executive report

ferf
financial executives
research foundation

ima
The Association of
Accountants and
Financial Professionals
in Business

sponsored by
Microsoft

A Survey Of INVESTOR RELATIONS And EARNINGS GUIDANCE

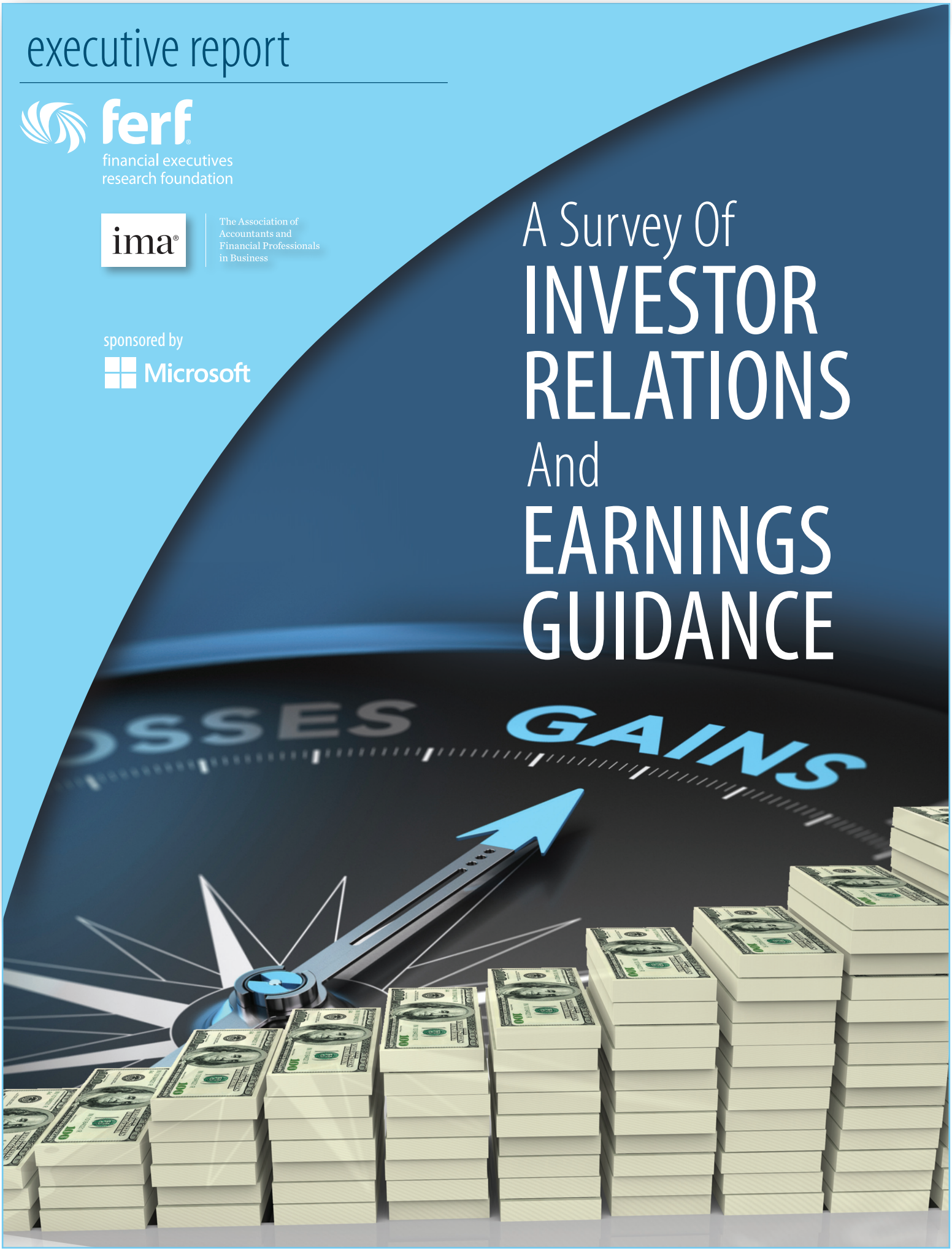

Table of Content

Executive Summary 2
Background Information 3
FERF Qualitative Study of Earnings Management 5
Research Method and Sample 7
Summary of Item Responses 11
One-Way Data Analyses 16
Provisional Findings of Primary Study 21
Summary of Findings 22
Appendix A: Survey Instrument Questions and Responses 23
References 27
About the Author 28
About the Sponsor 28
About Financial Executives Research Foundation 28

Executive Summary

Perhaps the most frequent request received by investor relations officers at publicly traded companies is to disclose projections about future financial performance. Often labeled as ***earnings guidance***, such projections put a future number and date in the same sentence; for example, "management expects the company to earn between $0.95 and $1.05 per share next quarter."

In the wake of Enron-era scandals, well-respected practitioners warned that pressures imposed on executives to meet guided estimates encourage two types of earnings management. So-called real earnings management means making cash flow-changing business decisions to modify reported income (such as cutting the advertising budget) which can reduce a firm's earnings power. The second type is accrual earnings management, which means changing the valuation of assets and liabilities to alter reported income and may mislead users of financial statements.

Earnings management is perceived to be relatively common. A study reveals that CFOs believe 20% of firms manage earnings to misrepresent economic performance, of which about 10% of earnings per share (EPS) are typically managed and hard to detect from the outside (Dichev, Graham, Harvey, & Rajgopal, 2013).

However, despite practitioner warnings about the perils of guidance, academic studies find little evidence that earnings guidance is a treacherous servant. This conclusion comes primarily from statistical studies of accounting balances and security prices. To explore this unresolved problem of practice, the author asked the perspective of finance professionals at other organizations. The present study was designed to clarify issues rather than to resolve a debate.

Through the joint efforts of Financial Executives Research Foundation (FERF) and the Institute of Management Accountants (IMA), 359 completed surveys were obtained to assess the extent of investor relations and earnings guidance activities across a wide cross-section of firms.

Survey results offer five interesting findings:

1. As a company gets larger, the scope if its investor relations and earnings guidance activity increases, but the perceived frequency of accrual earnings management decreases.

2. As the tenure of a company's CEO lengthens, the frequency of the company's investor relations activity declines.

3. In comparison to private companies, publicly traded companies are more likely to engage in investor relations and guidance activity, but they are less likely to manage earnings.

4. The *tone at the top* can influence the quality of financial reporting. At companies where an earnings miss is considered a big deal, there is a perception that earnings management is more likely.

5. Among the roles within the finance department of an organization, accountants report the highest perceived incidence of earnings management.

The author's assessment is that there is no simple relationship between earnings guidance and earnings management. In general, guidance does not seem to harm a company's financial management or reporting.

This paper provides background information, discusses a complementary study published by FERF in July 2014, describes the current study's survey approach, and concludes with summarized findings. The busy reader may skip material provided in the report's middle sections, included for the benefit of those interested in research methods.

Background Information

Practitioners warn that earnings guidance may lead to dysfunctional levels of earnings management. Scholars find widespread evidence of corporate earnings management but little evidence of a link between earnings guidance and management activities. For purposes of this paper, the term *analyst* is used to identify those who use accounting and other information to value corporate securities and *investor* is used to name those who trade them.

Earnings Expectations.

Analysts typically form expectations about a publicly traded company's financial prospects and publish EPS estimates, regardless of whether management discloses internal financial projections. Managers compare consensus (average) estimates with internal projections to decide whether expectations are a cause for concern. If expectations are too high, reported income will fall short and possibly spark a sell-off in the company's stock. If expectations are too low, reported results will beat the benchmark but influence analysts to ratchet earnings expectations to higher levels, setting the stage for a future earnings miss.

There is often a stock market reward for meeting or beating expectations and a penalty for failing to do so. Stock prices matter to corporate executives who earn equity-based compensation, wish to use their firm's shares to make acquisitions, seek to defend against a takeover, or are evaluated based on stock price increases. Companies that consistently miss estimates suffer poor stock price performance despite reporting healthy growth rates and returns on capital (Koller, Raj, & Saxena, 2013). CEOs are more likely to be fired when their companies' earnings consistently miss expectations (Puffer & Weintrop, 1991).

Managers mitigate risk of unwanted earnings surprises by sharing forward-looking information with analysts and investors. This information, extending from soft, qualitative comments to hard, time-bound quantitative projections, improves analyst forecast accuracy. Guidance also helps executives build reputations for transparency and competence, increase share liquidity, reduce the cost of capital, and protect against litigation through early disclosure of bad news. The bad news is that public financial forecasts also expose executives to damaged reputations if reported results miss guided estimates.

Earnings Management.

Academic studies of accounting balances, disclosure dates, and stock prices suggest that managers engage in risky real and accrual earnings management activities to narrow the gap between expected and reported earnings.

