Arbeitskreis Quantitative Steuerlehre
Quantitative Research in Taxation – Discussion Papers

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arqus Discussion Paper No. 301
April 2025

www.arqus.info
ISSN 1861-8944

MANAGEMENT REPUTATION FOR CREDIBLE FINANCIAL REPORTING

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April 25, 2025

Abstract: We examine how a CEO develops a reputation for credible financial reporting and how this reputation influences investor reactions to earnings announcements. We find that investors discount earnings news when CEOs have both strong incentives to misreport and weak reporting reputations. Further, we show that the reputation for reporting integrity is CEO-specific— a firm can restore its reputation for credible financial reporting by appointing a new CEO. Disclosures about discretionary accruals, like the allowance for doubtful accounts, play a key role in shaping these reputations. Our findings underscore the importance of ethical reporting.

Keywords: Credible financial reporting; earnings manipulation; reputation

JEL Classification Codes: G14; J63; M40; M41

Acknowledgements: We thank Vivek Raval for helpful discussion. All errors are our own.

I. INTRODUCTION

A distinctive feature of the financial reporting environment is that firms have discretion when applying the accounting policies and procedures to report under generally accepted accounting principles. Recognizing this discretion, managers may choose to report their firms' results in a fashion that maximizes their own self-interests instead of in a manner that faithfully represents their firms' performance. Investors may rationally anticipate this self-serving behavior, and given their beliefs about management reporting integrity, adjust their responses to the firms' financial reports accordingly (Fischer and Verrecchia, 2000; Dye and Sridhar, 2004; Ferri, Zheng and Zou, 2018). Investors, however, typically are uncertain about a manager's reporting incentives (Aboody and Kasznik, 2000; Einhorn, 2007). Bayesian investors will revise their beliefs about a firm management's reporting integrity in response to the firm's reporting behavior (e.g., Fischer and Stocken, 2004; Yang, 2012). In this light, we study how management may develop a reputation for credible financial reporting and how investors assess this reputation when responding to a firm's financial reporting.

To motivate this study, consider the reporting behavior of VF Corporation, a publicly traded apparel and footwear company. The company owns more than 30 brands, including Dickies, Eastpak, JanSport, North Face, Timberland, and Vans. In its Fiscal 2014 SEC 10-K filing, VF Corporation reported an impairment of goodwill and intangible assets of approximately $400 million. Between Fiscal 2006 and 2014, the amount of accounts receivable written off exceeded additions to the allowance for doubtful accounts (either via bad debt expense or acquisitions) by over $23 million. Strikingly, about 80 percent of this decline in the allowance for doubtful accounts balance occurred in Fiscal 2014, the only year between Fiscal 2009 and 2014 in which net income fell. The decline in the allowance for doubtful accounts balance increased VF's net income, partly offsetting the substantial reduction in net income that the impairment charge caused in Fiscal 2014.

How might the investors revise their response to this fact pattern when assessing the firm's reporting integrity? Investors might regard VF as having previously overstated its bad debt expenses, thereby creating a "cookie jar" reserve that it used in Fiscal 2014 to dampen the fall in its net income, and causing investors to doubt the integrity of the firm's reporting. Investors might regard VF as being better able to evaluate its credit risks, and accordingly, view it as appropriately reducing its allowance for doubtful accounts. These explanations, although not mutually exclusive, are likely to induce differing investor assessments over time of the firm's reporting behavior.[1]

Against this background, this paper examines whether investors assess a firm's reporting of its allowance for doubtful accounts and, more broadly, its discretionary accruals *over time* to form an assessment of management's reputation for credible financial reporting. Additionally, the paper examines how the firm's reporting reputation affects the investor response to its financial reporting and whether a firm's board of director can restore its reputation for credible financial reporting through top CEO turnover.[2]

Our paper has three key sets of results. First, we show that a firm CEO's reputation for credible reporting affects the investor reaction to unexpected earnings. We find that the investor reaction to unexpected earnings depends on the CEO's reputation only when the CEO has an incentive to bias unexpected earnings. Conversely, when the incentive to bias earnings is absent, investors do not condition their response to unexpected earnings on a CEO's reputation.

Second, we examine whether a firm can restore the credibility of its reporting by replacing its CEO who has a weak reputation for credible reporting. Mindful of investors behaving in a Bayesian fashion when updating their beliefs about the CEO's reporting reputation, we find in the first year of the change that investors do not condition their reaction to the firm's unexpected

[1] Jackson and Liu (2010) show firms use their allowance for doubtful accounts to manage their earnings. Further, they note that SEC has targeted firms for seemingly managing this allowance account. For instance, the SEC required SunTrust Banks, Inc. to reverse $100 million of its loan loss allowance as the SEC argued it had an unnecessarily large allowance that it used to manage its earnings.

[2] We use the labels chief executive officer, CEO, and manager interchangeably.

earnings on the old CEO's reporting history nor on the new CEO's reporting behavior. In the second and subsequent years, however, investors base their reaction to the firm's unexpected earnings on the new CEO's reporting reputation. We conclude that the reputation for credible reporting attaches to the CEO and not the firm. Thus, a firm, by changing its CEO, can reset its reputation for credible reporting.

Third, we explore how investors use the firm's financial reports to form their beliefs about a CEO's reputation for credible reporting. As SEC Regulation S-X, Rule 12-09, mandates firms to provide disclosure about their allowance for doubtful accounts and changes in the allowance, we conjecture investors will use this disclosure to update their beliefs about the firm's reporting history. We find that investors update their beliefs about the CEO's reporting reputation based on this prominent disclosure. In addition to this avenue for biasing earnings, CEOs can use various other accrual adjustments to manage earnings. These other adjustments, however, are often less visible to investors: for instance, changes in estimates of an asset's useful life or a reserve for product warranties. Even though these accrual adjustments might be less visible to investors, we find that the reputation for credible reporting based on the allowance for doubtful accounts is positively correlated with the reputation based on total discretionary accruals—metaphorically, the manipulation of the allowance for doubtful accounts reflects the "tip of the iceberg." Consistent with this notion, we find that investors react to the management reputation based on the allowance for doubtful accounts and total discretionary accruals. Accordingly, we conclude that managers, to develop a strong reporting reputations, ought to forthrightly report not only accruals that are transparently disclosed, but more broadly forthrightly report those accruals that are less prominently disclosed.

Our paper is related to several streams of literature. It is related to the literature examining accruals-based earnings management of specific accounts.[3] Jackson and Liu (2010) find firms

[3] For an extensive survey of the earnings management literature, see Dechow, Ge, and Schrand (2010).

manage their bad debt expense and the associated allowance for doubtful accounts to meet or beat analysts' earnings forecasts. Cassell, Myers, and Seidel (2015) find that accruals-based earnings management of deferred tax valuation allowances and allowance for doubtful accounts is lower among firms with transparent disclosures than among firms without transparent disclosures.

Our study differs from this antecedent work as we consider how a firm's reporting behavior affects investors assessment over time of the firm's reporting reputation. In this regard, our paper is reminiscent of Chen et al. (2005) that examines how investors learn about the forecasting ability of analysts. Similarly, it is reminiscent of Yang (2012) that shows that the stock price reaction to management forecast news is stronger when information uncertainty is high and when management has a record of issuing more accurate forecasts, suggesting that management benefits from establishing a reputation for forecasting accurately. Forecasting accuracy is measured as the difference between the management forecast and actual earnings, scaled by the firm's stock price. Relatedly, Hutton and Stocken (2021) examine the properties of management earnings forecasting records and whether the accuracy of the prior earnings forecasts affects the investor response to subsequent management earnings forecasts. Within the context of a Bayesian model of investor learning, they find that the stock price response to management forecast news is increasing in prior forecast accuracy and in the forecasting record.

Unlike these studies of forecasting behavior in which forecast accuracy can be determined by comparing the management earnings forecast with the subsequent earnings realization, in our paper, investors can only *probabilistically* estimate the representation faithfulness of the management's reporting when they consider its mandatory reporting discretion. Specifically, the reported financial statements are an imperfect monitor for evaluating a management's accrual adjustments as there often is a range of accrual adjustments that might faithfully represent the firm's underlying economic circumstances. It is difficult for investors, therefore,

to identify whether management reported opportunistically. Thus, a contribution of our work is to assess management reporting reputation formation over time when investors cannot perfectly monitor management's reporting behavior.

Our work is also related to more recent work examining the importance of integrity as a CEO attribute. In a global survey of corporate heads and public sector leaders based on one-on one interviews, IBM reports that these leaders view integrity as the second-most-important trait for a CEO, behind creativity (Carr, 2010). Dikolli, Keusch, Mayew, and Steffen (2020) study the effect of CEO behavioral integrity on auditor behavior. Auditors are required to assess a management's integrity when developing their audit testing procedures. Recognizing the view that CEOs with lower integrity will provide more expansive causal explanations for the incongruence between the CEO's words and deeds, Dikolli, et al. (2020) use computational linguistics to measure CEO integrity as the proportion of causation words in the CEO's annual shareholder letter. They find that lower management integrity is associated with higher audit fees. In contrast to their study, we assess the integrity of management by measuring how aggressively a firm manages its allowance for doubtful accounts and discretionary accruals over time. A greater deviation in the reported allowance for doubtful accounts from the industry-year mean suggests more aggressive financial reporting and thereby induces a deterioration in a CEO's financial reporting reputation. We offer a way to empirically operationalize the important construct of CEO reporting integrity in a theoretically grounded and scalable way.

