 9

The Effects of Beating Earnings Benchmarks on Employee Perceptions of Firms

This table reports the results for the employee sample by estimating Equation (1) to test H3 in logit regressions. *EMPLOYEE_PERCEPTION* is the dependent variable. Columns (1)-(2) show results for the profit benchmark (*PROFIT*). Columns (3)-(4) show results for the increase benchmark (*INCR*). Column (5)-(6) show results for the analyst forecast benchmark (*SURP*). All variables are defined in the Appendix. *p*-values in parentheses are calculated using standard errors clustered by firm and year. *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	EMPLOYEE_PERCEPTION					
VARIABLES	Profit Benchmark		Increase Benchmark		Surprise Benchmark	
PROFIT	0.625	0.479				
	(0.324)	(0.501)				
EPS	-8.783*	-7.133*				
	(0.088)	(0.083)				
INCR			0.522**	0.537***		
			(0.024)	(0.006)		
CHG_EPS			-2.023	-1.446		
			(0.514)	(0.513)		
SURP					0.017	-0.013
					(0.950)	(0.965)
UE_EPS					-10.572	-18.948
					(0.812)	(0.665)
ROA	0.835	0.430	-1.114	-0.666	0.094	-0.032
	(0.711)	(0.844)	(0.593)	(0.763)	(0.967)	(0.989)
SIZE	0.394**	0.360*	0.432***	0.420**	0.417**	0.386**
	(0.041)	(0.083)	(0.000)	(0.040)	(0.030)	(0.049)
LEV	-2.571*	-1.870	-2.777**	-1.809	-2.609*	-1.904
	(0.061)	(0.318)	(0.015)	(0.312)	(0.058)	(0.315)
BM	0.181	0.135	0.083	0.135	0.088	0.077
	(0.520)	(0.747)	(0.628)	(0.745)	(0.752)	(0.854)
RD_EXP	-2.366	-2.430	-1.926	-1.970	-2.118	-2.171
	(0.301)	(0.369)	(0.292)	(0.445)	(0.343)	(0.390)
HERF_INDEX	-1.943**	-4.478**	-2.072***	-5.061**	-2.051**	-4.763**
	(0.030)	(0.025)	(0.002)	(0.011)	(0.020)	(0.016)
CFO	1.309	1.960	2.007	1.969	1.213	1.696
	(0.573)	(0.473)	(0.282)	(0.440)	(0.599)	(0.520)
FIRM_AGE	-1.025*	-1.179*	-1.128***	-1.168*	-1.124**	-1.238*
	(0.081)	(0.088)	(0.001)	(0.093)	(0.047)	(0.068)
LABOR_INTEN	-0.628	-1.607	-0.121	-0.260	-0.359	-1.617
	(0.853)	(0.822)	(0.967)	(0.971)	(0.919)	(0.823)
GROWTH	0.460	0.397	0.092	0.305	0.523	0.429
	(0.588)	(0.624)	(0.898)	(0.702)	(0.521)	(0.599)
EMP_NUM	-0.120**	-0.103	-0.135***	-0.112	-0.130**	-0.112
	(0.042)	(0.206)	(0.005)	(0.179)	(0.048)	(0.171)
STOCK_RET	0.133	0.029	0.132	-0.038	0.056	-0.014
	(0.316)	(0.894)	(0.414)	(0.862)	(0.730)	(0.952)
FIN_DISTRESS	0.491	0.655	0.381	0.912	0.491	0.726
	(0.781)	(0.737)	(0.819)	(0.650)	(0.793)	(0.718)

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TABLE 9 (Continued)

LABOR_STRENGTH	0.406**	0.205	0.405***	0.179	0.413**	0.208
	(0.024)	(0.561)	(0.000)	(0.606)	(0.027)	(0.554)
EMP_PRODUCT	-5.818	-2.784	-1.745	-3.467	-5.989	-3.768
	(0.928)	(0.761)	(0.967)	(0.602)	(0.925)	(0.538)
CEO_COMP	0.010	0.010	0.009	0.017	0.010	0.012
	(0.704)	(0.770)	(0.630)	(0.643)	(0.714)	(0.731)
CONSTANT	1.853	3.552	3.458	3.133	2.512	4.013
	(0.597)	(0.395)	(0.182)	(0.463)	(0.463)	(0.338)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	No	Yes	No	Yes	No	Yes
Regressions	*Logit*	*Logit*	*Logit*	*Logit*	*Logit*	*Logit*
Observations	550	521	550	521	550	521
Pseudo R^2	0.168	0.203	0.171	0.203	0.159	0.197

TABLE 10

The Change Effects of Beating the Increase Benchmark on Employee Perceptions of Firms: Univariate Analysis

This table presents the results for the employee sample using the univariate analysis, which tests the effects of change in the firm's ability to beat the increase benchmark on the change in employee perceptions of firms. Mean and median of change in employee perceptions of firms *(ΔEMPLOYEE_PERCEPTION)* are reported as whether the increase benchmark goes from missing to beating (*ΔINCR*=1), from beating to missing (*ΔINCR*= -1), or no change (*ΔINCR*=0). Panel A shows the comparison between the increase benchmark going from missing to beating and no change. Panel B presents the comparison between the increase benchmark going from beating to missing and no change. All variables are defined in the Appendix. *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: Increase Benchmark Goes from Missing to Beating and No Change

VARIABLES	*ΔINCR* = 1	*ΔINCR* = 0	Difference	*P*-Value
ΔEMPLOYEE_PERCEPTION (Mean)	0.438	0.471	0.033	0.538
ΔEMPLOYEE_PERCEPTION (Median)	0.000	0.000	0.000	0.538

Panel B: Increase Benchmark Goes from Beating to Missing and No Change

VARIABLES	*ΔINCR*= -1	*ΔINCR* = 0	Difference	*P*-Value
ΔEMPLOYEE_PERCEPTION (Mean)	0.352	0.471	0.120**	0.020
ΔEMPLOYEE_PERCEPTION (Median)	0.000	0.000	0.000**	0.022

TABLE 11

The Change Effects of Beating the Increase Benchmark on Employee Perceptions of Firms: Multivariate Analysis

This table reports the results for the employee sample by estimating Equation (2) in logit regressions. It further tests H3 by alleviating the concern of the omitted variables associated with level regressions. *ΔEMPLOYEE_PERCEPTION* is the dependent variable**.** Columns (1)-(3) show results when the increase benchmark changes (*ΔINCR*), while columns (1)-(2) exclude variable *ΔCEO_COMP* to avoid drastic sample reduction. Column (4)-(6) show results when the increase benchmark goes from missing to beating (*MISS_TO_BEAT*) and from beating to missing (*BEAT_TO_MISS*), while columns (4)-(5) exclude variable *ΔCEO_COMP* to avoid drastic sample reduction. *p*-values in parentheses are calculated using standard errors clustered by firm and year. All variables are defined in the Appendix. *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	ΔEMPLOYEE_PERCEPTION					
VARIABLES	Change Status on the INCR Benchmark			Change from Miss to Beat or Beat to Miss		
ΔINCR	0.356**	0.458***	0.455**			
	(0.037)	(0.009)	(0.045)			
MISS_TO_BEAT				0.124	0.059	0.111
				(0.636)	(0.844)	(0.784)
BEAT_TO_MISS				-0.559**	-0.798**	-0.751**
				(0.039)	(0.018)	(0.032)
ΔCHGEPS	1.474*	1.366	1.670	1.646*	1.603	1.828
	(0.097)	(0.353)	(0.402)	(0.063)	(0.307)	(0.202)
ΔROA	-2.234	-1.850	-2.366	-2.406	-2.037	-2.486
	(0.369)	(0.524)	(0.448)	(0.336)	(0.471)	(0.446)
ΔSIZE	0.430	0.377	0.461	0.461	0.438	0.497
	(0.541)	(0.598)	(0.556)	(0.529)	(0.531)	(0.486)
ΔLEV	-4.045**	-4.759**	-5.591**	-3.919*	-4.634**	-5.511**
	(0.016)	(0.034)	(0.024)	(0.063)	(0.021)	(0.038)
ΔBM	-0.107	-0.255	-0.478	-0.101	-0.246	-0.479
	(0.795)	(0.666)	(0.431)	(0.855)	(0.650)	(0.430)
ΔRD_EXP	0.780	0.501	1.367	0.691	0.330	1.260
	(0.853)	(0.874)	(0.778)	(0.849)	(0.936)	(0.727)
ΔHERF_INDEX	-2.695	-3.079	-3.410	-2.971	-3.550	-3.897
	(0.434)	(0.436)	(0.434)	(0.453)	(0.386)	(0.300)
ΔCFO	3.638	4.987**	6.782***	3.817*	5.355**	7.053***
	(0.146)	(0.021)	(0.000)	(0.069)	(0.032)	(0.001)
ΔLABOR_INTEN	-0.022	-0.131	-0.186**	-0.021	-0.130*	-0.185
	(0.784)	(0.130)	(0.046)	(0.823)	(0.060)	(0.108)
ΔFIN_DISTRESS	0.136	-0.189	-0.601	0.064	-0.383	-0.733
	(0.639)	(0.877)	(0.341)	(0.963)	(0.399)	(0.605)
ΔGROWTH	0.453	0.707	0.950	0.454	0.674	0.934
	(0.547)	(0.246)	(0.202)	(0.472)	(0.385)	(0.127)
ΔEMP_PRODUCT	-2.934*	-4.771***	-5.255***	-2.890**	-4.693***	-5.175***
	(0.070)	(0.001)	(0.000)	(0.020)	(0.001)	(0.000)
ΔFIRM_AGE	-0.362	-0.819	-0.741	-0.363	-0.910	-0.799
	(0.789)	(0.562)	(0.696)	(0.755)	(0.553)	(0.679)

(Continued on the next page)

TABLE 11 (Continued)