Real earnings management (REM) involves making cash flow-changing business decisions to bring earnings closer to expectations. Managers at guiding firms may sell appreciated assets, cut investments, or pursue risky, value-destroying bets to avoid missing expectations. Extreme REM weakens the earnings power of a firm.

Accrual earnings management (AEM) means modifying asset or liability valuation assumptions to alter reported income in the absence of changes in business activity. Extreme AEM runs afoul of the Sarbanes-Oxley Act of 2002 (SOX) which requires CEOs and CFOs to certify that financial statements present fairly the company's financial condition and results of operations and brings the possibility of fines or imprisonment for noncompliance. Studies completed before and after enactment of SOX show evidence of accrual management to nudge reported earnings upward to meet management's prior earnings guidance.

Following Enron-era scandals, respected practitioners warn that earnings guidance invites dysfunctional levels of real or accrual management as executives scramble to achieve previously announced targets.[1]

[1] Guidance critics include investor Warren Buffett (2001), Vanguard investment management firm founder John Bogle (2005), consulting firms McKinsey & Co. (Hsieh, Koller, & Rajan, 2006) and Monitor Group (Fuller & Jensen, 2002), think tanks Aspen

At the same time, scholars provide compelling evidence that corporate executives manage earnings to achieve benchmark targets such as last year's earnings or analysts' consensus EPS estimate. However, these studies do not compare earnings management activities across companies offering varied levels of earnings guidance. Roughly half of S&P 500 companies provide EPS projections.

Some scholars offer evidence that guidance does not invite earnings management and may, in fact, constrain it. Dutta and Gigler (2002) present a mathematical model showing that voluntary forecasts reduce management's ability to bias earnings. Call et al. (2011) find that companies providing earnings guidance exhibit lower levels of abnormal accruals, a measure of AEM. Brochet, Loumioti, and Serafeim (2014) find no statistical relationship between frequency of quarterly earnings guidance and extent of AEM. Acito (2011) finds that both guiding firms and non-guiding firms use similar levels of accrual management to beat earnings benchmarks. Houston, Lev, and Tucker (2010) find that managers who stop giving guidance do not show evidence of increased investment in long-term projects, implying that guidance alone does not cause myopic REM.

To put things simply, some practitioners argue that earnings guidance can lead to earnings management, while some academics offer evidence that there is no clear link between these two activities. This study offers a contribution by directly surveying financial professionals to explore this issue. As discussed below, with one exception, the author's assessment is consistent with findings of the academics.

Institute (2007) and Committee for Economic Development (2007), and trade groups CFA Institute (2006) and U.S. Chamber of Commerce (2007).

FERF Qualitative Study of Earnings Management

Design of this study was influenced from the results of *A Qualitative Study of Earnings Guidance*, published by FERF in July 2014. This section provides a brief summary of that study and its findings.

Using an interview protocol described in Table 1, the author invited financial executives from 31 publicly traded U.S. firms to share experiences with disclosure decisions. The sample included representation from all ten sectors of the S&P/MSCI Global Industry Classification Standard. The interviews, conducted by phone or in-person from March through May 2014, lasted about an hour. The interviews were recorded, transcribed, and repeatedly coded to obtain interpretations of the meanings participants attach to interaction with others when offering guidance.

The primary benefit of this approach is that collected data provide nuance unavailable from traditional studies of earnings guidance that focus on accounting balances, disclosure dates, and security prices. In the qualitative study, participants shared experiences that risk personal embarrassment or professional disgrace. The primary limitation is that the author's interpretations are subjective, so similarly-situated researchers could reach different conclusions.

TABLE 1: Qualitative Study Interview Protocol

Q1 **Tell me about your job.**

- How do guidance decisions get made at your firm?
- Who's at the table when this happens?
- How predictable are your firm's earnings?

Q2 **Tell me about a time when your firm experienced a significant stock price change.**

Q3 **Tell me about a time when analysts' consensus earnings estimate was a cause for concern at your firm.**

- Is it a big deal if we miss the consensus earnings estimate?
- What keeps you up at night?
- Can you tell me about a time when any form of guidance created stress for you or your colleagues?

Q4 **Based on your experiences, have you noticed a difference in the kinds of pressures felt by executives at firms that do and do not provide earnings guidance?**

Q5 **Is there anything I missed that I should ask about this topic?**

Three primary findings emerge from this study.

First, guidance is ubiquitous. Even though only about half of companies in the S&P 500 Index offer EPS estimates, all 31 firms in the study disclose expectations for future financial performance held by senior management. Such guidance can extend from hard, time-bound quantitative estimates of financial measures (e.g., unit sales, revenues, operating margins, capital expenditures) to soft, qualitative "color" commentary.

Second, guidance brings fear of credibility loss from reporting financial results that differ significantly from guided forecasts. Credibility is defined as investors' perceptions of managers' competence and trustworthiness. Executives work hard to build credibility with skeptical investors and worry about credibility loss should financial results, as reported, differ from what was forecast. A big miss, one executive noted, can suggest that the guiding executive does not know his business. Put simply, guidance brings anxiety.

Third, anxiety increases as guidance horizons extend across time and down the income statement. Forecasting results for the next quarter is not perceived to be as hard as providing projections several years into the future. Unexpected actions from customers, suppliers, competitors, entrants, and regulators make long-term forecasts problematic.

Going down the income statement requires cascading assumptions to work from unit sales to revenues (projecting future market prices, currency exchange rates, and product mix), to margins (commodity costs, inflation rates, cost-volume-profit relationships), to income (impairment of intangible assets, restructuring charges, litigation accruals, tax rates), to earnings per share (changing share counts from stock repurchases, option awards, and equity-financed acquisitions).

Forecast errors may compound as an executive works through each stage of the earnings projection process to arrive at an expected EPS value. Thus, EPS is the most difficult of all income statement measures to forecast, and providing EPS projections several years into the future is perceived to be an extremely challenging task. To address this concern, guiding executives at such companies modify definitions of earnings to exclude components that are difficult to predict.

Research Method and Sample

The author chose to study the research question through a survey of accounting and finance executives. When describing the survey, the terms *indicator*, *item*, and *measure* are used interchangeably to refer to questions used to assess the incidence of activity associated with investor relations (IR), earnings guidance (G), and earnings management activities within surveyed companies. The author uses the word *construct* to describe the average value of scores for similar indicators used to measure the perceived frequency of IR, guidance, and earnings management activities within a company. A construct is an attempt to measure something that cannot be directly observed.

Brevity.

A first step was to establish questions that could measure the four constructs discussed below. Survey-based research on earnings guidance is uncommon, and the author is unaware of any such work that uses established psychometric scales to measure earnings guidance and management activities. The goal was to create such scales using an anonymous, Internet-based survey instrument that could be completed in five minutes.

Feedback received from individuals in the author's professional network suggests that accounting and finance executives receive several survey requests each week, where the vast majority of requests are ignored. To boost response rates, the author assured prospective respondents that the instrument could be completed quickly.

Social Desirability Bias.

In light of Enron-era accounting scandals and SOX legislation, the author felt that questions about earnings management could provoke social desirability bias, incentive for respondents to modify answers in order to present themselves as responsible people. To mitigate the effect of such bias, the author chose to use a self-administered, computer-based questionnaire to reduce question threat and improve participant reporting of sensitive questions.

The author further sought to set respondents at ease by asking questions about earnings management in the context of hypothetical scenarios where respondents are assured that all of the choices comply with U.S. accounting rules. Finally, the author assured respondents of complete anonymity so that responses cannot be traced to individuals. Providing such anonymity limits the ability to analyze responses from the three survey sub-samples.

Scale Creation.

To create needed scales, the author adapted questions used in surveys of financial reporting behavior of CFOs (Dichev et al., 2013; Graham, Harvey, & Rajgopal, 2005) to develop measures for the Real and Accrual Earnings Management constructs. The author then created measures for the constructs Guidance and Investor Relations. Wording of the items was designed to make them meaningful to participants who work across all industries in the commercial sphere (e.g., industrial, financial, and utility firms) as well as in government, non-profits, and non-governmental organizations. Earnings management activities can extend to not-for-profit organizations.

Instrument Development.

In February 2015, using Qualtrics software, the author administered pilot survey number one to 32 business and academic colleagues to solicit comments about instrument usability, layout, and wording of questions. Seven of the respondents then participated in a "talk aloud" session to identify cognitive difficulties answering each question. Diagnostic data from the survey software confirmed that the instrument took about five minutes to complete and yielded variance among measures.

Results of these efforts led to creation of the second pilot survey. To assess validity of survey indicators, the author performed a "Q-sorting" exercise with 16 different respondents, asking them to associate measures with the four constructs of IR, Guidance, REM, and AEM. Analysis of consequent *hit ratios* showed that wording of certain measures remained unclear. Subsequent changes led to creation of the third pilot, which the author sent to business executives in his professional network. Fifty-five usable surveys were collected. The author reviewed responses and corresponded with four participants to discuss continuing usability problems.

