

**EVIDENCES ON DETERMINANTS AND
EFFECTS OF ACCOUNTING AND
MANAGERIAL CHOICES IN M&A**

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INTRODUCTION

Faulkner et al. (2012) state that over the last century the significance of M&A deals has dramatically increased, whether measured in terms of numbers, value of deals conducted, financial capital and players involved. Despite the magnitude of the phenomenon (Barkema and Schijven, 2008) and decades of studies in different academic fields, the underlying dynamics of M&A deals nowadays are still not completely unveiled (King et al., 2004). Haleblan et al. (2009) in their literature review on M&A argue that one of the main motivation could be the lack of theoretical integration between findings coming from diverse areas of research.

The aim of my research is to contribute to M&A literature, by providing evidences on the determinants and effects of accounting and managerial choices in M&A.

The research is composed of two main parts and follows a longitudinal path, as the M&A process can be conceptualized in three broad phases subsequent one each other: (i) pre-acquisition, (ii) acquisition and (iii) post-acquisition (Mickelson and Worley, 2003), in the first part of my research I focus on issues related to the pre-acquisition phase while in the second part I focus on issues related to the post-acquisition phase.

In particular, in the first part of my research I study whether the level of the involvement of family members in a family firm is associated with the choice of the buyer in M&A deals and whether the Social Emotional Wealth is useful in explaining this choice. I base my study on the idea that family firms are more willing to choose a buyer that attenuates the feeling of detachment for family members and ensure growth to the firm. Consequently, I expect that family firms choose

Financial Buyers or Strategic Buyers in relation to the level of family involvement. I consider the level of involvement of family members in the firm in relation to three dimensions: (i) family's share ownership, (ii) family's presence in the board, and (iii) the presence of a family CEO. Empirical evidences show that family involvement in the firm affects the target choice of the buyer, and in particular when the buyer is not a previous minority shareholder.

In the second part of my research I investigate on manager accounting choices, in particular on managers accounting choices on acquired assets during M&A, and more specifically on brand. This second part is composed of two different studies.

In the first study, I investigate on managers accounting choices in the traditional way researches have investigated till now on accounting choices. That is, I study if brand measurement accounting choices are driven by motivations as (i) agency costs, (ii) earnings smoothing, as previous studies make accounting choices consistent with the idea of earnings management, (iii) and information asymmetries. I find that leverage as proxy for agency costs, change in ROA as proxy for earnings smoothing and market to book ratio as proxy for information asymmetries are associated with a particular managers' accounting choices.

The second study is based on the idea of Christensen and Nikolaev (2013) that accounting choices have a different nature respect to earnings management. Accounting choices require an ex-ante commitment while earnings management is the result of managers' continuous choices. In this study, I investigate whether managers use accounting choices to meet or beat analysts' forecasts. Then, I intend to study the association between accounting choices and the adoption of accrual earnings management as both can be considered different tools available to managers to meet or beat analysts' forecasts and if

disclosure plays a role. Finally, I focus on whether analysts' forecast properties are associated with managers' jointly use of accounting choices and accrual earnings management. Empirical evidences show that both tools affect the probability to meet or beat analysts forecast and that disclosure plays a role, while the hypothesis on analysts forecast properties is not supported.

Although the two parts of the research are linked by a unique *file rouge*, that is to investigate on the determinants and effects of accounting and managerial choices in M&A, the three studies will be address as separate papers. Then, the research proceeds as follows. In chapter 1 I investigate on the following research question: "*To whom does the family sell the firm? The determinants of the choice of the buyer in M&A deals*"; in chapter 2 I analyze the following research question: "*Contracting, information asymmetry and earnings smoothing. Which determinant influences accounting choices on brand? Evidence from the adoption of IAS38 for brand measurement*"; chapter 3 examines the following research question: "*Are accounting choices a way to meet or beat analysts' forecasts alternative to earnings management? Evidence from the adoption of IAS38 for brand measurement*".

CHAPTER I

To whom does the family sell the firm?

The determinants of the choice of the buyer in M&A deals

1. Introduction

Socio-emotional wealth (SEW) is a key guide for family members. The attachment to the firm, the desire to safeguard family interests, the perpetuation of family dynasty, the opportunity for family members to exercise authority and control over the business determine managerial decisions and choices in family firms (Gómez-Mejía et al., 2007). In this paper, I study whether the level of involvement of family members in the firm, in relation to three dimensions: (i) family's share ownership, (ii) family's presence in the board, and (iii) the presence of a family CEO, is associated with the choice of the buyer in M&A deals and whether the SEW is useful in explaining this choice.

M&A literature classifies buyers in financial (e.g. private equity or venture capital) and strategic. Financial (hereafter FnB) and strategic buyers (hereafter StB) have different impacts on future prospect of the firm (Fidrmuc et al., 2012). Therefore, the choice of the family to whom to sell the firm and/or the choice of the partner is of the most importance. Mickelson and Worley (2003) sustain that for family members selling the family business means selling out the family, and that the drivers of this choice are less rational and more emotional. Le Breton-Miller et al. (2011) show that family firms tend to prefer choices pursuing SEW (placing the family before the business), when they are characterized by a high level of family members involvement in the firm. I base my study on the idea that family firms are more

willing to choose a partner that attenuates the feeling of detachment for family members and ensure growth to the firm. Consequently, I expect that family firms choose FnBs or StBs in relation to family members involvement in the firm.

I conduct my analysis investigating on a sample of 436 M&A deals from 2006 to 2016 in United States where the target is a listed firm and decides to sell its majority stake. Empirical evidences confirm that all the three levels of family members involvement in the firm have an impact on the firm choice of the buyer, and in particular when the buyer is not a previous minority shareholder.

This study contributes to diverse strands of family firms literature. First of all I contribute to family firms literature by shedding new light on whether and how family members involvement in the firm influences family firms strategic decisions and if SEW plays a role. The study in analyzing the issue provides an in depth analysis of all the level of family members involvement in the firm, considering both firm ownership and governance. I add also to family firms literature in case of M&A operations and in particular from the target point of view. Previous studies mainly focus on family firms from the buyer prospective (Ben-Amar and André, 2006 Bauguess and Stegemoller, 2008; Basu et al., 2009; Miller et al., 2010). Moreover, I contribute to the scant family firms literature investigating on family firms process to sell its majority stake (Klasa, 2007). Finally, I contribute to the recent and still underexplored stream of literature investigating on financial buyer (Wood and Wright, 2009) and in particular on the relationship between family firms and financial buyers when the target firm sells its majority stake literature, the only existing study on family firms and financial buyer considers the case of minority investments (Tappeiner et al., 2012).

The paper proceeds as follows. In section 1 I review prior literature

and develop my hypotheses; section 3 describes the methodology; in section 4 results are reported and discussed; section 5 concludes.

2. Background and hypothesis development

The choice to sell the firm to a FnB rather than a StB is an important decision because it significantly affects future prospect of the firm (Fidrmuc et al., 2012). FnBs usually hold businesses in their portfolio for a limited period of time, that lasts a maximum of ten - twelve years (Katz, 2009; Dittmar et al., 2012). Their aim is to improve the stand-alone value of the target firm (Dittmar et al., 2012) managing investments independently from one to another (Landau and Bock, 2013). FnBs usually provide managerial competences (Astrachan and McConaughy, 2001; Block et al., 2011), increase the competitive position of the target firm (Barney et al., 2001), even though they assist firms mostly in terms of financial resources (Wood and Wright, 2009). With FnBs, incumbent managers tend to remain in place and family members continue to be involved in the business (Scholes et al., 2010). In this case firm's identity and ethos preservation is highly likely.

StBs usually are firms in the same or in related industries. StBs can add value to the target firm through their operational know how, their reputation in the industry and their relationships with customers and suppliers (Hennart, 1988; Kogut, 1988; Gulati, 1988). Target firms can also benefit of synergies (Fidrmuc et al., 2012). However, business integration might be a mixed blessing, since both the StB and the target firm might exert a significant influence each other, and each firm might lose its unique ethos and culture.

Following to the resource-based view framework (Barney, 1991; Grant, 1991), firms tend to prefer a buyer able to provide the resources needed. On the one side, StBs usually provide operational

know how, their reputation in the industry and their relationship with customers and suppliers. Family firms generally have these resources that are the sources of competitive advantage (Cabrera-Suárez et al., 2001). On the other side, FnBs support firms mostly in terms of financial resources. Financial resources are strategic, because family firms rely predominantly on internally generated funds (Poutziouris, 2001; Romano et al., 2001) and it could lead to growth constraints. External financing might be a precious (or necessary) resource not only for sustaining growth opportunities but also to make possible a turnaround if in a distressed status.

However, in the case of family firms selling a majority stake the choice of the buyer might go beyond the simple providing of resources. Motivations behind the family firm choice of selling a majority stake are multiples and involve both firm and family issues (Klasa, 2007). Extant literature shows that in family firms SEW plays a key role (i) in determining capital structure as family firms prefer to use internal available funds in order to avoid external meddling on firm decisions (Romano et al., 2001) (ii) in managerial choices as family firms are less likely engaged in corporate diversification because it poses a hazard for the family (Gómez-Mejía et al., 2010); (iii) in succession choices as family firms appoint family members even if better candidates exist in the labor market (Bertrand and Schoar, 2006). Then, family firms might prefer maintaining or increasing SEW, which is considered more important than other types of wealth (Gómez-Mejía et al., 2007; Gómez-Mejía et al., 2011) and be more willing to choose a buyer that continues to keep alive those distinctive resources and capabilities to satisfy family needs in accordance to SEW. Following Villalonga and Amit (2006), the level of involvement of a family in the firm should be considered in relation to three dimensions: family share ownership, family's presence in the

board, and the presence of a family CEO.

Family owners in case of the selling of a minority stake should be quite indifferent between a StB or a FnB. In both cases, the family is able to maintain its predominant position inside the firm. On the one side, when a family firm sells a minority stakes to a FnB, family owners continue to maintain the control of the company even if the FnB might bring financial resources, financial skills and “relational capital” with financial market participants. On the other side, when a family firm sells a minority stakes to a StB, family owners continue to maintain the control of the company even if the StB might bring into the firm industry knowledge, and “relational capital” with suppliers and clients. Then, according to the resource based view the choice of a StB instead of a FnB should depends mainly on the type of resources that the firm needs.

However, in case of the selling of a majority stake, the motivations behind the choice of the buyer might be not only driven by the resources that a buyer can bring inside the firm but also by the family pursuit of the SEW. Extant literature shows that family founder owners prefer to guarantee as much as possible firm’ operating continuity in the long-term, to keep alive the family “baby” (Howorth, 2001). Gómez-Mejía et al. (2007) show that when family firms are in later generations, the losses in SEW weight less heavily on a family firm’s willingness to give up control while financial considerations move to the forefront. However, later generations, even though less emotionally attached, share the same family pride and legacy of first generations (Le Breton-Miller et al., 2011) because the founder has transmitted the value to ensure firm longevity (Casson, 1999). Then, also later generations might look for an exit strategy guaranteeing as much as possible the operating continuity in the long-term.

With FnB firm's identity and ethos preservation is more likely to occur but the firm will be subject to other M&A as FnBs generally keep firms in their portfolio for a maximum of ten-twelve years, thus making the future of the firm less clear and more uncertain. StB instead could guarantee this continuity more than FnB. Then, on the basis of these theoretical arguments I state my first hypothesis:

Hypothesis 1: in the case of the selling of a majority stake the choice of a FnB (StB) is less (more) likely when the family ownership is high.

When the family holds a dominant ownership position with voting rights, family owners can effectively determine the composition of a board that actively supports family (not only firm) aims or, at least, that does not interfere with them (Gómez-Mejía et al. 2011). In this situation, the family has the possibility to impose its own family goals and strategies and making the pursuit of SEW more feasible (Miller et al., 2013). Le Breton-Miller et al. (2011) and Miller et al. (2013) argue that SEW become one of the core aims of the firm as the number of family directors and officers increase. This alignment should even increase in presence of a family Chairman.

However, family executives might have difficult time sharing power and control (Mickelson and Worley, 2003), as they value control of the business above all, because they have spent their lives achieving that status (Casson, 1999). FnBs do not have specific industry knowledge, their lack of experience and skills in the business might make more likely that family executives remain inside the firm (Howorth et al. 2004). Then, I expect that in the case of selling a majority stake the choice of the buyer is associated with the level of presence of family members in the board and the presence of a family Chairman, but a priori if the choice is versus a FnB or a StB is not

definite. On the basis of these theoretical arguments I state my second and third hypothesis:

Hypothesis 2: in the case of the selling of a majority stake the choice of a FnB (StB) is associated with the level of presence of family members in the board.

Hypothesis 3: in the case of the selling of a majority stake the choice of a FnB (StB) is associated with presence of a family Chairman in the board.

Graham et al. (2015) and Jenter and Lewellen (2015) find that CEOs are the most influential actors in M&A deals as the CEO leads the firms up to the bid, seeking out a buyer and initiating talks, till the final steps of the negotiation process. The appointment of a family CEO helps family firms to pursue family goals (Gómez-Mejía et al., 2007; Miller et al., 2013). Then, family CEOs should be aligned with family aims (Villalonga and Amit, 2006). Conversely, non-family (professional) CEOs that are not emotionally attached to the firm might take decisions that are not aligned with the interests of the family, leading to a principal-agent conflict (Gómez-Mejía et al., 2003).

However, the appointment of a family CEO might not exclude a principal-agent conflict. The personal aims of the family CEO could not be aligned with the family, making not so obvious the full realization of family aims through the firm. Founder and descendent family CEO for different motivations might prefer FnB, as the probability to remain inside the firm could be higher. Miller et al. (2011) provide evidences that founder CEOs value control of the business above all else. Pinheiro and Yung (2015) provide evidences that descendent family CEOs consider the family firm a sort of safe heaven to remain in, because they know few about their own quality

and might fear to enter in the labor market. Contrary to non-family (professional) CEOs who do not fear to enter in the labor market because they have already tested their potentialities. Then, I expect that in the case of selling a majority stake the choice of the buyer is associated with the presence of family CEO, but a priori if the choice is versus a FnB or a StB is not definite. On the basis of these theoretical and empirical arguments I state my last hypothesis:

Hypothesis 4: in the case of the selling of a majority stake the choice of a FnB (StB) is associated with presence of a family CEO.

[Insert Figure 1 about here]

3. Methodology

3.1 Sample and data

The initial sample, extracted by Zephyr Bureau van Dijk database, consists of 3.038 M&A deals from 01/01/2006 to 31/12/2016 in United States having the following characteristics: (i) target and vendor firms are domiciled in US, (ii) target firm is a company, an individual or a family firm. Buyer is a company, an individual, a family firm or a fund, (iii) target firm is listed, (iv) considered deal type: merger, acquisition, institutional buy-out, capital increase, management buy-in, management buy-out, MBI/MBO, (v) buyer final stake is a majority stake (>50%).

Then, I set some constraints: (i) target firms are not financial firms ($59 < \text{SICcode} \leq 67$ dropped), 2.332 deals remain, (ii) target firms adopt U.S. GAAP the year when the deal is announced and the year before, 1.881 deals remain. Subsequently, I drop those observations where the variables of my interest have missing values, the final sample consists of 513 deals. However, in the multivariate analysis

the sample is reduced to 436 deals as in some sectors there is not sufficient variability in the dependent variable.

[Insert Table 1 about here]

3.2 Variable measurement

Dependent Variable

The target choice to sell to a FnB rather than to a StB is measured with a dummy variable that equals 1 if the target chooses a FnB, and 0 otherwise (*FnB*). The type of the buyer is defined according to the deal type classification provided by Zephyr Bureau van Dijk database (*Appendix A*), then when the deal is classified as an Institutional Buy-Out the dummy variable assumes value equal to 1.

Independent Variables

(i) Family variables

Family ownership is measured as in Wagner et al. “*The Life Cycle of Family Ownership: International Evidence*” (*Appendix B*), which considers the total amount of share held by family members (*Family_Ownership*). Ownership data are taken from Orbis Bureau van Dijk database. The presence of family members in the board is measured as the number of family members sitting in the board over the total number of board components (Anderson and Reeb, 2003) (*Family_Boardperc*). The presence of a Family Chairman is measured with a dummy variable that equals 1 if the Chairman is a family member, and 0 otherwise (*Family_Chairman*). The presence of a family CEO is measured with a dummy variable that takes value of 1 if the CEO is a family member, and 0 otherwise (*Family_CEO*). Members of the board, Chairman and CEO data are taken from company annual report and hand-collected at the date of the last fiscal

year ending before the announcement date of the deal (Gómez-Mejía et al., 2015). To identify family board members, family Chairman and family CEO I applies a triangulation method searching on the following sources: (i) firm annual report (ii) firm web site (iii) web search on Bloomberg Executive Profile & Biography and LinkedIn.

(ii) Stake variable

The stake variable is a variable that considers the initial stake of the buyer in the target firm before the deal announcement. The initial stake can be nothing or a minority stake. To differentiate between the two initial kind of stakes is fundamental. When the buyer already owns a minority stake I don't know if it is a minority stake that already conferred control over the target. Then, the choice of the target that bring the buyer from a minority to a majority stake is less explanatory and pure respect to the choice of the target that bring the buyer from nothing to a majority stake. The stake variable is measured with a dummy variable that equals 1 if the buyer initial stake is zero, and 0 otherwise (*notTOMaj*).

(iii) Resource base view variables

In Barney (1991; 1997), Grant (1991) and following studies (Ketchen, 2005; Kraaijennbrink et al., 2010; Lockett et al., 2009) on resource based view theory firm resources are generally divided in four different categories: (i) physical (ii) financial (iii) organizational and (iv) human. To identify firm resources is a problematic task (Lockett et al. 2009), past researches are mainly theoretical or based on interview data (Newbert, 2007). However, previous studies provide some useful hints on how operationalize firm resources. To operationalize firm's need for physical resources, I use firm level of tangible assets measured as net plant, property and equipment to total

assets end of year t (*TangAsset*). Maksimovic and Phillips (2001) show that behind merger and acquisition operations there is a large and active market for corporate assets such as individual plants and divisions. To account for firm's need of financial resources, I consider the Altman Z-Score (*ZScore*). Following Altman (1968, 1983) and subsequent studies (Iyer and Miller, 2008; Wennberg et al., 2010) Altman Z-Score is measured as: $ZScore = A*3.3 + B*.99 + C*.6 + D*1.2 + E*1.4$ where: A = EBIT over total asset – it measures productivity of firm assets; B = net sales over total assets – it measures the sales-generating ability of firm assets; C = book value of equity over total liabilities – it measures potential for insolvency; D = working capital over total assets – it measures net liquid assets relative to total capitalization; E = retained earnings over total assets – it measures amount of reinvested earnings and or losses in the firm. All data are considered end of year t . To operationalize firm's need for organizational resources, I consider the firm size of the board, as board of directors play a central role in the governance of firms. Board size is measured as the total number of board components (*BoardSize*). To account for firm's need for human resources, I consider firm know-how related measure as R&D intensity (Montgomery and Hariharan, 1991; Nakamura et al., 1996). I use the R&D expense over net sales, end of year t , to indicate R&D intensity (Ciftci et al., 2011). The benchmark R&D intensity of the industry is the average R&D expenses to net sales ratio of all firms in the industry group. For the industry groups, I use the forty-eight industries in Fama and French (1997). I use the industry average to minimize the influence of small firms spending a large proportion of their revenues on R&D and skewing the classification. Then, R&D intensity is a dummy variable that takes value of 1 if firm's R&D intensity is greater than the benchmark R&D intensity for the industry is

classified, and 0 otherwise (*RDIntensity*). All data are considered at the date of the last fiscal year ending before the deal announcement date.

Finally, I also include the target date of incorporation, elevated by two as the firm life cycle has concave shape (*Age*). As firms evolve with age, they might require resources to renew capabilities or build new competencies, whereas other established firms might have fewer resource demands (George, 2005), thus creating possible differences in the buyer choice.

Controls

Following prior literature, I include control variables to take into account target characteristics that could affect the buyer choice (Fidrmuc et al., 2012). I control for firm size, measured as firm total assets end of year t (Bauer, 2006) (*TotAsset*). For the change in revenues between year t and t-1, as a proxy for growth (*Growth*). For firm profitability, measured as net income over total assets both end of year t (*ROA*). I also account for deal characteristics, in particular deal value (*DealValue*), as FnBs might have higher financial resources to employ respect to StBs. As the study considers governance issues I also control for CEO duality, this is a dummy variable that equals 1 if firm Chairman and CEO is the same person, and 0 otherwise (*DualityCEO*). Finally, I consider year and industry fixed effects to account for temporal and industry variations.

[Insert Table 2 about here]

To account for possible outliers all variables are winsorized at 0.005.