Lastly, a related stream of literature examines how investors price a firm's accruals (e.g., Collins, et al., 2003; Francis, et al. 2005). Our paper departs from the literature examining the market pricing of accruals in that we examine the mechanism by which a manager might develop a reputation for credible financial reporting.

Our findings have implications for a variety of stakeholders. First, our results should be of interest to firm management and boards of directors. We establish that the firm's reporting reputation attaches to the CEO and not the firm. Thus, if the board of directors believes that the

CEO has tarnished a firm's reporting reputation for reporting forthrightly, we show that the board can reset the firm's reporting reputation by changing its CEO. Thus, a firm's corporate governance can have a direct effect on investor responsiveness to a firm's earnings and hence information asymmetries in the market.

Second, our results should be of interest to investors. We describe a mechanism for developing beliefs about a CEO's reputation for credible reporting. Although some accrual adjustments are often not readily visible to investors and thus may not be useful to investors for forming beliefs about management's reporting reputation, the allowance for doubtful accounts is observable and investors can use this disclosure to assess a management's reporting reputation. We find that the reputation for credible reporting based on the allowance for doubtful accounts is positively correlated with the reputation based on total discretionary accruals. Further, we find that investors react to management reputation based on the allowance for doubtful accounts and total discretionary accruals.

Third, we test the predictive ability of the costly signaling models when investors are uncertain about the firm's reporting incentives. If these models are predictive of behavior in capital markets, regulators can leverage the communication models of costly signaling when deciding how to regulate the conflicts of interest between investors and information providers.[4] To illustrate, Stein (1989) establishes that when a manager's reporting incentives are common knowledge, investors will rationally anticipate the manager's incentives to bias and discount the manager's report to infer the manager's private information. On the other hand, Fischer and Verrecchia (2000) and Dye and Sridhar (2004) provide analytic models showing that when investors are uncertain about a manager's reporting incentives, investors are unable to perfectly infer manager's private information, which benefits the firm's with more extreme incentives and yields residual investor uncertain about the firm's value. We find that managers can develop

[4] Backus, et al. (2019, pg. 1600) note that although costly and cheap-talk models of signaling have become the standard for theoretically understanding how economic agents communicate, they lament that the empirical validation of signaling research "is scarce at best."

a reporting reputation and this reputation reduces investor uncertainty about manager reporting incentives. Nonethless, if managers' reporting incentives remain uncertain and they are unable to develop a reporting reputation, the costly signaling modeling literature suggests a role for regulators to require the disclosure of manager incentives to enhance pricing efficiency. Ferri, et al. (2018) recognize this implication when they conclude that "policy makers can increase the information content of financial reports … by reducing investors' uncertainty about managers' reporting objectives via better disclosure of compensation-related incentives."

The paper proceeds as follows: Section 2 motivates the hypothesis, Section 3 describes the sample selection and research design, Section 4 reports the results of our analysis, extends the analysis to consider a broad set of earnings management tools, and provides robustness tests, and Section 5 concludes. Appendix A provides a model in which management develop a reputation for financial reporting that explains our analysis.

II. HYPOTHESIS DEVELOPMENT

Firms have discretion applying accounting policies and procedures when reporting under generally accepted accounting principles. Even though firms' financial statements are audited and misreporting firms may be exposed to penalties under the anti-fraud provisions of the federal securities laws, firms nonetheless enjoy financial reporting discretion that they exercise in response to their reporting incentives.

Investors typically are uncertain about a manager's reporting incentives (Aboody and Kasznik 2000; Einhorn, 2007). Fischer and Verrecchia (2000) and Dye and Sridhar (2004) model a setting in which a manager's information is unverifiable and costly to misrepresent and assume that the manager's reporting incentives are uncertain. In equilibrium, the manager biases the report and investors adjust for the expected bias when responding to the report. Because investors are uncertain about the extent of the misreporting, investors are unable to filter the actual bias in the report. Therefore, depending on their incentives, managers can benefit from being able to manipulate the firm's report. They establish that the information

content of the firm's earnings decreases in investor uncertainty about the manager's reporting incentives.

Within a dynamic reporting setting, we expect that Bayesian investors will revise their beliefs about manager's reporting incentives in response to manager's reporting behavior (Stocken 2000; Beyer and Dye 2012). Accordingly, the manager's reputation for credible financial reporting will evolve as a firm reports over time. Anticipating Bayesian investors learning about a firm's reporting behavior, we view the investor response to the firm's report as having two features: First, investors will consider the manager's reporting incentives. Following the theoretical analysis in Fischer and Verrecchia (2000) and Dye and Sridhar (2004), investors anticipate the manager's incentives to bias the report and filter the expected bias when valuing the firm in response to the report. Second, investors consider the manager's reputation for credible reporting. When the manager has a strong reputation for credible reporting, the investors anticipate that the manager will be less likely to misreport in response to the manager's privately observed incentives. Thus, investors will be more responsive to the report, believing it is more likely to faithfully represent the actual performance of the firm.

Coupling these two features of the reporting environment, when the manager has strong incentives to misreport and a strong reputation for credible reporting, investors will be more responsive to the report when valuing the firm as they believe that the manager's reputation concerns will dominate the manager's misreporting incentives. In contrast, when the manager has strong incentives to misreport but a weak reputation for credible reporting, the investors will be less responsive to the report when determining the firm's stock price. This relation assumes investors evaluate the manager's mandatory reporting behavior over time. To formalize this relation, the appendix offers a model of mandatory reporting within the context of a costly two-period signaling model in which management may misreport its firm's earnings

in response to their reporting incentives and the discretionary under GAAP.[5] This discussion yields the first hypothesis (stated in the alternative form):

H1: *Strategic misreporting — Investors are less responsive to a firm's earnings when its CEO has a weak reputation for credible financial reporting and a strong incentive to misreport.*

Hypothesis 1 assumes investors evaluate the manager's reporting behavior over time, and hence, they revise their beliefs about the manager's reporting credibility as the firm reports. Recognizing that the firm's financial reporting function generates its financial results and that the CEO is not solely responsible for the firm's results, we consider whether the reporting reputation attaches to the CEO or the firm.

On the one hand, firms have complex accounting systems for generating its financial reports, including the internal control structure and the external audit function, that are not easy to substantially modify in the short-term. This observation suggests that reporting reputation does not attach solely to the CEO. Consistent with the claim, Ge, Matsumoto, and Zhang (2011) find that the CFOs influence firm accounting choices over and above the effect of CEOs. Relatedly, Yang (2012) examines earnings forecasting behavior and finds the effect of a top manager's prior forecasting accuracy is subsumed after controlling for the firm's forecasting accuracy. On the other hand, reporting reputation might attach to the CEO, because, despite a firm's system of internal controls or the influence of the firm's CFO, management has discretion when attempting to faithfully represent its firm's performance reporting under GAAP (e.g., Burgstahler and Dichev, 1997). Hence, the CEO is vital in driving how the firm communicates its performance with the capital markets, and therefore, the CEO influences the firm's reporting behavior.[6] Indeed, Bertrand and Schoar (2003) find that top managers affect

[5] See the relation formalized in Corollary 1 in the Appendix - *Model of Uncertainty about Reporting integrity*.

[6] In a voluntary disclosure setting, Bamber, Jiang, and Wang (2010) find that CEOs exert significant influence over the properties of management earnings forecasts, and this influence varies with their personal characteristics, such as age, military experience, and functional training.

their firm's investment, financial, and organizational practices over time. Similarly, Brochet, Faurel, and McVay (2011) also find that CEOs participate in firm-level financial communication policy decisions. Against this background, it is unclear whether the reputation for mandatory reporting quality attaches to the firm or the CEO. We focus on how investors update their beliefs about a CEO's mandatory reporting reputation.

The CEO is key in setting the tone for ethical reporting behavior in the firm (e.g., Dikolli, Keusch, Mayew, and Steffen, 2020). If investors view the firm's reporting reputation as attaching to the CEO, then the board of directors will be able to reset the firm's reporting reputation by replacing the firm's CEO. When the CEO is replaced, Bayesian investors will hold more diffuse beliefs about the CEO's reporting behavior as they are less informed about the new CEO's reporting behavior. Subsequently, as the firm reports, investors will then revise these beliefs as they learn about the new CEO's reporting behavior. Alternatively, if the reporting reputation attaches to the firm, then changing CEO will not result in investors revising their beliefs to the same extent, because their beliefs are conditioned on the history of the firm's reporting behavior. This argument leads to the second hypothesis (stated in the alternative form):

H2: *Reputation development — If the CEO is replaced, then investors reset their beliefs about the new CEO's reporting reputation and initially hold diffuse prior beliefs about the new CEO's reporting reputation that are then revised as the firm reports over time.*

An implication of H2 is that if the manager's reporting behavior has damaged the investors' perception of the integrity of the firm's financial reports, the firm's board of directors can reset the firm's reporting reputation by replacing the incumbent manager.