The author then submitted the fourth version to the members of FERF Research Committee, senior accounting and financial executives who work or have worked at large, sophisticated firms. In over a one-hour conference call, this group offered critical feedback about survey layout, validity of individual measures, and instructions given participants. Feedback received led to the fifth version of the instrument, presented in Appendix A.

The four proposed constructs ask questions, using seven-point Likert scales, about the incidence or likelihood of activities at the respondent's organization. The Investor Relations construct, questions 13-19 in Appendix A, asks about the frequency that the organization's executive officers communicate with investors or their representatives. The Guidance construct, questions 20-26, asks about the frequency that the participant's company discloses certain types of financial projections to outsiders. Higher values reported on the Likert scales suggest more active IR or Guidance activities.

The constructs for REM (questions 27-33) and AEM (questions 34-40) present a hypothetical scenario where the participant is told that, as year-end approaches, projected earnings are expected to fall short of Wall Street expectations. The company's finance staff proposes business decisions (REM) or accounting adjustments (AEM) that will increase earnings in the current year.

The respondent is assured that experts confirm that each proposal complies with Generally Accepted Accounting Principles (GAAP). The respondent is then asked how likely is it that each of the proposals would be implemented in his or her firm to alleviate the anticipated earnings shortfall. Higher values suggest greater propensity to manage earnings.

Sampling and Data Collection.

To survey finance and accounting professionals who are involved in financial reporting activities, the author asked two professional organizations to send an e-mail request that asked members to click on an embedded link that directs respondents to Qualtrics survey software hosted by Case Western Reserve University. The author sent a similar request to accounting and finance professionals in his extended professional network who had not been used for testing of the survey instrument. This data collection process assured participant anonymity because neither the author nor the sponsoring organization can trace responses to individuals.

Survey requests were sent over April and May 2015 to approximately 7,500 members of Financial Executives International (FEI); 5,000 members of the Institute of Management Accountants (IMA); and 200 people within the author's professional network. Second requests, spaced two weeks after the initial e-mail, were sent to members of the two trade groups. Out of the 12,700 requests, 485 (3.8%) people clicked on the link to start the survey. Of this group, 44 people did not answer the first question and then an additional 82 people abandoned the survey over the course of the 40 questions asked. The author removed incomplete responses and used the 359 completed surveys (2.8% of total requests) for subsequent analysis.

Demographic Data.

While this study's convenience sampling methodology provides no assurance that people surveyed are representative of the population of accounting and finance professionals, the author takes comfort from the distribution of industries reported by those completing the survey. Out of the 359 completed responses, 343 came from professionals working in the commercial sphere and 16 came from those who work in government and non-profit organizations. Earnings management activities can extend to not-for-profit bodies (Hofmann & McSwain, 2013).

Table 2 compares the distribution of industries reported by these subjects across the ten sectors of the Global Information Classification Standard industry taxonomy with the distribution of component stocks of the S&P 500 index as of May 2015. With the exception of over-representation of the industrial sector, the two distributions are similar.

Summarized responses to demographic questions are shown in Appendix A. The typical respondent is a male accounting or finance executive in his 50s (responses to Questions 12 and 9 in Appendix A) who works for a company headquartered in North America (Q3). Roughly half of the respondents' employers are large, as measured by having at least $1 billion in annual revenue (Q2), and publicly traded (Q5). About three-quarters of these organizations pay its executives with compensation contracts tied to financial performance (Q7) and have cultures where missing an earnings target is considered a big deal (Q8).

TABLE 2: Distribution of Industries within Survey Sample and S&P 500 Index

	Completed Surveys		S&P 500 Index	
	n	%	n	%
Consumer Discretionary	45	13.1%	83	16.6%
Consumer Staples	20	5.8%	38	7.6%
Energy	21	6.1%	41	8.2%
Financials	47	13.7%	88	17.6%
Health Care	34	9.9%	55	11.0%
Materials	23	6.7%	29	5.8%
Industrials	102	29.7%	67	13.4%
Information Technology	38	11.1%	64	12.8%
Telecommunications	6	1.7%	5	1.0%
Utilities	7	2.0%	30	6.0%
	343	100.0%	500	100.0%

Note: This table shows the distribution of industries reported by the 343 respondents who work in for-profit firms (16 other respondents, with results not shown, work in government or non-profit organizations) with the distribution of component stocks of the S&P 500 index as of May 2015. The author calculated the second distribution by hand.

Summary of Item Responses

The survey had four constructs comprised each of seven questions measured on seven-point scales. Appendix A shows the distribution of responses. Each of the 196 response possibilities (4 constructs x 7 questions per construct x 7 values per question) was selected by respondents, suggesting that there is sufficient variance to infer some conclusions from data collected by the instrument.

To help visualize the responses, the author created histograms, categorized by the four constructs. Figures 1 through 4 present these diagrams together with three statistics. First is the average measure of responses to each question, where a 1 is assigned to responses to the lowest scale, a two to the next lowest scale, and so on. A higher average suggests higher perceived frequency of this item occurring in an organization. Second is the standard deviation of average response scores. A higher value means greater variance among respondent answers.

The third measure presents kurtosis, information about the shape of the histogram. A "normal" (bell-shaped) distribution has a kurtosis value of zero. A distribution with a positive kurtosis value is peaked, with a higher concentration of responses around a certain value than would be seen in a normal distribution. A distribution with a negative kurtosis value is flat, with responses spread to an extent greater than would be seen in a normal distribution. Positive kurtosis suggests agreement around a central tendency; negative kurtosis suggests absence of consensus among survey participants.

FIGURE 1: Distribution of Investor Relations Responses

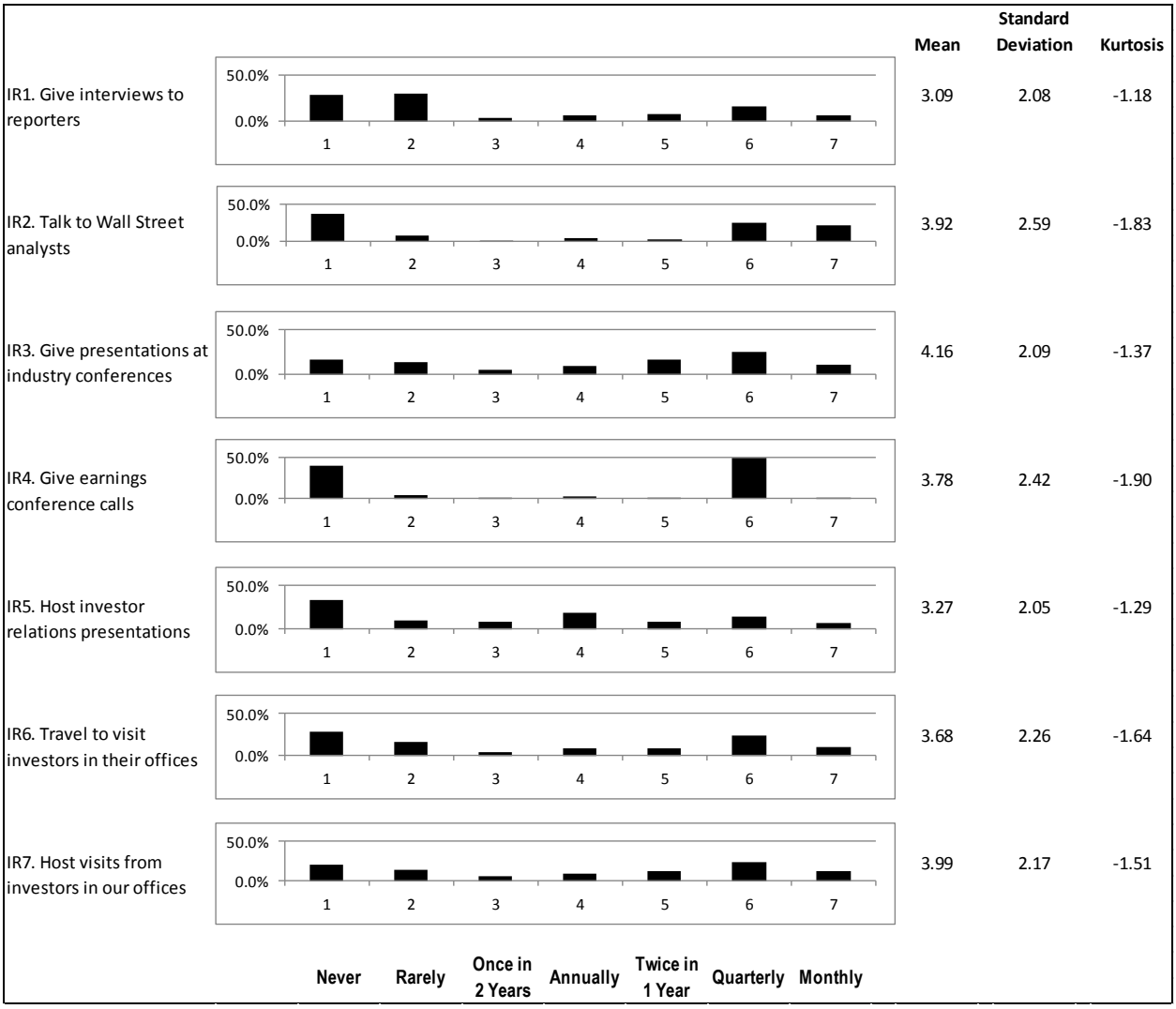

Figure 1 provides the distribution of responses for questions about investor relations activities. Assigning a value from 1 for "Never" through 7 for "Monthly", it is possible to compare the averages of responses across the seven IR activities shown. Of activities presented in the survey, the most common means of communicating with investors was giving presentations at industry conferences (mean or "x" of 4.16) and the least common was giving interviews to reporters (x=3.09).