ΔEMP_NUM	-0.003	0.023	0.030	-0.002	0.024	0.032
	(0.862)	(0.313)	(0.242)	(0.871)	(0.328)	(0.208)
ΔSTOCK_RET	-0.135	-0.259	-0.576**	-0.119	-0.244	-0.554**
	(0.607)	(0.319)	(0.035)	(0.630)	(0.369)	(0.035)
ΔLABOR_STRENGTH	0.003*	0.006***	0.006*	0.004	0.007***	0.007***
	(0.061)	(0.002)	(0.055)	(0.110)	(0.010)	(0.003)
ΔCEO_COMP			-0.042*			-0.041**
			(0.069)			(0.043)
CONSTANT	-0.282	0.480	-0.298***	-0.189	-0.404***	0.435
	(0.204)	(0.540)	(0.000)	(0.435)	(0.000)	(0.594)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	No	Yes	Yes	No	Yes	Yes
Regressions	*Logit*	*Logit*	*Logit*	*Logit*	*Logit*	*Logit*
Observations	413	406	372	413	408	370
Pseudo R^2	0.076	0.111	0.143	0.078	0.119	0.142

TABLE 12

Cross-Sectional Tests for Beating the Profit Benchmark on Consumer Perceptions of Firms

This table reports the results of cross-sectional tests for the consumer sample. *CONSUMER_PERCEPTION* is the dependent variable. Columns (1)-(2) show results only conditional on firm's CSR disclosures. Column (3)-(4) show the results only conditional on the firm's leverage level. Columns (5)-(6) show the results only conditional on the firm's level of profitability. Column (7)-(8) show results for putting them all together. Both industry and year fixed effects are included. *p*-values in parentheses are calculated using standard errors clustered by firm and year (for OLS). The untabulated control variables are the same control variables[12] included in equation (1) for consumers. All variables are defined in the Appendix. *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	CONSUMER_PERCEPTION							
VARIABLES	CSR Disclosure		Level of Leverage		Level of Profitability		All of Them	
PROFIT	3.742***	4.331***	-0..878	-0.891	3.471***	4.142***	-0.868	-0.738
	(0.000)	(0.001)	(0.689)	(0.673)	(0.000)	(0.001)	(0.740)	(0.726)
EPS	-2.458	-2.534	-4.356	-4.523	2.563	1.655	0.189	-0.636
	(0.253)	(0.512)	(0.109)	(0.247)	(0.212)	(0.722)	(0.959)	(0.893)
*PROFIT*CSR_DIS*	-2.938***	-3.045***					-3.014***	-3.093***
	(0.000)	(0.000)					(0.000)	(0.000)
*PROFIT*LEV*			1.592**	1.722***			1.506**	1.620***
			(0.019)	(0.003)			(0.023)	(0.006)
*PROFIT*EPS*					-1.368**	-1.632**	-1.211*	-1.445**
					(0.023)	(0.023)	(0.065)	(0.043)
LEV	-4.579	-1.732	-2.986***	-3.406***	-4.036	-1.286	-2.728***	-2.124***
	(0.205)	(0.385)	(0.000)	(0.002)	(0.253)	(0.521)	(0.006)	(0.005)
CSR_DIS	2.809***	2.894***	-0.127	-0.148	-0.131	-0.148	2.885***	2.947***
	(0.000)	(0.000)	(0.286)	(0.131)	(0.267)	(0.131)	(0.000)	(0.000)
CONTROL_VARS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Regressions	*OLS*	*ROB_RUG*	*OLS*	*ROB_RUG*	*OLS*	*ROB_RUG*	*OLS*	*ROB_RUG*
Observations	842	842	842	842	842	842	842	841
R-squared	0.572	0.605	0.575	0.609	0.573	0.608	0.576	0.611

[12] Due to the space limitation, I do not tabulate all the control variables in the table. The signs and significance for the untabulated control variables are as expected and are similar to those for control variables reported in Table 3.

TABLE 13

Cross-Sectional Tests for Beating Earnings Benchmarks on Business Partner Perceptions of Firms

This table reports the results of cross-sectional tests for the potential business partner sample. The dependent variable is *BUSIPARTNER_PERCEPTION*. Columns (1)-(2) show the results only conditional on the firm's past acquisition activities. Columns (3)-(4) show the results only conditional on the firm's level of profitability. Column (5)-(6) show results for putting them all together. Both industry and year fixed effects are included. *p*-values in parentheses are calculated using standard errors clustered by firm and year (for OLS). The untabulated control variables are the same control variables[13] included in equation (1) for potential business partners. All variables are defined in the Appendix. *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: Cross-Sectional Tests for the Increase Benchmark

	(1)	(2)	(3)	(4)	(5)	(6)
	BUSIPARTNER_PERCEPTION					
VARIABLES	Level of M&A Activity		Level of Profitability		All of Them	
INCR	0.250***	0.261***	0.054	0.060	0.140	0.152*
	(0.001)	(0.000)	(0.587)	(0.472)	(0.171)	(0.080)
CHG_EPS	0.121	0.132	0.283	0.291	0.248	0.256
	(0.553)	(0.650)	(0.149)	(0.325)	(0.204)	(0.386)
EPS	0.378	0.405	-0.335	-0.375	-0.360	-0.404
	(0.607)	(0.381)	(0.662)	(0.504)	(0.638)	(0.471)
*INCR*M&A*	-0.581***	-0.626***			-0.573***	-0.617***
	(0.001)	(0.000)			(0.001)	(0.000)
*INCR*EPS*			1.915**	1.934**	1.859**	1.867**
			(0.030)	(0.015)	(0.031)	(0.019)
M&A	0.425***	0.444***	0.086	0.077	0.418***	0.438***
	(0.003)	(0.001)	(0.487)	(0.402)	(0.003)	(0.001)
CONTROL_VARS	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Regressions	*OLS*	*ROB_RUG*	*OLS*	*ROB_RUG*	*OLS*	*ROB_RUG*
Observations	7,488	7,488	7,488	7,488	7,488	7,488
R-squared	0.422	0.438	0.422	0.438	0.423	0.439

[13] Due to the space limitation, I do not tabulate all the control variables in the table. The signs and significance for the untabulated control variables are as expected and are similar to those for control variables reported in Table 6.

Panel B: Cross-Sectional Tests for the Surprise Benchmark

	(1)	(2)	(3)	(4)	(5)	(6)
	BUSIPARTNER_PERCEPTION					
VARIABLES	Level of M&A Activity		Level of Profitability		All of Them	
SURP	0.233***	0.259***	0.027	0.036	0.087	0.095
	(0.000)	(0.000)	(0.748)	(0.657)	(0.261)	(0.267)
UE_EPS	-3.445	-3.775	-0.839	-1.190	-1.243	-1.579
	(0.166)	(0.179)	(0.750)	(0.679)	(0.628)	(0.584)
EPS	0.758	0.805*	-0.174	-0.160	-0.168	-0.159
	(0.242)	(0.075)	(0.748)	(0.764)	(0.787)	(0.765)
*SURP*M&A*	-0.431***	-0.432**			-0.409***	-0.405**
	(0.008)	(0.018)			(0.010)	(0.026)
*SURP*EPS*			2.623***	2.923***	2.558**	2.851***
			(0.002)	(0.000)	(0.013)	(0.000)
M&A	0.361**	0.354**	0.080	0.069	0.345**	0.334**
	(0.020)	(0.018)	(0.509)	(0.455)	(0.024)	(0.025)
CONTROL_VARS	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Regressions	*OLS*	*ROB_RUG*	*OLS*	*ROB_RUG*	*OLS*	*ROB_RUG*
Observations	7,488	7,488	7,488	7,488	7,488	7,488
R-squared	0.422	0.438	0.422	0.439	0.422	0.440

TABLE 14

Cross-Sectional Tests for Beating the Increase Benchmark on Employee Perceptions of Firms

This table reports the results of cross-sectional tests for the employee sample. *EMPLOYEE_PERCEPTION* is the dependent variable Columns (1)-(2) show results only conditional on the firm's labor strength. Columns (3)-(4) show results only conditional on the firm's level of profitability. Column (5)-(6) show results for putting them all together. Both industry and year fixed effects are included. *p*-values in parentheses are calculated using standard errors clustered by firm and year (for OLS). The untabulated control variables are the same control variables[14] included in equation (1) for employees. All variables are defined in the Appendix. *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	EMPLOYEE_PERCEPTION					
VARIABLES	Level of Labor Strength		level of Profitability		All of Them	
INCR	0.799***	0.852***	0.636*	0.885**	0.701*	0.935**
	(0.000)	(0.000)	(0.078)	(0.037)	(0.052)	(0.030)
EPS	-1.072**	-1.797*	-1.065	-1.576	-1.432	-1.518
	(0.024)	(0.088)	(0.108)	(0.216)	(0.103)	(0.237)
*INCR*LABOR_STRENGTH*	-0.191***	-0.285***			-0.197***	-0.278***
	(0.000)	(0.003)			(0.000)	(0.004)
*INCR*EPS*			1.837	-3.981	2.887	-2.344
			(0.834)	(0.681)	(0.757)	(0.828)
LABOR_STRENGTH	0.443***	0.333	0.339**	0.175	0.450***	0.328
	(0.008)	(0.342)	(0.046)	(0.621)	(0.008)	(0.357)
CONTROL_VARS	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	No	Yes	No	Yes	No	Yes
Regressions	*Logit*	*Logit*	*Logit*	*Logit*	*Logit*	*Logit*
Observations	549	521	549	521	549	521
Pseudo R2	0.151	0.211	0.149	0.209	0.151	0.211

[14] Due to the space limitation, I do not tabulate all the control variables in the table. The signs and significance for the untabulated control variables are as expected and are similar to those for control variables reported in Table 9.

Essay Two: An Examination of Manager Priorities in Meeting or Beating Certain Earnings Benchmarks

Chapter 9: Introduction

In Essay One, I provide empirical evidence for the theoretical prediction that non-investor stakeholders' perceptions are significantly positively related to a firm's ability to beat the benchmark that is most relevant to each stakeholder. In this essay, I examine whether and how managers consider their non-investor stakeholders in prioritizing which earnings benchmarks to meet or beat.

Given the various needs of both investors and non-investor stakeholders, it is crucial to understand whether and how managers incorporate their varying preferences when deciding which earnings benchmarks to emphasize. Investors provide economic support to the firm and they primarily expect firms to meet or beat the analyst's forecast estimate due to the valuation relevance of earnings information (Bartov et al., 2002; Brown and Caylor, 2005; Graham et al., 2005). Non-investor stakeholders also use relevant information to evaluate the firm and determine the level of support they provide to the firm. Unlike investors, different groups of non-investor stakeholders have different implicit and explicit claims on the firms, and the most important earnings benchmark for each stakeholder varies with the different nature of these implicit and explicit claims. Therefore, as I find in Essay One, consumers, employees, and potential business partners rely primarily on the profit benchmark, the earnings increase benchmark, and the analyst's forecast benchmark, respectively, to form and revise their assessments of the firm.

