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Does Reputation Matter? The Effects of Reputation Concerns and Locus of Attributions on Management Earnings Forecast Disclosures

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ABSTRACT

We conduct an experiment to examine whether reputation concerns (low and high) and locus of attributions (internal and external) affect managers' willingness to issue management earnings forecasts. We find that managers with high reputation concerns are more likely to disclose management earnings forecasts than those with low reputation concerns. However, locus of attributions has a small effect on management's perception towards revealing future earnings information. In addition, we found a joint impact of reputation concerns and locus of attributions on the managers' willingness to disclose earnings forecasts. Under unfavorable future earnings circumstances, reputation concerns influence managers' judgments when the attribution locus is internal, but the opposite is true when the attribution is external. In the presence of an internal locus, managers with high reputation concerns are more willing to disclose management earnings forecasts than those with low reputation concerns. In contrast, the effect of reputation concerns becomes insignificant in the presence of an external locus. This study expands the understanding of how reputation concerns influence management judgment on issuing earnings forecast information. Moreover, it extends the prior literature by revealing that there exist the joint effects of reputation concerns and attribution locus on voluntary disclosure decisions.

Keywords: Management Earnings Forecast, Reputation, Attribution Locus

บทความวิจัย

ชื่อเสียงนั้นสำคัญไฉน ผลกระทบของการคำนึงถึงชื่อเสียงของผู้บริหารและสาเหตุที่รับรู้ที่มีต่อการเปิดเผยประมาณการกำไรจากฝ่ายบริหาร

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บทคัดย่อ

งานวิจัยเชิงทดลองนี้ศึกษาผลกระทบของการคำนึงถึงชื่อเสียงของผู้บริหาร (ระดับต่ำและระดับสูง) และสาเหตุที่รับรู้ (ปัจจัยภายในและปัจจัยภายนอก) ที่มีต่อความเต็มใจในการเปิดเผยข้อมูลประมาณการกำไรจากฝ่ายบริหาร ผลการวิจัยพบว่า กลุ่มผู้บริหารที่คำนึงถึงชื่อเสียงในระดับสูงมีความเต็มใจที่จะเปิดเผยข้อมูลประมาณการกำไรมากกว่ากลุ่มผู้บริหารที่คำนึงถึงชื่อเสียงในระดับต่ำ อย่างไรก็ตาม การรับรู้สาเหตุของประมาณการกำไรต่ำกว่าเป้าหมายที่มาจากปัจจัยภายในและปัจจัยภายนอกมีผลกระทบต่อระดับของความเต็มใจในเปิดเผยข้อมูลประมาณการกำไรจากฝ่ายบริหารที่ไม่แตกต่างกันอย่างมีนัยสำคัญ แต่เมื่อพิจารณาผลกระทบร่วมระหว่างการคำนึงถึงชื่อเสียงของผู้บริหารและสาเหตุที่รับรู้พบว่า กรณีที่สาเหตุของประมาณการกำไรต่ำกว่าเป้าหมายมาจากปัจจัยภายใน ระดับของการคำนึงถึงชื่อเสียงของผู้บริหารที่มีอิทธิพลต่อความเต็มใจของผู้บริหารในการเปิดเผยข้อมูลประมาณการกำไร แต่เมื่อสาเหตุของประมาณการกำไรต่ำกว่าเป้าหมายมาจากปัจจัยภายนอก ระดับของการคำนึงถึงชื่อเสียงของผู้บริหารไม่มีอิทธิพลต่อการตัดสินใจเปิดเผยข้อมูลประมาณการกำไรจากฝ่ายบริหาร กล่าวคือ เมื่อประมาณการกำไรต่ำกว่าเป้าหมายมีสาเหตุ

มาจากปัจจัยภายใน กลุ่มผู้บริหารที่คำนึงถึงชื่อเสียงในระดับสูงจะเต็มใจที่จะเปิดเผยข้อมูลประมาณการกำไรมากกว่ากลุ่มผู้บริหารที่คำนึงถึงชื่อเสียงในระดับต่ำ ในกรณีที่ประมาณการกำไรต่ำกว่าเป้าหมายมีสาเหตุมาจากปัจจัยภายนอก ระดับของการคำนึงถึงชื่อเสียงของผู้บริหารที่แตกต่างกันไม่มีผลกระทบอย่างมีนัยสำคัญต่อระดับความเต็มใจในการเปิดเผยข้อมูลประมาณการกำไร ผลการศึกษานี้ช่วยเพิ่มความเข้าใจว่าการคำนึงถึงชื่อเสียงของผู้บริหารมีผลต่อการเปิดเผยข้อมูลประมาณการกำไรจากฝ่ายบริหารอย่างไร และแสดงหลักฐานงานวิจัยเพิ่มเติมจากอดีตโดยแสดงถึงผลกระทบร่วมระหว่างการคำนึงถึงชื่อเสียงของผู้บริหารและสาเหตุที่รับรู้ที่มีอิทธิพลต่อการตัดสินใจเปิดเผยข้อมูลภาคสมัครใจ

