



Earnings Management: Do Firms Play “Follow the Leader”?

—An Empirical Analysis Based on the Chinese Stock Market

Yiwen Gu

Fudan University, Shanghai 200433, China

yiwenapril@163.com

Abstract. In this study, we investigate whether the performance disclosure of one firm influences the discretionary reporting choices of another firm. To test this, we identify an industry leader, defined as the first large announcing firm in the industry. Our findings show that the discretionary performance of follower firms—those that release their announcements after the leader—is positively associated with the leader’s reported results. When the leader fails to meet analysts’ forecasts, followers tend to report lower discretionary accruals and are less likely to meet analysts’ expectations themselves. Conversely, when the leader reports favorable results, followers exhibit higher discretionary accruals and have a greater likelihood of meeting expectations. Taken together, these findings suggest that managers of follower firms believe the leader’s earnings announcement shapes investors’ and other stakeholders’ expectations regarding their own firm’s performance, which strengthens the inclination to adjust their reporting strategies.

Keywords: earnings management; discretionary accruals; analysts’ forecast; herd effect

1 Introduction

Numerous studies have indicated that managers manipulate financial report data to meet the expectations of secondary market analysts or achieve other earnings targets, such as fabricating revenues and overstating business performance², thereby conveying misleading information to investors. On the one hand, financial fraud undermines the credit foundation and market confidence of the securities market at the macro level and disrupts market operation; on the other hand, it infringes upon the interests of investors at the micro level⁴, which merits in-depth research. However, existing studies have not examined whether such manipulation is influenced by the performance disclosed by other enterprises: if other enterprises in the same industry disclose bad news in their financial reports, the cost for a given enterprise to disclose bad news as well will be reduced. Conversely, if other enterprises release favorable performance information in their financial reports, it will exert pressure on the

management of the given enterprise and strengthen their inclination to report good news³.

In their paper *Earnings Management: Do Firms Play “Follow the Leader”* published in *Contemporary Accounting Research*, Volume 33, 2016, Brian Bratten, Jeff L. Payne and Wayne B. Thomas identified and explored the follow-the-leader behavior of some enterprises in the process of financial disclosure based on data from the US market⁵. Inspired by this study, this paper, against the backdrop of the Chinese market, aims to investigate whether the aforementioned herd effect exists among Chinese enterprises. The research is intended to provide a certain basis for government market regulation⁹, restore a more authentic reflection of corporate performance for investors, help them make more rational investment decisions and avoid investment risks.

2 Data

Our study collects the annual report data of all Chinese enterprises listed on the A-share market from 2007 to 2022 from the CSMAR Database, with information related to financial reports, analyst forecasts, stock prices and disclosure behaviors.

Enterprises are classified into 86 industries in accordance with the 2012 version of the Industry Classification Standards issued by the China Securities Regulatory Commission (CSRC), with 4 categories of financial enterprises excluded. Subsequently, *industry leaders* for different industries and fiscal years are defined based on the date of annual report disclosure and enterprise market capitalization (the top 10% by market capitalization within the industry). If more than one large enterprise discloses its annual report on the same day, the enterprise with the largest market capitalization is selected as the industry leader by corporate scale. Correspondingly, *follower enterprises* are defined as all enterprises in each industry that disclose their annual reports later than the industry leader (with an interval of no less than 5 days). The *analyst forecasted earnings* of an enterprise refer to the median value of all publicly available analyst forecasted earnings within the period of 180 days to 1 day prior to the enterprise's earnings disclosure.

After excluding the samples that fail to meet the above requirements and those with missing values, a total of 469 observations of industry leaders and 10,087 observations of follower enterprises are obtained. The names and explanations of the variables included in the dataset are presented in *Table 1*:

Table 1. Variable Definition

Variable Name	Data Type	Definition
<i>MBE</i>	Nominal	Whether the actual disclosed earnings per share (EPS) of follower enterprises is higher than the analyst forecast: 1 = Yes, 0 = No
<i>LeaderMiss</i>	Nominal	Whether the EPS reported by the corresponding leading enterprise fails to meet analyst expectations (falling short of the forecast by more than 0.05 CNY): 1 = Yes, 0 = No