Given the different demands of firms' investors and non-investor stakeholders, it is ex ante difficult to predict which benchmarks managers will emphasize. On the one hand, because managers of publicly traded companies face intense capital market pressure, their overriding motivation may be to meet or beat analysts' forecasts, which prior research shows to be the most important earnings to investors (Brown and Calyor, 2005; Graham et al., 2005). Moreover, if managers miss the analyst's forecasts, the firm could risk suffering high litigation costs. In addition to the pressure from the capital market, media forces such as financial press reports and online discourse also create pressure for managers to meet analyst's forecasts (Bartov et al. 2002).

On the other hand, managers are also incentivized to meet or beat earnings benchmarks besides analysts' forecasts that are relevant to non-investors such as consumers, employees, and potential business partners. By beating other relevant earnings benchmarks, firms are able to assure these stakeholders that the firm's business is stable and the firm has the ability to fulfill its implied commitments in the long term, leading to more favorable terms of trade with these stakeholders (Bowen et al., 1995; Burgstahler and Dichev,1997; Matsumoto, 2002; Graham et al., 2005; Chakravarthy et al., 2014). Therefore, managers of publicly traded firms may emphasize their non-investor stakeholders when prioritizing which earnings benchmarks to meet or beat.

In this study, I generate the percentile rank of the overall stakeholder dependence score for each stakeholder group, such as consumers, employees, and potential business partners. This overall score measures a firm's reliance on specific types of stakeholders. For a given firm year, the highest percentile rank (no tie) among the three stakeholder groups will define the stakeholder group on which the firm has focused. Then, for each stakeholder group, I conduct

two tests to examine whether and how managers prioritize meeting or beating specific benchmarks that are most relevant to the favored stakeholder group or to investors.

In the first test, I compare the frequency with which firms beat each benchmark when each earnings benchmark (i.e. the profit benchmark, the earnings increase benchmark, the analyst's forecast benchmark) is the most difficult to beat. The earnings benchmark that is the hardest to beat is defined as the maximum value of the three earnings benchmarks (zero, the firm's last year earnings, and the analyst's forecasts) for a firm-year. This test is used to demonstrate that when earnings benchmarks are the most difficult to meet or beat, firms will prioritize meeting or beating the benchmark they most value to minimize potential losses.

In the second test, I compare the frequency with which firms meet or just beat (by less than one cent) each benchmark in actual earnings when the pre-managed earnings falls short of the associated earnings benchmark (Roychowdhury, 2006; Kim, 2011; Drake et al., 2017). The pre-managed earnings is computed by subtracting the abnormal accruals and the abnormal real-activities from the actual earnings. The abnormal accruals are estimated from the modified Jones model, and the abnormal real activities are defined as the sum of three abnormal real activities estimated from Roychowdhury (2006): the abnormal cash flows from operations, abnormal production costs (multiplied by negative one), and abnormal discretionary expense (Gunny, 2010; Kim, 2011). This test indicates that firms are likely to manipulate earnings to most frequently meet or just beat the firm's prioritized benchmark in actual earnings when pre-managed earnings falls short of the associated benchmark.

In the first test, I find that firms beat the analyst's forecast benchmark around six (ten) times as often as they beat the earnings increase benchmark (the profit benchmark) when each

benchmark is the most difficult to beat. I find similar results in the second test. Firms which emphasize different stakeholder groups all beat the analyst's forecast benchmark several times more frequently than they beat the other benchmarks when the pre-managed earnings fall short of the associated benchmark. These findings indicate that firm managers are unduly pressed by the capital market. Therefore, they prioritize meeting or beating the analyst's forecast benchmark to meet market expectations, even if their firms rely heavily on non-investor stakeholders who are more interested in other earnings benchmarks.

Interestingly, I notice that consumer-focused firms meet or beat the profit benchmark more often than non-consumer focused firms when the profit benchmark is the most difficult to beat or when the pre-managed earnings falls short of zero. Likewise, I find that employee-focused firms meet or beat the increase benchmark more frequently than non-employee focused firms when the increase benchmark is the most difficult to beat or when the pre-managed earnings falls short of the last year's earnings. These results suggest that managers do to some extent respond to the demands of their firm's emphasized stakeholders by meeting or beating the relevant earnings benchmarks more often than managers do at firms which do not prioritize these stakeholders.

Overall, the above findings indicate that capital market pressures heavily influence managers to prioritize beating or meeting the analyst's forecast benchmark, at least in the short term. However, managers will not necessarily disregard the needs of various non-investor stakeholders. Managers are more likely to meet or beat differing earnings benchmarks (e.g. the profit benchmark, the earnings increase benchmark) if their firms emphasize particular stakeholder groups.

This paper makes a number of contributions. First, to my knowledge, it is the first to classify firms based on their reliance on different types of stakeholders. It is crucial to identify firms by the stakeholder groups they most value, because each group has unique implicit and explicit claims on the firm. By understanding which group of stakeholders is most important to their firm, managers may better address the needs of these key stakeholders. As a result, satisfied stakeholders will support the firm more strongly, and the firm will be able to build a better reputation among their stakeholders and gain more favorable terms of trade with them.

Second, this study contributes to our understanding of whether and how firms prioritize certain earnings benchmark over others given the competing demands imposed by capital market pressure and the needs of their key non-investor stakeholders. It is ex ante unclear which earnings benchmark managers of public firms choose to emphasize. Previous studies document that investors primarily value the analyst's forecast estimate. Firm managers, however, may not necessarily focus on meeting the analyst's forecasts, as they are beholden to firms' other prioritized stakeholders as well. However, my findings show that even at firms that rely heavily on a specific non-investor stakeholder group, managers still place the most emphasis on the analyst's forecast benchmark. This indicates that although firms rely on key stakeholders, firm managers are overwhelmingly influenced by the capital market and financial press, and possibly their concerns about their careers and reputations.

Finally, this study also has implications for managerial decisions and guidance. In the short term, it is wise for managers to focus on meeting or beating the analyst's expectations to avoid negative capital market reactions and to enhance their management credibility. However, in the long term, managers would benefit from meeting or beating earnings benchmarks that are

most relevant to their favored stakeholders. In doing so, firms could boost their reputations among their targeted stakeholders and convey the message that the firm's business is stable and that the firm has the ability to fulfill its implied commitments in the future.

The remainder of this study proceeds as follows. Chapter 10 discusses related theory and relevant literature. Chapter 11 develops hypotheses. Chapter 12 outlines the research design. Chapter 13 discusses the sample and descriptive statistics. Chapter 14 describes the empirical results. Chapter 15 discusses the robustness check. Chapter 16 concludes.

Chapter 10: Related Theory and Literature Review

A firm's stakeholders, who include investors, employees, customers, and potential business partners, provide various forms of necessary support to the firm (Freeman and Reed, 1983; Freeman, 1984; Cornell and Shapiro 1987; Clarkson, 1995). Each type of stakeholder has a claim (or "stake") in the company based on its association with and support of the firm. These claims essentially represent expectations that the stakeholder has of the company. Each type of stakeholder assesses the status of its claims on an ongoing basis and decides, based on this assessment, whether to continue its support of the company and on what terms.

10.1. Firm Investors and their Use of the Analyst's Forecast Benchmark

Firm investors' claims represent the future cash flows to which they are entitled based on the capital they have provided to the firm. Investors decide their willingness to provide additional equity capital and the cost of that capital based on the expected amount and riskiness of future cash flows. Analyst's forecasts are useful for investors to assess firm's performance of the future cash flows. As Bartov et al. (2002, p.175) point out: "Earnings surprises apparently possess information content with respect to future earnings [and cash flows] as evidenced by the positive association between earnings surprises and future firm performance." Therefore, investors primarily reward (penalize) firms for beating (missing) the analyst's forecast benchmark (Kasznik and McNichols, 2002; Lopez and Rees, 2002; Brown and Caylor, 2005).

In addition, Brown and Caylor (2005) document that the analyst's forecast has become the most salient benchmark for firm investors since the mid-1990s. The authors further provide various explanations on why investors unambiguously reward firms for meeting or beating

quarterly analyst's estimates: an increase in media coverage of analyst forecasts, an increase in firms covered by analysts, contemporary increases in the accuracy of analyst forecasts, and greater analyst following.

As a result of investors' demands, firm managers have various incentives to meet or beat the analyst's forecast estimates. Beating the analyst's forecasts helps a firm build credibility in the capital market, maximize the firm's stock price, and reduce stock price volatility. Beating the analyst's forecast benchmark also helps boost management credibility and hence enhance a manager's external reputation. In addition, meeting the analyst's forecasts helps a firm maintain its image in the financial media and avoid the litigation costs that could result from unfavorable earnings surprise (Bartov et al., 2002; Graham et al., 2005).Therefore, firm managers may emphasize meeting or beating the analyst's forecast benchmark over the other benchmarks both to satisfy the investors' needs and for the reasons discussed above.

10.2. Firm Non-Investor Stakeholders and Their Use of the Earnings-Based Heuristics

Non-investor stakeholders determine the amount of support they provide to a company based on their assessments of the current status of their claims (i.e. a company's ability to meet its commitments). Prior theoretical and empirical research suggests that stakeholders will rely heavily on earnings as part of these assessments (Cornell and Shapiro, 1987; Bowen et al., 1995; Burgstahler and Dichev, 1997; Degeorge et al.,1999; Graham et al., 2005). Matsumoto (2002) summarizes these theoretical arguments, stating that "[a] firm's other stakeholders—customers, employees, suppliers, and so forth—are also consumers of its financial information, [and] firm's financial image influences stakeholders' assessments of its ability to fulfill its implied commitments, leading to more favorable terms of trade with these stakeholders" (p.491).

Furthermore, Burgstahler and Dichev (1997) and Degeorge, Patel, and Zeckhauser (1999) point out that non-investor stakeholders particularly rely on heuristics to process earnings information to cope with the cost of "retriev(ing) and process(ing) detailed information about earnings for all the firms with which they transact (explicitly and implicitly)" (Burgstahler and Dichev,1997, p.123). Therefore, previous studies theorize that non-investor stakeholders base their assessments on simple decision rules related to whether firms meet or beat key benchmarks such as profit, earnings growth, and analyst forecast (Burgstahler and Dichev,1997; Degeorge et al., 1999; Masumoto, 2002; Graham et al., 2005).