3.3 Research model

In order to test my hypotheses on whether the family ownership influences the choice of the buyer, I use a logit model, with robust standard errors and year and industry fixed effects:

Equation 1- FnB

$$FnB = \beta_0 + \beta_1 Family_ownership + \beta_2 notTOMaj + \beta_3 Int_own_notTOMaj + \sum_j \beta_j control_j + \varepsilon$$

where all variables have already been defined. According to my hypotheses, I expect (Hypothesis 1) a negative and significant coefficient on β_1 – family owners try to guarantee to their family firm a stable continuity, and this is more likely with StB; a negative and significant coefficient on β_3 – the interaction represents the strongest choice for family owners as in one single deal they sell their majority stake. Because in this case family owners do not have any possibility to know before the buyer as in the case the buyer was a minority owner, they should do the safest choice to guarantee firm long-term continuity, then they should choice StB.

In order to test my hypotheses on whether the family members presence in the board and presence of a family Chairman influence the choice of the buyer, I use a logit model, with robust standard errors and year and industry fixed effects:

Equation 2- FnB

$$\begin{aligned}
 FnB = & \beta_0 + \beta_1 Family_ownership + \beta_2 Family_Boardperc \\
 & + \beta_3 Family_Chairman + \beta_4 notTOMaj \\
 & + \beta_5 Int_chair_boardper \\
 & + \beta_6 Int_own_notTOMaj \\
 & + \beta_7 Int_board_notTOMaj \\
 & + \beta_8 Int_chair_notTOMaj + \sum_j \beta_j control_j + \varepsilon
 \end{aligned}$$

where all variables have already been defined. According to my hypotheses, I expect (Hypothesis 2 and 3) a significant coefficient on β_2 , β_3 , β_7 and β_8 – then, if family members and family Chairman actively support family aims the coefficient will be negative as they prefer a StB, if they care more remaining in the family firm the coefficient will be positive. With FnB the probability to remain inside the firm are higher as they might have low specific firm knowledge. Finally, in order to test my hypotheses on whether the presence of a family CEO influences the choice of the buyer, I use a logit model, with robust standard errors and year and industry fixed effects:

Equation 3- FnB

$$\begin{aligned}
 FnB = & \beta_0 + \beta_1 Family_ownership + \beta_2 Family_CEO \\
 & + \beta_3 notTOMaj + \beta_4 Int_own_notTOMaj \\
 & + \beta_5 Int_CEO_notTOMaj + \sum_j \beta_j control_j + \varepsilon
 \end{aligned}$$

where all variables have already been defined. According to my hypotheses, I expect (Hypothesis 4) a significant coefficient on β_2 and β_5 – then, if family CEO supports family aims the coefficient will be negative then preferring a StB, if he cares more remaining in the family firm because value more control or because as in the case of

descendent CEO is afraid of the labor market the coefficient will be positive, then preferring a FnB.

4. Empirical analyses

4.1 Descriptive statistics and correlations

Table 3 presents the descriptive statistics of the main variables used in the analysis. The mean of *FnB* is 0.136, indicating that less than 14% of deals are done by financial buyer. The mean of *Family_Ownership* is 0.010 in the entire sample, among family firms only is 0.420. The mean of *Family_Boardperc* is 0.056, while the mean for *Family_Chair* and *Family_CEO* is respectively 0.226 and 0.173.

[Insert Table 3 about here]

Table 4 shows correlation coefficients among variables. *FnB* is negatively correlated with *Family_Ownership*, suggesting that firms with a family ownership less likely will be sold to FnB. *FnB* is positively correlated with *Family_Boardperc*, *Family_Chairman* and *Family_CEO*, suggesting that family executives do not support family owners aims to choose StB to guarantee firm long-term continuity but prefer FnB as with them the probability to remain inside the firm after the acquisition is higher. However, these are only univariate descriptive statistics that do not allow for efficiently describe or measure the strength of relationships between variables.

[Insert Table 4 about here]

4.2 Multivariate analyses

Table 5 reports results for *Equation (1)* estimated through Logit models. Column (1) reports estimates for the base model, where SEW

does not play any role and only Resource Base View and the kind of stake acquired are considered. Column (2) reports estimates when family members are involved in firm ownership (*Family_Ownership*), without any kind of interactions. Column (3) reports estimates for the full model with the interaction (*Int_own_notTOMaj*) between Family Ownership and Nothing to Majority acquisition.

In all model specification results show that Resource Base View plays a role in the target choice of the buyer, in particular financial and human resources. The negative and statistical significant coefficient of the Zeta Score (*Zscore*) indicates that firms in a distressed status prefer FnB. FnB indeed generally provide financial resources. The negative and statistical significant coefficient of firm Research & Development Intensity (*RDIntensity*) indicates that target firms with more intangible resources and know-how prefer StB. FnB are generally not interested in this kind of resources and target firms might think that a StB can better further develop these resources. I find also that the type of the stake bought affects the target choice. The negative and statistical significant coefficient of a Nothing to Majority stake acquisition (*notTOMaj*) indicates that rarely target firm sells from nothing the majority stake to a FnB. Generally, FnBs start entering in firm ownership first with a minority stake. Models in Column (2) and in Column (3) show a negative and significant association between *Family_Ownership* and *FnB* (Column (2): *Family_Ownership* = 8.149 p-value = 0.027; Column (3): *Family_Ownership* = 19.361 p-value = 0.000), indicating as assumed in my hypothesis that family owners consider StB a sort of guarantee for firm long-term operating continuity and stability. Column (3) shows also a positive and statistical significant coefficient of the interaction between Family Ownership and Nothing to Majority acquisition (*Int_own_notTOMaj*) but the full effect of Family

Ownership with and without interaction remains negative indicating a Family Ownership “aversion” to FnB.

[Insert Table 5 about here]

Table 6 Panel A and Panel B report results for *Equation (2)* estimated through Logit models. Panel A reports results when the level of involvement of family members is considered only at the board level analyzing the level of the presence of family members in the board (*Family_Boardperc*) and the presence of a family Chairman (*Family_Chairman*), Panel B considers family involvement both at the board and ownership level. Results for the family involvement in the firm governance are consistent between Panel A and Panel B, then I focus on Panel B, which provides a more complete analysis of family involvement. Panel B in all model specification shows that the presence of family members in the board (*Family_Boardperc*) is not associated with the target choice of the buyer. However, in Column (4) and Column (6) when interacted with a Nothing to Majority acquisition (*Int_board_notTOmaj*) and in Column (2) and Column (6) when interacted with the presence of a family Chairman (*Int_chair_boardperc*) it shows estimates close to the significant level. Then, even if empirical results show that this relation is unlikely, I cannot completely rule out the possibility that the statistically not significant results can be explained by the low power of my statistical analyses. Regression models in Column (3) and in Column (6) show that the base effect of the presence of a Family Chairman (*Family_Chairman*) is positive and statistically significant and that interaction effect between the presence of a Family Chairman and a Nothing to Majority acquisition (*Int_chair_notTOmaj*) is negative and statistically significant (Column (3): *Int_chair_notTOmaj* = -11.886 p-

value = 0.000; Column (6): *Int_chair_notTOmaj* = -13.194 p-value = 0.000). These estimates indicate that the presence of a Family Chairman is negatively associated with the probability of the target choosing a FnB when firms sell in one deal their majority stake. Mining that Family Chairman supports family owners to reach their aims.

[Insert Table 6 Panel A and Panel B about here]

Finally, Table 7 reports results for *Equation (3)* estimated through Logit models. Regression models in Column (2), in Column (4) and in Column (6) show that the base effect of the presence of a Family CEO (*Family_CEO*) is positive and statistically significant and that interaction effect between the presence of a Family CEO and a Nothing to Majority acquisition (*Int_CEO_notTOmaj*) is negative and statistically significant (Column (2): *Int_CEO_notTOmaj* = -12.206 p-value = 0.000; Column (4): *Int_CEO_notTOmaj* = -12.011 p-value = 0.000; Column (6): *Int_CEO_notTOmaj* = -13.635 p-value = 0.000). These results indicate that the presence of a Family CEO is negatively associated with the probability of the target choosing a FnB when firms sell in one deal their majority stake. Mining that Family CEO as Family Chairman puts aside his personal interests to remain inside the firm and supports family owners' aims to sell to StBs.

[Insert Table 7 about here]

5. Conclusion and contribution

This study investigates whether the level of involvement of family members in the firm is associated with the choice of the buyer in M&A deals and whether SEW plays a role in this choice. I contend

and provide empirical evidences that family ownership, family members presence in the board, the presence of a family Chairman and the presence of a family CEO have an impact on this choice, particularly when the buyer is not a previous minority shareholder.

My study contributes to family firms literature shedding new lights on how SEW influences strategic choices in family firms. In particular, I add to the literature investigating on family firms' behavior in M&A operations. While previous literature mainly analyzes cases in which the family firms is the buyer (Ben-Amar and André, 2006 Bauguess and Stegemoller, 2008; Basu et al., 2009; Miller et al., 2010) I focus on when the family firm is the target. Moreover, I contribute to the scant literature analyzing the process behind the selling of the firm majority stake (Klasa, 2007). Finally, I contribute to the recent (Tappeiner et al., 2012) and underexplored literature on the relationship between family firms and financial buyers.

The study might also call for future research on family firms performance after financial buyers acquisition with respect to family firms who have sold their majority to strategic buyers.

Figure 1: *Conceptual model of the study*

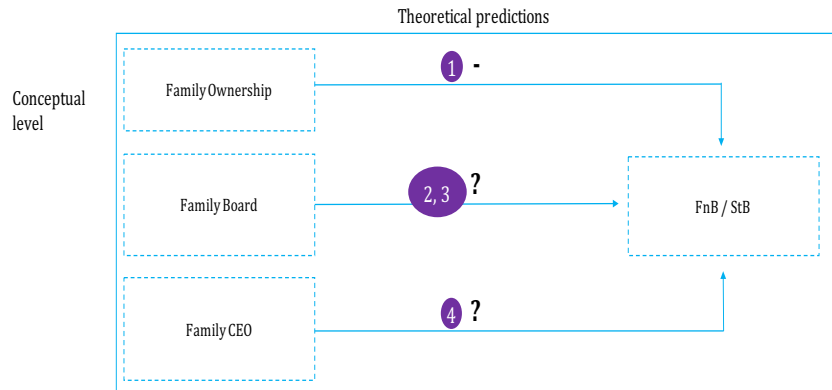


Table 1. Sample

INITIAL SAMPLE	3.038
SIC code 59<sic<=67)	2.332
Adopting U.S. GAAP	1.881
Missing values in variables of interest	513
FINAL SAMPLE	513

Table 2. Variables

VARIABLES		DESCRIPTION	SOURCE
Dependent:			
Financial Buyer	<i>FnB</i>	Dummy variable that equals 1 if the target chooses a financial buyer, and 0 otherwise	Zephyr
Independent:			
Family Ownership	<i>Family_Ownership</i>	Total amount of share held by family members	Orbis
Family members presence in the board	<i>Family_Boardperc</i>	Number of family members in the board over the total number of board components	Hand-collected from annual report
Family Chairman	<i>Family_Chairman</i>	Dummy variable that equals 1 if the Chairman is a family member, and 0 otherwise	Hand-collected from annual report
Family CEO	<i>Family_CEO</i>	Dummy variable that equals 1 if the CEO is a family member, and 0 otherwise	Hand-collected from annual report
Type of acquired stake	<i>notTOMaj</i>	Dummy variable that equals 1 if the buyer initial stake is 0, and 0 otherwise	Zephyr
Tangible Asset	<i>TangAsset</i>	Net plant, property and equipment to total assets both end of year t	Datastream
Altman Z-Score	<i>Zscore</i>	$ZScore = A*3.3 + B*.99 + C*.6 + D*1.2 + (E*1.4*)-1$ where: A = EBIT over total asset; B = net sales over total assets; C = book value of equity over total liabilities; D = working capital over total assets; E = retained earnings over total assets. All data are at end of year t.	Datastream
Board size	<i>BoardSize</i>	Total number of board components	Hand-collected from annual report
R&D Intensity	<i>RDIntensity</i>	Dummy variable that takes value of 1 if firm's R&D intensity (R&D expenses over net sales) is greater than the benchmark R&D intensity for the industry is classified according to Fama-French industry classification	Datastream

Firm Age	<i>Age</i>	Firm date of incorporation, elevated by two	Orbis
Control:			
Firm growth	<i>Growth</i>	Percentage change in revenues between year t and t-1	Datastream
Firm performance	<i>ROA</i>	Net income over total assets end-of-year t	Datastream
Firm size	<i>TotAsset</i>	Firm total assets end-of-year t	Datastream
Deal Value	<i>DealValue</i>	Deal value	Datastream
CEO duality	<i>DualityCEO</i>	Dummy variable that equals 1 if firm Chairman and CEO is the same person, and 0 otherwise	Hand-collected from annual report

Table 3. Descriptive statistics for variables used in analyses

	mean	sd	p5	p25	median	p75	p95
FnB	.136	.343	0	0	0	0	1
Family_ownership	.010	.073	0	0	0	0	0
Family_boardperc	.056	.093	0	0	0	.125	.25
Family_Chairman	.226	.418	0	0	0	0	1
Family_CEO	.173	.379	0	0	0	0	1
TotAsset	19.117	1.882	16.220	18.019	19.012	20.351	22.308
notTOMaj	.966	.179	1	1	1	1	1
TangAsset	.136	.161	.011	.038	.079	.156	.5182
ZScore	-2.092	11.729	-13.751	-1.989	.325	1.794	4.944
BoardSize	7.612	1.923	5	6	8	9	11
RDIntensity	.165	.372	0	0	0	0	1
Age	623.617	991.781	36	196	361	729	2025
DealValue	2.15	5.10	1.72	1.20	4.50	1.80	8.80
ROA	-.164	.667	-.784	-.159	-.004	.057	.144
Growth	.255	.985	-.303	-.020	.089	.281	1.111
DualityCEO	.510	.500	0	0	1	1	1
N	513						

Table 4. Correlation matrix

	FnB	Family_ Ownership	Family_ Boardperc	Family_ Chairman	Family_ CEO	TotAsset	notTOMaj	TangAsset	ZScore	BoardSize	RD Intensity	Age	DealValue	ROA	Growth	Duality CEO
FnB	1															
Family_Ownership	-0.052	1														
Family_Boardperc	0.020	0.007	1													
Family_Chairman	0.029	0.012	0.765***	1												
Family_CEO	0.057	0.009	0.689***	0.700***	1											
TotAsset	0.114**	-0.070	0.051	0.0917*	0.072	1										
notTOMaj	-0.117**	-0.072	-0.047	-0.004	-0.030	0.029	1									
TangAsset	-0.057	0.070	0.028	0.0742	-0.008	0.199***	-0.112*	1								
ZScore	0.031	-0.064	0.082	0.106*	0.104*	0.422***	0.039	-0.003	1							
BoardSize	0.074	-0.041	-0.037	-0.000	-0.049	0.569***	0.081	0.164***	0.112*	1						
RDIntensity	-0.131**	-0.038	0.014	-0.015	0.0312	-0.090*	-0.005	0.008	-0.128**	-0.084	1					
Age	-0.038	0.060	-0.077	-0.085	-0.093*	0.115**	0.043	0.068	0.079	0.127**	-0.014	1				
DealValue	-0.071	-0.016	-0.016	0.023	-0.058	0.607***	0.065	0.183***	0.101*	0.401***	-0.064	0.201***	1			
ROA	0.076	-0.006	0.019	0.046	0.072	0.384***	0.0119	-0.002	0.750***	0.142**	-0.213***	0.088*	0.112*	1		
Growth	-0.076	0.019	0.172***	0.109*	0.069	-0.078	-0.0943*	-0.011	-0.030	-0.026	-0.048	-0.069	-0.030	-0.137**	1	
DualityCEO	0.048	-0.017	0.0899*	0.128**	0.232***	0.109*	-0.050	0.016	0.113*	-0.065	-0.077	0.040	0.036	0.106*	-0.042	1

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 5. Logit model between the probability to choose a FnB and presence of family ownership in the case the target firm sells the majority stake

VARIABLES	(1) FnB	(2) FnB	(3) FnB
Family_Ownership		-8.149** (0.027)	-19.361*** (0.000)
notTOMaj	-2.586** (0.014)	-2.698** (0.017)	-2.699** (0.017)
Int_own_notTOMaj			11.408** (0.028)
TangAsset	-1.287 (0.428)	-1.069 (0.513)	-1.068 (0.514)
ZScore	-0.038* (0.051)	-0.040** (0.041)	-0.040** (0.042)
BoardSize	0.091 (0.361)	0.093 (0.381)	0.092 (0.381)
RDIntensity	-1.338** (0.037)	-1.339** (0.037)	-1.339** (0.037)
Age	-0.000 (0.746)	-0.000 (0.739)	-0.000 (0.739)
TotAsset	0.722*** (0.002)	0.724*** (0.003)	0.724*** (0.003)
ROA	1.564** (0.035)	1.609** (0.032)	1.609** (0.032)
Growth	-1.994*** (0.008)	-2.004*** (0.008)	-2.004*** (0.008)
DealValue	-0.000*** (0.002)	-0.000*** (0.002)	-0.000*** (0.002)
DualityCEO	0.342 (0.272)	0.346 (0.266)	0.346 (0.266)
Constant	-14.994*** (0.001)	-14.807*** (0.001)	-14.801*** (0.001)
Observations	436	436	436
year-SIC fixed effect	YES	YES	YES
r ² _a	.	.	.

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 6.A. Logit model between the probability to choose a FnB and presence of family members in the board and family in the case the target firm sells the majority stake

VARIABLES	(1) FnB	(2) FnB	(3) FnB	(4) FnB	(5) FnB
Family_Boardperc	-0.736 (0.774)	-5.021 (0.205)	-0.725 (0.777)	12.698 (0.130)	10.162 (0.313)
Family_Chairman	0.123 (0.827)	-0.711 (0.437)	12.192*** (0.000)	0.130 (0.820)	8.507*** (0.000)
notTOMaj	-2.580** (0.014)	-2.602** (0.012)	-2.381** (0.031)	-2.148* (0.086)	-2.091* (0.090)
Int_chair_boardper		8.268 (0.159)			9.031 (0.135)
Int_board_notTOMaj				-13.692 (0.112)	-15.928 (0.135)
Int_chair_notTOMaj			-12.099*** (0.000)		-9.280*** (0.000)
TangAsset	-1.289 (0.417)	-1.197 (0.471)	-1.275 (0.423)	-1.220 (0.444)	-1.104 (0.510)
ZScore	-0.038* (0.051)	-0.036* (0.057)	-0.038** (0.048)	-0.039** (0.045)	-0.038** (0.049)
BoardSize	0.089 (0.380)	0.116 (0.257)	0.091 (0.365)	0.086 (0.401)	0.113 (0.269)
RDIntensity	-1.320** (0.040)	-1.185* (0.070)	-1.296** (0.044)	-1.300** (0.042)	-1.157* (0.075)
Age	-0.000 (0.735)	-0.000 (0.681)	-0.000 (0.751)	-0.000 (0.742)	-0.000 (0.687)
TotAsset	0.726*** (0.002)	0.715*** (0.003)	0.731*** (0.002)	0.739*** (0.002)	0.730*** (0.002)
ROA	1.551** (0.036)	1.481** (0.033)	1.525** (0.037)	1.598** (0.036)	1.521** (0.034)
Growth	-1.993*** (0.008)	-1.933** (0.012)	-1.948*** (0.010)	-1.968*** (0.009)	-1.883** (0.013)
DealValue	-0.000*** (0.002)	-0.000*** (0.002)	-0.000*** (0.002)	-0.000*** (0.002)	-0.000*** (0.002)
DualityCEO	0.342 (0.275)	0.335 (0.288)	0.339 (0.278)	0.358 (0.258)	0.357 (0.265)
Constant	-15.069*** (0.001)	-15.025*** (0.001)	-15.335*** (0.001)	-15.647*** (0.001)	-15.714*** (0.001)
Observations	435	435	435	435	435
year-SIC fixed effect	YES	YES	YES	YES	YES
r2_a	.	.	.	.	.