<i>LeaderNeutral</i>	Nominal	Whether the EPS reported by the corresponding leading enterprise meets analyst expectations (the difference from the forecast ranging from -0.05 to 0.05 CNY): 1 = Yes, 0 = No
<i>LeaderBeat</i>	Nominal	Whether the EPS reported by the corresponding leading enterprise exceeds analyst expectations (surpassing the forecast by more than 0.05 CNY): 1 = Yes, 0 = No
<i>Market Capitalization</i>	Continuous	Annual total market capitalization of individual stocks: The product of the total issued shares of an individual stock and its annual closing price (Unit: million CNY)
<i>Book/Market</i>	Continuous	End-of-period book-to-market ratio: Paid-in capital of the enterprise divided by its market capitalization
<i>Analyst Following</i>	Integer	Number of analysts providing forecasts for the enterprise's current period earnings in the Analyst Forecast Module of CSMAR
<i>Dispersion</i>	Continuous	Standard deviation of analysts' EPS forecasts divided by the year-end closing price of the enterprise's stock
<i>Sales Growth</i>	Continuous	YoY growth rate of current period operating revenue: The growth in operating revenue of the current period relative to the previous period divided by the operating revenue of the previous period
<i>NOA</i>	Continuous	Net operating assets: Defined as the beginning balance of (paid-in capital minus cash and cash equivalents plus total liabilities), standardized by dividing by the total operating revenue of the current period
<i>Days to Announce</i>	Integer	Number of days between the annual report submission deadline (April 30 each year) and the enterprise's annual report disclosure date
<i>Large</i>	Nominal	Whether the enterprise's market capitalization exceeds the industry median: 1 = Yes, 0 = No

Among these variables, the indicator variable *MBE* is the dependent variable investigated in this paper, which denotes whether the actual disclosed earnings per share (EPS) of follower enterprises exceeds the analyst forecasts. As a criterion for measuring the reported performance of follower enterprises, it can comprehensively gauge the series of adjustment behaviors that enterprises may adopt based on their earnings management techniques. The remaining variables cover information across multiple characteristic dimensions, including the enterprises' own fundamental performance, the financial reporting performance of the corresponding industry leaders, and market attention (reflected in *Analyst Following*). Subsequent analysis will further explore the correlations among all variables, particularly the relationships between the independent variables *LeaderMiss*, *LeaderBeat* and the dependent variable *MBE*. This exploration can to a certain extent test the research question of this study and reflect the impact of industry leaders' financial reporting performance on other enterprises within the same industry.

3 Descriptive Analysis

3.1 Exploratory Data Analysis

Preliminary processing was conducted on the raw data of industry leaders and follower enterprises separately, with the results presented as follows.

Table 2. Data Summary

	Mean	SD	25th percentile	Median	75th percentile
Panel A: Leaders (469 firm years)					
<i>Days to Announce</i>	39.002	15.977	31	37	45
<i>MBE</i>	0.412				
<i>Market Capitalization</i>	75877.978	84239.22	25873.85	47210.121	95134.442
<i>Book/Market</i>	0.089	0.084	0.03	0.06	0.122
<i>Analyst Following</i>	19.518	15.915	7	17	28
<i>Dispersion</i>	0.005	0.012	0.001	0.003	0.005
<i>NOA</i>	0.92	0.911	0.342	0.676	1.196
<i>Sales Growth</i>	0.289	0.568	0.036	0.15	0.326
Panel B: Followers (10087 firm years)					
<i>Days to Announce</i>	17.108	14.577	4	13	30
<i>MBE</i>	0.357				
<i>Market Capitalization</i>	17521.423	33522.671	4672.93	8575.997	17475.103
<i>Book/Market</i>	0.1	0.079	0.048	0.079	0.128
<i>Analyst Following</i>	7.462	8.993	2	4	10
<i>Dispersion</i>	0.004	0.009	0	0.002	0.004
<i>NOA</i>	1.209	12.022	0.396	0.666	1.143
<i>Sales Growth</i>	0.218	0.456	0.012	0.135	0.291

