Are Critics Right About Quarterly Earnings Guidance?
An Examination of Quarterly Earnings Guidance and Managerial Myopia

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Abstract: I examine the claim that managers who issue quarterly earnings guidance sacrifice long-term value to enhance short-term performance, i.e., that quarterly earnings guidance encourages myopic behavior. I find that quarterly guiders are more likely to meet quarterly earnings expectations and tend to use more short-term language in their 10-Ks, supporting the view that quarterly earnings guidance shifts a manager's attention to the short term. However, quarterly earnings guidance does not appear to have a negative impact on a firm's long-term performance. Using an entropy-balanced sample, I find that quarterly guiders outperform non-guiders over the next three and five years across a variety of performance measures. Also inconsistent with the claims of critics, I find no evidence that quarterly earnings guidance is associated with more earnings management or underinvestment. Taken together, my results do not support the view that quarterly earnings guidance leads to managerial myopia. In addition to having policy implications, my research contributes to the literatures on earnings guidance and the real effects of disclosure.

Keywords: Quarterly earnings guidance, voluntary disclosure, real effects of disclosure, managerial myopia

JEL Classification: G17, M41

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1. Introduction

The practice of issuing quarterly earnings guidance has generated controversy for over a decade. Whereas economic theory suggests that quarterly earnings guidance can benefit a firm by decreasing information asymmetry (Ajinkya and Gift 1984; Coller and Yohn 1997), signaling high managerial ability (Trueman 1986; Baik, Farber, and Lee 2011), and reducing litigation risk (Skinner 1994; Field, Lowry, and Shu 2005), critics argue that quarterly earnings guidance encourages managers to sacrifice long-term value to meet short-term earnings expectations (e.g., Buffett 2000; Fink 2016). Embodying the latter view, CEOs Warren Buffett and Jamie Dimon write in a recent letter, "… we are encouraging all public companies to consider moving away from providing quarterly earnings-per-share guidance. In our experience, quarterly earnings guidance often leads to an unhealthy focus on short-term profits at the expense of long-term strategy, growth, and sustainability," (Buffett and Dimon 2018). In this study, I provide evidence on the issue by examining whether firms that provide quarterly earnings guidance appear to be more concerned with short-term financial results and exhibit lower long-term performance than their non-guiding counterparts.

Although prominent business leaders have popularized the view that quarterly earnings guidance leads to a myopic focus on short-term performance—and have urged public companies to forgo the practice of providing quarterly earnings guidance based on that view—there is little empirical evidence to support their claims. Houston, Lev, and Tucker (2010) examine the consequences of stopping quarterly earnings guidance and find no evidence that firms that abandon the practice increase their investments in R&D or capital expenditures over the following two years. In a related study, Call, Chen, and Miao (2014) find that the provision of quarterly earnings guidance is associated with *less* accrual-based earnings management. Each of

these findings is inconsistent with the claim that quarterly earnings guidance leads to managerial myopia. However, the strategies that a myopic manager uses to shift value from the long term to the short term may not be detected by the measures used in these studies. Additionally, it is unclear based on these studies whether quarterly earnings guidance is value-decreasing, as prominent business leaders contend.

By definition, managerial myopia exists when a manager sacrifices long-term value to meet short-term goals (Porter 1992). Quarterly earnings guidance in particular has been described as leading to an "unhealthy" focus on meeting short-term earnings expectations (e.g., Buffett 2000; Buffett and Dimon 2018).[1] Critics argue that this short-term focus leads to a value-decreasing allocation of resources. Accordingly, to better understand the relationship between quarterly earnings guidance and managerial myopia, I examine 1) whether quarterly earnings guidance heightens a manager's focus on short-term earnings relative to expectations, and 2) whether quarterly earnings guidance detracts from a firm's long-term performance. In supplementary tests I also examine prominent business leaders' claims that quarterly earnings guidance increases earnings management and underinvestment. My research therefore provides evidence on quarterly earnings guidance that is relevant to regulators, investors, and academics.

The provision of quarterly earnings guidance could have opposing effects on a manager's focus and a firm's long-term performance. On the one hand, quarterly earnings guidance could lead to managerial myopia, as argued by critics of the practice. A manager who issues quarterly earnings guidance must expend considerable time and resources to generate a high-quality forecast (Hui and Matsunaga 2015). The resulting fixation on quarterly earnings could implicitly

[1] For instance, Buffett and Dimon (2018) write, "[Quarterly guiders] frequently hold back on technology spending, hiring, and research and development to meet quarterly earnings forecasts that may be affected by factors outside the company's control, such as commodity-price fluctuations, stock-market volatility and even the weather."

shift a manager's focus to the short term at the cost of developing profitable long-term strategies (Ocasio 1997). In addition, managers maintain that the consequences of missing the analyst forecast are worse when they issue earnings guidance (Graham, Harvey, and Rajgopal 2005). Quarterly guiders may therefore be more willing to take actions to avoid missing earnings expectations, even when those actions entail a loss of long-term value (e.g., Buffett and Dimon 2018).

On the other hand, quarterly earnings guidance could alleviate managerial myopia. By allowing a manager to influence the analyst forecast (Matsumoto 2002), quarterly earnings guidance may relieve the pressure that a manager is under to meet analysts' (unguided) short-term earnings expectations. For instance, using quarterly earnings guidance to walk the analyst forecast down to a beatable level may enable a manager to apply her limited attention to developing strategies that improve the firm's long-term performance, rather than managing quarterly earnings to meet analysts' expectations. Thus, managers who issue quarterly earnings guidance may be more focused on long-term earnings and report better long-term performance.

It is also possible that quarterly earnings guidance could increase a manager's focus on short-term financial results *without* detracting from the firm's long-term value. For example, even if quarterly earnings guidance leads a manager to fixate on quarterly earnings, the benefits to firm value may outweigh the costs. There is evidence that earnings guidance decreases information asymmetry (e.g., Ajinkya and Gift 1984), signals high managerial ability (e.g., Trueman 1986), and reduces litigation risk (e.g., Skinner 1994). Each of these effects should contribute positively to a firm's long-term performance. By reducing information asymmetry, quarterly earnings guidance may decrease a firm's cost of capital (Diamond and Verrecchia 1991; Lambert, Leuz, and Verrecchia 2007). This could improve a firm's long-term performance

by expanding the set of profitable investment opportunities available to the firm. Signaling high managerial ability could likewise improve a firm's long-term performance by enabling a manager to attract capital at a lower cost. Last, reducing litigation risk could improve a firm's long-term performance by preventing expensive lawsuits and settlements, and enabling the firm to take on riskier projects. Quarterly earnings guidance may therefore induce a short-term focus while also *improving* the firm's long-term performance.

To examine whether quarterly guiders exhibit signs of managerial myopia, I use data from 2001 to 2018 to generate a sample of 63,331 firm-quarter observations that span the period of 2003 to 2015. I use entropy balancing to improve the similarity of the covariate distribution between the quarterly guiders and non-guiders in my sample. Although this procedure does not resolve self-selection bias that arises from unobservable differences, similar to matching methods, it should reduce model dependency in the OLS regressions that I use to test my hypotheses (Hainmueller 2012; Shipman, Swanquist, and Whited 2017). After reweighting my sample using entropy balancing, quarterly guiders and non-guiders are statistically indistinguishable across a broad array of firm characteristics, including size, profitability, analyst following, and institutional ownership. To further reduce endogeneity concerns, I focus my analyses on firms that provide earnings guidance for at least twelve consecutive quarters (quarterly guiders), and firms that do not provide earnings guidance for at least twelve consecutive quarters (non-guiders). To the extent that these firms establish their earnings guidance policies in advance (Quinto, Matsunaga, and Tang 2019), their past decision to issue quarterly earnings guidance is decoupled from events in the current quarter. Collectively, this research design should help to mitigate concerns that my results are driven by correlated omitted variables. As a robustness test, I also estimate difference-in-difference specifications to examine

the impact of *initiating* quarterly earnings guidance. This alternative specification controls for factors that are stable within a firm over time, but it is subject to biases generated by economic factors associated with the decision to initiate quarterly earnings guidance.

I begin by investigating whether quarterly earnings guidance increases a manager's focus on short-term performance. Consistent with this view, I find that relative to non-guiders, quarterly guiders are more likely to meet the *final* analyst forecast than the *initial* analyst forecast for the quarter. They are also more likely than non-guiders to just meet the final analyst forecast than to just miss it. Together, these results suggest that quarterly guiders are more likely to take actions that increase the likelihood of meeting short-term expectations, consistent with having a greater focus on quarterly financial results. I also find that quarterly guiders tend to use more short-term language in their financial disclosures. Specifically, using Python to obtain and analyze firms' 10-Ks, I find that the 10-Ks of quarterly guiders include a higher ratio of short-term words to long-term words (Brochet, Loumioti, and Serafeim 2015). Therefore, my textual analysis supports an association between the provision of quarterly earnings guidance and a focus on short-term performance.

Nevertheless, I do not find evidence that quarterly earnings guidance has a negative impact on a firm's long-term performance. My results indicate that quarterly guiders outperform non-guiders over the next three and five years in terms of market-adjusted returns, industry-adjusted return on assets, industry-adjusted asset turnover, and industry-adjusted operating cash flows. The difference in industry-adjusted sales growth between quarterly guiders and non-guiders is statistically insignificant. Thus, my results do not support the claim that quarterly earnings guidance leads to a sacrifice of long-term value. Instead, they are consistent with the view that quarterly earnings guidance benefits a firm's long-term value by reducing information

asymmetry, signaling managerial talent, and decreasing litigation risk (e.g., Ajinkya and Gift 1984; Trueman 1986; Skinner 1994). My results may also be explained by quarterly guiders engaging in less value-decreasing earnings management as a result of their ability to influence analysts' earnings expectations.

In additional analyses, I document evidence that supports a number of these explanations. First, I find that the relation between quarterly earnings guidance and long-term performance is stronger when there is greater analyst forecast dispersion, suggesting that firms with higher information asymmetry benefit more from the provision of quarterly earnings guidance. I also find that firms with higher-ability managers benefit more from the provision of quarterly earnings guidance, as the relation between quarterly earnings guidance and long-term performance is stronger when managers issue more accurate earnings guidance (Baik et al. 2011) or when managers issue earnings guidance with longer horizons (Trueman 1986). I do not find evidence of a difference in the effect of quarterly earnings guidance on long-term performance based on high litigation-risk industries (Francis, Philbrick, and Schipper 1994; Kim and Skinner 2012).

Second, supporting the view that quarterly earnings guidance reduces the need to manage earnings, I find that quarterly guiders report more discretionary R&D expenses than non-guiders, suggesting that they engage in less real earnings management. Unlike Call et al. (2014), I find no statistical difference in discretionary accruals between quarterly guiders and non-guiders. Overall, these results are inconsistent with the claim that quarterly guiders are more likely to manage earnings (e.g., Buffett 2000). I also investigate the claim that quarterly guiders are more likely to underinvest (e.g., Buffett and Dimon 2018). I find evidence that quarterly guiders are *less* likely to underinvest in R&D, whereas there is no statistical difference in capital asset or

M&A underinvestment between quarterly guiders and non-guiders. These results suggest that quarterly guiders may be able to invest more freely as a result of their ability to influence the analyst forecast. Collectively, my additional analyses insinuate that quarterly guiders may perform better in the long term because they benefit from a lower cost of capital and are able to meet short-term earnings expectations without relying on real earnings management.

Last, I perform tests that examine whether quarterly earnings guidance is detrimental to long-term performance when it is combined with other short-term pressures. I find weak evidence that firms with greater transient institutional ownership benefit less from the provision of quarterly earnings guidance (the coefficients are negative but statistically insignificant). Additionally, I find little evidence of a difference in the impact of quarterly earnings guidance on long-term performance based on the number of analysts following a firm or management's stock-based compensation. Overall, my results suggest that these factors do not substantially diminish the benefits of quarterly earnings guidance.

Taken together, my findings are inconsistent with the view that quarterly earnings guidance leads a manager to sacrifice long-term value to enhance short-term performance. Although I find evidence that quarterly earnings guidance increases a manager's focus on short-term earnings expectations, there is no indication that quarterly earnings guidance detracts from a firm's long-term performance. In fact, my results suggest that on average, firms that choose to provide quarterly earnings guidance tend to generate *better* long-term performance. The idea that quarterly earnings guidance is value-increasing among the firms that choose to provide it is consistent with the theory of voluntary disclosure proposed by Dye (2001). He describes voluntary disclosure as, "… a special case of game theory with the following central premise:

any entity contemplating making a disclosure will disclose information that is favorable to the entity, and will not disclose information unfavorable to the entity," (Dye 2001, p. 184).

My results are important because prominent business leaders' claims that quarterly earnings guidance leads to managerial myopia have received significant attention in the business press, and appear to be accepted as conventional wisdom by journalists and practitioners (e.g., Pearlstein 2018). A better understanding of the link between quarterly earnings guidance and managerial myopia is imperative in light of the impending policy implications (Rajgopal 2019). In 2018, President Donald Trump proposed that quarterly reporting be abolished in the United States, spurring a review by the SEC of quarterly reporting and quarterly earnings guidance (Rubin 2018; Henderson and Edgecliffe-Johnson 2019). Therefore, evidence that quarterly earnings guidance does *not* lower long-term performance is timely and has the potential to influence the decisions of regulators.

In addition, my research contributes to the earnings guidance literature (Hirst, Koonce, and Venkataraman 2008). While a number of studies investigate the benefits of earnings guidance (e.g., Ajinkya and Gift 1984; Trueman 1986; Skinner 1994; Williams 1996), there is relatively little research that investigates its costs. By providing empirical evidence on the existence of managerial myopia among quarterly guiders, my study provides insights for researchers who are interested in understanding the consequences of quarterly earnings guidance. Research in this area is becoming increasingly relevant, as the frequency with which firms issue quarterly earnings guidance appears to be on the rise (Grocer 2018).

Finally, my study contributes to the emerging literature related to the real effects of disclosure (Kanodia and Sapra 2016). This research explores how the disclosure of information (that is already known to a manager) affects her decision-making. Thus, by examining whether

issuance of quarterly earnings guidance leads a manager to exchange long-term value for short-term performance, my research adds to this literature by extending our understanding of the ways in which financial disclosures influence the allocation of a firm's resources.

As is common with empirical research, my study is subject to limitations. Most importantly, because I am unable to observe how a firm would have performed had it not provided quarterly earnings guidance, care must be taken in interpreting my results. I am unable to say how issuance of quarterly earnings guidance would affect the firms that do not choose to provide it; for example, my results do not suggest that all firms should be required to provide quarterly earnings guidance because it would improve their long-term performance. However, I *am* able to show how U.S. firms that choose to issue quarterly earnings guidance behave relative to an observably similar group of non-guiders. In my main tests, I use entropy balancing to ensure that quarterly guiders and non-guiders are comparable in terms of their observable features. Cross-sectional tests corroborate my primary findings. A robustness tests reveals that, overall, my inferences remain unchanged when I perform a difference-in-difference analysis around instances when firms *initiate* quarterly earnings guidance. Therefore, despite its limitations, my research should provide novel evidence that informs the debate surrounding quarterly earnings guidance.