III. SAMPLE SELECTION AND RESEARCH DESIGN

Sample Selection

We begin our sample selection with all firm-years reporting (a) financial-statement data in Compustat Industrial, (b) analyst forecast data in I/B/E/S, and (c) market data in CRSP. We

require observations to have sufficient data to calculate regression variables for the years 1990 to 2017 (42,266 firm-years). We require firms to be incorporated in the U.S. and drop observations with a share price lower than $3, consistent with Ferri et al. (2018). The latter requirement mitigates concerns about market microstructure affecting stock returns. To ensure investors are able to assess a CEO's reporting reputation, we require a minimum of ten observations per industry-year and firm-level allowance for doubtful accounts data for two prior years. These requirements yield an initial sample of 18,407 firm-year observations.[7]

We then merge our sample with Execucomp and drop observations with missing data to compute a CEO's financial reporting reputation (*CEOBadRep*). Since data is available in Execucomp as of 1993, this step limits our sample to the years 1993 to 2017. We follow Gipper et al. (2020) and truncate unexpected earnings (*UE*) at the 2 percent and 98 percent level because prior research suggests that unexpected earnings exhibit large outliers (Beaver, Lambert, and Morse 1980; Collins and Kothari 1989; Kothari 2001). Collectively, these steps yield a sample of 13,305 firm-year observations. When CEO turnover occurs, we require at least two consecutive years of observations after the CEO turnover to construct *CEOBadRep* and assess the investor response to the new CEO's reporting behavior to ensure that the old CEO's reporting behavior does not confound that of the new CEO. Limiting our sample to firm-year observations with reputation data for the incumbent CEO results in a subsample of 11,763 firm-years. Table 1 summarizes the sample selection procedure.

Research Design

To test the strategic misreporting behavior posited in H1, we investigate how the investors' responsiveness to unexpected earnings varies with CEO reporting reputation. Specifically, we estimate the following firm-level cross-sectional regression:

[7] Under the Current Expected Credit Loss model (CECL) in Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement losses on Financial Instruments, banks are required to recognize expected lifetime credit losses when originating loans. The CECL model has transformed bank accounting (e.g., Yang, 2025). Prior to this pronouncement, banks were only required to recognize losses after an event occurred that made a loan uncollectible. In this light, our sample excludes financial institutions.

$$CAR_{i,t} = \beta_1 UE_{i,t} + \beta_2 CEOBadRep_{i,t-1} + \beta_3 UE_{i,t} \times CEOBadRep_{i,t-1} + \beta_4 Incentive_{i,t} + \beta_5 UE_{i,t} \times Incentive_{i,t} + \beta_6 CEOBadRep_{i,t-1} \times Incentive_{i,t} + \beta_7 UEi,_t \times CEOBadRep_{i,t-1} \times Incentive_{i,t} + \sum_i \beta_i Controls_i + \sum_i \beta_i UE_{i,t} \times Controls_i + \sum_i \beta_i Fixed\ Effects + \sum_i \beta_i UE_{i,t} \times Fixed\ Effects + \varepsilon. \quad (1)$$

$CAR_{i,t}$ equals the market-adjusted three-day (t-1, t=0, t+1) cumulative abnormal return of firm i around the annual earnings announcement date t.[8] UE measures unexpected earnings and is defined as the difference between the firm's actual annual EPS and the median analyst forecast of annual EPS, scaled by the stock price two days prior to the earnings announcement at date t. The coefficient β_1 represents an earnings response coefficient ("ERC"), measuring the responsiveness of the firm's stock return to its earnings surprise.

CEOBadRep captures the financial reporting reputation of the incumbent CEO. We calculate CEO reputation based on the allowance for doubtful accounts that a firm reports at the end of its previous fiscal year. A greater deviation in a firm's reported allowance for doubtful accounts from the industry-year mean suggests more aggressive financial reporting, leading to a deterioration of the CEO's financial reporting reputation. Specifically, we first calculate the difference between a firm's discretionary allowance for doubtful accounts and the industry-year mean discretionary allowance. We then assign a value of one to each observation where a firm's discretionary allowance for doubtful accounts deviates by at least one standard deviation from the industry-year mean and the deviation has the same sign as the discretionary allowance (*Z-Score*). We calculate *CEOBadRep* as the sum of *Z-Score* for each year over the tenure of the CEO, divided by the number of earnings reports issued by the CEO during the

[8] *CAR* is calculated based on equally-weighted market returns. We find consistent results when using value-weighted instead of equally-weighted market returns.

CEO's tenure. Thus, higher values of *CEOBadRep* reflect a strongly negative CEO reputation for credible financial reporting.[9]

Incentive captures a CEO's incentives to manage earnings in a given year. We consider incentives that have the property that the CEO is expected to be more eager to manage earnings in the current reporting period and less eager to do so in other reporting periods. We consider several incentive measures. As a primary measure, we examine the incentives to meet or beat earnings targets, and define *Incentive* as an indicator variable with the value of one if the firm's EPS either meets the forecast of annual EPS or exceeds the forecast by one cent. To test H1, we interact *UE* with *CEOBadRep* and *Incentive*. β_7 is our coefficient of interest and indicates whether investors' responsiveness to earnings surprises varies with the CEO's financial reporting reputation, holding constant the incentives to manage earnings. We expect the sign of the coefficient β_7 to be negative.[10] Alternatively, a coefficient not significantly different from zero is consistent with the market, when responding to the firm's earnings, ignoring the CEO's aggressive reporting behavior in prior periods when the CEO has incentives to bias earnings. Additionally, we consider a CEO's incentives to bias earnings in response to the firm transitioning into a state of financial distress from being financially healthy in the prior year.

These incentive measures, which transiently vary from period to period, have the feature that they capture changes in a CEO's incentives to manage earnings in the current period. Transient incentives have the feature that they not only might motivate aggressive reporting in the current period but also are such that the CEO is unlikely to have acted on these incentives in the past and hence utilized the firm's allowance account to management earnings—in short,

[9] *CEOBadRep* is calculated as sum of Z-Score increments based on the allowance for doubtful accounts over the tenure of the CEO and normalized by the number of observations per CEO. When the Z-Score increments are extended to cut-offs of 1.282, which captures 80 percent of the observations of the t-distribution with ten percent of the observations on each side of the industry-year mean being classified as aggressive reporting, we continue to find results consistent with those reported in the paper.

[10] This expectation is consistent with Corollary 1 in the Appendix - *Model of Uncertainty about Reporting integrity*.

the CEO is unlikely to have previously "reached into the cookie jar." As a counter example, we do not consider reporting incentives that are persistent, such as those arising from the CEO's effort to discourage entry into an industry because these incentives are relatively static.

We include several controls and fixed effects. Following the extant literature (Ferri et al. 2018; Gipper et al. 2021), we control for firm size (*SIZE*), the market-to-book ratio (*MTB*), leverage (*Leverage*), the presence of financial statement losses (*Loss*), analyst forecast dispersion (*AnalystDispersion*), the market beta (*Beta*), and earnings persistence (*EarningsPersistence*).[11] Consistent with prior research, we interact these variables with *UE*. Moreover, we include industry and year fixed effects in all specifications to absorb year shocks and the effect of industry differences. We interact both sets of fixed effects with *UE* to absorb differences in investors' reaction to earnings surprises across industries and over time.

To control for extreme observations, we follow prior research and estimate Equation (1) as a "robust" regression. This technique estimates a weighted least squares regression that places less weight on observations with large absolute residuals (Gipper et al. 2021; Leone, Minutti-Meza, and Wasley 2015). Finally, to account for serial correlation in earnings announcements made by the same firm (Petersen 2009), we cluster standard errors at the firm level.

Table 2, Panel A reports descriptive statistics. *CEOBadRep* is skewed to the right with a mean of 0.11 and a median of 0.00. This observation suggests that, although most CEOs do not aggressively use the allowance for doubtful accounts to manage earnings, on average CEOs aggressively manage earnings about 11 percent of the time of their tenure. Table 2 Panel B reports pair-wise correlation coefficients. As expected, a firm's unexpected earnings (*UE*) exhibit a positive correlation with abnormal returns (*CAR*). Further, the CEO reporting *incentives* are negatively correlated with abnormal returns. Intuitively, heightened CEO motivation to bias earnings to meet or beat the analyst consensus forecast is associated with a

[11] The variable descriptions are detailed in Appendix B.

decline in a firm's abnormal returns. Interestingly, *CAR* is not correlated with *CEOBadRep*, which highlights the importance of considering a CEO's incentive to manage earnings when investigating investor response to CEO financial reporting reputation.

IV. RESULTS

This section contains our results when we use the allowance for doubtful accounts to construct the CEO's reporting reputation. Later, we will consider discretionary accruals more broadly to capture a CEO's aggressive reporting.

CEO reporting behavior

Table 3 analyzes CEO financial reporting behavior. Column 1 examines how the investor responsiveness to a firm's earnings varies with a CEO's reputation for credible financial reporting in the absence of recognizing the CEO's incentives for aggressive reporting. While the significantly positive coefficient on unexpected earnings indicates that investor responsiveness is increasing in unexpected earnings, we find that this relation, on average, is unaffected by the CEO's reporting reputation. Specifically, the coefficient on *UE*, β_1, is significant and the coefficient on *UE*×*CEOBadRep*, β_3, is insignificant.

Columns 2 and 3 introduce the effect of CEO's reporting incentives on investor responsiveness. Column 2 considers the effect of the CEO's reporting incentives to meet-or-beat the consensus analyst forecast on investor responsiveness. Column 3 examines investor responsiveness to earnings when CEOs have incentives to manage earnings upward when their firms have transitioned into a state of financial distress from being financially healthy. Estimating specification (1) for either measure of incentives, we find that when CEOs have strong incentives to report aggressively and a weak reputation for credible financial reporting, investors are substantially less responsive to the firm's unexpected earnings, as the significantly negative coefficients on *UE*×*CEOBadRep*×*Incentives*, β_7, in columns 2 and 3 suggest (p-value < 0.05 in both cases). These findings are consistent with H1.