คำสำคัญ: ประมาณการกำไรจากฝ่ายบริหาร การคำนึงถึงชื่อเสียง สาเหตุที่รับรู้

INTRODUCTION

Management earnings forecast is one of the key voluntary disclosures of a particular firm to communicate its own expected financial performance to the market. Even though such earnings forecast disclosures are valuable for market participants and became common in the late 1990s, the growth rate of this practice has slowed down in recent years (Han, 2013). This phenomenon raises the question of why firms' behavior towards voluntary disclosure of earnings forecast has changed.

Focusing on management disclosure decisions, previous research shows that there is a relationship between management incentives and earnings forecast information. Managerial incentives are important as they are one of the main antecedents used by managers to decide whether or not to disclose their earnings information (Hirst, Koonce, & Venkataraman, 2008). Managers are often concerned about their reputation and credibility from investors and analysts (Paul M. Healy & Palepu, 2001). Some managers disclose unbiased forecasts to develop reputation and reporting credibility (Hutton & Stocken, 2009; J. Rogers, L. & Stocken, 2005; Stocken, 2000; Wang & Tan, 2013). A survey study suggests that most managers believe that making voluntary disclosures can establish management's reputation (Graham, Harvey, & Rajgopal, 2005). Consequently, reputational concerns are a key motivation for management disclosure decisions. However, it is difficult to identify reputational concerns per se without confounding them with other factors in the real word. This study attempts to bridge this gap by using an experiment to investigate whether and how the levels of reputational concerns affect the managers' willingness to issue management earnings forecasts.

According to Baginski, Hassell, and Kimbrough (2004), a significant number of managers choose to link management earnings forecast performance with internal factor (e.g., change in management actions) or external factor (e.g., foreign currency fluctuation). In addition, if managers blame their poor performance on plausibly external explanations, analysts tend to believe that poor performance is temporary and reward firms with higher earnings expectation (Barton & Mercer, 2005). The implications of using attribution reflect managers' attempt to influence investors and analysts (Barton & Mercer, 2005; Kimbrough & Wang, 2014). Psychology suggests that individuals attribute positive outcomes to their own ability and negative outcomes to situations (Miller & Ross, 1975). Causal thinking and economic decision making are jointly functioned from psychology and economy. Psychology research argues that an attribution locus plays a significant role in the aforementioned decisions (Gurevich, Kliger, & Weiner, 2012). Hence, one of the purposes of this study is to examine whether locus of attributions (internal and external locus) impact management's willingness to disclose their future earnings information. Specifically, this study also investigates the joint effects of reputation concerns and locus of attributions on the issuance of management earnings forecasts.

We conducted a 2x2 between-subjects experimental design with 50 graduate students in a business program. Participants were assumed to be executive managers who were responsible for deciding whether to voluntarily disclose annual earnings forecasts based on available information provided in case materials. We constantly held background information and annual earnings forecast number, but we manipulated the attribution into either internal or external locus condition as an independent variable. The levels of participant's reputation concerns were categorized based on the mean score. Participants later answered post-experimental questions regarding how they individually considered the positive and negative consequences of management's reputation when they made a decision on the issuance of annual forecast disclosure.

We find that when facing disappointed performance, managers who are highly concerned with reputation are more likely to disclose their earnings forecasts than those with low reputation concerns. In addition, there is an insignificant difference in the likelihood of issuing management earnings forecasts among managers facing either an internal or an external locus. However, the joint effects of reputation concerns and attribution are marginally significant. In other words, managers with high reputation concerns are more likely to disclose their future earnings information when facing both an internal and external locus. In contrast, managers with low reputation concerns are unwilling to reveal their future earnings failure caused by management's operational errors (an internal locus). Therefore, the difference in the likelihood of issuing management earnings forecasts among managers with low and high reputation concerns is greater in the presence of internal than external loci. These results suggest that the high level of reputation concerns enhances the managers' willingness to reveal their future earnings information even when facing unfavorable performance.

Frequently, managers have self-concerns or owner-related incentives to meet or beat market expectations (Aboody & Kasznik, 2000; Kothari, Shu, & Wysocki, 2009; Nagar, Nanda, & Wysocki, 2003). Thus, the effect of reputation concerns on the likelihood of issuing annual earnings forecasts might be confounded by managers' self-concerns over a market expectation. To mitigate this confounding effect, this study used market expectation concerns as a covariate variable. After controlling for market expectation concerns, the main findings are more robust.