2. Prior Literature and Hypothesis Development

2.1. Prior literature

Stein (1989) develops a model of myopic corporate behavior. In his model, a manager derives utility from both current and future earnings due to her compensation plan. There is an increasing marginal cost of borrowing against future earnings to boost short-term profits, as it is assumed that the least value-decreasing strategies are pursued first to increase income in the

current period. When borrowing costs are zero, the firm's long-term value is maximized. Stein (1989) predicts that a utility-maximizing manager will shift value from the long term to the short term when there is capital market pressure on current-period earnings (e.g., takeover threats). To do so, she increases the investment hurdle rate and forgoes profitable investment opportunities. For example, she may expend fewer resources to develop customer loyalty. The model of Stein (1989) highlights the idea that managerial myopia stems from an agency issue, where the actions that a manager rationally takes to maximize her utility are inconsistent with the actions that maximize firm value. Applying the model of Stein (1989) to my setting, the question becomes whether quarterly earnings guidance constitutes a source of short-term pressure that leads a manager to derive greater utility from current-period earnings. If so, it should increase a manager's willingness to give up long-term value for short-term financial results.

There are several studies that explore the relationship between quarterly earnings guidance and managerial myopia. First, Houston et al. (2010) examine a sample of firms that discontinue the practice of providing quarterly earnings guidance. The authors argue that if quarterly earnings guidance leads to managerial myopia, then firms should increase their investments in capital assets and R&D after giving up the practice. However, counter to this prediction, the authors find no evidence that firms increase their investments in the two years after giving up quarterly earnings guidance. Instead, Houston et al. (2010) find evidence of a deterioration in the information environments of quarterly guiders after earnings guidance is discontinued. Specifically, they find that guidance "stoppers" experience a decrease in analyst coverage, an increase in analyst forecast dispersion, and an increase in analyst forecast errors. In a related study, Chen, Matsumoto, and Rajgopal (2011) document a significantly negative market reaction to the cessation of quarterly earnings guidance, which suggests that investors

view discontinuance of the practice as value-decreasing. Taken together, the results of Houston et al. (2010) and Chen et al. (2011) do not provide support for the claim that quarterly earnings guidance leads to managerial myopia.

Call et al. (2014) contribute to the debate by examining whether quarterly guiders engage in more accrual-based earnings management. Using a propensity-score matched sample of guiders and non-guiders, the authors find that quarterly guiders record fewer discretionary accruals and discretionary revenues than non-guiders. They also find that a firm's discretionary accruals and discretionary revenues decrease with the regularity that a firm issues earnings guidance. The results of Call et al. (2014) are therefore inconsistent with prominent business leaders' claims that quarterly earnings guidance promotes the use of accrual-based earnings management (e.g., Buffett 2000).

Although these studies provide evidence on the link between quarterly earnings guidance and managerial myopia, they do not directly address whether quarterly guiders sacrifice long-term value to meet short-term earnings expectations. Perhaps most importantly, these studies do not examine the impact of quarterly earnings guidance on a firm's long-term performance. It is therefore unclear whether quarterly earnings guidance is problematic in that it detracts from long-term value, as is asserted by critics. In addition, these studies may not find evidence of managerial myopia if managers shift value from the long term to the short term using strategies that are not detected by traditional earnings management measures. To this point, Stein (1989, p. 664) predicts, "It is precisely those investments that are most easily and accurately summarized on an accounting statement—e.g., expenditures on plant and equipment—which are least likely to be sacrificed in the quest for higher stock prices." Consequently, to expand our understanding of the relationship between quarterly earnings guidance and managerial myopia, I consider how

the provision of quarterly earnings guidance impacts a firm's long-term performance, as well as a manager's focus on short-term financial results.[2,3]

2.2. Hypothesis development

Prior literature suggests that earnings guidance can yield a number of benefits for a firm and its managers. Ajinkya and Gift (1984) find that earnings guidance aligns the market's earnings expectations with those of the manager, as the market responds positively (negatively) to earnings guidance that contains good (bad) news. In a related study, Coller and Yohn (1997) find evidence that earnings guidance decreases a firm's bid-ask spread. These studies suggest that by aligning the market's earnings expectations with those of management, earnings guidance reduces information asymmetry. Earnings guidance may therefore increase firm value by lowering a firm's cost of capital, either by improving the liquidity of the firm's stock (Diamond and Verrecchia 1991), or by decreasing the expected covariance of the firm's cash flows with market-wide cash flows (Lambert et al. 2007).

Trueman (1986) provides a different view, noting that because the firm's actual earnings are reported at the end of the period, the temporary corrections of mispricing provided by earnings guidance may not have a meaningful effect on a firm's cost of capital. Instead, he

[2] Several unpublished studies report additional evidence that is inconsistent with the claim that quarterly earnings guidance leads to managerial myopia; however, their work is subject to the same limitations. They include Acito (2011), who finds no statistical relation between quarterly earnings guidance and accounting restatements; Chen, Huang, and Lao (2015), who find that quarterly earnings guidance is associated with more innovation (more patents and patent citations); and Call, Chen, Esplin, and Miao (2016), who find no statistical difference in investment levels between firms that issue short-term earnings guidance and firms that issue long-term earnings guidance. One notable exception is Cheng, Subramanyam, and Zhang (2005), who find support for the claim that quarterly earnings guidance leads to managerial myopia. The authors report that relative to "infrequent" guiders, "frequent" guiders invest less in R&D, meet or beat the analyst consensus forecast more frequently, and have lower long-term earnings growth rates. However, their sample is limited to the period of 2001 to 2003, when fewer firms provided quarterly earnings guidance and the earnings guidance databases contained more errors (Chuk, Matsumoto, and Miller 2013).

[3] Kim, Su, and Zhu (2017) take a different approach by examining whether quarterly earnings guidance leads to short-termism among *investors*. The authors find evidence that stopping the practice of providing quarterly earnings guidance reduces investors' short-termism, e.g., investors put more weight on long-term earnings in firm valuation after the cessation of quarterly earnings guidance.

argues that managers issue earnings guidance to signal high managerial ability. To generate an accurate forecast of the firm's future earnings, a manager must have the ability to accurately anticipate future economic events and assess their impact on the firm's earnings. The same qualities are fundamental to successfully manage the firm's operations. Thus, issuance of earnings guidance may constitute a credible signal of managerial ability, as a low-ability manager is unable to mimic the signal. Trueman (1986) concludes that quarterly earnings guidance may therefore be issued to increase firm value through its signaling capabilities.

Skinner (1994) predicts that *bad-news* earnings guidance is beneficial in that it reduces litigation costs by revealing negative information prior to the earnings announcement date. This prevents large stock price declines on earnings announcement days (which could prompt lawsuits), and makes it more difficult for a plaintiff to argue that the manager withheld unfavorable information from investors. Consistent with his prediction, Skinner (1994) finds that earnings guidance precedes large negative earnings announcements about 25 percent of the time, whereas earnings guidance precedes other earnings announcements less than ten percent of the time. This evidence suggests that earnings guidance can increase firm value by warding off expensive lawsuits and settlements. It may also enable the firm to pursue riskier projects, as there is less concern that a negative outcome will trigger litigation.

Despite these potential benefits, issuance of quarterly earnings guidance remains highly controversial. Prominent business leaders have urged firms to discontinue the practice, stating that quarterly earnings guidance leads managers to sacrifice long-term value in exchange for short-term performance (e.g., Buffett 2000; Fink 2016). It could be the case that quarterly earnings guidance increases a manager's focus on short-term financial results at the cost of long-term value, as issuance of a forecast requires a substantial investment of time and resources (Hui

and Matsunaga 2015). The effort a manager dedicates to producing a high-quality forecast could increase her interest in the firm's short-term performance, and contemporaneously decrease the attention she devotes to crafting profitable long-term strategies. Such a shift in focus may therefore detract from the firm's long-term performance. This is consistent with research in the management literature, which describes a manager's focus as being selective, where attention to one activity subtracts from another (e.g., Ocasio 1997). Quarterly guiders may also be more likely to give up long-term value to meet short-term earnings expectations because they believe that the consequences of missing the analyst forecast are worse when they issue earnings guidance. For example, executives surveyed by Graham et al. (2005) indicate that they are more likely to be questioned about missing the analyst forecast during the conference call when they have issued earnings guidance.

However, one could also argue that quarterly earnings guidance *relieves* managerial myopia. Quarterly guiders tend to be large firms with sizeable analyst followings and high institutional ownership (e.g., Ajinkya, Bhojraj, and Sengupta 2005). Such firms are likely to be under considerable pressure to meet short-term earnings expectations. Thus, the ability to issue quarterly earnings guidance may provide these firms with the opportunity to walk earnings expectations down to a beatable level (Matsumoto 2002), thereby enabling the manager to meet quarterly earnings expectations *without* managing the firm's earnings. Quarterly earnings guidance may therefore improve a firm's long-term performance to the extent that it enables a manager to meet short-term earnings expectations without engaging in value-decreasing earnings management. It may also allow management to adopt a greater long-term focus, as the managers of quarterly guiders may be freer to take value-maximizing actions without concern that those actions will cause the firm to miss short-term earnings expectations.

In addition, it is possible that quarterly earnings guidance increases a manager's attention to short-term financial results while also *improving* the firm's long-term performance. This could be the case if quarterly earnings guidance increases a manager's focus on short-term performance, but the benefits that the practice adds to firm value exceed the costs. As discussed in the preceding paragraph, quarterly earnings guidance may improve a firm's long-term performance by enabling the manager to meet short-term earnings expectations without partaking in value-decreasing earnings management. In addition, quarterly earnings guidance may improve long-term performance due to its capacity to reduce information asymmetry, signal high managerial ability, and decrease litigation risk (e.g., Ajinkya and Gift 1984; Trueman 1986; Skinner 1994). Reducing information asymmetry or signaling high managerial ability could improve long-term performance by allowing the firm to attract capital at a lower rate, thereby expanding the firm's set of profitable investment opportunities. Decreasing litigation risk may also improve long-term performance by reducing the firm's litigation-related expenses, and enabling the firm to take on riskier projects. Due to these benefits, the choice to issue quarterly earnings guidance could be value-increasing even if it leads to a greater focus on short-term earnings expectations.

These arguments lead me to delineate two hypotheses related to quarterly earnings guidance and managerial myopia. First, I hypothesize that there is no difference in the extent to which quarterly guiders and non-guiders focus on short-term earnings. Second, I hypothesize that there is no difference in long-term performance between quarterly guiders and non-guiders. I state each of my hypotheses in null form as the preceding arguments illustrate that ex ante, the relationship between quarterly earnings guidance and managerial myopia is unclear.

H1: There is no difference in the extent to which quarterly guiders and non-guiders focus on short-term earnings.

H2: There is no difference in long-term performance between quarterly guiders and non-guiders.

3. Research Design

3.1. Sample selection

My sample selection procedure is summarized in Table 1. I begin with 306,701 firm-quarter observations obtained from the merged CRSP-Compustat database, ranging over the period of 2003 to 2015.[4] CRSP supplies me with stock return information, whereas Compustat provides me with accounting information. I supplement these data with management and analyst forecast data obtained from the I/B/E/S database, and institutional ownership data obtained from Thomson Reuters. Utility firms (SIC 4900-4949) and financial services firms (SIC 6000-6999) are excluded from my sample because their earnings management incentives are likely to differ from those of other firms (e.g., Call et al. 2014). I also exclude observations that are missing variables necessary to perform my tests.

Last, I remove observations from my sample if they do not satisfy either my "quarterly guider" or "non-guider" definitions. I define a "quarterly guider" as a firm that provides quarterly earnings guidance for every quarter over a minimum of twelve consecutive quarters. Conversely, a "non-guider" is a firm that provides no quarterly earnings guidance over a minimum of twelve consecutive quarters. Effectively, this eliminates firms that provide quarterly

[4] I require additional data from 2001 to 2003 and 2016 to 2018 to identify quarterly guiders and non-guiders, estimate control variables, and measure firms' long-term performance. Data prior to 2001 is omitted to avoid the influence of Regulation Fair Disclosure, which was passed in October 2000.

earnings guidance sporadically (for some quarters but not others) from my sample.[5] Quinto et al. (2019) find evidence that some firms follow predetermined earnings guidance policies, while other firms make individual earnings guidance decisions on a quarter-to-quarter basis. Focusing on the former group is advantageous in my setting because their decision to issue quarterly earnings guidance is largely decoupled from the current quarter. This helps to reduce the risk that my results are driven by quarter-specific earnings guidance incentives. For example, one could argue that sporadic quarterly guiders are more likely to underinvest in earnings guidance quarters because they tend to issue earnings guidance in the quarters when performance is lower than analysts' expectations, not because quarterly earnings guidance makes them myopic. It is more difficult to make such arguments with respect to firms that issue earnings guidance for every quarter, as this suggests that their earnings guidance decisions are less sensitive to conditions that prevail in a particular quarter.

3.2. Entropy balancing

Prior research shows that quarterly guiders are fundamentally different from non-guiders along a number of dimensions. For example, quarterly guiders tend to be larger, more profitable firms with greater institutional ownership and analyst following (e.g., Ajinkya et al. 2005). Thus, any differences in myopic behavior between quarterly guiders and non-guiders could reflect firm-specific factors that jointly determine the firm's provision of earnings guidance and the economic outcomes of interest. To reduce this bias, I apply entropy balancing to my sample of quarterly guiders and non-guiders. While this procedure does not correct for unidentified factors that contribute to a firm's earnings guidance decisions, it should reduce the influence of

[5] Quinto et al. (2019) document that over my sample period, about 65 percent of quarterly earnings guidance is provided by firms that issue earnings guidance for every quarter over twelve consecutive quarters; thus, I retain the majority of quarterly earnings guidance observations by imposing this restriction.

observable factors that are associated with the provision of quarterly earnings guidance, and make my results less sensitive to research design choices, i.e., reduce model dependency (Hainmueller 2012). In this sense, entropy balancing is similar to matching procedures (Shipman et al. 2017).[6]

Hainmueller (2012) describes entropy balancing as a method of obtaining covariate balance between treatment and control observations. By reweighting the sampled observations, entropy balancing can be used to reduce or eliminate differences between treatment and control observations across a wide array of variables. I balance my sample of quarterly guiders and non-guiders on each of the firm characteristics listed in Table 2 Panel A as well as industry (2-digit SIC code) and year-quarter. In addition to firm fundamentals such as market value of equity, book-to-market ratio, and leverage, I balance on factors that prior research has shown to predict the provision of earnings guidance. First, I include bid-ask spread and analyst forecast dispersion because there is evidence that earnings guidance is issued to reduce information asymmetry (e.g., Coller and Yohn 1997). I include return volatility and an indicator for high-litigation risk industries because prior research suggests that earnings guidance is issued to reduce litigation risk (e.g., Skinner 1994). I also include analyst following and institutional ownership because Ajinkya et al. (2005) show that these factors are positively related to the provision of earnings guidance. I partition a firm's institutional ownership by transient, quasi-indexer, and dedicated institutional investors because there is evidence that disclosure quality increases (decreases) with transient and quasi-indexer (dedicated) institutional ownership (Bushee and Noe 2000). I include managerial ability scores (Demerjian, Lev, and McVay 2013) because earnings guidance may be

[6] Because quarterly guiders are significantly different from non-guiders in terms of many fundamental firm characteristics, it is difficult to specify effective matching criteria. In contrast, entropy balancing enables me to retain my full sample of quarterly earnings guidance observations while achieving a high degree of covariate balance between quarterly guiders and non-guiders.

provided to signal high managerial ability (e.g., Trueman 1986). Last, I balance on firm life cycle and several measures of profitability because Miller (2002) shows that firms' disclosure choices are linked to their financial performance. A number of these variables (e.g., market value of equity, life cycle) should address the concern that firms with better internal information environments are more likely to provide earnings guidance.[7]

After I perform entropy balancing on my sample, quarterly guiders and non-guiders are statistically indistinguishable across each of the firm characteristics on which I balance. The weights generated by this entropy balancing procedure are applied to each of my succeeding regressions. To see the results of my entropy balancing procedure, see Table 2 Panel A.