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 6.B. Logit model between the probability to choose a FnB and presence of family ownership, family members in the board and family Chairman in the case the target firm sells the majority stake

VARIABLES	(1) FnB	(2) FnB	(3) FnB	(4) FnB	(5) FnB	(6) FnB
Family_Ownership	-8.235** (0.029)	-8.244** (0.029)	-8.183** (0.034)	-8.273** (0.037)	-19.337*** (0.000)	-20.743*** (0.000)
Family_Chairman	0.164 (0.772)	-0.676 (0.458)	12.022*** (0.000)	0.172 (0.764)	0.163 (0.772)	12.462*** (0.000)
Family_Boardperc	-0.730 (0.774)	-5.075 (0.202)	-0.719 (0.778)	12.043 (0.170)	-0.729 (0.775)	9.577 (0.357)
notTOMaj	-2.702** (0.017)	-2.728** (0.015)	-2.509** (0.036)	-2.275* (0.092)	-2.703** (0.017)	-2.215* (0.096)
Int_chair_boardper		8.338 (0.155)				9.044 (0.135)
Int_own_notTOMaj					11.283** (0.028)	12.576** (0.021)
Int_chair_notTOMaj			-11.886*** (0.000)			-13.194*** (0.000)
Int_board_notTOMaj				-13.010 (0.148)		-15.345 (0.163)
TangAsset	-1.080 (0.496)	-0.973 (0.559)	-1.088 (0.495)	-1.056 (0.507)	-1.079 (0.497)	-0.933 (0.579)
ZScore	-0.040** (0.041)	-0.039** (0.046)	-0.040** (0.039)	-0.041** (0.037)	-0.040** (0.042)	-0.040** (0.040)
BoardSize	0.092 (0.389)	0.117 (0.271)	0.093 (0.378)	0.088 (0.410)	0.092 (0.389)	0.114 (0.285)
RDIntensity	-1.327** (0.039)	-1.188* (0.071)	-1.307** (0.043)	-1.312** (0.040)	-1.326** (0.039)	-1.166* (0.074)
Age	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000

	(0.734)	(0.676)	(0.748)	(0.739)	(0.734)	(0.680)
TotAsset	0.726*** (0.003)	0.716*** (0.003)	0.730*** (0.003)	0.738*** (0.003)	0.726*** (0.003)	0.731*** (0.003)
ROA	1.597** (0.033)	1.531** (0.030)	1.571** (0.034)	1.635** (0.033)	1.597** (0.033)	1.561** (0.030)
Growth	-2.010*** (0.008)	-1.948** (0.011)	-1.969*** (0.010)	-1.985*** (0.008)	-2.010*** (0.008)	-1.897** (0.013)
DealValue	-0.000*** (0.003)	-0.000*** (0.003)	-0.000*** (0.003)	-0.000*** (0.003)	-0.000*** (0.003)	-0.000*** (0.003)
DualityCEO	0.340 (0.276)	0.335 (0.287)	0.337 (0.279)	0.354 (0.263)	0.341 (0.276)	0.354 (0.268)
Constant	-14.844*** (0.001)	-14.798*** (0.001)	-15.116*** (0.001)	-15.448*** (0.001)	-14.838*** (0.001)	-15.528*** (0.001)
Observations	435	435	435	435	435	435
year-SIC fixed effect	YES	YES	YES	YES	YES	YES
r ² a	-	-	-	-	-	-

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 7. Logit model between the probability to choose a FnB and presence of family ownership and family CEO in the case the target firm sells the majority stake

VARIABLES	(1) FnB	(2) FnB	(3) FnB	(4) FnB	(5) FnB	(6) FnB
Family_Ownership			-8.135** (0.028)	-8.109** (0.033)	-19.360*** (0.000)	-17.407*** (0.000)
Family_CEO	-0.088 (0.831)	12.082*** (0.000)	-0.065 (0.875)	11.914*** (0.000)	-0.065 (0.874)	13.539*** (0.000)
notTOMaj	-2.567** (0.014)	-2.354** (0.034)	-2.684** (0.017)	-2.475** (0.038)	-2.685** (0.018)	-2.476** (0.038)
Int_own_notTOMaj					11.424** (0.028)	9.481* (0.071)
Int_ceo_notTOMaj		-12.206*** (0.000)		-12.011*** (0.000)		-13.635*** (0.000)
TangAsset	-1.281 (0.431)	-1.272 (0.435)	-1.065 (0.515)	-1.077 (0.511)	-1.064 (0.516)	-1.075 (0.512)
ZScore	-0.038** (0.050)	-0.038** (0.047)	-0.040** (0.040)	-0.040** (0.038)	-0.040** (0.041)	-0.040** (0.039)
BoardSize	0.088 (0.384)	0.090 (0.370)	0.090 (0.395)	0.092 (0.384)	0.090 (0.395)	0.092 (0.384)
RDIntensity	-1.323** (0.040)	-1.295** (0.046)	-1.328** (0.040)	-1.304** (0.044)	-1.328** (0.040)	-1.304** (0.044)
Age	-0.000 (0.735)	-0.000 (0.750)	-0.000 (0.732)	-0.000 (0.745)	-0.000 (0.732)	-0.000 (0.746)
TotAsset	0.727*** (0.002)	0.733*** (0.002)	0.727*** (0.003)	0.733*** (0.003)	0.727*** (0.003)	0.733*** (0.003)
ROA	1.559** (0.035)	1.530** (0.036)	1.605** (0.032)	1.576** (0.034)	1.606** (0.032)	1.575** (0.034)
Growth	-1.980***	-1.933**	-1.994***	-1.950***	-1.994***	-1.950***

	(0.009)	(0.010)	(0.008)	(0.010)	(0.008)	(0.010)
DealValue	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***
	(0.002)	(0.002)	(0.003)	(0.002)	(0.002)	(0.002)
DualityCEO	0.358	0.358	0.358	0.357	0.359	0.357
	(0.257)	(0.256)	(0.257)	(0.256)	(0.257)	(0.256)
Constant	-15.092***	-15.390***	-14.874***	-15.179***	-14.867***	-15.173***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Observations	436	436	436	436	436	436
year-SIC fixed effect	YES	YES	YES	YES	YES	YES
r ² a	.	.	.	.	.	.

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Appendix A: Zephyr Bureau van Dijk database deal type classification

Acquisition

Any deal where the Acquirer ends up with 50% or more of the equity of the Target is coded as an Acquisition as the Acquirer now has control of the Target. Even if the acquired stake is very small; if the final stake is 50% or above the deal is classed as an Acquisition.

Acquisitions listed on Zephyr include any of the following scenarios:

Acquisition X% – A controlling stake (X%) in the Target has been acquired (i.e. 50% or over).

Acquisition majority stake – The exact stake acquired has not been disclosed but the resulting stake is known to be 50% or more.

Acquisition remaining X% – The Bidder has acquired the X% of the Target's shares that it does not already own, bringing its total stake to 100%.

Acquisition stake increased from X% to Y% – The Bidder has increased its stake from X% to Y%, where Y is equal to or greater than 50%.

Acquisition stake increased to X% – The Bidder has increased its stake in the Target from an unknown figure to X%, where X is over 50%.

Merger

A true Merger is in reality actually quite rare and many acquisitions are incorrectly described as “mergers” in the press. In a true Merger, there is a one-for-one share swap for shares in the new company and the deal involves a ‘merging of equals’. If the swap is not on equal terms, the deal would be coded as an Acquisition. However, in a true Merger, the original companies are entered into the deal record as the Acquirer and the Target (in no particular order). In the case of a 3-(or more) way merger, multiple companies can be entered in both Acquirer and Target fields. Where a Newco has been used, the Newco is added as the Acquirer and the newly merged company as the Target.

The newly merged company name would be added to the comments. Mergers do often occur as ‘partnerships’ and are most typically carried out by organizations such as law firms and accountancy firms.

Institutional Buy-Out (IBO)

This is an acquisition where a Private Equity firm has taken a 50% stake or more in the Target company, or is the parent of the Acquirer. The acquisition often takes place through a ‘new company’ (newco) or an acquisition vehicle. Often the Target company’s management will take a small stake (If the buy-out is for less than 100 percent of the Target company, the deal is coded as IBO X%). Many deals described in the media as MBOs are coded on Zephyr as IBOs due to the fact that the management team do not take a majority stake in the Target. There are very few occasions when Venture Capital may be inserted instead of Private Equity into as the financing method. This would only occur when an early-stage company raises development capital funding and the investors achieve a majority stake.

Management Buy-Out (MBO)

All or some of the existing management of the company buy at least 50% of the company from its existing owners. A private equity company is often brought in to aid the purchase through provision of equity funding. A ‘new company’ (newco) is normally formed by the management team specifically to purchase the Target. The Acquirer company would also show ‘MBO Team’ unless the name of the newco is known. If the name of the newco has been released, this company would be entered

as the Acquiror. If the Private Equity firm backing the deal takes a majority stake in the Target, the deal is not defined as an MBO and would be coded as an IBO.

Management Buy-In (MBI)

The Target company is sold to an external team of managers, with the new management team taking a majority stake. This often happens with family firms with no-one to pass the company on to and so the company is sold to a management team. The out-going owners sometimes retain a small stake. The management team often includes a Private Equity firm however, if the Private Equity firm takes a majority stake then the deal is coded as an IBO rather than an MBI.

Management Buy-In/Buy-Out (BIMBO)

The target company is sold to a combination of existing management and incoming management. The management team often includes a Private Equity firm however, if the Private Equity firm takes a majority stake then the deal is coded as an IBO rather than an MBI/BO.

I have also considered as possible deal *Capital Increase*. It is not unusual that M&A deals occur through capital increase. To identify if the subject who has done the capital increase is a Private Equity I read deal description provided by Zephyr and done web searches.

Appendix B. Family Ownership

I consider Wagner et al. “*The Life Cycle of Family Ownership: International Evidence*” unpublished version 27 October 2010 *Appendix D* to identify whether a firm has a family as ultimate owner. I use Orbis Bureau van Dijk database instead of Amadeus Bureau van Dijk database as in Wagner et al.. Amadeus database covers only European firms, Orbis covers firms worldwide.

Then:

- a. Controlling ownership positions are traced by Orbis by, first, calculating voting rights but not cash-flow rights. Second, referring to entities as the ultimate owners of a firm if the entity controls the firm directly at a defined threshold or via a control chain whose links all exceed that threshold. The threshold can be configured to be 25 or 50 percent, I set it to 25 percent. Third, a company that is known to have no ultimate owner is referred to as widely held (*pag.13*).
- b. Firms are classified in four categories: (i) widely held (ii) ultimately controlled by a family (iii) ultimately controlled by a non-family owner (iv) ultimately controlled by an unknown type of shareholders (*pag.13*).

To classify firms, I rely on seven Orbis data items:

Independence Indicator: Classifies the degree of independence of the firm. Ranges from A+ (highest independence) to D (lowest independence), also takes value U (unknown independence).

Shareholder type: Classifies shareholder types. Types include, but are not limited to, “Bank”, “Financial company”, “Insurance company”, “Industrial company”, “Public authorities”, “One or more known individuals or families”, “Employees/managers/directors”, “Self ownership”.

Direct Ownership: Percentage of voting rights held by the shareholder directly.

Total Ownership: Percentage of total voting rights held by the shareholder where the path through which ownership is held may be direct *and* indirect.

Ultimate Owner type: Classifies the entity identified as the ultimate owner of a firm. Types include, but are not limited to, “Bank”, “Financial company”, “Insurance company”, “Industrial company”, “Public authorities”, “One or more known individuals or families”, “Employees/managers/directors”.

Ultimate Owner Direct Ownership: Percentage of voting rights held by the ultimate owner directly.

Ultimate Owner Total Ownership: Percentage of total voting rights held by the ultimate owner where the path through which ownership is held may be direct *and* indirect.

Ultimate Owner BvD number: Unique identifier of the ultimate owner

I proceed by cleaning the raw data in several steps: *Independence Indicators* are grouped into five categories, A, B, C, D, U, eliminating subcategories A+, A-, etc. Next, special cases of *Direct Ownership* and *Total Ownership* are translated into numeric values. Examples of this are “wholly owned” is translated into 100% ownership, “majority owned” is translated into 51% ownership. Then, for both *Ultimate Owner* and for *Shareholder*, aggregate the reported stakes by using the *Total Ownership* stake and replacing it with the *Direct Ownership* stake if *Total Ownership* is missing. Next, remove blocks of unaffiliated shareholders that for reporting purposes have been grouped together by Orbis in categories such as “Public”, “Small shareholders”, “Unnamed private shareholders” etc.

After this initial cleaning, I apply seven filters to assign each firm to one of the previously described four ownership categories:

- Filter 1: Classify a firm as being widely held if the firm is known not have any shareholder with a stake larger than 25 percent, i.e. a firm that is classified as independent.
- Filter 2: Classify a firm as ultimately controlled by a family if it is reported to have a family as its ultimate owner.
- Filter 3: Classify a firm as ultimately controlled by a non-family owner if the firm's ultimate controlling shareholder is a firm that itself is widely held, i.e. does not have an ultimate controlling shareholder.
- Filter 4: If information about the type of the ultimate owner is missing classify but the firm is not widely held, classify the firm as having a family as ultimate owner if there are shareholders listed that are classified as "Individual(s) or family member" and one shareholders owns at least 5 percent and all family type shareholders together own at least 25 percent.
- Filter 5: If the firm is reported to have an ultimate controlling shareholder that is a bank, an insurance company, another type of financial company, a foundation or an industrial company, classify the firm as having a family as its ultimate controlling shareholder if there are family-type shareholders of the firm that hold at least a 5% stake. If the firm has no family-type shareholder who owns at least a 5% stake classify the firm as having a non-family ultimate controlling shareholder.
- Filter 6: If the ownership status of the firm is unknown and the independence of the firm is unknown according to Orbis, classify the firm as having an unknown ownership status.
- Filter 7: If the firm is known to have a shareholder that holds at least a 25% stake but the type of the ultimate controlling shareholder is unknown, classify the firm as family-controlled if there are family-type shareholders reported that own at least a 25% stake. If there is no family-type shareholder reported that owns at least a 25% stake, but there are other types of shareholders with stakes of 25% or higher, classify the firm as controlled by a non-family ultimate shareholder. If there are no shareholders with stakes of at least 25% classify the firm as having an unknown ownership status.

CHAPTER II

Contracting, information asymmetry and earnings smoothing. Which determinant influences accounting choices on brand? Evidence from the adoption of IAS38 for brand measurement

1. Introduction

Past and recent studies strongly sustain that intangible assets, frequently not reported in firm annual reports, more than other types of firm assets are able to explain the real value of a firm (Aboody and Lev, 1998; Choi et al., 2000; Lev and Gu, 2016). In particular, brand estimates in some case even explains the forty percent of market value of equity (Barth et al., 1998). Then, some researches intensively advocate for the widest recognition of these assets in firms' annual reports (Lev, 2008) as previous literature moreover provides evidences that investors find the values of acquired intangibles recognized in firm annual report extremely informative (Kimbrough, 2007).

According to IAS 38, after the initial recognition firm must chose to measure brand as with indefinite or finite life. Managers might just choose the accounting choice that provides the most realistic brand value or choose the accounting choice that best fits the different goals they have to deal with. Past literature shows that managers when do accounting choices consider different motivations (Bartov, 1993; Fields et al., 2001; Markarian et al. 2008; Quagli and Avallone, 2010). Then, considering an integrative approach as suggested by previous studies on accounting choices (Fields et al., 2001), the aim of my study is to investigate if typical motivations behind accounting choices – agency costs, earnings smoothing and information

asymmetries - also affect brand measurement.

I conduct my analysis investigating on a sample of 80 firm-year observations on accounting choices related to brand measurement in accordance to IAS 38 revised.

Results confirm that managers when choose between the different available accounting choices to measure brand consider also different goals. In particular, I find that leverage as proxy for agency costs is negatively associated with indefinite life accounting choice, change in ROA as proxy for smoothing is negatively associated with indefinite life accounting choice and market to book ratio as proxy for information asymmetries is positively related with indefinite life accounting choice.

This study contributes to diverse strands of literature. First, it contributes to accounting choice literature, as it shows that accounting choices play a role also in the measurement of brand asset. Second, it adds to intangible assets literature providing evidence that brand estimates reported in firm annual report could not fully reflect the real value of the brand and in turn to overestimate or underestimate the firm book and market value. Finally, it contributes to the literature on accounting choices specifically related to IFRS context, as it provides evidences that although IFRS imposes strict rules for the brand measurement process, for managers still exists space to use this asset to reach goals that might diverge from the providing of a reliable brand estimate.

The paper proceeds as follows. In section 2 I show IAS 38 revised; in section 3 I review prior literature and develop my hypotheses; section 4 describes the methodology; in section 5 results are reported and discussed; section 6 concludes.

2. IAS 38 – Intangible Assets, accounting for brands

IAS 38 - *Intangible Assets* outlines the accounting requirements for intangible assets. It was revised in March 2004 and applies to intangible assets acquired in business combinations occurring on or after 31 March 2004, or otherwise to other intangible assets for annual periods beginning on or after 31 March 2004. An intangible asset to be recorded must have three critical attributes: identifiability, control (power to obtain benefits from the asset) and future economic benefits (such as revenues or reduced future costs). IAS 38 requires a firm to recognize an intangible asset, whether purchased or self-created at cost [IAS 38.24] if, and only if: [IAS 38.21] it is probable that future economic benefits that are attributable to the assets will flow to the firm and the cost of the asset can be measured reliably. There is a presumption that the fair value represents the cost of an intangible asset acquired in a business combination. However, brands that are internally generated should not be recognized as assets [IAS 38.63], so only acquired brands are recorded in the balance sheet.

For the measurement subsequent to acquisition a firm must choose (i) to classify brands as with **finite** or **indefinite life** and (ii) to adopt the **cost model** or the **revaluation model** [IAS 38.72].

Managers should choose **indefinite life** when they assess there is not foreseeable limit to the period over which the brand is expected to generate net cash inflows for the firm. A brand with an indefinite useful life is not amortized, but managers should review brand useful life each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that brand [IAS 38.107]. If they do not, the change should be accounted for as a change in an accounting estimates [IAS 38.109]. Managers should choose **finite life** when they assess there is a limited period of benefit to the firm. The cost less residual value of a brand

with a finite useful life should be amortized on a systematic basis over that life [IAS 38.97].

Then, IAS 38 - brand measurement is an interesting topic to investigate on managers accounting choices because of the four possible combinations managers have to deal with.

Past literature calls (Watts and Zimmerman,1990) for studies where managers have to deal with multiple accounting choices. However, my empirical analysis will focus only on brand finite life / indefinite life accounting choice because after data hand-collection data show that only one firm chooses revaluation model for its brand. The result is consistent with Christensen and Nikolaev (2013) study on the adoption of IAS 16, IAS 38 and IAS 40 and firm accounting choice between fair value and historical cost. They find for intangible assets that all firms in the sample pre-commit to historical cost model, consistent with the stricter requirements under IFRS for valuing intangible assets at fair value.

[Insert Figure 1 about here]

3. Background and hypothesis development

In their literature review Fields et al. (2001) show that past literature is consistent in classify accounting choices in three categories (Holthausen and Leftwich, 1983; Watts and Zimmerman, 1986; Holthausen, 1990). These categories differ according to the motivations behind the accounting choice: (i) contracting, (ii) assets pricing and (iii) influencing external parties. The first category, is driven by efficient contracting prospective (Holthausen and Leftwich, 1983; Watts and Zimmerman, 1986). Accounting choices are determined to influence firm's contractual agreements. It includes internal agency costs issues - executive compensation agreements

(Healy, 1985; Guidry et al., 1999; Holthausen et al., 1995; Chen and Lee, 1995; Gaver and Gaver, 1998) and external agency costs issues - debts covenants (Duke and Hunt, 1990; Healy and Palepu, 1990; DeFond and Jiambalvo, 1994). The second category, is driven by information asymmetries. The first motivation behind accounting choices in this second category is the concern to reduce information asymmetries between better informed insiders and less informed outsiders about firm future cash flow (Frost and Kinney, 1996; Beaver and Engel, 1996). Specific accounting choices can play a role in the communication process (Fields et al., 2001). The second motivation is managers interest to manipulate earnings with the final aims of having higher stock prices, better reputation or increase their compensation. The third category, is driven by the aim to influence decisions of third parties as government regulators, suppliers, competitors and union negotiators. The hypothesis investigated the most are if firms select accounting choices to reduce or defer taxes (Hand, 1995; Cloyd et al., 1996; Guenther et al. 1997) and to avoid political costs (Jones, 1991; Key, 1997; Han and Wang, 1998; Blacconiere and Patten, 1994).

The possibility of making a clear differentiation between the motivations behind accounting choice as allowed researchers to analyze each category in isolation. However, this method of research has been particularly criticized as multiple and conflicting motivations could affect managers' accounting choices: Fields et al. (2001) state that by focusing on one goal at a time, much of the literature misses the more interesting question of the interactions between and tradeoff among different goals.

The first attempt to consider multiple goals has done by Zmijewski and Hagerman, (1981). They analyze if firm size, management compensation, concentration ratio, and the total debt to total asset ratio are associated with the choice of a firm's income strategy. Following,

Bartov (1993) analyzes earnings smoothing and debt to equity motivations for managers of accounting earnings through asset sales. He finds that both motives affect the accounting choice. Balsam et al. (1995) investigate whether firm level of earnings management and the tightness of the firm's debt covenants determine the timing of adoption of new FASB regulations. Francis et al. (1996) examine discretionary asset write-offs and find that both managerial incentives to increase compensation and earnings smoothing affect the accounting choice. Hunt et al. (1996) provide evidences on managers motivations behind inventory accounting choices. They find that firms manage LIFO inventories to smooth earnings and lower debt related costs but not to minimize taxes. Hand and Skantz (1998) analyze firms' decisions about the treatment of gains under SAB51 and consider both efficient contracting, income management, and information signaling. They find that all the motives have an impact on managers accounting choice. Markarian et al. (2008) analyze if firms' choice to capitalize R&D costs is affected by income smoothing and debt contracting motivations. Multivariate results indicate that firms use capitalization of R&D costs to smooth earnings, while there is no support for the debt-covenant hypothesis. Finally, Quagli and Avallone (2010) investigate if firms' choice between cost and fair value through profit and loss for PPE under IAS 40 and IFRS1 is driven by information asymmetry, contractual efficiency and managerial opportunism. They find that size reduces the likelihood of using fair value, market to book ratio is negatively associated with the fair value choice while leverage seems not to influence the choice. Then, past studies show that effectively managers when do their accounting choices consider different motivations.