This study makes several contributions to academics and practitioners. Unlike previous research, this study focuses on the perspective of decision makers rather than that of users of management earnings forecasts. There is little evidence regarding antecedents of asymmetric management behaviors. First and foremost, this study extends the understanding of the inconclusive evidence regarding negative information disclosures. Many studies find that managers early release bad news to avoid litigations and reputation-effects arguments (e.g., Skinner, 1994, 1997). On the other hand, a number of studies find that managements often withhold or delay bad news disclosure to cover their own career-related concerns or to buy themselves more time to improve their performance (e.g., Graham et al., 2005; Kothari et al., 2009). This study demonstrates that when facing unfavorable earnings forecast information, management's disclosure decision depends on the levels of reputational concerns on manager's perception. Specifically, the findings support the recent analytical arguments that reputation concerns can make firms confess their mistakes (Corona & Randhawa, 2018). The results of this study show that managers with high reputation concerns are more likely to admit their failure by providing unfavorable earnings forecasts for the public than those with low reputation concerns do.

Second, the findings contribute to attribution literature with a linkage between psychology and economic decision-making in management earnings forecast context. The results reveal that when the cause of earnings disappointment is an internal locus, the likelihood of issuing annual earnings forecasts is not different from the case of an external locus. The implication is that different causes of future earnings failure do not induce bias on perception of decision makers to voluntarily disclose earnings forecast information. However, this study finds that locus of attributions moderates the effect of reputation concerns on the willingness of issuing management earnings forecasts on an annual basis. Given unfavorable future earnings, managers with low reputation concerns will be less likely to disclose earnings forecasts under an internal locus than under an external one. These results are consistent with the evidence from psychology in that when people engage self-serving attribution bias, they often attribute positive outcomes to their own internal loci but negative outcomes to external loci (Heider, 1958; Miller & Ross, 1975). The results show that managers with low reputation concerns engage more self-serving bias in the situation that negative outcomes attribute from their own failure, then they attempt to conceal their failure from the market.

Finally, this study directly benefits standard setters and regulators in Thailand. Although the Stock Exchange of Thailand (SET)'s regulations restrict qualitative-based financial projections, almost two-thirds (59%) of the listed firms have failed to comply with the SET's Disclosure Guidelines (Jarutakanont & Supattarakul, 2011). However, SET announced during Investor Relation Best Practice Training of SET in 2016 that firms could disclose quantitative financial forecasts together with the assumptions. This study illustrates the likelihood of issuing management earnings in both qualitative and quantitative forecast forms. The results suggest that reputation concerns and locus of attributions influence management's disclosure decision in quantitative annual earnings forecasts, but there is no effect on a qualitative forecast form. The evidence reveals to SET that managers with low reputation concerns might fail to accept future earnings failure under their own mistakes (an internal locus), and they assign low levels of annual earnings forecast disclosures quantitatively.

These results could help the regulators to develop disclosure guidelines in the future.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Reputation Concerns

Individuals who are intrinsically motivated to maintain their reputations may direct their judgment and decision making (JDM) toward whatever is considered acceptable to others (Asch, 1956). Motivation relevant to achieving one's reputation brings a person to a JDM task (Bonner, 2008). Motivation may make accurate JDM if a desired conclusion happens to be right; such motivation will have a positive effect on JDM quality. A desired conclusion can derive from intrinsic motives to maintain individual's reputation with others who hold a particular outcome that is perceived a fairness as a point of views and accountability to others as a particular views (Bonner, 2008). Therefore, a reputation for being forthright plays an important role in influencing management's decision about voluntary disclosure information.

In general, management are concerned with their reputation and credibility (Paul M Healy & Palepu, 1995). Investors perceive reputation for credible financial reporting as management's competency and trustworthiness (Mercer, 2004). Managers attempt to develop and maintain their reputation with investors, but sometimes investors are doubtful about the reputation of managers (Beyer & Dye, 2012). In the management forecast disclosure context, since managers make self-serving voluntary forecast disclosures, it is unclear whether their disclosures are credible (Paul M. Healy & Palepu, 2001). Earlier studies suggest that firms establish a forecasting reputation from prior forecast behaviors (Bhojraj, Libby, & Yang, 2011; Williams, 1996). Some managers issue accurate earnings forecasts to establish their reputation from credibility of voluntary earnings forecast disclosure by management (Paul M. Healy & Palepu, 2001; Trueman, 1986; Wang & Tan, 2013). Survey evidence supports that managers issue earnings forecasts to develop and maintain their reputation with investors (Graham et al., 2005). Much evidence supports that reputation concerns influence management's disclosure decision.