Non-investor stakeholders prioritize differing earnings benchmarks that are most relevant to their unique claims. In essay one, I find that consumers prioritize the profit benchmark when they evaluate firms. Customers base their assessment on the firm's product quality and its ability to continue supplying of product or service over the product life (Bowen et al.,1995). Therefore, the profit benchmark is salient for consumers in evaluating a firm's likelihood of survival and fulfillment of implied commitments in the future (Bowen et al.,1995; Chakravarthy et al., 2014).

I further find that employees most value the earnings increase benchmark. Employee claims can be weighted between debt-like (pension plan) and equity-like (stock options) components depending on the nature of their compensation. Therefore, the growth benchmark is essential for employees in evaluating a firm's ability to fulfill its implied pension obligation as well as the firm's potential growth. Additionally, psychological theories indicate that employees gain satisfaction (i.e. their morale increases) from being associated with growing companies (Kays, 2011; Koch and Park, 2011; Quantum Workplace, 2015), which provides an additional explanation for the importance of the increase benchmark to employees.

Finally, I find that potential business partners value both the analyst's forecast benchmark and the growth benchmark. Potential business partners base decisions on their assessment of the firm's ability to generate a sufficient equity return. Potential business partner claims, like equity claims, represent the real option value they ascribe to the possibility of sharing in the value created from potential future collaborations with the firm (Fotla and Miller, 2002; Reuer and Tong, 2010). Beyond the equity returns, potential business partners also expect their collaborators to have growth opportunities and prospects in the future. Therefore, potential business partners emphasize the analyst forecast benchmark as well as the growth benchmark.

In response to the different needs of non-investor stakeholders, firm managers often claim that they are incentivized to meet or beat various earnings benchmarks. Graham et al. (2005) document that more than 60% of surveyed CEOs believe that beating earnings benchmarks is important to assure stakeholders that a firm's business is stable. Stakeholder motivations are vital for managers in making accounting decisions. An interviewed CFO, in an industry in which confidence of retail customers is extremely critical, "said that concerns about the stakeholder hypothesis is a significant determinant of the accounting and disclosure decisions" (Graham et al., 2005, p.27). Furthermore, by beating relevant earnings benchmarks, firms are able to enhance their reputations with stakeholders, and hence get better terms of trade (Bowen et al., 1995; Burgstahler and Dichev,1997; Matsumoto, 2002; Graham et al., 2005).

In summary, investors rely heavily on the analyst forecast benchmark, while non-investor stakeholders value various earnings benchmarks. Consumers, employees, and potential business partners prioritize the profit benchmark, the growth benchmark, and the analyst forecast benchmark, respectively. It is crucial to explore how managers prioritize certain earnings

benchmarks given both the capital market pressures and the various demands from non-investor stakeholders. Additionally, this question becomes even more important when certain types of stakeholders are vital to the firm's survival in the long term.

Chapter 11: Hypothesis Development

As discussed in section *10.1.*, previous studies suggest that investors with equity incentives will primarily rely on the analyst forecast benchmark in evaluating a firm's performance. In response to investors' needs, managers are motivated to meet or beat the analyst's forecasts to maintain or increase the share price, to boost management's credibility, and to avoid negative exposure on the financial press and the related litigation costs. Therefore, if firm managers are influenced primarily by the capital market pressure, they will always prioritize beating the analyst forecast benchmark, even if their firms rely heavily on specific groups of stakeholders.

As discussed in section *10.2.*, both theory and survey evidence indicate that non-investor stakeholders will rely on earnings benchmarks to reduce the information search and processing costs when assessing a firm's ability to fulfill its implied commitments. However, as mentioned above, in evaluating a firm's performance, non-investor stakeholders use various earnings benchmarks depending on their unique claims. Having debt-like claims, consumers emphasize the profit benchmark. Having equity-like claims, potential business partners use the analyst forecast benchmark. Since employee claims can be weighted between debt-like and equity-like components and employees are likely to gain satisfaction with growing firms, employees may emphasize the earnings increase benchmark. Therefore, for firms which rely substantially on specific non-investor stakeholder groups, managers may prioritize the different earnings benchmarks which correspond to each stakeholder group's unique claims.

Given the above factors, it is difficult to predict which earnings benchmark managers value the most given pressures from both the capital market and various non-investor

stakeholders. Therefore, I propose the capital market hypothesis as well as the stakeholder hypotheses in the alternative forms.

The Capital Market Hypothesis:

H1*: Ceteris paribus, managers for firms which rely heavily on stakeholders prioritize meeting or beating the analyst forecast benchmark.*

The Stakeholder Hypotheses:

H2*: Ceteris paribus, managers for firms which rely heavily on consumers prioritize meeting or beating the profit benchmark.*

H3*: Ceteris paribus, managers for firms which rely heavily on employees prioritize meeting or beating the earnings increase benchmark.*

H4*: Ceteris paribus, managers for firms which rely heavily on potential business partners prioritize meeting or beating the analyst forecast benchmark and the earnings increase benchmark.*

Chapter 12: Research Design

12.1. Identifying Firms with Reliance on Different Group of Stakeholders

In order to determine which stakeholder group a firm prioritizes, I generate an overall stakeholder dependency score for consumers, employees, and potential business partners. This score measures the extent to which a firm relies on each stakeholder group. I compare the percentile ranks of the overall scores among different stakeholder groups, and use the stakeholder group with the highest percentile rank as the stakeholder group the firm values the most. For example, a consumer-focused firm is defined as a firm for which the percentile rank of the overall score for consumers is the highest among all the stakeholder groups. To calculate the overall score for each stakeholder group, I use several proxy variables from the literature (Hamel et al, 1989; Bowen et al., 1995; Anand and Khanna, 2000; Matsumoto, 2002; Hilary, 2006).

To measure overall stakeholder dependency score for consumers, I use three proxies: 1) a dummy variable to indicate membership in durable goods industries with SIC codes in 150-179, 245, 250-259, 283, 301, and 324-399 (Bowen et al., 1995; Matsumoto, 2002). 2) Research and Development (R&D) expenditures scaled by the last year total assets. This variable indicates the product uniqueness (Matsumoto, 2002). 3) Advertising expenditures scaled by the last year total assets. This variable presents the quality of the product (Bowen et al., 1995). To ensure each variable is weighted equally, I scale the percentile ranks of the R&D expenses and advertising expenses in the range [0, 1]. Finally, for each firm-year, I add up the values of three proxy variables to determine the overall score for consumers.

Similarly, I construct the overall stakeholder dependency score for employees based on three variables: 1) Labor intensity. This is defined as the firm's number of employees scaled by

last year total assets (Hilary, 2006). To ensure each variable is weighted equally, I scale the percentile rank of the labor intensity variable in the range [0, 1]. Firms with high labor intensity are likely to rely more heavily on their employees than firms with high capital intensity (Bowen et al, 1995). 2) A dummy variable used to indicate the existence of a defined benefit pension plan. This variable has been used in labor economics literature to represent implicit claims with employees (Bowen et al., 1995). Following Bowen et al. (1995), I define a firm with a defined benefit pension plan as a firm which has non-negative value for projected pension obligation or for assumed rate of return for pension benefits as reported on Compustat. 3) A dummy variable used to identify firms with employee stock options. Firms grant employees stock options to attract more talented employees and ensure employee dedication. Finally, for each firm-year, I add up the values of those three variables to determine the overall score for employees.

Likewise, to compute overall stakeholder dependency score for potential business partners, I use three variables: 1) a dummy variable to indicate membership in industries within which there are significant alliance or joint venture activities (industries such as high technology, communications, pharmaceuticals). The SIC codes of those categorized industries are 283, 357, 366, 367, 371 (Anand and Khanna, 2000). 2) A dummy variable used to identify firms which have modest market shares in the industry. Firms very likely choose to collaborate with business partners who have moderate size and market power compared with industry leaders (Hamel et al, 1989). Therefore, I rank firms' market shares into quartiles. The dummy variable is equal to one for firms in the second and third quartiles and zero otherwise. 3) A dummy variable that suggests the existence of M&A or strategic alliance activities in the past five years. I obtain the data for M&A and alliance activities from the SDC Platinum. I assume that historical collaborations may

generate potential opportunities for future partnerships. Finally, for each firm-year, I add up the values of the three variables to determine the overall score for potential business partners.

12.2. The First Test: Beating Earnings Benchmarks when the Benchmarks Are Toughest to Beat

One way to determine which benchmark managers prioritize is by testing how frequently a firm beats relevant earnings benchmarks when each benchmark is the most difficult to beat. Specifically, I compare the values of three earnings benchmarks, zero, the firm's last year earnings, and the analyst's forecast estimates for a given firm year. The earnings benchmark associated with the maximum value of all three benchmarks represents the most difficult benchmark to reach. I calculate the proportion of times a firm beats each earnings benchmark when each benchmark is the hardest to beat. I assume the benchmark which a firm beats most frequently when it is the most difficult to beat is the benchmark managers have prioritized. I conduct this test independently for consumers, employees, and potential business partners. The detailed categorizations of these three groups are described in the section *12.1.*

Given that managers are bound to both meet market expectations and satisfy non-investor stakeholders, it is ex ante unclear how managers decide which benchmark to prioritize. If the financial market force dominates, I expect that managers will prioritize the analyst forecasts regardless of the firm's reliance on specific groups of stakeholders. In that case, firms will beat the analyst's forecast benchmark with the highest frequency when it is the hardest to beat. However, if non-investor stakeholders are substantially important to firms, I expect that firm managers will place emphasis on the earnings benchmark that is most relevant to their prioritized stakeholder group. Specifically, firms which heavily rely on consumers, employees, and potential business partners will most often beat the profit benchmark, the earnings increase

benchmark, and the analyst's forecast benchmark, respectively, when each of the earnings benchmark is most difficult to beat.