The negative kurtosis values, indicating flat distribution of responses, suggest there is little agreement across firms on the frequency of such investor relations activities. This effect is most pronounced for hosting earnings conference calls (where firms either never give them or do so quarterly) and talking to Wall Street analysts (where some firms report they never speak to analysts; while others appear to do so monthly). Said in different words, there does not appear to be an agreed-upon way for firms to communicate with providers of capital.

FIGURE 2: Distribution of Earnings Guidance Responses

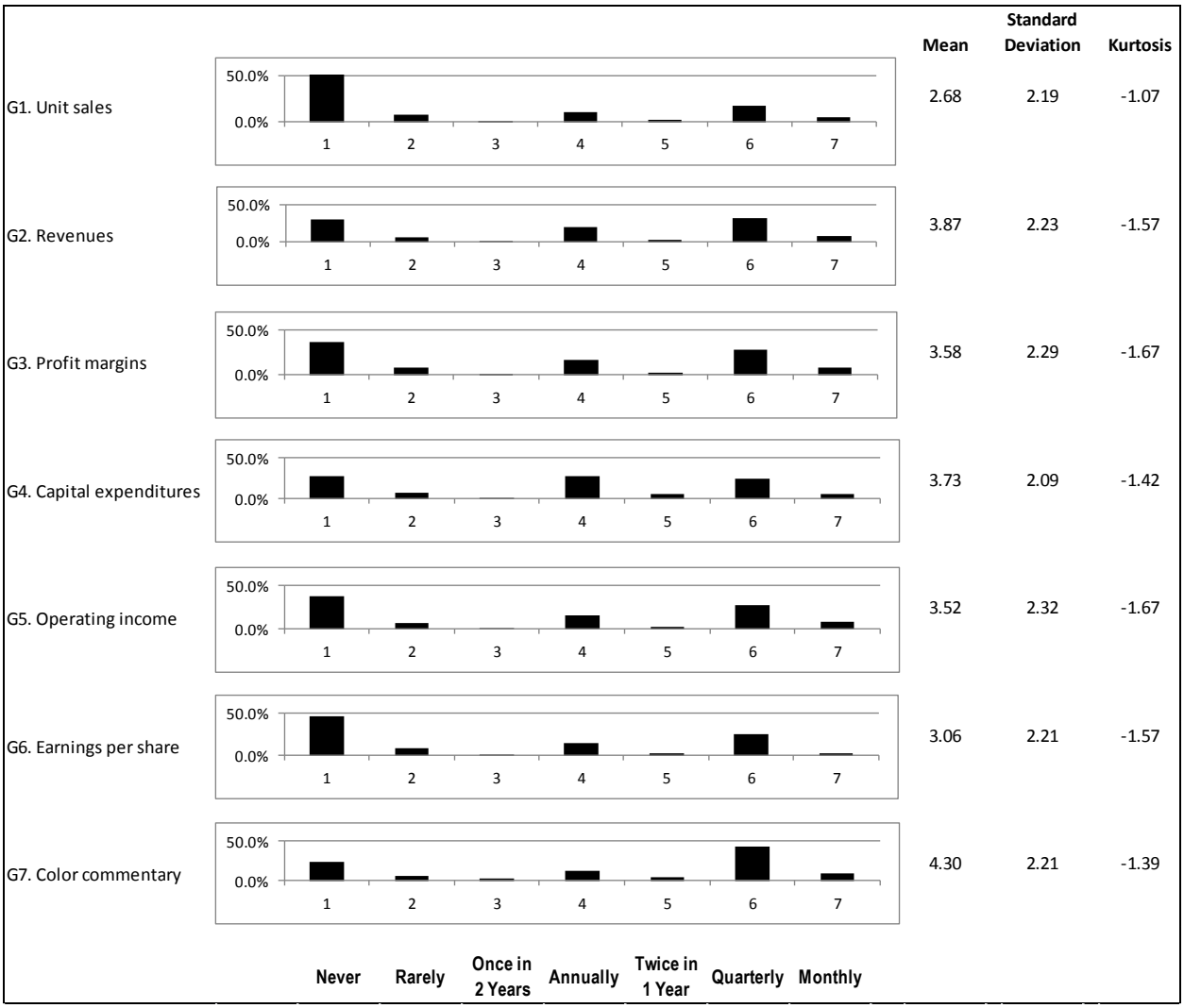

Figure 2 shows the distribution of response to the seven questions about types of earnings guidance disclosed to outsiders. A finding of the qualitative FERF study described above is that all firms provide some type of guidance to providers of capital. The author's interpretation for the high incidence of "Never" responses is that either (i) the forms of guidance given in the survey represent an incomplete list of guidance activities or (ii) respondents are not aware of guidance activities provided by their employers. This point is addressed below.

The most common form of earnings guidance, among those offered, is providing soft, qualitative color commentary to outsiders (x=4.30). The least common form is giving unit sales counts (x=2.68). Once again, all of the measures have strongly negative kurtosis values, suggesting wide variance of practice among firms sharing measures that proxy for future earnings. Across all seven indicators, the most common response categories are Never and Quarterly.