3.3. Model specification and measurement of key variables

To test my first hypothesis, which states that there is no difference in the degree to which quarterly guiders and non-guiders focus on short-term earnings, I begin by estimating the following regression:

$$MeetFinal_{it} = \beta_0 + \beta_1 Guider_{it} + \sum \beta_j Controls + \varepsilon_{it} \quad (1)$$

where *i* indexes firms and *t* indexes quarters. *MeetFinal* is an indicator variable set equal to one when firm *i*'s actual earnings meet or beat the final analyst consensus forecast for quarter *t*, and zero otherwise. *Guider* is an indicator variable set equal to one when firm *i* provides earnings guidance for every quarter over twelve sequential quarters, and zero when firm *i* provides no earnings guidance over twelve sequential quarters. I include controls for each of the firm characteristics listed in Table 2 Panel A. Additionally, I include year-quarter and industry fixed effects, and cluster standard errors by firm and year-quarter (Petersen 2009). I also apply the

[7] To gauge the effectiveness of these variables in distinguishing quarterly guiders and non-guiders, I estimate a logistic regression where the dependent variable is an indicator variable set equal to one (zero) for quarterly guiders (non-guiders), and each of these variables is included as determinants. The test yields an area under the ROC curve of 0.83, suggesting that these variables are effective in predicting firms' quarterly guidance decisions.

weights from my entropy balancing procedure. A positive coefficient on *Guider* would be consistent with quarterly guiders meeting the analyst consensus forecast with greater frequency than non-guiders, supporting the view that quarterly earnings guidance leads to a greater fixation on short-term earnings expectations.

However, such a result could also be explained by quarterly guiders exhibiting stronger performance that legitimately exceeds analysts' earnings expectations, or by quarterly guiders using their earnings guidance to reduce information asymmetry. To examine these possibilities, I first replace *MeetFinal* with an indicator variable set equal to one when firm *i*'s actual earnings meet or beat the initial analyst consensus forecast for quarter *t*, and zero otherwise (*MeetInitial)*.[8] I then use a χ^2 test to test whether β_1 is equal across the two specifications. If β_1 is larger when the dependent variable is *MeetFinal*, it would suggest that quarterly guiders meet or beat the final analyst forecast with greater frequency because they walk the analyst forecast down to a beatable level, rather than as a consequence of strong performance. Second, I estimate two additional specifications where I replace *MeetFinal* with an indicator variable set equal to one when firm *i*'s actual earnings for quarter *t* positively (negatively) deviate from the final analyst forecast by a penny or less, and zero otherwise; denoted as *JustMeet* (*JustMiss*). Again, I use a χ^2 test to test whether β_1 is equal across the two specifications. If β_1 is larger when the dependent variable is *JustMeet*, it would suggest that quarterly guiders actively avoid missing the analyst forecast, rather than simply using their earnings guidance to reduce information asymmetry.

I also use Python to conduct a textual analysis of firms' 10-K filings to examine my hypothesis that there is no difference in the extent to which quarterly guiders and non-guiders focus on short-term earnings. Specifically, I replace the dependent variable in Equation (1) with

[8] The initial analyst forecast is estimated at the beginning of the quarter, prior to the issuance of earnings guidance.

either *StWords÷LtWords* or *%LtViewWords*. *StWords÷LtWords* is calculated as the sum of short-term 10-K words divided by the sum of short- and long-term 10-K words. I define short-term words as "short-term" and "short-run" as well as their derivatives. Long-term words are equivalently defined. *%LtViewWords* is the sum of long-term view words divided by the total number of 10-K words. I develop a dictionary of long-term view words based on the letters of Fink (2016) and Buffett and Dimon (2018). It includes words such as "firm value", "sustainability", and "environment". For complete details on the construction of these variables, see my variable definitions in Appendix A.

My textual analysis is inspired by Brochet et al. (2015), who use a sample of conference call transcripts to show that the language contained in a firm's financial disclosures can be used to generate a reliable measure of managerial short-termism.[9] Based on their work, I expect that if quarterly earnings guidance leads a manager to focus on short-term financial results, the coefficient on *Guider* will be positive (negative) when the dependent variable is *StWords÷LtWords* (*%LtViewWords*). This would be consistent with quarterly guiders providing more discussion about short-term performance (less discussion about long-term strategy) in their financial disclosures than non-guiders.

To test my second hypothesis, which states that there is no difference in long-term performance between quarterly guiders and non-guiders, I replace the dependent variable in Equation (1) with five measures of long-term performance: market-adjusted returns, industry-adjusted return on assets (ROA), industry-adjusted asset turnover, industry-adjusted sales growth, and industry-adjusted operating cash flows. Each of these measures is calculated over quarters $t+1$ to $t+12$. To calculate industry-adjusted performance, I subtract the median

[9] I plan to replicate and use the conference-call based measure of managerial short-termism developed by Brochet et al. (2015) in future drafts of my study.

performance in firm *i*'s 2-digit SIC industry from firm *i*'s performance over the same period. These five measures capture different facets of a firm's long-term performance. ROA and asset turnover are ex post, accounting-based measures that signify a firm's ability to operate efficiently. Operating cash flows are an alternate measure of accounting performance that is not influenced by accruals. In contrast, returns are an ex ante, market-based measure that reflect changes in investors' perceptions of firm value. Last, sales growth captures the extent to which a firm grows over time. Negative coefficients on *Guider* would be consistent with critics' claims that quarterly earnings guidance leads to sacrifices of long-term value, as they would suggest that quarterly guiders underperform relative to non-guiders in the long term.

4. Empirical Results

4.1. Descriptive statistics

I tabulate descriptive statistics for my sample of quarterly guiders and non-guiders in Table 2. Consistent with prior research, in the first three columns of Panel A I find that quarterly guiders are different than non-guiders with regard to many of their firm characteristics. However, none of these differences remain statistically significant after I reweight my sample using entropy balancing in the last three columns of Panel A. The descriptive statistics in Panels B and C are consistent with quarterly earnings guidance increasing a manager's attention on short-term earnings, as they show that quarterly guiders are more likely to meet the final analyst forecast for the quarter, and tend to use more short-term language in their 10-Ks. Last, Panel D shows that over the next twelve quarters, quarterly guiders outperform non-guiders in terms of their market-adjusted returns, industry-adjusted ROA, industry-adjusted asset turnover, and industry-adjusted operating cash flows. There is no statistical difference in sales growth between quarterly guiders than non-guiders. Overall, these descriptive statistics provide initial evidence that quarterly

earnings guidance increases a manager's attention to short-term financial results; however, they do not support critics' claims that quarterly earnings guidance detracts from long-term value.

4.2. Regression analysis

In Table 3, I present results related to quarterly earnings guidance and short-term earnings expectations. These tests relate to my first hypothesis, which predicts that there is no difference in the extent to which quarterly guiders and non-guiders focus on short-term earnings. In Column (1), where the dependent variable is *MeetFinal*, I find a significantly positive coefficient on *Guider* (t-statistic = 14.86). The coefficient of 0.118 indicates that quarterly guiders are about 16.98 percent more likely than non-guiders to meet analysts' final earnings expectations for the quarter (0.118 / 0.695 = 0.170). In Column (2), I find that quarterly guiders are also about 7.49 percent more likely than non-guiders to meet analysts' initial forecast for the quarter (t-statistic = 4.78). However, a χ^2 test reveals that the coefficient on *Guider* is larger in Column (1) than in Column (2) (p-value = 0.00). These results suggest that quarterly guiders walk the analyst forecast down to a beatable level, and that strong performance only partially explains their increased propensity to meet the final analyst forecast. In Columns (3) and (4), I find that quarterly guiders are about 34.19 percent more likely than non-guiders to just meet the final analyst forecast (t-statistic = 5.79). However, I do not find a significant difference in the probability of just missing the final analyst forecast between quarterly guiders and non-guiders (t-statistic = 1.40). A χ^2 test formalizes the result that the coefficient on *Guider* in Column (3) is larger than the coefficient on *Guider* in Column (4) (p-value = 0.00). Consequently, it does not appear that quarterly guiders' increased propensity to meet the final analyst forecast can be fully explained by quarterly earnings guidance being issued to reduce information asymmetry. Taken together, the results in Table 3 are consistent with quarterly earnings guidance increasing a

manager's attention to short-term earnings. They indicate that quarterly guiders are more likely to meet the final analyst forecast for the quarter, and that they take actions to achieve this result.[10]

Table 4 provides additional evidence on whether quarterly earnings guidance shifts a manager's focus to the short term by comparing the language used in the 10-Ks of quarterly guiders and non-guiders. Column (1) presents results where the dependent variable is *StWords÷LtWords*. I find a significantly positive coefficient on *Guider* (t-statistic = 2.74), indicating that the discussion in quarterly guiders' 10-Ks tends to be more short-term focused than the discussion in non-guiders' 10-Ks. Economically, the coefficient of 0.030 indicates that the ratio of *StWords÷LtWords* is about 8.20 percent higher for quarterly guiders than non-guiders (0.030 / 0.366 = 0.082). The coefficient on *Guider* is negative in Column (2), where the dependent variable is *%LtViewWords*; however, it is not statistically significant (t-statistic = -0.16). Thus, I do not find a significant difference in the extent to which quarterly guiders and non-guiders discuss long-term strategy in their 10-Ks.[11] Overall, the results in Table 4 provide additional support for the claim that quarterly earnings guidance increases a manager's focus on short-term performance, as it appears that quarterly guiders choose to discuss more short-term matters in their financial disclosures. However, these findings do not address whether an increased attention to short-term financial results is "unhealthy" in that it reduces long-term value.

In Table 5, I present results related to my second hypothesis, which relates to differences in long-term performance between quarterly guiders and non-guiders. In Column (1), the

[10] My results are similar when I estimate logistic regressions rather than OLS regressions. I present the results of OLS regressions for ease of interpretation.
[11] Results are similar when I replace these dependent variables with their decile rankings.

significantly positive coefficient of 0.049 on *Guider* (t-statistic = 1.71) suggests that on average, the market-adjusted returns of quarterly guiders are about 83.05 percent higher for quarterly guiders than non-guiders over the next twelve quarters (0.049 / 0.059 = 0.831).[12] The significantly positive coefficients on *Guider* in Columns (2) and (3) (t-statistics = 1.67 and 3.24) indicate that quarterly guiders also outperform non-guiders over the next twelve quarters in terms of their accounting performance. Specifically, my results suggest that quarterly guiders report industry-adjusted ROA that is about 18.64 percent higher than non-guiders, and industry-adjusted asset turnover that is about 13.74 percent higher than non-guiders. In Column (4), I do not find a significant difference between quarterly guiders and non-guiders in terms of their sales growth, although the coefficient on *Guider* is positive (t-statistic = 0.07). Last, I find that the coefficient on *Guider* is significantly positive in Column (5), where the dependent variable is industry-adjusted operating cash flows scaled by lagged total assets (t-statistic = 3.64). The coefficient of 0.024 indicates that the industry-adjusted operating cash flows of quarterly guiders are about 20.17 percent higher over the next twelve quarters than those of non-guiders.

Thus, I do not find any evidence that quarterly earnings guidance leads to a sacrifice of long-term value, as critics claim. It appears that instead, quarterly guiders perform better than observably similar non-guiders in the long term. This may be the result of quarterly earnings guidance lowering the firm's cost of capital, thereby expanding the firm's set of profitable investment opportunities. In addition, quarterly earnings guidance may improve the firm's long-term performance by enabling the manager to meet analysts' earnings expectations without engaging in value-decreasing earnings management.

[12] Results are robust to using size- and industry-adjusted returns. Specifically, when I replace market-adjusted returns with size- and industry-adjusted returns, the coefficient on *Guider* is 0.054 (t-statistic = 1.95). To adjust returns for size and industry, I calculate value-weighted returns over fifty portfolios (five size quintiles based on firm *i*'s market value of equity × ten 1-digit SIC industries).

Considered collectively, the results in Tables 3, 4, and 5 suggest that although quarterly earnings guidance increases a manager's focus on short-term financial results, it does not detract from the firm's long-term performance. In other words, my results suggest that among the firms that choose to provide it, the marginal benefits of quarterly earnings guidance on long-term value exceed the costs. My findings are therefore inconsistent with critics' claims that quarterly earnings guidance leads to managerial myopia. They are, however, consistent with the theory that voluntary disclosures are provided when they are value-increasing (Dye 2001).

5. Additional Analyses

5.1. Cross-sectional tests

To explore my conjecture that quarterly guiders outperform non-guiders in the long term because quarterly earnings guidance reduces information asymmetry, signals high managerial ability, and reduces litigation risk, I add an interaction term to my prior specification as follows:

$$LongTermPerformance_{it} = \beta_0 + \beta_1 Guider_{it} + \beta_2 Benefit_{it} + \beta_3 Guider_{it} \times Benefit_{it} + \sum \beta_j Controls + \varepsilon_{it} \quad (2)$$

where I replace *Benefit* with proxies for information asymmetry, managerial ability, and litigation risk. A positive coefficient on the interaction term would support my conjecture, as it would suggest that the benefits of quarterly earnings guidance increase with these factors. I use analysts' forecast dispersion at the beginning of the quarter (prior to the issuance of earnings guidance) to measure information asymmetry. Unlike other proxies such as bid-ask spread, this measure should capture information asymmetry without being influenced by the provision of quarterly earnings guidance. I measure managerial ability using management forecast accuracy (Baik et al. 2011). Because the sample for this test excludes non-guiders, I omit *Guider* and *Guider*×*Benefit* from Equation (2) and focus on *Benefit* as the coefficient of interest. I specify

both my information asymmetry and managerial ability variables as indicator variables split at the median for ease of interpretation. Last, I measure litigation risk using an indicator variable that is set equal to one when a firm belongs to a high litigation-risk industry (Francis et al. 1994; Kim and Skinner 2012).

