JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS Vol. 60, No. 1, Feb. 2025, pp. 135–168
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doi:10.1017/S0022109023001308

Stakeholder Value: A Convenient Excuse for Underperforming Managers?

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Abstract

Firms falling short of earnings expectations are more likely to cite stakeholder-focused objectives in their public communications following earnings announcements. This behavior is consistent with managers preferring to be evaluated by subjective stakeholder-based performance criteria when falling short on objective shareholder-based measures. This increased use of stakeholder language is most evident among firms narrowly missing earnings estimates and appears unrelated to a firm's actual environmental, social, and governance (ESG)-related activity. Stakeholder language appears to influence the evaluation of CEOs; turnover–performance sensitivity is lower for managers citing stakeholder value. Collectively, our findings are consistent with concerns that stakeholder objectives reduce managerial accountability for poor performance.

I. Introduction

Proponents of stakeholder-focused objectives argue that firms serve the greater good and become more profitable by pursing environmental, social, and governance (ESG) goals. Critics, however, argue that pursuing stakeholder goals can exacerbate managerial agency problems, as managers can hide poor performance and the consumption of private benefits behind the amorphous standards that arise from stakeholder or ESG goals (Bebchuk and Tallarita (2020), Karpoff (2021)). In this article, we examine one specific channel implied by this criticism: managers citing stakeholder goals when their firms' financial performance is poor.

Our study introduces empirical evidence to the concerns about transitioning to stakeholder objectives. We examine whether managers seek to use recent social pressure for a focus on stakeholder objectives as a means to reduce accountability for poor firm financial performance by shifting the stated objectives of the firm. To answer this question, we take advantage of the unique setting introduced by a

We appreciate helpful suggestions and feedback from Pat Akey, Alex Edmans, Laura Field, Mariassunta Giannetti, Jonathan Karpoff, Choonsik Lee, Ugur Lel, Doron Levit, Ernst Maug, Michael O'Doherty, Henri Servaes, Thomas Shohfi, Ruoke Yang, Adam Yore, and participants at conference and seminars that include the 2021 Financial Intermediation Research Society (FIRS) Meetings, the 2021 Financial Management Association (FMA) Meetings, the 2022 Clemson ESG & Policy Conference, the 2022 American Finance Association (AFA) meetings, the University of Missouri, and the Securities and Exchange Commission.

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

quarterly earnings announcement. An earnings announcement has three characteristics that make it conducive for this type of examination. First, the market has a clear and measurable expectation of firm performance, measured by analyst earnings estimates. When the earnings report is released, the market evaluates performance relative to this expectation. Second, managers typically speak to analysts and/or the media immediately following the earnings release to explain any over- or underperformance. Third, managers prioritize meeting quarterly earnings benchmarks (Graham, Harvey, and Rajgopal (2005)), making their explanations of over- or underperformance relative to these benchmarks informative.

Our study examines how firm quarterly performance along traditional shareholder value-based metrics affects the likelihood of managers discussing stakeholder objectives when explaining their firm's performance. We analyze all manager communications during the 2 weeks following an earnings release, including analyst calls, quotes in news coverage, and discussions at investor and analyst conferences. We look for managers that explicitly mention that their firm considers the interests of *stake*holders as opposed to *share*holders, citing terms such as "stakeholder value," "the benefit of stakeholders," or "stakeholder interests." We find that the use of this language has increased substantially in recent years, from less than 0.15% of firm-quarters in 2015 to over 10% of reports following the Business Roundtable statement endorsing stakeholder value in 2019.

Based on an analysis of public communications around earnings announcements, we find that managers are more likely to cite stakeholder value maximization during periods following earnings announcements that fall short of market expectations. This elevated use of stakeholder language is strongest among firms that are falling just short of expectations, rather than those falling short by wider margins. The stakeholder language is used temporarily, with firms reverting to not mentioning stakeholder in subsequent quarters of stronger performance. Further, a variety of tests indicates that the stakeholder focus does not cause, and is not correlated with, the underperformance. Though we do not directly observe managers' motivation for using this stakeholder language, we find that underperforming managers are less likely to be terminated when they use stakeholder language. The findings are thus consistent with concerns that the immeasurability of stakeholder value may reduce managers' accountability for firm performance.

We employ several additional tests to ensure unobserved factors do not drive these findings. We first examine earnings within one cent per share of analyst expectations. This approach is similar to that of prior studies examining firm decisions around critical earnings thresholds (Burgstahler and Eames (2006), Hribar, Jenkins, and Johnson (2006), Roychowdhury (2006), Bhojraj, Hribar, Picconi, and McInnis (2009), Gunny (2010), and Terry (2023)). This test compares firms that meet or narrowly beat earnings expectations to firms that fall just short. The small variation in performance relative to expectations within this group reduces the likelihood of material unobserved differences between the underperformers and outperformers. In this setting, we continue to find that managers falling short of expectations are significantly more likely to cite stakeholder value following the earnings release.

The Business Roundtable statement increased public attention to stakeholder objectives and, with the endorsement of many well-known executives, made the

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

pursuit of stakeholder objectives more acceptable to shareholders and society. Additionally, it came during a time of increasing shareholder demand for stakeholder and ESG-related goals; we see evidence of this shift in demand through institutional investor survey data documenting environmental and social priorities[1] and through the exponential increases in fund flows to sustainable mutual funds[2] occurring alongside the release of this statement. Following the statement, firms' usage of stakeholder language became much more prevalent, but the statement's release is unlikely to have been associated with large short-term increases in stakeholder-related expenses. We next create a test designed to explore this variation before and after the Roundtable statement. We find that, although the statement preceded a substantial increase in the number of managers mentioning stakeholder value, the increased usage of this language was most prevalent among firms falling short of earnings expectations. This finding is consistent with the idea that the use of stakeholder language is largely a function of how palatable such explanations are for investors, rather than an accurate description of factors driving underperformance.

We next explore the magnitude of underperformance. If managers falsely blame a substantial underperformance on stakeholder value-related issues, they open themselves to a significant risk. Shareholders could object to the firm's attention to stakeholders, and may have more incentive to investigate the stakeholder issues further. Given societal pressures, shareholders may be more forgiving of a smaller degree of underperformance if it is a result of stakeholder issues. We find evidence consistent with this conjecture; the relationship between missed earnings and stakeholder mentions nearly disappears within the firms in the bottom tercile of earnings misses (those missing by the widest margin).

Are managers using stakeholder objectives as a way to deflect criticism for underperformance by shifting the firm's stated goals? The evidence thus far is consistent with this being the case, but we next aim to answer this question more directly. We first examine the timing of a firm's initial use of stakeholder language. Among the sample of firms that have not mentioned stakeholder value in prior quarters, we find that a firm's initial use of the term is most likely to occur following poor performance. We then examine the manager's choice to revert to not mentioning stakeholder objectives after explicitly mentioning them in prior quarters. We find that, among the sample of firms mentioning stakeholder objectives in a prior quarter, managers are more likely to revert to *not* mentioning them in a quarter where the firm's performance exceeds analyst expectations.

We next examine the impact of a sudden, unexpected earnings miss. To do this, we restrict the sample to firms where the CEO has never fallen short of earnings expectations during their tenure (or, in separate specifications, has not fallen short in the prior 1, 3, or 5 years). In addition, we further restrict the sample by eliminating firms where the CEO has discussed stakeholder value during these same time

[1]See https://assets.ey.com/content/dam/ey-sites/ey-com/en_us/topics/cbm/cbm-2020-proxy-season-preview.pdf.

[2]See Quinn et al. (2021); https://www.morningstar.com/sustainable-investing/broken-record-flows-us-sustainable-funds-again-reach-new-heights; and https://www.broadridge.com/_assets/pdf/esg-white-paper.pdf.

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

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frames. The test is designed to identify whether managers suddenly adopt stakeholder language the first time they fall short of expectations. Within this sample, we find this to be true; CEOs are much more likely to mention stakeholder value when they fall short of earnings expectations for the first time in their tenure (or for the first time in the last 1, 3, or 5 years).

Is the manager's use of stakeholder language an attempt to detract from the importance of poor financial performance, or is it a justification of poor performance that was driven by decisions to prioritize stakeholders? Although there are no perfect measures of these channels, we identify a set of factors that we expect to correlate with a firm's propensity to use stakeholder language either as a result of an ex ante "decision" that negatively impacted performance, or as an ex post "excuse" to shift the narrative away from poor financial performance. Our "decision" variables represent ex ante goals that may result in sacrificing short-term shareholder value to pursue stakeholder value. We include the firm's ESG score, the manager's duration of executive pay (Gopalan, Milbourn, Song, and Thakor (2014)), and whether the manager earns compensation based on ESG factors. ESG scores should represent the firm's recent attention to outside stakeholder interests, and, according to Flammer and Bansal (2017), CEOs with a longer-term focus in their compensation package are more likely to consider stakeholder issues that would only affect firm value in the long run. ESG-linked compensation should incentivize the manager to prioritize stakeholder issues. Our "excuse" measures are variables that correlate with the CEO's need to provide ex post justification for poor performance. We consider two variables estimating the CEO's level of control in the boardroom: BOARD_CO_OPTION (Coles, Daniel, and Naveen (2014)) and whether the CEO is Chairman of the Board. Presumably, a CEO with greater influence over board decisions is under less pressure and, therefore, less in need of a stakeholder-related "excuse" for underperformance. We then interact the "decision" and "excuse" variables with an indicator taking a value of 1 if the firm falls short of earnings expectations. We acknowledge that these measures are noisy and imperfect but merely argue that they should correlate with the broader firm or managerial goals.

We find that the "decision" variables are associated with a greater likelihood of managers citing stakeholder value. In other words, firms that have made the ex ante choice to prioritize stakeholder value are more likely to mention stakeholder value. We note that this finding is consistent with these particular firms maximizing long-run shareholder value, following Flammer and Bansal (2017). However, when we interact the decision variables with the FELL_SHORT indicator, we find a negative effect, indicating that the effect of these decision variables becomes weaker for firms falling short of earnings expectations. Although the proxies are noisy, this evidence is consistent with underperforming firms citing stakeholder value despite not evidencing the prioritization of stakeholder value in practice.

Among the "excuse" variables, we find that co-option plays a significant role. When a CEO has less influence over the board (as measured by co-option), the CEO is more likely to mention stakeholder value. This finding is consistent with the conjecture that more powerful CEOs are less in need of ex post justifications for poor performance. We then interact the excuse variables with the FELL_SHORT indicator. We find that the interaction amplifies the effect. Managers are even more likely to use stakeholder language when they underperform and have a lower level

of board control. Again acknowledging the noisiness of the proxies, this finding is generally consistent with managers being most likely to cite stakeholder value when they are under the most pressure to provide an ex post justification for poor performance.

Our evidence is consistent with managers using stakeholder value to deflect criticism following underperformance. But does this deflection provide any observable benefit to the manager? One possible benefit to the manager would be a reduced risk of termination if the manager can successfully shift the firm objectives to be more stakeholder based. We use CEO turnover–performance sensitivity, used in numerous prior studies of CEO evaluation, to determine whether the stakeholder mentions are associated with this observable benefit to the manager. Indeed, we find that it is; even within our limited time series, CEOs that cite stakeholder value maximization as an objective are less likely to see turnover following poor performance.

Although the board may be swayed by the CEO's stakeholder-based explanations in their retention decisions, we find no evidence that shareholders respond to the language. Market reactions to the earnings report do not significantly change when the CEO cites stakeholder value. Although it is difficult to identify the exact reason boards may be more convinced than shareholders, we note the differing objectives that directors and shareholders have. Shareholders are focused on value, whereas directors have a variety of career and reputational objectives (Song and Thakor (2006), Jiang, Han, and Zhao (2016), and Zhang (2021)) that may allow other issues, including societal pressures, to affect their decisions.

Our findings are uniformly consistent with one concern around stakeholder objectives; managers may push to be evaluated by nebulous stakeholder-based standards when the more traditional (and easily measured) shareholder standards are unfavorable. Managers, as a result, become less accountable for firm performance as measured by conventional, market value-based metrics. In essence, the stakeholder focus becomes an excuse to explain away poor earnings performance while providing no way to measure whether stakeholders are actually receiving value.