FIGURE 3: Distribution of Real Earnings Management Responses

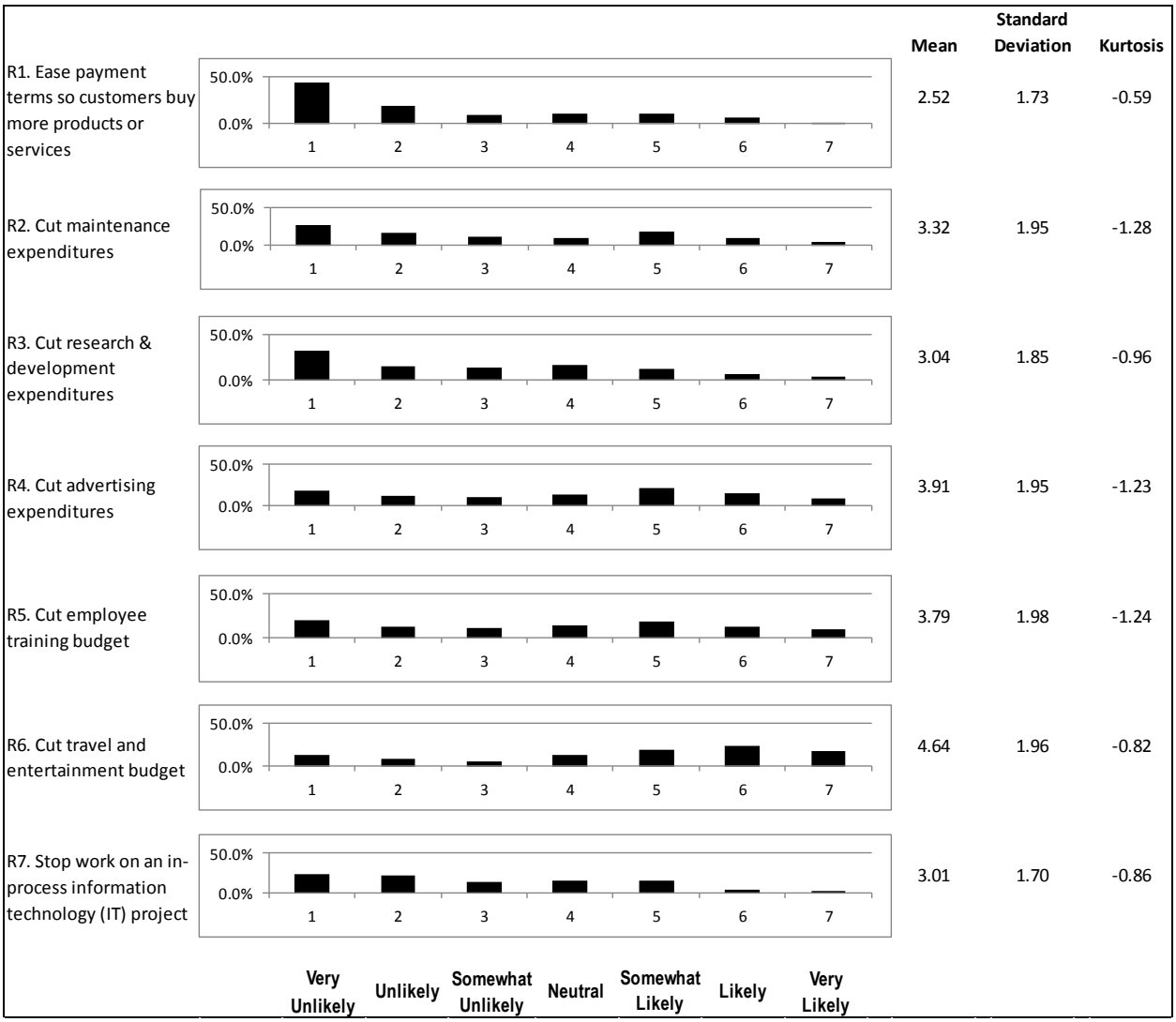

Figure 3 shows the equivalent chart for responses to seven questions about real earnings management. The questions are associated with a hypothetical situation where the firm expects to report an earnings shortfall relative to expectations, and the finance staff offers suggestions for business decisions that could alleviate the expected earnings miss. The suggestion with the highest score is to curtail travel and entertainment activities (x = 4.64) and the suggestion with the lowest score is to ease payment terms so that customers buy more products or services in the current year (x = 2.52).

Kurtosis values are again negative for all items, showing flat shape of the distribution of responses. However, these values are less negative than for responses to the investor relations and guidance questions, suggesting greater agreement across organizations about the likelihood of these activities.

FIGURE 4: Distribution of Accrual Earnings Management Responses

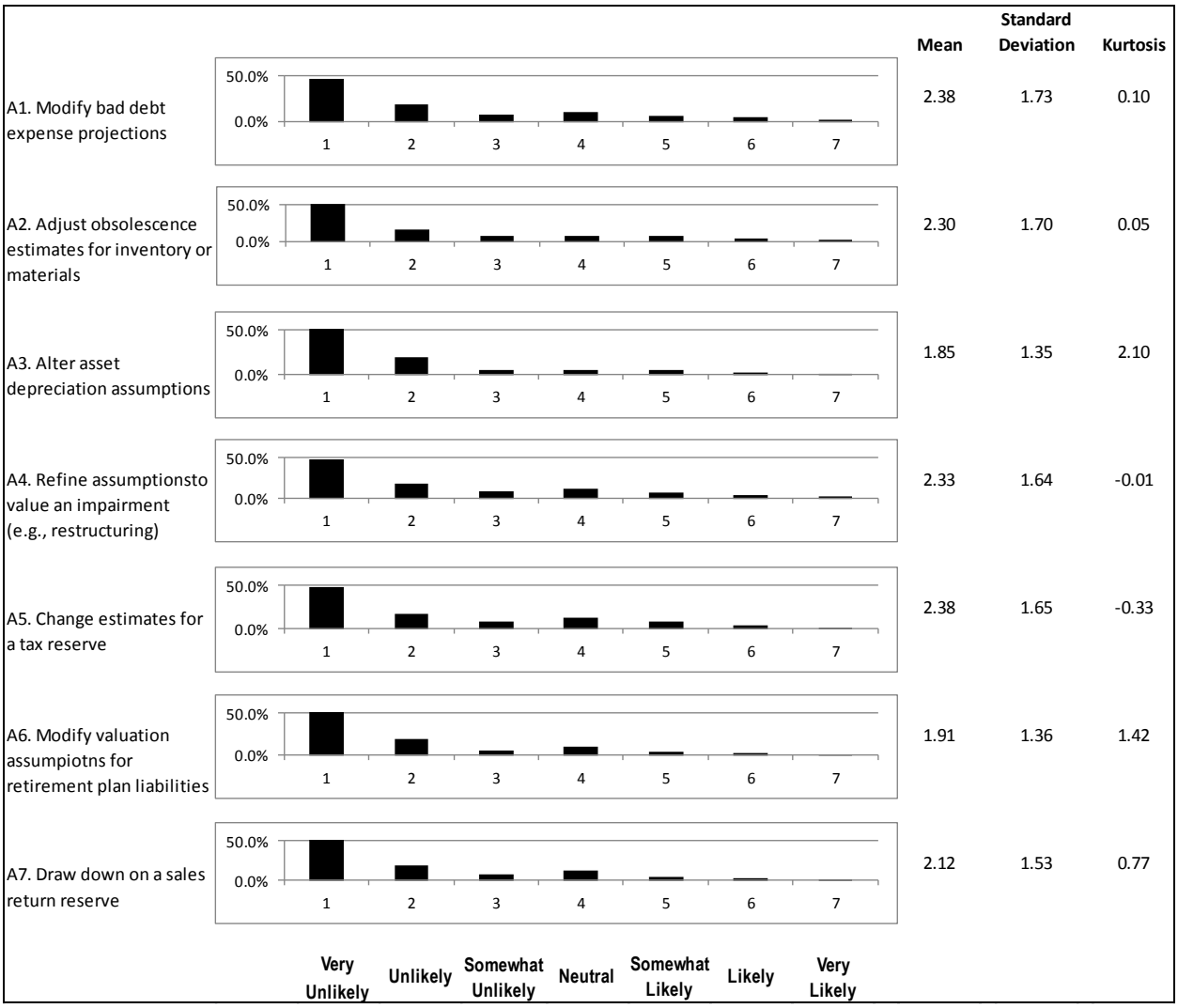

Figure 4 shows the distribution of responses to questions about the likelihood of accrual management activity. Presented with a hypothetical scenario about facing the prospect of an earnings shortfall relative to expectations, the respondent is given seven accounting adjustments that the firm could make to increase reported earnings in the current year. The respondent is assured that each of the proposals complies with Generally Accepted Accounting Principles (GAAP). In contrast, the previous three figures, the distributions for these responses have lower means and are more peaked.

Respondents show an aversion to engaging in accrual management to alter reported earnings. The highest scores (changes to bad debt expense provisions and tax reserves, both with x=2.38) fall below lowest-ranking scores for real management (R1, ease payment terms, x = 2.52). Note that the kurtosis values for accrual management range from near zero to being strongly positive. The 2.10 value for A3 (alter depreciation assumptions) suggests that participants agree that their firms would avoid this earnings management tactic. Extreme manipulation of depreciable lives gave rise to the 1998 Waste Management accounting scandal.

One-Way Data Analyses

This section offers comparisons of survey averages split among different values of demographic variables. These one-way contrasts represent a useful, simple way of evaluating respondent answers. The reader is cautioned from drawing conclusions from observed relationships. Correlation among variables confounds the ability to determine what is cause and what is effect, and interactions among the variables may offset or amplify effects discussed below.

A more sophisticated study, considering the simultaneous interactions of observed relationships, is necessary before drawing conclusions. Such work is beyond the scope of this research report. However, the observations presented below should be of interest to financial managers.

Each of the nine tables presented below follows the same format. From left to right, the columns show, respectively, categorical values or interval ranges for demographic variables collected about respondents or their employers, the number of responses (n) for each value, the percentage of the total responses (%) represented by each category or interval range, and the simple averages of values for responses to questions about Investor Relations (IR), Earnings Guidance (G), Real Earnings Management (REM) going on within organizations.

To take an example, the Investor Relations average for a particular respondent comes from adding the values for responses to items IR1 through IR7 and then dividing the sum by seven. A limitation is that this approach assigns equal weight to each of the seven indicators of this variable.

Revenues.

Table 3 presents averages of the four constructs across the size of the firm, as reported by the participant. Survey question 2 (shown in Appendix A) asked the respondent which of five intervals best describes his or her firm's annual revenues in U.S. dollars.

TABLE 3: Responses Sorted by Revenue

			Perceived Frequency (1 = low; 7 = high)			
Annual Revenues	**n**	**%**	**IR**	**G**	**REM**	**AEM**
Up to $100 million	112	31.2%	2.38	3.14	3.52	2.68
$100 to $499 million	57	15.9%	3.02	3.31	3.43	2.06
$500 to $999 million	30	8.4%	3.85	3.48	3.43	2.06
$1.0 to $4.9 billion	81	22.6%	4.73	3.87	3.41	1.94
$5+ billion	79	22.0%	4.96	3.93	3.48	1.87
Total	359	100.0%	3.70	3.53	3.46	2.18

Interestingly, the value of IR, where a higher value on a 1-to-7 scale suggests a more active investor relations program, increases with each revenue interval. For example, the average value of IR for the 112 firms in the smallest revenue category (less than $100 m per year) is 2.38, and this value increases with each category so that the 79 largest firms (with at least $5 billion in annual revenues) show a reported average of 4.96. Put another way, respondents perceive that larger firms have more active investor relations programs.