The results in Table 6 Panel A suggest that quarterly earnings guidance is more beneficial for firms with higher information asymmetry, as β_3 is positive and significant in three out of five specifications. Similarly, the results in Table 6 Panel B are consistent with the view that firms benefit more from quarterly earnings guidance when their managers possess higher ability, as the coefficient of interest is again positive and significant in three out of five specifications. Results are similar when I measure managerial ability using management forecast horizon (Trueman 1986, untabulated).[13] In Table 6 Panel C, I do not find a significant difference in the extent to which firms benefit from quarterly earnings guidance based on litigation risk. Taken together, the results in Table 6 are consistent with my conjecture that quarterly guiders outperform non-guiders because quarterly earnings guidance lowers information asymmetry and signals high managerial ability.

5.2. Earnings management and underinvestment

An additional explanation for my finding that quarterly guiders outperform non-guiders in the long term is that their managers are able to meet analysts' earnings expectations without engaging in value-decreasing earnings management. Therefore, I examine whether quarterly guiders tend to use less real and accrual-based earnings management, and are less likely to underinvest. These tests also address the claim that quarterly earnings guidance encourages these behaviors. For example, Warren Buffett writes in a letter to the shareholders of Berkshire

[13] The results in Table 6 Panel B are also similar when I include or exclude managerial ability scores as a control variable. In the tabulated results, managerial ability scores are excluded from my list of control variables.

Hathaway, "… I have observed many instances in which CEOs engaged in uneconomic operating maneuvers so that they could meet [the earnings guidance] they had announced. Worse still, after exhausting all that operating acrobatics would do, they sometimes played a wide variety of accounting games to 'make the numbers'," (Buffett 2000).

To test the claim that quarterly earnings guidance leads to more earnings management, I calculate discretionary R&D and SG&A expenses as the residuals from models that predict a firm's expected R&D and SG&A expenses by 2-digit SIC industry and year-quarter (Vorst 2016). Following Call et al. (2014), I calculate discretionary accruals as the absolute value of the residuals from the Jones (1991) model after controlling for economic losses, again estimated by 2-digit SIC industry and year-quarter. I also form a total earnings management measure by summing the decile rankings of a firm's discretionary R&D expenses, discretionary SG&A expenses, and discretionary accruals (where discretionary R&D and SG&A expenses are multiplied by negative one prior to ranking so that they are increasing in earnings management). Descriptive statistics for these variables are shown in Table 7 Panel A. I re-estimate Equation (1) using each of these measures of earnings management as the dependent variable.

The results are presented in Table 7 Panel B. I find a significantly positive coefficient on *Guider* in Column (1), indicating that quarterly guiders report more discretionary R&D expenses than non-guiders. The coefficient on *Guider* is positive but marginally insignificant in Column (2), where the dependent variable is discretionary SG&A expenses. These results are consistent with quarterly guiders engaging in less real earnings management. In Column (3), the coefficient on *Guider* is negative but insignificant, suggesting that there is no difference in discretionary accruals between quarterly guiders and non-guiders.[14] Last, the coefficient on *Guider* is

[14] My finding that there is no significant difference in the use of discretionary accruals between quarterly guiders and non-guiders is inconsistent with the results of Call et al. (2014), who report that quarterly guiders use fewer

significantly negative in Column (4), which is consistent with quarterly guiders using less total earnings management than non-guiders. Thus, in contrast to the claims of prominent business leaders, I do not find evidence that quarterly earnings guidance increases earnings management. These results support my previous conjecture that, by enabling the manager to influence analysts' earnings expectations, quarterly earnings guidance reduces the need to manage earnings.

Next, to test the claim that quarterly earnings guidance leads to underinvestment (e.g., Buffett and Dimon 2018), I examine whether quarterly guiders are more likely to underinvest in capital assets, R&D, M&A, and in total. Accordingly, I specify four indicator variables that are set equal to one in quarters when a firm's investments fall into the bottom quartile of unexpected investment, and zero otherwise. I calculate unexpected investment as the residual from regressing investments on lagged sales growth by 2-digit SIC industry and year-quarter (Biddle, Hilary, and Verdi 2009). Descriptive statistics are reported for these variables in Table 6 Panel B. I re-estimate Equation (1) using each of these underinvestment indicators as the dependent variable.

The results in Table 7 Panel C suggest that quarterly guiders are less likely to underinvest than non-guiders. Specifically, I find a significantly negative coefficient on *Guider* when the dependent variable is the R&D underinvestment indicator (Column 3). I do not find a significant difference between quarterly guiders and non-guiders in terms of their capital asset underinvestment (Column 1), M&A underinvestment (Column 3), or total underinvestment

discretionary accruals than non-guiders. Prior to entropy balancing, my descriptive statistics reveal a *larger* difference in discretionary accruals between quarterly guiders and non-guiders than those reported by Call et al. (2014). However, after I apply entropy balancing, this difference is no longer statistically significant (see Table 6 Panel A). This difference in research design may therefore explain why my results are inconsistent with those of Call et al. (2014), who primarily rely on a propensity-matched sample to test their hypotheses.

(Column 4), although the coefficients are all negative. These findings are inconsistent with critics' claims that quarterly earnings guidance encourages underinvestment. Instead, they support the view that quarterly earnings guidance enables a manager to invest more freely because, as a result of her ability to influence the analyst forecast, she is less concerned that her investments will cause the firm to miss short-term earnings expectations.

5.3. Quarterly earnings guidance and other short-term pressures

I next examine whether quarterly earnings guidance tends to lower long-term performance when it is combined with other short-term pressures. These tests are in response to the SEC's interest in learning whether quarterly earnings guidance leads to managerial myopia when it is combined with other factors.[15] To do so, I estimate Equation (2), but replace *Benefits* with sources of short-term pressure. Brochet et al. (2015) identify transient institutional ownership, analyst following, and stock-based compensation as factors that should increase managerial short-termism. I therefore specify indicator variables split at the median for high transient institutional ownership, high analyst following, and high stock-based compensation, and include them in my regressions. Negative coefficients on the interaction terms between these factors and *Guider* would suggest that the benefits of quarterly earnings guidance are dampened when the practice is combined with other short-term pressures.

In untabulated results, I find little evidence that any of these factors has an impact on the relation between quarterly earnings guidance and long-term performance. Thus, it does not appear that quarterly earnings guidance becomes detrimental to long-term value when it is combined with other short-term pressures.

5.4. Robustness tests

[15] The SEC's call for comments on quarterly earnings guidance can be found at https://www.sec.gov/news/press-release/2018-287.

5.4.1. Difference-in-difference analysis

In my main analyses, I conduct cross-sectional tests where I compare quarterly guiders to an entropy-balanced sample of non-guiders. Thus, my counterfactual is a group of firms that do not provide quarterly earnings guidance, yet possess observably similar features to the firms that choose to provide it. An alternative is to compare quarterly guiders in the quarters before and after they commence quarterly earnings guidance, so that a firm's pre-guidance period serves as the counterfactual.[16] This alternative approach is useful in that it controls for factors that are stable within a firm over time. However, it is limited to a sample of initiators, and is subject to biases related to the decision to start providing guidance, i.e., the firm's underlying economic conditions may not be stable in the pre- and post- periods. I estimate my difference-in-difference analyses around the initiation of regular quarterly earnings guidance, using a matched sample of non-guiders to account for time trends over the initiation period.

I identify 450 firms that initiate regular quarterly earnings guidance over my sample period of 2003 to 2015, and use coarsened exact matching to match them with non-guiders in the quarter prior to earnings guidance initiation (Iacus, King, and Porro 2012). I require that matches occur in the same year-quarter and 2-digit SIC industry. Additionally, matches must fall within the same quartile of analyst following. Among firms that satisfy these requirements, I select the control firm with the closest market value of equity to the treatment firm. I then estimate my difference-in-difference analysis over the pre- and post- periods of quarters t-8 to t-1 and quarters t to t+7, respectively, where regular earnings guidance is initiated in quarter t. To execute this analysis, I estimate the following regression:

[16] Testing for evidence of managerial myopia around the cessation of quarterly earnings guidance may be more problematic because there is evidence that poor performance drives the decision to stop providing quarterly earnings guidance (Houston et al. 2010; Chen et al. 2011). Consequently, it is difficult to disentangle the effects of discontinuing quarterly earnings guidance from the effects of poor performance.

$$MeetFinal_{it} = \beta_0 + \beta_1 Starter_{it} + \beta_2 Post_{it} + \beta_3 Starter \times Post_{it} + \sum \beta_j Controls + \varepsilon_{it} \quad (3)$$

where I replace *MeetFinal* with other dependent variables as needed to test my hypotheses. *Starter* distinguishes the firms that initiate regular quarterly earnings guidance from their matched controls firms, whereas *Post* distinguishes the pre-period from the post-period. Thus, the coefficient of interest is on the interaction *Starter*×*Post*. As in my previous tests, I include each of the firm characteristics listed in Table 2 Panel A as control variables. I also include industry and year-quarter fixed effects, and cluster standard errors by firm and year-quarter.

The results are shown in Table 8. Overall, my inferences remain unchanged. I continue to find evidence that quarterly earnings guidance increases a manager's focus on short-term financial results; however, there is no indication that it decreases a firm's long-term performance. This provides greater confidence that my main results are not driven by firm-specific correlated omitted variables.

5.4.2. Other robustness tests

I perform several other tests to examine the robustness of my finding that quarterly guiders outperform non-guiders in the long term. My inferences remain unchanged when I make any of the following adjustments to my research design.

- I estimate long-term performance over twenty quarters rather than twelve quarters.
- I include the following variables in my entropy balancing procedure and as additional control variables in my regressions:
  - Analysts' forecasts of the firm's long-term growth
  - Firm-specific competition (Li, Lundholm, and Minnis 2013)
  - The firm's propensity to meet the final analyst forecast (*MeetFinal*)

These robustness tests provide additional assurance that my results are not the product of functional form misspecification or correlated omitted variables.

6. Conclusion

I examine the claim that quarterly earnings guidance leads a manager to sacrifice long-term value to meet short-term earnings expectations (become myopic). Using an entropy balanced sample of quarterly guiders and non-guiders, I find evidence that quarterly earnings guidance increases a manager's focus on short-term earnings, as quarterly guiders are more likely than non-guiders to meet analysts' quarterly earnings expectations. They also tend to use a greater proportion of short-term language in their 10-Ks, which is consistent with a greater fixation on short-term financial results. However, I do not find evidence that quarterly earnings guidance detracts from a firm's long-term performance. My results suggest that quarterly guiders outperform non-guiders over the next three and five years across a variety of measures, including market-adjusted returns, industry-adjusted ROA, industry-adjusted asset turnover, and industry-adjusted cash flows. Thus, my findings do not support the view that quarterly earnings guidance leads to managerial myopia.

My research is timely given the SEC's ongoing investigation into quarterly reporting and quarterly earnings guidance. Although prominent business leaders call for suspension of the practice, my results suggest that among the firms that choose to provide it, the marginal benefits of providing quarterly earnings guidance exceed the costs. In addition to having policy implications, my study contributes to the literatures on earnings guidance and the real effects of disclosure.

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Appendix A

Variable Definitions

Quarterly earnings guidance	
$Guider_t$	An indicator variable set equal to one when firm *i* provides earnings guidance for every quarter over twelve consecutive quarters; and zero when firm *i* does not provide earnings guidance for any quarter over twelve consecutive quarters.
Firm characteristics	
ln(Market value of equity)$_t$	The natural logarithm of firm *i*'s market value of equity (CSHOQ×PRCCQ) in quarter *t* (in millions).
Managerial ability$_t$	The managerial ability score calculated by Demerjian, Lev, and McVay (2012) for firm *i* in the fiscal year that contains quarter *t*. Managerial ability scores are generously provided by Peter Demerjian at his website, https://faculty.washington.edu/pdemerj/data.html.
Book-to-market ratio$_t$	Firm *i*'s total equity (SEQ) in quarter *t* divided by firm *i*'s market value of equity (CSHOQ×PRCCQ) in quarter *t*.
Leverage$_t$	Total liabilities (LTQ) for firm *i* in quarter *t*, divided by total assets (ATQ) for firm *i* in quarter *t*.
Bid-ask spread$_t$	The average daily bid-ask spread for firm *i* in quarter *t*, multiplied by 100. The daily bid-ask spread is calculated as the absolute difference between firm *i*'s closing bid and ask prices, scaled by firm *i*'s closing stock price.
Analyst forecast dispersion$_t$	The standard deviation of analyst forecasts (STDEV) for firm *i* at the beginning of quarter *t* (prior to the issuance of earnings guidance for quarter *t*), scaled by firm *i*'s stock price (PRCCQ) at the beginning of the quarter and multiplied by 100.
Return volatility$_t$	The standard deviation of firm *i*'s daily returns (RET) in quarter *t*.
Litigation industry$_t$	An indicator variable set equal to one when firm *i*'s 4-digit SIC code falls within the following ranges: 2833-2836, 8731-8734, 3570-3577, 7370-7374, 3600-3674, 5200-5961, and zero otherwise (Francis, Philbrick, and Schipper 1994).
ln(Number of analysts)$_t$	The natural logarithm of the number of analysts (NUMEST) following firm *i* in quarter *t*.
Transient institutional ownership$_t$	The fraction of firm *i*'s shares outstanding (SHROUT) in quarter *t* that are reported in 13-F filings as being owned by transient institutional investors. The data needed to classify institutional investors as transient, quasi-indexer, or dedicated are generously provided by Brian Bushee at his website, http://acct.wharton.upenn.edu/faculty/bushee/IIclass.html.