We next provide additional verification that stakeholder-focused firms do not inherently underperform on shareholder-focused earnings-per-share metrics due to stakeholder-related expenses. Since we calculate performance relative to analysts' expectations, such an argument would require an unlikely scenario in which analysts cannot predict this underperformance. Nevertheless, we formally test an inherent underperformance possibility with a regression framework that uses Refinitiv ESG scores as a measure of a firm's dedication to stakeholder objectives. If stakeholder-related expenses cause earnings to be lower, we expect underperforming firms to have higher ESG scores. We find no support for this conjecture. Instead, we find firms falling short of analyst expectations on average have *lower* ESG scores, consistent with prior literature showing firms cut unnecessary costs in an attempt to surpass earnings thresholds (Burgstahler and Eames (2006), Roychowdhury (2006), Bhojraj et al. (2009), Gunny (2010), and Terry (2023)). These lower scores also persist when we separate the environmental and social components of ESG, which are more traditionally associated with stakeholder mindsets.

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

Our findings are consistent with managers hiding poor performance behind stakeholder-focused ESG goals. These goals, and accompanying concerns, have become more salient in recent years. We acknowledge that CEOs have other ways to hide poor performance from investors around earnings reports, many of which predate the concerns relating to stakeholder value. Our study adds to a list of tactics, including selectively calling on bullish analysts in earnings calls (Cohen, Lou, and Malloy (2023)), not answering analyst questions (Gow, Larcker, and Zakolyukina (2021)), providing deceptive discussions of performance (Larcker and Zakolyukina (2012)), using a more positive tone (Huang, Teoh, and Zhang (2014)), and limiting the spread of bad news through social media (Jung, Naughton, Tahoun, and Wang (2018)).

Our findings also add to prior studies of management's discussion of earnings. Communication mediums such as earnings conferences calls and press releases are essential disclosure tools that allow investors to garner critical information about management and the firm (Frankel, Johnson, and Skinner (1999), Bowen, Davis, and Matsumoto (2002), Kimbrough (2005), and Davis and Tama-Sweet (2012)). More recently, investors have analyzed the linguistic structure of these communications, dissecting the elements of tone and the way management conveys earnings information (Davis, Piger, and Sedor (2012), Mayew and Venkatachalam (2012), Price, Doran, Peterson, Bliss (2012), Brockman, Li, and Price (2015), Davis, Ge, Matsumoto, and Zhang (2015), Bochkay, Hales, and Chava (2020), and Druz, Petzev, Wagner, and Zeckhauser (2020)). Whereas most of these studies use managers' discussion as an indicator of expected future performance, our study demonstrates that managers may use these communications to "spin" the earnings report, offering explanations that paint a negative report in a more positive light.

Conceptual work toward expanding corporate business models from the traditional focus of shareholder value has come to the forefront in recent decades (see, e.g., Porter and Kramer (2011), Mackey and Sisodia (2014)). Empirical work lending support for a corporate stakeholder focus is dispersed. Researchers have focused on narrow sets of outcomes due to issues of causality among stakeholder objectives and positive outcomes. Stakeholder focused initiatives, such as corporate social responsibility (CSR) and ESG rankings, are correlated with a range of outcomes that include greater transparency (Dhaliwal, Li, Tsang, and Yang (2011), Kim, Park, and Wier (2012)), lower cost of capital (Dhaliwal, Li, Tsang, and Yang (2011)), risk reduction (Kim, Li, and Li (2014), Koh, Qian, and Wang (2014)), greater profitability (Eccles, Ioannou, and Serafeim (2014)), and better overall performance (Edmans (2011), Deng, Kang, and Low (2013), Servaes and Tamayo (2013), and Lins, Servaes, and Tamayo (2017)). Yet, proponents of traditional shareholder value maximization argue that these findings are far from causal; nearly all of the empirical outcomes could be interpreted as the result of focused efforts toward maximizing firm value (see, e.g., Jensen and Meckling (1976), Jensen (2005), Bebchuk and Tallarita (2020), and Karpoff (2021)). Consequently, many activities that benefit stakeholders may be incentivized by the pursuit of shareholder interests. Finally, recent work by Hoi, Wu, and Zhang (2013) and Cheng, Hong, and Shue (2020) provide evidence that investment in stakeholder objectives is not value increasing at all, and instead, a consequence of more significant agency problems.

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In light of this extensive prior work, we note that our study is not necessarily at odds with the viewpoint that a focus on stakeholder value can produce social benefits. We merely note that managers' ability to opportunistically exploit stakeholder objectives comes as a potential cost of stakeholder capitalism.

II. Data

Our data begin with a list of firm quarterly earnings reports from IBES between 2015 and 2020. For each of these firms, we use CapitalIQ and Factiva to search for any usage of the word "stakeholder" by managers of these firms during the 2 weeks following an earnings report. This time period includes communications ranging from the earnings call, media appearances, and numerous investor conferences. Both CapitalIQ and Factiva report corporate Regulation Fair Disclosure (Reg FD) filings[3], whereas Factiva also allows textual searches across multiple news sources. Because the usage of the word "stakeholder" can have many contexts, we then classify each usage based on whether the manager has communicated that the firm focuses on stakeholder value. This focus is primarily communicated in the phrases "stakeholder value," "benefit of stakeholders," or "in the interest of stakeholders." For any phrases that appear synonymous, we use a thesaurus to determine whether the keywords describing stakeholders are synonyms for "value," "benefit," or "interest." Our primary measure of interest takes a value of 1 if the manager communicates a stakeholder focus through these or similar phrases during the 2 weeks following the earnings report.[4]

We recognize that the definition of "stakeholder" can include many different groups, such as employees, customers, suppliers, or communities. Moreover, managers could instead use these terms to communicate that the firm focuses on these individual groups. However, we find these kinds of terms are rarely associated with "value" based on searches of these terms. With the political attention on the issue, "stakeholder" has become the key phrase widely used by practitioners, politicians, and academic researchers (including the recent work on the issue by Bebchuk and Tallarita (2020) and Karpoff (2021)). We also note that our contextual classification excludes phrases such as, "we thank all of our stakeholders for a great quarter," which do not communicate anything of meaning about manager objectives or decision-making.

Our analysis focuses on a 6-year sample beginning in 2015 and going through 2020. This corresponds with the wave of social attention to these issues. Though the time series is limited, it appears to capture the entirety of the recent social discussion on the issue, as evidenced in Figure 1. This figure displays the quarterly percentage of managers citing stakeholder value across the 6 years in the sample. The percentages are based on firm-quarter observations. In 2015, less than 0.1% of firms mentioned stakeholder value. By the end of 2019, more than 10% of firms were mentioning it each quarter. We also note the large jump in stakeholder value

[3]Reg FD requires firms to release a written transcript disclosing the content of all earnings calls and analyst/investor day meetings.

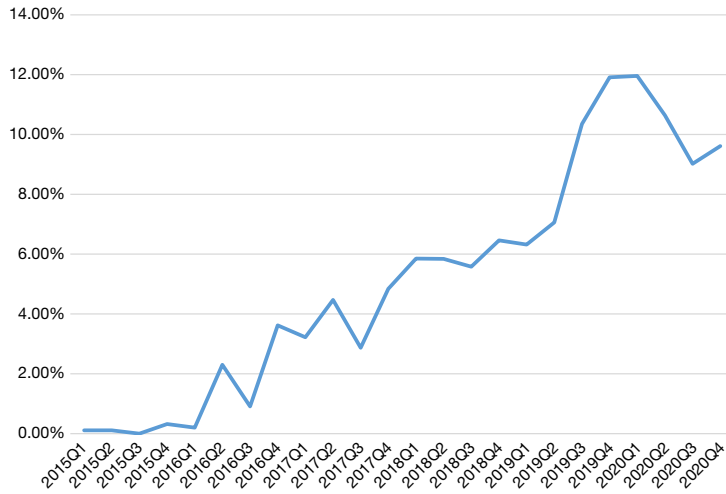
[4]We provide specific examples of firm communications that include our classifications of stakeholder objectives in Appendix A of the Supplementary Material.

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

FIGURE 1

Prevalence of Stakeholder Language

Figure 1 reports the percentage of firms citing stakeholder objectives following their earnings reports during each quarter from 2015 to 2020.



mentions following the Aug. 2019 Business Roundtable statement. In Panel A of Table 1, we report the sources for the mentions of stakeholder value. More than two-thirds (67.4%) of the mentions are found in earnings transcripts, with the remainder in conferences (11.6%) or other media sources (21.0%). In an untabulated statistic, we note that, among the mentions in earnings transcripts, 91% are in the management discussion section and 9% are in the question and answer session.

We merge our sample of earnings reports and manager discussions with several other databases. We use a similar set of control variables throughout all tests. FELL_SHORT, the variable of interest in our primary tests, is an indicator variable taking a value of 1 if the firm reported earnings below the consensus of analysts' expectation, and 0 otherwise. To compute the quarterly consensus, we use each analyst's final quarterly earnings forecast in IBES. The distribution of analyst forecast errors in our sample is consistent with the apparent asymmetry identified in prior studies (Burgstahler and Dichev (1997), Abarbanell and Lehavy (2003), Cohen and Lys (2003), and Bhoraj et al. (2009)). Approximately 30% of firms in our sample report earnings below expectations and there is an apparent discontinuity around 0, exhibiting the tendency for firms to narrowly beat analysts' expectations, as opposed to falling just short.

We include several firm characteristic controls that include firm size, measured as the natural log of total assets (ln(ASSETS)), and SG&A, which may include certain ESG-related expenses, from Compustat. We use CRSP to calculate buy-and-hold abnormal returns over the prior year (PRIOR_YEAR_ABNORMAL_RETURN), using the CRSP value-weighted index as a benchmark. Institutional ownership comes from the Thomson Reuters 13F database. We control for each firm's analyst coverage (ln(NUMBER_OF_ANALYSTS)) using the number of analysts providing a

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TABLE 1

Descriptive Statistics

Table 1 reports variable summary statistics. In Panel A, we display the distribution of stakeholder mentions across earnings transcripts, conferences presentation, and general media articles. In Panel B, we provide summary statistics of variables we use through our multivariate tests. FELL_SHORT is an indicator variable taking a value of 1 if the firm reported earnings below the analysts' consensus quarterly earnings estimate. To compute the quarterly consensus estimate, we use each analyst's final quarterly earnings forecast in IBES. We use CRSP to compute each firm's prior year abnormal return as the firm's return over the 12 months leading up to the firm's quarter-end date, minus the contemporaneous return of the CRSP value-weighted index. We obtain each firm's quarterly total assets and Selling, General, & Administrative (SG&A) expenses from Compustat. Institutional ownership comes from the Thomson Reuters 13F database. We compute firm analyst coverage using the number of analysts providing a quarterly earnings forecast in IBES. We use ExecuComp and ISS/Risk Metrics to collect governance characteristics, including whether the CEO is chairman of the board (CEO Chairman), the percentage of the firm's board that is an independent director (Board Independence), the tenure of the CEO (CEO Tenure), and the Co-Option of the firm's board (Board Co-Option). We follow Coles et al. (2014) to compute Board Co-Option. We use ISS Incentives Lab to compute the duration of executive pay following Gopalan et al. (2014). For observations in ExecuComp that do not have ISS data, we hand-collect compensation data to compute the duration of executive pay. We measure each firm's yearly ESG score as the Refinitiv ESG scores. We measure absolute forecast error for firms that miss analyst expectations following Loh and Stulz (2018). Specifically, absolute forecast error is the absolute value of the quantity that is the difference in the analyst consensus forecast EPS and actual EPS, scaled by actual EPS. In cases where the absolute value of a firm's actual earnings is less than 0.25, we scale the forecast error by 0.25 (Loh and Stulz (2018)) and we winsorize the final measure at the 1% level.