Turning to the lower order interactions, we observe the coefficients on *UE*×*CEOBadRep*, β_3, are positive and significant in column 3. Hence, when CEOs have a weak reputation for credible financial reporting and weak incentives to manipulate earnings, the market is more responsive to a firm's unexpected earnings, as it recognizes the CEO does not have strong incentives to manage earnings in a particular direction. In addition, we note the coefficients, β_5, on *UE*×*Incentive* are also positive and significant in column 2. Thus, when CEOs have strong incentives to manipulate but have a strong reputation for reporting forthrightly, the market is more responsive to a firm's unexpected earnings.[12] Combining the effects of reporting reputation and incentives, we find some evidence that, in aggregate, the market responds negatively to firms with a weak reputation for credible financial reporting and strong incentives to manage earnings; specifically, $\beta_1 + \beta_3 + \beta_7$ is significantly negative in column 2, although it is insignificant in column 3. Thus, we observe that the market reacts positively to the firm's unexpected earnings, i.e., $\beta_1 > 0$, but then rationally discounts the firm's unexpected earnings considering the CEO's bad reporting reputation and incentives to manage earnings, i.e., $\beta_7 < 0$.

In sum, we find that the impact of the CEO's reporting reputation when coupled with incentives to report aggressively is economically meaningful. Specifically, when a CEO has a strong incentive to manage earnings (by meeting-or-beating the consensus analyst forecast), a weakening in the CEO's reputation for credible reporting from the first quartile to the third quartile reduces investors' responsiveness to unexpected earnings by 29.7 percent.[13]

In untabulated robustness tests, first, we calculate *CAR* based on value-weighted instead of equally weighted market returns. Second, we extended the cut-off to calculate the Z-Score to capture more extreme earnings manipulation when developing the management reporting reputation score. Specifically, instead of requiring the discretionary allowance for doubtful

[12] This finding is consistent with Corollary 1 in the Appendix - *Model of Uncertainty about Reporting integrity*.

[13] To estimate the economic effect of a change in reputation, observe that (β_7 × (*CEORepuation*$_{Q3}$ – *CEOReputation*$_{Q1}$) / ($\beta_1 + \beta_3$) = (-25.853 × (0.143 – 0)) / (4.075 + 8.356) = 0.297.

accounts to deviate by at least one standard deviation from the industry-year mean, we set the threshold to 1.282 standard deviations. This threshold implies that we capture 80 percent of the observations of a t-distribution, while 10 percent of the observations on either side of the mean are potentially classified as having a weak reporting reputation. Third, we limit the sample to firms with positive unexpected earnings, i.e., $UE > 0$. Cheng, Fang, and Myers (2023) find an earnings return asymmetry between good news and bad news, which they suggest reflects variation in the quality of the return generating process. In all these additional tests, we find that the coefficients on $UE \times CEOBadRep \times Incentives$ is significantly negative with a p-value < 0.01, which is consistent with H1.[14]

CEO turnover

We now consider the market's response to the firm's earnings when there is a turnover in a firm's CEO. The CEO is key in setting the tone for ethical reporting behavior in the firm (e.g., Dikolli et al. 2020). Nonetheless, a firm's financial reports are a function of its accounting information system, internal control structure, and external assurance. Hence, the investors' response to a firm's financial reports might well attach to the properties of the firm regardless of its CEO. We examine CEO reporting reputation development in a series of tests. First, we consider the investors' response to a firm's earnings in the year in which the firm changes its CEO. When a new CEO is appointed, the CEO has not yet had an opportunity to develop a reporting reputation. Accordingly, we consider whether investors continue to consider the old CEO's reputation. We estimate regression specification (1) for a subsample of firms that have experienced a CEO turnover in the current reporting period when we use the old CEO's

[14] In further untabulated tests, we modify the measures of the extent to which the firm's earnings meets or exceeds the consensus analyst earnings forecast. Specifically, CEOs are viewed as having strong incentives to manager earnings only when the reported earnings are equal or exceed the consensus analyst forecasts by one cent or one-percent of earnings per share. In addition, CEOs are characterized as having strong incentives to avoid reporting losses; that is, the actual EPS is between zero and ten cents and past year's actual EPS were positive. We continue to observe that investors respond to a CEO's reporting reputation only when the CEO's has strong incentives for reporting aggressively.

reputation. Second, we examine how the new CEO's reputation develops over time and whether investors consider the old CEO's reputation.

Table 4 reports this analysis. Consider the case when the CEO turned over in the previous fiscal reporting period, denoted as *Turnover t-1*, and hence the firm's first financial report under the new CEO. In column 1, the coefficient on β_{10} is insignificant; in contrast to Table 3 where this coefficient was negative and significant. Thus, when a firm changes its CEO, investors do not respond to the old CEO's reputation for manipulative financial reporting when recognizing the new CEO incentives to manage earnings. Interestingly, we find that investors discount the earnings of firms when the old CEO had a weak reputation for credible reporting, as evidenced by the significantly negative coefficients on β_4 in column 1. The sign of this coefficient on β_4 in Table 4 differs from the sign of this coefficient on β_3 in Table 3. This difference suggests that when the CEO changes, then investors, as Bayesian decision-makers, are uncertain about the integrity of the new CEO's reporting. In the absence of investors having information about the new CEO's reporting behavior, they view the extent of the manipulation of the firm's earnings in the past, reflected in the *OldCEOBadRep* measure, as attaching to the firm, and hence, they are less responsive to the firm's unexpected earnings. Thus, our results are consistent with the view that investors regard the CEO for setting the tone for credible financial reporting within a firm, and in the absence of a new CEO having established a track record for credible financial reporting, they condition their response to unexpected earnings on the firm's reporting behavior during the tenure of the preceding CEO.

Recognizing the CEO sets the tone for credible financial reporting, we examine how investors revise their beliefs about the reporting integrity of a new CEO. In columns 2 through 5, we examine the investor response to the reporting reputation of the new CEO over time. We first consider the case when the CEO switched two fiscal periods ago, denoted as *Turnover t-2*. Investors then can use the firm's financial report in the previous fiscal period to assess the new CEO's reporting integrity. We expect investors will weigh this assessment of the new CEO's

reporting integrity attributable to reporting in the previous when responding to the financial report in the current fiscal period. Column 2 shows that the new CEO develops a reporting reputation quickly. As the coefficient on *UE*×*NewCEOBadRep*×*Incentives*, β_{11}, (p-value < 0.10) is significantly negative, we observe that investors are less responsive to a firm's unexpected earnings when the new CEO has incentives to manage earnings and has a weak reputation for credible financial reporting. Column 3 shows how the investors weigh the reporting reputation of the old CEO. The coefficient on *UE*×*OldCEOBadRep*×*Incentives*, β_{10}, is not significant. Comparing these two coefficients suggests that as the new CEO develops a reporting reputation, investors increase the weight placed on the new CEO's reporting reputation and reduce the weight on the old CEO's reputation. Moreover, the insignificant coefficients on *UE*×*NewCEOBadRep*, β_5, in column 2 and on *UE*×*OldCEOBadRep,* β_4, in column 3 suggest that the investor response to a firm's report as the CEO develops a reputation is driven more by the CEO's incentives coupled with the CEO's reporting reputation and less by the firm's tendency for credible financial reporting. This finding is consistent with H2.

We next consider the case when the CEO changed three fiscal periods ago, denoted as *Turnover t-3*. Accordingly, investors can use the firm's financial report in the previous two fiscal periods to assess the new CEO's reputation for reporting integrity. The coefficient on *UE*×*NewCEOBadRep*×*Incentives*, β_{11}, in column 4 and the analogous coefficient β_{10} in Column 5 continue to evidence that investors condition their response to a firm's unexpected earnings on the new CEO's reputation and reporting incentives whereas they disregard the old CEO's reporting reputation. This finding aligns with H2.

The regression specification reported in Table 4 includes interactions between unexpected earnings and industry fixed effects and unexpected earnings and year fixed effects. Accordingly, the coefficient β_1 captures the investor response to unexpected earnings for an industry and year whose fixed effect are excluded from the regression. Given the small number of observations used to estimate β_1, we refrain from interpreting the coefficient β_1 on *UE* in

Table 4. Rerunning the specification without interactions between unexpected earnings and industry fixed effects and unexpected earnings and year fixed effects yields positive and significant coefficients on *UE* in all five columns, consistent with the literature (e.g., Kormendi and Lipe, 1987; Easton and Zmijewski, 1989; Collins and Kothari, 1989). The remaining results remain qualitatively like those reported in Table 4.

Discretionary reporting behavior

The analysis above calculated the CEO reputation based on the adjustments to the allowance for doubtful accounts as these adjustments are transparently reported in a firm's SEC filings. More broadly, management can strategically adjust a firm's discretionary accruals in addition to its allowance for doubtful accounts. These other accrual adjustments often are not as transparently disclosed, such as premature revenue recognition or the deferral of marketing expenses. Accordingly, we consider whether a management's strategic reporting of the firm's doubtful accounts is reflective of its broader discretionary reporting behavior. We follow the same approach used to calculate our primary measure *CEOBadRep*, but rather than using the allowance for doubtful accounts, we consider two measures of discretionary accruals. To calculate the first measure, *CEOBadRepDiscrAccr1,* we compute discretionary accruals as performance-adjusted discretionary accruals using the Jones (1991) model; see the Appendix**:** Variable Definitions for details. The results using this measure and applying different fixed effect structures are reported in Table 5 Columns 1 through 4. To determine the second measure, *CEOBadRepDiscrAccr2*, we use discretionary accruals using the Modified Jones (1991) model. The results using this measure and applying different fixed effect structures are reported in Table 5 Columns 5 through 8.

Table 5 documents a positive association between managers' reporting reputation based on discretionary accruals (excluding the allowance for doubtful accounts) and managers' reporting reputation based on the allowance for doubtful accounts, after controlling for time varying firm characteristics as well as industry, firm, and year fixed effects. Specifically, the coefficient on

CEOBadRep is positive and significant in all columns. These results are consistent with a firm's strategic reporting of its allowance for doubtful accounts being an indicator of the firm's boarder strategic reporting behavior. Metaphorically, the manipulation of the allowance for doubtful accounts reflects the tip of the iceberg.