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Variable Definitions

Quasi-indexer institutional ownership$_t$	The fraction of firm *i*'s shares outstanding (SHROUT) in quarter *t* that are reported in 13-F filings as being owned by quasi-indexer institutional investors. The data needed to classify institutional investors as transient, quasi-indexer, or dedicated are generously provided by Brian Bushee at his website, http://acct.wharton.upenn.edu/faculty/bushee/IIclass.html.
Dedicated institutional ownership$_t$	The fraction of firm *i*'s shares outstanding (SHROUT) in quarter *t* that are reported in 13-F filings as being owned by dedicated institutional investors. The data needed to classify institutional investors as transient, quasi-indexer, or dedicated are generously provided by Brian Bushee at his website, http://acct.wharton.upenn.edu/faculty/bushee/IIclass.html.
Life cycle: Introduction$_t$	An indicator variable set equal to one in quarter *t* when firm *i*'s operating cash flows (OANCFQ) are negative; investing cash flows (IVNCFQ) are negative; and financing cash flows (FINCFQ) are positive (Dickinson 2011).
Life cycle: Growth$_t$	An indicator variable set equal to one in quarter *t* when firm *i*'s operating cash flows (OANCFQ) are positive; investing cash flows (IVNCFQ) are negative; and financing cash flows (FINCFQ) are positive (Dickinson 2011).
Life cycle: Mature$_t$	An indicator variable set equal to one in quarter *t* when firm *i*'s operating cash flows (OANCFQ) are positive; investing cash flows (IVNCFQ) are negative; and financing cash flows (FINCFQ) are negative (Dickinson 2011).
Life cycle: Shake-out$_t$	An indicator variable set equal to one in quarter *t* when: • Firm *i*'s operating cash flows (OANCFQ) are negative; investing cash flows (IVNCFQ) are negative; and financing cash flows (FINCFQ) are negative. • Firm *i*'s operating cash flows (OANCFQ) are positive; investing cash flows (IVNCFQ) are positive; and financing cash flows (FINCFQ) are positive. • Firm *i*'s operating cash flows (OANCFQ) are positive; investing cash flows (IVNCFQ) are positive; and financing cash flows (FINCFQ) are negative (Dickinson 2011).
Life cycle: Decline$_t$	An indicator variable set equal to one in quarter *t* when: • Firm *i*'s operating cash flows (OANCFQ) are negative; investing cash flows (IVNCFQ) are positive; and financing cash flows (FINCFQ) are positive. • Firm *i*'s operating cash flows (OANCFQ) are negative; investing cash flows (IVNCFQ) are positive; and financing cash flows (FINCFQ) are negative (Dickinson 2011).
Market-adjusted returns$_t$	Firm *i*'s market-adjusted returns for quarter *t*. Firm *i*'s returns (RET) are adjusted using value-weighted returns (VWRETD).

Appendix A

Variable Definitions

Industry-adjusted return on assets$_t$	Firm *i*'s return on assets in quarter *t* (IBQ_t/ATQ_{t-1}) minus the median return on assets for firm *i*'s 2-digit SIC industry in quarter *t*.
Industry-adjusted asset turnover$_t$	Firm *i*'s asset turnover in quarter *t* ($SALEQ_t/ATQ_{t-1}$) minus the median asset turnover for firm *i*'s 2-digit SIC industry in quarter *t*.
Industry-adjusted sales growth$_t$	Firm *i*'s sales growth in quarter *t* (($SALEQ_t/SALEQ_{t-1}$)-1) minus the median sales growth for firm *i*'s 2-digit SIC industry in quarter *t*.
Industry-adjusted operating cash flows$_t$	Firm *i*'s operating cash flows in quarter *t* ($OANCFQ_t/ATQ_{t-1}$) minus the median return on assets for firm *i*'s 2-digit SIC industry in quarter *t*.
Management forecast accuracy$_t$	The absolute value of firm *i*'s actual earnings for quarter *t* (ACTUAL) minus the management earnings guidance for quarter *t* (VAL_1), scaled by firm *i*'s stock price at the beginning of the quarter and multiplied by -100 so that higher values represent greater accuracy. I use the upper bound of a manager's forecast (VAL_2) to proxy for the manager's guidance when the manager issues a range forecast (Ciconte, Kirk, and Tucker 2014).
Management forecast horizon$_t$	The number of months from the announcement date of firm *i*'s earnings guidance for quarter *t* to the fiscal period end date for quarter *t*.
Stock-based compensation$_t$	The residual from regressing the top five executives' average stock- and option-based compensation on market value of equity, book-to-market ratio, and industry and year fixed effects, divided by 100 (Brochet, Loumioti, and Serafeim 2015).
Competition$_t$	The number of competition-related words in firm *i*'s 10-K per 1,000 total words in firm *i*'s 10-K in the fiscal year that contains quarter t. Competition-related words are "competition", "competitor", "competitive", "compete", and "competing", including words that end with an "s" (Li, Lundholm, and Minnis 2013).
Analysts' long-term growth forecast$_t$	Analysts' long-term growth forecast outstanding for firm *i* at the end of quarter *t*.
Short-term earnings expectations	
Meet final analyst forecast$_t$	An indicator variable set equal to one in quarter *t* when firm *i*'s actual earnings (ACTUAL) are greater than or equal to the analyst consensus forecast (MEANEST) at the earnings announcement date for quarter *t*, and zero otherwise.
Meet initial analyst forecast$_t$	An indicator variable set equal to one in quarter *t* when firm *i*'s actual earnings (ACTUAL) are greater than or equal to the analyst consensus forecast (MEANEST) at the beginning of quarter *t* (prior to the issuance of earnings guidance for quarter *t*), and zero otherwise.

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Just meet final analyst forecast$_t$	An indicator variable set equal to one in quarter *t* when firm *i*'s actual earnings (ACTUAL) are greater than or equal to the analyst consensus forecast (MEANEST) and less than or equal to the analyst consensus forecast plus one cent at the earnings announcement date for quarter *t*, and zero otherwise.
Just miss final analyst forecast$_t$	An indicator variable set equal to one in quarter *t* when firm *i*'s actual earnings (ACTUAL) are less than the analyst consensus forecast (MEANEST) and greater than or equal to the analyst consensus forecast minus one cent at the earnings announcement date for quarter *t*, and zero otherwise.
10-K language	
Short-term words ÷ Long-term words$_t$	The number of short-term words in firm *i*'s 10-K divided by the sum of short-term words and long-term words in firm *i*'s 10-K in the fiscal year that contains quarter *t*. Short-term words are: "short term", "short-term", "short run" and "short-run". Long-term words are: "long term", "long-term", "long run", and "long-run". I exclude short-term words and long-term words when they are followed by the words "asset", "assets", "liability", and "liabilities". I obtain 10-Ks from the SEC's website at https://www.sec.gov/Archives/ using Python. I also use Python to count the number of short- and long-term words in a firm's 10-K.
% Long-term view words$_t$	The number of long-term view words in firm *i*'s 10-K divided by the total number of words in firm *i*'s 10-K in the fiscal year that contains quarter *t*. Long-term view words are: "firm value", "value creation", "create value", "creates value", "sustain", "sustainable", "sustainability", "environment", "environmental", "socially responsible", "social responsibility", and "governance". This list of long-term view words is inspired by letters written by Warren Buffett, Jamie Dimon, and Larry Fink, which can be accessed at the following links: • https://www.blackrock.com/corporate/investor-relations/2016-larry-fink-ceo-letter • https://www.wsj.com/articles/short-termism-is-harming-the-economy-1528336801 I obtain 10-Ks from the SEC's website at https://www.sec.gov/Archives/ using Python. I also use Python to count the number of long-term view words in a firm's 10-K.
Long-term performance	
Market-adjusted returns$_{t+1,t+12}$	Firm *i*'s market-adjusted returns over quarters *t+1* to *t+12*. Firm *i*'s returns (RET) are adjusted using value-weighted returns (VWRETD).

Appendix A

Variable Definitions

Industry-adjusted return on assets$_{t+1,t+12}$	Firm *i*'s return on assets in quarter *t* (IBQ_t/ATQ_{t-1}) minus the median return on assets for firm *i*'s 2-digit SIC industry in quarter *t*, summed over quarters *t+1* to *t+12*.
Industry-adjusted asset turnover$_{t+1,t+12}$	Firm *i*'s asset turnover in quarter *t* ($SALEQ_t/ATQ_{t-1}$) minus the median asset turnover for firm *i*'s 2-digit SIC industry in quarter *t*, summed over quarters *t+1* to *t+12*.
Industry-adjusted sales growth$_{t+1,t+12}$	Firm *i*'s sales growth in quarter *t* (($SALEQ_t/SALEQ_{t-1}$)-1) minus the median sales growth for firm *i*'s 2-digit SIC industry in quarter *t*, summed over quarters *t+1* to *t+12*.
Industry-adjusted operating cash flows$_{t+1,t+12}$	Firm *i*'s operating cash flows in quarter *t* ($OANCFQ_t/ATQ_{t-1}$) minus the median return on assets for firm *i*'s 2-digit SIC industry in quarter *t*, summed over quarters *t+1* to *t+12*.
Earnings management	
Discretionary R&D expenses$_t$	The residual from estimating the following model by quarter and 2-digit SIC code, multiplied by 100 (Vorst 2016): $XRDQ_t/ATQ_{t-1} = \beta_0 + \beta_1 1/ATQ_{t-1} + \beta_2 lnMVE_t + \beta_3 TobinsQ_t + \beta_4 InternalFunds_t/ATQ_{t-1} + \beta_5 SALEQ_t/ATQ_{t-1} + \beta_6 \Delta SALEQ_t + \varepsilon_t$ where *TobinsQ* is calculated as: ($PRCCQ_t \times CSHOQ_t + PSTKQ_t + DLTTQ_t + DLCQ_t)/ATQ_{t-1}$, and *InternalFunds* is calculated as: $IBQ_t + DPQ_t + XRDQ_t$. I require a minimum of 20 observations per industry-quarter to estimate the model.
Discretionary SG&A expenses$_t$	The residual from estimating the following model by quarter and 2-digit SIC code, multiplied by 100 (Vorst 2016): $XSGAQ_t/ATQ_{t-1} = \beta_0 + \beta_1 1/ATQ_{t-1} + \beta_2 lnMVE_t + \beta_3 TobinsQ_t + \beta_4 InternalFunds_t/ATQ_{t-1} + \beta_5 \Delta SALEQ_t/ATQ_{t-1} + \beta_6 \Delta SALEQ_t/ATQ_{t-1} \times Neg\Delta SALEQ_t + \varepsilon_t$ where *TobinsQ* is calculated as: ($PRCCQ_t \times CSHOQ_t + PSTKQ_t + DLTTQ_t + DLCQ_t)/ATQ_{t-1}$, and *InternalFunds* is calculated as: $IBQ_t + DPQ_t + XRDQ_t$. I require a minimum of 20 observations per industry-quarter to estimate the model.
Discretionary accruals$_t$	The absolute value of the residual from estimating the following model by quarter and 2-digit SIC code, multiplied by 100 (Call, Chen, and Miao 2014): $Accruals_t/ATQ_{t-1} = \beta_0 + \beta_1 \Delta SALEQ_t/ATQ_{t-1} + \beta_2 PPENTQ_{t-1}/ATQ_{t-1} + \beta_3 Indadj\_CFO_t/ATQ_{t-1} + \beta_4 NegIndadj\_CFO + \beta_5 Indadj\_CFO_t/ATQ_{t-1} \times NegIndadj\_CFO_t + \varepsilon_t$ where *Accruals* is calculated as: $IBCQ_t - OANCFQ_t$, and *Indadj_CFO* is calculated as: $OANCFQ_t$ minus the median $OANCFQ_t$ for firm *i*'s 2-digit SIC industry in quarter *t*. I require a minimum of 20 observations per industry-quarter to estimate the model.

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Variable Definitions

Total earnings management$_t$	The summed decile rankings of firm *i*'s discretionary R&D expenses, discretionary SG&A expenses, and discretionary accruals in quarter *t*, where discretionary R&D and SG&A expenses are multiplied by negative one so that they are increasing in earnings management.
Under-Investment	
Under-investment in capital assets$_t$	An indicator variable set equal to one when firm *i*'s investments in capital assets (CAPXQ-SPPEQ) fall into the bottom quartile of unexpected investments in capital assets in quarter *t*. Unexpected investments in capital assets is the residual from estimating the following model by quarter and 2-digit SIC code, multiplied by 100 (Biddle, Hilary, and Verdi 2009): $(CAPXQ_t\text{-}SPPEQ_t)/ATQ_{t-1} = \beta_0 + \beta_1 SalesGrowth_{t-1} + \varepsilon_t$ where *SalesGrowth* is calculated as: ($SALEQ_t/SALEQ_{t-1}$)-1. I require a minimum of 20 observations per industry-quarter to estimate the model.
Under-investment in R&D$_t$	An indicator variable set equal to one when firm *i*'s investments in research and development (XRDQ) fall into the bottom quartile of unexpected R&D investments in quarter *t*. Unexpected R&D investments is the residual from estimating the following model by quarter and 2-digit SIC code, multiplied by 100 (Biddle, Hilary, and Verdi 2009): $XRDQ_t/ATQ_{t-1} = \beta_0 + \beta_1 SalesGrowth_{t-1} + \varepsilon_t$ where *SalesGrowth* is calculated as: ($SALEQ_t/SALEQ_{t-1}$)-1. I require a minimum of 20 observations per industry-quarter to estimate the model.
Under-investment in M&A$_t$	An indicator variable set equal to one when firm *i*'s mergers and acquisitions (AQCQ) fall into the bottom quartile of unexpected M&A in quarter *t*. Unexpected M&A is the residual from estimating the following model by quarter and 2-digit SIC code, multiplied by 100 (Biddle, Hilary, and Verdi 2009): $AQCQ_t/ATQ_{t-1} = \beta_0 + \beta_1 SalesGrowth_{t-1} + \varepsilon_t$ where *SalesGrowth* is calculated as: ($SALEQ_t/SALEQ_{t-1}$)-1. I require a minimum of 20 observations per industry-quarter to estimate the model.

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Variable Definitions

Total under-investment$_t$	An indicator variable set equal to one when firm *i*'s *Investments* fall into the bottom quartile of unexpected investment in quarter *t*. *Investments* is the sum of R&D expenses (XRDQ), capital expenditures (CAPXQ), and acquisitions (AQCQ) minus sales of PP&E (SPPEQ) for firm *i* in quarter *t*, scaled by total assets (ATQ) in quarter *t-1* (Biddle, Hilary, and Verdi 2009). Unexpected investment is the residual from estimating the following model by quarter and 2-digit SIC code, multiplied by 100 (Biddle, Hilary, and Verdi 2009): $Investments_t = \beta_0 + \beta_1 SalesGrowth_{t-1} + \varepsilon_t$ where *SalesGrowth* is calculated as: ($SALEQ_t/SALEQ_{t-1}$)-1. I require a minimum of 20 observations per industry-quarter to estimate the model.
Difference-in-difference analysis	
Starter	An indicator variable set equal to one for firms that initiate regular earnings guidance; and zero for matched firms that do not initiate earnings guidance.
Post	An indicator variable set equal to one in the post-guidance initiation quarters of *t* to *t*+7, and zero in the pre-guidance initiation quarters of *t*-8 to *t*-1 (guidance is initiated in quarter *t*).