Panel A. Stakeholder Value Mentions

Source:	
EARNINGS_TRANSCRIPTS	67.4%
CONFERENCES	11.6%
MEDIA	21.0%

Panel B. Summary Statistics

Variable	Mean	Std. Dev.	P25	P50	P75
FELL_SHORT	0.29	0.45	0	0	1
PRIOR_YEAR_ABNORMAL_RETURN	−0.98%	0.34%	−20.02%	−2.51%	15.44%
TOTAL_ASSETS	$31,681	$153,287	$1,521	$4,708	$15,790
INSTITUTIONAL_OWNERSHIP	83.68%	16.31%	75.11%	85.81%	93.78%
NUMBER_OF_ANALYSTS	10.04	6.89	5	8	14
BOARD_INDEPENDENCE	80.87%	10.20%	75.00%	83.33%	88.89%
BOARD_CO_OPTION	25.25%	29.76%	0	12.5%	44.44%
CEO_CHAIRMAN	43.78%	49.61%	0	0	1
CEO_TENURE	7.90	7.64	2	6	11
SG&A/TOTAL_ASSETS	0.041	0.046	0.004	0.028	0.061
DURATION_OF_EXECUTIVE_PAY	1.87	0.79	1.55	2.00	2.32
ESG_SCORE	44.41	18.86	29.73	41.51	58.18
ABS_FORECAST_ERROR	17.02%	23.92%	3.43%	8.60%	19.71%

quarterly earnings forecast in IBES. We collect governance characteristics, including the percentage level of board independence (BOARD_INDEPENDENCE), whether the CEO is chairman of the board (CEO_CHAIRMAN), and the tenure of the CEO (CEO_TENURE) from ExecuComp and ISS/RiskMetrics. Additionally, we include the degree of co-option of the firm's board and the duration of their executive pay, each computed using data from ISS and following Coles, Daniel, and Naveen (2014) and Gopalan et al. (2014), respectively.[5] Finally, we rely on Refinitiv ESG scores to estimate a firm's attention to stakeholder-related issues (ESG_SCORE).[6] Panel B of Table 1 reports descriptive statistics for all variables in our study.

[5]The coverage of the ISS Incentive Lab data set (the 1,000 largest firms) is less than the coverage of S&P ExecuComp (the S&P 1500). We hand collect the additional information on stock/option grants and corresponding vesting periods from firm proxy statements to supplement the ISS coverage.

[6]Given the recent developments of firm ESG scores, the coverage of these scores is more complete in the later years of our sample. To eliminate the sample reduction that would occur from the absence of these scores in the early portion of our sample, we backfill ESGs scores in the Refinitiv database for cases where a firm's ESG score is missing. However, this does not fundamentally change any of our results.

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

III. Empirical Results

A. Missed Earnings and the Use of Stakeholder Narratives

Our initial empirical analysis seeks to determine whether missing analysts' earnings benchmarks, a conventional measure of the value returned to shareholders, affect the likelihood of the manager citing stakeholder value in communications that follow the release of earnings. We conduct a preliminary univariate assessment of our conjecture. In Figure 2, we display the percentage of firms citing stakeholder value among our sample of firm quarter observations segmented into 20 groups based on their degree of earnings performance. Group 1 to 10 (11 to 20) consists of firms that missed (beat) analyst expectations, with 10 (11) being the closest and 1 (20) being the furthest away from expectations. As shown in Figure 2, stakeholder mentions occur most frequently among the collection of firms that miss earnings and, in particular, among firms that narrowly miss analyst expectations (nearly 8% of firms in group 10 cite stakeholder value).

We next turn to a multivariate setting where we use the following logistic and OLS model specifications:

$$\Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} + \Sigma_{k=2}^{12}\gamma_k \text{CONTROL}_i + \varepsilon_{i,t}), \quad (1)$$

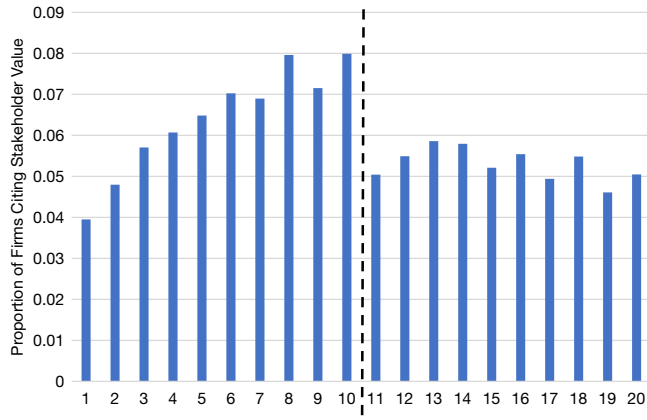
$$\text{STAKEHOLDER}_{i,t} = \beta_0 + \beta_1 \text{FELL_SHORT}_{i,t} + \Sigma_{k=2}^{12}\beta_k \text{CONTROL}_i + \varepsilon_{i,t}. \quad (2)$$

The dependent variable in regressions (1) and (2) is an indicator variable, STAKEHOLDER, that is 1 if the managers of firm i cite a stakeholder objective

FIGURE 2

Stakeholder Language and Earnings Results

Figure 2 reports the frequency of firms citing stakeholder value based on their earnings outcomes. We first compute the forecast error for each earnings release, following Loh and Stulz (2018). We then compute two sets of deciles: 10 deciles within the set of firms falling short of earnings expectations (groups 1–10 in the figure, with group 1 falling short by the largest amount), and 10 deciles within the set of firms meeting or exceeding earnings expectations (groups 11–20, with group 20 exceeding expectations by the largest amount). The bars represent the proportion of firms citing stakeholder value within the earnings group.



https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

during the 2 weeks that follow the release of quarter t earnings, and 0 otherwise. The independent variable of interest in both regressions (1) and (2) is the FELL_SHORT indicator variable that is 1 if firm i's quarter t earnings fall short of analysts' consensus estimate, and 0 otherwise. If missing earnings is associated with an increase in the likelihood of managers' use of a stakeholder narrative, we expect the coefficient estimates of γ_1 and β_1 to be positive and statistically significant.

The remaining independent variables in regressions (1) and (2) include controls for firm characteristics specified in Section II. We adopt both logistic and OLS approaches to incorporate the effects within each quarter and industry in conjunction with other unobservable firm characteristics. Specifically, we include year–quarter fixed effects throughout each of our models and rely on our OLS specification to incorporate the more comprehensive set of industry and firm fixed effects. Last, we measure industry fixed effects using the 48 Fama–French industry classifications and we cluster standard errors by firm throughout our models.

We display the results of regressions (1) and (2) in Table 2. In each of the models 1–3, our FELL_SHORT indicator's coefficient estimate is positive and statistically significant at the 1% level. Using our logistic model specification, we find the estimate of γ_1 to be 0.380. Relative to the unconditional mean of 5.55% of firm-quarters citing stakeholder value, the marginal effect suggests a 36% increase in the probability of managers citing stakeholder value. We identify a similar positive association using our fixed effect OLS specifications. In model 2 of Table 2, where we include industry and year–quarter fixed effects, β_1 is 0.021, equating to a 38% increase in the probability of stakeholder usage. Likewise, in model 3, where we include firm and year–quarter fixed effects, we find β_1 to be 0.020, equating to a 36% increase in the probability of stakeholder usage.

We note the effect of board independence, which is positively related to the likelihood of a manager citing stakeholder value. Prior literature generally finds higher levels of board independence to be associated with better monitoring and value creation (Weisbach (1988), Anderson, Mansi, and Reeb (2004), Ryan and Wiggins (2004), Fich (2005), and Souther (2021)). The positive association between board independence and citing stakeholder value is not at odds with our broader takeaways. Many managers may consider stakeholder value while maintaining a focus on long-run shareholder value creation (Karpoff (2021)). Our study, however, is not focused on these firms. Instead, we focus on the managers citing stakeholder value opportunistically as a means to distract from poor performance.

We explore board independence more in Table B1 in the Supplementary Material where we provide statistics on the subset of firms citing stakeholder value in Panel A. Within this subsample, we separate firms into groups based on whether they fell short of quarterly earnings expectations or met/exceeded quarterly expectations. The table reports board independence for both groups. We find that board independence is significantly higher for firms meeting or exceeding expectations than for firms falling short. If we approach the statistics with the viewpoint that board independence is associated with long-term value creation, then the stakeholder-focused firms that are underperforming have prioritized long-term value creation less. We explore this more in Panel B, which reports the results of a multivariate model similar to model 1 of Table 2, but with an additional interaction term for board independence with the FELL_SHORT indicator. The results are

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

TABLE 2

When Do Firms Discuss Stakeholder Value?

Table 2 reports the results of the following regression models we use to determine the effect missed earnings have on stakeholder narrative usage:

$$\text{(1)} \qquad \Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda\left(\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} + \Sigma_{k=2}^{12}\gamma_k \text{CONTROL}_i + \varepsilon_{i,t}\right),$$

$$\text{(2)} \qquad \text{STAKEHOLDER}_{i,t} = \beta_0 + \beta_1 \text{FELL_SHORT}_{i,t} + \Sigma_{k=2}^{12}\beta_k \text{CONTROL}_i + \varepsilon_{i,t.}$$

Regressions (1) and (2) are logistic and OLS regression models estimated at the firm-quarter level. We estimate these regressions using quarterly earnings that occur over the years 2015 to 2020. The dependent variable STAKEHOLDER is 1 if firm *i* cites a stakeholder objective in communications falling within 2 weeks of the quarter *t* earnings release, and 0 otherwise. The independent variable of interest in each regression is a FELL_SHORT indicator that is 1 if firm *i* reports quarter *t* earnings that miss analysts' consensus estimate, and 0 otherwise. The remaining independent variables are control variables we compute as described in Table 1. Model 1 reports the estimates of regression (1), including year–quarter fixed effects. Model 2 (3) reports estimates of regression (2) and includes industry and year–quarter (firm and year–quarter) fixed effects. We measure industry fixed effects using the Fama–French 48 industry classifications. We report *z*-statistics (model 1) and *t*-statistics (models 2 and 3) below coefficient estimates. We cluster standard errors by firm and *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Logit	OLS	OLS
	1	2	3
FELL_SHORT	0.380***	0.021***	0.020***
	[4.25]	[3.94]	[3.92]
PRIOR_YEAR_ABNORMAL_RETURN	0.040	0.002	0.003
	[0.37]	[0.42]	[0.66]
ln(ASSETS)	0.108**	0.009***	−0.020*
	[2.33]	[3.57]	[−1.81]
INSTITUTIONAL_OWNERSHIP	−0.424	−0.016	0.009
	[−1.24]	[−1.18]	[0.45]
ln(NUMBER_OF_ANALYSTS)	0.019	0.001	0.004
	[0.21]	[0.19]	[0.56]
BOARD_INDEPENDENCE	2.615***	0.077***	−0.015
	[4.38]	[3.58]	[−0.34]
BOARD_CO_OPTION	−0.301*	−0.257*	−0.031**
	[−1.93]	[−1.82]	[−1.99]
CEO_CHAIRMAN	0.082	0.005	−0.002
	[0.76]	[0.90]	[−0.19]
CEO_TENURE	−0.021**	−0.001**	−0.000
	[−2.08]	[−2.08]	[−0.69]
SG&A_TO_TOTAL_ASSETS	−0.486	0.068	−0.025
	[−0.37]	[1.10]	[−0.17]
DURATION_OF_EXEC_PAY	0.154***	0.013*	0.000
	[2.81]	[1.92]	[0.02]
ESG_SCORE	0.012***	0.001***	0.000
	[3.61]	[3.30]	[0.10]
No. of obs.	24,572	24,572	24,572
Fixed effects	Quarter	Industry, quarter	Firm, quarter
Pseudo R^2	0.133		
Adj. R^2		0.062	0.162

similar; better governed firms (i.e., more independent boards) are more likely to mention stakeholder value, but the effect is weaker among the sample of underperforming firms. Our results are therefore consistent with the view that better governed firms may consider stakeholder issues and have better long-run performance. However, the nebulous definitions of stakeholder value may simultaneously allow inferiorly governed firms to cite the goals without prioritizing the issues.[7]

[7]We note that readers may have similar questions on the positive effect of the duration of executive pay. We report univariates in Table B1 in the Supplementary Material and explore the multivariate setting in Table 8. In both cases, we reach similar conclusions to board independence.

