The Impact of Cultures on Shaping Earnings Benchmarks

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Abstract

Purpose: This paper studies the influence of the Egyptian context on shaping earnings benchmarks. Design/methodology/approach: This study adopted interpretive approach as research philosophy and interviewing as research method. Findings: This paper finds that firms model their published profit figures to the prevailing level of profits in its sector, these findings are consistent with the cultural-collectivist feature of Egyptian society that refer to a very tight social framework among Egyptians, leading to imitate each other. This study finds, unlike research conducted in developed countries, in Egypt, a one of emerging economics, financial analysts' forecasts are not generally considered an earnings benchmark; however, increasing profits and retaining this pattern; and industrial norms are prevailing profits levels, and hence they are completely regarded as important targets for firms to beat in order to ensure their economic and social fitness and their management effectiveness. It also is found that firms are interested in meeting all these earnings targets as one set in a sequential manner, starting with the most important one. Originality/value: This paper contributes to literature by shedding light on the fact that there are no earnings benchmarks which can be generalised among contexts; differences in the situations and circumstances of contexts play key role in shaping earnings targets a firm seeks to achieve. It also sheds light on industrial earnings norms as an important earnings benchmark.

1. Introduction

Market always expects that firms are capable of beating their earnings thresholds, therefore, firms' failure to deliver earnings benchmarks results in raising many problems (Brown and Caylor, 2005); including: the market's perceptions that there are unseen, potential, and serious problems in firms; and increasing uncertainty about the firms' future prospects, hence, decreasing the firm's stock price. As one CFO explained it, ''if you see one cockroach, you immediately assume that there are hundreds behind the walls, even though you may have no proof that this is the case.'' (Graham, et al., 2005: 29). As a consequence, firms, on average, significantly intend to hit or slightly exceed earnings targets (Brown and Caylor, 2005); as the ''screw-driver'' effect: ''you turn the screws just a little bit so that it fits'' (Graham, et al., 2005: 29).

The accounting literature, summarized by; DeAngelo et al. (1996); Barth et al. (1999); Degeorge et al. (1999); Dechow et al. (2003); Mikhail et al. (2004); Brown and Caylor (2005); Graham et al. (2005); Caylor (2010); Cohen et al. (2010); El Reseny (2010); and Eldenburg et al. (2011), provides several earning benchmarks including: avoiding reporting zero income; avoiding reporting earnings decreases; meeting analysts' earnings forecasts; and reporting increases in the annual profits. A gap in present literature is the ignorance of the effect of the study's context on shaping earnings targets which firms seek to meet.

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Consequently, this paper evaluates the evidence for each of these targets and conducts a comparison between the findings of these studies, conducted in developed countries, with the findings of this research to reveal the influence of Egyptian context on forming the prevailing earnings targets that firms seek to beat, in turn. In addition, this research highlights survey evidence on a relatively under-explored earnings target: industrial norms.

Focusing on the impact of firms' contexts on shaping the earnings targets is an important issue, specially, because there are several socio-cultural differences among contexts that fundamentally affect organisational behaviour and actions. Unlike the individualism characterised developed countries, collectivism is the Egyptian socio-cultural characteristic, referring to that Egypt has tightly knit social framework where people prefer the concept "we" not "I" (Hofstede, 1984). That is, there is a close relationship and high degree of interdependence and integration among members of collectivist society (Hofstede, 1984; Perera, 1989); leading to a great intention to model their behaviour and action to others in the society. This social characteristic potentially influences managers' beliefs, behaviours and actions in terms of their attempt to imitate the prevailing level of earnings in their sector.

Unlike previous research, this study was built on the suggestions of new institutional sociology theory to provide a more comprehensive theoretical framework for understanding the earnings benchmarks in the Egyptian context. Thereby, this paper considers mimetic institutional pressure as an environmental motive to emulate the prevailing financial target (s) in Egypt. In addition, it drawn on an interpretive approach to collect first hand information in order to get better understanding of the effect of Egyptian context on enhancing managers' attention to focus on particular earnings benchmarks as important targets that should be met compared with others.

This paper is set out in four main sections followed by a summary, discussion and conclusion. Section 2 reviews related literature; Section 3 suggests theoretical framework; Section 4 outlines research method and methodology; Section 5 analyses data, reports the results; Section 6 summaries, discusses, and concludes.