TABLE 1
Sample Selection

	Firm-quarter observations
CRSP-Compustat merged database, 2001-2018	428,609
Lagged and leading observations outside sample period of 2003-2015	(121,908)
	306,701
Utility and financial services industries	(117,462)
	189,239
Observations missing necessary CRSP-Compustat variables	(73,943)
	115,296
Observations missing necessary I/B/E/S variables	(30,688)
	84,608
Observations missing managerial ability scores	(2,185)
	82,423
Observations not classified as a guider or non-guider	(19,092)
	63,331

TABLE 2
Descriptive Statistics

	Without Entropy Balancing			With Entropy Balancing		
	Guider	Non-guider	Test of difference	Guider	Non-guider	Test of difference
	mean median	**mean** median	**t-stat**	**mean** median	**mean** median	**t-stat**
Panel A: Firm characteristics						
ln(Market value of equity)$_{t-1}$	**7.501** 7.381	**6.804** 6.601	**37.70*** **	**7.501** 7.381	**7.501** 7.411	**0.00**
Managerial ability$_t$	**0.027** -0.014	**0.006** -0.031	**13.45*** **	**0.027** -0.014	**0.027** -0.011	**0.00**
Book-to-market ratio$_{t-1}$	**0.447** 0.379	**0.516** 0.427	**-17.32*** **	**0.447** 0.379	**0.447** 0.382	**-0.01**
Leverage$_{t-1}$	**0.422** 0.410	**0.478** 0.470	**-22.88*** **	**0.422** 0.410	**0.422** 0.414	**0.00**
Bid-ask spread$_{t-1}$	**0.167** 0.100	**0.359** 0.160	**-38.16*** **	**0.167** 0.100	**0.167** 0.098	**0.00**
Analyst forecast dispersion$_t$	**0.239** 0.078	**0.855** 0.115	**-19.04*** **	**0.239** 0.078	**0.239** 0.091	**-0.01**
Return volatility$_{t-1}$	**0.025** 0.022	**0.029** 0.025	**-24.61*** **	**0.025** 0.022	**0.025** 0.022	**0.00**
Litigation industry$_t$	**0.547** 1.000	**0.353** 0.000	**38.94*** **	**0.547** 1.000	**0.546** 1.000	**0.01**
ln(Number of analysts)$_{t-1}$	**2.079** 2.079	**1.432** 1.386	**69.38*** **	**2.079** 2.079	**2.079** 2.197	**0.00**
Transient institutional ownership$_{t-1}$	**0.154** 0.144	**0.114** 0.094	**35.98*** **	**0.154** 0.144	**0.154** 0.144	**0.01**
Quasi-indexer institutional ownership$_{t-1}$	**0.474** 0.533	**0.346** 0.369	**47.42*** **	**0.474** 0.533	**0.474** 0.537	**0.01**
Dedicated institutional ownership$_{t-1}$	**0.029** 0.000	**0.027** 0.000	**4.68*** **	**0.029** 0.000	**0.029** 0.000	**0.00**
Life cycle: Introduction$_{t-1}$	**0.070** 0.000	**0.125** 0.000	**-16.58*** **	**0.070** 0.000	**0.070** 0.000	**0.01**
Life cycle: Growth$_{t-1}$	**0.283** 0.000	**0.243** 0.000	**8.84*** **	**0.283** 0.000	**0.283** 0.000	**0.00**
Life cycle: Mature$_{t-1}$	**0.460** 0.000	**0.418** 0.000	**8.28*** **	**0.460** 0.000	**0.460** 0.000	**0.00**
Life cycle: Shake-out$_{t-1}$	**0.156** 0.000	**0.143** 0.000	**3.60*** **	**0.156** 0.000	**0.156** 0.000	**0.00**
Life cycle: Decline$_{t-1}$	**0.031** 0.000	**0.071** 0.000	**-16.03*** **	**0.031** 0.000	**0.031** 0.000	**0.00**
Market-adjusted returns$_t$	**0.014** 0.004	**0.012** -0.006	**1.13**	**0.014** 0.004	**0.014** 0.003	**0.00**
Industry-adjusted return on assets$_t$	**0.007** 0.007	**-0.002** 0.003	**19.05*** **	**0.007** 0.007	**0.007** 0.007	**0.00**
Industry-adjusted asset turnover$_t$	**0.037** 0.005	**0.039** 0.009	**-1.51**	**0.037** 0.005	**0.037** 0.008	**0.00**
Industry-adjusted sales growth$_t$	**0.015** 0.004	**0.027** 0.000	**-5.28*** **	**0.015** 0.004	**0.015** 0.003	**0.00**
Industry-adjusted operating cash flows$_t$	**0.012** 0.010	**0.003** 0.004	**20.06*** **	**0.012** 0.010	**0.012** 0.010	**0.00**
Number of firm-quarter observations	11,482	51,849		11,482	51,849	

TABLE 2
Descriptive Statistics

	Without Entropy Balancing			With Entropy Balancing		
	Guider	Non-guider	Test of difference	Guider	Non-guider	Test of difference
	mean median	**mean** median	**t-stat**	**mean** median	**mean** median	**t-stat**
Panel B: Short-term earnings expectations						
Meet final analyst forecast$_t$	**0.813** 1.000	**0.607** 1.000	**42.34*** **	**0.813** 1.000	**0.695** 1.000	**23.00*** **
Meet initial analyst forecast$_t$	**0.603** 1.000	**0.494** 0.000	**21.19*** **	**0.603** 1.000	**0.561** 1.000	**6.90*** **
Just meet final analyst forecast$_t$	**0.207** 0.000	**0.126** 0.000	**22.87*** **	**0.207** 0.000	**0.155** 0.000	**10.76*** **
Just miss final analyst forecast$_t$	**0.086** 0.000	**0.070** 0.000	**6.12*** **	**0.086** 0.000	**0.080** 0.000	**1.83***
Number of firm-quarter observations	11,482	51,849		11,482	51,849	
Panel C: 10-K language						
Short-term words ÷ Long-term words$_t$	**0.397** 0.364	**0.344** 0.310	**21.03*** **	**0.397** 0.364	**0.366** 0.343	**10.31*** **
% Long-term view words$_t$	**0.068** 0.052	**0.077** 0.056	**-11.96*** **	**0.068** 0.052	**0.068** 0.051	**-0.54**
Number of firm-quarter observations	9,465	42,218		9,465	42,218	
Panel D: Long-term performance						
Market-adjusted returns$_{t+1,t+12}$	**0.108** -0.012	**0.045** -0.117	**6.73*** **	**0.108** -0.012	**0.059** -0.062	**5.10*** **
Industry-adjusted return on assets$_{t+1,t+12}$	**0.070** 0.073	**-0.015** 0.028	**19.74*** **	**0.070** 0.073	**0.059** 0.068	**3.29*** **
Industry-adjusted asset turnover$_{t+1,t+12}$	**0.448** 0.081	**0.483** 0.155	**-2.08** **	**0.448** 0.081	**0.393** 0.071	**2.70*** **
Industry-adjusted sales growth$_{t+1,t+12}$	**0.161** 0.077	**0.488** 0.113	**-21.25*** **	**0.161** 0.077	**0.159** 0.061	**0.22**
Industry-adjusted operating cash flows$_{t+1,t+12}$	**0.143** 0.110	**0.051** 0.047	**24.31*** **	**0.143** 0.110	**0.119** 0.091	**7.99*** **
Number of firm-quarter observations	11,482	51,849		11,482	51,849	

TABLE 2
Descriptive Statistics

This table reports descriptive statistics for quarterly guiders and non-guiders. Quarterly guiders are defined as firms that provide earnings guidance for every quarter over twelve consecutive quarters, and non-guiders are defined as firms that do not provide earnings guidance for any quarter over twelve consecutive quarters. In the first three columns, I report descriptive statistics that compare quarterly guiders to non-guiders. In the last three columns, I report descriptive statistics where the sample has been reweighted using entropy balancing. I balance on each of the firm characteristics listed in Panel A, as well as 2-digit SIC code and year-quarter. *, **, and *** indicate statistical significance at the 10, 5, and 1 percent level, respectively. Continuous variables are winsorized at the 1st and 99th percentiles. See variable definitions in Appendix A.

TABLE 3
Quarterly Earnings Guidance and Short-Term Earnings Expectations

	(1) Meet final analyst forecast$_t$	(2) Meet initial analyst forecast$_t$	(3) Just meet final analyst forecast$_t$	(4) Just miss final analyst forecast$_t$
Guider$_t$	0.118***	0.042***	0.053***	0.006
	(14.857)	(4.780)	(5.789)	(1.396)
ln(Market value of equity)$_{t-1}$	0.014***	0.027***	-0.004	-0.005**
	(3.124)	(4.597)	(-0.908)	(-2.451)
Managerial ability$_t$	0.058*	0.100***	-0.101***	-0.050***
	(1.940)	(2.921)	(-3.474)	(-3.011)
Book-to-market ratio$_{t-1}$	0.003	-0.058***	-0.114***	-0.036***
	(0.159)	(-3.402)	(-7.149)	(-4.288)
Leverage$_{t-1}$	0.066***	0.005	-0.115***	-0.040***
	(2.863)	(0.188)	(-4.980)	(-3.355)
Bid-ask spread$_{t-1}$	0.003	0.031**	0.061***	0.010
	(0.231)	(2.058)	(4.555)	(1.236)
Analyst forecast dispersion$_t$	-0.005	-0.001	-0.014***	-0.007***
	(-1.026)	(-0.283)	(-5.316)	(-7.835)
Return volatility$_{t-1}$	0.456	-0.455	-0.830**	-0.609***
	(1.247)	(-0.939)	(-2.303)	(-2.680)
Litigation industry$_t$	0.031**	0.051***	0.032**	0.001
	(2.506)	(3.449)	(2.181)	(0.074)
ln(Number of analysts)$_{t-1}$	0.004	-0.022***	0.012	0.014***
	(0.518)	(-2.759)	(1.519)	(3.561)
Transient institutional ownership$_{t-1}$	0.170***	0.348***	-0.090**	-0.081***
	(4.267)	(8.271)	(-2.527)	(-4.267)
Quasi-indexer institutional ownership$_{t-1}$	-0.000	-0.055**	0.049**	0.016
	(-0.006)	(-2.563)	(2.567)	(1.562)
Dedicated institutional ownership$_{t-1}$	-0.034	-0.019	-0.036	0.042
	(-0.492)	(-0.200)	(-0.451)	(0.902)
Life cycle: Growth$_{t-1}$	0.014	0.034**	-0.011	0.002
	(1.205)	(2.587)	(-0.890)	(0.301)
Life cycle: Mature$_{t-1}$	0.014	0.037***	-0.010	0.005
	(1.186)	(2.766)	(-0.759)	(0.683)
Life cycle: Shake-out$_{t-1}$	0.010	0.034**	-0.021*	-0.001
	(0.799)	(2.203)	(-1.787)	(-0.090)
Life cycle: Decline$_{t-1}$	0.002	0.039*	-0.052***	0.004
	(0.116)	(1.906)	(-3.236)	(0.343)
Market-adjusted returns$_t$	0.186***	0.660***	0.007	-0.038***
	(11.887)	(24.270)	(0.522)	(-3.435)
Industry-adjusted return on assets$_t$	1.591***	2.156***	0.072	-0.097
	(10.923)	(8.589)	(0.627)	(-1.376)
Industry-adjusted asset turnover$_t$	-0.055*	0.031	0.034	0.021
	(-1.728)	(0.845)	(1.035)	(0.955)
Industry-adjusted sales growth$_t$	0.203***	0.339***	-0.085***	-0.047***
	(8.383)	(10.138)	(-4.622)	(-4.501)
Industry-adjusted operating cash flows$_t$	0.264**	0.192	-0.220**	-0.078
	(2.325)	(1.458)	(-2.349)	(-1.337)
Industry and year-quarter fixed effects	Yes	Yes	Yes	Yes
Number of observations	63,331	63,331	63,331	63,331
Adjusted R^2	0.069	0.167	0.045	0.012
χ^2 test: $\beta_{1Final} = \beta_{1Initial}$ or	109.27***		25.60***	
$\beta_{1JustMeet} = \beta_{1JustMiss}$	(0.000)		(0.000)	

TABLE 3
Quarterly Earnings Guidance and Short-Term Earnings Expectations

This table reports OLS regressions where quarterly guiders and non-guiders are compared in terms of their propensity to meet or miss analysts' quarterly earnings expectations. The sample is reweighted via entropy balancing to improve the comparability of treatment and control observations. The initial analyst forecast is estimated at the beginning of quarter *t*, whereas the final analyst forecast is estimated at the earnings announcement date for quarter *t*. I consider a firm as just meeting or just missing earnings expectations when actual earnings deviate by a penny or less from the final analyst forecast. At the bottom of the table, I use a χ^2 test to test the hypothesis that *Guider* (β_1) is equal between Columns (1) and (2) and Columns (3) and (4). The corresponding p-value is reported in parentheses. *, **, and *** indicate statistical significance at the 10, 5, and 1 percent level, respectively. Firm- and year-quarter-clustered t-statistics for two-tailed tests are reported in parentheses. Each regression is estimated with industry and year-quarter fixed effects (not reported). Continuous variables are winsorized at the 1st and 99th percentiles. See variable definitions in Appendix A.

TABLE 4
Quarterly Earnings Guidance and 10-K Language

	(1) Short-term words ÷ Long-term words$_t$	(2) % Long-term view words$_t$
Guider$_t$	0.030***	-0.000
	(2.735)	(-0.157)
ln(Market value of equity)$_{t-1}$	-0.018***	0.005***
	(-3.002)	(3.497)
Managerial ability$_t$	0.123***	-0.041***
	(3.263)	(-4.514)
Book-to-market ratio$_{t-1}$	-0.079***	0.018***
	(-4.055)	(4.077)
Leverage$_{t-1}$	-0.162***	0.027***
	(-5.226)	(4.548)
Bid-ask spread$_{-1}$	-0.005	0.005
	(-0.249)	(1.342)
Analyst forecast dispersion$_t$	0.001	0.001
	(0.222)	(0.829)
Return volatility$_{t-1}$	0.705**	-0.164**
	(2.043)	(-2.479)
Litigation industry$_t$	0.044**	-0.023***
	(2.045)	(-4.666)
ln(Number of analysts)$_{t-1}$	0.002	-0.001
	(0.173)	(-0.392)
Transient institutional ownership$_{t-1}$	0.034	-0.007
	(0.755)	(-0.840)
Quasi-indexer institutional ownership$_{t-1}$	-0.024	0.006
	(-1.057)	(1.246)
Dedicated institutional ownership$_{t-1}$	0.046	-0.047***
	(0.611)	(-3.229)
Life cycle: Growth$_{t-1}$	0.003	0.002
	(0.401)	(1.277)
Life cycle: Mature$_{t-1}$	-0.007	0.005***
	(-0.813)	(2.759)
Life cycle: Shake-out$_{t-1}$	0.028***	0.001
	(3.091)	(0.288)
Life cycle: Decline$_{t-1}$	0.057***	-0.005**
	(4.671)	(-2.633)
Market-adjusted returns$_t$	0.019**	-0.004**
	(2.070)	(-2.035)
Industry-adjusted return on assets$_t$	-0.008	0.091***
	(-0.062)	(5.442)
Industry-adjusted asset turnover$_t$	-0.064	-0.005
	(-1.357)	(-0.621)
Industry-adjusted sales growth$_t$	-0.008	-0.004**
	(-0.647)	(-2.336)
Industry-adjusted operating cash flows$_t$	0.052	0.014
	(0.638)	(0.959)
Industry and year-quarter fixed effects	Yes	Yes
Number of observations	51,683	51,683
Adjusted R^2	0.123	0.345

This table reports OLS regressions where quarterly guiders and non-guiders are compared in terms of the language used in their 10-Ks. The sample is reweighted via entropy balancing to improve the comparability of treatment and control observations. I use Python to analyze firms' 10-K language. The dependent variable in

TABLE 4
Quarterly Earnings Guidance and 10-K Language

Column (1) represents a ratio of short-term words to long-term words (e.g., short-run, long-run). The dependent variable in Column (2) represents the fraction of total words that reflect taking a long-term view (e.g., sustainability, firm value, social responsibility). *, **, and *** indicate statistical significance at the 10, 5, and 1 percent level, respectively. Firm- and year-quarter-clustered t-statistics for two-tailed tests are reported in parentheses. Each regression is estimated with industry and year-quarter fixed effects (not reported). Continuous variables are winsorized at the 1st and 99th percentiles. See variable definitions in Appendix A.