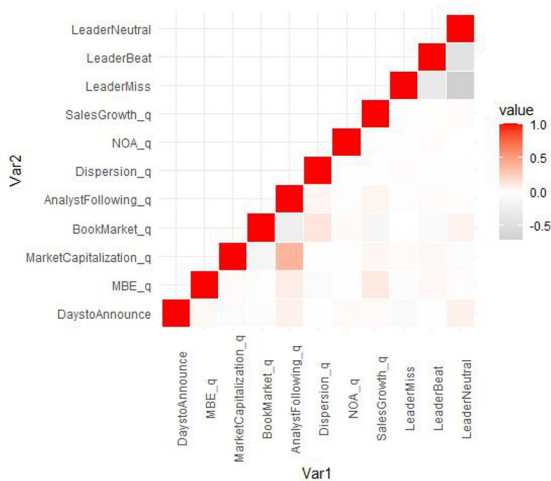


Fig. 1. Correlation Matrix of the Main Variables

Results from the following heatmap **Fig. 1** indicate that the correlation coefficients among all independent variables are below 0.5, which suggests the absence of multicollinearity. Meanwhile, the dependent variable *MBE* is correlated with all independent variables, yet such correlations are weak and thus warrant further analysis and processing in subsequent research.

3.2 Contingency Table Analysis

Follower enterprises are divided into three groups: the group where their corresponding industry leaders fail to meet analyst expectations (*LeaderMiss=1*), defined as the leaders' reported earnings per share (EPS) falling short of the forecasts by more than 0.05 CNY; the group where leaders meet analyst expectations (*LeaderNeutral=1*), defined as the leaders' EPS deviation from the forecasts ranging from -0.05 to 0.05 CNY; and the group where leaders beat analyst expectations (*LeaderBeat=1*), defined as the leaders' reported EPS surpassing the forecasts by more than 0.05 CNY. The threshold of 0.05 CNY is adopted as the mean value of the unexpected earnings of industry leaders is approximately 0.045 CNY (**Table 2**).

On this basis, group statistics are conducted on *MBE*—the proxy variable for earnings management of follower enterprises—to examine their tendency to report financial performance that exceeds analyst forecasts.

As shown in **Table 3**, the proportion of follower enterprises with actual disclosed EPS higher than analyst forecasts stands at 32.8% when industry leaders miss forecasts. In comparison, this number reaches 36.5% when leaders meet forecasts, and climbs to a higher level of 39.5% when leaders beat forecasts. Results of the t-test indicate that the inter-group differences are statistically significant and pass the robustness test with slightly adjusted group division thresholds. Specifically, when the threshold is redefined such that leaders beating forecasts is an EPS surplus of 0.04 CNY, leaders meeting forecasts is an EPS deviation between -0.04 and 0.04 CNY, and leaders missing forecasts is an EPS shortfall of 0.04 CNY, the proportions of follower enterprises with actual disclosed EPS higher than analyst forecasts across the three groups are 32.9%, 35.9% and 40.4% respectively, with all inter-group differences significant at the 1% level.

A further Pearson chi-square test is performed, and the results show a *p-value* < 0.05, which leads to the rejection of the independence hypothesis. It is thus concluded that *MBE* (whether the actual disclosed EPS of follower enterprises is higher than analyst forecasts) is indeed associated with the reported performance of industry leaders.

Finally, the odds ratios of the sample are calculated by merging the contingency tables (**Table 4** and **Table 5**). It is found that the odds of follower enterprises disclosing EPS higher than analyst forecasts are only 0.82 times that of the other groups when industry leaders miss forecasts; in contrast, this odds rises to 1.21 times that of the other groups when leaders beat forecasts. This finding is consistent with the hypothesis: when follower enterprises observe industry leaders beat analyst forecasts, they are more inclined to engage in earnings manipulation to report higher earnings.

Table 3. Contingency Table Analysis

<i>MBE</i>	<i>LeaderMiss</i> =1 (N ₁ =3453)	<i>LeaderNeutral</i> =1 (N ₂ =4969)	<i>LeaderBeat</i> =1 (N ₃ =1665)
0	2320 (0.672)	3155 (0.635)	1007 (0.605)
1	1133 (0.328)	1814 (0.365)	658 (0.395)
Independent-samples t-test for differences in means between groups			
<i>Miss versus Neutral</i>	0.0369***		
<i>Beat versus Neutral</i>	0.0301**		
Pearson chi-square test			
<i>Pearson X²</i>	24.516 (df=2)		
<i>p-value</i>	<0.001***		