12.3. The Second Test: Beating Earnings Benchmarks when Pre-Managed Earnings Fall Short

An alternative way to determine which earnings benchmark managers prioritize is through earnings management. Essentially, I examine how frequently a firm's actual earnings beats the benchmark when the pre-managed earnings falls short of the associated benchmark. One of the most common means to manage earnings is to manipulate accruals without direct cash flow consequences, which are therefore referred to as accrual-based management (e.g., Healy and Wahlen, 1999; Kothari, 2001; Fields et al, 2001). Recent research demonstrates increased understanding of the importance of how firms manage earnings through real activities manipulation in addition to accrual-based activities (e.g. Gunny, 2005; Roychowdhury, 2006; Zang, 2006; Cohen and Zarowin, 2010).

Therefore, I define pre-managed earnings as the actual earnings in absence of both types of earnings management (accruals and real activities). When a firm's pre-managed earnings falls short of the associated benchmark, the firm will miss that benchmark in the absence of earnings management. However, if a firm's actual earnings meets or just beats the benchmark by one cent or less, it is highly likely that managers manipulate earnings (Roychowdhury, 2006; Kim, 2011; Drake et al., 2017). I calculate the proportion of times a firm meets or just beats each earnings benchmark in actual earnings when the pre-managed earnings falls short. If firm managers prioritize a specific earnings benchmark, they will likely manipulate pre-managed earnings that falls short of the associated benchmark to most frequently meet or slightly beat the benchmark in actual earnings. I conduct this test for each of the stakeholder groups which are described in

details in section *12.1*. In order to calculate the pre-managed earnings for each firm year, I estimate the discretionary (abnormal) accruals and abnormal real activities using the following earnings management models from the literature.

12.3.1. Accruals-Based Earnings Management Model

Following the modified Jones model suggested by Dechow, Sloan, and Sweeny (1995), I estimate the normal level of accruals for firm *i* in fiscal year *t* based on the following cross-sectional regressions for each 2 digit SIC code and year:

$$\frac{TA_{i,t}}{Asset_{i,t-1}} = \alpha + \beta_1 \frac{1}{Asset_{i,t-1}} + \beta_2 \frac{\Delta Sales_{i,t}}{Asset_{i,t-1}} + \beta_3 \frac{PPE_{i,t}}{Asset_{i,t-1}} + \varepsilon_{i,t} \quad (1)$$

TA represents the total accruals defined as the difference between the earnings before extraordinary items and discontinued operations and the cash flows from continuing operations taken from the statement of cash flows. $Asset_{i,t-1}$ represents total assets, $\Delta Sales_{i,t}$ is the change in revenues from the previous year, and $PPE_{i,t}$ is the gross value of property, plant, and equipment.

The coefficient estimates from Equation (1) are used to estimate the firm-specific normal accruals for my sample firms. The discretionary (abnormal) accruals are the difference between total accruals and the fitted normal accruals, calculated from equation (2).

$$NA_{i,t} = \hat{\beta}_1 \frac{1}{Asset_{i,t-1}} + \hat{\beta}_2 \frac{\Delta Sales_{i,t}}{Asset_{i,t-1}} + \hat{\beta}_3 \frac{PPE_{i,t}}{Asset_{i,t-1}} \quad (2)$$

12.3.2. Real Earnings Management Estimation Models

As in Roychowdury (2006), I consider three metrics used to improve earnings to study the real operational activities: the abnormal levels of cash flow from operations ($CFO_{i,t}$), production costs ($PROD_{i,t}$), and discretionary expenses ($DISEXP_{i,t}$). One way managers could increase earnings is to temporarily boost sales during the year. In order to do that, managers usually offer price discounts or more lenient credit terms, yet both of these will result in lower cash flows. Alternatively, managers may also produce more products than necessary to boost earnings. However, when a firm overproduces, other production and holding costs will lead to higher production costs (relative to sales) and lower cash flows from operations. In addition, managers may decrease discretionary expenses such as research and development expenses, advertising expenses, and SG&A expenses to increase earnings in the current period. As a result, firms may have to sacrifice future sales associated with those costs saved in the current year. Due to these factors, if managers manipulate earnings through real operational activities, firms are likely to exhibit unusually low cash flow from operations, unusually high production costs, or unusually low discretionary expenses.

Following Roychowdhury (2006) and Cohen and Zarowin (2010), I first estimate the normal level of cash flows from operations for firm *i* in fiscal year *t* by running the following cross-sectional regressions for each 2 digit SIC code and year:

$$\frac{CFO_{i,t}}{Asset_{i,t-1}} = \alpha + \beta_1 \frac{1}{Asset_{i,t-1}} + \beta_2 \frac{Sales_{i,t}}{Asset_{i,t-1}} + \beta_3 \frac{\Delta Sales_{i,t}}{Asset_{i,t-1}} + \varepsilon_{i,t} \qquad (3)$$

where $CFO_{i,t}$ is the cash flows from operations taken from the statement of cash flows. $Asset_{i,t-1}$ represents total assets in the last year. $Sales_{i,t}$ is the total sales during the current year,

$\Delta Sales_{i,t}$ is the change in revenues from the previous year. Abnormal $CFO_{i,t}$ is actual $CFO_{i,t}$ minus the normal level of $CFO_{i,t}$ calculated using the estimated coefficients from equation (3).

Production costs are defined as the sum of cost of goods sold and change in inventory during the year. To estimate normal production costs, I first estimate the normal cost of goods sold ($COGS_{i,t}$) and normal level of change in inventory ($\Delta INV_{i,t}$) using the following the following two regressions for every industry (2-digit SIC code) and year:

$$\frac{COGS_{i,t}}{Asset_{i,t-1}} = \alpha + \beta_1 \frac{1}{Asset_{i,t-1}} + \beta_2 \frac{Sales_{i,t}}{Asset_{i,t-1}} + \varepsilon_{i,t} \quad (4)$$

$$\frac{\Delta INV_{i,t}}{Asset_{i,t-1}} = \alpha + \beta_1 \frac{1}{Asset_{i,t-1}} + \beta_2 \frac{\Delta Sales_{i,t}}{Asset_{i,t-1}} + \beta_3 \frac{\Delta Sales_{i,t-1}}{Asset_{i,t-1}} + \varepsilon_{i,t} \quad (5)$$

where $COGS_{i,t}$ is cost of goods sold in the current year, and $\Delta INV_{i,t}$ is the change in inventory from the previous year. Using (4) and (5), I estimate the normal level of production costs ($PROD_{i,t}$) as a sum of $COGS_{i,t}$ and $\Delta INV_{i,t}$ below. Abnormal $PROD_{i,t}$ is the difference between actual $PROD_{i,t}$ and the normal level of $PROD_{i,t}$ estimated from equation (6).

$$\frac{PROD_{i,t}}{Asset_{i,t-1}} = \alpha + \beta_1 \frac{1}{Asset_{i,t-1}} + \beta_2 \frac{Sales_{i,t}}{Asset_{i,t-1}} + \beta_3 \frac{\Delta Sales_{i,t}}{Asset_{i,t-1}} + \beta_4 \frac{\Delta Sales_{i,t-1}}{Asset_{i,t-1}} + \varepsilon_{i,t} \quad (6)$$

Following Roychowdury (2006), I define discretionary expenses ($DISEXP_{i,t}$) as the sum of research and development expenses, advertising expenses, and SG&A expenses. Similarly, I estimate the normal level of discretionary expenses by running the following cross-sectional regressions for each 2 digit SIC code and year:

$$\frac{DISEXP_{i,t}}{Asset_{i,t-1}} = \alpha + \beta_1 \frac{1}{Asset_{i,t-1}} + \beta_2 \frac{Sales_{i,t}}{Asset_{i,t-1}} + \varepsilon_{i,t} \quad (7)$$

where $DISEXP_{i,t}$ represents the discretionary expenses in the current year. Abnormal $DISEXP_{i,t}$ is actual $DISEXP_{i,t}$ minus the normal level of $DISEXP_{i,t}$ calculated using the estimated coefficients from (7).

Overall, real activities earnings manipulations can be represented by the abnormal cash flow from operations, abnormal production costs, or abnormal discretionary expenses estimated from cross-sectional regressions (3), (6), and (7). However, since a firm can alter more than one type of real activity simultaneously, it is necessary to include an aggregated measure which better captures the overall effect of the real earnings management behavior of firms near earnings thresholds (Gunny, 2010; Kim, 2011). Specifically, I multiply abnormal production costs by negative one so that the negative value is associated with opportunistic overproduction. Then, to get the aggregated measure for abnormal real activities, I take the sum of abnormal cash flow from operations, abnormal production costs multiplied by negative one, and abnormal discretionary expenses. After deducting a firm's abnormal accruals and the aggregated abnormal real activities from its actual earnings, I determine the firm's pre-managed earnings. The benchmark which a firm's actual earnings most frequently meets or just beats when its pre-managed earnings falls short is the benchmark managers have prioritized.

Overall, it is difficult to predict how managers will decide which benchmark to prioritize given the pressures from market expectations and demands from various non-investor stakeholders. In this context, if the capital market force dominates, I expect that firms will most frequently meet or slightly beat the analyst's forecast benchmark when the pre-managed earnings

fall short of the analyst forecast estimates. However, if appeasing specific group of non-investor stakeholders is a key consideration to firms, I expect that firms which heavily rely on consumers, employees, and potential business partners will most often meet or just beat the profit benchmark, the earnings increase benchmark, and the analyst's forecast benchmark, respectively, when the pre-managed earnings fall short of the associated benchmarks.

Chapter 13: Sample and Descriptive Statistics

In this study, I use three samples from 1990 to 2015, corresponding to the three non-investor stakeholder groups addressed in this essay: (1) consumers, (2) employees, and (3) potential business partners. I define the stakeholder group a firm emphasizes as the group with the highest percentile rank of the overall stakeholder dependency scores, described in section *9.1*. The sample for firms focusing on consumers contains 57,616 firm-years, the sample for firms emphasizing employees contains 64,287 firm-years, and the sample for firms prioritizing potential business partners contains 32,058 firm-years.

Panels A1, B1, and C1 of Table 1 provide descriptive statistics for variables used to construct the stakeholder dependency scores for consumers, employees, and potential business partners, respectively. Panels A2, B2, and C2 of Table 1 further provide the results of the contingency tables for dummy variables that I use in those three samples, respectively. The detailed descriptions of all the variables discussed are specified in section *12.1*.