2. Literature Review

Accounting literature and the financial press have identified three common benchmarks which executives try to beat them in order to avoid adverse effects on their affairs (Cohen, et al., 2010; Dechow & Skinner, 2000; Degeorge, et al., 1999). Those targets include:

- Avoiding reporting losses
- Avoiding reporting earnings decreases
- Meeting analysts' earnings forecasts

However, when it comes to determining which target is considered the most important, the findings from the accounting literature reveal a lack of agreement on this point.

The first line of research hypothesizes and finds that loss avoidance is considered an important target which represents an incentive for managers to boost earnings figures when these are close to zero (Alghamdi, 2012; Baber, et al., 1991; Bushee, 1998; Dechow, et al., 2003; Eldenburg, et al., 2011; Roychowdhury, 2006). The second stream of research claims and finds that avoiding reporting an earnings decrease is an important earnings target, a firm seeks to beat (Bushee, 1998; El Reseny, 2010; Kasab, 2008; Marquardt & Wiedman, 2004).

Other academics report evidence about the importance of both avoiding losses and decreases in earnings as earnings benchmarks (Bens et al., 2002; Burgstahler & Dichev, 1997; Burgstahler & Eames, 2003; Cheng, 2004; Cohen, et al., 2010; Degeorge, et al., 1999; Ebaid 2012; Gunny, 2009, Hamdi and Zarai, 2012; Kamel and Elbanna, 2010). Nevertheless, Burgstahler & Dichev (1997) find that, although both targets are important, managers are more concerned with avoiding losses than avoiding a decrease in earnings. Importantly, they find that 30%-44% of firms with a small negative pre-managed income use accounting discretion to transform this into positive earnings; however, only 8%-12% of firms with slight decreases in their pre-managed earnings take action to manipulate their earnings in order to move to a position of increased earnings. Likewise, Shen and Chih (2005) empirically demonstrate that the majority of banks they investigated from 48 different countries try to avoid reporting earnings losses and earnings decreases; however, avoiding earnings losses is a more significant factor.

The third stream of literature regards beating earnings expectations set by financial analysts as an important target, confirming those of the financial press, as expressed by the following comment which emphasises the importance of beating the expectations of the Wall Street Journal:

"... The simplest, most visible, most merciless measure of *corporate success* ... has become this one: *Did you make your earnings last quarter?*" (Fox, 1997, p.77 cited in Bartov, et al., 2002, p.174 - emphasis added).

It is traditionally acknowledged that analysts' expectations represent an influential source of information when investment decisions come to be made; these expectations are used to assess a firm's future earnings and hence its stock value (Payne & Robb, 2000). Consequently, Cohen & Zarowin (2008) state that analysts' forecasts can play a role in inducing management to bring the published profit figures into line with these forecasts.

Corporate culture reflects the importance of achieving this alignment (Mikhail, et al., 2004), there has been a growing body of robust evidence supporting this corporate tendency by demonstrating that an increasing number of firms are trying to meet or, at least slightly beat analysts' expectations, especially when they fall below the projected figure (Bange & De Bondt, 1998; Brown, 2001; Dhaliwal, et al., 2004; Payne & Robb, 2000; Perry & Grinaker, 1994; Roychowdhury, 2006). Similarly, Matsumoto (2002) find that firms with high growth rates and those with a high level of institutional ownership are more incentivized not to miss analysts' forecasts. Abarbanell & Lehavy (2003) provide evidence that firms receiving recommendations to "buy" "(sell)" from analysts are more (less) incentivized to bring their earnings into line with their earnings expectations. Researchers go a step further to provide evidence that managers have recently shifted their priorities in favour of avoiding negative earnings surprises and away from avoiding losses and decreases in earnings (Brown & Caylor, 2005; Caylor, 2010; Dechow, et al., 2003; Graham, et al., 2005).

In addition to previous three earnings targets; Kamel (2006), Baber et al. (1991), and Bushee (1998) find, reporting increases in profits from one year to another is an important earnings target for executives to beat. Barth et al. (1999) and DeAngelo et al. (1996) provide evidence that managers have a strong incentive not only to report continuous growth in annual earnings but also to retain this pattern over a long period because once this pattern is "broken", firms' stock prices become negative.

3. Theoretical Framework: New Institutional Sociology Theory

Giving due consideration to the study's context, the new institutional sociology theory (hereafter, NIS) was adopted so as to provide a theoretical explanations for the questions under investigation.