Second, the perceived scope of accrual earnings management goes down as firms get larger (from x=2.68 for the smallest firms to x=1.87 for the largest). Perhaps larger firms have sophisticated governance structures (e.g., stronger internal controls, higher-caliber independent auditors, more effective audit committees members) to constrain such earnings management.

Industry.

Question 1 asked which of eleven industry sectors best describes the respondent's business. The ten for-profit categories come from the MSCI industry taxonomy; therefore, the author added an eleventh option of "Other" to accommodate government, non-profit, and non-governmental organizations.

TABLE 4: Responses Sorted by Industry

			Perceived Frequency (1 = low; 7 = high)			
Industry	**n**	**%**	**IR**	**G**	**REM**	**AEM**
Consumer Discretionary	45	12.5%	3.73	3.80	3.91	2.22
Consumer Staples	20	5.6%	3.70	4.07	4.03	2.48
Energy	21	5.8%	4.95	3.59	2.99	1.86
Financials	47	13.1%	3.76	2.66	2.91	1.82
Health Care	34	9.5%	3.78	3.87	3.49	2.06
Materials	23	6.4%	3.86	3.45	3.11	2.06
Industrials	102	28.4%	3.56	3.67	3.39	2.26
Information Technology	38	10.6%	3.39	3.80	3.65	2.33
Telecommunications	6	1.7%	3.98	4.43	4.71	3.38
Utilities	7	1.9%	4.71	2.94	4.12	1.57
Other (Non-profit)	16	4.5%	2.46	2.46	3.41	2.64
Total	359	100.0%	3.70	3.53	3.46	2.18

Since the sample size for each category is small, results should be treated with caution. The author concludes that guidance and earnings management tendencies vary by sector. For example, respondents in the financials sector, where firms can have earnings that move with ever-changing conditions in volatile capital markets, say that their firms give comparatively low levels of guidance; while, respondents in the consumer staples sector say that their employers are more willing to guide. These results roughly correspond to findings in an article published in the March 2013 issue of *Financial Executive.*

CEO Tenure.

Question 4 asked how long the respondent firm's CEO has served in this role, offering four time intervals.

TABLE 5: Responses Sorted CEO Tenure

			Perceived Frequency (1 = low; 7 = high)			
CEO Tenure	**n**	**%**	**IR**	**G**	**REM**	**AEM**
Up to 4 years	156	43.5%	4.14	3.61	3.62	2.20
5 to 9 years	86	24.0%	3.67	3.60	3.46	2.05
10 to 14 years	35	9.7%	3.28	2.97	3.23	2.16
15+ years	82	22.8%	3.07	3.56	3.46	2.30
Total	359	100.0%	3.70	3.53	3.46	2.18

Of note, the frequency of reported IR activities decreases with the length of time that the boss has held this position. An interpretation is that a rookie CEO, seeking to build credibility with skeptical investors, devotes comparatively more time on IR efforts. As the CEO gets established, he or she feels less need to speak to investors or their representatives and devotes time to other pursuits.

Publicly Traded.

Question 5 asks whether the participant's firm has shares traded on the New York Stock Exchange, NASDAQ, or similar stock exchange. Stock prices can move based on small differences between expected and reported earnings.

TABLE 6: Responses Sorted by Whether Firm is Publicly Traded

			Perceived Frequency (1 = low; 7 = high)			
Publicly Traded	**n**	**%**	**IR**	**G**	**REM**	**AEM**
Yes	186	51.8%	5.02	3.69	3.28	1.82
No	173	48.2%	2.28	3.37	3.66	2.57
Total	359	100.0%	3.70	3.53	3.46	2.18

Executives at publicly traded companies appear to substantially invest more effort in IR and guidance activities than their counterparts at private and non-for-profit organizations do. The perceived frequency of earnings management is lower for public companies. Perhaps the governance structures associated with public companies (SOX, independent audit committees, sophisticated auditors, prospects, etc.) constrain earnings management. A cautionary note is that publicly traded and size effects are likely correlated.

Growth Phase.

Question 6 asks whether the participant's company is expected to double in size within five years. Stocks for growth firms often have higher valuation multiples, so executives at these firms worry about unpleasant stock price corrections when reported growth comes to an end as the firm becomes a mature company.

TABLE 7: Responses Sorted by Whether the Firm is in Growth Phase of Lifecycle

			Perceived Frequency (1 = low; 7 = high)			
Growth Stage	**n**	**%**	**IR**	**G**	**REM**	**AEM**
Yes	159	44.3%	3.72	3.67	3.49	2.32
No	200	55.7%	3.69	3.43	3.44	2.08
Total	359	100.0%	3.70	3.53	3.46	2.18

Survey results suggest that executives at firms in the growth phase of an organization lifecycle devote more effort to guidance activities and are slightly more willing to engage in accrual earnings management.

Variable Compensation.

Question 7 asks whether the subject's employer pays executives with company stock, stock options, or compensation contracts tied to financial performance. Managers whose personal wealth is tied up in the reported financial performance of his or her employer may have an elevated incentive to communicate with investors, provide guidance, or manage earnings.

TABLE 8: Responses Sorted by Whether Executives are Paid with Variable Compensation Plans

			Perceived Frequency (1 = low; 7 = high)			
Variable Compensation	**n**	**%**	**IR**	**G**	**REM**	**AEM**
Yes	271	75.5%	4.25	3.73	3.43	2.06
No	88	24.5%	2.00	2.92	3.56	2.57
Total	359	100.0%	3.70	3.53	3.46	2.18

The data suggest that variable compensation is associated with IR and earnings guidance. Runaway investor expectations can lead to unwanted future earnings misses and painful stock price corrections. However, the presence of variable pay is associated with a lower likelihood of earnings guidance. The author believes that values for REM and AEM are influenced by effects for company size and whether the firm is publicly traded.

Earnings Miss.

Quality financial reporting requires an appropriate *tone at the top*. The author used Question 8 to ask whether missing an earnings target is a big deal at the respondent's employer, as a simple measure to assess whether an organization has a culture that could put pressure on employees to avoid reporting disappointing financial results.

TABLE 9: Responses Sorted by Whether an Earnings Miss is a "Big Deal"

			Perceived Frequency (1 = low; 7 = high)			
Earnings Miss a Big Deal	**n**	**%**	**IR**	**G**	**REM**	**AEM**
Yes	254	70.8%	3.98	3.84	3.78	2.29
No	105	29.2%	3.03	2.79	2.69	1.92
Total	359	100.0%	3.70	3.53	3.46	2.18

Interestingly, respondents who said "Yes" report comparatively higher measures of investor relations and earnings guidance efforts. Further, the same respondents perceive that earnings management would be more likely at their firms. This finding suggests that executives, board members, auditors, and investors should be sensitive to organizations' cultures.

Role.

Question 9 asked whether the participant works in accounting, finance, investor relations, or a role outside of these categories.

TABLE 10: Responses Sorted by Role of the Survey Respondent

			Perceived Frequency (1 = low; 7 = high)			
Respondent's Role	**n**	**%**	**IR**	**G**	**REM**	**AEM**
Accounting	183	51.0%	3.29	3.48	3.61	2.32
Finance	99	27.6%	3.73	3.55	3.35	2.11
Investor Relations	41	11.4%	5.74	3.66	3.48	1.79
Other	36	10.0%	3.38	3.63	2.97	2.13
Total	359	100.0%	3.70	3.53	3.46	2.18

Note the elevated level of IR activities reported by investor relations officers. An interpretation is that IR is a specialized activity within a company and that many employees are unaware of a company's IR efforts. Such a conclusion creates a limitation on the validity of the IR measures in this survey: many people probably do not know about the scope of investor relations actions within their companies.

Also of note is that the perceived incidence of earnings management is highest among the accountants. The author's assessment is that non-accountants are either unaware of or will not admit to company efforts to (i) structure business transactions [REM] or (ii) adjust asset and liability valuations [AEM] in efforts to nudge reported earnings up or down. Accountants, the author believes, see what really happens as transactions get recorded on to the general ledger. Earnings management is perhaps more common than many employees realize.

Executive Officer.

Question 10 asks whether the respondent serves as an executive officer (e.g., Controller, Treasurer, Chief Accounting Officer, Investor Relations Officer, or other C-suite member) of his or her firm. An issue is whether perspectives of IR, guidance, and earnings management undertakings differ across an organization's hierarchy.

TABLE 11: Responses Sorted by Whether Respondent is an Executive Officer of the Company

			Perceived Frequency (1 = low; 7 = high)			
Executive Officer of Firm	**n**	**%**	**IR**	**G**	**REM**	**AEM**
Yes	296	82.5%	3.59	3.44	3.43	2.20
No	63	17.5%	4.23	3.98	3.62	2.11
Total	359	100.0%	3.70	3.53	3.46	2.18

The IR function, especially providing earnings guidance, hosting investor relations presentations, and speaking to analysts on earnings conference calls, typically involves the most senior members of executive management. Results in Table 10 suggest that lower-level employees believe that corporate IR and guidance efforts are more extensive than they really are.