In Panel A1of Table 1, I find that all consumer factor variables have much higher mean values (0.635, 0.509, and 0.164) in consumer-focused firms than in non-consumer focused firms. Two variables (Scaled Percentile Rank of R&D Expenses and Scaled Percentile Rank of Advertising Expenses) also have much higher median values (0.818 and 0.778). These findings indicate that the consumer-focused firms have been properly categorized because firms that prioritize consumers perform much better in consumer-related factors than firms that emphasize non-consumer stakeholders. In Panel A2 of Table 1, I further note that the majority (94.78%) of firms in the durable industries are consumer-focused firms. This finding provides additional evidence that the classification of consumer focused firms is accurate.

Similarly, in Panel B1 of Table 1, I find that all employee factor variables have much higher mean values (0.514, 0.563, and 0.209) in employee-focused firms than in non-employee focused firms. Two variables (scaled percentile rank of labor intensity and a dummy variable which indicates employees' defined benefit plans) also have much higher median values (0.525 and 1.000). These statistics suggest that the employee-focused firms have been properly grouped because they excel in employee-related factors compare to other firms. In Panel B2 of Table 1, I further note that employee-focused firms make up the majority (86.54% and 78.66%) of firms with defined benefit plans and of firms which grant employees stock options. This finding corroborates the definition of employee emphasized firms.

Likewise, in Panel C1 of Table 1, I find that the three potential business partner (dummy) factor variables have much higher mean values (0.336, 0.865, and 0.652) in potential business partner-focused firms than other firms. Two dummy variables also have much higher median values (1.000 and 1.000). These results imply that the potential business partner-focused firms have been properly defined because they perform better in partner-related factors compare to other firms. In Panel C2 of Table 1, I further note that firms which prioritize potential business partners make up the majority (50.23%, 50.93%, and 49.93%) of firms which are used in business collaboration and will potentially form future business partnerships. This finding also indicates that the classification of business partner emphasized firms is valid.

In Table 2, I present examples of firms that prioritize each type of stakeholders to better illustrate the features of firms that focus on different groups of stakeholders. Panels A, B, and C of Table 2 each display a sample of ten of the largest firms which appeared in the data for at least two years. Specifically, in Panel A of Table 2, I find that many consumer-focused firms are in

either in durable (consumer) goods industries or are in industries with high innovations (R&D expenses), such as automotive, computer, consumer electronics, pharmaceutical, and healthcare industries, consistent with the definition of durable industries in Bowen et al. (1995). More interestingly, I find that eight out of the ten companies have been rated as the most reputable companies in Reputation Institute's annual consumer surveys. This finding indicates that the firms I classify as consumer-focused companies have the features I would expect. Furthermore, the responses from surveyed consumers further demonstrate that consumer-focused companies indeed value their consumers the most.

In Panel B of Table 2, I find that employee-focused firms are in various industries. However, the commonality between these firms is that they are highly valued and rated (the minimum rating is 3.8 out of 5.0) by their employees based on the rating and review evidence from Indeed.com and Glassdoor. In addition, I note that more than half of the sample companies have been listed in *Best Companies to Work for*, the annual employee survey report. Particularly, according to *Fortune* magazine as of 2017, Google has been rated the number one place to work for the eighth time in 11 years. These findings suggest that employee-focused companies are well grouped and employees respond to companies which value them the most.

Similarly, in Panel C of Table 2, I find that many business partner-focused firms are in industries within which there are significant alliances and joint venture activities, such as high-tech, telecommunications, and medical devices industries, consistent with the industry types defined in Anand and Khanna (2000). More interestingly, I find that eight out of the ten sample companies are rated by the industry experts as the *Most Admired Companies* in *Fortune'*s annual surveys. This finding indicates that the firms I classify as partner-focused companies have the

features as expected. Furthermore, the responses from business experts further demonstrate that business partner-focused companies are able to form strong future business collaborations.

Chapter 14: Empirical Results

Table 3 presents the results of the first test, which examines how frequently (measured in frequency and percentage) firms that prioritize different stakeholder groups meet or beat each earnings benchmark when it is the hardest to beat. Specifically, Panels A, B, and C report the results for firms that focus on consumers, employees, and potential business partners, respectively. Consistent with the capital market hypothesis, I find that, for firms focusing on each stakeholder group, firms beat the analyst's forecast benchmark around six (ten) times as often as they beat the earnings increase benchmark (the profit benchmark) when the associated benchmark is the most difficult to beat. This finding indicates that managers are more likely to beat the analyst's forecast estimates than the other benchmarks when each earnings benchmark is hard to reach, suggesting that they emphasize the analyst's forecast benchmark.

Table 4 reports the outcomes of the second test, which examines how frequently managers manipulate earnings to meet or just beat earnings benchmark (by less than one cent) when the pre-managed earnings falls short of the associated benchmark. In Table 4, Panel A, B, and C report the results for firms which heavily reply on consumers, employees, and potential business partners, respectively. Similarly, I find that for each stakeholder group, firms beat the analyst's forecast benchmark several times more frequently than they beat the other two benchmarks when the pre-managed earnings fall short, which also supports the capital market hypothesis (H1). This finding implies that managers are more incentivized to manage earnings to meet or just beat the analyst's forecast estimates than the other two earnings benchmarks, further demonstrating manager's preference for the analyst's forecast benchmark.

These findings suggest that firm managers are very likely overwhelmed by capital market pressures. Therefore, they will prioritize meeting or beating the analyst's forecast benchmark over the other two benchmarks even if their firms rely heavily on specific stakeholder groups. My results echo the survey evidence from Graham et al. (2005) that over 80% of interviewed CFOs agree or strongly agree that the primary reasons to meet earnings benchmarks are to help firms build credibility within the capital market and maintain or increase the firm's stock price. Furthermore, 73.5% of the survey participants (financial executives) indicate that the analyst's forecast estimate of earnings per share (EPS) for current quarter is a crucial benchmark for their companies when they report quarterly earnings (Graham et al., 2005) .

Despite the fact that managers are unduly pressured by market expectations, they will not necessarily disregard the needs of various non-investor stakeholders. In Essay One, I document that because they have debt–like claims, consumers primarily rely on the profit benchmark to assess the likelihood of firm's survival and the continuing supply of products and services over the product life. Likewise, having both debt-like and equity-like claims, employees most value the growth benchmark in evaluating a firm's ability to fulfill its implied pension obligation as well as the firm's potential growth.

Interestingly, in this essay, I find that managers do to some extent respond to the demands of those stakeholders. Specifically, in Table 3 and Table 4, I find that consumer-focused firms meet or beat the profit benchmark more often than non-consumer focused firms when the profit benchmark is the most difficult to beat or when the pre-managed earnings falls short of zero. I further find that employee-focused firms meet or beat the increase benchmark

more frequently than non-employee focused firms when the earnings increase benchmark is the hardest to meet or beat or when the pre-managed earnings falls short of the last year earnings.

These findings indicate that managers are more likely to emphasize meeting or beating the profit benchmark (the earnings increase benchmark) for consumer-focused firms (employee-focused firms) than for firms which do not heavily rely on consumers (employees). Acknowledging that specific non-investor stakeholders are vital to the firm, managers are incentivized to meet or beat earnings benchmarks that are most relevant to those stakeholders to ensure that their firm's business is stable and the firm has the ability to fulfill its implied future commitments to those stakeholders. Although the results do not fully support the stakeholder hypotheses, they at least suggest that managers are more likely to address the needs of non-invest stakeholders if their firms prioritize these particular stakeholder groups.

As a whole, the results above imply that capital market pressures heavily influence publicly traded firms and therefore managers of those firms tend to prioritize the analyst's forecast benchmark to meet the market expectations, at least in the short term. In addition to financial market obligation, managers place some emphasis (though they do not strongly prioritize) on meeting or beating the earnings benchmarks (e.g. the profit benchmark, the earnings growth benchmark) most relevant to the specific group of non-investor stakeholders on which their firms relies. In summary, firm managers are motivated to beat differing earnings benchmarks for the sake of various stakeholders; however, they most emphasize meeting or beating the analyst forecast benchmark to build market credibility and to boost their firm's stock price.

Chapter 15: Robustness Checks

I conduct several additional tests (untabulated) to examine the sensitivity of the results. First, I design an alternative to the first test which examines how frequently firms beat earnings benchmarks when each benchmark is the easiest to beat. I find that when each benchmark is the easiest to beat, firms most frequently beat the analyst's forecast benchmark. In addition, I notice that once firms have successfully beaten the analyst's forecast estimates, managers much less often beat the profit benchmark and the earnings increase benchmark. On the other hand, when firms have already beaten the other two benchmarks, managers are still highly incentivized to continue to beat the analyst forecast benchmark. In summary, the results are consistent with what I find in the first test, which indicates that managers, influenced by the capital market, always prioritize meeting or beating the analyst's forecast benchmark.

Second, I conduct a modified test based on the second test. In order to examine which earnings benchmark firm managers value the most, I examine how frequently firms' actual earnings meet or just beat (by less than one cent) the benchmark when all the pre-managed earnings fall short of the associated earnings benchmarks. Similarly to the results of the second test, I find that given that their pre-managed earnings all fall short, managers most frequently meet or just beat the analyst's forecast benchmark across all stakeholder samples. This again indicates that publicly traded firms are dominated by financial market expectations. Furthermore, I notice that consumer-focused (employees-focused) firms beat the profit benchmark (the earnings increase benchmark) more frequently than the non-consumer focused (the non-employee focused) firms, when all the pre-managed earnings fall short of related benchmarks. This means that for firms that heavily rely on consumers or employees, managers still place a

certain emphasis (even though they may not prioritize) on beating the profit benchmark or the growth benchmark to satisfy prioritized non-investor stakeholders. These findings are consistent with what I find in the second test.

Additionally, to ensure the robustness of the results, I use the I/B/E/S earnings as an alternative measure to the actual Earnings (EPS) reported on Compustat for both the first test and the second test. I also redefine pre-managed earnings as the actual earnings minus the abnormal real activities in the format of aggregated measure or the individual components. The results hold tightly in all the cases discussed above. Moreover, in the second test, I redefine "just beat" as a firm beating the earnings benchmark by less than 0.5 cent (rather less than 1 cent). The results are not sensitive to this change either.

Chapter 16: Conclusion

In Essay One, I find that non-investor stakeholders use various earnings benchmarks that are most relevant to their claims when evaluating firms. In this essay, I investigate whether a firm's managers at stakeholder-focused firms will prioritize certain earnings benchmarks to respond to the pressure from the capital market as well as demands from different non-investor stakeholders. I partition firms based on the stakeholder dependency score, which measures the extent to which firms rely on a specific group of stakeholders. To measure which earnings benchmark firm managers value the most, I conduct two tests to examine how frequently firms meet or beat the earnings benchmarks when each benchmark is the most difficult to reach and when the pre-managed earnings falls short of each associated benchmark.