Carpenter & Feroz, (2001), Meyer and Rowan (1977, p. 340) and Tolbert (1985) argue that "in modern societies formal organizational structures arise in highly institutionalized contexts", which consist of a set of external pressures influencing firms' structures and practices; reflecting a widespread explanation of organizational practices and the reality in which they operate. Mezias and Scarselletta (1994) assert that accounting is an important instance of an institutional process. For that reason, most accounting research has adopted NIS as one of the most widespread and popular frameworks and a useful lens through which to examine how factors at the macro (societal) level impinge on organizational behaviour and practice, i.e. the micro level (Moll et al., 2006), by making a link between a firm's institutional environment and its choice of accounting practices (see for example, Carpenter & Feroz, 2001; Hussain & Hoque, 2002; Mezias & Scarselletta, 1994).

Within the general framework of NIS, it is suggested that a firm's environmental penetration occurs because the firm is subject to mimetic pressure exerted by the institutional context to conform to its requirements (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Scott, 1995), e.g. achieving and reporting a certain level of earnings. These requirements are seen as more legitimate and acceptable and are adopted by successful firms in a given domain (Carpenter & Feroz 2001; Meyer & Rowan, 1977; Mezias & Scarselletta, 1994; Palmer, et al., 1993).

DiMaggio and Powell (1983), Carpenter and Feroz (2001) and Moll et al. (2006) argue that, when firms need to enhance their social and economic fitness and seek to increase their legitimacy, and hence survival, they emulate or mimic more appropriate practices and rules which have been adopted by other companies which are perceived to be more legitimate and successful within the firm's domain. This is consistent with Covaleski and Dirsmith's (1988) argument that a firm models itself on the 'players in a competitive game'. This results in the expectations of the important interested "constituencies" being met in terms of how the firm is designed, and how it operates and runs (DiMaggio and Powell, 1983 and Hussain & Hoque, 2002).

This argument can be extended to the realm of earnings targets topic where mimicking or beating of the "prevailing" level of profit which characterises most other firms becomes an essential factor for company executives who intend to be compared favourably to their peer group, in turn, to enhance the firm's social and economic fitness necessary for sustaining its legitimacy and reputation with outsiders. It is consistent with Wickramasinghe and Alawattage's (2007, p.433) argument that "performance measurement systems become imitations, fads and fashions".

4. Research Methodology and Method

This study drawn on an interpretive approach, advocating that reality is socially constructed, and individuals are seen as having an active role which enables them to create their environment and reality (Burrell & Morgan, 1979). Accordingly, this study adopted semi-structured interviews as research method to elicit the perceptions, beliefs, and experiences of individuals deeply involved in the phenomenon under study; as shown in table (1) "interview guide" .

Table (1) The Interview Guide

Part (1) Introduction and background questions

Part (2) Mimetic Factor
 	
 Opining Question: Do you prefer to imitate **(do you think that firm's management prefers to imitate)** Other firms' benchmarks? What are the effects of the failure coping with them?
 Opining Question: In your opinion which financial target or profit level is more important to be achieved or Imitated? and why?
 Probing Questions, could you talk more about
       – Industrial norms and ratios
       – Financial analysts' expectations
       – Avoiding reporting losses
       – Avoiding reporting profits decreases relative to last period (year or quarter)
       – Reporting higher profits than previous year (reporting profits increases)
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 Words in **bold and between brackets** indicate to the part of the question, which was changed to rephrase the Whole question to be suitable for interviewing groups rather than firm's management group.

Interviewing protocol began with talking briefly about the earnings benchmarks, and inquiring about the interviewee's background and demographic characteristics helped to create a comfortable environment for the interview, enabling interviewees to talk freely (Berg, 1995; Zikmund, et al., 2010), and tell their stories about favouring certain earnings targets to be met in the Egyptian context with more integrity.

Selecting the research sample was based on purposive (or criterion-based) sample approach to prompt the validity of the study, and collect relevant answers to the research questions. This sampling approach entails selecting the phenomenon population in accordance with the certain purposive criteria, necessary, and relevant features of the research population. The sample's units were chosen in accordance with the participants' knowledge and experience; their roles and professional positions; their attitudes, beliefs and perceptions regarding important earnings benchmarks (Ritchie et al., 2003); as shown in tables 2,3,4 and5: Interviewees' Demography.