The majority of reputation studies have focused on the reward or reaction from outsiders. For example, Bravo (2016) finds that the forward-looking disclosure in an annual report of reputational firms (reputations are proxied by the ranking of the Fortune Magazine and the World's Most Admired Companies) leads to the reduction of stock return volatility. Investors value information disclosed by firms with better reputation, and they perceive such information as being more reliable (Bravo, 2016). In addition, market participants respond more to firms that have established reputation from prior accurate forecasting behavior (Hutton & Stocken, 2009; Williams, 1996). Previous study suggests that the management reputation-effects can motivate managers to early disclose bad news about earnings to avoid negative earnings surprises (Skinner, 1994). Because investors dislike the negative earnings surprises, they may ignore firms that fail to disclose bad news about earnings timely. However, it is difficult to directly measure the effect of managers' reputational considerations on either disclosing or withholding unfavorable earnings forecast information by empirical testing.

A recent analytical study suggests that reputational concerns can make managers confess their mistakes (Corona & Randhawa, 2018). In the earnings forecast context, this study proposes that reputation concerns of decision makers may motivate them to disclose their unfavorable future earnings information to the public because reputation effects could strongly encourage individuals to voluntarily disclose (Koonce & Mercer, 2005). Few economic theories explicitly explain how either definite actions or inactions affect reputation. However, the correspondent inference theory from psychology suggests that reputation formation is more complex, and some management actions are more likely to be realized as indicators of management's trustworthiness than others (Koonce & Mercer, 2005). Typically, the correspondent inference theory posits that people are more likely to assume that the actions of others reflect dispositional forces when those actions appear to be voluntary (Edward E. Jones & Davis, 1965). Hence, one implication of this theory is that managers' voluntary disclosures have more effects on management's reporting reputation than its required disclosures.

Since management earnings forecast disclosures are perceived to be self-serving, if a management' disclosure is based on firm's financial performance, management will personally benefit from disclosures of good news (Koonce & Mercer, 2005). Based on the correspondent inference theory's prediction (Edward E. Jones & Davis, 1965), in such a case, managers will gain little reputational benefit from disclosing favorable forward-looking information. In contrast, reporting bad news timely is not self-serving, and accordingly releasing bad news is predicted to enhance management's reputation (Koonce & Mercer, 2005). Thus, this study expects that managers with high reputation concerns will be more willing to disclose disappointing earnings forecasts. This leads to the first hypothesis.

H1 When facing disappointing earnings, managers with high reputation concerns are more likely to disclose management earnings forecasts than those with low reputation concerns.

Locus of Attributions

Social psychology research considers how people explain behaviors and emphasizes various causes of people's behaviors (Heider, 1958; Edward E. Jones & Davis, 1965). Locus of attributions in a psychology theory can be divided to internal external. The internal attribution locus focuses on a person or dispositional feature of an individual (e.g., effort, ability, and intention) while external attribution locus is outside a person or a situational cause of behaviors (e.g., task difficult and luck). In general, people may make personal or situational attributions for events. Importantly, people are more sensitive to situational forces whenever their own behavior is concerned or their attention is led by self-interest (Edward E Jones & Nisbett, 1987). The discussions of self-serving bias in perception of attribution exist in previous literature (Kelley, 1967; Miller & Ross, 1975).

A significant link between attribution and economic decisions is also documented in earlier literature (see Koonce, Seybert, & Smith, 2011 for a review). In the business context, managers often provide causal explanations for earnings news by linking their performance to internal or external attributions. The implication of using attribution reflects managers' strategies to deviate market participants' perception (Barton & Mercer, 2005; Kimbrough & Wang, 2014; Staw, McKechnie, & Puffer, 1983). A psychology study suggests that people avoid their responsibility under failure conditions (Miller & Ross, 1975), and causal attribution plays a role prior to decision making (Gurevich et al., 2012). The external attribution locus is inherent in uncertainty in operational environment or opportunity, but the internal attribution locus is closely related to management's personality or ability. People tend to underweight situational influences and overweight dispositional explanations on their own behavior (Ross, 1977). When unfavorable outcomes takes place, individuals will seek external causes to explain them.

In accordance with managers' earnings forecast disclosure perspective, managers tend to attribute good news to dispositional or internal causes and bad news to situational or external causes. Attribution research in psychology and management forecast literature suggests that using attributions are more likely related to bad performance and maximum type of forecasts (Baginski et al., 2004). Specifically, the external attribution locus is more frequently used to explain earnings forecast disclosures rather than the internal attribution locus is (Baginski et al., 2004). Despite pervasiveness of attributions in various types of narrative disclosures, there have been little research on the extent to which managers' personal attributes (internal versus external locus) directly affect their disclosure behavior. In fact, the question regarding the use of attribution accompanying earnings forecasts arises because managers could explain their future performance by either adding genuine causes or doing strategic management to mislead analysts and investors due to voluntary disclosure attributions. Therefore, it is advantageous to address this issue by using an experimental study.