Intangible assets (Aboody and Lev, 1998; Choi et al., 2000; Lev and

Gu, 2016), and in particular brand assets estimates are significantly related to prices and returns and in some case brand value even explains the forty percent of market value of equity (Barth et al., 1998). Then, brand as asset is of the most importance for firms and their estimates significantly affect the entire firm evaluation. Previous literature provides evidences that acquired intangible assets recognized in firms' annual report are highly informative for investors (Kimbrough, 2007). However, still little is known about the motivations behind the brand measurement accounting choices. Managers might just choose the accounting choice that best reflects the real brand value, or dealing with different aims at the same time could choose the brand accounting choice that best fits their all goals. According to IAS 38 managers have to choose to measure brand as with indefinite or finite life.

As far as concern contractual efficiency motivations, an indefinite life compared to a finite life accounting choice could increase agency costs. The freedom of managers to choose the time and amount of the impairment loss could generate less income stability and increase the investors perceived risks, increasing the cost of capital. Moreover, brand estimates could be particularly subject to managers personal estimations as not a liquid market exists for brands, then due to the inferior reliability of an impairment test with respect to a predetermined amortization plan an indefinite life accounting choice can increase litigation costs. A commonly used proxy for contracting costs is leverage, then I aspect a negative relation between leverage and indefinite life accounting choice. I do not state the contrary that and indefinite life is positively related with indefinite life for debt covenants violation because generally debt covenants are formed at the EBITDA level and indefinite and finite life approach mainly differ for the amortization burden. Then, on the basis of these theoretical

arguments I state my first hypothesis:

Hypothesis 1: accounting choice brand indefinite life is negatively related with leverage.

Considering asset pricing motivations, and in particular earnings manipulation, past literature shows that managers apply opportunistic behaviors to smooth earnings (Barth et al., 1999; Heflin et al., 2002; Graham et al., 2005). Earnings smoothing is more likely when managers adopt a finite life brand accounting choice as accounting numbers are more stable and less subject to volatility given the pre-determined amortization plan. A commonly used proxy for earnings smoothing is the change in ROA (Balsam et al., 1995; Markarian et al., 2008), then I aspect a negative relation between the change in ROA and indefinite life accounting choice. On the basis of these theoretical arguments I state my second hypothesis:

Hypothesis 2: accounting choice brand indefinite life is negatively related with change in ROA.

Regarding information asymmetries, the second motivation of asset pricing category, past literature shows that managers who want to maximize shareholders value have incentive to choose more informative accounting choices to reduce the degree of information asymmetries between firm insiders and outsiders (Bartov and Bodnar, 1996). An indefinite life accounting choice does not undergo brands to a forced amortization process thus reflecting with a higher probability the real brand value. A commonly used proxy to account for information asymmetries is market to book ratio (Smith and Watts, 1992; Amir and Lev, 1996) as the market value represents firm fair value while the book value just the assets historical value. Then I aspect a positive relation between market to book value and indefinite

life accounting choice. On the basis of these theoretical arguments I state my last hypothesis:

Hypothesis 3: accounting choice brand indefinite life is positively related with market to book value ratio.

[Insert Figure 2 about here]

4. Methodology

4.1 Sample and data

The initial sample provided by Bain & Company consists of 856 brands belonging to the luxury industry as specified in 2017. This industry is a good setting because of the relevance of the brand for the business model and the weight of this asset in the balance sheet.

[Insert Table 1 about here]

For the identification of the final sample I have proceed through the following steps: (i) to know brand history to match brand with firm. The search has been conducted using brand website and Orbis Bureau van Dijk database, (ii) to identify worldwide M&A up to year 2016 involving brands. The search has been conducted using Zephyr Bureau van Dijk database, (iii) to check on firm annual report the brand ownership from 2005.

Then, I set some constraints: (i) known brand owner, 810 brands left (ii) brand owner is a listed firm, 241 brands left (iii) known brand owner country of origin, 184 brands left.

I switch from a brand-firm base to a brand-firm-year base, for a total of 4.248 brand-firm-year observations.

Then, I set further constraints: (i) brand owner must adopt International Financial Reporting Standards or the following

alternative standards in the year of the brand accounting choice and subsequent years: Hong Kong Accounting Standards, Singapore Accounting Standards, Chinese Accounting Standards, Indian Accounting Standards¹, 3.437 brands-firm-years left (ii) brand owner is a strategic owner. Brand owners with the following 3 digits SIC code have been dropped: 599<SIC3<670 and 671<SIC3<700. Firms with SIC3 equal to 671 are strategic holding, then considered in the sample. 3.342 brands-firm-years left.

Subsequently, I start to collect directly from firm annual report yearly data about brand asset. Other brand-firm-year observations have been dropped for the following motivations: (i) the deal is not a new M&A but just following tranches of the previous deal, then the brand owner has already done its brand accounting choice (ii) no brand accounting choices have done for the following reasons: (a) it is an internally generated brand, (b) the M&A is occurred lot of years before 2005 and the brand is fully amortized, (c) the brand value after the M&A has not emerged, (d) the brand is owned by a Joint Venture, (iii) brand owner annual report is not available neither in Datastream nor in the firm web site, (iv) brand owner is a vehicle of a financial entity or bank. 1.134 brand-firm-year observations remain.

Then I set the last constraint: also in the previous three years before the brand accounting choice firms must adopted one of the above-mentioned accounting standards, 950 brand-firm-year observations

¹ In addition to IFRS, the following standards are considered for the following reasons: (i) Hong Kong Accounting Standards fully converge with IFRS (ii) Listed companies in Singapore are required to use Singapore Financial Reporting Standards, which are substantially converged with IFRS Standards except for IFRS 2. However, with permission of the securities regulator, listed companies may use IFRS Standards as issued by the Board (iii) Indian Accounting Standards are based on and substantially converged with IFRS (iv) Chinese Accounting Standards, because China has adopted national accounting standards that are substantially converged with IFRS Standards.

remain. Finally, I switch from a brand-firm-year observation sample to a firm-year sample (248 firm-year observations remain) and drop observations with missing value. The final sample consists of 200 firm-year observations. However, in the multivariate analysis the sample is reduced to 80 firm-year observations as in some sectors there is not enough variability of the dependent variable.

[Insert Table 2 about here]

4.2 Variable measurement

Dependent variables

Accounting choices data are hand-collected from firm's annual reports. Mangers' accounting choice between brand finite and indefinite life is defined as a dummy variable that equals 1 if the firm chooses indefinite life for its brands, and 0 otherwise (*AC*).

Independent variables

To account for agency costs I use firm leverage ratio, measured as total financial debts outstanding over total assets (before accounting choice) (*LEV*). To measure earnings smoothing, I use as in previous studies (Balsam et al., 1995; Markarian et al., 2008) the change in return on assets (before accounting choice) over the average of the two previous fiscal years (*CROA*). As a proxy for information asymmetries, I use the market to book value ratio (*MvBv*) as many studies (Smith and Watts, 1992; Amir and Lev, 1996; Quagli and Avallone, 2010) sustains that the market value is able to capture the present value of growth opportunities, while the book value approximates the value of assets.

Controls

I control for variables that are expected to affect accounting choices. I account for firm profitability, defined as dummy variable that equals 1 if firm earnings in the past four years have increased, and 0 otherwise (*pos_EPS*). I account for firm performance using return on assets (*ROA*), computed as operating income over net operating assets end of year *t*. I include also firm size using the log of the firm's total assets end-of-year *t* (*Size*) to control for firm visibility, political costs and media attention (Watts & Zimmerman, 1986; Bhushan, 1994). Finally, I account for firm's brand values (*BrValue*) defined as the firm total value of brands end of year *t*, scaled by firm EBITDA end of year *t* to control if managers accounting choice depends on the implicit amortization burden when choose finite life.

[Insert Table 3.a about here]

To account for possible outliers all variables are winsorized at 0.005.

4.3 Research model

In order to test my hypotheses on whether the firm leverage (*LEV*), as a proxy for agency costs, the change in ROA, as a proxy for earnings smoothing and the market to book ration, as a proxy for information asymmetries, are associated with brand accounting choice (*AC*), I use a logit model, with robust standard errors clustered at firm level, with year and industry fixed effects:

Equation 1- AC

$$AC = \beta_0 + \beta_1 LEV + \beta_2 CROA + \beta_3 MvBv + \sum_j \beta_j control_j + \varepsilon$$

where all variables have already been defined. According to my hypotheses, I expect (Hypothesis 1) a negative and significant coefficient on β_1 – higher agency costs are associated with indefinite life accounting choice; (Hypothesis 2) a negative and significant coefficient on β_2 – earnings smoothing is more possible through finite life accounting choice; (Hypothesis 2) a positive and significant coefficient on β_3 – information asymmetries are reduced when managers use indefinite life accounting choice.

5. Empirical analyses

5.1 Descriptive statistics and correlations

Table 4 presents the descriptive statistics of the main variables used in the analysis. The mean of *AC* is 0.72, indicating that 70% of firm-year observations choose indefinite life. The mean of *LEV* is 0.262, the mean of *CROA* is -0.397 and the mean for *MvBv* is 2.766.

[Insert Table 4 about here]

Table 5 shows correlation coefficients among the variables. *AC* is negatively correlated with *LEV*, suggesting that managers who aim is to reduce agency cost do not choose indefinite life. *AC* is positively correlated with *CROA*, suggesting that managers who aim is to smooth earnings do it easily when adopt indefinite life. Finally, *AC* is positively correlated with *MvBv*, indicating that managers choose indefinite life when informative asymmetries exist and try to reduce them. However, these are only univariate descriptive statistics that do not allow for efficiently describe or measure the strength of relationships between variables.

[Insert Table 5 about here]

5.2 Multivariate analyses

Table 6 reports results for *Equation (1)* estimated through Logit models. Column (1) reports estimates for the base logit model considering only agency costs accounting choice motivations (*LEV*). Column (2) reports estimates for the base logit model considering only earnings smoothing accounting choice motivations (*CROA*) and Column (3) reports estimates for the base logit model considering only information asymmetries accounting choice motivations (*MvBv*). Column (4), column (5) and column (6) consider two accounting choices motivations at time while column (7) represents the full model when all the managers goals are considered. Focusing on column (7) which reassumes the main findings, I find a negative and statistically significant coefficient on *LEV* (Column (7): $LEV = -12.294$; p-value = 0.015) which indicates that managers who want reduce agency cost less likely will choose an indefinite life accounting choice. Then, finite life accounting choice implicitly reduces firm perceived risks better reassuring firm' lenders and reducing litigation costs. I find a negative and statistically significant coefficient on *CROA* (Column (7): $CROA = -0.487$; p-value = 0.057). This is consistent with the more stable numbers generated by a pre-determined amortization process to be adopted when managers choose a finite life accounting choice. I find a positive and statistically significant coefficient on *MvBv* (Column (7): $MvBv = 0.692$; p-value = 0.047). Estimates are consistent with the fact that indefinite life not undergoing brand to a forced amortization process better reflect brand real value.

[Insert Table 6 about here]

5.3 Robustness tests

Other proxies for variables

My results might be driven by different measures for variables. I re-run my regression models using a different measure of leverage, I define leverage as net operating assets over equity (before the accounting choice) (*LEV2*). Following Leuz et al. (2003) and Burgstahler et al. (2006) I consider also another proxy to capture earnings smoothing policies, a dummy variable equal to 1 if the firm has an earnings smoothing index higher than the average index, and 0 otherwise. Where the earnings smoothing index is equal to -1 the ratio of the standard deviation of operating income over the standard deviation of cash flow from the operation, computed over the three years before the accounting choice (*ESmt*). I also consider another proxy for information asymmetries: analysts following (Barth et al., 2001), measured as the log of the number of analysts' forecasts issued during the year (*AF*). All the results are consistent with the main inferences presented except for the new earnings smoothing proxy. However, contrary to Burgstahler et al. (2006) which use the firm country of origin to calculate the average earnings smoothing index I use the firm legal system, because in some cases only one firm is present in a country. Then, my measure might not completely capture the real effect.

[Insert Table 6 about here]

6. Conclusion and contribution

This study investigates whether managers when choose between the most appropriate accounting choice between those available on how to measure brand consider also other goals that go beyond the simple aim of providing the most realistic brand estimate. In particular, I

investigate on the commonly analyzed motivations behind accounting choices: agency costs, earnings smoothing and information asymmetries. I contend and provide empirical evidences that managers also in case of brand measurement do accounting choices considering different goals: leverage for agency costs motivations is negatively associated with indefinite life accounting choice, change in ROA for earnings smoothing motivations negatively associated with indefinite life accounting choice and market to book ratio for information asymmetries motivations is positively associated.

The study, first, contributes to the accounting choice literature, as it provides empirical evidences that common motivations behind accounting choices affect also managers brand measurement. Second, it adds to intangible assets literature as scant literature exists relative to managers' way of recording and measure acquired brand, moreover it provides evidences that brand estimates reported in firm annual report could not fully reflect the real value of the brand and in turn to overestimate or underestimate firm book and market value. Finally, it contributes to the literature on accounting choice specifically related to IFRS context, as it provides evidences that IAS 38 although imposes strict rules for the brand measurement process, still leaves space for managers to use asset accounting estimates to reach goals that might diverge from the providing a reliable brand estimate.

Figure 1: Brand accounting choices according to IAS 38 revised: the four possible combinations

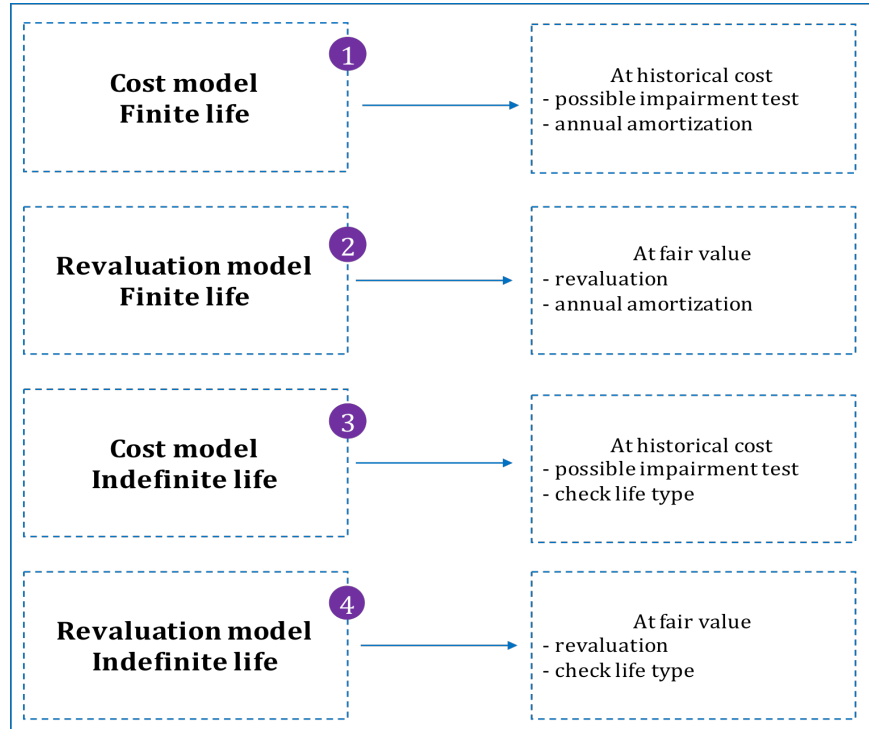


Figure 2: *Conceptual empirical model of the study*

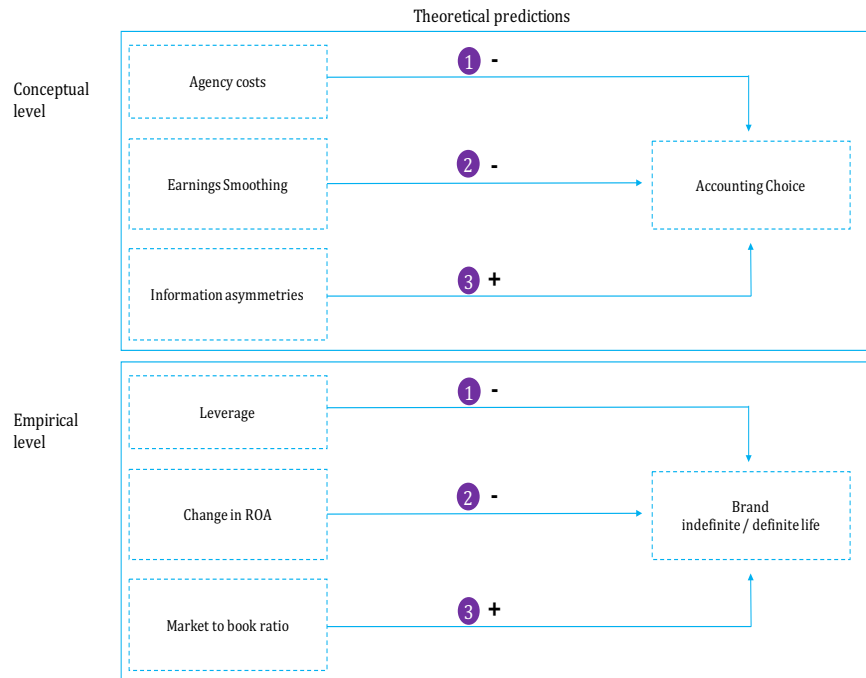
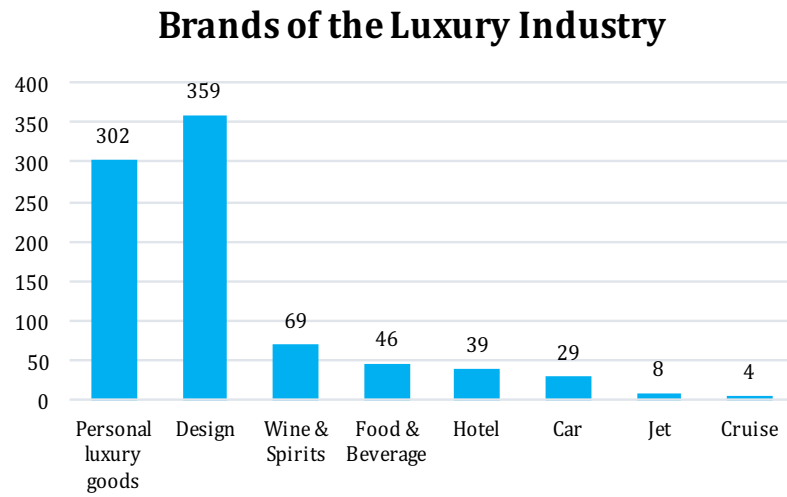


Table 1: Initial Sample



Source: Bain & Company

Table 2: Final Sample

INITIAL BRAND SAMPLE	856
Known brand owner	810
Listed brand owner	241
Unknown brand owner country of origin	184
<hr/>	
<i>FROM BRAND LEVEL TO BRAND-FIRM-YEAR LEVEL</i>	4.248
Accounting standards	3.437
SIC code	3.342
No brand accounting choices	1.134
Accounting standards t-3	950
<hr/>	
<i>FROM BRAND-FIRM-YEAR LEVEL TO FIRM-YEAR LEVEL</i>	248
Missing value	200
FINAL FIRM-YEAR SAMPLE	200

Table 3.a: Variables

VARIABLES		DESCRIPTION	SOURCE
Dependent:			
Accounting Choice	<i>AC</i>	Dummy variable that equals 1 if the firm chooses indefinite life for its brands, and 0 otherwise	Hand-collected from annual report
Independent:			
Agency costs	<i>LEV</i>	Financial debts (long and short term) scaled by total assets (before the accounting choice)	Datastream
Earnings Smoothing	<i>CROA</i>	Change in return on assets (before accounting choice) over the average of the two previous fiscal years	Datastream
Information Asymmetries	<i>MvBv</i>	Firm market value over book value	Datastream
Control:			
Firm growth	<i>Growth</i>	Percentage change in revenues over four years	Datastream
Firm profitability	<i>pos_EPS</i>	Dummy variable that equals 1 if firm earnings year over year, over four years, increase, and 0 otherwise	Datastream
Firm performance	<i>ROA</i>	Operating income over net operating assets end of year t	Datastream
Firm size	<i>Size</i>	Log of the firm's total assets end of year t	Datastream
Brands value	<i>BrValue</i>	Firm total value of brands end of year t, scaled by firm EBITDA end of year t	Hand-collected from annual report

Table 3.b: Variables

VARIABLES		DESCRIPTION	SOURCE
<i>Independent:</i>			
Agency costs	<i>LEV2</i>	Net operating assets scaled by total assets (before the accounting choice)	Datastream
Earnings Smoothing	<i>ESmt</i>	Dummy variable equal to 1 if the firm has an earnings smoothing index higher than the average index estimated for the legal system, and 0 otherwise. Where the earnings smoothing index is equal to -1 the ratio of the standard deviation of operating income over the standard deviation of cash flow from the operation, computed over the three years before the accounting choice	Hand-collected from Datastream and Orbis
Information Asymmetries	<i>AF</i>	Log of the number of analysts' forecasts issued during the year	I/B/E/S

Table 4: Descriptive statistics for variables used in analyses

	mean	sd	p5	p25	median	p75	p95
AC	.72	.450	0	0	1	1	1
LEV	.262	.124	.035	.178	.264	.359	.454
CROA	-.397	3.901	-1.208	-.212	-.034	.119	.949
MvBv	2.766	2.115	.493	1.299	2.297	3.416	7.312
BrValue	1.500	1.976	.014	.237	1.134	2.275	5.298
Size	22.345	1.926	19.601	20.764	22.043	24.064	25.288
pos_EPS	.29	.454	0	0	0	1	1
AF	4.042	1.232	1.609	3.177	4.510	5.078	5.389
ROA	.099	.196	.000	.051	.086	.125	.267
N	200						

Table 5: Correlation matrix

	AC	LEV	CROA	MvBv	BrValue	Size	pos_EPS	ROA
AC	1							
LEV	-0.159*	1						
CROA	0.015	-0.066	1					
MvBv	0.168*	0.203**	0.131	1				
BrValue	0.135	0.027	0.070	-0.140*	1			
Size	0.166*	0.241***	0.035	0.110	0.066	1		
pos_EPS	0.005	-0.035	0.076	0.207**	0.020	-0.031	1	
ROA	0.030	0.131	0.389***	0.419***	-0.071	-0.001	0.081	1

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 6: Logit model between the probability to choose an indefinite life and accounting choices motivations

VARIABLES	(1) AC	(2) AC	(3) AC	(4) AC	(5) AC	(6) AC	(7) AC
LEV	-1.029 (0.857)			-10.552*** (0.005)	-9.586 (0.124)		-12.294** (0.015)
CROA		-0.556*** (0.001)		-0.859*** (0.000)		-0.245* (0.050)	-0.487* (0.057)
MvBv			0.848*** (0.001)		1.144*** (0.002)	0.558** (0.050)	0.692** (0.047)
BrValue	-0.225 (0.305)	-0.058 (0.578)	-0.039 (0.584)	0.044 (0.615)	0.050 (0.517)	0.001 (0.988)	0.105 (0.243)
Size	0.654 (0.175)	0.814 (0.106)	0.714* (0.084)	1.585** (0.031)	1.014*** (0.001)	0.754* (0.089)	1.294*** (0.000)
pos_EPS	-1.148* (0.086)	-2.145*** (0.001)	-2.636*** (0.000)	-2.882*** (0.002)	-3.380*** (0.000)	-2.675*** (0.000)	-3.820*** (0.000)
ROA	0.923 (0.578)	7.214*** (0.000)	-3.135** (0.026)	11.340*** (0.000)	-3.732** (0.018)	0.875 (0.738)	3.998 (0.371)
Constant	-14.500 (0.218)	-20.767* (0.077)	-18.932** (0.048)	-35.294** (0.033)	-22.848*** (0.003)	-19.985* (0.050)	-28.751*** (0.000)
Observations	80	80	80	80	80	80	80
year-SIC fixed effect	YES	YES	YES	YES	YES	YES	YES
r2 a	.	.	.	.	.	.	.