Table (2) Demography of EGX Regulators

Regulator	Position	Age	Years of Experience	Certificate	Institution
REG1	-	49	10	PhD, UK	The Egyptian Exchange
REG2	-	39	6	MBA, Durham, UK	The Egyptian Exchange
REG3	-	43	8	MBA	The Egyptian Exchange

Table (3) Demography of External Auditors					
Auditor	**Age**	**Experience**	**Firm size**	**Certificates**	**Position**
AUD1	26	4	Big	Master in auditing	Auditor
AUD2	28	6	Big	Master in auditing	Auditor
AUD 3	26	5	Big	Master in auditing and tax diploma	Auditor or Manager Deputy Director (direct auditor)
AUD 4	25	4	Big	Diploma in Auditing	Senior
AUD 5	45	12	Big	PhD in accounting and auditing	Partner
AUD 6	45	18	Small	PhD in accounting and auditing	Owner , partner
AUD 7	46	19	Small	PhD in accounting and auditing	Owner , partner
AUD 8	30	7	Small	Diploma in auditing	Senior
AUD9	30	6	Small	Master in auditing	Auditor

Table (4) Demography of Corporate Executives					
Manager	**Position**	**Age**	**Years of Experience**	**Certificate**	**Field/ Company**
MAN1	Financial manager	42	12	Diploma in accounting and audit	Pharmaceutical industrial company
MAN 2	Accounting manager	37	9	Diploma in accounting and audit	Pharmaceutical industrial company
MAN 3	Financial controller	38	16	Master business administration (MBA)	Car industrial company (assembling cars)
MAN 4	Financial manager	33	10	MBA	Car industrial company
MAN 5	Financial manager	50	25	MBA	Textile company
MAN 6	Financial manager	42	20	Diploma in accounting and audit	Restaurant and Hospitality
MAN 7	Financial manager	28	6	MBA	Brokerage company
MAN 8	CEO or Managing Director	60	41 in general 14 year in brokerage	MBA	Brokerage
MAN 9	Chairman of the Board of Directors	55	27	PhD in accounting	Brokerage
MAN 10	Financial manager	56	35	Master business administration (MBA)	Brokerage
MAN 11	Chief executive officer (CEO) Managing director	59	27	PhD in financial and economics	Brokerage

Table (5) Demography of Financial Analysts						
Financial analysts	**Age**	**Year of Experience**	**Position**	**Certificate (s)**	**Firm**	
FAN1	42	16	Vice president/ researcher department	Certified portfolio management	Large	
FAN 2	28	6	Financial analyst	MBA, Master in Business Administration	Medium	
FAN 3	31	7	Technical Analyst	Master in economics	Medium	
FAN**4**	35	12	Head of research/ financial and technical analyst	Diploma in investment management / Master in investment management	Medium	
FAN 5	35	15	Managing director (CEO)	Diploma in analysis stock markets/ Diploma in Fundamental Islamic Finance	Medium	
FAN 6	60	25	Financial analysis	PhD in finance	Medium	
FAN 7	38	16	Managing director	MBA in financial analysis/ Diploma in financial analysis	Large	Vice president of the Egyptian committee of stock markets development, vice present of the Egyptian committee of finance and investment studies.
FAN 8	26	4	Financial analyst	Diploma in stock market studies/ MBA in markets stock studies	Large	
FAN 9	30	10	Financial analyst/ Manager of Research and of investment	Certificated Management Accounting (CMA) / Certificated financial managers(CFM)/ Charted Market Techniques (CMT)/ Certificated Portfolio Managers (CPM)	Medium	
FAN 10	27	8	Financial analyst		Medium	
FAN 11	49	18	Financial analyst/ writer in the financial and economic press	MBA and PhD in finance	Large	Member in the Egyptian Capital Market Association ECMA, member of the Egyptian committee of stock markets development

Enhancing validity and providing some assurance that findings were valid in the Egyptian context necessitated involving a variety of respondents who are central to study the phenomenon in order to "maximise the difference" within the sample, hence to create a representative and inclusive sample relative to the parent population (Lewis & Ritchie, 2003). Accordingly, a total of thirty-four participants were interviewed, who were divided into four categories namely: firms' executives; investors; auditors; and regulators.