Table 4. *LeaderMiss*× *MBE*

<i>LeaderMiss</i>	<i>MBE</i>	
	1	0
1	1133	2320
0	2472	4162
<i>Odds Ratio</i>	0.82	

Table 5. *LeaderBeat*× *MBE*

<i>LeaderBeat</i>	<i>MBE</i>	
	1	0
1	658	1007
0	2947	5475
<i>Odds Ratio</i>	1.21	

Note: The observations with *LeaderMiss* = 0 are equivalent to the combined samples with *LeaderNeutral* = 1 and *LeaderBeat* = 1; similarly, the observations with *LeaderBeat* = 0 correspond to the combined samples with *LeaderMiss* = 1 and *LeaderNeutral* = 1.

The above descriptive statistical results are based on the assumption that observations are independently and identically distributed within each group and do not control for potential confounding factors. Therefore, these results can only provide intuitive and preliminary insights. In the subsequent section, more in-depth analysis will be conducted by estimating appropriate regression models.

4 Logistic Regression Analysis

4.1 Main Model

MBE is specified as the dependent variable, and the model is estimated using logistic regression. The model is expressed as follows:

$$\begin{aligned}
& \text{Logit}(P\{MBE = 1\})_y \\
&= \gamma_1 \text{LeaderMiss}_y + \gamma_2 \text{LeaderBeat}_y \\
&+ \gamma_3 \ln(\text{MarketCapitalization}_y) \\
&+ \gamma_4 \text{Book/Market}_y + \gamma_5 \text{AnalystFollowing}_y \\
&+ \gamma_6 \text{Dispersion}_y + \gamma_7 \text{NOA}_y + \gamma_8 \text{SalesGrowth}_y \\
&+ \gamma_{10} \text{DaystoAnnounce}_y + \text{IndustryFE}_y \\
&+ \text{YearFE}_y + v_y
\end{aligned}$$

where y denotes the current fiscal year.

The model includes *Market Capitalization*, *Book-to-Market*, and *Analyst Following* to control for the effects of firm size and the information environment. Larger firms tend to attract greater analyst coverage and may be less inclined to engage in earnings management due to lower operational uncertainty. Firms with relatively low book-to-market ratios (e.g., high-growth firms) may inherently have stronger incentives to report financial growth. *NOA* is included in the regression to control for constraints on accrual-based earnings management. *Sales Growth* is incorporated because managerial behavior may be influenced by the firm's growth rate. *Days to Announce* is included to control for managers' incentives to delay the disclosure of unfavorable information. The estimation results of the model are reported in **Table 6**.

Table 6. Test of Earnings Management

	Dependent Variable		
	<i>MBE</i>		
	Hypothesis	Actual Coefficients	<i>p-value</i>
<i>LeaderMiss</i>	-	-0.097	0.072
<i>LeaderBeat</i>	+	0.109	0.098
<i>ln(Market Capitalization)</i>		-0.003	0.907
<i>Book/Market</i>		0.631	0.097
<i>Analyst Following</i>		0.022	<0.001
<i>Dispersion</i>		-34.6	<0.001
<i>Sales Growth</i>		0.474	<0.001
<i>NOA</i>		-0.073	0.011
<i>Days to Announce</i>		0.003	0.069
<i>Industry Fixed Effects</i>		Yes	0.059
<i>Year Fixed Effects</i>		Yes	0.009
<i>Deviance</i>		306 (<i>df</i> =9)	<0.001
<i>N</i>		10087	
<i>Test: LeaderMiss=LeaderBeat</i>			0.003

Note: All reported *p*-values for the estimated coefficients are based on two-sided tests. Industry and year fixed effects (implemented as two sets of categorical variables) are included in the coefficient estimation. However, when computing the model goodness-of-fit statistic (Deviance), fixed effects are excluded from the

regression. Likelihood ratio tests are employed to examine the joint significance of year and industry fixed effects, as well as the null hypothesis that the coefficient before *LeaderMiss* equals that of *LeaderBeat*.