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Our primary measure of interest uses an indicator for firms falling short of expectations, which allows for easy interpretation and reflects the binary nature of earnings releases where success is largely determined based on whether the firm met or exceeded expectations. In Table B2 in the Supplementary Material, we replicate Table 2 using a continuous measure of forecast error, denoted FORECAST_ERROR, as the variable of interest. The negative coefficient estimates on FORECAST_ERROR suggest that firms with better performance are less likely to mention stakeholder value, consistent with our Table 2 findings.

Firms may cite stakeholder value in anticipation of future performance, knowing that ESG-related costs will impact performance in subsequent quarters. We explore this possibility in Table B3 in the Supplementary Material, where we add controls for FELL_SHORT in subsequent quarters from $t + 1$ to $t + 4$. We find no evidence that managers cite stakeholder value in anticipation of subsequent negative performance. The coefficients are negative, and for $t + 3$, statistically significant, indicating that future negative performance is associated with a slightly *lower* likelihood of citing stakeholder value today.

Prior literature provides evidence of firms managing earnings to pass the earnings expectation threshold (Holthausen and Richard (1983), Healy and Wahlen (1999), and Habib and Hansen (2008)). Firms that meet or beat expectations by managing accruals in a way that will reverse may therefore be more likely to cite stakeholder value in anticipation of future performance. We explore this possibility in Table B4 in the Supplementary Material. In model 1, we find that firms narrowly beating expectations (defined as meeting or beating by one cent per share or less) are significantly less likely to mention stakeholder value. Model 2 produces no evidence of anticipating performance in subsequent quarters. We therefore find no evidence of firms citing stakeholder value as a result of earnings management that may reverse. We explore the earnings cutoff more in a subsequent test.

Our main tests explore manager communications in the period immediately following an earnings release. However, managers are likely aware of performance for some period of time prior to the public earnings announcement. We next explore manager communications in the pre-earnings period, which we define as beginning at the end of the quarter and ending the day prior to the earnings announcement. We note that communications during this time period are considered a quiet period and therefore heavily regulated by the SEC. Managers are prohibited from revealing material non-public information during this time, and many firms eliminate public communications altogether. Consequently, our sample for this test consists of a small number of managers communicating limited information at conferences or in media appearances during this pre-earnings period. Table B5 in the Supplementary Material reports the results. We restrict the sample to only include cases where we find any record of manager communications during the pre-earnings period. The sample is much smaller than our main tests and quarter fixed effects cause several observations to drop out of the model due to having no mentions of stakeholder value during a quarter. We find a positive effect between FELL_SHORT and the likelihood of citing stakeholder value during the pre-earnings period in the logit regression estimates in model 1 and the estimates of the OLS regression with industry fixed effects in model 2. We do not find a statistically significant effect

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

when we include firm fixed effects in model 3 of Table B5 in the Supplementary Material. There is, consequently, limited support for the notion that managers preemptively use stakeholder language during the pre-earnings window.

B. Potential Explanations

We next aim to understand the reason for the correlation between underperformance and stakeholder value discussion. We posit two possible hypotheses. First, managers may be accurately explaining the effects of a firm's ex ante decisions to sacrifice shareholder value to pursue stakeholder goals. Alternatively, managers may be reaching for a "convenient excuse" as an ex post justification for poor performance, with the goal of reducing accountability for underperformance. Political and societal pressures to consider outside stakeholder groups encourage the manager to adopt stakeholder value as a firm objective. However, given the obstacles in objectively assessing stakeholder value (Bebchuk and Tallarita (2020), Karpoff (2021)), it is difficult to assess whether the manager has actually prioritized these groups in practice. Absent a clear, objective mechanism for measurement, managers may claim they were pursuing stakeholder-based goals ex post, even if they were not making ex ante decisions to prioritize stakeholder value. It is therefore most convenient for the manager to cite these goals when underperforming on traditional shareholder value metrics; doing so reflects an attempt to shift the evaluation of managerial performance to a more nebulous standard, reducing their accountability for poor shareholder performance. We employ a series of tests to understand which of these hypotheses accounts for the correlation between underperformance and stakeholder value discussion.

1. Analyst Forecast Discontinuity

The distribution of analyst forecast errors is characterized by a preponderance of large earnings misses (Abarbanell and Lehavy (2003), Cohen and Lys (2003)). This asymmetry in the distribution may be the cause of the effect we identify. We address this issue by focusing our analysis on a more homogeneous set of firms for which earnings are in close proximity to analysts' forecasts. Finding the same positive association between stakeholder objectives and firms that narrowly miss earnings expectations would provide evidence that our initial findings are a strategic effort on the part of management, consistent with the *Convenient Excuse* hypothesis.

We rely on the same model specifications that we use in Table 2, but reduce the sample to the 5,544 firms whose earnings are within one cent of analysts' expectations. Of the 5,544 observations, 35.7% fall short by one cent, consistent with the discontinuity around 0 that many have utilized in the literature. We display the results of regressions (1) and (2) in Table 3. Consistent with our expectations, our FELL_SHORT indicator is positive and statistically significant across each of the models. Our logistic regression in model 1 shows the loading on FELL_SHORT to be 0.367 and statistically significant at the 1% level. The marginal effect suggests that missing earnings expectations increases the probability that managers will cite

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

TABLE 3

Use of Stakeholder Language for Firms Within $0.01 of Expected Earnings

Table 3 reports the results of the following regression models we use to determine the effect missed earnings have on stakeholder narrative usage:

$$\text{(1)} \qquad \Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda\left(\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} + \Sigma_{k=2}^{12}\gamma_k \text{CONTROL}_i + \varepsilon_{i,t}\right),$$

$$\text{(2)} \qquad \text{STAKEHOLDER}_{i,t} = \beta_0 + \beta_1 \text{FELL_SHORT}_{i,t} + \Sigma_{k=2}^{12}\beta_k \text{CONTROL}_i + \varepsilon_{i,t}.$$

Regressions (1) and (2) are logistic and OLS regression models estimated at the firm-quarter level. We estimate these regressions using the sample of quarterly earnings that occur over the years 2015 to 2020 and are within 0.01 cent of analysts' consensus estimate. The dependent variable STAKEHOLDER is 1 if firm *i* cites a stakeholder objective in communications falling within 2 weeks of the quarter *t* earnings release, and 0 otherwise. The independent variable of interest in each regression is a FELL_SHORT indicator that is 1 if firm *i* reports quarter *t* earnings that miss analysts' consensus estimate, and 0 otherwise. The remaining independent variables are control variables we compute as described in Table 1. Model 1 reports the estimates of regression (1), including year–quarter fixed effects. Model 2 reports estimates of regression (2) and includes industry and year–quarter fixed effects. We measure industry fixed effects using the Fama–French 48 industry classifications. We report *z*-statistics (model 1) and *t*-statistics (model 2) below coefficient estimates. We cluster standard errors by firm and *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Logit	OLS
	1	2
FELL_SHORT	0.367***	0.020**
	[3.22]	[2.33]
PRIOR_YEAR_ABNORMAL_RETURN	−0.211	−0.007
	[−0.86]	[−0.79]
ln(ASSETS)	0.216***	0.011***
	[2.76]	[3.03]
INSTITUTIONAL_OWNERSHIP	−0.238	−0.005
	[−0.44]	[−0.30]
LN(NUMBER_OF_ANALYSTS)	0.020	0.001
	[0.13]	[0.12]
BOARD_INDEPENDENCE	2.600**	0.085**
	[2.49]	[2.57]
BOARD_CO_OPTION	−0.691*	−0.019
	[−1.88]	[−1.54]
CEO_CHAIRMAN	−0.053	0.001
	[−0.29]	[0.07]
CEO_TENURE	−0.035*	−0.001
	[−1.83]	[−1.64]
SG&A_TO_TOTAL_ASSETS	0.041	0.098
	[0.02]	[1.26]
DURATION_OF_EXEC_PAY	0.122	−0.001
	[1.21]	[−0.24]
ESG_SCORE	0.011**	0.000*
	[1.97]	[1.76]
No. of obs.	4,057	5,544
Fixed effects	Quarter	Industry, quarter
Pseudo R^2	0.109	
Adj. R^2		0.069

a stakeholder objective by 41%. Our fixed effect OLS specification produces similar findings; the coefficient on the FELL_SHORT indicator in model 2 is positive and statistically significant at the 5% level.[8]

[8]We note that in each of the models of Table 3 we use the sample of 5,544 firm-quarters that are within 0.01 of the analysts' consensus forecast. Our *N* is reduced to 4,057 in model 1 of Table 3 due to quarters during the early years of the sample where no firm within this subset uses stakeholder language (i.e., the dependent variable and corresponding year–quarter fixed effect are 0). Our results hold with other, less appropriate, time fixed effect model specifications and these results are available from the authors.

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

2. Business Roundtable Statement

Next, we consider what some view as a shift in corporate governance brought about by the Business Roundtable statement. This statement was released in August of 2019 and formed a commitment among CEOs of 181 public companies to adopt a stakeholder, rather than shareholder, governance focus. The release of this statement provided an authoritative endorsement for stakeholder capitalism and set a precedent for other firms to engage in this endeavor, thus lowering the cost of considering stakeholder value. It also occurred during a time of heightened investor demand for firms to address ESG issues (which may have contributed to the statement's release). As a likely result of these shifting societal factors, we note the drastic change in the prevalence of stakeholder language (from 7% to nearly 12% of firms) around the statement's Aug. 2019 release depicted in Figure 1.

We explore the impact of this sudden increase in stakeholder goals on our main results. We segment our sample into pre- and post-periods around the Aug. 19, 2019 announcement and compare the effect of missed earnings on the usage of stakeholder narrative in each period using the following logit model specification:

$$\begin{aligned}(3)\qquad \Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(&\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} + \gamma_2 \text{AFTER_BR_}\\ &\text{STATEMENT} + \gamma_3 \text{FELL_SHORT}_{i,t}\\ &\times \text{AFTER_BR_STATEMENT}\\ &+ \Sigma_{k=4}^{14} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t}),\end{aligned}$$

$$\begin{aligned}(4)\qquad \text{STAKEHOLDER}_{i,t} = &\beta_0 + \beta_1 \text{FELL_SHORT}_{i,t} + \beta_2 \text{AFTER_BR_}\\ &\text{STATEMENT} + \beta_3 \text{FELL_SHORT}_{i,t}\\ &\times \text{AFTER_BR_STATEMENT}\\ &+ \Sigma_{k=4}^{14} \beta_k \text{CONTROL}_i + \varepsilon_{i,t}.\end{aligned}$$

Regressions (3) and (4) expand our baseline regressions used in Table 2 by including an AFTER_BR_STATEMENT indicator variable that is 1 if the earnings observation follows the release of the Business Roundtable statement, and 0 otherwise. We use the interaction of FELL_SHORT and AFTER_BR_STATEMENT to assess whether the relation between missed earnings and stakeholder narrative is stronger following the release of the Business Roundtable statement. A positive effect of these interaction terms (γ_3 and β_3) would indicate that the increase in stakeholder language was most prevalent among underperforming firms, consistent with the manager taking advantage of increasing societal acceptance of stakeholder goals as a way to provide ex post justification for poor performance. A negative effect of the interaction terms would provide evidence against this conjecture, indicating that the relation between underperformance and stakeholder value mentions is decreasing over time. An insignificant effect would suggest that the increased acceptance of stakeholder goals had no impact on the relation between performance and stakeholder mentions.