Consistent with this notion, we find that the allowance for doubtful accounts is a material component of total accruals. Specifically, the mean of total accruals, calculated as the difference between net income and cash flow from operations, equals -$398.26 million, while the allowance for doubtful receivables amounts to $42.56 million. Thus, in absolute terms, the average allowance for doubtful accounts is about 10.7 percent of total accruals. As the allowance for doubtful accounts is readily observable, this statistic supports the tip-of-the-iceberg argument.

We turn to examine how the market's response to a firm's unexpected earnings varies with a CEO's incentives to manipulate earnings and the CEO's reputation when the CEO's reputation is based on the reporting of a firm's discretionary accruals in addition to its allowance for doubtful accounts. Table 6, Column 1, uses the *CEOBadRepDiscrAccr1* construct to measure the CEO's reporting reputation. The coefficient of interest, *UE*×*CEOBadRepDiscrAccr1*×*Incentives*, is negative and significant, implying that the market is less responsive to a firm's unexpected earnings when the CEO has a bad reporting reputation coupled with strong incentives to manipulate the firm's earnings. This finding, which is consistent with the results reported in Table 3, supports H1. In column 2, we additionally include the measure of CEO reputation calculated using the firm's allowance for doubtful accounts. We find that the coefficients on *UE*×*CEOBadRep*×*Incentives* and *UE*×*CEOBadRepDiscrAccr1*×*Incentives* are both negative and significant, implying that investors consider both the strategic reporting of the allowance for doubtful accounts as well as the strategic reporting of discretionary accruals, other than the allowance for doubtful accounts, when responding to a firm's expected earnings. In columns 3 and 4, we use

CEOBadRepDiscrAccr2 to measure the CEO financial reporting reputation, and we again find a positive and significant coefficient on *UE*× *CEOBadRepDiscrAccr2*×*Incentives*, consistent with H1. Further, the negative coefficient on *UE*× *CEOBadRepDiscrAccr2* suggests investors are less responsive to a firm's earnings as the CEO's reputation for credible reporting weakens. In addition, when including the measure of CEO reputation calculated using the firm's allowance for doubtful accounts, we again find the coefficients on *UE*×*CEOBadRep*×*Incentives* and *UE*×*CEOBadRepDiscrAccr2*×*Incentives* are both negative and significant. Lastly, the coefficient on *UE*×*Incentives*, is positive and significant in all four columns, suggesting that the market is more responsive to a firm's unexpected earnings when the CEO has a strong reputation for credible reporting and strong incentives to manipulate the firm's earnings.

The changes in the allowance for doubtful accounts are transparently disclosed. Investors find this disclosure to be useful for evaluating a CEO's reporting reputation. Table 7 further supports this argument. It examines the investor response to the CEO reputations constructed using the changes to the allowance for doubtful accounts after controlling for the CEOs with the strongest reputation for credible reporting using the measures *CEOBadRepDiscrAccr1* in column 1 or *CEOBadRepDiscrAccr2* in column 2. We find that when the CEO reputation is constructed using the changes to the allowance for doubtful accounts, investors mute their response to a firm's unexpected earnings when the CEO has a poor reputation for credible reporting coupled with incentives to report strategically, despite controlling for CEOs having the strongest reputation for reporting forthrightly when their reputation is calculated based on the discretionary accruals, although the results is only significant in column 2.

Table 6, columns 2 and 4, and Table 7 show that investors continue to condition their response to a firm's earnings based on its CEO's reporting reputation determined using the allowance for doubtful accounts, even in the presence of other discretionary accruals. An explanation for the finding is that investors are more capable of identifying the integrity of

management reporting of doubtful accounts as the adjustments are relatively transparently disclosed. By contrast, investors are less capable of identifying the strategic reporting of other items that are less transparently disclosed, such as the adjustment to the allowance for warranty expenses. A standard setting implication is that investor ability to assess management reporting behavior and the representational faithfulness of a firm's reporting would be aided by more transparent disclosure of accrual adjustments, such as the adjustment for obsolete inventory, the timing of impairments, or changes in estimates of depreciation and amortization expenses.

V. CONCLUSION

We study whether a CEO's reputation for credible financial reporting shapes investor response to the firm's earnings. We find that investors are less responsive to earnings news when CEOs have both strong incentives to manage earnings and a weak reputation for reporting integrity. This behavior highlights the critical role of managerial credibility in reducing investor uncertainty and improving the informativeness of earnings.

Additionally, we show that this reputation is CEO-specific rather than firm-specific. When a firm appoints a new CEO, investors reset their beliefs and begin reassessing reporting credibility based on the new CEO's reporting behavior. Over time, it is the new CEO's own reporting behavior—not that of their predecessor—that drives the investor reaction to earnings announcements. These results, which are consistent with the view that investors don't trust the message if they don't trust the messenger, underscore firms using managerial turnover as a mechanism for restoring their damaged reporting reputations.

Further, our findings suggest that the allowance for doubtful accounts serves as observable information useful for assessing managerial reporting integrity. Although many discretionary accrual adjustments are opaque, the allowance for doubtful account is relatively transparent, and we show it is positively correlated with broader discretionary reporting behavior. Therefore,

it serves as a "tip of the iceberg" measure for assessing the reputation for whether managers are forthrightly presenting their firm's financial results.

Overall, our results have implications for boards of directors, investors, and standard-setters and regulators. Boards should recognize that the CEO's individual reputation can materially affect market perception of a firm's reporting integrity. Investors can better understand earnings quality by conditioning their expectations on the history of observable managerial reporting behavior. Standard-setters and regulators may improve disclosure frameworks useful for assessing firm reporting integrity by enhancing the transparency of discretionary accruals.

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APPENDIX A: MODEL OF UNCERTAINTY ABOUT REPORTING INTEGRITY

The following financial reporting model motivates the relation posited in H1. The model is grounded in Fischer and Verrecchia (2000) and Dye and Sridhar (2004). This model departs from theirs, however, as we consider the effect of the investors' beliefs about the manager's reporting integrity in a two-period setting.

Consider an environment in which a manager issues a financial report to investors who are uncertain about both a firm manager's private information and the firm's reporting integrity. The model has two periods, $t=1$ and $t=2$. In each period, the fundamental value of the firm θ_t is realized as an independently and identically distributed random variable. The players' prior beliefs are that the fundamental value of the firm θ_t in each period t is normally distributed with a mean of μ_θ and a finite variance of σ_θ^2.

The manager privately observes the extent to which the firm's accounting information system captures the firm's fundamental value of the firm, which we refer to as firm reporting integrity. The reporting integrity b is fixed for the duration of the game. Investors do not directly observe the firm's reporting integrity b, but attempt to infer b from observing the firm's financial report at date t, denoted m_t. The players' prior beliefs are that reporting integrity b is normally distributed with a mean of μ_b and a variance of σ_b^2, and θ_t and b are independently distributed.

The manager's expected payoff in each period $t \in \{1,2\}$ is given by

$$E_t[a_t P_t(m_t) - (m_t - (\tilde{\theta}_t + \tilde{b}))^2/2],$$

where $E_t[\cdot]$ denotes the expectation operator at date t and $\tilde{\cdot}$ denotes a random variable from the investors' perspective. The first term in the brackets captures the manager's reporting incentives to manipulate the firm's stock price, where $P_t(m_t)$ denotes the firm's stock price given the firm's report m_t at date t and $a_t > 0$ reflects a manager's incentive at date t to boost the firm's stock price through the firm's reporting. The quadratic term reflects the cost that the manager incurs when misreporting the output from the firm's accounting information system. The reporting

integrity b captures the incentives of the manager to forthrightly report the firm's fundamental value θ_t. When $b = 0$, the manager reduces the cost of reporting by issuing a report that matches the firm's fundamental value θ_t. Alternatively, as b increase, the manager reduces the cost of reporting by issuing a report that differs from the firm's fundamental value by b. Thus, as b increases, the manager has a greater incentive to bias the firm's report upward from the firm's fundamental value θ_t. As the investors are uncertain about the firm's reporting integrity b, they are uncertain about the manager's reporting costs, and therefore, the manager's incentives to manipulate the report.[15]

In each period $t \in \{1,2\}$, the manager privately observes the fundamental value of the firm θ_t and issues a report $m_t \in R$. In the first period $t = 1$, after observing the firm's first period report m_1, investors value the firm at $P_1(m_1) = E[\theta_1|m_1]$ given the report and their prior beliefs about the firm's reporting integrity. In the second period $t = 2$, the investors update their beliefs about the firm's reporting integrity given the report observed in the first period m_1. To align with the paper's empirical analysis, we assume investors revise their beliefs about the firm's reporting integrity using only the first-period report. Given the first period report, investors observe a signal x that the accrual adjustment reveals about the firm's reporting integrity b. We assume x is drawn from a normal distribution with an unknown value of the mean of b and a known variance σ_x^2. We assume $\sigma_x^2 = \mu_{b1} + 1/a_1$, where μ_{b1} is the mean of the investors' beliefs about the firm's reporting integrity at the start of period 2 and $a_1 > 0$ is the manager's incentives for aggressive reporting to manipulate the firm's stock price upwards in period 1; we assume that the parameters are such that $\sigma_x^2 > 0$. This relation reflects the intuition that, first, as the investors' expectation μ_{b1} that the firm will misreport the fundamental value of the firm increases, investors believe that the accrual adjustment is less usefulness for inferring the manager's reporting bias, which causes σ_x^2 to increase. Second, as the manager's incentive to

[15] To ensure that b is almost surely positive, suppose μ_b is positive and σ_b^2 is small. Analogous arguments would apply if b was negative.

boost the firm's stock price a_1 increases, we assume it is easier for investors to infer the firm's reporting bias, thereby heightening the usefulness of the accrual adjustment for determining the firm's reporting integrity. Accordingly, an increase in the manager's incentive to boost the firm's stock price a_1 causes σ_x^2 to decrease.