Table (6) "Percentages of Respondents" details that the 'preparers' category– comprised of firms' executives - makes up 32.4% of the interviewed participants. It consists of executives from five different companies, including three industrial companies (45.4%) and two service companies (54.6%). Industrial companies comprised textile companies, pharmaceutical companies, and motor industry companies. Service companies include restaurant and hospitality companies and securities brokerage companies. The financial report users' category (investors or financial analysts) makes up 32.4 % of the total interviewees; this consists of large companies and medium sized companies. The auditor category makes up 26.4% of the total interviewees and includes both large and small audit firms. Finally, the EGX regulators group makes up 8.8 % of the total interviewed sample.

Table No. (6): Numbers and Percentages of the Four Categories of Respondents included in Interviews			No. of Interviewees
Auditors:	Large firms		5
	Small and medium firms		4
Total			**9 (26.4%)**
Financial report users (Financial analysts):	Securities Brokerage firm: Large		4
	Medium		7
Total			**11 (32.4%)**
Firms' Executives:	Industrial Companies:	Textile industrial co.	1
		Pharmaceutical industrial co.	2
		Motor industrial co.	2
			5 (45.4%)
	Service Companies:	Restaurant and Hospitality co.	1
		Securities Brokerage co.	5
			6 (54.6%)
Total			**11 (32.4 %)**
Regulators:	Egyptian Exchange (EGX)		3
Total			**3 (8.8 %)**
Total interviewees			**34 (100 %)**

Most of interviewees were senior employees who were likely to exhibit high levels of integrity. Also, the researcher interviewed auditors, analysts, and the Stock Exchanges' authorities who had no incentive to be untruthful. In addition, the researcher made comparison between the answers of each interviewed group with others to test that all interviewees, and especially company managers, were providing reliable information about research questions, and that the interviewees reflected their own beliefs and attitudes. Also, interviewees were asked similar questions in different ways in order to check the validity of the responses of one group against the answers of others. Furthermore, the interviewer tried to avoid leading the interviewees towards particular answers which might be preferred to be heard and collected (Charmaz, 2001). The interviews were recorded digitally to capture the actual words of the interviewee and thus provide an accurate account as possible of the interview.

It is important for researcher to limit the amount of bias during the data analysis to enhance the research's validity (Lewis & Ritchie, 2003). Therefore, the research employed "comprehensive data treatment" by incorporating, analysing, and inspecting all the data collected without exception, and by avoiding the use of brief "conversations, snippets" from interviews (Bryman, 1988; Silverman, 2000, 2010). Data were then analysed by using Ritchie & Spencer's (2002) thematic approach, requiring the implementing of the following steps.

First, the researcher constructed a thematic framework or index based on the research questions, and interview questions. Indexing was next step, in which researcher systematically applied the thematic framework to the gathered information in its textual from. Next, the researcher transferred the data from its original contexts to be rearranged in accordance with the headings and subheadings drawn from the thematic framework -i.e. according to each interview question. Using direct quotations from participants' answers enhanced the validity of the research in terms of providing accurate and correct interpreting, and representing aspects of beating favoured and prevailed earning benchmarks in ways that they are perceived by the research respondents and population. Mapping was the final step in which the researcher focused on interpreting the data and provided answers to the research questions. This was achieved by defining concepts; searching for patterns and connections; providing explanations for internal patterns within the data; comparing the participants' perceptions, beliefs, or experiences; and developing strategies for and "maps" of the nature of managerial intention to enhance their firms economic and social fitness through meeting prevailed earnings benchmarks in Egyptian environment.

5. The Results

As suggested by DiMaggio & Powell (1983), a firm seeks to model itself on other firms which are perceived as successful within their field by adopting or imitating the same practice followed by these privileged firms, in order to enhance its economic and social fitness and hence boost its chances of success. That is, a firm's desire to keep pace with the prevailing level of profits achieved by majority of its peers within the sector can prompt management to imitate and hence report this level of profits.

All the interviewed groups agreed on this issue and majority of executives with nearly the same level of experience and different positions indicate that "of course keeping pace with other firms reporting profits in the same field induces and motivates [company's management] to achieve performance isomorphism" (MAN5, a financial manager), for the sake of being seen as a successful firm, as reflected in the following comment:

"Yes of course, keeping up with others in my sector is an important issue ... we know their results and the level of profits they achieved, and accordingly we tried to keep pace with them in the next period in order to compete and succeed ..." (MAN9, a CBD).

