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The effect of Sticky of Manager's Expectations on Earnings Quality

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Abstract

The predictions provided by managers about future profitability will help investors make optimal decisions. Like other information, the value of these predictions depends on their accuracy. Revision of past predictions leads to a prediction error. The revisions are made as a result of new information. On the other hand, some managers revise their predictions slowly in response to new information. The present study is to study the effect of stickiness of managers' expectations on earnings quality. In this research, earnings quality is calculated using Penman (2001), Barton and Simco (2002) and Luez & et al. (2003) models.

Statistical population of the research, all companies accepted in Tehran Stock Exchange and selected sample after removal of companies that did not have the required criteria of the researcher included data of 178 companies for the period of 5 years from 1391 to 1396 using the Multivariate Regression Model and the combined data Analyze information and test hypotheses. The results show that the Sticky of manager's expectations to the calculated earnings quality has a negative and significant effect on Penman's model. Also, the Sticky of managers' expectations to the calculated earnings quality has a negative and significant effect on the Barton-Symco and Lewes patterns. According to the results of all three models of earnings quality, it can be said that sticky expectations of managers have affected the quality of earnings.

Keyword: Sticky of manager's expectations, earnings quality, Barton-Simco's model, Penman's model. Leuz's model.

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