We display the results of regressions (3) and (4) in Table 4. Across each of the models in Table 4, we continue to find a positive association between missing

TABLE 4

The Effect of the Roundtable Statement

Table 4 reports the results of the following regression models we use to determine the effect missed earnings have on stakeholder narrative usage around the 2019 Business Roundtable statement:

(1) $$\Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} + \gamma_2 \text{AFTER_BR_STATEMENT} + \gamma_3 \text{FELL_SHORT}_{i,t} \times \text{AFTER_BR_STATEMENT} + \Sigma_{k=4}^{14} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t}),$$

(2) $$\text{STAKEHOLDER}_{i,t} = \beta_0 + \beta_1 \text{FELL_SHORT}_{i,t} + \beta_2 \text{AFTER_BR_STATEMENT} + \beta_3 \text{FELL_SHORT}_{i,t} \times \text{AFTER_BR_STATEMENT} + \Sigma_{k=4}^{14} \beta_k \text{CONTROL}_i + \varepsilon_{i,t}.$$

Regressions (1) and (2) are logistic and OLS regression models estimated at the firm-quarter level. The dependent variable STAKEHOLDER is 1 if firm *i* cites a stakeholder objective in communications falling within 2 weeks of the quarter *t* earnings release, and 0 otherwise. The independent variables include a FELL_SHORT indicator that is 1 if firm *i* reports quarter *t* earnings that miss analysts' consensus estimate, and 0 otherwise. We define AFTER_BR_STATEMENT as an indicator that is 1 if the quarter *t* earnings fall after the release of the Business Roundtable statement on Aug. 19, 2019, and 0 otherwise. The remaining independent variables are control variables we compute as described in Table 1. We report *z*-statistics (model 1) and *t*-statistics (models 2 and 3) below coefficient estimates. We cluster standard errors by firm and *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Logit	OLS	OLS
	1	2	3
FELL_SHORT	0.183**	0.008**	0.014**
	[2.01]	[2.09]	[2.19]
AFTER_BR_STATEMENT	−0.125	−0.024	−0.023
	[−0.60]	[−1.34]	[−1.32]
AFTER_BR_STATEMENT × FELL_SHORT	0.496***	0.031***	0.033***
	[3.81]	[3.71]	[3.39]
PRIOR_YEAR_ABNORMAL_RETURN	0.052	0.003	0.004
	[0.48]	[0.55]	[0.81]
ln(ASSETS)	0.108**	0.009***	−0.019*
	[2.31]	[3.49]	[−1.69]
INSTITUTIONAL_OWNERSHIP	−0.425	−0.015	0.010
	[−1.23]	[−1.14]	[0.49]
ln(NUMBER_OF_ANALYSTS)	0.020	0.001	0.005
	[0.22]	[0.27]	[0.70]
BOARD_INDEPENDENCE	2.619***	0.076***	−0.020
	[4.38]	[3.53]	[−0.46]
BOARD_CO_OPTION	−0.300*	−0.257*	−0.031**
	[−1.93]	[−1.82]	[−2.00]
CEO_CHAIRMAN	0.083	0.005	−0.001
	[0.77]	[0.93]	[−0.16]
CEO_TENURE	−0.021**	−0.001**	−0.000
	[−2.07]	[−2.08]	[−0.65]
SG&A_TO_TOTAL_ASSETS	−0.456	0.067	−0.033
	[−0.34]	[1.09]	[−0.22]
DURATION_OF_EXEC_PAY	0.156***	0.013*	0.000
	[2.85]	[1.93]	[0.01]
ESG_SCORE	0.012***	0.001***	0.000
	[3.55]	[3.25]	[0.03]
No. of obs.	24,572	24,572	24,572
Fixed effects	Quarter	Industry, quarter	Firm, quarter
Pseudo R^2	0.136		
Adj. R^2		0.0640	0.164

earnings and managers' stakeholder focus. The loadings on FELL_SHORT in models 1–3 are 0.183, 0.008, and 0.014, each statistically significant at the 5% level. More importantly, we find a stronger association between missed earnings and stakeholder language following the release of the Business Roundtable statement; the loadings on the interaction of FELL_SHORT and AFTER_BR_STATEMENT are 0.496, 0.031,

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

and 0.033, each statistically significant at the 1% level.[9] While the Business Roundtable statement does appear to have shifted managers' focus to stakeholder issues, the results in Table 4 suggest the statement may also have made managers more aware of the potential for this narrative to extricate them from the consequences of poor performance.

3. Magnitude of Underperformance

We now examine how stakeholder value mentions vary with the magnitude of underperformance. Managers underperforming by a wide margin may be in need of an explanation of the poor performance. If severe underperformance was the result of ex ante decisions to prioritize stakeholder objectives, these underperforming managers would likely communicate these explanations. However, managers may be hesitant to make false claims attributing substantial underperformance to stakeholder value because such justifications may bring unwanted attention from shareholders. Shareholders then would have an incentive to investigate and understand how stakeholder-related expenses actually impacted the firm, thus uncovering the false claims. Stakeholder value may therefore be a more passable ex post justification, more likely to be overlooked by shareholders when the firm has a smaller degree of underperformance. Although our univariate evidence in Figure 2 shows a lower frequency of stakeholder mentions among firms that miss by wider margins, we test this conjecture more rigorously by dividing our FELL_SHORT indicator into terciles based on the magnitude of the miss: SMALL_MISS, MEDIUM_MISS, and LARGE_MISS. The model specifications are as followings:

$$\begin{aligned}(5)\quad \Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(&\gamma_0 + \gamma_1 \text{SMALL_MISS}_{i,t} \\ &+ \gamma_2 \text{MEDIUM_MISS}_{i,t} + \gamma_3 \text{LARGE_MISS}_{i,t} \\ &+ \Sigma_{k=4}^{14} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t}),\end{aligned}$$

$$\begin{aligned}(6)\quad \text{STAKEHOLDER}_{i,t} = &\beta_0 + \beta_1 \text{SMALL_MISS}_{i,t} + \beta_1 \text{MEDIUM_MISS}_{i,t} \\ &+ \beta_3 \text{LARGE_MISS}_{i,t} + \Sigma_{k=4}^{14} \beta_k \text{CONTROL}_i + \varepsilon_{i,t}.\end{aligned}$$

Table 5 reports the results of regressions (5) and (6). In each of the models in Table 5, we find firms in the SMALL_MISS category are most likely to cite stakeholder value, with effects only slightly larger than the MEDIUM_MISS firms. Conversely, firms in the LARGE_MISS category, which include firms missing by the widest margins, have noticeably weaker effects. In models 1 and 2 of Table 5, the coefficient on the LARGE_MISS indicator is statistically insignificant, while the estimate in model 3 is statistically significant at the 10% level. We conclude that managers are most likely to discuss stakeholder value when they underperform by smaller margins, consistent with managers using the term in situations where the explanation is less likely to attract unwanted shareholder attention.

[9] We note the insignificant effect of AFTER_BR_STATEMENT, which is a result of the year–quarter fixed effects absorbing the time series variation following the statement. However, in untabulated results, we confirm the significant increase in the use of stakeholder language following the BR statement when we remove these fixed effects from our model.

TABLE 5
Magnitude of Underperformance

Table 5 reports the results of the following regression models we use to determine the association between the magnitude with which a firm misses earnings and the usage of stakeholder language:

(1) $$\Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(\gamma_0 + \gamma_1 \text{SMALL_MISS}_{i,t} + \gamma_2 \text{MEDIUM_MISS}_{i,t} + \gamma_3 \text{LARGE_MISS}_{i,t} + \Sigma_{k=4}^{14} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t}),$$

(2) $$\text{STAKEHOLDER}_{i,t} = \beta_0 + \beta_1 \text{SMALL_MISS}_{i,t} + \beta_1 \text{MEDIUM_MISS}_{i,t} + \beta_3 \text{LARGE_MISS}_{i,t} + \Sigma_{k=4}^{14} \beta_k \text{CONTROL}_i + \varepsilon_{i,t}.$$

Regressions (1) and (2) are logistic and OLS regression models estimated at the firm-quarter level. We estimate these regressions using the sample of quarterly earnings over the years 2015 to 2020 that do not meet analyst's consensus forecast estimate. The dependent variable STAKEHOLDER is 1 if firm *i* cites a stakeholder objective in communications falling within 2 weeks of the quarter *t* earnings release, and 0 otherwise. The independent variables of interest in each regression are indicators for the degree of miss in quarterly earnings. Specifically, we compute each firm's quarterly forecast error following Loh and Stulz (2018). This forecast error is the difference between analysts' consensus EPS forecast and EPS, scaled by actual EPS. In instances where the absolute value of actual EPS is less than 0.25, we scale forecast error by 0.25 (Loh and Stulz (2018)). Using this forecast error, we then segment the subset of firms that miss earnings into terciles based on their forecast error. The result is three indicators for Small, Medium, and Large miss where the Small (Large) indicator designates those firms with the smallest (largest) forecast error. The remaining independent variables are control variables we compute as described in Table 1. Model 1 reports the estimates of regression (1), including year–quarter fixed effects. Model 2 (3) reports estimates of regression (2) and includes industry and year–quarter (firm and year–quarter) fixed effects. We measure industry fixed effects using the Fama–French 48 industry classifications. We report *z*-statistics (model 1) and *t*-statistics (models 2 and 3) below coefficient estimates. We cluster standard errors by firm and *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Logit	OLS	OLS
	1	2	3
SMALL_MISS	0.430***	0.022***	0.021***
	[3.93]	[3.44]	[3.21]
MEDIUM_MISS	0.365***	0.018***	0.017***
	[3.03]	[2.67]	[3.03]
LARGE_MISS	0.218	0.012	0.015*
	[1.31]	[1.33]	[1.78]
PRIOR_YEAR_ABNORMAL_RETURN	0.040	0.002	0.003
	[0.36]	[0.41]	[0.67]
ln(ASSETS)	0.108**	0.009***	−0.020*
	[2.31]	[3.56]	[−1.80]
INSTITUTIONAL_OWNERSHIP	−0.420	−0.015	0.009
	[−1.23]	[−1.17]	[0.46]
ln(NUMBER_OF_ANALYSTS)	0.022	0.001	0.004
	[0.24]	[0.21]	[0.55]
BOARD_INDEPENDENCE	2.617***	0.077***	−0.015
	[4.38]	[3.58]	[−0.34]
BOARD_CO_OPTION	−0.303	−0.007	−0.031**
	[−1.44]	[−0.72]	[−2.00]
CEO_CHAIRMAN	0.082	0.005	−0.002
	[0.76]	[0.90]	[−0.20]
CEO_TENURE	−0.021**	−0.001**	−0.000
	[−2.07]	[−2.08]	[−0.69]
SG&A_TO_TOTAL_ASSETS	−0.479	0.068	−0.025
	[−0.36]	[1.10]	[−0.17]
DURATION_OF_EXEC_PAY	0.154***	0.003	0.000
	[2.81]	[1.41]	[0.02]
ESG_SCORE	0.012***	0.001***	0.000
	[3.63]	[3.31]	[0.10]
No. of obs.	24,572	24,572	24,572
Fixed effects	Quarter	Industry, quarter	Firm, quarter
Pseudo R^2	0.133		
Adj. R^2		0.0617	0.162

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

We verify this finding in a similar test using continuous data, but run only on the subset of firms falling short of expectations. We use the following model specifications on the sample of firm's that miss quarterly earnings:

$$\Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(\gamma_0 + \gamma_1 \text{ABS_FORECAST_ERROR}_{i,t} + \Sigma_{k=2}^{12}\gamma_k \text{CONTROL}_i + \varepsilon_{i,t}), \tag{7}$$

$$\text{STAKEHOLDER}_{i,t} = \beta_0 + \beta_1 \text{ABS_FORECAST_ERROR}_{i,t} + \Sigma_{k=2}^{12}\beta_k \text{CONTROL}_i + \varepsilon_{i,t}. \tag{8}$$

The dependent variable in regressions (7) and (8) is the identical indicator variable, STAKEHOLDER, that we use in our main tests in Table 2. However, the independent variable of interest is now the absolute value of analysts' forecast error for firm *i*'s quarter *t* earnings. Because we run this test on the subset of firms missing earnings expectations, the absolute value allows for simpler interpretation of the results. To compute each firm's quarterly forecast error, we follow Loh and Stulz (2018). Specifically, we compute ABS_FORECAST_ERROR as the absolute value of the quantity that is the difference between analysts forecast EPS and a firm's actual EPS, scaled by the firm's actual EPS. In cases where firm *i*'s actual quarterly earnings are less than 0.25, we scale the forecast error by 0.25 (Loh and Stulz (2018)). To further mitigate the effect of large outliers, we winsorize ABS_FORECAST_ERROR at the 1% level. The remaining independent variables in regressions (7) and (8) are identical to those we use in Table 2.