Executives', auditors' and analysts' groups assert the importance of keeping up with the prevailing level of profits published by most of other firms in a sector because it is an indicator of the firm's success. They also highlight the fact that a firm's failure to match this prevailing level of profits is interpreted as a management failure and also "... implicitly suggests internal or hidden problems within the firm which negatively affect external parties' confidence in the company ..." (MAN1, a financial manager), leading to reluctance to deal with the firm.

The Prevailing Earnings Level or Target in the Egyptian Context

When asked about the prevailing earnings level which most firms seek to achieve and report, and which can be considered as the most important target, all the interviewed groups' comments generally indicate that, in the Egyptian context, all executives seek to report earnings increases across the years, as confirmed by the following respondents:

"Of course, like others, my company's financial target is achieving increases in profit levels from one year to another" (MAN3, a financial controller).

All the groups strongly asserted that the reason behind considering reporting increases in profits as important target and as a prevailing level of profit is due to managers' belief in the importance of "reporting continuous increases in profit figures ... [to] prove firms' ability to survive in the field and to assert their management's effectiveness and success" (AUD3, big firm, auditor). Another reason is the managers' willing to increase investors' trust in the firm, because investors prefer "large profits and like to see positive change in the profits" (FAN10). Achieving such a target is an "attractive and important advertisement in the EGX" (AUD8, small firm, senior) so as to attract investors and to make it easier to raise the required funds.

Managers assert this point, stating that "I am very confident that increasing profits from one year to another ... is the most influential factor, which attracts investors to my company" (MAN4, a financial manager). Thus, regulators mentioned the importance of providing the EGX with "financial statements, which show continuous increases in the firm's profits or at least maintain the same profit level" (REG2).

As reported by Cohen et al. (2010), Dechow & Skinner (2000) and Degeorge et al. (1999), meeting financial analysts' forecasts is one of three common earnings targets. The next section examines whether the analysts' forecast is seen as an important or prevailing target to be met by a firm in order to avoid a mismatch with its peers. Generally, analysis of the interviewees' responses reflects mixed views regarding the importance of meeting this target in the Egyptian context.

On the one hand, the majority of executive, auditors and analysts think that "absolutely, financial analysts' expectations have no effect in Egypt; firms in general do not place any importance on such expectations, and hence do not seek to meet" (AUD3, big firm, auditor). Thus, financial analysts' forecasts do not constitute an earnings target to be met in Egypt. Further analysis of the interviewees' responses illuminates the reasons behind such beliefs, namely: 1) inaccuracy in establishing earnings expectations, and; 2) investors' ignorance of such expectations when making investment decisions. The first reason is clearly explained by the majority of executives who argued that analysts' earnings forecasts are inaccurate and unrealistic. This is because these forecasts are based purely on analyzing the FRs of the firm and ignoring the real activities and internal circumstances of the firm. They are also estimated based on serving the analysts' self-interests.   Interviewing the analysts group confirmed the argument put forward by managers by mentioning the reasons for their inability to make accurate predictions, meaning that those predictions are of little use to the firms' management.

Analyst group highlighted the difficulties involved in collecting real and live data, and indicated that making accurate forecasts should be based on analyzing the internal and external affairs of the firm. However, in Egypt, they "work from [their] desk" and analyze the firm using only its financial statements, because it is either difficult for them to visit the firm to collect data relating to internal aspects of the firm or they are not permitted to do so at all, and thus "there is no complete vision of the firm from which to make accurate predictions about its earnings" (FAN3), these arguments are summarised as follows:

 "In order to establish accurate expectations, I must visit the firm which we are not permitted to do ... there is no real or live data I can depend on then I have to only analyze the FRs of the firms ..." (FAN8).

Auditors also supported the idea that analysts' forecasts are not accurate because they only focus on the FRs and ignore other influential factors regarding the firm's financial position. Executives support the necessity of letting financial analysts study their firm from the inside so they can become aware of the full range of factors affecting the profit figures and hence make realistic forecasts. Analysts also explained that, besides difficulties in gaining access to the firm, the lack of information is also due to the management's reluctance to provide them with information, and in some cases managers give them incorrect data because they consider that this information should be confidential as "an industry secret" and hence should be known only to the firm. Analysts summarized their views by asking: "how can I analyze and accurately set earning predictions for a firm which I do not have sufficient information about it, or about its future plans?" (FAN4).

In addition, analysts mentioned that managers neglect analysts' forecasts due to their belief that those forecasts are inaccurate and unreliable because they serve analysts' self-interests.