I find that for firms focusing on each stakeholder group, firm managers meet or beat the analyst's forecast benchmark several times more frequently than they meet or beat the profit benchmark and the increase benchmark. This finding suggests that firm managers are likely overwhelmed by pressures of the capital market. Even if their firms rely heavily on specific stakeholder groups, managers still prioritize meeting or beating the analyst's forecast benchmark over the other two benchmarks.

Additionally, I find that consumer-focused (employee-focused) firms meet or beat the profit benchmark (the increase benchmark) more often than non-consumer (non-employee) focused firms when the profit benchmark (increase benchmark) is the most difficult to beat or when the pre-managed earnings falls short of zero (the last year's earnings). These results indicate that managers do to some extent respond to the demands of non-investor stakeholders by meeting or beating the earnings benchmarks that are most important to these stakeholders. In

summary, although managers are pressed by the financial market to prioritize meeting or beating the analyst forecasts, they still value firm's emphasized non-investor stakeholders and seek to meet or beat earnings benchmarks most relevant to them.

This study makes several contributions to the literature. First, to my knowledge, it is the first to classify firms based on their reliance on different types of stakeholders. By understanding which group of stakeholders a firm most values, managers may better address the needs of these key stakeholders based on their unique implicit and explicit claims on firms. Second, this study helps us better understand whether and how firms prioritize certain earnings benchmarks over the other benchmarks given capital market influence and the needs of their key stakeholders. Finally, this study also provides guidance for managers regarding which earnings benchmarks to emphasize in the short term and in the long term. This is important to accounting research and practice.

Appendix. Variable Definitions

Variables	Definitions
Earnings Variables	
EPS	A firm's earnings per share before extraordinary items in the current year divided by its stock price at the end of the previous year, corresponding to the profit benchmark.
CHG_EPS	The changes in a firm's earnings per share before extraordinary items from the previous year to the current year, divided by its stock price at the end of the previous year, corresponding to the increase benchmark.
UE_EPS	The consensus of analyst forecast error, computed as firm's actual earnings per share minus the most recent analyst's earnings forecast for the current year, corresponding to analyst forecast benchmark
PROFIT BENCHMARK	A dummy variable which equals one if a firm's basic earnings per share before extraordinary items is no less than zero, and zero otherwise.
INCREASE BENCHMARK	A dummy variable which equals one if changes in a firm's earnings per share before extraordinary items is no less than zero, and zero otherwise
ANALYST'S FORECAST BENCHMARK	A dummy variable which equals one if the consensus of analyst forecast error, defined as that a firm's actual earnings per share minus the most recent earnings forecast of each analyst, is no less than zero, and zero otherwise
TOTAL ACCRUALS (TA)	The total accruals, the difference between the earnings before extraordinary items and discontinued operations and the cash flows from continuing operations taken from the statement of cash flows.
ABNORMAL ACCRUALS	The abnormal accruals, the difference between total accruals and the fitted normal accruals calculated from the Equation (2).
CFO	The actual cash flows from operations from the statement of cash flows.
ABNORMAL CFO	The abnormal cash flows from operations, the difference between the actual cash flows from operations and the normal level of cash flows from operations calculated from the Equation (3).
PROD	The actual production costs, the sum of Cost of Goods Sold and the change in inventory from the previous year.
ABNORMAL PROD	The abnormal production costs, the difference between the actual production costs and the normal level of production costs estimated from the Equation (6).
DISEXP	The discretionary expenses, the sum of firm's R&D expenses, advertising expenses, and the selling, general, and administrative expenses.
ABNORMAL DISEXP	The abnormal discretionary expenses, the difference between the actual discretionary expenses and the normal level of discretionary expenses.
ABNORMAL REAL ACTIVITIES	An aggregated measure for abnormal real activities, which is the sum of abnormal cash flow from operations, abnormal production costs multiplied

	by negative one, and abnormal discretionary expenses.
PRE_MANAGED EARNINGS	Firm's pre-managed earnings, equals to the actual earnings minus the abnormal accruals and the aggregated abnormal real activities.
PRE_EPS	The difference between the pre-managed earnings and zero
PRE_CHG_EPS	The difference between the pre-managed earnings and firm's last year earnings
PRE_UE_EPS	The difference between the pre-managed earnings the firm's most recent analyst's earnings forecast for the current year.
Other Variables	
COGS	The cost of goods sold in the current year
Δ *INV*	The change in inventory from the previous year
ASSET	The total assets in the current year
Δ *SALES*	The change in revenues from the previous year
PPE	The gross value of property, plant and equipment in the current year
R&D EXPENSE	Firm's research and development expense in the current year
ADVERTISING EXPENSE	Firm 's advertising expense in the current year
SG&A EXPENSE	Firm's selling, general, and administrative expenses in the current year.
M&A	A dummy variable which equals one if the firm have M&A or strategic alliance activities in the past five years, and zero otherwise. (Data is obtained from SDC platinum)
LABOR INTENSITY	Firm's number of employees in the current year scaled by its total assets at the beginning of the year, following (Hilary, 2006)
EMPLOYEE OPTION	An aggregate measure for the percentage of employee options reported from the ExecuComp to the firm level.

Table 1

Descriptive Statistics and Contingency Tables

This table presents descriptive statistics and the contingency tables for variables used to identify firms by the group of stakeholders they prioritize. Panel A1 shows descriptive statistics of consumer factor variables and Panel A2 shows the contingency table results for the consumer dummy variables in Panel A1. Panel B1 reports descriptive statistics of employee factor variables and Panel B2 presents the contingency table results for employee dummy variables in Panel B1. Panel C1 shows descriptive statistics of potential business partner factor variables and Panel C2 shows the contingency table results for potential business partner dummy variables in Panel C1.

Panel A1. Descriptive Statistics of Consumer Factor Variables

Scaled Percentile Rank of R&D Expenses						
	Mean	Median	Std Dev	Max	Min	N
Consumer-Focused Firms	0.635	0.818	0.387	1	0	57616
Employee-Focused Firms	0.164	0.000	0.312	1	0	64287
Partner-Focused Firms	0.259	0.000	0.383	1	0	32058

Scaled Percentile Rank of Advertising Expenses						
	Mean	Median	Std Dev	Max	Min	N
Consumer-Focused Firms	0.509	0.778	0.438	1	0	57616
Employee-Focused Firms	0.116	0.000	0.297	1	0	64287
Partner-Focused Firms	0.075	0.000	0.239	1	0	32058

A Dummy Variable which Indicates the Membership in Durable Goods Industries						
	Mean	Median	Std Dev	Max	Min	N
Consumer-Focused Firms	0.164	0.000	0.370	1	0	57616
Employee-Focused Firms	0.001	0.000	0.031	1	0	64287
Partner-Focused Firms	0.014	0.000	0.119	1	0	32058

Table 1 (Continued)

Panel A2. Contingency Table for Consumer Factor Dummy Variables

A Dummy Variable which Indicates the Membership in Durable Goods Industries					
	Counts	Column PCT	Counts	Column PCT	Total Number
The Value of the Dummy Variable	0	0	1	1	
Consumer-Focused Firms	48167	33.45%	9449	94.78%	57616
Employee-Focused Firms	64226	44.60%	61	0.61%	64287
Partner-Focused Firms	31599	21.94%	459	4.60%	32058
Total Number	143992	100.00%	9969	100.00%	153961

Table 1 (Continued)

Panel B1. Descriptive Statistics of Employee Factor Variables

Scaled Percentile Rank of Labor Intensity						
	Mean	Median	Std Dev	Max	Min	Total Number
Consumer-Focused Firms	0.345	0.346	0.262	1	0	57616
Employee-Focused Firms	0.514	0.525	0.300	1	0	64287
Partner-Focused Firms	0.361	0.303	0.284	1	0	32058

A Dummy Variable which Indicates Employee's Defined Benefit Plans						
	Mean	Median	Std Dev	Max	Min	Total Number
Consumer-Focused Firms	0.063	0.000	0.243	1	0	57616
Employee-Focused Firms	0.563	1.000	0.496	1	0	64287
Partner-Focused Firms	0.062	0.000	0.241	1	0	32058

A Dummy Variable which Indicates Employee's Stock Options						
	Mean	Median	Std Dev	Max	Min	Total Number
Consumer-Focused Firms	0.038	0.000	0.191	1	0	57616
Employee-Focused Firms	0.209	0.000	0.407	1	0	64287
Partner-Focused Firms	0.045	0.000	0.208	1	0	32058

Table 1 (Continued)

Panel B2. Contingency Table for Employee Factor Dummy Variables

A Dummy Variable which Indicates Employee's Defined Benefit Plans					
	Counts	Column PCT	Counts	Column PCT	Total Number
The Value of the Dummy Variable	0	0	1	1	
Consumer-Focused Firms	53980	48.13%	3636	8.69%	57616
Employee-Focused Firms	28098	25.06%	36189	86.54%	64287
Partner-Focused Firms	30065	26.81%	1993	4.77%	32058
Total Number	112143	100.00%	41818	100.00%	153961

A Dummy Variable which Indicates Employee's Stock Options					
	Counts	Column PCT	Counts	Column PCT	Total Number
The Value of the Dummy Variable	0	0	1	1	
Consumer-Focused Firms	55422	40.50%	2194	12.82%	57616
Employee-Focused Firms	50828	37.14%	13459	78.66%	64287
Partner-Focused Firms	30600	22.36%	1458	8.52%	32058
Total Number	136850	100.00%	17111	100.00%	153961

Table 1 (Continued)

Panel C1. Descriptive Statistics of Potential Business Partner Factor Variables

A Dummy Variable which Indicates Membership in Industries with Business Collaborations						
	Mean	Median	Std Dev	Max	Min	Total Number
Consumer-Focused Firms	0.168	0.000	0.363	1	0	57616
Employee-Focused Firms	0.094	0.000	0.292	1	0	64287
Partner-Focused Firms	0.336	0.000	0.472	1	0	32058