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 7: Logit model between the probability to choose an indefinite life and accounting choices motivations

VARIABLES	(1) AC	(2) AC	(3) AC	(4) AC
LEV	-12.294** (0.015)		-9.828* (0.092)	-5.975 (0.179)
CROA	-0.487* (0.057)	-0.234* (0.080)		-0.488*** (0.000)
MvBv	0.692** (0.047)	0.642** (0.025)	1.160*** (0.001)	
LEV2		-1.618** (0.047)		
ESmt			-0.250 (0.780)	
AF				1.930** (0.015)
BrValue	0.105 (0.243)	0.118 (0.257)	0.049 (0.553)	0.084 (0.484)
Size	1.294*** (0.000)	1.126*** (0.001)	1.024*** (0.002)	0.484 (0.484)
pos_EPS	-3.820*** (0.000)	-3.373*** (0.000)	-3.425*** (0.000)	-3.314*** (0.000)
ROA	3.998 (0.371)	-0.492 (0.870)	-3.728** (0.022)	6.560*** (0.002)
Constant	-28.751*** (0.000)	-25.893*** (0.002)	-22.917*** (0.004)	-18.054 (0.178)
Observations	80	80	80	80
year-SIC fixed effect	YES	YES	YES	YES
r2_a	.	.	.	.

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

CHAPTER III

***Are accounting choices a way to meet or beat analysts' forecasts
alternative to earnings management?
Evidence from the adoption of IAS38 for brand measurement***

1. Introduction

Accounting choices might provide managers the possibility to issue annual reports more reflective of the real firm value (Barth et al., 2008) and to reduce to a large extent estimations errors and biases above all for intangible assets measurement (Jenning et al., 1996; Choi et al., 2000). At the same time accounting choices confer managers significant discretion on accounting numbers (Watts, 2003; Barth et al., 2008). As a matter of fact, past literature consistently investigates on accounting choices as a way managers implement earnings management strategies (Gaver et al., 1995; DeFond and Park, 1997; Erickson and Wang, 1999; Kasznik, 1999; Fields et al., 2001; Ewert and Wagenhofer, 2005; Markarian et al., 2008; Quagli and Avallone, 2010). Then, previous studies make accounting choices consistent with the idea of earnings management.

I base my study on the idea of Christensen and Nikolaev (2013) that accounting choices have a different nature respect to earnings management, then should be analyzed separately. In case of accounting choices IFRS requires an ex-ante commitment to a precise choice and the switch to another accounting option is considered a voluntary change in accounting principles and should be justified to auditors, lenders, equity investors and regulators. Differently, earnings management is the result of continuous choices that might differ from one annual report to another and it is a way managers exercise their discretion over the accounting numbers with or without restrictions

(Watts and Zimmerman, 1990).

Then, the aim of my study is, first, to investigate whether managers use more opportunistic accounting choices as a way alternative to earnings management to meet or beat analysts' forecasts. Therefore, I focus on the association between accounting choices and the probability to meet or beat analysts' forecasts, regardless of the level of earnings management.

Second, I investigate the association between accounting choices and accrual earnings management as both can be considered different tools available to managers to meet or beat analysts' forecasts. Accounting choices require an ex-ante and almost unvarying commitment, then managers at the end of every year should determine their earnings management policies based on constraints of previous accounting choices. I base on the theoretical models and empirical evidences that show the differential costs associated to accounting choices and earnings management.

However, an opportunistic accounting choice and the combined use of accrual earnings management might make analysts skeptical about firm fundamentals. Then, the third aim of my study is to analyze if managers use disclosure as a tool to communicate with analysts to explain their accounting choices. Finally, as managers use accounting choices and disclosure as two different tools to communicate to analysts (Healy and Palepu, 2001), I investigate if the different accounting choices and level of disclosure affect analysts' forecasts properties accuracy and dispersion.

I conduct my analysis investigating on a sample of 172 firm-year observations on accounting choices related to brand measurement in accordance to IAS 38 revised. IAS 38 revised requires firms to recognize acquired brand initially at cost, then for the measurement after the acquisition to choose if the brand has a finite or indefinite

useful life.

Empirical evidences confirm that managers jointly use accounting choices and earnings management to meet or beat analysts' forecasts. Results show also evidences that managers use disclosure to communicate with analysts about their accounting choices with the aim to meet or beat analysts' forecasts. Contrary to my hypothesis results show the inexistence of a relationship between managers accounting choices and analysts forecast accuracy and dispersion, and a not constant relation between managers disclosure and analysts forecast properties. However, results might be penalized by the small size of the sample.

This study contributes to diverse strands of literature. First, it mainly contributes to accounting choice literature, as it shows that accounting choices have to be analyzed separately from earnings management, in particular when researches investigate on managers opportunistic behaviors. It adds also to the literature of earnings management, as results provide evidences that managers consider accounting choices and accrual earnings management as two different tools to meet or beat analysts' forecast. Moreover, it contributes to the disclosure literature, empirical evidences show that managers use disclosure to explain their accounting choices. Then, managers decide the strategies they use the two communication channels not only for firm cost of financing reasons but also to meet or beat analysts' forecasts. The study might contribute also to the literature on accounting choice specifically related to IFRS context, as it shows once again that managers do not only use accounting choices to provide the most reflective value of firm assets but also to implement opportunistic behaviors. Finally, the study adds to the intangible assets literature, in particular brand as provides evidences of the importance of this asset in managers decisions.

The paper proceeds as follows. In section 2 I review prior literature and develop my hypotheses; section 3 describes the methodology; in section 4 results are reported and discussed; section 5 concludes.

2. Background and hypothesis development

Accounting choices might give managers the possibility to provide accounting measurements that are more reflective of the firms' value (Barth et al., 2008). However, such managerial discretion on accounting choices could reduce the verifiability of accounting information. Consequently, potentially relevant information could increase earnings opaqueness instead of transparency because of the lack of verifiability (Watts, 2003).

Existing literature adopts a broad definition of accounting choices: “an accounting choice is any decision whose primary purpose is to influence the output of the accounting system in a particular way [...] and although not all accounting choices involve earnings management, and the term earnings management extends beyond accounting choices, the implications of accounting choices to achieve a goal are consistent with the idea of earnings management” (Fields et al., 2001). Then, previous research mainly investigates on accounting choices as a tool managers use to engage in earnings management (Gaver et al., 1995; DeFond and Park, 1997; Erickson and Wang, 1999; Kasznik, 1999).

Ewert and Wagenhofer (2005) show that reducing management discretion by either eliminating options in the standards or limiting the impact of judgment by managers, increases earnings quality, because when accounting standards enable managers to exercise judgement earnings management is more likely to occur (Nelson et al. 2002; Nelson, 2003). Markarian et al. (2008) analyze if firms' choice to capitalize R&D costs is affected by earnings management

motivations. Investigating in an Italian context on Italian Accounting Principle n. 24, they show that firms tend to choose cost capitalization to reach earnings-smoothing aims. Quagli and Avallone (2010) study if firms' choice between cost and fair value through profit and loss for PPE under IAS 40 and IFRS1 is (also) driven by managerial opportunism. They find that managerial opportunism accounts for the fair value choice.

However, past studies investigate on accounting choices as way managers use to undertake earnings management, without differentiating accounting choices from earnings management. Only recently accounting literature has started to focus on the relationship between accounting choices and earnings management and questioning on their probable different nature. Indeed, earnings management contrary to accounting choices is the result of ongoing choices that might vary from one period to another (Watts and Zimmerman, 1990).

[Insert Figure 1 about here]

Christensen and Nikolaev (2013) in their study on the adoption of IAS 16, IAS 38 and IAS 40 investigate on firm accounting choice between fair value and historical cost. They argue that accounting choices are unlikely to be driven by the same considerations of earnings management. This is because IFRS, in case of accounting choices, require an ex-ante commitment to a precise accounting choice and the switch to another option is considered a voluntary change in accounting principles and needs to be justified. Nevertheless, they doubt too that accounting choices are driven by managerial opportunism. That is because of the IFRS requirement to pre-commit to either fair value or historical cost and because of the absence of

information asymmetry between the principal (investors) and the agent (management) with respect to the agent's action (choice of accounting practice). However, they recognize that they cannot completely rule out opportunism explanation for observed managerial choices.

Managers might just choose the accounting choice that best fits the firm's status and exercise accounting choices to reduce information asymmetries or use discretion provided by accounting choices opportunistically to meet or beat analysts' forecasts. Extant literature consistently finds that managers have strong incentives to meet or beat analysts' forecasts (Burgstahler and Dichev, 1997; Degeroge et al. 1999; Bartov et al., 2002; Kaszink et al., 2002; Matsumoto, 2002; Burgstahler and Eames, 2006) and do it also at the expenses of shareholder value (Graham et al., 2005). Previous studies show that the use of earnings management is constrained. Brown and Pinello (2007) contend that because of the independent audit and stricter expense recognition rules in the fourth quarter, earnings management is easier to detect in the annual reporting process than it is in interim reporting and find that earnings management is more likely to be used in the interim quarter. Das et al. (2011) modelling the probability that a firm engages in earnings management show that earnings management is function of firm-level constraints. Then, managers might use accounting choices too to meet or beat analysts' forecasts as an alternative tool to earnings management.

The accounting choice that should be associated with higher probability to meet or beat analysts' forecasts should be an opportunistic accounting choice - that is, the accounting choice that allows managers to have discretion on accounting numbers. Yet, Bagnoli and Watts (2005) theoretical demonstrate a positive correlation between conservative accounting choices - that is, to

choose the more conservative option among allowable options when reporting discretion is exercised - and the likelihood of the firm to beat earnings expectations. Under conservative choices reported earnings might produce greater reductions in investors' uncertainty about the firm's prospects. However, the very high degree of freedom and low predetermined constraints implied in an opportunistic accounting choices should make easier for managers to meet or beat analysts' forecasts. On the basis of these theoretical arguments I state my first hypothesis:

Hypothesis 1: an opportunistic accounting choice is associated with a higher probability to meet or beat analysts' forecasts.

However, because accounting choices and earnings management have both the power to affect annual report accounting numbers, managers might consider accounting choices and earnings management as different tools available to implement opportunistic behaviors and jointly use them to meet or beat analysts' forecasts. Then, on the basis of this theoretical argument I state my second hypothesis:

Hypothesis 2: earnings management and accounting choices are jointly used to meet or beat analysts' forecasts.

But analysts could be suspicious about managers adoption of an opportunistic accounting choice and the joint use of earnings management. Then, managers might decide to communicate with analysts increasing the level of voluntary disclosure to explain their accounting choice. Gietzmann and Trombetta (2003) theoretical demonstrate that managers decide the level of disclosure once they have done their accounting choices. Moreover, past researches consistently show that managers use voluntary disclosure to communicate to analysts and that analysts consider managers'

voluntary disclosures as credible information (Healy and Palepu, 2001). Then, voluntary disclosure could be an important means for managers in forming analysts' beliefs and help them to create superior forecasts also considering previous managers accounting choices. On the basis of these theoretical findings I state my third hypothesis.

Hypothesis 3: more disclosure on accounting choices is positively associated with the probability to meet or beat analysts' forecasts.

Because managers jointly use accounting choices and disclosure to communicate to analysts (Healy and Palepu, 2001), the different accounting choices and level of disclosure might have an impact on analysts' forecasts properties, namely accuracy and dispersion. Previous research mainly focuses on the effect of mandatory IFRS adoption on analysts' forecast accuracy and dispersion (Byard et al. 2011; Horton et al. 2013; Brown et al. 2013; Beuselinck et al. 2010). Few other researches analyze the incremental impact of specific accounting standards (Panaretou et al. 2013). Considering the important role of financial analysts in producing and interpreting information for participants' capital markets (Ball and Shivakumar, 2008) might be relevant to investigate on the effect of managers accounting choices and disclosure on analysts' forecasts accuracy and dispersion.

Under conservative choices analysts should build their forecasts upon more stable numbers and then should report high earnings forecast accuracy and low dispersion. Conversely, an accounting choice that gives managers a higher degree of flexibility on accounting numbers and imposes lower constraints might generate more value relevant numbers but create a higher volatility. Then, an opportunistic accounting choice should report low earnings forecast accuracy and

high dispersion. However, manager have the possibility to form analysts believes and improve their forecasts also through disclosure. Past literature shows that the firm level of disclosure is related to forecast accuracy (Hope, 2003) and that firms that do more disclosures have less dispersion in analyst forecasts (Lang and Lundholm, 1993). Then, more disclosure on managers accounting choices should increase forecast accuracy and decrease dispersion. Based on these theoretical arguments I state my last hypothesis:

Hypothesis 4.a: an opportunistic accounting choice is negatively associated with forecast accuracy and positively associated with forecast dispersion.

Hypothesis 4.b: more disclosure on accounting choice is positively associated with forecast accuracy and negatively associated with forecast dispersion.

[Insert Figure 2 about here]

3. Research design and methodology

3.1 IAS 38 – Intangible Assets, accounting for brands

IAS 38 - *Intangible Assets* outlines the accounting requirements for intangible assets. It was revised in March 2004 and applies to intangible assets acquired in business combinations occurring on or after 31 March 2004, or otherwise to other intangible assets for annual periods beginning on or after 31 March 2004. An intangible asset to be recorded must have three critical attributes: identifiability, control (power to obtain benefits from the asset) and future economic benefits (such as revenues or reduced future costs). IAS 38 requires a firm to recognize an intangible asset, whether purchased or self-created at cost [IAS 38.24] if, and only if: [IAS 38.21] it is probable that future economic benefits that are attributable to the assets will flow to the

firm and the cost of the asset can be measured reliably. There is a presumption that the fair value represents the cost of an intangible asset acquired in a business combination. However, brands that are internally generated should not be recognized as assets [IAS 38.63], so only acquired brands are recorded in the balance sheet.

For the measurement subsequent to acquisition a firm must choose (i) to classify brands as with finite or indefinite life and (ii) to adopt the cost model or the revaluation model [IAS 38.72].

Managers should choose **indefinite life** when they assess there is not foreseeable limit to the period over which the brand is expected to generate net cash inflows for the firm. A brand with an indefinite useful life is not amortized, but managers should review brand useful life each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that brand [IAS 38.107]. If they do not, the change should be accounted for as a change in an accounting estimates [IAS 38.109]. Managers should choose **finite life** when they assess there is a limited period of benefit to the firm. The cost less residual value of a brand with a finite useful life should be amortized on a systematic basis over that life [IAS 38.97].

Then, IAS 38 - brand measurement is an interesting topic to investigate on managers opportunistic use of accounting choices because of the multiple opportunities managers have to exercise discretion over accounting numbers. In particular, indefinite life choice should give managers higher degrees of freedom to implement opportunistic behaviors to meet or beat analysts' forecasts because of lower constraints and a higher degree of flexibility. Indefinite life compared to finite life implies the absence of a predetermined burden coming from the annual amortization process and the opportunity to estimate yearly the presence and the amount of an impairment loss.

Managers must choose also between cost model and revaluation model, but my analysis will focus only on brand finite life / indefinite life accounting choice. After data hand-collection data show that only one firm chooses revaluation model for its brand. The result is consistent with Christensen and Nikolaev (2013) study on the adoption of IAS 16, IAS 38 and IAS 40 and firm accounting choice between fair value and historical cost. They find for intangible assets that all firms in the sample pre-commit to historical cost model, consistent with the stricter requirements under IFRS for valuing intangible assets at fair value.

[Insert Figure 3 about here]

3.2 Sample and data

The initial sample provided by Bain & Company consists of 856 brands belonging to the luxury industry as specified in 2017. This industry is a good setting because of the relevance of the brand for the business model and the weight of this asset in the balance sheet.

[Insert Table 1 about here]

For the identification of the final sample I have proceed through the following steps: (i) to know brand history to match brand with firm. The search has been conducted using brand website and Orbis Bureau van Dijk database, (ii) to identify worldwide M&A up to year 2016 involving brands. The search has been conducted using Zephyr Bureau van Dijk database, (iii) to check on firm annual report the brand ownership from 2005.

Then, I set some constraints: (i) known brand owner, 810 brands left (ii) brand owner is a listed firm, 241 brands left (iii) known brand

owner country of origin, 184 brands left.

I switch from a brand-firm base to a brand-firm-year base, for a total of 4.248 brand-firm-year observations.

Then, I set further constraints: (i) brand owner must adopt International Financial Reporting Standards or the following alternative standards in the year of the brand accounting choice and subsequent years: Hong Kong Accounting Standards, Singapore Accounting Standards, Chinese Accounting Standards, Indian Accounting Standards², 3.437 brands-firm-years left (ii) brand owner is a strategic owner. Brand owners with the following 3 digits SIC code have been dropped: 599<SIC3<670 and 671<SIC3<700. Firms with SIC3 equal to 671 are strategic holding, then considered in the sample. 3.342 brands-firm-years left.

Subsequently, I start to collect directly from firm annual report yearly data about brand asset. Other brand-firm-year observations have been dropped for the following motivations: (i) the deal is not a new M&A but just following tranches of the previous deal, then the brand owner has already done its brand accounting choice (ii) no brand accounting choices have done for the following reasons: (a) it is an internally generated brand, (b) the M&A is occurred lot of years before 2005 and the brand is fully amortized, (c) the brand value after the M&A has not emerged, (d) the brand is owned by a Joint Venture, (iii) brand owner annual report is not available neither in Datastream nor

² In addition to IFRS, the following standards are considered for the following reasons: (i) Hong Kong Accounting Standards fully converge with IFRS (ii) Listed companies in Singapore are required to use Singapore Financial Reporting Standards, which are substantially converged with IFRS Standards except for IFRS 2. However, with permission of the securities regulator, listed companies may use IFRS Standards as issued by the Board (iii) Indian Accounting Standards are based on and substantially converged with IFRS (iv) Chinese Accounting Standards, because China has adopted national accounting standards that are substantially converged with IFRS Standards.

in the firm web site, (iv) brand owner is a vehicle of a financial entity or bank. 1.134 brand-firm-year observations remain.