We estimate regressions (5) and (6) on the sample of firm quarter observations that miss earnings and display the results in Table B6 in the Supplementary Material. In models 1 and 2, the loading on ABS_FORECAST_ERROR is −0.238 and −0.034 and statistically significant at the 5% and 10% levels. That is, among underperforming firms, those falling short by the widest margins are the *least* likely to use stakeholder language, consistent with managers using the term in situations that are less likely to attract shareholder attention. We conclude that stakeholder language only provides a limited amount of cover for managers, and the "information fog" dissipates with the degree of poor performance.

4. The Timing of Stakeholder Discussions

Our next assessment of the relation between performance and stakeholder focus considers the timing in which managers adopt a shareholder narrative in their communications. If managers identify highlighting a stakeholder focus in their communications as a useful explanatory tool for bad performance, we conjecture that sudden quarter-over-quarter transitions in this usage coincide with poor performance. We use the following logistic and OLS model specifications that consider two different timing elements of stakeholder usage:

$$\Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} + \Sigma_{k=2}^{12}\gamma_k \text{CONTROL}_i + \varepsilon_{i,t}), \tag{9}$$

$$\Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(\gamma_0 + \gamma_1 \text{MET_OR_EXCEED}_{i,t} + \Sigma_{k=2}^{12}\gamma_k \text{CONTROL}_i + \varepsilon_{i,t}), \tag{10}$$

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

$$(11)\quad \text{STAKEHOLDER}_{i,t} = \beta_0 + \beta_1 \text{MET_OR_EXCEED}_{i,t} + \Sigma_{k=2}^{12} \beta_k \text{CONTROL}_i + \varepsilon_{i,t}.$$

In regressions (9)–(11), we use an identical STAKEHOLDER indicator dependent variable defined in Table 2. However, to narrow in on the exact timing that managers cite stakeholder objectives, we modify the independent variables and sample we use to estimate regressions (9)–(11). In particular, with regression (9), we continue to use the FELL_SHORT independent indicator variable in regression (1), but we seek to determine the timing with which managers *first* cite a stakeholder objective. Therefore, we select the subset of firms that use stakeholder narrative at any point in time, but delete all observations following each firm's initial use of this narrative. Modifying the sample in this manner allows us to identify whether poor earnings "trigger" the initial mention of stakeholder objectives. Our sample for regression (9) decreases to 7,060 firm-quarter observations as a result of these constraints.

Identifying whether firms that have used a stakeholder narrative are more likely to revert to *not* mentioning stakeholders when the firm meets or beats analysts' expectations can also be informative. To make this assessment, we introduce in regressions (10) and (11) an independent indicator variable MET_OR_EXCEED that is 1 if firm i meets or beats the earnings expectations set by analysts in quarter t, and 0 otherwise. In conjunction with this indicator variable, we estimate regressions (10) and (11) on a reduced sample that only includes firms that mention a stakeholder objective at least once in their respective past, resulting in 4,249 firm-quarter observations. To be consistent with our conjecture that stakeholder usage is linked to poor performance, we require γ_1 to be positive and statistically significant in regression (9). Conversely, we expect γ_1 and β_1 to be negative and statistically significant in regressions (10) and (11).

We display the results of regressions (9)–(11) in Table 6. Consistent with our conjecture, we find the loadings on the FELL_SHORT and MET_OR_EXCEED indicators in models 1 and 2 to be 0.338 and −0.408, each statistically significant at the 1% levels. The average marginal effect in model 1 suggests that missing earnings increases the probability of using stakeholder narrative for the first time by 19%, indeed consistent with these events triggering managers to transition to this narrative. Conversely, the loading in model 2 suggests that, within the sample of managers that previously cited stakeholder objectives, managers that meet or exceed expectations in the current quarter are 19% *less* likely to cite stakeholder objectives. Model 3 includes firm fixed effects and also finds a significant result, consistent with firms adopting stakeholder language following poor performance also dropping the language when performance improves.

In another approach to examining the timing of stakeholder usage, we estimate regression (9) on a subset of managers that experience a sudden earnings miss. We consider a sudden earnings miss to be the first miss experienced by a manager in an extended period of time. If this sudden miss coincides with an increased likelihood of citing stakeholder value, it would provide support to managers using stakeholder value as an ex post excuse for poor performance. To ensure that the findings identify "sudden" uses of stakeholder value, we require the manager to not have mentioned

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TABLE 6

Introduction and Cessation of Stakeholder Language

Table 6 reports the results of the following conditional regression models we use to determine the effect missed earnings have on stakeholder narrative usage:

$$\text{(1)} \qquad \Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda\left(\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} + \Sigma_{k=2}^{12}\gamma_k \text{CONTROL}_i + \varepsilon_{i,t}\right),$$

$$\text{(2)} \qquad \Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda\left(\gamma_0 + \gamma_1 \text{MET_OR_EXCEED}_{i,t} + \Sigma_{k=2}^{12}\gamma_k \text{CONTROL}_i + \varepsilon_{i,t}\right),$$

$$\text{(3)} \qquad \text{STAKEHOLDER}_{i,t} = \beta_0 + \beta_1 \text{MET_OR_EXCEED}_{i,t} + \Sigma_{k=2}^{12}\beta_k \text{CONTROL}_i + \varepsilon_{i,t}.$$

Regressions (1) and (2) are logistic regression models estimated at the firm-quarter level. Regression (3) is an OLS regression estimated at the firm-quarter level. We estimate regression (1) using the sample of quarterly earnings that occur over the years 2015 to 2020, requiring the firm have at least one quarter for which they use a stakeholder narrative and including only those observations before their initial mention of a stakeholder objective. We estimate regressions (2) and (3) using the sample of quarterly earnings that occur over the years 2015 to 2020, requiring each firm to have at least one prior quarter for which they use a stakeholder narrative in their communications. The dependent variable STAKEHOLDER is 1 if firm *i* uses stakeholder narrative in communications falling within 2 weeks of the quarter *t* earnings release, and 0 otherwise. The independent variable of interest in regression (1) is a FELL_SHORT indicator that is 1 if firm *i* reports quarter *t* earnings that miss analysts' consensus estimate, and 0 otherwise. The independent variable of interest in regression (2) is a MET_OR_EXCEED indicator that is 1 if firm *i*'s quarterly earnings meet or exceed analysts' consensus estimate, and 0 otherwise. Model 1 reports the estimates of regression (1), including year–quarter fixed effects. Model 2 reports estimates of regression (2), including year–quarter fixed effects. Model 3 reports the estimate of regression (3) including quarter and firm fixed effects. We report *z*-statistics (*t*-stats in model 3) below coefficient estimates and cluster standard errors by firm. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	First-Time Stakeholder	Previous Stakeholder	Previous Stakeholder
	1	2	3
FELL_SHORT	0.338***		
	[3.03]		
MET_OR_EXCEEDED		−0.408***	−0.099***
		[−2.90]	[−2.84]
PRIOR_YEAR_ABNORMAL_RETURN	−0.138	0.172	0.043
	[−0.82]	[1.02]	[1.63]
ln(ASSETS)	0.076**	0.120*	0.045
	[2.09]	[1.92]	[0.69]
INSTITUTIONAL_OWNERSHIP	−0.631*	0.177	0.025
	[−1.79]	[0.35]	[0.28]
ln(NUMBER_OF_ANALYSTS)	−0.094	−0.113	0.000
	[−1.11]	[−0.84]	[0.01]
BOARD_INDEPENDENCE	0.563	1.054	−0.007
	[0.91]	[1.16]	[−0.03]
BOARD_CO_OPTION	−0.186	−0.221	−0.129
	[−0.92]	[−0.78]	[−1.59]
CEO_CHAIRMAN	−0.049	0.080	−0.049
	[−0.42]	[0.58]	[−1.22]
CEO_TENURE	−0.009	−0.001	0.002
	[−0.93]	[−0.04]	[0.54]
SG&A_TO_TOTAL_ASSETS	0.233	0.254	0.422
	[0.20]	[0.15]	[0.60]
DURATION_OF_EXEC_PAY	0.073	0.083	0.012
	[1.13]	[1.04]	[0.57]
ESG_SCORE	0.004	0.003	−0.001
	[1.24]	[0.76]	[−0.93]
No. of obs.	7,060	4,249	4,265
Fixed effects	Quarter	Quarter	Quarter, firm
Pseudo R^2	0.197	0.033	
Adj. R^2			0.221

stakeholder value within the same time period. Thus, our tests examine whether the sudden earnings miss coincides with a sudden use of stakeholder value.

We display the estimates of regression (9) on our sudden earnings sample in Table 7. Model 1 reports the results of regression (9) estimated on managers that have not missed earnings and have not mentioned stakeholder value during their

TABLE 7

Sudden Earnings Miss

Table 7 reports the results of the following conditional regression model we use to determine the effect sudden missed earnings have on stakeholder narrative usage:

(1) $$\Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda\left(\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} + \Sigma_{k=2}^{12}\gamma_k \text{CONTROL}_i + \varepsilon_{i,t}\right).$$

Regressions (1) is logistic regression model estimated at the firm-quarter level. We estimate regression (1) using the sample of quarterly earnings that occur over the years 2015 to 2020 and only include quarters in which the executive has not missed earnings and has not cited stakeholder value during the prior specified window at the respective firm. In models 1–4, we use the entire tenure of the executive, the last 5 years, the last 3 years, and the last year as the window to assess whether the executive has missed earnings. The independent variable of interest in regression (1) is a FELL_SHORT indicator that is 1 if firm *i* reports quarter *t* earnings that miss analysts' consensus estimate, and 0 otherwise. We include quarter fixed effects in all models. We report *z*-statistics below coefficient estimates and cluster standard errors by firm. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Ever	Last 5 Years	Last 3 Years	Last Year
No Misses Criterion	1	2	3	4
FELL_SHORT	0.363**	0.301*	0.296*	0.375***
	[2.04]	[1.73]	[1.82]	[3.24]
PRIOR_YEAR_ABNORMAL_RETURN	−0.005	0.007	−0.023	0.026
	[−0.02]	[0.02]	[−0.09]	[0.14]
ln(ASSETS)	0.157*	0.161*	0.233***	0.154**
	[1.72]	[1.83]	[3.25]	[2.54]
INSTITUTIONAL_OWNERSHIP	−1.352**	−1.329**	−0.924	−0.753
	[−2.33]	[−2.29]	[−1.48]	[−1.63]
ln(NUMBER_OF_ANALYSTS)	−0.025	−0.009	−0.052	0.053
	[−0.13]	[−0.05]	[−0.30]	[0.41]
BOARD_INDEPENDENCE	2.544**	2.155**	1.888*	2.167***
	[2.15]	[2.00]	[1.95]	[2.63]
BOARD_CO_OPTION	−0.555	−0.742*	−0.099	−0.445
	[−1.17]	[−1.67]	[−0.27]	[−1.49]
CEO_CHAIRMAN	0.018	−0.047	0.065	−0.021
	[0.08]	[−0.22]	[0.34]	[−0.14]
CEO_TENURE	−0.014	−0.021	−0.011	−0.002
	[−0.69]	[−1.11]	[−0.65]	[−0.14]
SG&A_TO_TOTAL_ASSETS	3.377	3.261	3.833*	0.691
	[1.43]	[1.43]	[1.68]	[0.38]
DURATION_OF_EXEC_PAY	−0.096	−0.066	0.002	0.115
	[−0.64]	[−0.47]	[0.02]	[1.21]
ESG_SCORE	0.006	0.007	0.005	0.008*
	[0.80]	[0.91]	[0.83]	[1.73]
No. of obs.	3,158	3,543	4,516	9,232
Fixed effects	Quarter	Quarter	Quarter	Quarter
Pseudo R^2	0.119	0.122	0.123	0.126

tenure with the firm. Models 2–4 examine managers that have not missed earnings or mentioned stakeholder value during the prior 5, 3, and 1 years. Thus, model 1 imposes the strongest constraints on the sample size, and model 4 imposes the weakest. Throughout models 1–4, we find a positive and significant effect of FELL_SHORT on the likelihood of the manager citing stakeholder value, consistent with the sudden use of stakeholder language being an ex post excuse for the sudden earnings miss.