Provisional Findings of Primary Study

The author is enrolled in a doctoral program at Case Western Reserve University. The data collected from this survey will be used in an effort to test whether guidance invites earnings management. Discussion of the statistical techniques used to study this question is beyond the scope of this paper. Further, only tentative conclusions have been reached at the time of the writing of this report.

After attempting to take correlation among various indicators into account, the author's early finding is that there are negative relationships between earnings management and both investor relations and guidance. The acts of executives meeting with investors and providing financial forecasts seem to constrain accrual and real management. Put simply, neither investor relations nor earnings guidance appears to be a treacherous servant.

However, an exception emerges that seems to be statistically significant. When companies give EPS guidance, one of the many types of earnings projections, and these companies have active investor relations programs with executives who are quite visible in the financial community, then such companies seem to have an elevated willingness to engage in real earnings management.

Summary of Findings

After review of data collected, the author offers the following observations:

- There is considerable variance in how firms communicate with suppliers of capital. Among possibilities offered in the survey, speaking at industry conferences is the most common means of sharing financial prospects with these outsiders.

- There is little agreement across firms on what types of financial guidance to give to investors. The most common form is qualitative, color commentary. Guidance activity, if given, typically takes place on an annual or quarterly cycle.

- Investor relations and guidance activities are more prevalent among firms that are large, are publicly traded, have newer CEOs, pay executives with variable compensation plans, and have cultures where an earnings miss is a big deal.

- Investor Relations is a little-understood role within a company. Financial managers are likely unaware of the scope of their employer's investor relations activities.

- Financial executives readily admit that both real and accrual earnings management take place. The perceived prevalence of real earnings management is higher than for accrual earnings management.

- Cutting travel and entertainment expenditures in the face of earnings shortfall is the most common form of real earnings management, among the possibilities offered in the survey.

- Among the possibilities offered in the survey, the most common forms of accrual earnings management are modifying bad debt expense provisions and changing estimates for a tax reserve. Few respondents would be willing to alter depreciation schedules to modify reported income.

- Earnings management appears to be more likely in cultures where missing an earnings target is a big deal.

- Earnings management appears to be less likely when firms become larger, go public, or use variable compensation plans. The author admits that correlation among these relationships confounds the ability to argue causal relationships.

- Within a firm, accountants form the group that most readily admits that earnings management takes place.

- Finally, the author believes that there is no simple relationship between earnings guidance invites earnings management. However, work performed outside of this paper suggests that the presence of EPS guidance, together with an active investor relations program, can bring elevated propensity to engage in real earnings management.

Appendix A: Survey Instrument Questions and Responses

1. My current (or most recent) employer's business is best described as:	n	%
○ Consumer Discretionary [autos, durables, apparel, leisure, media, retailing]	45	12.5%
○ Consumer Staples [agriculture, food, household products, retail drugs]	20	5.6%
○ Energy [coal, oil, gas, nuclear, equipment & related services]	21	5.8%
○ Financials [banks, insurance, real estate, investments, consulting]	47	13.1%
○ Health Care [treatment, pharmaceuticals, bio-tech, equipment & related services]	34	9.5%
○ Materials [chemicals, metals, paper, construction materials, packaging]	23	6.4%
○ Industrial [manufacturing, construction, transportation, related services]	102	28.4%
○ Information Technology [consulting, hardware, software, related services]	38	10.6%
○ Telecommunications Services [voice and data networks]	6	1.7%
○ Utilities [electric, gas, water]	7	1.9%
○ OTHER [government, non-profit, non-governmental organization]	16	4.5%
	359	**100.0%**

2. My employer's annual revenue in US dollars is best described as:		
○ Up to $100 million	112	31.2%
○ $100 to $499 million	57	15.9%
○ $500 to $999 million	30	8.4%
○ $1.0 to $4.9 billion	81	22.6%
○ $5+ billion	79	22.0%
	359	**100.0%**

3. Headquarters for my employer is located in:		
○ Asia or Pacific	11	3.1%
○ Europe	26	7.2%
○ Middle East or Africa	5	1.4%
○ North America	317	88.3%
○ South America	0	0.0%
	359	**100.0%**

4. Our CEO has served in this role for:		
○ Up to 4 years	156	43.5%
○ 5 to 9 years	86	24.0%
○ 10 to 14 years	35	9.7%
○ 15+ years	82	22.8%
	359	**100.0%**

5. My employer is publicly traded (has shares listed on the NYSE, NASDAQ or similar stock exchange)		
○ Yes	186	51.8%
○ No	173	48.2%
	359	**100.0%**

6. My employer is a growth company (expected to double in size within 5 years):		
○ Yes	159	44.3%
○ No	200	55.7%
	359	**100.0%**

7. My employer pays executives with company stock, stock options, or compensation contracts tied to financial performance:

○ Yes	271	75.5%
○ No	88	24.5%
	359	**100.0%**

8. Missing an earnings target is a big deal at my employer:

○ Yes	254	70.8%
○ No	105	29.2%
	359	**100.0%**

9. My role is best described as:

○ Accounting (financial reporting, control, tax, budgeting, audit, etc.)	183	51.0%
○ Finance (treasury, cash management, M&A, investments, etc.)	99	27.6%
○ Investor Relations (IR)	41	11.4%
○ Other (role outside of accounting, finance, or IR)	36	10.0%
	359	**100.0%**

10. I am an executive officer at my firm (e.g., Controller, Chief Accounting Officer, Treasurer, Investor Relations Officer, CFO, or other "C-suite" member):

○ Yes	296	82.5%
○ No	63	17.5%
	359	**100.0%**

11. My age in years is:

○ Up to 29	2	0.6%
○ 30 – 39	31	8.6%
○ 40 – 49	95	26.5%
○ 50 – 59	149	41.5%
○ 60 – 69	69	19.2%
○ 70 or higher	13	3.6%
	359	**100.0%**

12. My gender is:

○ Male	284	79.1%
○ Female	75	20.9%
	359	**100.0%**

APPENDIX A: Survey Instrument Questions and Responses

Communication with Investors.
To communicate with the investment community, our executive officers (e.g., CEO, COO, CFO, Investor Relations Officer, Chief Accounting Officer, Controller, Treasurer):

	Never	Rarely	Once in Two Years	Annually	Twice per Year	Quarterly	Monthly
13. [IR1] give interviews to reporters	29.0%	29.8%	3.9%	7.0%	8.1%	15.9%	6.4%
14. [IR2] talk to Wall Street analysts	37.3%	7.2%	0.8%	4.5%	2.8%	25.1%	22.3%
15. [IR3] give presentations at industry conferences	17.3%	13.9%	5.6%	9.5%	17.3%	25.1%	11.4%
16. [IR4] give earnings conference calls	39.6%	4.5%	0.8%	1.9%	1.7%	49.9%	1.7%
17. [IR5] host investor relations presentations	33.4%	10.3%	8.6%	18.1%	8.9%	14.2%	6.4%
18. [IR6] travel to visit investors in their offices	28.4%	15.9%	3.6%	8.4%	9.2%	24.5%	10.0%
19. [IR7] host visits from investors in our offices	20.6%	14.8%	6.4%	9.7%	12.5%	23.1%	12.8%

Guidance to Investors.
Our organization provides investors with guidance for future:

	Never	Rarely	Once in Two Years	Annually	Twice per Year	Quarterly	Monthly
20. [G1] unit sales	56.0%	7.8%	0.6%	11.1%	1.9%	17.5%	5.0%
21. [G2] revenues	29.8%	6.7%	0.8%	19.8%	2.8%	32.0%	8.1%
22. [G3] profit margins	36.2%	7.5%	0.8%	16.7%	2.8%	28.4%	7.5%
23. [G4] capital expenditures	27.9%	7.8%	0.8%	27.6%	5.3%	24.2%	6.4%
24. [G5] operating income	38.4%	6.7%	0.8%	15.9%	2.8%	27.0%	8.4%
25. [G6] earnings per share (EPS)	46.2%	8.1%	0.3%	15.3%	1.9%	25.6%	2.5%
26. [G7] business prospects using qualitative “color commentary”	24.2%	5.8%	1.9%	12.3%	3.6%	43.7%	8.4%

APPENDIX A: Survey Instrument Questions and Responses

Hypothetical Scenario 1 of 2.
Suppose, as year-end approaches, we learn that projected earnings will fall short of Wall Street expectations. Our finance staff proposes business decisions that will increase earnings in the current year. Experts confirm that each proposal complies with Generally Accepted Accounting Principles (GAAP). How likely would we do the following?