Following DeGroot (1970), the mean of the investors' posterior distribution of the manager's reporting integrity b is given by $\mu_{b1} = (\mu_b \sigma_x^2 + x \sigma_b^2) / (\sigma_x^2 + \sigma_b^2)$ and the variance by $\sigma_{b1}^2 = \sigma_b^2 \sigma_x^2 / (\sigma_x^2 + \sigma_b^2)$. Furthermore, in the second period, after observing the firm's second period report m_2, the investors value the firm at $P_2(m_2) = \mathrm{E}[\theta_2|m_2]$ given the second period report and their revised beliefs about the firm's reporting integrity.

We consider linear rational expectations equilibria where all aspects of the game are common knowledge except for the manager's private information θ_t, the manager's reporting integrity b, and the extent to which the manager manipulates the firm's report.[16] As we are interested in understanding how investors respond to the firm's report when the manager has been in the position for some time, we focus on characterizing the equilibrium in the second period once the manager has had an opportunity to develop a reporting reputation by reporting in the first period .

The unique linear equilibrium is characterized in the next proposition that is provided without proof, which is straightforward and is available on request.

Proposition 1: *There is a unique linear equilibrium in which a manager reports*

$$m_2(\theta_2) = a_2 (\sigma_\theta^2) / (\sigma_\theta^2 + \sigma_{b1}^2) + \theta_2 + b$$

and the investors value the firm at

$$P_2(m_2) = \mu_\theta - (\sigma_\theta^2 / (\sigma_\theta^2 + \sigma_{b1}^2)) [\mu_\theta + \mu_{b1} + a_2 (\sigma_\theta^2 / (\sigma_\theta^2 + \sigma_{b1}^2))] + \sigma_\theta^2 / (\sigma_\theta^2 + \sigma_{b1}^2) m_2,$$

where $\sigma_{b1}^2 = (\sigma_b^2 \mu_{b1} + \sigma_b^2 / a_1) / ((\mu_{b1} + 1/a_1) + \sigma_b^2)$.

[16] We focus on linear equilibria as the model's predictions align with our linear regression analysis. Other non-linear equilibria might exist (see Guttman et al. 2006; Breon-Drish 2015).

Given the pricing function $P_2(m_2)$ in Proposition 1, the investors' price reaction to the second period report m_2 is given by $\Delta \equiv E[\theta_2|m_2] - \mathrm{E}[\theta_2] = P_2(m_2) - \mu_\theta$. As the empirical analysis focuses on the earnings response coefficient on the firm's earnings report, we focus on the coefficient on m_2, which is given by $\partial\Delta / \partial m_2 = \sigma_\theta^2 / (\sigma_\theta^2 + \sigma_{b1}^2)$. After substituting $\sigma_{b1}^2 = (\sigma_b^2 \mu_{b1} + \sigma_b^2 / a_1) / ((\mu_{b1} + 1/a_1) + \sigma_b^2)$ into $\partial\Delta / \partial m_2$, we observe that the cross partial of the earnings response coefficient with respect to the manager's incentives a_1 and the manager's reputation to manipulate the report μ_{b1} in period 2 is negative, i.e., $\partial^3\Delta / \partial m_2 \, \partial a_1 \, \partial \mu_{b1} < 0$. Thus, as the manager has stronger incentives to manipulate the report but investors view the firm as having a weak reputation for credible financial reporting, a lower earnings response coefficient results because the investors are less responsive to the firm's unexpected earnings. This relation is posited in H1. In addition, we observe that cross partial of the earnings response coefficient with respect to the manager's incentives a is positive, i.e., $\partial^2\Delta / \partial m_2 \, \partial a_1 > 0$. These arguments yield the next corollary.

Corollary 1: *In the unique linear equilibrium, investors are less responsive to a firm's earnings when its CEO has a weak reputation for credible financial reporting and a strong incentive to misreport* (*i.e.,* $\partial^3\Delta / \partial m_2 \, \partial a_1 \, \partial \mu_{b1} < 0$) *and investors are more responsive to a firm's earnings when its CEO has a strong incentive to misreport* (*i.e.,* $\partial^2\Delta / \partial m_2 \, \partial a_1 > 0$). □

APPENDIX B: VARIABLE DEFINITIONS

Variable	Definition	Data Source
Dependent Variable		
CAR	3-day stock return of firm *i* around the earnings announcement date, minus the CRSP market return over the same time period.	CRSP
Earnings Surprise Measure		
UE	Firm *i*'s I/B/E/S annual EPS minus the median I/B/E/S forecast of annual EPS, scaled by the CRSP share price from two days prior to the earnings announcement. We calculate the median forecast using each analyst's most recent forecast issued between 95 and 3 calendar days before the earnings announcement.	I/B/E/S CRSP
Variables of Interest		
CEOBadRep	Financial reporting reputation of the CEO of firm i based on the allowance for doubtful accounts at the end of the previous fiscal year. We calculate *CEOBadRep* as the sum of Z-Score increments (*Z-Score*) over the tenure of the CEO divided by the number of earnings reports issued during CEO tenure. In the first year of CEO tenure, we replace *CEOBadRep* with the value of the previous CEO. To obtain *Z-Score*, we first calculate the difference between firm i's discretionary allowance for doubtful accounts (measured as the difference between the actual allowance for doubtful accounts (RECD) and the expected allowance for doubtful accounts, scaled by lagged gross receivables (RECT+RECD)) and the industry-year mean discretionary allowance for doubtful accounts (industry is based on 2-digit SIC codes). *Z-Score* is an indicator variable with the value of one if firm i's discretionary allowance for doubtful accounts deviates at least one standard deviation from the industry-year mean and the deviation has the same sign as the discretionary allowance, and zero otherwise. We calculate firm i's expected allowance for doubtful accounts as lagged allowance for doubtful accounts (RECD) times the ratio of lagged sales (SALE) to current sales (SALE) times the ratio of current gross receivables to lagged gross receivables.	Compustat Execucomp
CEOBadRepDiscrAccr1	Financial reporting reputation of the CEO of firm i based on discretionary accruals at the end of the previous fiscal year. We calculate	Compustat Execucomp

	CEOBadRepDiscrAccr1 as the number of Z-Score increments (*Z-Score*) over the tenure of the CEO divided by the number of earnings reports issued during CEO tenure. In the first year of CEO tenure, we replace *CEOBadRepDiscrAccr1* with the value of the previous CEO. To obtain *Z-Score*, we calculate the difference between firm i's discretionary accruals and the industry-year mean discretionary accruals (industry is based on 2-digit SIC codes). *Z-Score* is an indicator variable with the value of one if firm i's discretionary accruals deviate at least one standard deviation from the industry-year mean and the deviation has the same sign as the discretionary accruals, and zero otherwise. We calculate the discretionary accruals of firm *i* in year *t* as performance-adjusted discretionary accruals using the Jones (1991) model. Specifically, we estimate discretionary accruals as the residual from the following regression: $TA_{it} = \beta_1 \Delta SALE_{it} + \beta_2 PPE_{it} + \beta_3 ROA_{it} + \varepsilon_{it}$ *TA* are total accruals *adjusted* for the allowance for doubtful accounts. *TA* is calculated as the sum of income before extraordinary items (IB) less the difference between net cash flows from operating activities (OANCF) and cash flows from extraordinary items and discontinued operations (XIDOC) plus the increase in allowance for doubtful accounts (RECD), and divided by lagged total assets (AT). *ΔSALE* is the annual change in sales (SALE) scaled by lagged total assets (AT). *PPE* is property, plant, and equipment (PPEGT) scaled by lagged total assets. *ROA* is the return on assets calculated as net income (NI) scaled by lagged total assets (AT). We estimate the above regression by year and 2-digit SIC industry.	
CEOBadRepDiscrAccr2	Same basic approach as used for calculating *CEOBadRepDiscrAccr1*. However, we calculate discretionary accruals of firm *i* in year *t* using the modified Jones (1991) model. Specifically, we estimate discretionary accruals as the residual from the following regression: $TA_{it} = \beta_1 1/A_{it-1} + \beta_2 (\Delta SALE - \Delta REC)_{it} + \beta_3 PPE_{it} + \varepsilon_{it}$	