TABLE 5
Quarterly Earnings Guidance and Long-Term Performance

	(1) Market-adjusted returns$_{t+1,t+12}$	(2) Industry-adj. ROA$_{t+1,t+12}$	(3) Industry-adj. asset turnover$_{t+1,t+12}$	(4) Industry-adj. sales growth$_{t+1,t+12}$	(5) Industry-adj. operating cash flows$_{t+1,t+12}$
Guider$_t$	0.049*	0.011*	0.054***	0.002	0.024***
	(1.710)	(1.671)	(3.243)	(0.066)	(3.636)
ln(Market value of equity)$_{t-1}$	-0.018	0.037***	-0.023**	-0.021**	0.020***
	(-1.334)	(9.128)	(-2.589)	(-2.098)	(5.491)
Managerial ability$_t$	0.062	0.041	0.091	-0.015	0.074***
	(0.721)	(1.562)	(1.327)	(-0.186)	(2.899)
Book-to-market ratio$_{t-1}$	0.069	-0.136***	0.031	-0.414***	-0.171***
	(1.117)	(-6.543)	(0.819)	(-11.487)	(-12.591)
Leverage$_{t-1}$	0.338***	-0.086***	-0.034	-0.428***	-0.136***
	(4.701)	(-4.141)	(-0.593)	(-5.359)	(-6.611)
Bid-ask spread$_{t-1}$	0.196***	0.035**	0.098**	-0.009	0.004
	(3.947)	(2.554)	(2.657)	(-0.267)	(0.358)
Analyst forecast dispersion$_t$	-0.052***	-0.017***	0.006	0.011	-0.012***
	(-5.461)	(-4.505)	(0.578)	(0.723)	(-3.667)
Return volatility$_{t-1}$	1.504	-1.198***	-1.113*	3.638***	0.187
	(0.804)	(-3.087)	(-1.696)	(4.255)	(0.701)
Litigation industry$_t$	-0.013	-0.036***	-0.138***	0.001	0.001
	(-0.314)	(-2.901)	(-3.430)	(0.022)	(0.080)
ln(Number of analysts)$_{t-1}$	0.018	-0.025***	0.059***	0.026	0.014**
	(0.773)	(-3.913)	(3.737)	(1.445)	(2.648)
Transient institutional ownership$_{t-1}$	-0.094	-0.018	-0.135*	0.430***	0.053
	(-0.722)	(-0.503)	(-1.706)	(2.700)	(1.623)
Quasi-indexer institutional ownership$_{t-1}$	0.137**	0.066***	0.053	-0.150***	0.018
	(2.344)	(4.406)	(1.388)	(-3.291)	(1.288)
Dedicated institutional ownership$_{t-1}$	-0.043	0.003	-0.030	-0.012	0.048
	(-0.192)	(0.050)	(-0.184)	(-0.038)	(0.935)
Life cycle: Growth$_{t-1}$	0.037	0.045***	-0.054***	-0.148***	0.067***
	(1.382)	(5.350)	(-3.452)	(-2.936)	(8.852)
Life cycle: Mature$_{t-1}$	0.085***	0.070***	0.006	-0.188***	0.094***
	(3.223)	(8.510)	(0.355)	(-3.522)	(12.457)
Life cycle: Shake-out$_{t-1}$	0.066**	0.050***	0.007	-0.167***	0.062***
	(2.202)	(6.043)	(0.414)	(-3.082)	(8.084)
Life cycle: Decline$_{t-1}$	0.074	-0.014	0.058*	0.000	0.001
	(1.645)	(-0.964)	(1.738)	(0.002)	(0.106)
Market-adjusted returns$_t$	-0.209***	0.128***	-0.101***	0.296***	0.085***
	(-3.727)	(10.520)	(-4.095)	(8.991)	(8.552)
Industry-adjusted return on assets$_t$	-0.074	3.026***	-4.135***	-2.102***	1.712***
	(-0.204)	(8.130)	(-13.374)	(-5.570)	(7.526)
Industry-adjusted asset turnover$_t$	-0.029	0.165***	10.628***	-0.285***	0.090***
	(-0.315)	(5.225)	(86.981)	(-3.526)	(2.891)
Industry-adjusted sales growth$_t$	0.067*	-0.115***	-1.350***	0.343***	-0.069***
	(1.770)	(-7.603)	(-24.478)	(4.485)	(-5.120)
Industry-adjusted operating cash flows$_t$	1.201***	1.161***	-2.061***	-0.457*	1.619***
	(4.365)	(9.343)	(-8.475)	(-1.728)	(14.126)
Industry and year-quarter fixed effects	Yes	Yes	Yes	Yes	Yes
Number of observations	63,331	63,331	63,331	63,331	63,331
Adjusted R^2	0.053	0.492	0.876	0.103	0.532

TABLE 5

Quarterly Earnings Guidance and Long-Term Performance

This table reports OLS regressions where quarterly guiders and non-guiders are compared in terms of their long-term performance (over the next twelve quarters). The sample is reweighted via entropy balancing to improve the comparability of treatment and control observations. Industry-adjusted performance is calculated by subtracting the median performance by 2-digit SIC industry from the firm's performance. *, **, and *** indicate statistical significance at the 10, 5, and 1 percent level, respectively. Firm- and year-quarter-clustered t-statistics for two-tailed tests are reported in parentheses. Each regression is estimated with industry and year-quarter fixed effects (not reported). Continuous variables are winsorized at the 1st and 99th percentiles. See variable definitions in Appendix A.

TABLE 6
Quarterly Earnings Guidance and Long-Term Performance
Cross-Sections: Information Asymmetry, Managerial Ability, and Litigation Risk

Panel A: Information asymmetry

	(1) Market-adjusted returns$_{t+1,t+12}$	(2) Industry-adj. ROA$_{t+1,t+12}$	(3) Industry-adj. asset turnover$_{t+1,t+12}$	(4) Industry-adj. sales growth$_{t+1,t+12}$	(5) Industry-adj. operating cash flows$_{t+1,t+12}$
Guider$_t$	0.008	0.002	0.028	-0.014	0.019**
	(0.256)	(0.196)	(1.382)	(-0.741)	(2.288)
High analyst forecast dispersion$_t$	-0.148***	-0.044***	-0.075***	-0.009	-0.028***
	(-5.183)	(-5.748)	(-3.896)	(-0.448)	(-4.060)
Guider$_t$ × High analyst forecast dispersion$_t$	0.083**	0.018*	0.057*	0.038	0.010
	(2.166)	(1.691)	(1.983)	(0.877)	(0.978)
Controls	Yes	Yes	Yes	Yes	Yes
Industry and year-quarter fixed effects	Yes	Yes	Yes	Yes	Yes
Number of observations	63,331	63,331	63,331	63,331	63,331
Adjusted R^2	0.053	0.491	0.876	0.103	0.532
F test: $\beta_1 + \beta_3 = 0$	0.091**	0.199*	0.085***	0.024	0.029***
	(0.017)	(0.053)	(0.001)	(0.594)	(0.001)

Panel B: Managerial ability

	(1) Market-adjusted returns$_{t+1,t+12}$	(2) Industry-adj. ROA$_{t+1,t+12}$	(3) Industry-adj. asset turnover$_{t+1,t+12}$	(4) Industry-adj. sales growth$_{t+1,t+12}$	(5) Industry-adj. operating cash flows$_{t+1,t+12}$
High management forecast accuracy$_t$	0.061**	0.011*	0.035*	-0.019	0.008
	(2.216)	(1.704)	(1.907)	(-0.721)	(1.301)
Controls	Yes	Yes	Yes	Yes	Yes
Industry and year-quarter fixed effects	Yes	Yes	Yes	Yes	Yes
Number of observations	11,482	11,482	11,482	11,482	11,482
Adjusted R^2	0.085	0.506	0.883	0.111	0.567

TABLE 6
Quarterly Earnings Guidance and Long-Term Performance
Cross-Sections: Information Asymmetry, Managerial Ability, and Litigation Risk

Panel C: Litigation risk

	(1) Market-adjusted returns$_{t+1,t+12}$	(2) Industry-adj. ROA$_{t+1,t+12}$	(3) Industry-adj. asset turnover$_{t+1,t+12}$	(4) Industry-adj. sales growth$_{t+1,t+12}$	(5) Industry-adj. operating cash flows$_{t+1,t+12}$
Guider$_t$	0.054	0.018*	0.041*	-0.015	0.028***
	(1.406)	(1.951)	(1.759)	(-0.450)	(3.182)
Litigation industry$_t$	-0.009	-0.030**	-0.150***	-0.015	0.005
	(-0.191)	(-2.335)	(-3.475)	(-0.379)	(0.398)
Guider$_t$ × Litigation industry$_t$	-0.009	-0.013	0.024	0.030	-0.007
	(-0.172)	(-0.941)	(0.692)	(0.618)	(-0.562)
Controls	Yes	Yes	Yes	Yes	Yes
Industry and year-quarter fixed effects	Yes	Yes	Yes	Yes	Yes
Number of observations	63,331	63,331	63,331	63,331	63,331
Adjusted R^2	0.053	0.492	0.876	0.103	0.532
F test: $\beta_1 + \beta_3 = 0$	0.045	0.005	0.065***	0.015	0.021**
	(0.254)	(0.616)	(0.010)	(0.667)	(0.034)

This table reports OLS regressions where quarterly guiders and non-guiders are compared in terms of their long-term performance (over the next twelve quarters). The sample is reweighted via entropy balancing to improve the comparability of treatment and control observations. Industry-adjusted performance is calculated by subtracting the median performance by 2-digit SIC industry from the firm's performance. *, **, and *** indicate statistical significance at the 10, 5, and 1 percent level, respectively. Firm- and year-quarter-clustered t-statistics for two-tailed tests are reported in parentheses. Each regression is estimated with industry and year-quarter fixed effects (not reported). Continuous variables are winsorized at the 1st and 99th percentiles. See variable definitions in Appendix A.

TABLE 7
Quarterly Earnings Guidance and Earnings Management

Panel A: Descriptive statistics

	Without Entropy Balancing			**With Entropy Balancing**		
	Guider	Non-guider	Test of difference	Guider	Non-guider	Test of difference
	mean median	**mean** median	**t-stat**	**mean** median	**mean** median	**t-stat**
Discretionary R&D expenses$_t$	**0.150** -0.002	**-0.035** -0.045	**10.52*****	**0.150** -0.002	**-0.078** -0.076	**12.75*****
Discretionary SG&A expenses$_t$	**0.575** 0.137	**0.084** -0.308	**11.11*****	**0.575** 0.137	**0.326** -0.174	**5.20*****
Number of firm-quarter observations	10,935	49,608		10,935	49,608	
Discretionary accruals$_t$	**1.928** 1.281	**2.503** 1.580	**-16.74*****	**1.928** 1.281	**1.981** 1.375	**-1.69***
Total earnings management$_t$	**15.470** 15.000	**16.998** 17.000	**-23.00*****	**15.470** 15.000	**16.350** 16.000	**-10.60*****
Number of firm-quarter observations	8,190	36,559		8,190	36,559	
Under-investment in capital assets$_t$	**0.288** 0.000	**0.321** 0.000	**-6.93*****	**0.288** 0.000	**0.304** 0.000	**-3.33*****
Under-investment in R&D$_t$	**0.387** 0.000	**0.351** 0.000	**7.42*****	**0.387** 0.000	**0.433** 0.000	**-7.49*****
Under-investment in M&A$_t$	**0.195** 0.000	**0.282** 0.000	**-19.12*****	**0.195** 0.000	**0.212** 0.000	**-1.74***
Total under-investment$_t$	**0.035** 0.025	**0.036** 0.021	**-1.81***	**0.037** 0.025	**0.035** 0.023	**-2.83*****
Number of firm-quarter observations	11,482	51,849		11,482	51,849	