According to the attribution theory in social psychology (Weiner, 1985), people would justify behaviors of other people. The causes of behaviors could be personality traits or dispositional characteristics and situational factors (Heider, 1958). In the context of voluntarily disclosed earnings forecasts, when managers face firms' disappointing performance, this study posits that managers with an internal locus (personal cause of unfavorable outcome) will be less likely to disclose their earnings forecasts than those with an external locus (situational cause of unfavorable outcome). Thus, this study hypothesizes that:

H2 When facing disappointing earnings, managers are less likely to disclose management earnings forecasts in the presence of an internal locus than in the presence of an external locus.

Joint Effects of Reputation Concerns and Locus of Attributions

A key feature of management earnings forecasts is that the manner in which firms communicate their forward-looking is far less regulated than their mandatorily disclosed financial statement information. Consequently, managers attempt to influence market participants' impression (Barton & Mercer, 2005; Staw et al., 1983). In light of the voluntary nature of management earnings forecast disclosures, managers could selectively engage in early disclosures of earnings forecasts in the event of favorable outcomes, or they might delay or withhold the issuance of earnings forecasts in the case of unfavorable outcomes to maintain or boost stock prices (Houston, Lev, & Tucker, 2010; Kothari et al., 2009; M. H. Lang & Lundholm, 2000).

Self-serving attribution in psychology literature suggests that individuals attribute positive outcomes to their dispositional factors and negative outcomes to situational ones (Miller & Ross, 1975). The term *"self-serving"* is frequently made attributions when individuals take a credit for success and avoid blames for failures. Importantly, an attribution plays an important in guiding people's thoughts, and causal information results from the process of attribution (Gurevich et al., 2012). Causal attribution and economic decision making are jointly functioned in psychology and economics. Hence, the predictions of this study are drawn from the motivations of voluntary management earnings forecasts disclosure literature and a psychology theory. This study argues that the effect of reputation concerns on managers' decision to issue management earnings forecasts is moderated by a perceived different attributions.

In the presence of an external locus, managers with high and low reputation concerns also prefer issuing management earnings forecasts. Managers with high reputation concerns can maintain their reputation and credible reporting while those with low reputation concerns blames their failure on situational factors. A psychology theory suggests that when unfavorable outcomes occur, individual will seek external causes to explain them (Miller & Ross, 1975). Thus, this study predicts that when facing an external locus, there is insignificantly different levels of earnings forecast disclosures among managers.

In contrast, when an internal locus is the cause of disappointment for future earnings, the willingness to issue management earnings forecasts among managers with high and low reputation concerns would be different. Managers with low reputation concerns would overattribute on their own internal-related cause of future earnings failure, then they are less likely to issue their earnings forecasts. On the other hand, managers with high reputation concerns will still continue to issue management earnings forecast because of two reasons. Firstly, they can develop their reputation from continual earnings forecast disclosures. Secondly, management forecasts' reputation will be deteriorated if management stop issuing their unfavorable future earnings. Drawing prediction from the correspondence inference theory, people consider both costs and benefits of strategy selecting. Therefore, this study predicts that when facing an internal locus, there are significantly different levels of earnings forecast disclosures among managers. Managers with high reputation concerns would be more willing to disclose disappointing future earnings forecasts than those with low reputation concerns. In sum, this leads to the third hypothesis.

H3 When facing disappointing earnings, the difference in likelihood of issuing management earnings forecasts among managers with low and high reputation concerns is greater in the presence of an internal locus than in the presence of an external locus.

METHODOLOGY

Participants

Our participants were fifty graduate students in a business program. Their mean work experience was 6.33 years. They attended, on average, 6.90 accounting and finance courses and 0.84 business strategy course. Fifty percent of them had previously invested in individual common stocks and their mean investment experience was 1.30 years. Even though participants had different majors in a business program, there is no significant difference in years of work and investment experience across the program (p = 0.71 and 0.71, respectively). To ensure that participants understood the importance of management behavior and consequences of issuing management earnings forecasts to capital market, we tested participants' knowledge through post-experimental questions after completing the main task and debriefing questions. The knowledge test questions were modified from Wang and Tan (2013) to test that participants had sufficient knowledge to complete the required task. Participants were asked to indicate their assessments of the nine statements on an 11-point scale ranging from 0 (not at all) to 10 (extremely). If all the mean responses were significantly higher than the midpoint, it indicated that participants understood the importance of management behavior and consequences of issuing management earnings forecasts to capital market The results indicate that all the mean responses of nine questions are significantly above midpoint (p = 0.00). All graduate students had sufficient knowledge for the task, and they were appropriate to be used as participants in this study.