	TA are total accruals *adjusted* for the allowance for doubtful accounts. *TA* is calculated as the sum of income before extraordinary items (IB) less the difference between net cash flows from operating activities (OANCF) and cash flows from extraordinary items and discontinued operations (XIDOC) plus the increase in allowance for doubtful accounts (RECD), and divided by lagged total assets (AT). *A* denotes lagged total assets (AT). *ΔSALE* is the annual change in sales scaled by lagged total assets (AT). *ΔREC* is the annual change in receivables (RECT) scaled by lagged total assets (AT). *PPE* is property, plant, and equipment (PPEGT) scaled by lagged total assets. We estimate the above regression by year and 2-digit SIC industry.	
Incentive	Meet-or-beat incentive as an indicator variable with the value of one if firm i's EPS are equal to the I/B/E/S forecast of annual EPS or exceed the forecast by one cent, and zero otherwise.	I/B/E/S
Control Variables		
Size	Natural logarithm of firm i's market capitalization at the end of the fiscal year. We calculate market capitalization as share price (PRCC_F) times the number of shares outstanding (CSHO).	Compustat
MTB	Market-to-book ratio of firm i as market capitalization divided by the book value of equity (SEQ) at the end of the fiscal year.	Compustat
Leverage	Ratio of firm i's total debt (LT) to the book value of equity (SEQ) at the end of the fiscal year	Compustat
Loss	Indicator variable with the value of one if firm i's basic EPS excluding extraordinary items (EPSPX) at the end of the fiscal year are smaller than 0, and zero otherwise.	Compustat
AnalystDispersion	Analyst forecast dispersion as the difference between the highest and the lowest analyst forecast for firm i, scaled by the CRSP share price from two days prior to the earnings announcement.	I/B/E/S CRSP
Beta	Market beta as the regression coefficient from regressing excess daily returns for firm i on excess market returns. We estimate this regression for each firm-year.	CRSP Ken French's Data Library
EarningsPersistence	Earnings persistence as the regression coefficient from regressing firm i's basic EPS excluding extraordinary items (EPSPX) on past EPS using up to ten years of data.	Compustat

TABLES

Table 1: Sample Selection

Data Restrictions	Firm-Years
Observations at the intersection of Compustat Industrial, I/B/E/S, and CRSP with sufficient data to calculate the regression variables (sample period: 1990 to 2017)	42,266
Less: Observations of firms incorporated outside the U.S.	-2,254
Less: Observations with a stock price of less than $3	-2,330
Less: Industry-years with less than ten observations and firm-years with missing allowance for doubtful accounts data in the two prior years	-19,275
Less: Observations with missing CEO data	-4,547
Less: Observations with *UE* in the bottom and top two percentiles	-555
Full Sample: Available CEO data	**13,305**
Primary Sample: Available data on CEO in office	**11,763**

Notes: This table summarizes the sample selection procedure.

Table 2: Descriptive Statistics and Correlations

Panel A: Descriptive Statistics

Variable	N	Mean	SD	P25	Median	P75
CAR	11,763	0.003	0.067	-0.033	0.003	0.041
UE	11,763	0.000	0.004	0.000	0.000	0.002
CEOBadRep	11,763	0.111	0.218	0.000	0.000	0.143
Size	11,763	7.770	1.460	6.673	7.618	8.768
MTB	11,763	3.178	2.670	1.597	2.402	3.742
Leverage	11,763	1.600	1.934	0.568	1.090	1.869
Loss	11,763	0.114	0.318	0.000	0.000	0.000
AnalystDispersion	11,763	0.005	0.006	0.001	0.002	0.005
Beta	11,763	1.226	0.527	0.855	1.165	1.511
EarningsPersistence	11,763	0.310	0.379	0.048	0.310	0.567
Incentive	11,763	0.216	0.411	0.000	0.000	0.000

Panel B: Univariate Correlations

Variable	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*
(1) CAR											
(2) UE	0.236*										
(3) CEOBadRep	0.000	-0.004									
(4) Size	0.000	0.053*	-0.075*								
(5) MTB	0.009	0.020	-0.015	0.324*							
(6) Leverage	0.009	-0.009	0.002	0.170*	0.379*						
(7) Loss	-0.024*	-0.090*	0.025	-0.193*	-0.111*	0.021					
(8) AnalystDispersion	-0.036*	-0.132*	0.030*	-0.084*	-0.212*	0.104*	0.280*				
(9) Beta	0.001	0.017	0.023	-0.198*	-0.063*	-0.091*	0.238*	0.133*			
(10) EarningsPersistence	0.008	-0.006	-0.006	0.088*	0.071*	-0.030*	-0.052*	-0.040*	-0.057*		
(11) Incentive	-0.031*	-0.008	-0.020	0.032*	0.093*	-0.021	-0.036*	-0.127*	-0.036*	-0.012	

Notes: Panel A presents summary statistics for the variables used in our main analysis. Panel B reports Pearson correlation coefficients for the variables used in our main analysis. The sample period covers firm-year observations for the years 1993 to 2017. All continuous variables are winsorized at the 2nd and 98th percentile. We define variables in the Appendix. * indicates significance at the 1% level.

Table 3: Pricing of Unexpected Earnings conditional on Financial Reporting Reputation and Incentives

		(1) CAR	(2) CAR	(3) CAR
UE	β_1	4.084***	4.075***	3.080***
		(4.631)	(4.661)	(2.845)
CEOBadRep		-0.001	-0.001	-0.003
		(-0.624)	(-0.585)	(-1.137)
UE×CEOBadRep	β_3	0.739	0.800	2.146***
		(1.508)	(1.637)	(2.867)
Incentive			-0.006***	-0.001
			(-4.213)	(-0.284)
UE×Incentive	β_5		8.356**	0.450
			(2.363)	(0.624)
CEORep×Incentive			0.007	0.027**
			(1.195)	(2.145)
UE×CEOBadRep×Incentive	β_7		-25.853**	-3.998**
			(-2.416)	(-2.058)
UE×Size		0.143	0.128	0.065
		(1.420)	(1.276)	(0.500)
UE×MTB		0.001	0.001	0.007
		(0.102)	(0.085)	(0.500)
UE×Leverage		-0.002	-0.002	-0.006
		(-0.223)	(-0.210)	(-0.575)
UE×Loss		-1.809***	-1.798***	-2.553***
		(-6.037)	(-5.999)	(-6.512)
UE×AnalystDispersion		-43.747***	-43.744***	-51.679***
		(-5.145)	(-5.157)	(-5.288)
UE×Beta		0.956***	0.965***	0.826***
		(3.654)	(3.702)	(2.590)
UE×EarningsPersistence		0.355	0.346	0.500
		(1.149)	(1.122)	(1.260)
Constant		0.008*	0.009**	-0.003
		(1.943)	(2.067)	(-0.654)
Observations		11,763	11,763	9,261
Controls		Yes	Yes	Yes
Industry-FE		Yes	Yes	Yes
Year-FE		Yes	Yes	Yes
Industry-FE×UE		Yes	Yes	Yes
Year-FE×UE		Yes	Yes	Yes
SE Cluster		Firm	Firm	Firm
Adjusted R-squared		0.122	0.123	0.125

Notes: This table examines the pricing of unexpected earnings conditional on managers' financial-reporting reputation and earnings-management incentives. The sample period covers the years 1993 to 2017. *CEOBadRep* is calculated as the sum of Z-Score increments based on the allowance for doubtful accounts over the tenure of the CEO and normalized by the number of observations per CEO. We lag *CEOBadRep* by one year. In column 2, *Incentive* takes the value of one if actual EPS are equal to or one cent greater than the median EPS forecast, and zero otherwise. In column 3, *Incentive* takes the value of one if a firm has become financially distressed in the current year, and zero otherwise. We estimate all regressions as robust regressions. All columns include year and industry-fixed effects. We additionally interact year and industry-fixed effects with a firm's unexpected earnings in year *t*. We estimate heteroscedasticity-robust standard errors clustered by firm. t-statistics are reported in the parentheses below the regression coefficient. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 4: Development of Financial Reporting Reputation Over Time

Panel A: Separate Regressions with Financial Reporting Reputation of the old and the new CEO

		(1) CAR	(2) CAR	(3) CAR	(4) CAR	(5) CAR
		CEO Turnover t-1	CEO Turnover t-2	CEO Turnover t-2	CEO Turnover t-3	CEO Turnover t-3
UE	*β1*	3.960	1.092	-0.909	6.606	17.031***
		(1.407)	(0.246)	(-0.126)	(1.204)	(4.771)
OldCEOBadRep		-0.015**		-0.003		-0.006
		(-2.166)		(-0.382)		(-0.713)
NewCEOBadRep			-0.006		0.005	
			(-1.174)		(0.621)	
UE×OldCEOBadRep	*β4*	-6.404***		2.219		0.916
		(-3.766)		(1.273)		(0.632)
UE×NewCEOBadRep	*β5*		0.407		0.623	
			(0.335)		(0.406)	
Incentive		0.001	-0.005	-0.001	-0.007*	-0.008*
		(0.303)	(-1.184)	(-0.288)	(-1.685)	(-1.800)
UE×Incentive		8.348	-8.214	-8.922	24.649***	21.368**
		(1.089)	(-1.192)	(-1.164)	(3.100)	(2.130)
OldCEOBadRep×Incentive		-0.019		-0.029		0.020
		(-1.199)		(-1.454)		(0.858)
NewCEOBadRep×Incentive			0.015		0.025	
			(1.080)		(1.414)	
UE×OldCEOBadRep×Incentive	*β10*	24.417		-14.413		-28.579
		(1.622)		(-0.344)		(-0.835)
UE×NewCEOBadRep×Incentive	*β11*		-40.382*		-67.418**	
			(-1.761)		(-1.999)	
Observations		1,428	1,264	1,179	1,151	1,017
Controls		Yes	Yes	Yes	Yes	Yes
Industry-FE		Yes	Yes	Yes	Yes	Yes
Year-FE		Yes	Yes	Yes	Yes	Yes
Industry-FE×UE		Yes	Yes	Yes	Yes	Yes
Year-FE×UE		Yes	Yes	Yes	Yes	Yes
SE Cluster		Firm	Firm	Firm	Firm	Firm
Adjusted R-squared		0.181	0.210	0.213	0.232	0.245

Table 5: Relation between Financial Reporting Reputation based on Allowance for Doubtful Accounts and Discretionary Accruals