TABLE 7
Quarterly Earnings Guidance and Earnings Management

Panel B: Earnings management

	(1) Discretionary R&D expenses$_t$	(2) Discretionary SG&A expenses$_t$	(3) Discretionary accruals$_t$	(4) Total earnings management$_t$
Guider$_t$	0.228***	0.249	-0.053	-0.880***
	(3.424)	(1.439)	(-1.052)	(-3.417)
ln(Market value of equity)$_{t-1}$	-0.001	-0.214**	0.018	0.042
	(-0.021)	(-2.369)	(0.585)	(0.319)
Managerial ability$_t$	1.526***	6.414***	1.131***	-6.468***
	(6.211)	(7.377)	(6.311)	(-6.158)
Book-to-market ratio$_{t-1}$	-0.267**	-1.704***	-0.982***	-0.253
	(-2.326)	(-5.155)	(-8.664)	(-0.543)
Leverage$_{t-1}$	-0.018	-0.272	-1.122***	-0.977
	(-0.092)	(-0.516)	(-7.043)	(-1.315)
Bid-ask spread$_{t-1}$	0.180*	0.346	0.393***	-0.062
	(1.727)	(1.219)	(3.709)	(-0.170)
Analyst forecast dispersion$_t$	0.044	-0.027	0.051**	0.002
	(1.504)	(-0.459)	(2.286)	(0.035)
Return volatility$_{t-1}$	3.728	8.086	8.422***	-4.500
	(1.515)	(1.296)	(2.945)	(-0.539)
Litigation industry$_t$	0.753***	0.556	0.122	-2.637***
	(8.025)	(1.540)	(1.310)	(-5.829)
ln(Number of analysts)$_{t-1}$	0.198***	0.337**	-0.068	-0.842***
	(3.772)	(2.331)	(-1.604)	(-4.127)
Transient institutional ownership$_{t-1}$	0.541**	0.939	0.229	-1.777*
	(2.250)	(1.353)	(0.944)	(-1.859)
Quasi-indexer institutional ownership$_{t-1}$	-0.136	-0.289	-0.507***	-0.112
	(-1.060)	(-0.801)	(-4.419)	(-0.221)
Dedicated institutional ownership$_{t-1}$	0.663	2.340*	-0.334	-2.885*
	(1.561)	(1.855)	(-0.901)	(-1.729)
Life cycle: Growth$_{t-1}$	-0.009	-0.065	0.001	-0.067
	(-0.153)	(-0.458)	(0.012)	(-0.294)
Life cycle: Mature$_{t-1}$	-0.004	0.267*	0.070	-0.184
	(-0.066)	(1.828)	(0.821)	(-0.778)
Life cycle: Shake-out$_{t-1}$	0.209***	0.430***	0.061	-0.882***
	(3.344)	(3.030)	(0.745)	(-3.551)
Life cycle: Decline$_{t-1}$	0.406***	0.531***	-0.015	-1.118***
	(5.121)	(2.833)	(-0.154)	(-4.125)
Market-adjusted returns$_t$	-0.072	-0.014	0.142	0.426
	(-1.076)	(-0.083)	(1.351)	(1.594)
Industry-adjusted return on assets$_t$	-16.399***	-27.536***	-24.623***	34.640***
	(-10.169)	(-8.137)	(-6.968)	(7.630)
Industry-adjusted asset turnover$_t$	1.332***	8.513***	1.880***	-5.957***
	(5.260)	(7.336)	(6.376)	(-4.863)
Industry-adjusted sales growth$_t$	0.374***	-1.408***	0.596***	0.754**
	(4.169)	(-5.463)	(4.274)	(2.132)
Industry-adjusted operating cash flows$_t$	0.076	0.149	0.369	-5.003**
	(0.129)	(0.092)	(0.255)	(-2.102)
Industry and year-quarter fixed effects	Yes	Yes	Yes	Yes
Number of observations	60,543	60,543	44,749	44,749
Adjusted R^2	0.197	0.206	0.186	0.126

TABLE 7
Quarterly Earnings Guidance and Earnings Management

Panel C: Underinvestment

	(1) Under-investment in capital assets$_t$	(2) Under-investment in R&D$_t$	(3) Under-investment in M&A$_t$	(4) Total under-investment$_t$
Guider$_t$	-0.017	-0.046**	-0.011	-0.016
	(-1.247)	(-2.302)	(-1.469)	(-1.083)
ln(Market value of equity)$_{t-1}$	-0.014**	0.047***	-0.019***	0.034***
	(-2.142)	(4.718)	(-4.243)	(4.592)
Managerial ability$_t$	0.253***	-0.545***	0.062*	-0.333***
	(4.842)	(-7.916)	(1.996)	(-5.874)
Book-to-market ratio$_{t-1}$	0.173***	0.333***	-0.030**	0.327***
	(5.882)	(10.173)	(-2.264)	(12.450)
Leverage$_{t-1}$	0.087**	0.324***	-0.004	0.294***
	(2.501)	(5.925)	(-0.166)	(7.135)
Bid-ask spread$_{t-1}$	0.000	-0.061**	0.003	-0.038*
	(0.016)	(-2.205)	(0.171)	(-1.682)
Analyst forecast dispersion$_t$	0.006	-0.009	0.006***	-0.003
	(1.247)	(-1.128)	(3.053)	(-0.466)
Return volatility$_{t-1}$	-1.284***	-2.592***	0.356	-2.516***
	(-2.774)	(-3.680)	(0.922)	(-5.026)
Litigation industry$_t$	0.022	-0.310***	-0.018	-0.199***
	(1.038)	(-9.834)	(-1.369)	(-7.570)
ln(Number of analysts)$_{t-1}$	-0.019*	-0.067***	-0.013*	-0.060***
	(-1.684)	(-4.274)	(-1.781)	(-4.938)
Transient institutional ownership$_{t-1}$	0.010	-0.155**	0.004	-0.159***
	(0.197)	(-2.033)	(0.100)	(-3.045)
Quasi-indexer institutional ownership$_{t-1}$	0.024	0.014	-0.026	0.030
	(0.838)	(0.348)	(-1.634)	(0.982)
Dedicated institutional ownership$_{t-1}$	-0.012	-0.248*	0.050	-0.108
	(-0.125)	(-1.784)	(0.865)	(-0.911)
Life cycle: Growth$_{t-1}$	-0.035***	0.017	-0.022	-0.029**
	(-2.696)	(1.227)	(-1.527)	(-2.430)
Life cycle: Mature$_{t-1}$	-0.021*	0.030**	-0.018	0.008
	(-1.778)	(2.178)	(-1.366)	(0.604)
Life cycle: Shake-out$_{t-1}$	0.027**	-0.030*	-0.006	-0.003
	(2.008)	(-1.901)	(-0.413)	(-0.214)
Life cycle: Decline$_{t-1}$	0.055***	-0.084***	0.005	-0.010
	(2.806)	(-3.859)	(0.246)	(-0.495)
Market-adjusted returns$_t$	-0.033**	-0.076***	-0.037**	-0.053***
	(-2.193)	(-5.098)	(-2.221)	(-3.359)
Industry-adjusted return on assets$_t$	0.250*	1.768***	0.198*	1.346***
	(1.752)	(7.569)	(1.963)	(7.094)
Industry-adjusted asset turnover$_t$	-0.222***	0.287***	0.037	0.275***
	(-3.759)	(4.215)	(1.309)	(4.455)
Industry-adjusted sales growth$_t$	-0.028	-0.092***	-0.107***	-0.136***
	(-1.396)	(-3.892)	(-5.502)	(-7.089)
Industry-adjusted operating cash flows$_t$	-0.745***	-0.185	0.136	-0.627***
	(-6.894)	(-1.380)	(1.250)	(-5.221)
Industry and year-quarter fixed effects	Yes	Yes	Yes	Yes
Number of observations	63,331	63,331	63,331	63,331
Adjusted R^2	0.097	0.426	0.244	0.258

TABLE 7

Quarterly Earnings Guidance and Earnings Management

This table relates to earnings management and underinvestment for quarterly guiders and non-guiders. Descriptive statistics are presented in Panel A. Quarterly guiders are defined as firms that provide earnings guidance in every quarter over twelve consecutive quarters, and non-guiders are defined as firms that do not provide earnings guidance in any quarter over twelve consecutive quarters. In the first three columns, I report descriptive statistics that compare quarterly guiders to non-guiders. In the last three columns, I report descriptive statistics where the sample has been reweighted using entropy balancing. Panel B reports OLS regressions where quarterly guiders and non-guiders are compared in terms of their use of earnings management. The sample is reweighted via entropy balancing to improve the comparability of treatment and control observations. I calculate discretionary R&D expenses and discretionary SG&A expenses as the residuals from models that predict a firm's expected R&D and SG&A expenses by 2-digit SIC industry and year-quarter (Vorst 2016). Following Call, Chen, and Miao (2014), I calculate discretionary accruals as the absolute value of the residuals from the Jones (1991) model after controlling for economic losses, again estimated by 2-digit SIC industry and year-quarter. To form my composite earnings management measure, I sum the decile rankings of a firm's discretionary R&D expenses, discretionary SG&A expenses, and discretionary accruals, where discretionary R&D and SG&A expenses are multiplied by negative one prior to ranking so that they are increasing in earnings management. Panel C reports OLS regressions where quarterly guiders and non-guiders are compared in terms of their propensity to underinvest. The sample is reweighted via entropy balancing to improve the comparability of treatment and control observations. Each underinvestment variable is an indicator set equal to one in quarters when a firm's investments fall into the bottom quartile of unexpected investment. I calculate unexpected investment as the residual from regressing investments on lagged sales growth by 2-digit SIC industry and year-quarter (Biddle, Hilary, and Verdi 2009). *, **, and *** indicate statistical significance at the 10, 5, and 1 percent level, respectively. Continuous variables are winsorized at the 1st and 99th percentiles. See variable definitions in Appendix A.

TABLE 8
Difference-in-Difference Analysis

Panel A: Short-term earnings expectations

	(1) Meet final analyst forecast$_t$	(2) Meet initial analyst forecast$_t$	(3) Just meet final analyst forecast$_t$	(4) Just miss final analyst forecast$_t$
Post$_t$	0.003	0.009	0.009	0.000
	(0.250)	(0.568)	(0.966)	(0.075)
Starter$_t$	0.091***	0.019	0.044***	0.003
	(6.784)	(1.070)	(2.921)	(0.288)
Post$_t$ × Starter$_t$	0.066***	0.029	0.016	-0.009
	(4.172)	(1.230)	(1.246)	(-0.875)
Controls	Yes	Yes	Yes	Yes
Industry and year-quarter fixed effects	Yes	Yes	Yes	Yes
Number of observations	12,897	12,897	12,897	12,897
Adjusted R^2	0.086	0.172	0.058	0.018
F test: $\beta_1 + \beta_3 = 0$	0.069***	0.038**	0.025*	-0.009
	(0.000)	(0.018)	(0.052)	(0.346)
χ^2 test: $\beta_{3Final} = \beta_{3Initial}$ or	4.792**		1.656	
$\beta_{3JustMeet} = \beta_{3JustMiss}$	(0.029)		(0.198)	

Panel B: 10-K language

	(1) Short-term words ÷ Long-term words$_t$	(2) % Long-term view words$_t$
Post$_t$	-0.001	0.002
	(-0.085)	(1.576)
Starter$_t$	0.025	0.005**
	(1.491)	(2.020)
Post$_t$ × Starter$_t$	0.018	-0.006***
	(1.580)	(-2.721)
Controls	Yes	Yes
Industry and year-quarter fixed effects	Yes	Yes
Number of observations	11,554	11,554
Adjusted R^2	0.152	0.356
F test: $\beta_1 + \beta_3 = 0$	0.017*	-0.003*
	(0.084)	(0.076)

TABLE 8
Difference-in-Difference Analysis

Panel C: Long-term performance

	(1) Market-adjusted returns$_{t+1,t+12}$	(2) Industry-adj. ROA$_{t+1,t+12}$	(3) Industry-adj. asset turnover$_{t+1,t+12}$	(4) Industry-adj. sales growth$_{t+1,t+12}$	(5) Industry-adj. operating cash flows$_{t+1,t+12}$
Post$_t$	-0.062	-0.020*	0.007	-0.031	-0.016*
	(-1.513)	(-1.987)	(0.272)	(-1.460)	(-1.923)
Starter$_t$	0.054	0.010	0.057	0.049	0.020
	(0.920)	(0.737)	(1.669)	(1.436)	(1.581)
Post$_t$ × Starter$_t$	0.042	-0.001	0.012	-0.004	0.013
	(0.679)	(-0.061)	(0.316)	(-0.143)	(1.146)
Controls	Yes	Yes	Yes	Yes	Yes
Industry and year-quarter fixed effects	Yes	Yes	Yes	Yes	Yes
Number of observations	12,897	12,897	12,897	12,897	12,897
Adjusted R^2	0.103	0.481	0.842	0.137	0.501
F test: $\beta_1 + \beta_3 = 0$	-0.019	-0.021*	0.019	-0.035	-0.003
	(0.671)	(0.054)	(0.525)	(0.126)	(0.742)

Panel D: Earnings management

	(1) Discretionary R&D expenses$_t$	(2) Discretionary SG&A expenses$_t$	(3) Discretionary accruals$_t$	(4) Total earnings management$_t$
Post$_t$	0.023	0.124	-0.247	-0.022
	(0.464)	(0.858)	(-1.070)	(-0.053)
Starter$_t$	0.159	0.047	-0.271	0.529
	(1.292)	(0.157)	(-1.186)	(0.832)
Post$_t$ × Starter$_t$	-0.027	0.000	0.111	-0.478
	(-0.403)	(0.000)	(0.486)	(-1.258)
Controls	Yes	Yes	Yes	Yes
Industry and year-quarter fixed effects	Yes	Yes	Yes	Yes
Number of observations	9,498	9,498	1,844	1,844
Adjusted R^2	0.298	0.365	0.372	0.212
F test: $\beta_1 + \beta_3 = 0$	-0.004	0.124	-0.136	-0.500
	(0.950)	(0.500)	(0.507)	(0.157)

TABLE 8
Difference-in-Difference Analysis

Panel E: Underinvestment

	(1) Under-investment in capital assets$_t$	(2) Under-investment in R&D$_t$	(3) Under-investment in M&A$_t$	(4) Total under-investment$_t$
Post$_t$	-0.011	-0.006	-0.010	-0.020
	(-0.847)	(-0.582)	(-0.824)	(-1.592)
Starter$_t$	0.005	-0.047*	-0.027**	-0.015
	(0.284)	(-1.820)	(-2.309)	(-0.658)
Post$_t$ × Starter$_t$	-0.019	-0.009	0.024	0.008
	(-1.086)	(-0.505)	(1.583)	(0.447)
Controls	Yes	Yes	Yes	Yes
Industry and year-quarter fixed effects	Yes	Yes	Yes	Yes
Number of observations	12,897	12,897	12,897	12,897
Adjusted R^2	0.095	0.431	0.248	0.242
F test: $\beta_1 + \beta_3 = 0$	-0.030**	-0.015	0.013	-0.012
	(0.039)	(0.313)	(0.327)	(0.440)

This table reports OLS regressions related to difference-in-difference analyses, where firms that initiate regular quarterly earnings guidance are matched to a sample of firms that continue to forgo quarterly earnings guidance. I identify 450 firms that initiate regular earnings guidance over my sample period of 2003 to 2015, and use coarsened exact matching to identify matches in the quarter prior to earnings guidance initiation. I require that matches occur in the same year-quarter and 2-digit SIC industry. Additionally, matches must fall within the same quartile of analyst following. Among firms that satisfy these requirements, I select the control firm with the closest market value of equity to the treatment firm. I then estimate my difference-in-difference analyses over the pre- and post- periods of quarters *t*-8 to *t*-1 and quarters *t* to *t*+7, respectively, where earnings guidance is initiated in quarter *t*. At the bottom of each panel, I use F and χ^2 tests to test various hypotheses. The corresponding p-values are reported in parentheses. *, **, and *** indicate statistical significance at the 10, 5, and 1 percent level, respectively. Firm- and year-quarter-clustered t-statistics for two-tailed tests are reported in parentheses. Each regression is estimated with industry and year-quarter fixed effects (not reported). Continuous variables are winsorized at the 1st and 99th percentiles. See variable definitions in Appendix A.