	Very Unlikely	Unlikely	Somewhat Unlikely	Neutral	Somewhat Likely	Likely	Very Likely
27. [R1] Ease payment terms so customers buy more products or services	43.6%	18.9%	9.3%	10.8%	10.2%	5.8%	1.5%
28. [R2] Cut maintenance expenditures	26.7%	17.4%	11.0%	10.5%	19.2%	10.5%	4.7%
29. [R3] Cut research & development expenditures	32.0%	14.8%	13.7%	16.6%	11.9%	7.3%	3.8%
30. [R4] Cut advertising expenditures	18.6%	12.5%	10.8%	13.1%	22.1%	14.8%	8.1%
31. [R5] Cut employee training budget	19.5%	13.4%	11.6%	14.0%	18.9%	12.8%	9.9%
32. [R6] Cut travel and entertainment budget	12.8%	7.8%	5.8%	12.5%	19.5%	24.4%	17.2%
33. [R7] Stop work on an in-process information technology (IT) project	24.4%	22.7%	14.0%	14.8%	16.3%	4.9%	2.9%

Hypothetical Scenario 2 of 2.
Suppose, as year-end approaches, we learn that projected earnings will fall short of Wall Street expectations. Our finance staff proposes accounting adjustments that will increase earnings in the current year. Experts confirm that each proposal complies with Generally Accepted Accounting Principles (GAAP). How likely would we do the following?

	Very Unlikely	Unlikely	Somewhat Unlikely	Neutral	Somewhat Likely	Likely	Very Likely
34. [A1] Modify bad debt expense projections	47.4%	19.2%	7.8%	10.8%	6.7%	5.5%	2.6%
35. [A2] Adjust obsolescence estimates for inventory or materials	51.7%	16.3%	8.7%	8.7%	7.6%	4.9%	2.0%
36. [A3] Alter asset depreciation assumptions	60.2%	20.1%	5.8%	5.8%	5.5%	2.0%	0.6%
37. [A4] Refine assumptions to value an impairment (e.g., restructuring) charge	48.5%	17.7%	8.4%	12.5%	6.7%	4.4%	1.7%
38. [A5] Change estimates for a tax reserve	47.7%	16.6%	8.7%	13.1%	8.7%	3.8%	1.5%
39. [A6] Modify valuation assumptions for retirement plan liabilities	58.1%	19.8%	5.5%	9.9%	4.4%	1.7%	0.6%
40. [A7] Draw down a sales return reserve	53.5%	18.6%	7.3%	11.6%	4.7%	2.9%	1.5%

Note: Labels appearing in brackets (e.g., [IR6]) represent codes used to identify variables and measures described in this paper. These codes did not appear on the survey instrument.

References

Acito, A. 2011. ***Does quarterly earnings guidance increase or reduce earnings management?*** http://ir.uiowa.edu/etd/1116/, September 2, 2013, University of Iowa.

Aspen Institute. 2007. ***Long-term value creation: Guiding principles for corporations and investors***. New York, NY.

Bogle, J. 2005. ***The Battle for the Soul of Capitalism***. New Haven, CT: Yale University Press.

Bradburn, N., Sudman, S., & Wansink, B. 2004. ***Asking Questions: The Definitive Guide to Questionnaire Design***. San Francisco, CA: Jossey-Bass.

Brochet, F., Loumioti, M., & Serafeim, G. 2014. ***Short-termism, investor clientele, and corporate performance***. No. 12-072. http://www.hbs.edu/faculty/Publication Files/12-072_f1475e35-b4cd-42ac-8922-1001d33ae627.pdf, Boston, MA.

Buffett, W. 2001. ***2000 Letter to Shareholders of Berkshire Hathaway***. http://www.berkshirehathaway.com/2000ar/2000ar.pdf.

Call, A., Chen, S., Miao, B., & Tong, Y. 2011. ***Short-term earnings guidance and earnings management***. ***SSRN Electronic Journal***. http://papers.ssrn.com/abstract=1879254.

CFA Institute. 2006. ***Breaking the Short-Term Cycle***. Charlottesville, VA.

Committee for Economic Development. 2007. ***Built to Last: Focusing Corporations on Long-Term Performance***. http://www.ced.org/pdf/Built-to-Last.pdf, Washington, D.C.

Dichev, I., Graham, J., Harvey, C., & Rajgopal, S. 2013. Earnings quality: Evidence from the field. ***Journal of Accounting and Economics***, 56(2-3): 1–33.

Dutta, S., & Gigler, F. 2002. The effect of earnings forecasts on earnings management. ***Journal of Accounting Research***, 40(3): 631–655.

Fuller, J., & Jensen, M. 2002. Just say no to Wall Street: Putting a stop to the earnings game. ***Journal of Applied Corporate Finance***, 14(4): 41–46.

Graham, J., Harvey, C., & Rajgopal, S. 2005. The economic implications of corporate financial reporting. ***Journal of Accounting and Economics***, 40(1-3): 3–73.

Hofmann, M. A., & McSwain, D. 2013. Financial disclosure management in the nonprofit sector: A framework for past and future research. ***Journal of Accounting Literature***, 32(1): 61–87.

Houston, J., Lev, B., & Tucker, J. 2010. To guide or not to guide? Causes and consequences of stopping quarterly earnings guidance. ***Contemporary Accounting Research***, 27(1): 143–185.

Hsieh, P., Koller, T., & Rajan, S. 2006. The misguided practice of earnings guidance. ***McKinsey on Finance***, (19): 1–6.

Koller, T., Raj, R., & Saxena, A. 2013. Avoiding the consensus earnings trap. ***McKinsey on Finance***, 45(Winter): 2–8.

Puffer, S., & Weintrop, J. 1991. Corporate performance and CEO turnover: The role of performance expectations. ***Administrative Science Quarterly***, 36(1): 1–19.

U.S. Chamber of Commerce. 2007. ***Commission on the Regulation of U.S. Capital Markets in the 21st Century: Report and Recommendations***. Washington, D.C.

About the Author

Tom King, a member of FEI's Northeast Ohio Chapter, spent his career at Progressive Insurance, working in various line and finance roles. A graduate of Harvard College and Harvard Business School, he is enrolled in a doctoral program at Case Western Reserve University. Married with three children, he lives in Chagrin Falls, OH.

About the Sponsor

Microsoft is the worldwide leader in software, services, and solutions that help people and businesses realize their full potential. For more information, visit **www.microsoft.com**.

About Financial Executives Research Foundation

Financial Executives Research Foundation (FERF) is the non-profit 501(c)(3) research affiliate of Financial Executives International (FEI). FERF researchers identify key financial issues and develop impartial, timely research reports for FEI members and non-members alike, in a variety of publication formats. FERF relies primarily on voluntary tax-deductible contributions from corporations and individuals. Questions about FERF can be directed to FERF's Chief Operating Officer, Bill Sinnett, **bsinnett@financialexecutives.org.**

The views set forth in this publication are those of the author and do not necessarily represent those of the FERF Board as a whole, individual trustees, employees, or the members of the Advisory Committee. FERF shall be held harmless against any claims, demands, suits, damages, injuries, costs, or expenses of any kind or nature whatsoever except such liabilities as may result solely from misconduct or improper performance by the Foundation or any of its representatives. FERF publications can be ordered by logging onto **www.ferf.org**.

Copyright © 2015 by Financial Executives Research Foundation, Inc.

All rights reserved. No part of this publication may be reproduced in any form or by any means without written permission from the publisher.

International Standard Book Number 978-1-61509-191-1
Printed in the United States of America
First Printing

Authorization to photocopy items for internal or personal use, or the internal or personal use of specific clients, is granted by Financial Executives Research Foundation, Inc. provided that an appropriate fee is paid to Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923. Fee inquiries can be directed to Copyright Clearance Center at (978) 750-8400. For further information, please check Copyright Clearance Center online at http://www.copyright.com.

Cover Images: © 3d-Guru / olm26250 / iStock / Thinkstock

Financial Executives Research Foundation (FERF) gratefully acknowledges these companies for their support and generosity in FY2015

PLATINUM MAJOR GIFT | $50,000 +

Exxon Mobil Corporation
Microsoft Corporation

GOLD PRESIDENT'S CIRCLE | $10,000 - $14,999

Cisco Systems, Inc.
Cummins Inc
Dow Chemical Company
General Electric Co
Wells Fargo & Company

SILVER PRESIDENT'S CIRCLE | $5,000 - $9,999

Accenture LLP
Apple, Inc.
The Boeing Company
Comcast Corporation
Corning Incorporated
Dell, Inc.
DuPont
Eli Lilly and Company
GM Foundation
Halliburton
IBM Corporation
Johnson & Johnson
Lockheed Martin Corp.
McDonald's Corporation
Medtronic, Inc.
MetLife
PepsiCo, Inc.
Pfizer Inc.
Procter & Gamble Co.
Tenneco
Tyco International Mgmnt Co.
Wal-Mart Stores, Inc