Then I set the last constraint: also in the previous three years before the brand accounting choice firms must adopted one of the above-mentioned accounting standards, 950 brand-firm-year observations remain. Finally, I switch from a brand-firm-year observation sample to a firm-year sample (248 firm-year observations remain) and drop observations with missing value. The final sample consists of 172 firm-year observations.

[Insert Table 2 about here]

3.3 Variable measurement

Dependent variables

I define firms that meet or beat analysts' forecasts with a dummy variable (*MBE*) that equals 1 if firm-year actual earnings per share is greater than or equal to the average analysts' forecasts issued between the previous fiscal year annual earnings announcement and the actual fiscal year annual earnings announcement, and 0 otherwise.

I define analysts forecast accuracy (*AF_ACC*) as, among others, in Lang and Lundholm (1996), Barron et al. (1999), Hope (2003), Bozzolan et al. (2009):

$$AF_ACC = - \frac{|\overline{EPS}_t - EPS_t|}{PPS_t}$$

where \overline{EPS}_t is the median of one year ahead analyst' forecasts of EPS for end-of-year t, EPS_t are earnings per share end-of-year t and PPS_t is the price per share beginning-of-year t.

I define analysts forecast dispersion (*AF_DISP*) as, among others, in Lang and Lundholm (1996), Barron et al. (1999), Bozzolan et al. (2009):

$$AF_DISP = \frac{\frac{1}{J} \sqrt{\sum_j (EPS_{tj} - \widehat{EPS}_t)^2}}{PPS_t}$$

where EPS_{tj} is analyst j 's one year ahead earnings per share forecast end-of-year t , \widehat{EPS}_t is the mean of the earnings per share end-of-year t , PPS_t is the price per share beginning-of-year t and J is the number of analysts following the firms.

Following Lang and Lundholm (1996), both variables are scaled by the stock price beginning-of-year t to facilitate the comparison among firms. Forecast accuracy assumes only negative values and values closer to zero indicate less error in the mean forecasts.

Independent variables

Accounting choices data are hand-collected from firm's annual reports. Managers' accounting choice between brand finite and indefinite life is defined as a dummy variable that equals 1 if the firm chooses indefinite life for its brands, and 0 otherwise (*AC*). Managers' accounting choice to do disclosure on brands is defined as a dummy variable that equals 1 if the firm provides information relative to its brand accounting choices, and 0 otherwise (*DISC*).

I use the absolute value of discretionary accruals from the modified Jones Model (Dechow et al., 1995) as a proxy for accrual earnings management (*AEM*). I estimate the model for each year-country and industry combination with at least seven observations.

Controls

I control for variables that are expected to affect the probability to meet or beat analysts' forecasts and analysts' forecast properties. I control for firm growth prospects (*Growth*), computed as the percentage change in revenues over four years, because larger firms and firms with high growth opportunities have a strong incentive to avoid negative earnings news (Skinner and Sloan, 2002). I account for firm profitability, defined as dummy variable that equals 1 if firm earnings in the past four years have increased, and 0 otherwise (*pos_EPS*). I also account for firm earnings per share mean (*mean_EPS*) of firm earnings per share in *year t* and past three years and firm earnings per share standard deviation (*sd_EPS*). I control for debt-contracting-induced variation in reporting incentives (DeFond and Jimbalvo, 1994) using firm financial leverage, computed as end-of-year *t* financial debts (long and short term) scaled by end-of-year *t* book value of equity (*Lev*). I account for firm performance using return on assets (*ROA*), computed as operating income over net operating assets end-of-year *t*. I include also firm size using the log of the firm's total assets end-of-year *t* (*Size*). I control for the strength of the monitoring analysts do and for the pressure on managers to make earnings target (Das et al., 2011) using analyst following, measured as the log of the number of analysts' forecasts issued during the year (*AF*). Finally, I account for firm's brand values (*BrValue*) defined as the firm total value of brands end-of-year *t*, scaled by firm EBITDA end-of-year *t* to control if managers accounting choice depends on possible brand amortization burden.

[Insert Table 3.a about here]

To account for possible outliers all variables are winsorized at 0.005.

3.4 Research model

In order to test my hypotheses on whether the accounting choice is associated with the probability of meeting or beating analysts' earnings forecasts (*MBE*), I use a logit model, with robust standard errors clustered at firm level, with year and industry fixed effects:

Equation 1- MBE

$$MBE = \beta_0 + \beta_1 AC + \beta_2 DISC + \beta_3 AEM + \beta_4 AC_DISC \\ + \beta_5 AC_AEM + \sum_j \beta_j control_j + \varepsilon$$

where all variables have already been defined. According to my hypotheses, I expect (Hypothesis 1) a positive and significant coefficient on β_1 – a more opportunistic accounting choice is associated with a higher probability to *MBE* – ; (Hypothesis 2) a positive and significant coefficient on β_1 , a positive and significant coefficient on β_3 – more earnings management is associated with a higher probability to *MBE* –; and a positive and significant coefficient on β_5 – the joint use of opportunistic accounting choice and earning management is associated with a higher probability to *MBE* –; (Hypothesis 3); a positive and significant coefficient on β_4 - more disclosure on opportunistic accounting choice is associated with a higher probability to *MBE*.

In order to test my hypotheses on whether the accounting choice is associated with the properties of analysts forecast (forecast accuracy and forecast dispersion), I use an OLS model, with robust standard errors clustered at firm level, with year and industry fixed effects:

Equation 2 – Forecast Accuracy

$$AF_ACC = \beta_0 + \beta_1 AC + \beta_2 DISC + \beta_3 AEM + \beta_4 AC_DISC \\ + \beta_5 AC_AEM + \sum_j \beta_j control_j + \varepsilon$$

Equation 3 – Forecast Dispersion

$$AF_DISP = \beta_0 + \beta_1 AC + \beta_2 DISC + \beta_3 AEM + \beta_4 AC_DISC \\ + \beta_5 AC_AEM + \sum_j \beta_j control_j + \varepsilon$$

where all variables have already been defined. According to my hypotheses, I expect (Hypothesis 4a) a negative and significant coefficient on β_1 in *Equation 2* – a more opportunistic accounting choice is negative associated with forecast accuracy - and a positive and significant coefficient on β_1 in *Equation 3* – a more opportunistic accounting choice is positive associated with forecast dispersion; (Hypothesis 4b) a positive and significant coefficient on β_2 and a positive and significant coefficient on β_4 in *Equation 3* – more disclosure on accounting choice is positively associated with forecast accuracy - and a negative and significant coefficient on β_2 and a negative and significant coefficient on β_4 in *Equation 3* – more disclosure on accounting choice is negatively associated with forecast dispersion.

4. Empirical analyses

4.1 Descriptive statistics and correlations

Table 4 presents the descriptive statistics of the main variables used in the analysis. The mean of *MBE* is 0.279, indicating that slightly less than 30% of firms meet or beat analysts' forecasts. The mean of *AF_ACC* is -0.027 and the mean of *AF_DISP* is 0.001.

[Insert Table 4 about here]

Table 5 shows correlation coefficients among the variables. *MBE* is positively correlated with *AC*, suggesting that managers choosing indefinite life are more likely to meet or beat analysts' forecasts. *MBE* is positively correlated with *AEM*, suggesting that managers do earnings management more likely meet or beat analysts' forecasts. Finally, *MBE* is instead negatively correlated with *DISC*. *AF_ACC* is positively correlated with *AC* and negatively with *AEM* and *DISC* while *AF_DISP* is negatively correlated with *AC* and negatively with *AEM* and *DISC*. However, these are only univariate descriptive statistics that do not allow for efficiently describe or measure the strength of relationships between variables.

[Insert Table 5 about here]

4.2 Multivariate analyses

Table 6 reports results for *Equation (1)* estimated through Logit models. Column (1) reports estimates for the base logit model without any interactions between Accounting Choice (*AC*) and Accrual Earnings Management (*AEM*). Column (2) reports estimates for the model with the interaction (*AC_AEM*) between Accounting Choice and Accrual Earnings Management. Column (3) reports estimates for the model with the interaction (*AC_DISC*) between Accounting Choice and the disclosure on the Accounting Choice. Column (4) presents the full model.

The positive (and statistically significant) coefficient on *AC* indicates that, in general, firms are more likely to meet or beat analyst earnings forecasts when they adopt an accounting choice towards the

measurement of intangible assets with an indefinite useful life. Under indefinite life choice managers have less constraints coming from the systematic amortization process and more degrees of freedom as they can choose if and in which amount to record an impairment loss, then they have more discretion on accounting numbers to implement opportunistic behaviors. This is consistent with the fact that, assuming that firms have incentives to meet or beat analysts' forecasts and that earnings management is costly, firms use accounting choices also to meet or beat analysts targets as it represents a low cost strategy for the firm. My regression results show that the adoption of Accrual Earnings Management (*AEM*) practices is not consistently associated with the probability of meeting or beating analysts' forecasts. Regression models in Column (2) and in Column (4) show that the base effect of Accrual Earnings Management (*AEM*) is positive and statistically significant and that interaction effect between the Accounting Choice and Accrual Earnings Management (*AC_AEM*) is negative and significantly significant. These results indicate that Accrual Earnings Management is positively associated with the probability of meeting or beating analysts' forecasts for those firms that classify acquired intangible with a definite useful life, thus amortizing them. Models in Column (2) and in Column (4) show a positive and significant association between Accrual Earnings Management and the probability of meeting or beating analysts' forecasts (Column (2): *AEM* = 11.792 p-value = 0.018; Column (4): *AEM* = 11.802 p-value = 0.018) that is balanced by the opposite sign of the interaction between Accrual Earnings Management and the Accounting Choice (Column (2): *AC_AEM* = -13.216 p-value = 0.016; Column (4): *AC_AEM* = -13.173 p-value = 0.016).

Looking at the sign of the coefficient of the variable *AC* I cannot rule out the possibility that the Accounting Choice is not driven by the

willingness to increase the probability of meeting or beating analysts' forecasts and not by the willingness that the indefinite useful life better represents the value of the asset.

My regression results consistently show a negative coefficient on the variable *DISC* indicating that the level of disclosure that explains the accounting choice and that explains the results of the impairment test conducted at the end of the fiscal year is negatively associated with the probability of meeting or beating analysts' forecasts, probably analysts not perfectly interpret disclosed data producing wrong earnings forecasts that managers then are not able to meet or beat. Models in Column (3) and Column (4) contains the interaction between an accounting choice towards the indefinite useful life of the intangible assets acquired and the disclosure about this choice. These interactions are positive and strongly statistically significant (Column (3): $AC_DISC = 11.361$ p-value = 0.000; Column (4): $AC_DISC = 11.496$ p-value = 0.000) and indicate that the Accounting Choice interacts with the level of disclosure as a tool to meet or beat analyst earnings forecasts. The sign of these interaction terms indicates that disclosures about the accounting choice contributes to meet or beat analyst consensus only for firms that have chosen the indefinite useful life of acquired intangible assets (brands). These results might indicate that disclosure is generally sufficient to explain both the Accounting Choice and the results of the impairment test and this is an evidence that the firm would offer to the market all the rationale behind the accounting choice and that market participants are suspicious about not explained accounting choices. This evidence is in line with my expectations that an aggressive accounting choice towards indefinite useful life of acquired intangibles is under scrutiny by market participants and firms adopting this choice enjoy a higher probability

of meeting or beating analysts targets only when the choice is accompanied by disclosures.

[Insert Table 6 about here]

I now move to investigating Hypothesis 4. Table 7: Panel A contains the OLS regression models on forecast accuracy (*AF_ACC*) for Equation (2) and Table 7: Panel B contains the OLS regression models on forecast dispersion (*AF_DISP*) for Equation (3). Regression results seem to show that the Accounting Choice is not associated with analysts forecast accuracy and forecast dispersion. While empirical results on the association between Accounting Choice and Forecast Accuracy show that this relation is unlikely, I cannot rule out the possibility that the statistically not significant results about the relationship between Accounting Choice and Forecast Dispersion can be explained by the low power of my statistical analyses. I find weak statistical evidence regarding relationship between analysts forecast properties and the disclosure about accounting choice. My results indicate that disclosure (*DISC*) is positively associated with Forecast Accuracy (Table 7: Panel A Column (1): *DISC* = 0.014 p-value = 0.033; Column (2): *DISC* = 0.014 p-value = 0.034). I find a negative and significant association between Accrual Earnings Management (*AEM*) and Forecast Accuracy, the sign indicates that firm who managers do more Accrual Earnings Management reduce the possibility for analysts to do accurate forecasts. Results are more consistent about the relation between disclosure on accounting choice and Forecast Dispersion. My results indicate that disclosure (*DISC*) is negatively associated with Forecast Dispersion (Table 7: Panel B Column (1): *DISC* = -0.001 p-value = 0.086; Column (2): *DISC* = -0.001 p-value = 0.085; Column (3): *DISC* = -0.003 p-value = 0.076;

Column (4) $DISC = -0.003$ and a p-value close to be significant) indicating that all analysts carefully collect disclosure on accounting choice and almost interpret information in the same way thus reducing dispersion between their forecasts.

[Insert Table 7 panel A and panel B about here]

4.3 Robustness tests

Other proxies for variables

My results might be driven by different measures for control variables. I measure the importance of the acquired intangible assets not only in relation to the EBITDA but also in relation to the total assets. I re-run my regression models using different measures of accrual earnings management, considering the performance matched discretionary accrual measure (AEM_k) (Kotari et al., 2005) and not only the Modified Jones model (Dechow et al., 1995).

I also consider the signed earnings management (AEM_s) in order to identify upward and downward earnings management and not only the unsigned earnings management both with the Modified Jones model (Dechow et al., 1995) and the Kotari et al., 2005 model (AEM_k_s). All the results are consistent with the main inferences presented.

[Insert from Table 8 to Table 15 panel A and panel B about here]

Previous reporting and meet/beat earnings target

My research design aims to study if an accounting choice is associated with the meeting or beating of earnings target. Because the most used earnings target is the analysts forecast consensus, this consensus might be driven by firm's previous reporting behavior. An accounting choice that classifies acquired intangibles could be interpreted as a choice

that increase the level of uncertainty making the earnings forecasts more difficult or the risk of a future impairment in relation to the perceived risk of a previous impairment. If a firm has already an experience in acquiring brands, previous impairment of the value indicated that the brand has been overpaid to close the deal. Therefore, analysts might be skeptical, on the one side, about the ability of the firm to successfully close a deal for a brand acquisition and, on the other side, about the “aggressive” accounting choice adopted. For this reason, I re-run our regression models introducing a dummy variable that takes the value of 1 if the firm has registered an impairment loss during the previous three years (*dPrImp*) and I interact this dummy variable with the accounting choice made for the brand (*AC_dPrImp*). Table 15 reports results: Column (1) presents the logit regression model for *MBE*, Column (2) presents the OLS regression model for *AF_ACC* and Column (3) presents the OLS regression model for *AF_DISP*. My results corroborate the findings of my main analyses.

[Insert Table 16 about here]

For the same motivations of the robustness analysis regarding previous impairment, I run my regression models considering if the firm has been able to meet or beat analysts’ forecasts during the previous reporting period. I define the lagged dummy variable about meeting or beating the analysts’ forecasts and use this lagged variable as an independent variable in my regression models (*MBE_1*). Again, I find that my results are substantially unaffected.

[Insert Table 17 about here]

[Insert Table 3.b about here]

5. Conclusion and contribution

This study investigates whether managers use opportunistic accounting choices as an alternative way to accrual earnings management to meet or beat analysts' forecasts and if managers use disclosure as a communication channel to explain their accounting choices to meet or beat analysts' forecasts. Moreover, it analyzes if managers accounting choices and the level of voluntary disclosure on accounting choices affect analysts' forecast properties accuracy and dispersion. I contend and provide empirical evidences that managers use accounting choices and accrual earnings management as two channels to meet or beat analysts' forecasts and that managers choose the level of disclosure to form analysts' beliefs on accounting choices to meet or beat their forecasts. While, the hypothesis on analysts forecast properties is not particularly supported.

The study mainly contributes to accounting choice literature, as it provides evidences that managers consider accounting choices and earnings management separately. It adds also specifically to the literature of earnings management, as results provide evidences that managers use accounting choices and accrual earnings management as two different available tools to meet or beat analysts' forecasts. Moreover, it contributes to the disclosure literature. Past researches show that managers choose the level of voluntary disclosure in accordance to their previous accounting choices and this optimum equilibrium effects the firm cost of capital. My study shows that managers use disclosure also to explain accounting choices to meet or beat analysts' forecasts. The study adds also to the literature on accounting choice specifically related to IFRS context, and in particular to IAS 38 revised. Providing new materials over which standard setters might discuss to improve IFRS with the aim to leave few space for the implementation of managers opportunistic

behaviors. Finally, the study contributes to the intangible assets literature, in particular brand providing further evidences of the importance of this asset in managers decisions and firm evaluation.

Figure 1: Accounting choices versus earnings management

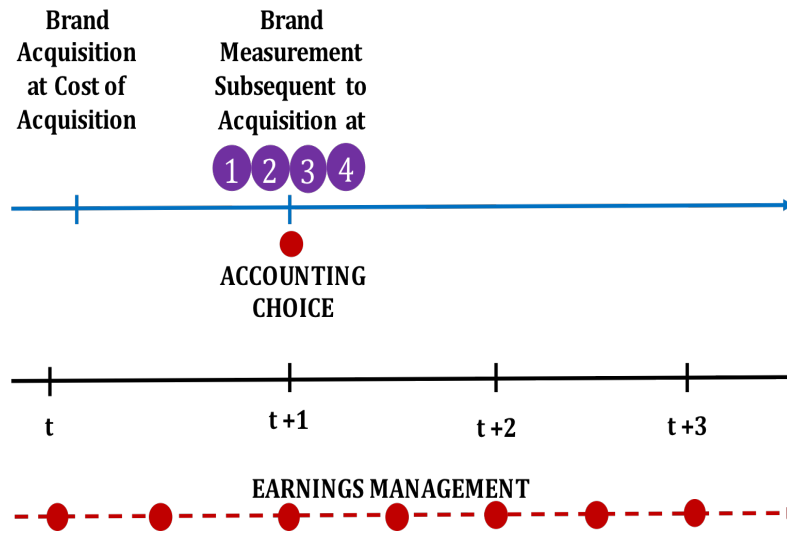


Figure 2: Conceptual model of the study

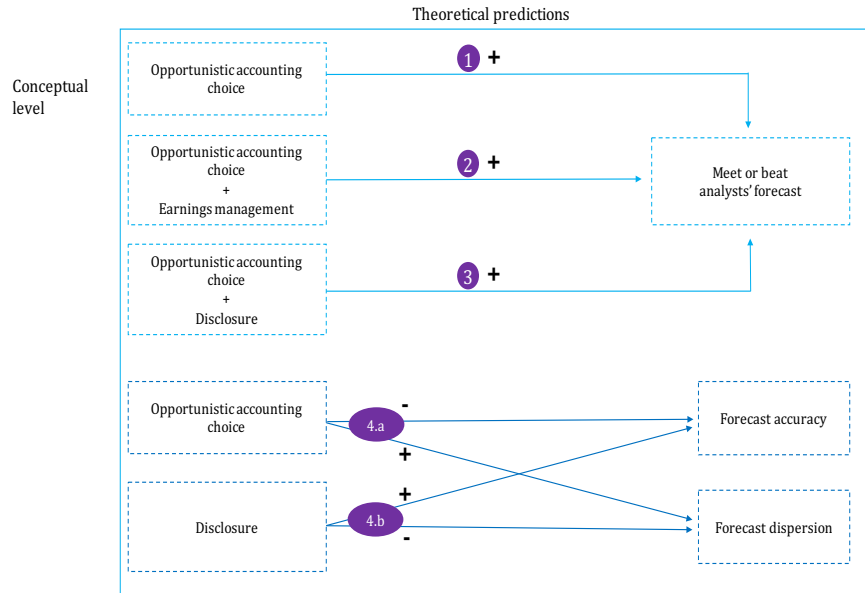


Figure 3: Brand accounting choices according to IAS 38 revised: the four possible combinations