We first examine the effects of the control variables other than *LeaderMiss* and *LeaderBeat*. *Analyst Following* and *Sales Growth* exhibit significantly positive effects on the dependent variable *MBE*. One possible explanation is that firms receiving greater market attention face stronger pressure to meet or exceed market expectations¹⁰, while firms with faster performance growth may have greater capacity to convey more optimistic signals. In contrast, *Dispersion* and *NOA* have significantly negative effects on *MBE*. Firms with greater earnings volatility are likely to face higher operational uncertainty and therefore tend to adopt a more conservative approach when disclosing financial performance. A higher level of *NOA*, which reflects higher net operating working capital, implies a greater proportion of idle liquid assets relative to current liabilities. Such a capital structure suggests limited investment opportunities and reduced growth potential, as excessive current assets—while more liquid and less risky than non-current assets—are typically less profitable, and insufficient current liabilities indicate a weaker ability to leverage. Consequently, these firms are less inclined to report earnings that exceed market expectations.

Turning to the two key variables of interest, the effect of *LeaderMiss* on the dependent variable is statistically significant and consistent in direction with the descriptive results. Specifically, the likelihood of *MBE* is negatively associated with *LeaderMiss*, which aligns with the earlier argument that when leading firms report poor financial performance, managers of follower firms face reduced pressure to disclose earnings that exceed investor expectations. The effect of *LeaderBeat* on *MBE* is also statistically significant and in the anticipated direction.

Further evidence on follower firms' managerial responses to information disclosed by leading firms is obtained by comparing the coefficients of *LeaderMiss* and *LeaderBeat* (see the last row of **Table 6**). The difference between these two coefficients is statistically significant, providing additional support for the hypothesis that discretionary disclosure behavior by follower firms is positively associated with the financial reporting performance of leading firms.

To further assess the economic significance of the results reported in **Table 6**, we examine the magnitude of the estimated regression coefficients. When *MBE* is specified as the dependent variable, the coefficient on *LeaderMiss* is -0.097 . This indicates that, when the leading firm fails to meet analysts' forecasts, the relative advantage of follower firms meeting (rather than missing) analysts' expectations decreases by approximately $e^{\text{beta}} - 1 = 9.2\%$ compared to the benchmark case in which the leading firm meets analysts' forecasts. The coefficient on *LeaderBeat* is 0.109 , suggesting that, relative to the case in which the leading firm meets analysts' forecasts, follower firms experience an approximately 11.5% increase in the relative likelihood of meeting (rather than missing) analysts' expectations when the leading firm beats analysts' forecasts.

4.2 Robustness Test

4.2.1 Excluding Industry Effects.

Although the preceding analysis provides evidence supporting a positive association between follower firms’ discretionary disclosure behavior and the financial reporting performance of leading firms, it does not explicitly account for industry-level influences on financial reporting. When an industry experiences a downturn, both leading and follower firms may be adversely affected and consequently disclose “bad news”, even in the absence of discretionary disclosure behavior. This section examines whether the documented results are driven by such industry-wide effects.

We first focus on a subsample of 1,490 firms (3,909 firm-year observations) that disclose their financial reports prior to the leading firms within their respective industries. This subsample serves as a valuable benchmark because, at the time these firms announce their earnings to investors, they do not yet observe the financial performance of the industry leaders for that fiscal year. As a result, they are unable to manage or manipulate their earnings in response to the leading firms’ reporting outcomes. Nevertheless, their earnings may still resemble those of the main sample due to exposure to common industry-wide shocks. These firms were not classified as industry leaders initially because their market capitalization did not place them among the top decile within the industry.

For firms that disclose earnings ahead of industry leaders, the association between whether their reported EPS exceed analysts’ forecasts (*MBE*) and the financial reporting performance of leading firms is not statistically significant. As shown in **Table 7**, though the coefficients on *LeaderMiss* and *LeaderBeat* carry signs consistent with the baseline results, their *p-values* are large and fail to reach conventional levels of statistical significance. Moreover, the null hypothesis that the marginal effects of *LeaderMiss* and *LeaderBeat* on *MBE* are equal cannot be rejected at the 5% significance level (*p-value* = 0.066). These findings suggest that firms disclosing earnings prior to industry leaders exhibit earnings management behavior that is not fully comparable to that of follower firms. Consequently, the likelihood that the earlier results are driven by industry-wide fluctuations is substantially reduced.