5. Ex Ante Decision or Ex Post Excuse?

Many firms make observable efforts to consider the interests of stakeholder groups. We consider three variables that indicate a firm's ex ante decisions to potentially sacrifice shareholder value in the pursuit of stakeholder goals. First,

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

we use the firm's ESG score, which should be positively correlated with how the firm considers outside stakeholder interests. Second, we look to the firm's duration of executive pay, which should incentivize managers to consider stakeholder issues that may only affect firm value in the long run (Flammer and Bansal (2017)). We note the positive effects of these variables in Table 2 are consistent with this intuition. Finally, on a smaller subsample for which we have data from ISS Incentive Lab, we create an indicator variable for whether the manager earns compensation based on ESG factors, which should represent a more direct incentive. If a manager's mention of stakeholder value is a result of these ex ante decisions, then we would expect firms that prioritize these issues would be more likely to mention them, especially when they impact performance in a negative way.

We then identify two factors that should be correlated with the likelihood of the manager needing an ex post excuse as a justification for poor performance. In theory, managers with more power and influence over the board should be more shielded from performance-related pressure. To capture the elements of a manager's power, we use board co-option and an indicator for whether the CEO is also the chairman of the board. These measures are ideal proxies of power as both measures are noted in prior literature to shield executives from turnover following poor performance and to give the CEO greater influence over the board (Coles, Daniel, and Naveen (2014)). We note that co-option has a negative effect on the likelihood of a firm citing stakeholder value in Table 2, although the effect of CEO chairman is insignificant. If a manager's mention of stakeholder value is a result of needing an ex post excuse for poor performance, we would expect a greater likelihood of mentioning it when they have less control of the board and are therefore under greater pressure.

Using the "ex ante decision" and "ex post excuse" variables, we interact them with the FELL_SHORT indicator in a model similar to that used in Table 2:

$$\begin{aligned}(12)\qquad \Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(&\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} \\ &+ \gamma_2 \text{EXPLANATION_VS_EXCUSE} \\ &+ \gamma_3 \text{FELL_SHORT}_{i,t} \times \text{EXPLANATION_VS_} \\ &\text{EXCUSE} + \Sigma_{k=4}^{13} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t})\end{aligned}$$

To aid in the interpretation of the interaction term in regression (12), our "EXCUSE" variables are shifted to (1 – CO_OPTION) and INDEPENDENT_CHAIR. Both variables are therefore more positive if the board has more power and independence over the CEO. Our focus is on the interaction term, which should indicate how the effects of these variables are moderated by underperformance.

Table 8 reports the results of regression (12). Models 1–3 focus on the "ex ante decision" variables. We note the positive effects of ESG_SCORE, DURATION_OF_EXECUTIVE_PAY, and ESG_COMPENSATION indicate that these variables are associated with a greater likelihood of citing stakeholder value, indicating that firms deciding to prioritize these goals are more likely to discuss them. However, the interaction terms are each negative and statistically significant, suggesting that, while these variables are associated with a higher

TABLE 8

Ex Ante Decisions or Ex Post Excuse?

Table 8 reports the results of the following regression model we use to determine the interaction effects of missed earnings and "ex ante decision" or "ex post excuse" variables on stakeholder narrative usage:

$$\text{(1)}\quad \Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} + \gamma_2 \text{EXPLANATION_VS_EXCUSE} + \gamma_3 \text{FELL_SHORT}_{i,t} \times \text{EXPLANATION_VS_EXCUSE} + \Sigma_{k=4}^{13} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t}).$$

Regression (1) is a logistic model estimated at the firm-quarter level. We estimate regression (1) using the sample of quarterly earnings that occur over the years 2015 to 2020. The dependent variable STAKEHOLDER is 1 if firm *i* cites a stakeholder objective in communications falling within 2 weeks of the quarter *t* earnings release, and 0 otherwise. The independent variables include a FELL_SHORT indicator that is 1 if firm *i* reports quarter *t* earnings that miss analysts' consensus estimate, and 0 otherwise. We use ESG_SCORES, the DURATION_OF_EXECUTIVE_PAY, and whether the CEO's compensation has an ESG_COMPONENT as "Ex Ante Decision" variables for the use of stakeholder language. We use Board Co-Option and Independent Chairman (i.e., CEO is not Chairman) indicator as "Ex Post Excuse" variables for the use of stakeholder language. To aid in the interpretation of coefficients, we compute board co-option as (1 – CO_OPTION). The remaining independent variables are control variables we compute as described in Table 1. All models include year–quarter fixed effects. We report *z*-statistics below coefficient estimates and we cluster standard errors by firm. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Ex Ante Decisions			Ex Post Excuse	
	1	2	3	4	5
FELL_SHORT	0.452*** [4.30]	0.416*** [4.33]	0.413*** [3.80]	0.325*** [4.66]	0.370*** [4.22]
FELL_SHORT × ESG_SCORE	−0.004** [−2.06]				
FELL_SHORT × DURATION_EXEC_PAY		−0.092* [−1.76]			
FELL_SHORT × ESG_COMPENSATION			−0.109** [−2.02]		
FELL_SHORT × (1 – CO_OPTION)				0.127** [2.13]	
FELL_SHORT × IND_CHAIRMAN					0.151 [1.10]
ESG_COMPENSATION			0.293** [2.41]		
PRIOR_YEAR_ABNORMAL_RETURN	0.040 [0.37]	0.039 [0.36]	0.174 [1.26]	0.040 [0.37]	0.041 [0.38]
ln(ASSETS)	0.108** [2.33]	0.107** [2.30]	0.153*** [3.05]	0.108** [2.32]	0.108** [2.32]
INSTITUTIONAL_OWNERSHIP	−0.436 [−1.27]	−0.433 [−1.26]	−0.594 [−1.48]	−0.424 [−1.24]	−0.426 [−1.24]
ln(NUMBER_OF_ANALYSTS)	0.019 [0.21]	0.020 [0.22]	−0.131 [−1.17]	0.019 [0.21]	0.020 [0.22]
BOARD_INDEPENDENCE	2.618*** [4.38]	2.617*** [4.38]	2.732*** [3.54]	2.616*** [4.38]	2.607*** [4.36]
(1 – CO_OPTION)	0.301* [1.93]	0.302* [1.93]	0.356 [1.37]	0.278** [2.06]	0.303* [1.94]
IND_CHAIRMAN	−0.083 [−0.77]	−0.082 [−0.76]	−0.029 [−0.22]	−0.082 [−0.76]	−0.131 [−1.11]
CEO_TENURE	−0.021** [−2.08]	−0.021** [−2.09]	−0.018 [−1.53]	−0.021** [−2.08]	−0.021** [−2.05]
SG&A/TOTAL_ASSETS	−0.459 [−0.35]	−0.483 [−0.36]	1.508 [0.94]	−0.487 [−0.37]	−0.489 [−0.37]
DURATION_OF_EXECUTIVE_PAY	0.152*** [2.76]	0.160*** [2.95]	0.101 [1.59]	0.153*** [2.81]	0.155*** [2.83]
ESG_SCORE	0.013*** [3.80]	0.012*** [3.63]	0.011*** [2.70]	0.012*** [3.61]	0.012*** [3.59]
No. of obs.	24,572	24,572	14,831	24,572	24,572
Fixed effects	Quarter	Quarter	Quarter	Quarter	Quarter
Pseudo R^2	0.134	0.133	0.134	0.134	0.133

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

unconditional likelihood of stakeholder mentions, the effect is reduced, or noisier, for firms falling short of earnings expectations. Managers are more likely to discuss stakeholder value at underperforming firms, regardless of whether the firm has evidenced prioritizing stakeholder value in practice. We therefore find no support for the stakeholder discussion being a result of ex ante decisions to prioritize stakeholder value.

In models 4 and 5 of Table 8, we focus on the "EXCUSE" variables. We note that (1 – CO_OPTION) has a positive and significant effect on the likelihood of citing stakeholder value; firms where the board has more power over the CEO are more likely to cite stakeholder value. We find no significant effect of INDEPENDENT_CHAIRMAN. In the interaction terms, FELL_SHORT × (1 – CO_OPTION) reports a positive and significant effect, indicating that board power plays a greater role in the likelihood of citing stakeholder value at underperforming firms. This effect is consistent with the CEO needing an ex post justification for poor performance; this excuse is only necessary when the CEO has less control. We find no significant effect of FELL_SHORT × INDEPENDENT_CHAIRMAN, although the coefficient is positive. Overall, the results generally support the *Convenient Excuse* hypothesis where managers use a stakeholder value narrative as an ex post excuse for underperformance.

C. Additional Analysis

Appendix B of the Supplementary Material presents additional tests that investigate the relation between poor performance and stakeholder related expenses. First, we modify the construction of our FELL_SHORT indicator to be 1 is the firm has earnings that are simply negative, rather than missing analysts' expectations. We then estimate our main regression specifications (1) and (2) of Table 2, but replace FELL_SHORT with this newly specified NEGATIVE_EARNINGS indicator. We display the results in Table B7 in the Supplementary Material. Although the coefficient on the NEGATIVE_EARNINGS indicator is positive across each model in Table B7 in the Supplementary Material, only the estimate in model 1 is statistically significant. Thus, we conclude that the expectations put forth by analysts have considerable influence among managers and are a key motivator for the usage of stakeholder value.

We assess whether stakeholder narrative is related to alternative earnings management methods used by managers to meet analyst expectations. Discretionary accruals are a common avenue by which managers can meet their earnings or market relevant targets (Healy (1985), Matsumoto (2002), Abarbanella and Lehavy (2003), and Burgstahler and Eames (2006)). However, such efforts share a strong association with greater agency costs and lower quality earnings, ultimately leading to poor subsequent performance (Sloan (1996), Lev and Nissim (2006)). It is possible that the usage of stakeholder language shares a commonality or even substitutes for this kind of disingenuous earnings management behavior. We explore this question in Table B8 in the Supplementary Material by estimating the following logit model specifications:

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$$\text{(13)}\quad \Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} + \gamma_2 \text{DISCRETIONARY_ACCRUALS}_{i,t} + \Sigma_{k=3}^{13} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t}),$$

$$\text{(14)}\quad \Pr(\text{STAKEHOLDER}_{i,t}) = \Lambda(\gamma_0 + \gamma_1 \text{FELL_SHORT}_{i,t} + \gamma_2 \text{DISCRETIONARY_ACCRUALS}_{i,t} + \gamma_3 \text{FELL_SHORT}_{i,t} \times \text{DISCRETIONARY_ACCRUALS}_{i,t} + \Sigma_{k=4}^{14} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t}).$$

Regressions (13) and (14) share a similar specification to our baseline model and have the STAKEHOLDER indicator as the dependent variable. We measure each firm's quarterly earnings management using the firm's level of discretionary accruals. Following Dechow, Sloan, and Sweeney (1995), Matsumoto (2002), and Abarbanella and Lehavy (2003), we use a modified Jones (1991) model and quarterly Compustat data to construct each firm's DISCRETIONARY_ACCRUALS variable. In regression (13), we assess the effect of earnings management by itself on the propensity to use stakeholder language. In regression (14), we interact the FELL_SHORT indicator with DISCRETIONARY_ACCRUALS to identify the effect of earnings management on stakeholder language usage among firms that miss analyst expectations.