Design and Manipulation

Participants were assumed to be executive managers and given decision-making authority to disclose management earnings forecasts. They were randomly assigned to attribution locus condition (an internal or external locus). The attribution locus is relevant to the cause of future earnings disappointment. They received the explanations of management earnings forecast (either an internal or an external locus) that lower earnings forecast of the next year (THB 1.90), compared against previous year earnings figure (THB 2.10). They also received analysts' consensus earnings forecast (THB 2.10) as another earnings benchmark. In the presence of an internal locus condition, participants were informed that management earnings forecasts were considerably lower than earnings benchmark due to failure in the production plan. On the other hand, in the presence of an external locus condition, the lower earnings forecasts were attributed to the terrorist attack in Eurozone.

To ensure that participants realized to develop reputation, all of them were informed that the company's disclosure policy emphasized disclosures of accurate information, be it good or bad news, to establish the reputation based on accurate and credible reporting. Participants were categorized into high and low reputation concerns based on the mean cut-off from two post-experiment self-assessing perceived reputation questions with an 11-point Likert scale, where 0 denoted unconcerned and 10 extremely concerned relating positive (negative) affects to the management's reputation and reporting credibility when disclose (non-disclose) management earnings forecast. The Cronbach's alpha of two questions was 0.66 indicating acceptable reliability of the questions. The mean (median) score of participants' reputation concerns was 7.51 (8.00) with a range from 0 to 10. Participants who scored above (below) 7.51 were assigned to the high (low) levels of reputation concerns. Therefore, 22 (28) participants were categorized into the high (low) reputation concerns condition (participants were categorized in the same group either using mean or median cut).

However, previous research notes that compensations and other factors are always confounded in the real word (Bonner, 2008). People with monetary incentives adhere more to Bayes' Theorem than people without monetary incentives. Even though monetary incentives are related to the quality of judgment and decision making, there is a positive association only if the desired conclusion is correct (Bonner, 2008). Since monetary incentives are related to a desired conclusion, such incentives may adversely affect the quality of decision. To eliminate the confounding effect of monetary compensations on management disclosure decision, participants were informed that their compensations were based on fixed salary and bonuses that were tied to neither net income nor stock prices. Therefore, monetary compensations would not be affected by management earnings forecast disclosure decisions.

Experimental Procedures

At the beginning of the experiment, participants were informed of the purpose and a required task of this study before deciding whether to participate. Thereafter, participants were randomly assigned to treatment conditions. The first section of the case materials contained background information, treatment conditions, and the dependent variable response sheet. After reading the case materials, participants were instructed to indicate the likelihood of issuing earnings per share (EPS) for the next year (called "quantitative form") using an 11-point Likert scale ranging from 0 (not at all likely) to 10 (extremely likely). They were also asked to indicate the likelihood of issuing earnings potential (called "qualitative form") for the next year using an 11-point Likert scale ranging from 0 (not at all likely) to 10 (extremely likely). When participants finished the task in the first section, it was immediately collected.

The second section included a set of manipulation check questions and the post-experimental questions. Participants were required to complete all the questions in the second section. Then, they had to complete the last section which included demographic questions as well as a set of questionnaires for knowledge testing. After answering all the questions, participants returned all materials to researchers and received a Starbucks card valued 100 Baht (1 USD = THB 33) for their participation. Overall, it took 20–30 minutes for the required task.

RESULTS

Manipulation Checks

To assess the locus of attribution manipulation, we asked a question to verify whether the participants knew the difference between an internal locus and an external one. Eighty six percent of the participants correctly answered a locus manipulation question (chi-square = 25.92, p = 0.00). The results suggest that participants perceived the failure of production plan and the terrorist attack in Eurozone as an internal locus and an external locus, respectively.

Specifically, the participants were also asked to specify whether the given management earnings forecasts were above or below earnings benchmarks (i.e. previous quarter's earnings figure and analysts' consensus earnings forecasts). The results show that as many as 92 and 80 percent of the participants answered both questions correctly (p = 0.00). The results were similar if we excluded 7 participants who failed the manipulation check question. Therefore, we included all participants for the subsequent analyses. Overall, participants were aware that the company's forecasts missed the market expectation and the manipulation checks were successful.

Test of Hypotheses

Table 1 reports descriptive statistics, the two-way ANOVA results, and the contrast testing. The mean likelihood of issuing management earnings forecasts for managers with high reputation concerns is significantly higher than those with low reputation concerns (7.31 and 5.52, respectively, p = 0.03). Therefore, the results are consistent with H1 in that managers with high reputation concerns are more likely to disclose their unfavorable earnings forecasts than those with low reputation concerns.