Table 7. Relationship Between Pre-Leader Firms’ Disclosures and Leader Firms

	Dependent Variable		
	<i>MBE</i>		
	Hypothesis	Actual Coefficient	<i>p-value</i>
<i>LeaderMiss</i>	-	-0.075	0.38
<i>LeaderBeat</i>	+	0.135	0.263
<i>Control Variables</i>		Yes	
<i>N</i>		3909	
<i>Test: LeaderMiss=LeaderBeat</i>			0.066

Second, we exploit a subset of firms that disclose earnings prior to industry leaders, consisting of 469 firm-year observations in which a firm is the first to

announce earnings within its industry-year. These firms are referred to as “pre-leader firms”.

The regression results indicate that follower firms’ earnings management behavior is unrelated to whether the corresponding pre-leader firms meet analysts’ forecasts. As reported in **Table 8**, the effects of *PreleaderMiss* and *PreleaderBeat* on *MBE* are statistically insignificant, regardless of whether *LeaderMiss* and *LeaderBeat* are included as control variables in the regression model. These findings provide further evidence that the main results documented earlier are unlikely to be driven by industry-wide shocks or common industry-level fluctuations.

Table 8. Follower Firms’ Responses to Pre-Leader Firms’ Earnings Disclosures

	Hypothesis	Dependent Variable	
		<i>MBE</i>	
		Actual Coefficient	<i>p-value</i>
<i>PreleaderMiss</i>	-	-0.019	0.721
<i>PreleaderBeat</i>	+	0.027	0.711
<i>LeaderMiss</i>	-	-0.096	0.102
<i>LeaderBeat</i>	+	0.096	0.179
<i>Control Variables</i>		Yes	
<i>N</i>		10087	
<i>Test: LeaderMiss=LeaderBeat</i>			0.004

In summary, it can be concluded that the discretionary reporting behavior of follower firms is indeed driven by the disclosure information of leading firms, rather than by average industry performance.

4.3 Heterogeneity Analysis of Leading Firms’ Influence

4.3.1 Disclosure Interval.

In this analysis, follower firms that disclosed earnings within five days after the leading firm’s announcement were excluded, as these followers may not have had sufficient time to respond to the earnings information disclosed by the leading firm⁸. Based on prior studies, a 5-day interval provides followers adequate opportunity to engage in earnings management while accounting for audit scrutiny. In the main sample, the average time difference between the disclosure of follower firms and leading firms is 22 days. To allow follower firms more time to respond, we select a subsample of follower firms that disclosed earnings at least 10 days after the leading firm and repeat the previous analysis.

Table 9 reports the results of the logistic regression for the key variables using this reduced sample (for brevity, the estimated coefficients of control variables are omitted). For *MBE*, although the coefficients on *LeaderMiss* and *LeaderBeat* are not statistically significant, their signs are consistent with prior expectations, and the difference between the two coefficients is statistically significant.

We also estimate the parameters of the main model using an alternative subsample consisting of firms that disclosed earnings within 2 days after the leading firm (3,303

observations). For this subsample, *LeaderMiss* and *LeaderBeat* do not significantly affect the dependent variable *MBE*, and the difference between their coefficients is also insignificant (out-of-table test, $p\text{-value} = 0.174$). This is likely due to these firms having insufficient time to respond to the leading firms' disclosed information.

Table 9. Earnings Management Analysis of Follower Firms Disclosing at Least 10 Days After Leading Firms

	Hypothesis	Dependent Variable	
		<i>MBE</i>	
		Coefficient	<i>p-value</i>
<i>LeaderMiss</i>	-	-0.095	0.103
<i>LeaderBeat</i>	+	0.102	0.145
<i>Control Variables</i>		Yes	
<i>Deviance</i>		291 ($df=9$)	<0.001
<i>N</i>		8898	
<i>Test: LeaderMiss=LeaderBeat</i>			0.006

The regression results indicate that, on average, follower firms respond to the relevant information disclosed by leading firms.

4.3.2 Follower Firm Size.

In this study, leading firms are defined as firms with relatively large market shares within their industry. Considering that some follower firms may also be large, an important question arises: does the size of a follower firm affect its response to information disclosed by the leading firm? To examine this, we include interaction terms between firm size and *LeaderMiss* and *LeaderBeat* in the regression model, allowing the coefficients on *LeaderMiss* and *LeaderBeat* to vary with firm size.