"Managers consider that the analysts forecasts are not accurate and unfair; they think those forecasts might be made in order to serve the analyst's personal interests ... [managers] consider I came from competitive firms etc." (FAN8).

Secondly, executives, analysts and regulators highlighted that analysts' forecasts are not a concern of managers as an earnings target due to the lack of attention given to such expectations by investors when making investment decisions.

"I might care about the financial analysts' expectations because they normally affect investors' decisions to buy or sell my stock ... this does not happen in Egypt" (MAN10, a financial manager).

On the other hand, those who suggest that financial analysts' expectations do constitute a important target argue on the grounds that such expectations are considered as benchmarks or objectives for the firm and therefore must be achieved, and see them as confirmation of the firm's management fitness and effectiveness. Due to the general assertion about the importance of increasing profit figure target and the relative unimportance of target based on analysts' expectations, executives and analysts are in agreement about the importance of management's emphasis on its target, e.g. increasing the profit figures and neglecting financial expectations, because "each analyst evaluates the firm using different prices and makes different predictions" (FAN3), which might mislead a firm's management:

"... [Analysts'] forecasts can mislead me ... My company knows its plans and its own earnings expectations and targets, e.g. increasing profits, which we seek to achieve, so we *do not care about the financial analysts' expectations at all*" (MAN1, a manager, emphasis added).

As argued by Burns & Kedia (2006), it is more likely that managers will practice earnings management during a period in which there is a high industry market value to book value ratio. Thus, the next section reports evidence about the importance of the industrial earnings norms which can be considered as another earnings target sought to be met. Executives agreed that industry norms represent an important financial target to be met, as explained below:

"An aim for my firm is to meet its sector predicted profit average, it is important for us to meet this average ... " (MAN9, a CBD).

Regulators emphasised the importance of considering the industry norms as a target to be met which will be used by outsiders, e.g. analysts who "... evaluate firms by comparing them together according ... to industry standards and norms ..." (REG1).

Analysts confirmed regulators' views by stating that they consider industry norms as a measurement with which they compare firms' performances in order to evaluate a firm, and hence to estimate its competitiveness. Therefore, analysts and auditors perceived that rational managers must seek to beat this target in order to maintain the industry average and "to be on the safe side" (AUD5, big firm, partner). This is because deviation from such norms is considered a very unfavourable indicator about the firm, which adversely affects the analysts' evaluation of it. In addition, executives and analysts pinpoint creditors as another outside party who are concerned with industry norms and use these to compare a firm's performance with its peers when evaluating the firm to finance its activities. Thus, managers attempt to beat the industry norms for the sake of funding issues. Furthermore, in the view of executives, it is an important target because management's ability to meet these norms reflects its effectiveness in using the firm's resources, as explained in the following comment:

"... If the industry standard is 10% and I achieve 7%, this suggests that the firm is inefficiently managed and that the management is inefficient in using the available tools and resources ..." (MAN3, a financial controller).

However, very few analysts expressed an opinion about the unimportance of meeting industry norms. This is because they tended to think that such averages are established on inaccurate information collected by Egyptian Industry Unions.

Importantly, executives demonstrated that "basically, we try to achieve more than one earnings target ..." (MAN2, an accounting manager) at the same time, focusing on the most important one first, the prevailing target, followed by the less important ones. Hence executives -with the agreement with auditors and analysts- identified that "... the most important and prevailing target is reporting increases in profits, followed by meeting industry norms ... both are regarded as more important targets than meeting the financial analysts' forecasts" (MAN2, an accounting manager).

In addition, executives and auditors importantly highlighted the idea that the most important earnings target depends on each firm's unique circumstances. For instance, if the firm is making losses then the most important target which it will attempt to achieve is avoiding reporting losses and trying to turn these into profits instead. "If I cannot report profits, at least I must not report losses" (AUD9, small firm, auditor). However, in cases where profits are being achieved, the most important target becomes increasing these profit levels or at least maintaining the same level, as illustrated in the following comment:

"The most important target for a firm is dependent on its situation and circumstances: does the firm report losses or profits? A firm reporting losses seeks to reduce such losses and report profits; however, if it reports profits, it will try to increase such profits, etc." (AUD2, big firm, auditor).