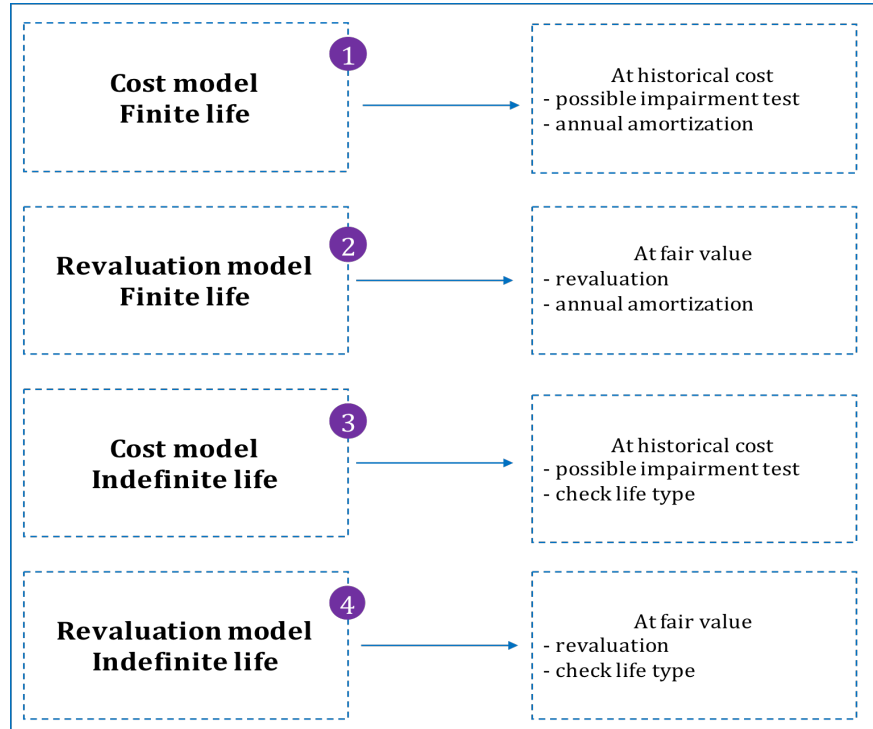
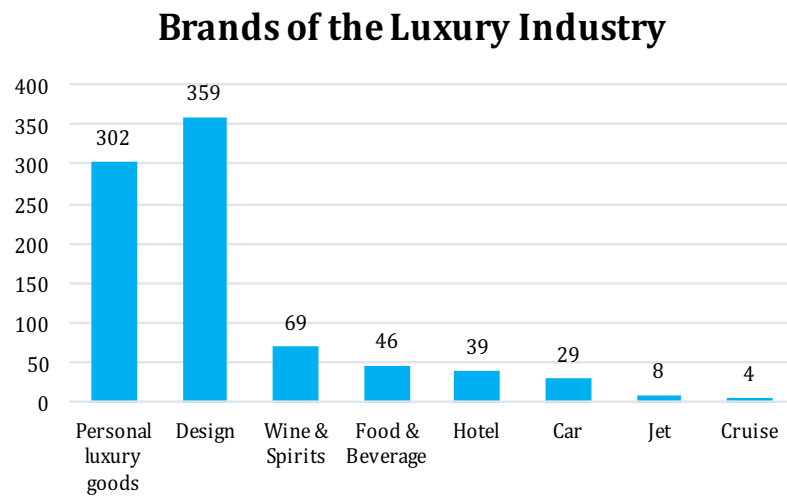


Table 1: Initial Sample



Source: Bain & Company

Table 2: Final Sample

INITIAL BRAND SAMPLE	856
Known brand owner	810
Listed brand owner	241
Unknown brand owner country of origin	184
<hr/>	
<i>FROM BRAND LEVEL TO BRAND-FIRM-YEAR LEVEL</i>	4.248
Accounting standards	3.437
SIC code	3.342
No brand accounting choices	1.134
Accounting standards t-3	950
<hr/>	
<i>FROM BRAND-FIRM-YEAR LEVEL TO FIRM-YEAR LEVEL</i>	248
Missing value	172
FINAL FIRM-YEAR SAMPLE	172

Table 3.a: Variables

VARIABLES		DESCRIPTION	SOURCE
Dependent:			
Meet or Beat	<i>MBE</i>	Dummy variable that equals 1 if firm-year actual earnings per share are greater than or equal to the average analysts' forecasts issued between the previous fiscal year annual earnings announcement and the actual fiscal year annual earnings announcement, and 0 otherwise	I/B/E/S
Analysts' forecast Accuracy	<i>AF_ACC</i>	Negative value of the absolute value of the difference between the median of one year ahead analysts' forecasts of earnings per share for end-of-year t and the earnings per share end-of-year t, scaled by the price per share beginning year t	I/B/E/S
Analysts' forecast Dispersion	<i>AF_DISP</i>	$1/J$ (where J is the number of analysts following the firm) times the square root of the square of the sum of analyst j's one year ahead earnings per share forecast end-of-year t minus the mean of the earnings per share end-of-year t. Scaled by the price per share at the beginning of period t	I/B/E/S
Independent:			
Accounting Choice	<i>AC</i>	Dummy variable that equals 1 if the firm chooses indefinite life for its brands, and 0 otherwise	Hand-collected from annual report
Disclosure	<i>DISC</i>	Dummy variable that equals 1 if the firm provides information relative to its brand accounting choices, and 0 otherwise	Hand-collected from annual report
Absolute Discretionary Accrual	<i>AEM</i>	Absolute value of discretionary accruals from the modified Jones Model (Dechow et al., 1995)	Datastream
Control:			

Firm growth	<i>Growth</i>	Percentage change in Datastream revenues over four years
Firm profitability	<i>pos_EPS</i>	Dummy variable that equals 1 if firm earnings in the past four years have increased, and 0 otherwise
Mean of EPS	<i>mean_EPS</i>	Mean of earnings per share in year t and past three years
Standard deviation of EPS	<i>sd_EPS</i>	Standard deviation of earnings per share in year t and past three years with respect to mean EPS
Financial leverage	<i>Lev</i>	End-of-year t financial debts (long and short term) scaled by end-of-year t book value of equity
Firm performance	<i>ROA</i>	Operating income over net operating assets end-of-year t
Firm size	<i>Size</i>	Log of the firm's total assets end-of-year t
Analyst following	<i>AF</i>	Log of the number of analysts' forecasts issued during the year
Brands value	<i>BrValue</i>	Firm total value of brands end-of-year t, scaled by firm EBITDA end-of-year t

Table 3.b: Variables

VARIABLES		DESCRIPTION	SOURCE
<i>Independent:</i>			
Absolute Discretionary Accrual Kotari	<i>AEMk</i>	Absolute value of discretionary accruals from Kotari et al. (2005)	Datastream
Signed Discretionary Accrual	<i>AEMs</i>	Signed value of discretionary accruals from the modified Jones Model (Dechow et al., 1995)	Datastream
Signed Discretionary Accrual Kotari	<i>AEMks</i>	Signed value of discretionary accruals from Kotari et al. (2005)	Datastream
Brand impairment	<i>dPrImp</i>	Dummy variable that takes the value of 1 if the firm has registered an impairment loss during the previous three years	Hand-collected from annual report

Meet or beat t ₋₁	<i>MBE_1</i>	Lagged dummy variable about meeting/beating the analysts' forecasts	I/B/E/S
Control:			
Brands value	<i>BrValue2</i>	Firm total value of brands end-of-year t, scaled by firm Net Operating Assets end-of- year t	Hand-collected from annual report

Table 4: Descriptive statistics for variables used in analyses

	mean	sd	p5	p25	median	p75	p95
MBE	.279	.449	0	0	0	1	1
AF_ACC	-.027	.058	-.128	-.025	-.007	-.003	-.000
AF_DISP	.001	.002	.000	.000	.000	.002	.008
AC	.738	.440	0	0	1	1	1
DISC	.378	.475	0	0	0	1	1
AEM	.043	.077	.001	.009	.025	.048	.120
Growth	.305	.462	-.132	.080	.212	.407	1.308
BrValue	1.509	1.835	.014	.233	1.232	2.258	5.254
Size	22.556	1.914	19.512	20.839	22.564	24.140	25.369
ROA	.093	.182	.000	.051	.086	.124	.245
Lev	.834	.848	.100	.371	.588	.961	2.336
pos_EPS	.284	.452	0	0	0	1	1
mean_EPS	2.257	3.817	.009	.093	.982	3.146	7.816
sd_EPS	1.380	3.122	.008	.056	.320	1.128	4.821
AF	4.128	1.144	1.945	3.258	4.510	5.084	5.398
<i>N</i>	172						

Table 5: Correlation matrix

	MBE	AF_ACC	AF_DISP	AC	DISC	AEM	Growth	BrValue	Size	ROA	Lev	pos_EPS	mean_EPS	sd_EPS	AF
MBE	1														
AF_ACC	-0.148	1													
AF_DISP	0.124	-0.413***	1												
AC	0.046	0.167*	-0.084	1											
DISC	-0.086	-0.067	0.108	0.140	1										
AEM	0.212**	-0.706***	0.295***	-0.091	0.050	1									
Growth	0.202**	-0.019	0.053	-0.033	-0.059	0.079	1								
BrValue	-0.142	-0.037	-0.199**	0.234**	0.029	0.001	-0.248**	1							
Size	-0.056	0.117	-0.392***	0.126	-0.125	-0.106	-0.176*	0.109	1						
ROA	0.002	-0.014	-0.040	0.064	0.095	0.135	0.081	-0.024	0.036	1					
Lev	-0.096	-0.119	-0.056	-0.090	0.205**	0.000	0.025	0.081	0.116	0.433***	1				
pos_EPS	0.066	0.157*	-0.118	-0.005	0.090	-0.084	0.216**	-0.032	-0.005	0.135	-0.011	1			
mean_EPS	0.031	-0.045	-0.144	0.270***	0.064	-0.067	-0.081	0.140	0.568***	-0.017	0.038	-0.012	1		
sd_EPS	0.085	-0.275***	0.028	0.152*	0.108	0.040	-0.058	0.048	0.392***	-0.084	0.132	-0.086	0.811***	1	
AF	-0.227**	0.215**	-0.490***	0.273***	-0.202**	-0.182*	-0.175*	0.218**	0.691***	0.045	0.143	0.052	0.403***	0.244**	1

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 6: Logit model between the probability to meet or beat analysts' earnings forecasts and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1) MBE	(2) MBE	(3) MBE	(4) MBE
AC	5.898*** (0.001)	7.129*** (0.001)	5.683*** (0.002)	6.958*** (0.003)
DISC	-1.719** (0.040)	-1.827** (0.027)	-13.034*** (0.000)	-13.287*** (0.000)
AEM	3.901 (0.350)	11.792** (0.018)	3.943 (0.344)	11.802** (0.018)
AC_AEM		-13.216** (0.016)		-13.173** (0.016)
AC_DISC			11.361*** (0.000)	11.496*** (0.000)
Growth	1.235 (0.191)	1.636 (0.129)	1.231 (0.190)	1.632 (0.129)
BrValue	-0.091 (0.378)	-0.174 (0.120)	-0.090 (0.385)	-0.173 (0.122)
Size	0.147 (0.371)	0.176 (0.340)	0.149 (0.367)	0.176 (0.340)
ROA	0.375 (0.738)	0.230 (0.830)	0.359 (0.744)	0.226 (0.832)
Lev	-0.220 (0.568)	-0.089 (0.822)	-0.228 (0.554)	-0.094 (0.812)
pos_EPS	-0.053 (0.926)	-0.105 (0.860)	-0.033 (0.954)	-0.090 (0.880)
mean_EPS	-0.022 (0.854)	-0.036 (0.770)	-0.023 (0.849)	-0.036 (0.768)
sd_EPS	0.151 (0.320)	0.159 (0.288)	0.150 (0.323)	0.158 (0.291)
AF	-1.049** (0.014)	-1.215** (0.017)	-1.035** (0.015)	-1.201** (0.019)
Constant	-2.327 (0.529)	-2.893 (0.465)	-2.345 (0.528)	-2.887 (0.467)
Observations	154	154	154	154
year-SIC fixed effect	YES	YES	YES	YES
r2_a	.	.	.	.

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 7 panel A: OLS model between analysts' forecast accuracy and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1) AF ACC	(2) AF ACC	(3) AF ACC	(4) AF ACC
AC	0.008 (0.509)	0.009 (0.571)	0.016 (0.415)	0.017 (0.477)
DISC	0.014** (0.033)	0.014** (0.034)	0.026 (0.204)	0.027 (0.227)
AEM	-0.431*** (0.001)	-0.422*** (0.000)	-0.430*** (0.001)	-0.415*** (0.000)
AC_AEM		-0.013 (0.940)		-0.022 (0.899)
AC_DISC			-0.015 (0.516)	-0.016 (0.522)
Growth	0.012 (0.177)	0.012 (0.185)	0.013 (0.166)	0.013 (0.176)
BrValue	0.001 (0.802)	0.000 (0.842)	0.001 (0.831)	0.000 (0.891)
Size	0.000 (0.969)	0.000 (0.979)	0.000 (0.973)	0.000 (0.990)
ROA	0.035* (0.097)	0.035* (0.094)	0.033 (0.124)	0.033 (0.118)
Lev	-0.013** (0.039)	-0.013** (0.042)	-0.012* (0.074)	-0.011* (0.088)
pos_EPS	-0.000 (0.978)	-0.000 (0.985)	-0.001 (0.907)	-0.001 (0.913)
mean_EPS	0.003*** (0.001)	0.003*** (0.002)	0.003*** (0.001)	0.003*** (0.002)
sd_EPS	-0.008*** (0.000)	-0.008*** (0.000)	-0.008*** (0.000)	-0.008*** (0.000)
AF	0.008 (0.228)	0.008 (0.231)	0.007 (0.287)	0.007 (0.295)
Constant	-0.018 (0.758)	-0.019 (0.742)	-0.015 (0.805)	-0.016 (0.792)
Observations	172	172	172	172
R-squared	0.743	0.743	0.744	0.744
year-SIC fixed effect	YES	YES	YES	YES
r2_a	0.673	0.670	0.671	0.669

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 7 panel B: OLS model between analysts forecast dispersion and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1) AF_DISP	(2) AF_DISP	(3) AF_DISP	(4) AF_DISP
AC	0.001 (0.136)	0.002 (0.143)	0.000 (0.999)	0.000 (0.903)
DISC	-0.001* (0.086)	-0.001* (0.085)	-0.003* (0.076)	-0.003 (0.103)
AEM	0.008 (0.252)	0.012*** (0.008)	0.008 (0.255)	0.010** (0.023)
AC_AEM		-0.004 (0.630)		-0.003 (0.775)
AC_DISC			0.003 (0.175)	0.003 (0.225)
Growth	-0.001* (0.099)	-0.001 (0.104)	-0.001* (0.087)	-0.001* (0.095)
BrValue	-0.000* (0.099)	-0.000** (0.032)	-0.000 (0.134)	-0.000* (0.072)
Size	-0.000 (0.442)	-0.000 (0.417)	-0.000 (0.428)	-0.000 (0.409)
ROA	-0.001 (0.205)	-0.001 (0.201)	-0.001 (0.453)	-0.001 (0.427)
Lev	0.000 (0.459)	0.000 (0.431)	-0.000 (0.988)	0.000 (0.948)
pos_EPS	-0.000 (0.728)	-0.000 (0.765)	-0.000 (0.925)	-0.000 (0.938)
mean_EPS	-0.000 (0.202)	-0.000 (0.203)	-0.000 (0.177)	-0.000 (0.179)
sd_EPS	0.000** (0.017)	0.000** (0.015)	0.000** (0.026)	0.000** (0.025)
AF	-0.001*** (0.001)	-0.001*** (0.001)	-0.001*** (0.001)	-0.001*** (0.002)
Constant	0.011** (0.046)	0.010* (0.055)	0.010* (0.051)	0.010* (0.057)
Observations	172	172	172	172
R-squared	0.549	0.551	0.558	0.559
year-SIC fixed effect	YES	YES	YES	YES
r2_a	0.425	0.423	0.432	0.429

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 8: Logit model between the probability to meet or beat analysts' earnings forecasts and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1) MBE	(2) MBE	(3) MBE	(4) MBE
AC	5.817*** (0.001)	6.806*** (0.001)	5.592*** (0.002)	6.616*** (0.003)
DISC	-1.650* (0.061)	-1.693** (0.050)	-12.993*** (0.000)	-12.608*** (0.000)
AEM	3.157 (0.432)	10.082** (0.038)	3.213 (0.424)	10.114** (0.037)
AC_AEM		-11.481** (0.039)		-11.452** (0.039)
AC_DISC			11.390*** (0.000)	10.956*** (0.000)
Growth	1.377 (0.176)	1.728 (0.130)	1.371 (0.175)	1.723 (0.130)
BrValue2	-1.684 (0.244)	-2.239 (0.137)	-1.648 (0.252)	-2.209 (0.142)
Size	0.140 (0.373)	0.199 (0.281)	0.142 (0.371)	0.199 (0.282)
ROA	0.587 (0.606)	0.464 (0.670)	0.566 (0.612)	0.457 (0.671)
Lev	-0.159 (0.675)	-0.026 (0.946)	-0.171 (0.654)	-0.035 (0.929)
pos_EPS	-0.061 (0.917)	-0.148 (0.810)	-0.039 (0.947)	-0.129 (0.833)
mean_EPS	-0.015 (0.898)	-0.030 (0.801)	-0.016 (0.891)	-0.030 (0.797)
sd_EPS	0.139 (0.342)	0.142 (0.327)	0.138 (0.345)	0.141 (0.329)
AF	-0.973** (0.020)	-1.122** (0.024)	-0.958** (0.022)	-1.107** (0.026)
Constant	-2.406 (0.525)	-3.679 (0.379)	-2.415 (0.526)	-3.670 (0.383)
Observations	156	156	156	156
year-SIC fixed effect	YES	YES	YES	YES
r2_a	.	.	.	.

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 9 panel A: OLS model between analysts forecast accuracy and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1)	(2)	(3)	(4)
	AF ACC	AF ACC	AF ACC	AF ACC
AC	0.007 (0.571)	0.008 (0.598)	0.015 (0.436)	0.017 (0.467)
DISC	0.015** (0.029)	0.015** (0.032)	0.028 (0.208)	0.029 (0.220)
AEM	-0.435*** (0.001)	-0.418*** (0.000)	-0.435*** (0.001)	-0.412*** (0.000)
AC_AEM		-0.024 (0.876)		-0.033 (0.837)
AC_DISC			-0.016 (0.514)	-0.017 (0.503)
Growth	0.012 (0.173)	0.012 (0.180)	0.013 (0.162)	0.013 (0.170)
BrValue2	-0.026 (0.425)	-0.026 (0.427)	-0.026 (0.423)	-0.027 (0.424)
Size	0.000 (0.992)	0.000 (0.989)	0.000 (0.994)	0.000 (0.991)
ROA	0.036* (0.093)	0.036* (0.092)	0.034 (0.117)	0.034 (0.113)
Lev	-0.011 (0.131)	-0.011 (0.141)	-0.010 (0.200)	-0.010 (0.225)
pos_EPS	-0.000 (0.973)	-0.000 (0.982)	-0.001 (0.897)	-0.001 (0.902)
mean_EPS	0.004*** (0.001)	0.004*** (0.001)	0.004*** (0.001)	0.004*** (0.001)
sd_EPS	-0.009*** (0.000)	-0.009*** (0.000)	-0.009*** (0.000)	-0.009*** (0.000)
AF	0.009 (0.174)	0.009 (0.178)	0.008 (0.229)	0.008 (0.239)
Constant	-0.008 (0.898)	-0.009 (0.888)	-0.176* (0.051)	-0.187** (0.017)
Observations	174	174	174	174
R-squared	0.747	0.747	0.747	0.748
year-SIC fixed effect	YES	YES	YES	YES
r2_a	0.678	0.676	0.676	0.674

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 9 panel B: OLS model between analysts forecast dispersion and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1) AF_DISP	(2) AF_DISP	(3) AF_DISP	(4) AF_DISP
AC	0.001 (0.164)	0.001 (0.223)	-0.000 (0.856)	-0.000 (0.857)
DISC	-0.001 (0.164)	-0.001 (0.163)	-0.003* (0.068)	-0.003* (0.081)
AEM	0.008 (0.251)	0.008** (0.016)	0.008 (0.255)	0.007** (0.050)
AC_AEM		-0.001 (0.951)		0.001 (0.923)
AC_DISC			0.003 (0.141)	0.003 (0.161)
Growth	-0.001 (0.181)	-0.001 (0.186)	-0.001 (0.133)	-0.001 (0.138)
BrValue2	-0.001 (0.518)	-0.001 (0.518)	-0.001 (0.581)	-0.001 (0.593)
Size	-0.000 (0.459)	-0.000 (0.463)	-0.000 (0.437)	-0.000 (0.439)
ROA	-0.001 (0.361)	-0.001 (0.365)	-0.000 (0.706)	-0.000 (0.709)
Lev	0.000 (0.575)	0.000 (0.601)	-0.000 (0.877)	-0.000 (0.877)
pos_EPS	-0.000 (0.767)	-0.000 (0.770)	0.000 (0.987)	0.000 (0.989)
mean_EPS	-0.000 (0.192)	-0.000 (0.189)	-0.000 (0.158)	-0.000 (0.157)
sd_EPS	0.000** (0.033)	0.000** (0.030)	0.000** (0.038)	0.000** (0.038)
AF	-0.001*** (0.003)	-0.001*** (0.004)	-0.001*** (0.008)	-0.001*** (0.012)
Constant	0.006 (0.216)	0.006 (0.224)	0.015** (0.023)	0.015** (0.044)
Observations	174	174	174	174
R-squared	0.526	0.527	0.537	0.537
year-SIC fixed effect	YES	YES	YES	YES
r2_a	0.398	0.393	0.407	0.402

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 10: Logit model between the probability to meet or beat analysts' earnings forecasts and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1) MBE	(2) MBE	(3) MBE	(4) MBE
AC	6.033*** (0.000)	7.376*** (0.001)	5.807*** (0.002)	7.095*** (0.002)
DISC	-1.742** (0.045)	-1.831** (0.028)	-12.625*** (0.000)	-13.416*** (0.000)
AEMk	2.750 (0.574)	12.001** (0.030)	2.851 (0.562)	12.332** (0.028)
AC_AEMk		-14.522** (0.015)		-14.790** (0.013)
AC_DISC			10.929*** (0.000)	11.648*** (0.000)
Growth	1.204 (0.194)	1.640 (0.116)	1.200 (0.193)	1.638 (0.115)
BrValue	-0.080 (0.449)	-0.176 (0.117)	-0.079 (0.457)	-0.176 (0.116)
Size	0.146 (0.376)	0.168 (0.352)	0.148 (0.371)	0.169 (0.349)
ROA	0.538 (0.641)	0.322 (0.771)	0.519 (0.646)	0.311 (0.774)
Lev	-0.250 (0.528)	-0.125 (0.754)	-0.257 (0.516)	-0.132 (0.741)
pos_EPS	-0.064 (0.912)	-0.112 (0.853)	-0.043 (0.941)	-0.084 (0.888)
mean_EPS	-0.026 (0.831)	-0.038 (0.759)	-0.027 (0.826)	-0.038 (0.754)
sd_EPS	0.155 (0.310)	0.161 (0.285)	0.154 (0.313)	0.159 (0.288)
AF	-1.050** (0.017)	-1.204** (0.017)	-1.036** (0.018)	-1.183** (0.018)
Constant	-2.337 (0.530)	-2.824 (0.471)	-2.362 (0.528)	-2.833 (0.471)
Observations	154	154	154	154
year-SIC fixed effect	YES	YES	YES	YES
r2_a	.	.	.	.