A Dummy Variable which Indicates Firm's Modest Market Power (Market Shares in the 2nd or the 3rd Quartiles)						
	Mean	Median	Std Dev	Max	Min	Total Number
Consumer-Focused Firms	0.432	0.000	0.495	1	0	57616
Employee-Focused Firms	0.368	0.000	0.482	1	0	64287
Partner-Focused Firms	0.865	1.000	0.342	1	0	32058

A Dummy Variable which Indicates Firms' M&A and Strategic Alliance Activities in the Past Five Years						
	Mean	Median	Std Dev	Max	Min	Total Number
Consumer-Focused Firms	0.315	0.000	0.465	1	0	57616
Employee-Focused Firms	0.339	0.000	0.474	1	0	64287
Partner-Focused Firms	0.652	1.000	0.476	1	0	32058

Table 1 (Continued)

Panel C2. Contingency Table for Potential Business Partner Factor Dummy Variables

A Dummy Variable which Indicates Membership in Industries with Business Collaborations					
	Counts	Column PCT	Counts	Column PCT	Total Number
The Value of the Dummy Variable	0	0	1	1	
Consumer-Focused Firms	46434	40.04%	11182	29.43%	57616
Employee-Focused Firms	58256	50.23%	6031	15.87%	64287
Partner-Focused Firms	11278	9.73%	20780	54.69%	32058
Total Number	115968	100.00%	37993	100.00%	153961

A Dummy Variable which Indicates Firm's Modest Market Power (Market Shares in the 2nd or the 3rd Quartiles)					
	Counts	Column PCT	Counts	Column PCT	Total Number
The Value of the Dummy Variable	0	0	1	1	
Consumer-Focused Firms	37729	44.02%	19887	29.13%	57616
Employee-Focused Firms	43647	50.93%	20640	30.24%	64287
Partner-Focused Firms	4325	5.05%	27733	40.63%	32058
Total Number	85701	100.00%	68260	100.00%	153961

A Dummy Variable which Indicates Firms' M&A and Strategic Alliance Activities in the Past Five Years					
	Counts	Column PCT	Counts	Column PCT	Total Number
The Value of the Dummy Variable	0	0	1	1	
Consumer-Focused Firms	39445	42.38%	18171	29.84%	57616
Employee-Focused Firms	46465	49.93%	17822	29.27%	64287
Partner-Focused Firms	7159	7.69%	24899	40.89%	32058
Total Number	93069	100.00%	60892	100.00%	153961

Table 2

Examples for Specific-Stakeholder Focused Companies

This table presents examples of firms focusing on different non-investor stakeholders. The ten sample firms for each panel are the largest firms in each sample group. I further require that those firms appear at least twice to ensure each sample is representative. The last column for each panel presents practical evidence on how stakeholders rate or remark those example firms. Specially, Panel A shows examples for consumer-focused companies. Panel B displays examples for employee-focused companies. Panel C lists examples for potential business partner-focused companies.

Panel A. Examples of Consumer-Focused Companies

	Companies	**Industries**	**The Most Reputable Companies in the Consumer Survey (Reputation Institute)**
1	Toyota Motor Group	Automotive	Yes
2	AT&T Inc.	Telecommunications	Yes
3	Apple Inc.	Computer and Consumer Electronics	Yes
4	Ford Motor	Automotive	Yes
5	Daimler A.G.	Automotive	No
6	Pfizer	Pharmaceutical	Yes
7	Wal-Mart Stores	Retail	Yes
8	Microsoft Corp	Computer and Consumer Electronics	Yes
9	Amazon.com Inc	Internet Consumer Retail	Yes
10	Johnson& Johnson	Consumer Healthcare, Medical Devices and Pharmaceuticals	No

Table 2 (Continued)

Panel B. Examples of Employee-Focused Companies

	Companies	Industries	Employee Ratings on Indeed.com or Glassdoor
1	General Electric Co.	Conglomerate	4.3/5.00
2	Google (Alphabet)	Information Technology, Computers	4.6/5.00
3	Berkshire Hathaway	Conglomerate	4.1/5.00
4	China Mobile Ltd	Telecommunications	3.8/5.00
5	Chevron Corp.	Oil and gas	3.9/5.00
6	Nestle SA/AG	Food processing	4.1/5.00
7	BP Plc	Oil and gas	4.3/5.00
8	International Business Machine Corp	Information Technology, Computers	4.5/5.00
9	Oracle Corp	Enterprise software	3.9/5.00
10	Visa Inc.	Financial services	4.00/5.00

Table 2 (Continued)

Panel C. Examples of Potential Business Partner-Focused Companies

	Companies	**Industries**	**The Most Admired Companies Rated by Industry Experts**
1	Cisco System Inc.	Networking Equipment	Yes
2	Viavi Solutions	Networking Equipment	No
3	Qualcomm Inc.	Telecommunications and Semiconductors	No
4	American Express Co.	Banking, Financial Services	Yes
5	Ericsson	Telecommunications Equipment	Yes
6	Celgene Corp	Biotechnology	Yes
7	UnitedHealth Group Inc.	Health Care	Yes
8	Medtronic	Medical devices	Yes
9	DuPont	Conglomerate	Yes
10	Boston Scientific	Medical equipment	Yes

TABLE 3

Tests for Firms' Beating Earnings Benchmarks when Each Earnings Benchmark is the Most Difficult to Beat

This table reports the results of the first test, which examines how frequently (measured in frequency and percentage) a firm beats earnings benchmarks when each benchmark is the hardest to beat for firms that prioritize different stakeholder groups. Panel A presents results for consumer-focused firms; Panel B shows results for employee-focused firms; Panel C reports results for business partner-focused firms.

Panel A: Tests for Firms which Prioritize Consumers

	Frequency	Percentage
Meet or beat the profit benchmark (*EPS* >=0)	285	7.67%
When the profit benchmark is the hardest to beat (0 > *EPS_last* & 0 > *AF_Consensus*)	3718	
Meet or beat the earnings increase benchmark (*CHG_EPS* >=0)	405	10.29%
When the earnings increase benchmark is the hardest to beat (*EPS_last >0* & *EPS_last >AF_Consensus*)	3937	
Meet or beat the analyst's forecast benchmark (*UE_EPS >=0*)	4836	67.94%
When the analyst's forecast benchmark is the hardest to beat (*AF_Consensus >0* & *AF_Consensus >EPS_last*)	7118	

Panel B: Tests for Firms which Prioritize Employees

	Frequency	Percentage
Meet or beat the profit benchmark (*EPS* >=0)	85	6.19%
When the profit benchmark is the hardest to beat (0 > *EPS_last* & 0 > *AF_Consensus*)	1374	
Meet or beat the earnings increase benchmark (*CHG_EPS* >=0)	962	11.20%
When the earnings increase benchmark is the hardest to beat (*EPS_last >0* & *EPS_last >AF_Consensus*)	8586	
Meet or beat the analyst's forecast benchmark (*UE_EPS >=0*)	9617	64.95%
When the analyst's forecast benchmark is the hardest to beat (*AF_Consensus >0* & *AF_Consensus >EPS_last*)	14806	

TABLE 3 (Continued)

Panel C: Tests for Firms which Prioritize Potential Business Partners

	Frequency	Percentage
Meet or beat the profit benchmark (*EPS* >=0)	52	4.16%
When the profit benchmark is the hardest to beat (0 > *EPS_last* & 0 > *AF_Consensus*)	1250	
Meet or beat the earnings increase benchmark (*CHG_EPS* >=0)	281	9.83%
When the earnings increase benchmark is the hardest to beat (*EPS_last >0* & *EPS_last >AF_Consensus*)	2858	
Meet or beat the analyst's forecast benchmark (*UE_EPS >=0*)	3108	69.48%
When the analyst's forecast benchmark is the hardest to beat (*AF_Consensus >0* & *AF_Consensus >EPS_last*)	4473	

TABLE 4

Tests for Firms' Beating Earnings Benchmarks when Pre-Managed Earnings Falls Short of the Associated Benchmark

This table reports the results of the second test, which examines how frequently (measured in frequency and percentage) a firm meets or just beats earnings benchmark when the pre-managed earnings falls short of related benchmark for firms that prioritize different stakeholder groups. Panel A, Panel B, and Panel C present results for firms that emphasize consumers, employees and potential business partners, respectively.

Panel A: Tests for Firms which Prioritize Consumers

	Frequency	Percentage
Meet or just beat the profit benchmark (*0<=EPS <=0.01*)	1245	5.16%
When the pre-managed earnings falls short of zero (*PRE_EPS<0*)	24121	
Meet or just beat the earnings increase benchmark (*0<=CHG_EPS <=0.01*)	2096	11.83%
When the pre-managed earnings falls short of the earnings increase benchmark (*PRE_CHG_EPS<0*)	17723	
Meet or just beat the analyst's forecast benchmark (*0<=UE_EPS <=0.01*)	4917	54.30%
When the pre-managed earnings falls short of the analyst's forecast benchmark (*PRE_UE_EPS<0*)	9056	

Panel B: Tests for Firms which Prioritize Employees

	Frequency	Percentage
Meet or just beat the profit benchmark (*0<=EPS <=0.01*)	514	3.63%
When the pre-managed earnings falls short of zero (*PRE_EPS<0*)	14160	
Meet or just beat the earnings increase benchmark (*0<=CHG_EPS <=0.01*)	2779	14.57%
When the pre-managed earnings falls short of earnings increase benchmark (*PRE_CHG_EPS<0*)	19071	
Meet or just beat the analyst's forecast benchmark (*0<=UE_EPS <=0.01*)	5594	58.24%
When the pre-managed earnings falls short of the analyst's forecast benchmark (*PRE_UE_EPS<0*)	9605	

TABLE 4 (Continued)

Panel C: Tests for Firms which Prioritize Potential Business Partners

	Frequency	Percentage
Meet or just beat the profit benchmark (*0<=EPS <=0.01*)	419	4.79%
When the pre-managed earnings falls short of zero (*PRE_EPS<0*)	8755	
Meet or just beat the earnings increase benchmark (*0<=CHG_EPS <=0.01*)	884	10.45%
When the pre-managed earnings falls short of earnings increase benchmark (*PRE_CHG_EPS<0*)	8461	
Meet or just beat the analyst's forecast benchmark (*0<=UE_EPS <=0.01*)	2295	54.76%
When the pre-managed earnings falls short of the analyst's forecast benchmark (*PRE_UE_EPS<0*)	4191	

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