6.   Summary, Discussion, and Conclusion

Analysing first hand information collected by interviewing executives, auditors, financial analysts, and stock exchange regulators, helps this paper to report evidence that imitating the prevailing level of profits within the firm's business sector when the firms' profits fall below this level is considered an important factor for avoiding the negative consequences of the firm's inability to match its peers in terms of its managers' reputation and its own reputation with outsiders. Modelling a firm's earnings figures to the prevailing level of profits in its sector is consistent with the cultural-collectivist feature of Egyptian society which refers that all people within this society are considered as one family, having a very tight social framework; this, in turn, leads to increased intention of those individuals to imitate and follow the same pattern of behaviour adopted by others within the society.   This mimetic behaviour helps a firm to achieve performance isomorphism so as to be seen as successful and economically fit. These findings are consistent with those of Kedia & Philippon (2009) whose research focused on a firm's attempt to imitate the investment decisions of other successful firms in its domain in order to prove that it has the ability to compete with them.

It also concludes that imitating the prevailing level of profits also helps a firm to avoid being seen as having internal and unseen problems, which is similar to findings by Graham et al. (2005). This mimetic behaviour further has the effect of avoiding firms' managers being seen as unsuccessful or abortive.

When it comes to determining which "normal" or "prevailing" level of earnings constituting the most important target in the Egyptian context, it can be deduced from clear-cut evidence that reporting increases in profits from a year to another is the prevailing and most important profits target which most Egyptian firms seek to meet. These findings are consistent with those reported by Baber et al. (1991), Barth et al. (1999), Bushee (1998), and DeAngelo et al. (1996), whose studies were conducted in developed countries. These findings are also consistent with McKee's (2005) argument, the majority of firms resort to EM to retain the increases- profit model.

In the Egyptian context financial analysts' forecasts are generally regarded as an unimportant earnings target. This is contrary to the findings of Abarbanell & Lehavy (2003); Bange & De Bondt (1998), Brown (2001), Brown and Caylor (2005); Caylor (2010); Dechow et al. (2003); Dhaliwal et al. (2004); Graham et al. (2005), Matsumoto (2002); and Payne & Robb (2000), Perry & Grinaker (1994), and Roychowdhury (2006), whose studies were conducted in developed countries.   The results suggested two reasons for the unimportance of analysts' forecasts. First, these forecasts are considered inaccurate estimations of earnings and are seen as being unable to reflect the real situation of the firm. This is due not only to the fact that in Egypt it is difficult for analysts to get permission to visit firms so as to collect live data, but also to the common belief among firms that these earnings expectations are set in a way that serves analysts' own interests. The second reason is the scant concern given by investors to such expectations while making investment decisions.

Evidence indicated mixed views regarding the importance of industrial estimations for earnings, i.e. industrial norms as an earnings target to be met in the Egyptian context. A minority of interviewees thought that meeting these norms is unimportant in Egypt because they are based on inaccurate information collected by the Industry Unions. However, the majority of them asserted that meeting industrial earnings estimations is important because a firm's ability to meet these norms is a measure used by outsiders, e.g. analysts and creditors, when evaluating the firm's performance and the effectiveness of its managers in using its resources. Evidence further indicated that in Egypt there are many financial targets which managers seek to meet in a sequential order according to their importance. Firms regard reporting increases in their profits figures as the most important and prevailing target, followed by industrial norms. The evidence continued to indicate that determining the most important earnings target is logically based on the unique situation of each firm, whether reporting losses or profits.

This study contributes to the past knowledge by: highlighting that (1) the effect of a particular setting, Egypt, on forming a set of earnings benchmarks; (2) earnings benchmarks vary in accordance with the context in which the firm operates, firm's sector and its financial results; (3) the importance of industry norms as an earnings target; (4) there are a set of targets which firms seek to meet in a sequential way; (5) building a proper theoretical framework for better understanding of the questions being answered; and (6) building the research findings on collecting first hand information.

The primary limitation of this study is in the application of the results to other settings because of adopting interpretive research philosophy and NIS theory, intending to explore earnings targets in the particular setting of Egypt. This calls for future research investigating these same phenomena in other setting. The second limitation is that the research participants were limited to four groups: managers; financial analysts; auditors; and regulators. Although their views were very useful in serving the thesis aims, during the data analysis it emerged that it would be beneficial to include some other participants who are interested in FRs such as: creditors, to explore to what extent they are interested in other earnings targets. The third limitation is that this study is explanatory research, further research is required by means of an in-depth study or case study designed to investigate the consequences of firms' success or failure to meet the prevailing earnings levels.

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