
Transparent firm information environment is important to the efficiency of financial markets. Investors often make decisions not solely based on the information firms produce but also from other sources outside of the firms’ control. My dissertation aims to expand our understanding of how external factors shape and contribute to a firm’s information environment, namely financial analysts’ earnings forecasts, quality of auditors’ assurance services, and peer firms’ influence.

In the first chapter, titled “Rational Inattention and Analyst Forecast Accuracy,” I investigate effects of rational inattention on analyst earnings forecast accuracy and the factors determining analyst attention level. Like other decision-makers who face a limited attention constraint, financial analysts have to strategically choose which information to pay attention to and which information to ignore when making earnings forecasts. Leveraging the rational inattention and a novel four-component measure of attention, I find that analyst attention increases in firm earnings volatility and decreases in the marginal cost of paying attention. Furthermore, attention has a positive effect on forecast accuracy, and this effect is stronger when analysts have little experience or when they follow highly volatile firms.

In the second chapter, titled “Employee Job Satisfaction and Audit Quality,” I examine whether audit employee job satisfaction affects audit quality using a novel dataset on job satisfaction and a natural experiment based on local precipitation. I observe auditor job satisfaction at the audit firm office level, which not only allows me to examine variation in satisfaction levels within the audit firm but also over time for the same audit office. I find that a unit increase in job satisfaction level (on a scale from 1 to 5) improves audit quality by 71% of one standard deviation. Furthermore, audit employees with higher job satisfaction level are more likely to detect opportunistic earnings management and severe financial misconduct. Management quality and career concerns are two channels through which job satisfaction affects audit quality. My findings shed light on the way non-executive audit employees affect audit quality
and are of practical importance to the audit firms’ treatment of their employees as well as audited firms’ information environment.

In the third chapter, titled “Peer Effects and the Timing of Earnings Announcements,” I aim to study the influence of peer firms on the timing and content of a firm’s earnings announcement. Exploiting the unique feature of SEC mandatory reporting deadlines on publicly traded companies as an exogenous shock to reporting lags, I add to the literature on strategic timing of earnings announcements by studying whether, and to what extent, a firm’s timing of earnings report is affected by its peers’. To better understand why managers respond to the peer effects, I perform various cross-sectional tests to examine if their motive is benign (e.g. social learning, or fear of being mispriced) or opportunistic (e.g. strategic clustering of bad news, executive reputation building, or predatory threats). Next, I investigate if peer firm’s reporting lags have implications for the firm own’s valuation. Specifically, I ask whether the magnitude of information transfers is greater if peer firms report sooner, and whether the market reacts less to the firm’s own announcement if peer firms report sooner. My results show that firms do not make timing decision in isolation and that market participants should be aware of the strategic timing of earnings releases when making investment decisions.