H2 expects that when facing future earnings disappointment, managers are less likely to disclose management earnings forecasts in the presence of an internal locus than in the presence of an external locus. However, Table 1 shows that the mean responses of the likelihood of issuing management earnings forecasts in the presence of

Table 1 The likelihood of issuing management earnings forecasts

Dependent variable = the likelihood of issuing annual EPS forecasts[a]

Panel A: Descriptive Statistics – Mean (Standard Deviation) *N* = Sample Size

Reputation	Attribution locus		
	Internal	External	Total
Low	4.40 (3.47) *N* = 10	6.46 (3.00) *N* = 12	5.52 (3.31) *N* = 22
High	7.71 (1.73) *N* = 15	6.85 (3.43) *N* = 13	7.31 (2.64) *N* = 28
Total	6.39 (3.00) *N* = 25	6.66 (3.17) *N* = 25	6.52 (3.06) *N* = 50

Panel B: Two-way ANOVA

	Sum of squares	Df	Mean Square	*F*-statistics	*p*-value
Reputation	41.90	1	41.90	4.94	0.03**
Locus	4.34	1	4.34	0.51	0.48
Reputation × Locus	26.18	1	26.18	3.09	0.09*
Error	390.34	46	8.49		

Panel C: Contrast Tests

Sources	Mean difference	*t*-statistics	*p*-value[b]
The effect of reputation concerns given an internal locus Low vs. High	–3.31	–2.80	0.01*
The effect of reputation concerns given an external locus Low vs. High	–0.39	–0.30	0.38
One-way ANOVA: F = 2.66, *p*-value = 0.06*			

a The participants were asked to specify the likelihood of issuing annual EPS forecasts using an 11-point (0–10) Likert scale, where 0 and 10 respectively denote not at all likely and extremely likely. A total percentage of the likelihood is 100.

b One-tailed equivalent.

***, **, and * respectively denote the 1%, 5% and 10% significance levels.

an internal and external locus is not significantly different (6.39 and 6.66, respectively, $p = 0.48$). Even though previous research in psychology suggests that causal attribution plays a role in the aforementioned decisions (Gurevich et al., 2012), this study does not find that the process of causal thinking of decision makers would be biased by self-serving attribution given the cause of earnings failure in the forecast disclosure context. In short, the different loci does not deviate the willingness of decision makers to voluntarily disclose future earnings information.

H3 predicts that the difference in the likelihood of issuing management earnings forecasts among managers with low and high reputation concerns would be greater in the presence of an internal locus than in the presence of an external locus. In Table 1, the results of two-way ANOVA in Panel B show that the interactive effects of reputation concerns and locus of attributions are marginally significant ($p = 0.09$). Specifically, the mean likelihood of issuing management forecasts between managers with low and high reputation concerns in the presence of an internal locus is 4.40 and 7.71, respectively. The difference is statistically significant ($p = 0.01$, one-tailed) as shown in contrast tests of Panel C. However, mean responses of managers with low and high reputation concerns are insignificantly different in the presence of external locus condition (means = 6.46 and 6.85, respectively, $p = 0.38$, one-tailed). Hence, the results support H3, and Figure 1 shows the pattern of the results.

In addition, we performed the two-way ANOVA to investigate the effect of reputation concerns and locus of attributions on the likelihood of issuing management earnings forecasts in terms of a qualitative form. Participants were asked to indicate the likelihood of issuing earnings potential for the next year (no number specification) by using

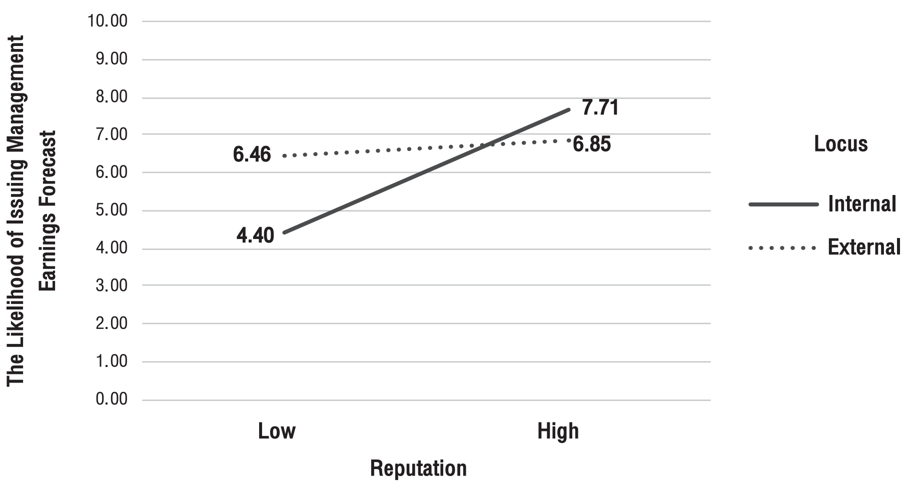

Figure 1: The interactive effect of reputation concerns and attribution locus on the likelihood of issuing management earnings forecasts

an 11-point Likert Scale (0–10) where 0 denotes not at all likely and 10 indicates extremely likely. The results (untabulated) indicate that the effect of reputation concerns and locus of attributions does not influence the participants' decision to disclose qualitative earnings forecasts on an annual basis ($F = 1.90$, $p = 0.14$). In sum, these results suggest that the reputation concerns and locus of attributions impact management's willingness to issue their earnings forecasts to the public only in a quantitative forecast.