We provide results of regressions (13) and (14) in Table B8 in the Supplementary Material. In model 1, we use the full sample and find the FELL_SHORT indicator continues to have a positive and statistically significant effect on management's use of stakeholder language. However, the level of discretionary accruals shares no association as the coefficient is statistically insignificant. In model 2, we exclude the FELL_SHORT indicator from regression (13), estimating only on the sample of firms that FELL_SHORT, and continue to find no relation between stakeholder citations and earnings management. We reach the same conclusion in model 3 as the coefficient on the interaction term is statistically insignificant. Taken together, the results of Table B8 in the Supplementary Material suggest there is no relation between earnings management and the usage of stakeholder citations; managers appear to be no more or less likely to mention stakeholders alongside elevated levels of earnings management.[10] We thus conclude that stakeholder language is primarily used when traditional earnings management methods fail to produce a positive earnings result.

We next determine the association between missing earnings and firm ESG Scores. We consider both the level and change in a firm's ESG score, along with the individual components of the ESG score. These tests show firms that miss earnings are more likely to have a lower ESG score and a decrease in their ESG score in the years around the announcement of missed earnings (a result that is inconsistent with stakeholder initiatives driving underperformance). Finally, in Table B10 in the

[10]We conduct the similar analyses to those in Table B8 in the Supplementary Material using a traditional measure of accruals as in Sloan (1996). The conclusions reached from these results are identical and are available from the authors.

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Supplementary Material, we display results from a similar analysis using the change within each firm's SG&A expenses to measure a firm's investment in stakeholder issues. We find that underperforming firms have lower levels of SG&A expenses, consistent with them cutting back on unnecessary expenses to improve performance. We find no significant relation between performance and the quarter-over-quarter percent change in SG&A expenses. The conclusions of these additional tests are therefore qualitatively similar to previous tables.

D. Stakeholder Usage and CEO Turnover

We find evidence that managers strategically shift to a stakeholder narrative during quarters of poor earnings performance. We propose that such actions are a function of managers looking to lessen the consequences of poor performance. Using a CEO turnover–performance sensitivity model, we test whether citing stakeholder objectives is beneficial to managers attempting to explain poor earnings performance. We use the following logit model specifications:

$$\begin{aligned}(15)\qquad \Pr(\text{TURNOVER}_{i,t}) = \Lambda(&\gamma_0 + \gamma_1 \text{ANNUAL_STAKEHOLDER}_{i,t-1} \\ &+ \gamma_2 \text{PRIOR_YEAR_ABNORMAL_RETURN} \\ &+ \gamma_3 \text{ANNUAL_STAKEHOLDER}_{i,t-1} \\ &\times \text{PRIOR_YEAR_ABNORMAL_RETURN} \\ &+ \Sigma_{k=4}^{13} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t}),\end{aligned}$$

$$\begin{aligned}(16)\qquad \Pr(\text{TURNOVER}_{i,t}) = \Lambda(&\gamma_0 + \gamma_1 \text{ANNUAL_STAKEHOLDER}_{i,t-1} \\ &+ \gamma_2 \text{PRIOR_YEAR_ROA} \\ &+ \gamma_3 \text{ANNUAL_STAKEHOLDER}_{i,t-1} \\ &\times \text{PRIOR_YEAR_ROA} + \Sigma_{k=4}^{13} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t}).\end{aligned}$$

In regressions (15) and (16), the dependent variable TURNOVER is an indicator variable that is 1 if the CEO of firm i is under 60 and is terminated during year t, and 0 otherwise. Because these regressions are at the firm-year level (following prior literature using the same type of model), we utilize an independent variable ANNUAL_STAKEHOLDER that counts the number of quarters firm i uses a stakeholder narrative during the prior year $t - 1$. The measures of firm performance that we use in our independent variables include the PRIOR_YEAR_ABNORMAL_RETURN and PRIOR_YEAR_ROA. We measure PRIOR_YEAR_ABNORMAL_RETURN as the buy-and-hold abnormal return, using the CRSP value-weighted index as a benchmark. PRIOR_YEAR_ROA is a firm's net income scaled by the average of the firm's total assets over years $t - 1$ and $t - 2$ and adjusted for the industry average. Following prior literature, our focus is on the interaction term between our performance measures and our variable of interest, ANNUAL_STAKEHOLDER. To determine whether the adoption of a stakeholder narrative weakens the association between turnover and firm performance, we anticipate γ_3 on our interaction term to be positive and statistically significant in each of our models.

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The estimates of regressions (15) and (16) in Table 9 confirm our conjecture. Consistent with prior literature, we find a strong negative association between CEO turnover and prior performance; both estimates on PRIOR_YEAR_ABNORMAL_RETURN and PRIOR_YEAR_ROA in models 1 and 2 are negative and statistically significant at the 1% levels. In model 1, however, the estimate of γ_3 on our interaction term with prior year abnormal return is 1.052 and statistically significant at the 5% level, suggesting the link between turnover and performance is weakened by using a stakeholder narrative. The interaction term with prior year industry-adjusted ROA suggests a similar effect, although it falls just short of statistical significance at the 10% level. Taken together, the results of Table 9 provide a plausible explanation for the strategic timing of managers' use of stakeholder narrative.

These results suggest that directors are more swayed by stakeholder language than shareholders.[11] We have no obvious explanation for why this may be true. In Table B12 in the Supplementary Material, we explore some possible explanations. We first estimate regression (15) on subsamples that we form based on the level of board co-option and board engagement. Specifically, we form High and Low samples based on Board Co-Option and the "busyness" of the board, splitting the sample at the median of each of these measures. We compute the busyness of the board as the percentage of the firm's independent directors that serve on more than one board (Ferris, Jagannathan, and Pritchard (2003)). We focus on the interaction terms in each model, similar to Table 9. In the first 2 columns of Table B12 in the Supplementary Material, we find the effect of stakeholder language on CEO turnover–performance sensitivity is only significant in firms with low degrees of co-option, where the board is more heavily invested in the management team and therefore has more aligned incentives. In columns 3 and 4, we find that the effect of stakeholder language on turnover–performance sensitivity is significant only in firms with busier boards, where the board may be too distracted to analyze the causes of underperformance. We note that these tests are not conclusive in explaining why boards appear to be influenced by stakeholder language; a simpler explanation may be that the language adds noise to the evaluation of managers.

In Table B13 in the Supplementary Material, we assess the effect of stakeholder citations on the level of CEO compensation. It is possible that the benefits to the CEO extend beyond job security if the CEO has a financial incentive to consider other groups. Our base regressions in models 1 and 2 utilize the same controls as other tests. In models 3 and 4, we also control for whether the CEO earns pay directly linked to ESG factors. We find no significant effect of ANNUAL_STAKEHOLDER in any of the tests. Thus, we conclude that managers do not receive a direct financial benefit from using stakeholder language.

We note that managers may benefit in other ways from stakeholder language. For example, using certain key political keywords may facilitate business from

[11]We conduct additional analysis of the market's reaction to missed earnings by firms whose management adopts a stakeholder narrative. Using various measures of abnormal return and various trading day windows around quarterly earnings announcements, we find the use of stakeholder language has little effect on the market's reaction to negative earnings. This result is consistent with shareholders continued focus on firm value and suggests investors are not easily swayed by a stakeholder narrative. We provide these results in Table B11 in the Supplementary Material.

https://doi.org/10.1017/S0022109023001308 Published online by Cambridge University Press

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TABLE 9

Does Citing Stakeholder Value Affect the CEO's Likelihood of Termination?

Table 9 reports the results of the following regression models we use to determine the effect that stakeholder narrative usage has on the turnover–performance relation:

$$\text{(1)}\quad \Pr(\text{TURNOVER}_{i,t}) = \Lambda(\gamma_0 + \gamma_1 \text{ANNUAL_STAKEHOLDER}_{i,t-1} + \gamma_2 \text{PRIOR_YEAR_ABNORMAL_RETURN} + \gamma_3 \text{ANNUAL_STAKEHOLDER}_{i,t-1} \times \text{PRIOR_YEAR_ABNORMAL_RETURN} + \Sigma_{k=4}^{13} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t}),$$

$$\text{(2)}\quad \Pr(\text{TURNOVER}_{i,t}) = \Lambda(\gamma_0 + \gamma_1 \text{ANNUAL_STAKEHOLDER}_{i,t-1} + \gamma_2 \text{PRIOR_YEAR_ROA} + \gamma_3 \text{ANNUAL_STAKEHOLDER}_{i,t-1} \times \text{PRIOR_YEAR_ROA} + \Sigma_{k=4}^{13} \gamma_k \text{CONTROL}_i + \varepsilon_{i,t}).$$

Regressions (1) and (2) are logistic regression models estimated at the firm-year level. We estimate these regressions using the sample of yearly CEO data from the ExecuComp database over the years 2015 to 2020. The dependent variable, TURNOVER, is 1 if the CEO is under 60 and terminated in year t, and 0 otherwise. The independent variables include ANNUAL_STAKEHOLDER that counts the number of quarters in year $t-1$ for which managers cite a stakeholder objective in their communications that occur within the 2 weeks of a quarterly earnings release. The measures of firm performance that we use in our independent variables include the PRIOR_YEAR_ABNORMAL_RETURN and PRIOR_YEAR_ROA. We measure PRIOR_YEAR_ABNORMAL_RETURN as the buy-and-hold abnormal return, using the CRSP value-weighted benchmark. Using Compustat, we compute PRIOR_YEAR_ROA as a firm's net income, scaled by the average of firm i's total assets over years $t-1$ and $t-2$ and adjusted for the firm's respective industry average ROA. The remaining independent variables are control variables we compute as described in Table 1. Models 1 and 2 each include year-fixed effects. We report z-statistics below coefficient estimates and we cluster standard errors by firm. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	1	2
PRIOR_YEAR_ABNORMAL_RETURN	−0.974***	
	[−2.96]	
ANNUAL_STAKEHOLDER × ABNORMAL_RETURN	1.052**	
	[2.31]	
PRIOR_YEAR_ROA		−2.951***
		[−2.74]
ANNUAL_STAKEHOLDER × ROA		0.783
		[1.57]
ANNUAL_STAKEHOLDER	−0.123	−0.138
	[−0.59]	[−0.65]
ln(ASSETS)	−0.081	−0.088
	[−0.98]	[−1.08]
INSTITUTIONAL_OWNERSHIP	−0.229	−0.172
	[−0.36]	[−0.27]
ln(NUMBER_OF_ANALYSTS)	0.059	0.086
	[0.38]	[0.56]
BOARD_INDEPENDENCE	1.897**	1.819*
	[2.04]	[1.95]
BOARD_CO_OPTION	−2.166***	−2.182***
	[−4.79]	[−4.89]
CEO_CHAIRMAN	−0.345*	−0.359*
	[−1.68]	[−1.73]
CEO_TENURE	0.032***	0.035***
	[3.21]	[3.46]
SG&A_TO_TOTAL_ASSETS	5.281***	5.359***
	[3.43]	[3.54]
DURATION_OF_EXEC_PAY	−0.136	−0.127
	[−1.10]	[−1.04]
ESG_SCORE	0.010*	0.010*
	[1.70]	[1.78]
No. of obs.	5,667	5,667
Fixed effects	Year	Year
Pseudo R^2	0.059	0.057

government politicians or administrators. We leave this possibility open to be explored by future work.

IV. Conclusion

Firms face increasing societal and political pressure to consider the interests of all stakeholders and not just shareholders. However, shareholder value is objectively measured, whereas stakeholder value has no agreed-upon measurement or definition. This ambiguity opens the door for managers to take advantage of a stakeholder-focused approach.

We find that this is indeed the case; managers push for the amorphous stakeholder value-focused governance standards when their performance falls short of the objective benchmarks associated with shareholder value-focused governance. This motive is evidenced by managers' increased propensity to cite stakeholder value following earnings reports that fall short of expectations. Notably, the likelihood of mentioning stakeholder value is highest when the firm falls short by small rather than large margins, suggesting that the benefit to managers is limited to smaller degrees of underperformance. This empty language seems to produce some benefit for managers, decreasing CEO turnover–performance sensitivity. We conclude that stakeholder-focused governance reduces managers' accountability for firm performance and increases managerial entrenchment.

Supplementary Material

To view supplementary material for this article, please visit http://doi.org/10.1017/S0022109023001308.

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