Firm size is represented by an indicator variable, *Large*, which equals one if the firm's market capitalization is above the median within its industry. The modified model adds three explanatory variables on the right-hand side of the main model equation: *Large*, *LeaderMiss* $\times$ *Large*, and *LeaderBeat* $\times$ *Large*. This specification enables testing whether the effect of leading firms' disclosures differs between large and small follower firms. **Table 10** presents the regression results:

Table 10. Comparison Between Large and Small Firms

	Hypothesis	Dependent Variable	
		<i>MBE</i>	
		Coefficient	<i>p-value</i>
<i>LeaderMiss</i>	-	-0.049	0.495
<i>LeaderBeat</i>	+	0.052	0.553
<i>LeaderMiss</i> $\times$ <i>Large</i>	-	-0.097	0.312
<i>LeaderBeat</i> $\times$ <i>Large</i>	+	0.118	0.321
<i>Control Variables</i>		Yes	
<i>Deviance</i>		310($df=12$)	<0.001

<i>N</i>	10087
<i>Test: LeaderMiss</i> × <i>Large</i> = <i>LeaderBeat</i> × <i>Large</i>	
	0.086

For *MBE*, the coefficients on the interaction terms *LeaderMiss* × *Large* and *LeaderBeat* × *Large* are not statistically significant, indicating that the influence of leading firms' disclosed information does not differ across follower firms of different sizes.

5 Stability Analysis of Follower Effects

To examine the influence of various financial variables and the stability of the follower effect, we construct a new dataset by randomly selecting one year for each of the 2,257 firms in the sample, resulting in 10,087 follower observations. A logistic regression model is then estimated using this dataset. This random sampling and model estimation procedure is repeated ten times, and the significance and stability of the estimated coefficients are recorded. The results of the explanatory variables across the 10 repeated samples are summarized in the Table 11 below:

Table 11. Stability Test of Explanatory Variables' Influence on MBE

Significance Level	Dependent Variable			
	<i>MBE</i>			
	10%	5%	1%	>10%
<i>LeaderMiss</i>	-	-		8
<i>LeaderBeat</i>	-	+		8
<i>ln(Market Capitalization)</i>	++	+	++++	3
<i>Book/Market</i>				10
<i>Analyst Following</i>				10
<i>Dispersion</i>	-	----	----	1
<i>Sales Growth</i>			-+++++	0
<i>NOA</i>	+			9
<i>Days to Announce</i>	+	+++	+	5

First, we examine the effects of financial variables on the dependent variable. *Market Capitalization* and *Sales Growth* consistently exhibit positive effects on *MBE*, suggesting that firms with larger market value and faster performance growth tend to be more confident in future earnings and thus generally overstate earnings per share. *Dispersion* has a consistently negative effect on *MBE*, which may reflect that firms with higher earnings volatility face greater operational risks and tend to understate future profitability. In addition, *Days to Announce* shows a relatively significant positive effect on the dependent variable.

Regarding the focal variables, *LeaderMiss* and *LeaderBeat*, the results from the ten repeated samples indicate that the coefficient of *LeaderMiss* is significantly negative only twice, at the 10% and 5% levels, respectively. The coefficient of *LeaderBeat* is significant only twice as well, with one positive and one negative effect. These findings suggest that the follower effect is not stable over time.

6 Conclusion

Overall, this study shows that firms' earnings reporting behavior in Chinese capital market is systematically influenced by the earnings news released by industry leaders, consistent with a follow-the-leader mechanism documented in prior research. When industry leaders disclose unfavorable performance, follower firms face lower perceived costs of reporting bad news and exhibit weaker incentives for upward earnings management. In contrast, leaders' favorable earnings announcements increase pressure on followers and strengthen their incentives to report good performance. Although the follow-the-leader effect does not persist in the long run, this attenuation suggests that peer-induced reporting incentives operate primarily through short-term expectation formation rather than through persistent changes in reporting strategies. Collectively, these findings extend existing evidence to an important emerging market and offer insights into how inter-firm performance comparisons shape earnings management, with implications for market regulation and investor protection.

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