Additional Analysis

Previous literature suggests that managers have self-concerns or owner-related incentives to meet market expectations (Aboody & Kasznik, 2000; Kothari et al., 2009; Nagar et al., 2003). With respect to misplaced concerns, this study further asked the participants two questions related to the concerns over market expectations on their disclosure decisions using an 11-point Likert scale ranging from 0 (not at all concerned) to 10 (extremely concerned). We used the average assessment of each two questions related to market expectations. The Cronbach's alpha is 0.93, above accepted reliability (Cortina, 1993), suggesting the same construct.

We conducted the ANCOVA test with reputation concerns and attribution locus as the independent variables, the market expectation concerns as a covariate, and the likelihood of issuing management earnings forecasts as the dependent variable. The ANCOVA results in Table 2 show that the main effect of reputation concerns

Table 2 The likelihood of issuing management earnings forecasts

Dependent variable = the likelihood of issuing annual EPS forecasts[a]

Panel A: Two-way ANCOVA – Market expectation = a covariate[b]

	Sum of squares	**Df**	**Mean Square**	***F*-statistics**	***p*-value**
Reputation	67.07	1	67.07	8.39	0.01**
Attribution	3.12	1	3.12	0.39	0.54
Reputation × Attribution	28.94	1	28.94	3.62	0.06*
Market expectation (covariate)[e]	30.57	1	30.57	3.82	0.06*
Error	359.77	45	8.00		

a The participants were asked to specify the likelihood of issuing annual EPS forecasts using an 11-point (0–10) Likert scale, where 0 and 10 respectively denote not at all likely and extremely likely. A total percentage of the likelihood is 100.

b The participants were asked two questions to indicate the levels of their concerns over market expectations when making management earnings forecast disclosure decision using an 11-point Likert scale ranging from 0 (not at all concerned) to 10 (extremely concerned). A total percentage of concerns is 100.

***, **, and * respectively denote the 1%, 5% and 10% significance levels.

and the joint effects of reputation concerns and attribution locus remain significance ($p = 0.01$ and 0.06). In addition, the results indicate that the market expectation concerns are related to the likelihood of management earnings forecasts ($p = 0.06$). After controlling the market expectation concerns, the main results are more robust.

CONCLUSION AND LIMITATION

The purpose of this study is to investigate whether and how concerns over reputations and an attribution locus affect management's willingness to voluntarily reveal their earnings forecasts. The levels of reputation concerns were classified into low and high by the mean self-assessment score, and an attribution locus included an internal locus and an external locus. In an experiment, graduate students in a business program as participants were assumed to be executive managers. They had to decide whether to disclose annual management earnings forecasts for the next period. Participants were asked about the likelihood of issuing earnings forecasts using an 11-point Likert scale instrument under the future earnings disappointment circumstance.

Regarding future earnings failure, the findings suggest that the levels of reputation concerns significantly impact management's willingness to issue annual EPS forecasts. Managers with high reputation concerns will be more willing to issue their future earning information than those with low reputation concerns. However, we do not find the effect of an attribution locus on the likelihood of issuing management earnings forecasts. With regard to the interactive effect of reputation concerns and locus of attributions, the results suggest that managers with high reputation concerns will be more likely to disclose their earnings forecasts both in the presence of an internal and an external locus condition. On the other hand, managers with low reputation concern are more willing to disclose management forecasts when facing an external locus, but they tend to withhold future earnings failure when an internal locus is the cause of unfavorable outcomes. Therefore, the difference in the likelihood of issuing annual EPS forecasts among managers with high and low reputation concerns is greater in the presence of an internal locus. However, there is no effect of reputation concerns and locus of attributions on the willingness of issuing management earnings forecasts in a qualitative form. In addition, after controlling for the effect of market expectation concerns over management's disclosure decision, the results are more robust.

The limitations of this study should be noted. The results of this study are limited to the short-term forecast disclosure decision (a quarterly basis) since this study focuses on the impact of reputation concerns and locus of attributions on the long-term earnings forecast disclosure decision (an annual basis). Secondly, this study does not investigate other strategic forecasts that could impact the likelihood of issuing management earnings forecasts that have been documented in the past studies (Wang & Tan, 2013). Despite these limitations, we believe that our analyses uniquely inform future research on the impact of reputation concerns and locus of attributions on the likelihood of issuing management earnings forecasts.

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