	(1) CEOBadRep DiscrAccr1	(2) CEOBadRep DiscrAccr1	(3) CEOBadRep DiscrAccr1	(4) CEOBadRep DiscrAccr1	(5) CEOBadRep DiscrAccr2	(6) CEOBadRep DiscrAccr2	(7) CEOBadRep DiscrAccr2	(8) CEOBadRep DiscrAccr2
CEOBadRep	0.219***	0.219***	0.165***	0.116***	0.166***	0.166***	0.110***	0.057*
	(7.808)	(7.809)	(5.812)	(3.402)	(6.276)	(6.257)	(4.153)	(1.648)
Size	-0.024***	-0.024***	-0.024***	-0.018**	-0.026***	-0.026***	-0.028***	-0.028***
	(-5.818)	(-5.506)	(-5.398)	(-2.073)	(-7.972)	(-7.782)	(-7.941)	(-3.391)
MTB	0.018***	0.018***	0.023***	0.010***	0.011***	0.011***	0.016***	0.007***
	(8.427)	(8.262)	(9.670)	(4.501)	(5.851)	(5.725)	(7.917)	(3.454)
Leverage	-0.015***	-0.015***	-0.022***	-0.009***	-0.007***	-0.007***	-0.016***	-0.003
	(-5.397)	(-5.423)	(-7.415)	(-2.847)	(-3.329)	(-3.351)	(-6.490)	(-1.163)
Loss	0.013	0.011	0.023**	0.014**	0.051***	0.050***	0.061***	0.033***
	(1.209)	(1.071)	(2.160)	(1.967)	(4.919)	(4.748)	(5.805)	(4.421)
AnalystDispersion	3.136***	3.152***	2.963***	0.547	2.649***	2.735***	2.644***	0.603
	(5.560)	(5.517)	(5.016)	(1.197)	(4.815)	(4.910)	(4.797)	(1.340)
Beta	0.028***	0.030***	0.040***	0.017**	0.037***	0.038***	0.052***	0.025***
	(3.380)	(3.258)	(4.532)	(2.132)	(5.039)	(4.806)	(6.730)	(3.573)
EarningsPersistence	-0.004	-0.004	-0.010	-0.027***	-0.012	-0.012	-0.019*	-0.007
	(-0.377)	(-0.344)	(-0.920)	(-3.063)	(-1.233)	(-1.197)	(-1.949)	(-0.929)
Constant	0.298***	0.294***	0.291***	0.310***	0.296***	0.296***	0.291***	0.350***
	(8.069)	(7.561)	(7.581)	(4.718)	(9.891)	(9.524)	(9.564)	(5.620)
Observations	11,538	11,538	11,538	11,347	11,538	11,538	11,538	11,347
Industry-FE	No	No	Yes	No	No	No	Yes	No
Firm-FE	No	No	No	Yes	No	No	No	Yes
Year-FE	No	Yes	Yes	Yes	No	Yes	Yes	Yes
SE Cluster	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm
R-squared	0.082	0.083	0.119	0.670	0.085	0.086	0.133	0.659

Notes: This table examines the association between managers' financial reporting reputation calculated based on discretionary accruals (adjusted for the allowance for doubtful accounts) and managers' financial reporting reputation calculated based on the allowance for doubtful accounts. The sample period covers the years 1993 to 2017. *CEOBadRep* is calculated as the sum of Z-Score increments based on the allowance for doubtful accounts over the tenure of the CEO and normalized by the number of observations per CEO. We estimate all regressions as OLS regressions. Columns 1 and 5 (2 and 6) [3 and 7] include no fixed effects (year-fixed effects) [year and industry-fixed effects]. Columns 4 and 8 include year and firm-fixed effects. We estimate heteroscedasticity-robust standard errors clustered by firm. t-statistics are reported in the parentheses below the regression coefficient. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 6: Financial Reporting Reputation based on Discretionary Accruals and the Allowance for Doubtful Accounts

	(1) CAR	(2) CAR	(3) CAR	(4) CAR
UE	4.313***	4.157***	4.993***	4.824***
	(4.450)	(4.579)	(5.230)	(5.339)
CEOBadRep		-0.001		-0.000
		(-0.256)		(-0.167)
CEOBadRepDiscrAccr1	-0.004*	-0.004*		
	(-1.803)	(-1.806)		
CEOBadRepDiscrAccr2			-0.005**	-0.005**
			(-2.403)	(-2.399)
UE×CEOBadRep		0.713		0.750
		(1.426)		(1.520)
UE×CEOBadRepDiscrAccr1	-0.376	-0.385		
	(-0.858)	(-0.878)		
UE×CEOBadRepDiscrAccr2			-1.972***	-1.989***
			(-4.528)	(-4.547)
Incentive	-0.007***	-0.008***	-0.007***	-0.007***
	(-4.675)	(-4.819)	(-4.454)	(-4.582)
UE×Incentive	11.040***	14.753***	10.247***	13.286***
	(2.644)	(3.277)	(2.655)	(3.150)
CEOBadRep×Incentive		0.004		0.004
		(0.724)		(0.707)
CEOBadRepDiscrAccr1×Incentive	0.009**	0.009**		
	(2.016)	(2.023)		
CEOBadRepDiscrAccr2×Incentive			0.009**	0.009*
			(1.976)	(1.853)
UE×CEOBadRep×Incentive		-24.944**		-22.908**
		(-2.366)		(-2.134)
UE×CEOBadRepDiscrAccr1×Incentive	-19.323***	-18.904***		
	(-2.636)	(-2.782)		
UE×CEOBadRepDiscrAccr2×Incentive			-26.146**	-23.781**
			(-2.472)	(-2.282)
Observations	11,526	11,526	11,526	11,526
Controls	Yes	Yes	Yes	Yes
Industry-FE	Yes	Yes	Yes	Yes
Year-FE	Yes	Yes	Yes	Yes
Industry-FE*UE	Yes	Yes	Yes	Yes
Year-FE*UE	Yes	Yes	Yes	Yes
SE Cluster	Firm	Firm	Firm	Firm
R-squared	0.123	0.124	0.125	0.126

Notes: This table examines the pricing of unexpected earnings conditional on managers' financial reporting reputation calculated based on discretionary accruals and the allowance for doubtful accounts, respectively. The sample period covers the years 1993 to 2017. *CEOBadRepDiscrAccr1* and *CEOBadRepDiscrAccr2* are calculated as sum of Z-Score increments based on discretionary accruals (adjusted for the allowance for doubtful accounts) over the tenure of the CEO and normalized by the number of observations per CEO. *CEOBadRep* is calculated as sum of Z-Score increments based on the allowance for doubtful accounts over the tenure of the CEO and normalized by the number of observations per CEO. We lag *CEOBadRepDiscrAccr1*, *CEOBadRepDiscrAccr2*, and *CEOBadRep* by one year. We estimate all regressions as robust regressions. All columns include year and industry-fixed effects. We additionally interact year and industry-fixed effects with a firm's unexpected earnings in year t. We estimate heteroscedasticity-robust standard errors clustered by firm. t-statistics are reported in the parentheses below the regression coefficient. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 7: Pricing of Unexpected Earnings conditional on Financial Reporting Reputation and Meet-or-Beat Incentives (CEOBadRepDiscrAccruals1 = 0)

		(1) CAR	(2) CAR
		CEOBadRep DiscrAccr1 = 0	*CEOBadRep DiscrAccr2* = 0
UE	β1	3.437***	3.332***
		(3.371)	(2.732)
CEOBadRep		-0.003	-0.001
		(-0.935)	(-0.312)
UE×*CEOBadRep*	β3	1.220*	0.609
		(1.841)	(0.914)
Incentive		-0.007***	-0.006***
		(-4.141)	(-3.344)
UE×*Incentive*		12.668***	11.463***
		(2.722)	(2.597)
CEOBadRep×*Incentive*		0.009	0.009
		(1.020)	(1.101)
UE×*CEOBadRep*×*Incentive*	β7	-22.295	-35.321**
		(-1.145)	(-2.178)
Observations		5,489	5,902
Controls		Yes	Yes
Industry-FE		Yes	Yes
Year-FE		Yes	Yes
Industry-FE×UE		Yes	Yes
Year-FE×UE		Yes	Yes
SE Cluster		Firm	Firm
R-squared		0.150	0.141

Notes: This table examines the pricing of unexpected earnings conditional on managers' financial-reporting reputation for the subsample of firms with high financial-reporting reputation based on discretionary accruals (excluding the allowance for doubtful accounts). The sample period covers the years 1993 to 2017. All columns include year and industry-fixed effects. We additionally interact year and industry-fixed effects with a firm's unexpected earnings in year *t*. *CEOBadRep* is calculated as sum of Z-Score increments over the tenure of the CEO and normalized by the number of observations per CEO. We lag *CEOBadRep* by one year. We estimate heteroscedasticity-robust standard errors clustered by firm. t-statistics are reported in the parentheses below the regression coefficient. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Impressum:
Arbeitskreis Quantitative Steuerlehre, arqus, e.V.
Vorstand: Prof. Dr. Ralf Maiterth (Vorsitzender),
Prof. Dr. Kay Blaufus, Prof. Dr. Dr. Andreas Löffler
Sitz des Vereins: Berlin

Herausgeber: Kay Blaufus, Jochen Hundsdoerfer, Martin Jacob, Dirk Kiesewetter, Rolf J. König, Lutz Kruschwitz, Andreas Löffler, Ralf Maiterth, Heiko Müller, Jens Müller, Rainer Niemann, Deborah Schanz, Sebastian Schanz, Caren Sureth-Sloane, Corinna Treisch

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ISSN 1861-8944