Benchmark Beating and its Implications for Earnings Management: The Role of Context Specific Capital Market Incentives and Analysts' Cash Flow Forecasts

By

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Certificate of Authorship/Originality

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledgement within the text.

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Table of Contents

List of Illustrations and Table

Abstract

This doctoral thesis re-examines the phenomenon of 'benchmark beating', and the extent to which it is likely to reflect earnings management. To address this issue, the thesis considers two links between benchmark beating and earnings management, and these are outlined in two separate research papers/chapters. These are: (1) Earnings Management Incentives and Intra- Year shifts in the Earnings Distribution, and (2) Analyst Cash Flow Forecasts and Earnings Benchmark Beating by Australian Firms. Chapter One is consistent with the view that the incentives to manage earnings are important and suggests that tests of benchmark beating (or other indicators of possible earnings management) should first identify those cases where explicit earnings management would be of most benefit to the firm.

Chapter Two investigates whether analysts, as sophisticated information intermediaries, do play a monitoring role in firm's reporting behaviour. Chapter Two documents evidence contrary to prior literature (e.g. McInnis and Collins 2011; Call et al. 2000; Mohanram 2011) which highlights the disciplining implication of analyst cash flow forecasts on accruals and benchmark beating behavior. In this regard, chapter two adds to the literature that challenges the view that analysts are leaders in communicating the implications of complex financial information to investors (e.g. Bradshaw et al. 2001; Lehavy 2009; Keskek and Tse 2013).