

1,230 129

Views | CrossRef citations to date | Altmetric

55

Financial Statement Analysis

# Value Destruction and Financial Reporting Decisions

John R. Graham, Campbell R. Harvey & Shiva Rajgopal

Pages 27-39 | Published online: 02 Jan 2019

🗨️ Cite this article   🔗 <https://doi.org/10.2469/faj.v62.n6.4351>

Sample our Law journals, sign in here to start your FREE access for 14 days

References

Citations

Metrics

Reprints & Permissions

Read this article

Share

## Abstract

The comprehensive survey reported here allowed analysis of how senior U.S. financial

executiv

disclosu

about an

econom

perform

means is

of value

in re

Based on

an addit

shareho

Whereas

manage

use of “r

### We Care About Your Privacy

We and our 880 partners store and access personal data, like browsing data or unique identifiers, on your device. Selecting I Accept enables tracking technologies to support the purposes shown under we and our partners process data to provide. Selecting Reject All or withdrawing your consent will disable them. If trackers are disabled, some content and ads you see may not be as relevant to you. You can resurface this menu to change your choices or withdraw consent at any time by clicking the Show Purposes link on the bottom of the webpage. Your choices will have effect within our Website. For more details, refer to our Privacy Policy. [Here](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device

I Accept

Reject All

Show Purpose

deferring a valuable project or slashing research and development expenditures, is almost always value decreasing.

The survey, administered in the fall of 2003, explored both earnings management and voluntary disclosures in some depth. In addition, from the fall of 2003 to early 2005, we interviewed 22 chief financial officers (CFOs), which added to our understanding of corporate decision making.

Our results indicate that CFOs believe that earnings, not cash flows, are the key metric watched by investors and other outsiders. They consider the two most important earnings benchmarks to be quarterly earnings for the same quarter last year and the analyst consensus estimate.

CFOs believe that hitting earnings benchmarks is very important because such actions build credibility with the market and help maintain or increase the company's stock price in the short run. To avoid the severe market reaction to a failure to deliver on the earnings expectations of analysts and investors, CFOs are willing to sacrifice long-term economic value (such as delaying a valuable project). In contrast, executives say that they are hesitant to use legal—that is, within GAAP—accounting adjustments to hit earnings targets, perhaps as a consequence of the stigma attached to accounting fraud in the post-Enron environment.

Not surpr... 8 percent of  
the surv... both  
earnings... in a missed  
earnings... ort, CFOs  
argued t... ns)  
encoura... gs targets.

We also... We argue  
that... nting  
standar... ual  
estimate... process,  
proactiv... goals, and a  
more ac... terly  
earnings



# Notes

<sup>1</sup> The survey is posted at <http://faculty.fuqua.duke.edu/~jgraham/finrep/survey.htm>.

<sup>2</sup> Examples include a 12 percent response rate reported by [Trahan and Gitman \(1995\)](#) and a 9 percent response rate reported by [Graham and Harvey \(2001\)](#).

<sup>3</sup> This report may be found at [www.sec.gov/news/studies/soxoffbalancerpt.pdf](http://www.sec.gov/news/studies/soxoffbalancerpt.pdf).

## Related Research Data

Reaching the breaking point: a dynamic process theory of business-to-business customer defection

Source: Springer Science and Business Media LLC

The Impact of CFOs' Incentives and Earnings Management Ethics on their Financial Reporting Decisions: The Mediating Role of Moral Disengagement

Source: Springer Science and Business Media LLC

Dynamics of value-based management: does shareholder value cause short-termism?

Source: Springer Science and Business Media LLC

The I

Source

Short

Source

The s

Source

Deter

value

S

H

Source

Corpe

Source

Comp

Years

Source



The Effect of ERP System Implementations on the Management of Earnings and Earnings Release Dates

Source: American Accounting Association

Value creation in the quadruple helix


Source: Wiley

The Misrepresentation of Earnings

Source: Informa UK Limited

Financial regimes, financialization patterns and industrial performances: preliminary remarks

Source: HAL CCSD

Linking provided by 

## Related research

People also read

Recommended articles

Cited by  
129



Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

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

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

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

Accessib

Registered  
5 Howick Pl

or & Francis Group  
orma business