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 11 panel A: OLS model between analysts forecast accuracy and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1)	(2)	(3)	(4)
	AF ACC	AF ACC	AF ACC	AF ACC
AC	-0.008 (0.544)	-0.006 (0.758)	0.005 (0.804)	0.008 (0.747)
DISC	0.020*** (0.007)	0.019*** (0.006)	0.042 (0.107)	0.042 (0.105)
AEMk	-0.443*** (0.001)	-0.415*** (0.001)	-0.443*** (0.001)	-0.413*** (0.000)
AC_AEMk		-0.038 (0.848)		-0.042 (0.828)
AC_DISC			-0.027 (0.326)	-0.028 (0.320)
Growth	0.012 (0.201)	0.012 (0.210)	0.013 (0.185)	0.013 (0.195)
BrValue	0.000 (0.951)	-0.000 (0.971)	0.000 (0.991)	-0.000 (0.931)
Size	-0.001 (0.700)	-0.001 (0.692)	-0.001 (0.661)	-0.001 (0.652)
ROA	0.031 (0.163)	0.031 (0.157)	0.028 (0.211)	0.027 (0.211)
Lev	-0.015** (0.033)	-0.014** (0.038)	-0.013* (0.066)	-0.012* (0.081)
pos_EPS	0.003 (0.580)	0.003 (0.577)	0.002 (0.708)	0.002 (0.707)
mean_EPS	0.004*** (0.001)	0.004*** (0.001)	0.004*** (0.001)	0.004*** (0.001)
sd_EPS	-0.009*** (0.000)	-0.009*** (0.000)	-0.009*** (0.000)	-0.009*** (0.000)
AF	0.012 (0.103)	0.012 (0.102)	0.011 (0.138)	0.010 (0.138)
Constant	-0.013 (0.830)	-0.015 (0.810)	-0.007 (0.915)	-0.008 (0.896)
Observations	172	172	172	172
R-squared	0.739	0.739	0.741	0.741
year-SIC fixed effect	YES	YES	YES	YES
r2_a	0.667	0.664	0.667	0.665

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 11 panel B: OLS model between analysts forecast dispersion and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1) AF_DISP	(2) AF_DISP	(3) AF_DISP	(4) AF_DISP
AC	0.002* (0.062)	0.002* (0.093)	0.000 (0.854)	0.000 (0.785)
DISC	-0.001** (0.048)	-0.001** (0.047)	-0.004* (0.072)	-0.004* (0.078)
AEMk	0.008 (0.259)	0.010* (0.093)	0.008 (0.254)	0.010* (0.074)
AC_AEMk		-0.003 (0.765)		-0.003 (0.802)
AC_DISC			0.003 (0.169)	0.003 (0.183)
Growth	-0.001 (0.103)	-0.001 (0.112)	-0.001* (0.089)	-0.001* (0.097)
BrValue	-0.000 (0.108)	-0.000** (0.043)	-0.000 (0.145)	-0.000* (0.083)
Size	-0.000 (0.478)	-0.000 (0.460)	-0.000 (0.466)	-0.000 (0.450)
ROA	-0.001 (0.254)	-0.001 (0.223)	-0.001 (0.544)	-0.001 (0.509)
Lev	0.000 (0.374)	0.000 (0.365)	0.000 (0.960)	0.000 (0.909)
pos_EPS	-0.000 (0.612)	-0.000 (0.622)	-0.000 (0.808)	-0.000 (0.812)
mean_EPS	-0.000 (0.195)	-0.000 (0.198)	-0.000 (0.170)	-0.000 (0.174)
sd_EPS	0.000** (0.015)	0.000** (0.014)	0.000** (0.025)	0.000** (0.024)
AF	-0.001*** (0.000)	-0.001*** (0.000)	-0.001*** (0.001)	-0.001*** (0.001)
Constant	0.011* (0.050)	0.011* (0.058)	0.010* (0.056)	0.010* (0.062)
Observations	172	172	172	172
R-squared	0.545	0.546	0.555	0.556
year-SIC fixed effect	YES	YES	YES	YES
r2_a	0.419	0.416	0.428	0.424

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 12: Logit model between the probability to meet or beat analysts' earnings forecasts and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1) MBE	(2) MBE	(3) MBE	(4) MBE
AC	5.905*** (0.001)	6.474*** (0.002)	5.761*** (0.002)	6.361*** (0.004)
DISC	-1.628* (0.051)	-1.779** (0.038)	-12.765*** (0.000)	-11.770*** (0.000)
AEMs	3.514 (0.271)	7.695* (0.067)	3.493 (0.273)	7.644* (0.069)
AC_AEMs		-7.557 (0.129)		-7.494 (0.133)
AC_DISC			11.169*** (0.000)	10.016*** (0.000)
Growth	1.318 (0.181)	1.548 (0.143)	1.314 (0.181)	1.544 (0.143)
BrValue	-0.103 (0.309)	-0.155 (0.167)	-0.102 (0.315)	-0.154 (0.170)
Size	0.149 (0.364)	0.155 (0.364)	0.150 (0.362)	0.155 (0.364)
ROA	0.252 (0.831)	0.219 (0.845)	0.249 (0.832)	0.218 (0.845)
Lev	-0.228 (0.568)	-0.118 (0.762)	-0.236 (0.557)	-0.123 (0.754)
pos_EPS	-0.113 (0.848)	-0.093 (0.872)	-0.098 (0.867)	-0.083 (0.886)
mean_EPS	-0.036 (0.759)	-0.034 (0.776)	-0.037 (0.755)	-0.034 (0.773)
sd_EPS	0.139 (0.362)	0.160 (0.312)	0.138 (0.363)	0.159 (0.314)
AF	-1.004** (0.017)	-1.139** (0.021)	-0.994** (0.018)	-1.129** (0.023)
Constant	-2.448 (0.514)	-2.327 (0.536)	-2.453 (0.514)	-2.326 (0.537)
Observations	154	154	154	154
year-SIC fixed effect	YES	YES	YES	YES
r ² a	.	.	.	.

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 13 panel A: OLS model between analysts forecast accuracy and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1)	(2)	(3)	(4)
	AF ACC	AF ACC	AF ACC	AF ACC
AC	0.007 (0.527)	0.009 (0.471)	0.016 (0.261)	0.020 (0.211)
DISC	0.008 (0.260)	0.007 (0.368)	0.023** (0.044)	0.026** (0.036)
AEMs	-0.364*** (0.007)	-0.290** (0.025)	-0.364*** (0.007)	-0.284** (0.027)
AC_AEMs		-0.109 (0.578)		-0.117 (0.553)
AC_DISC			-0.018 (0.178)	-0.023 (0.149)
Growth	0.010 (0.181)	0.012 (0.155)	0.011 (0.150)	0.013 (0.127)
BrValue	0.003 (0.209)	0.002 (0.315)	0.003 (0.230)	0.002 (0.372)
Size	0.001 (0.717)	0.001 (0.792)	0.001 (0.713)	0.001 (0.795)
ROA	0.047** (0.039)	0.047** (0.029)	0.045** (0.049)	0.044** (0.035)
Lev	-0.014** (0.018)	-0.013** (0.029)	-0.013** (0.033)	-0.012* (0.063)
pos_EPS	0.002 (0.696)	0.003 (0.618)	0.002 (0.783)	0.002 (0.718)
mean_EPS	0.004*** (0.001)	0.004*** (0.001)	0.004*** (0.001)	0.004*** (0.001)
sd_EPS	-0.007*** (0.000)	-0.007*** (0.000)	-0.007*** (0.000)	-0.007*** (0.000)
AF	0.005 (0.304)	0.005 (0.348)	0.004 (0.397)	0.004 (0.484)
Constant	-0.063 (0.194)	-0.057 (0.261)	-0.058 (0.228)	-0.051 (0.319)
Observations	172	172	172	172
R-squared	0.713	0.717	0.714	0.718
year-SIC fixed effect	YES	YES	YES	YES
r2_a	0.634	0.636	0.632	0.635

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 13 panel B: OLS model between analysts forecast dispersion and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1)	(2)	(3)	(4)
	AF_DISP	AF_DISP	AF_DISP	AF_DISP
AC	0.001 (0.108)	0.001 (0.109)	-0.000 (0.935)	0.000 (0.993)
DISC	-0.001 (0.162)	-0.001 (0.167)	-0.003** (0.040)	-0.003** (0.045)
AEMs	0.009 (0.146)	0.011*** (0.001)	0.009 (0.147)	0.011*** (0.001)
AC_AEMs		-0.004 (0.647)		-0.003 (0.743)
AC_DISC			0.003 (0.103)	0.003 (0.132)
Growth	-0.001* (0.075)	-0.001* (0.096)	-0.001* (0.059)	-0.001* (0.080)
BrValue	-0.000* (0.062)	-0.000** (0.017)	-0.000* (0.082)	-0.000** (0.030)
Size	-0.000 (0.430)	-0.000 (0.407)	-0.000 (0.417)	-0.000 (0.398)
ROA	-0.002 (0.103)	-0.002 (0.101)	-0.001 (0.244)	-0.001 (0.223)
Lev	0.000 (0.314)	0.000 (0.286)	0.000 (0.863)	0.000 (0.794)
pos_EPS	-0.000 (0.606)	-0.000 (0.650)	-0.000 (0.808)	-0.000 (0.834)
mean_EPS	-0.000 (0.115)	-0.000 (0.127)	-0.000* (0.100)	-0.000 (0.109)
sd_EPS	0.000* (0.067)	0.000* (0.069)	0.000* (0.089)	0.000 (0.102)
AF	-0.001*** (0.001)	-0.001*** (0.001)	-0.001*** (0.003)	-0.001*** (0.004)
Constant	0.011** (0.032)	0.011** (0.028)	0.011** (0.035)	0.011** (0.030)
Observations	172	172	172	172
R-squared	0.561	0.562	0.569	0.570
year-SIC fixed effect	YES	YES	YES	YES
r2_a	0.439	0.437	0.446	0.443

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 14: Logit model between the probability to meet or beat analysts earnings forecasts and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1) MBE	(2) MBE	(3) MBE	(4) MBE
AC	5.850*** (0.001)	6.517*** (0.003)	5.723*** (0.002)	6.445*** (0.004)
DISC	-1.585* (0.059)	-1.810** (0.040)	-12.413*** (0.000)	-12.376*** (0.000)
AEMks	2.954 (0.347)	7.606* (0.054)	2.926 (0.351)	7.545* (0.057)
AC_AEMks		-8.385* (0.089)		-8.311* (0.094)
AC_DISC			10.856*** (0.000)	10.582*** (0.000)
Growth	1.274 (0.195)	1.568 (0.131)	1.271 (0.194)	1.564 (0.132)
BrValue	-0.101 (0.324)	-0.160 (0.153)	-0.100 (0.330)	-0.160 (0.156)
Size	0.137 (0.398)	0.152 (0.388)	0.138 (0.397)	0.152 (0.388)
ROA	0.289 (0.808)	0.257 (0.818)	0.290 (0.807)	0.257 (0.817)
Lev	-0.243 (0.546)	-0.107 (0.781)	-0.250 (0.536)	-0.111 (0.775)
pos_EPS	-0.098 (0.867)	-0.084 (0.884)	-0.085 (0.885)	-0.078 (0.893)
mean_EPS	-0.035 (0.766)	-0.033 (0.781)	-0.036 (0.763)	-0.034 (0.780)
sd_EPS	0.138 (0.369)	0.166 (0.302)	0.138 (0.370)	0.165 (0.304)
AF	-0.982** (0.020)	-1.156** (0.026)	-0.972** (0.022)	-1.149** (0.027)
Constant	-2.214 (0.554)	-2.211 (0.565)	-2.217 (0.554)	-2.209 (0.566)
Observations	154	154	154	154
year-SIC fixed effect	YES	YES	YES	YES
r2_a	.	.	.	.

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 15 panel A: OLS model between analysts forecast accuracy and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1)	(2)	(3)	(4)
	AF ACC	AF ACC	AF ACC	AF ACC
AC	0.014 (0.238)	0.012 (0.289)	0.018 (0.236)	0.021 (0.178)
DISC	0.003 (0.627)	0.002 (0.742)	0.010 (0.479)	0.017 (0.221)
AEMks	-0.340*** (0.009)	-0.261** (0.023)	-0.340*** (0.010)	-0.253** (0.031)
AC_AEMks		-0.126 (0.504)		-0.136 (0.486)
AC_DISC			-0.008 (0.605)	-0.017 (0.324)
Growth	0.013 (0.120)	0.015 (0.105)	0.014 (0.109)	0.015* (0.093)
BrValue	0.003 (0.204)	0.002 (0.292)	0.003 (0.218)	0.002 (0.346)
Size	0.002 (0.388)	0.002 (0.462)	0.002 (0.385)	0.002 (0.455)
ROA	0.044** (0.046)	0.045** (0.042)	0.042* (0.056)	0.043** (0.046)
Lev	-0.014** (0.018)	-0.013** (0.028)	-0.013** (0.031)	-0.012* (0.059)
pos_EPS	-0.000 (0.983)	0.001 (0.864)	-0.000 (0.943)	0.000 (0.937)
mean_EPS	0.004*** (0.000)	0.004*** (0.000)	0.004*** (0.000)	0.004*** (0.001)
sd_EPS	-0.007*** (0.000)	-0.007*** (0.000)	-0.007*** (0.000)	-0.007*** (0.000)
AF	0.003 (0.561)	0.003 (0.591)	0.003 (0.623)	0.002 (0.724)
Constant	-0.072 (0.126)	-0.067 (0.160)	-0.070 (0.143)	-0.062 (0.202)
Observations	172	172	172	172
R-squared	0.705	0.710	0.705	0.711
year-SIC fixed effect	YES	YES	YES	YES
r2_a	0.623	0.627	0.620	0.626

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 15 panel B: OLS model between analysts forecast dispersion and managers trade-off between brand accounting choices and accrual earnings management

VARIABLES	(1) AF_DISP	(2) AF_DISP	(3) AF_DISP	(4) AF_DISP
AC	0.001 (0.188)	0.001 (0.167)	-0.000 (0.862)	-0.000 (0.891)
DISC	-0.001 (0.279)	-0.001 (0.289)	-0.003** (0.049)	-0.003* (0.058)
AEMks	0.009 (0.133)	0.011*** (0.000)	0.009 (0.138)	0.010*** (0.001)
AC_AEMks		-0.003 (0.750)		-0.001 (0.885)
AC_DISC			0.003 (0.108)	0.002 (0.156)
Growth	-0.001** (0.045)	-0.001* (0.058)	-0.001** (0.040)	-0.001* (0.055)
BrValue	-0.000* (0.057)	-0.000** (0.018)	-0.000* (0.075)	-0.000** (0.032)
Size	-0.000 (0.386)	-0.000 (0.365)	-0.000 (0.375)	-0.000 (0.358)
ROA	-0.001* (0.089)	-0.001 (0.123)	-0.001 (0.223)	-0.001 (0.232)
Lev	0.000 (0.334)	0.000 (0.331)	0.000 (0.847)	0.000 (0.829)
pos_EPS	-0.000 (0.721)	-0.000 (0.768)	-0.000 (0.913)	-0.000 (0.930)
mean_EPS	-0.000 (0.110)	-0.000 (0.118)	-0.000* (0.098)	-0.000 (0.102)
sd_EPS	0.000* (0.069)	0.000* (0.083)	0.000* (0.087)	0.000 (0.121)
AF	-0.001*** (0.002)	-0.001*** (0.002)	-0.001*** (0.004)	-0.001*** (0.006)
Constant	0.011** (0.030)	0.012** (0.027)	0.011** (0.033)	0.011** (0.028)
Observations	172	172	172	172
R-squared	0.565	0.566	0.573	0.573
year-SIC fixed effect	YES	YES	YES	YES
r2_a	0.446	0.443	0.451	0.447

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 16: Logit model for meet or beat and OLS model for forecast accuracy and dispersion to control for impairment loss during the previous three years

VARIABLES	(1) MBE	(2) AF_ACC	(3) AF_DISP
AC	6.828*** (0.007)	0.014 (0.584)	0.000 (0.812)
DISC	-13.459*** (0.000)	0.023 (0.301)	-0.003 (0.158)
AEM	11.439** (0.019)	-0.414*** (0.000)	0.010** (0.020)
AC_AEM	-13.241** (0.017)	-0.024 (0.894)	-0.003 (0.747)
AC_DISC	11.853*** (0.000)	-0.012 (0.632)	0.002 (0.287)
dPrImp	-13.843*** (0.000)	-0.008 (0.645)	0.001 (0.507)
AC_dPrImp	15.306*** (0.000)	0.011 (0.570)	-0.000 (0.758)
Growth	1.409 (0.165)	0.013 (0.186)	-0.001 (0.105)
BrValue	-0.210* (0.092)	0.000 (0.932)	-0.000* (0.056)
Size	0.036 (0.822)	-0.000 (0.886)	-0.000 (0.396)
ROA	0.081 (0.941)	0.030 (0.166)	-0.001 (0.526)
Lev	-0.070 (0.869)	-0.011 (0.138)	-0.000 (0.961)
pos_EPS	0.075 (0.908)	-0.000 (0.979)	-0.000 (0.931)
mean_EPS	-0.043 (0.728)	0.003*** (0.001)	-0.000 (0.175)
sd_EPS	0.158 (0.292)	-0.008*** (0.000)	0.000** (0.021)
AF	-1.233** (0.022)	0.008 (0.280)	-0.001*** (0.002)
Constant	0.308 (0.930)	-0.008 (0.912)	0.011* (0.064)
Observations	154	172	172
R-squared		0.745	0.561
year-SIC fixed effect	YES	YES	YES
r2_a	.	0.664	0.422

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 17: Logit model for meet or beat and OLS model for forecast accuracy and dispersion to control for the ability of firm to meet or beat analysts' forecasts during the previous reporting period

VARIABLES	(1) MBE	(2) AF_ACC	(3) AF_DISP
AC	7.113*** (0.004)	0.022 (0.354)	0.000 (0.884)
DISC	-12.232*** (0.000)	0.033 (0.151)	-0.003 (0.109)
AEM	12.151** (0.021)	-0.399*** (0.000)	0.010** (0.032)
AC_AEM	-13.700** (0.015)	-0.040 (0.808)	-0.003 (0.758)
AC_DISC	10.435*** (0.000)	-0.022 (0.364)	0.003 (0.227)
MBE_1	0.253 (0.678)	0.014** (0.037)	0.000 (0.914)
Growth	1.567 (0.130)	0.012 (0.209)	-0.001* (0.095)
BrValue	-0.174 (0.121)	0.001 (0.793)	-0.000* (0.068)
Size	0.183 (0.336)	0.000 (0.922)	-0.000 (0.402)
ROA	0.286 (0.792)	0.034* (0.094)	-0.001 (0.442)
Lev	-0.068 (0.866)	-0.010 (0.144)	0.000 (0.909)
pos_EPS	-0.059 (0.918)	0.000 (0.996)	-0.000 (0.948)
mean_EPS	-0.033 (0.781)	0.004*** (0.002)	-0.000 (0.175)
sd_EPS	0.153 (0.291)	-0.009*** (0.000)	0.000** (0.024)
AF	-1.240** (0.025)	0.007 (0.304)	-0.001*** (0.001)
Constant	-3.071 (0.451)	-0.018 (0.776)	0.010* (0.055)
Observations	154	172	172
R-squared		0.751	0.559
year-SIC fixed effect	YES	YES	YES
r2_a		0.675	0.424

Robust pval in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

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Chapter III

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