On Wednesday 11 November 05:00-22:00 GMT, we'll be making some site updates on Taylor & Francis Online. You'll still be able to search, browse and read our articles, where access rights already apply. Registration, purchasing, activation of tokens, eprints and other features of Your Account will be unavailable during this scheduled work.

Accounting and Business Research ›

Volume 38, 2008 - Issue 4

1,247 Views | 84 CrossRef citations to date | 0 Altmetric

Original Articles

Analysts' perceptions of 'earnings quality'

Richard Barker & Shahed Imam

Pages 313-329 | Accepted 01 Mar 2008, Published online: 04 Jan 2011

Cite this article https://doi.org/10.1080/00014788.2008.9663344

Sample our Economics, Finance, Business & Industry Journals

>> Sign in here to start your access to the latest two volumes for 14 days

References Citations Metrics Reprints & Permissions

Read this article Share

Abstract

This paper examines sell-side analysts' perceptions of 'earnings quality'. Prior research suggests that analysts' stock recommendations, price targets, earnings forecasts and written reports are relevant to share price formation. One of the main inputs in analysts' forecasting and valuation models is earnings, and analysts' perceptions of earnings quality are therefore important. There is, however, little direct evidence in the literature on what these perceptions are and on what role they have in decision-making. This paper seeks first to understand earnings quality as interpreted by analysts, and it then tests this interpretation against its actual usage in analysts' research reports. An inductive approach is used that combines interview data with content analysis, and the findings are interpreted in the light of findings from market-based and other research. We find that the concept of earnings quality is both

accounting-based (relating to notions of core or sustainable earnings, cash and accrual components of earnings, and accounting policies) and non-accounting-based (relating to information drawn from outside the financial statements). We find more non-accounting than accounting references to earnings quality, and that (relatively subjective) non-accounting references are especially widely used where analysts express positive or negative opinions about earnings quality. It is relatively unusual for an analyst's opinion to be both negative and accounting- based. If, however, an analyst does express negative, accounting-based views on earnings quality, then he or she is highly unlikely to be positive in other respects. We interpret this evidence to be consistent with analysts' economic incentives to generate trading volume yet to be favourably biased towards companies, while seeking to use value-relevant information relating to earnings. We also conclude that the importance of accounting-based information relating to earnings quality is more important than it might seem, and that it exerts a significant influence on the analysis and recommendations in analysts' reports.

Keywords::

earnings quality | analysts' reports | analysts' opinions

Notes

Richard Barker is Senior Lecturer at Judge Business School, University of Cambridge and Shahed Imam is Assistant Professor at Warwick Business School, University of Warwick. The authors are grateful for helpful input from the Editor and the anonymous reviewers; also Rhoda Brown, Colin Clubb, John Holland, Geoff Meeks, Geoff Whittington and Wenjuan Zhang; seminar participants at Cambridge, Cardiff, and Warwick; and conference participants at the BAA. Correspondence should be addressed to: Dr Richard Barker, Judge Business School, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, UK. Tel: +44 (0) 1223 339646. Fax: +44 (0) 1223 339701. E-mail: r.barker@jbs.cam.ac.uk.

Related Research Data

Earnings, Book Values, and Dividends in Equity Valuation*
Source: Contemporary Accounting Research
Investors' Use of Analysts' Recommendations
Source: Behavioral Research in Accounting
GAAP versus The Street: An Empirical Assessment of Two Alternative Definitions of Earnings
Source: Journal of Accounting Research
Reporting Financial Performance
Source: Accounting Horizons
The Relative Informativeness of Analysts' Stock Recommendations and Earnings Forecast Revisions
Source: Journal of Accounting Research
The role of dividends in valuation models used by analysts and fund managers
Source: European Accounting Review
Analyst Impartiality and Investment Banking Relationships

Related research

People also read | Recommended articles | Cited by 84

The Concept of Earnings Quality >

Leopold A. Bernstein et al.
Financial Analysts Journal
Published online: 31 Dec 2018

The Use of Valuation Models by UK Investment Analysts >

Dr Shahed Imam et al.
European Accounting Review
Published online: 11 Oct 2011

Earnings quality and firm value: Does corporate governance matter? >

Panern Intara et al.
Cogent Business & Management
Published online: 6 Aug 2024

View more

Information for

Authors
R&D professionals
Editors
Librarians
Societies

Open access

Overview
Open journals
Open Select
Dove Medical Press
F1000Research

Opportunities

Reprints and e-prints
Advertising solutions
Accelerated publication
Corporate access solutions

Help and information

Help and contact
Newsroom
All journals
Books

Keep up to date

Register to receive personalised research and resources by email

Sign me up

Copyright © 2026 Informa UK Limited Privacy policy
Cookies Terms & conditions Accessibility

Taylor & Francis by informa

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG