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When Cautious, Safety-Seeking Corporate Culture Leads to Aggressive Reporting

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EXECUTIVE SUMMARY

A corporate culture that values security, staying-safe mind-sets, and cautious attitudes would appear to be laudable. Yet it appears that a seemingly risk-averse culture can, in fact, evoke aggressive reporting behavior when facing difficult situations.

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Enron's company culture, which promoted a bold, overly optimistic, innovative, and risk-seeking style, is often blamed for the company's egregious accounting choices and ultimate demise. After the scandal, corporations were encouraged to temper their risk appetites by fostering a culture that reduces aggressive risk-taking reporting behavior. In essence, accounting researchers and practitioners urge corporations to foster cultures with a high regard for ethical values. Oftentimes, the news media and the general public tend to interpret a culture with high ethical values as a culture that strongly values security and adopts more prudent approaches or cautious attitudes.

Our study was designed to investigate whether such an interpretation is valid. The results reveal a more nuanced link between a supposedly risk-averse corporate culture and a corporation's risk-taking behavior in its financial reporting.

At first glance, our findings seem to confirm the general assertion that a corporate culture that promotes risk-averse mind-sets can lead to more prudent accounting practices. We found that, when top executives instill a "cautious, safety-seeking, play-not-to-lose" motivational orientation in the minds of their middle managers, those managers are unlikely to use more aggressive accounting practices despite having a chance to do so. When top executives instill an "eager, reward-seeking, play-to-win" motivational orientation in their managers, those managers tend to use more aggressive accounting practices that allow them to boost earnings.

One twist in the findings is that this relationship holds only when the company is doing well—specifically, when the company is projecting a positive trend in its earnings. When the company is experiencing a declining trend in its earnings, "cautious, safety-seeking, play-not-to-lose" managers are unexpectedly inclined to use more aggressive accounting practices in an attempt to boost their reported earnings and break the downward trend. Those managers' reporting practices are even more aggressive than the "eager, reward-seeking, play-to-win" managers when faced with a similar trend of falling earnings.

We believe our study sheds light on how top management can cultivate a corporate culture by developing a collective motivational orientation that unifies the whole organization to pursue common goals and adopt certain strategies to achieve those goals. More importantly, we find that this collective motivational orientation is able to override employees' individual goals or personal values, which explains why a corporate culture can be so influential that employees carry out actions they normally would not pursue as individuals.

PLAY TO WIN VS. PLAY NOT TO LOSE

Everybody is motivated to be successful; however, the definition of success can vary depending on what motivates a person. According to E. Tory Higgins, the renowned scholar who formulated regulatory focus theory, some people are motivated (or "regulated") by the desire to make progress and gain something more, while others are motivated by the desire to stay safe and avoid losing what they already have.[1] When people are motivated by opportunities for gain or advancement, they have a promotion motivation; in other words, these people have a "play-to-win" orientation. In contrast, when people are motivated by the need for security and avoiding loss, they have a prevention motivation, or a "play-not-to-lose" orientation.

How people perceive a circumstance and react to it depends largely on their motivational orientations—either a promotion focus or a prevention focus—at the time of an event. Most people have a predominant focus: the focus or orientation they usually use when approaching circumstances and challenges in their lives.[2] One's predominant focus can be shaped by the person's upbringing, psychological predispositions, and national culture. For example, one of the factors that contributes to the development of a predominant promotion focus is a parental environment in which children constantly receive rewards, such as gifts or praise, for their accomplishments and experience affection withdrawals when they fail to achieve goals. On the other hand, parents who often punish their children when they fail to live up to parents' expectations and leave the children in peace when they are able to meet their parents' goals could possibly lead their children to develop a prevention mind-set.

Nonetheless, one's motivational focus is malleable, so anyone can be promotion-focused or prevention-focused in a given time when a situation calls for a particular motivational orientation. For example, an individual could become prevention-focused when dealing with physical illness. One could alternatively become promotion-focused when waiting for the announcement of lottery winners. In other words, a person's predominant focus can be temporarily replaced by a situational focus given a specific circumstance.[3]

MOTIVATION AND RISK-TAKING

Promotion-focused people, Higgins argues, are likely to choose an eager strategy to attain their goals. A strategy is eager if it leads to choices that warrant advancement, which appeals most to people with a promotion orientation. Prevention-focused people, in contrast, prefer to choose a vigilant strategy, the sort of actions that guard against making mistakes. Higgins argues that people desire to have a motivational fit, that is, a match between the orientation of the goal that motivates someone and the strategy to meet the goal. For example, promotion-focused people will be more motivated to consume nutrition products that promise to enhance energy, whereas prevention-focused people will be more motivated to consume products that claim to assist them in avoiding sickness.

A motivational fit also explains why some people take more risks than others in certain circumstances.[4]

Prior studies suggest that promotion-focused people are particularly sensitive to potential gains and therefore are likely to choose eager strategies—including risky actions—that enable them to secure the gains.

Prevention-focused people, in contrast, will not exhibit risk-taking behaviors when facing the same circumstances because their motivations are not primarily driven by potential gains. For instance, research conducted by Xi Zou, et al., suggests that promotion-focused people chose to invest in riskier stocks when they saw the returns on their initial stock investments made small progress.[5] Their study argues that promotion-focused people perceived risky stocks as an opportunity to accelerate investment returns. Prevention-focused people, in contrast, stayed with conservative stock choices despite the fact that their initial investments generated zero or small returns.

The findings of Zou, et al., do not suggest that prevention-focused people are risk-averse in every circumstance. People with a prevention orientation will apparently resort to risk-taking tactics when they encounter situations that can trigger losses. They are unsettled by the prospects of losses and are, therefore, likely to undertake vigilant strategies that include risk-seeking actions if such actions are perceived necessary to eliminate or avoid losses. On the other hand, promotion-focused people approach the prospect of losses differently. Since people with a promotion orientation are not sensitive to potential losses, they do not feel the urge to undertake risky actions that might eliminate the chance of losses. A study conducted by Abigail Scholer, et al., shows that prevention-focused people shifted their money by investing in risky stocks after they had just suffered losses in their prior stock investments.[6] The study also found that the experience of prior losses did not increase the risk appetite of promotion-focused people.

HYPOTHESES DEVELOPMENT

Numerous studies find that regulatory focus theory applies in many different professional settings.[7] Our study is one of the first to extend the application of this theory to the accounting domain by proposing two hypotheses.

Given that one's motivational focus can be malleable and situational, our first hypothesis states that members of top management, such as chief executive officers (CEOs) or similar upper-echelon executives, can create a collective situational focus by sending messages that induce a particular motivational orientation when communicating with their subordinates in an organization.[8] Specifically, top management can unite motivational orientations of employees to form a single, corporate-level motivational orientation by using either promotion-focused messages or prevention-focused messages.

Collective promotion mind-sets can be associated with a corporate culture that is about taking chances, seizing opportunities, and "playing to win" for the sake of the company. Collective prevention mind-sets, in contrast, can be associated with a corporate culture that is about staying safe, being cautious about error, and "playing not to lose" in order to avoid losses for the company. In other words, top management can cultivate and sustain a promotion-focused culture or a prevention-focused culture in the organization.

Our second hypothesis states that once a collective situational focus is formed, employees will make accounting choices corresponding to this motivational orientation. Particularly, we predict that promotion-focused employees are more likely to report more aggressive profit numbers when they face a positive trend in earnings. Since promotion-focused people are more sensitive to potential gains, employees with a promotion orientation have a stronger urge than prevention-focused employees to preserve "the winning streak"; hence, they are more likely to decide to use aggressive accounting choices in order to maintain the positive earnings trend.

When employees face a negative trend in earnings, we predict the opposite would occur. Since the employees with a prevention orientation will be unsettled by the downward earnings trend, we predict that they are more likely than the promotion-focused individuals to resort to aggressive accounting choices that can reverse the reporting trend.

METHODOLOGY

To test our hypotheses, we conducted an experimental study that consisted of two parts. In Part 1, we stimulated our participants to develop a collective situational focus by immersing them in either a promotion-focused or a prevention-focused environment. Specifically, we asked participants to assume a role as a middle manager responsible for profits of a subunit in a company. Subsequently, they were asked to read a message from their CEO regarding the company's future. The message was filled with either promotion-related or prevention-related keywords. Examples of promotion-oriented keywords are accomplish, aspire, expand, and grow. Examples of prevention-oriented words are avoid, secure, protect, and defend. After the participants were immersed in either one of the motivational-oriented messages from their CEO, we examined whether the CEO's motivational focus rubbed off on participants, transforming into a collective situational focus shared among them.

In Part 2 of our study, we examined the accounting choices of participants, acting as middle managers, after they had embraced a collective situational focus. We told participants that their subunit had been experiencing either a positive or a negative trend of earnings in prior months. Then, we asked participants to choose to report accounting profits of their subunit for the current month. They had the option to report the profits conservatively or aggressively.

We recruited participants from Amazon Mechanical Turk, an online crowdsourcing portal managed by Amazon that has become an important source of participant pools for social and behavioral studies. We required participants to reside in the United States and consider English their native language.[9] Sixty-nine Amazon Mechanical Turk workers participated in both parts of our study.[10] We excluded two participants who provided highly inconsistent answers to the understanding check questions, leaving us with 67 participants for analysis. (See Table 1.)

Table 1: Participant Demographics (n = 67)

Demographic	Percentage
Gender	
Female	49%
Male	51%
Age Groups	
18-24	2%
25-34	48%
35-44	27%
45-64	13%
65 and older	10%

The CEO's Messages

Before participants entered the first part of the experiment, we measured their *a priori* predominant motivational focus using a questionnaire developed by Higgins and colleagues in 2001.[11] In this questionnaire, participants were asked to rate the frequency of occurrence of certain events in their lives. These events were related to promotion-oriented or prevention-oriented circumstances.

After completing the questionnaire, participants read a message from the CEO of their company. Participants were randomly assigned into one of two possible CEO message categories:

- Promotion-focused message: The message emphasized how all employees were encouraged to pursue future growth and contribute to the progress and further accomplishment of the company. In this promotion-focused condition, the CEO's message said:
  Since our financial performance has been strong and we are the market leader in this industry, we always remain optimistic about our future. This year, while we expect a lot of challenges, we also see a lot of opportunities in the industry. I believe that our employees have a strong desire to transform these opportunities into future growth while improving and expanding ways to support our position as a market leader. Our main hope is to attain ideal, profitable results in the current year and beyond. Employees who accomplish this aspiration will have contributed to the progress and advancement of this company's future.
- Prevention-focused message: The message emphasized how all employees had a duty to protect the company's position as a market leader and contribute

Table 2: Summary of Participants' Written Responses (n = 67)

Experimental Condition	Keywords Measured	Average	Minimum	Maximum
CEO promotion-focused message (n = 33)	Promotion-oriented keywords written by participants	4.02% of the total words	0 words	9.68% of the total words
CEO prevention-focused message (n = 34)	Prevention-oriented keywords written by participants	4.04% of the total words	0 words	9.84% of the total words

to the safety and security of the company's future.

In the prevention-focused condition, the CEO's message said:

Although our financial performance has been strong and we are the market leader in this industry, we must remain cautious regarding our future. This year, while we see a lot of opportunities, we also expect a lot of challenges in the industry. I believe that our employees have a duty to be very vigilant against the threats associated with these challenges while finding safe and careful ways to protect our position as a market leader. In other words, threat prevention is the key. Our main responsibility is to maintain sustainable, profitable results in the current year and beyond. Employees who fulfill this obligation will have contributed to the safety and security of this company's future.

The length of each message was 150 words, and 8% of the total words were unique motivationally oriented words.

After reading the message from their CEO, participants were asked to write their perceptions of the message. They were free to write anything that they deemed as takeaways from the message.[12] We employed a textual content analysis to examine participants' written responses and infer their collective situational focus.[13] (See Table 2.)

We found that, on average, participants wrote 63 words in their responses. Out of the total words written in their responses, 4% of the words were keywords pertaining to a motivational orientation in which the participants were situated. (Recall that 8% of the total words in the CEO messages that participants had previously read were motivationally focused keywords.) This finding suggests that the participants' keyword choices were primarily driven by their situational motivation.

We also found that the motivationally related keywords written by participants did *not* correlate with their individual predisposed, or predominant, motivation. The correlation coefficient between the participants' predominant focus and their keyword choices is –0.01, which is not statistically significant. Based on both findings, we conclude that the participants replaced their predominant foci with a situational focus induced by their CEO message, supporting our first hypothesis.

Accounting Choices

The first part of our experiment affirmed that when participants were immersed in a motivational orientation, they developed a corresponding situational focus, leading to a collective situational focus. Yet we strove for stronger, more affirmative evidence. Therefore, the latter part of our study was designed to test our second hypothesis, which will hold only if our first hypothesis is valid. Particularly, if the participants indeed have embraced a collective situational focus, our second hypothesis predicts that the participants' situational focus should drive the participants' accounting choices.

After participants wrote their perceptions of their CEO's message, we randomly assigned participants nested in the same motivational orientation to one of the two possible scenarios that occurred in the participants' subunit:

- Positive trend in earnings: The subunit had been recording a rising trend in its profits for the past six months.

Table 3: ANOVA Results
Dependent Variable = Choice of Estimated Return Rate
(n = 67)

Source	df	Mean Square	F	Sig.
Model	3	68.543	4.45	0.007
Collective situational focus	1	14.999	0.97	0.328
Earnings trend	1	123.827	8.04	0.006
Collective situational focus × earning trend	1	71.580	4.64	0.035
Error	63	15.410		
R-squared = 0.175 (adjusted R-squared = 0.136)				
Estimated return rate = proxy for level of reporting aggressiveness				
Collective situational focus = promotion-focused or prevention-focused				
Earnings trend = positive or negative				

- Negative trend in earnings: The subunit had been recording a declining trend in its profits for the past six months.

Participants also learned that the profit and loss report for the current month had not been finalized yet. Furthermore, they had authority to revise the earnings numbers by changing the estimated rate of product returns for the subunit, thus influencing the final reporting. In the current month, the subunit launched a new product, and the return rate of this product was initially set to 20%. Participants were offered the chance to change this estimated return rate. If the return rate was adjusted upward, the earnings of the current month would go down, resulting in more conservative profit numbers. If the return rate was adjusted downward, the earnings of the current month would go up, resulting in more aggressive profit numbers. Put simply, participants had an opportunity to report more conservative or more aggressive profit numbers by changing the estimated return rate of the new product.

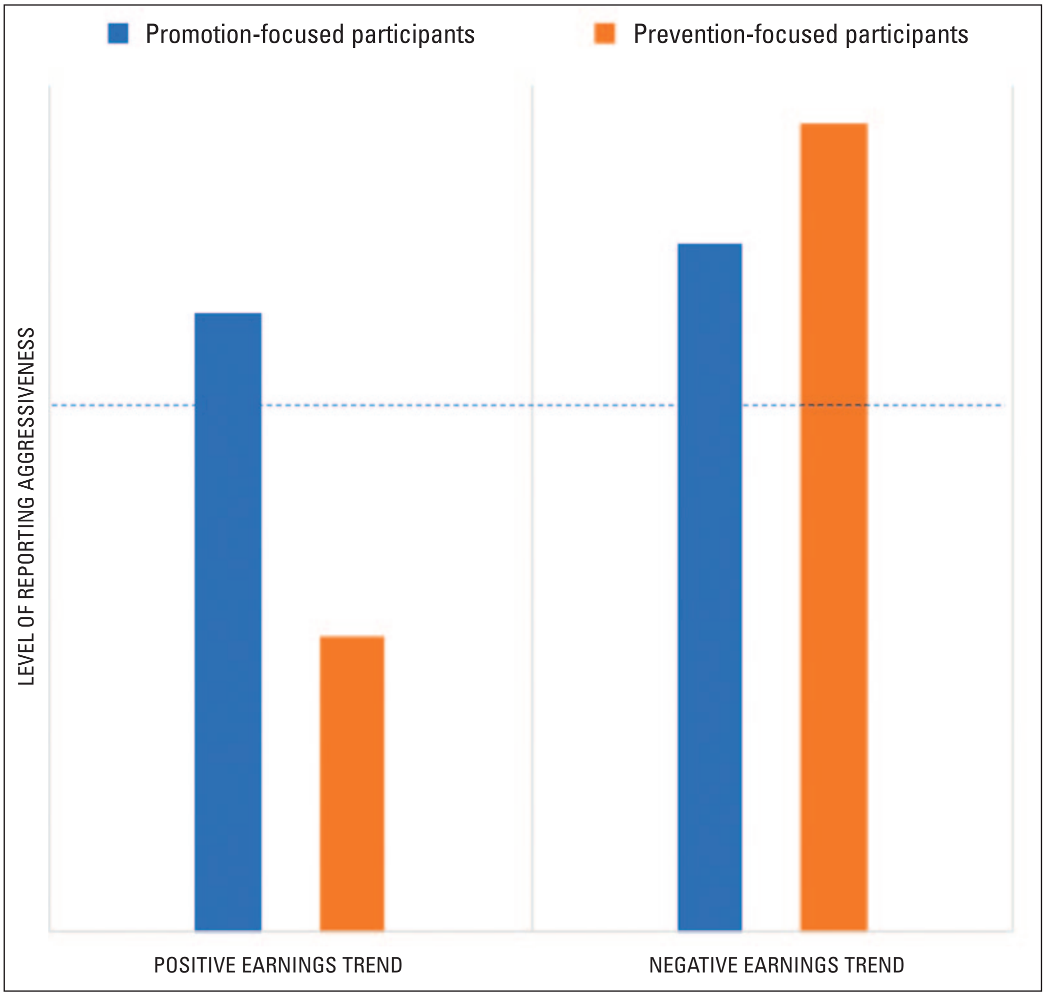
In addition, participants were informed that their reporting decision would entail risk. Reporting overly conservative profits by increasing the return rate would understate the subunit's performance. Further, it could lead the head office to cut resources allocated to their subunit in the future. Reporting overly aggressive profits by decreasing the return rate, on the other hand, would overstate the subunit's performance. This action could spark anger among investors of the company in the future if later they found out that the actual product return rate was much higher, meaning much worse, than the estimated return rate.

After participants considered the case background in their subunit, they had to decide if they wanted to change the return rate that was initially set at 20%. The available options ranged from 0% to 40%. Changing the estimated return rate from 20% to 0% would be the most aggressive option, leading to an increase in earnings by $6 million. Changing the rate from 20% to 40% would be the most conservative option, leading to a decrease in earnings by $6 million. A change of 1% in the return rate would change the earnings by $300,000.

To examine our research question, we ran an analysis of variance (ANOVA) model. The overall ANOVA model is significant, and there is a significant interaction between the participants' collective situational focus and the trends of earnings. This significant interaction indicates that the effect of participants' collective situational focus on their choice of reporting more conservatively or more aggressively varies based on their subunit earnings trend. (See Table 3.)

The significant interaction suggests that our findings support our second hypothesis: Once participants

Figure 1: Level of Reporting Aggressiveness Based on Subunit's Earnings Trend for Each Collective Situational Focus Group



Note: The dashed line shows the initial level of return rate—i.e., the initial level of reporting aggressiveness if left unchanged.

embraced a collective situational focus, they made accounting choices corresponding to their motivational orientation. We conducted an extended analysis to explore the nature of the interaction.

EXTENDED ANALYSIS

Figure 1 shows the reporting aggressiveness level in each participant group based on the group's collective situational focus and its subunit's earnings trend.[14] The figure depicts some aspects that are not easily discernable in the ANOVA analysis.[15]

First, when the subunit was experiencing a positive earnings trend, the participants with a promotion-focused orientation reported earnings much more aggressively than the participants with a prevention-focused orientation. This finding is consistent with the prediction of regulatory focus theory.

Prior studies show that promotion-focused people are more willing than prevention-focused people to take risky actions if the risky options offer the possibility to achieve further advancement, which, in our case, is a positive earnings trend enjoyed by the subunit. In our experiment, promotion-focused managers viewed the upward trend in earnings as positive reinforcing feedback; therefore, their expectation for future success rose, and so did their motivation. Fueled by the enhanced motivation and eagerness to advance further, promotion-focused managers were willing to take a greater risk by reporting profits aggressively.

On the other hand, prevention-oriented people, according to past research, do not increase their expectation for success when receiving positive feedback. Instead, they interpret positive feedback as “everything is on the right track” and subsequently avoid doing anything that could disrupt stability or security. Our experimental results were consistent with this notion. Prevention-focused participants did not report aggressive profit numbers in response to a positive earnings trend; instead, some of them decided to report more conservatively by reducing the profit numbers.

Second, when the subunit was experiencing a negative earnings trend, prevention-focused participants resorted to more aggressive reporting. Interestingly, the level of reporting aggressiveness that the prevention-focused participants chose was higher than what their promotion-focused counterparts chose in the same situation or what the prevention-focused participants would report if their subunits were experiencing a positive earnings trend. This finding, which confirms the prediction of regulatory focus theory, suggests that prevention-minded individuals become inclined to do whatever is necessary to prevent failure when things do not go well, even if it means that they have to take higher risks. The prevention-focused participants reacted negatively to the prospect of earnings losses, prompting them to report earnings very aggressively despite the associated risks, in the hope of reversing the trajectory.

The findings of our study are particularly surprising because there was no monetary incentive attached to reporting choices: Participants would not be monetarily better off by reporting more aggressively or be monetarily worse off by reporting more conservatively.[16] Since monetary incentives were not a driving force behind the participants’ reporting choices, we infer that the participants’ reporting choices were driven by their situational motivational orientations, which stemmed from the CEO’s message that participants read prior to their reporting task. Overall, it is worth noting that the CEO’s message indeed resulted in the development of a collective situational focus shared among participants, which in turn colored the aggressiveness level of their reporting choices.

PROMOTION OR PREVENTION?

Our findings suggest that when a company is enjoying multiple periods of success, the corporate culture that gravitates toward a promotion motivation is likely to drive employees to be overly optimistic and take more risk, including resorting to more aggressive reporting practices. Fortunately, earlier studies show that changing one’s motivational focus is possible, at least temporarily.[17] We suggest that, when a company is doing well, shifting a collective motivational focus from a promotion orientation to a prevention orientation can curb everyone’s risk appetite and decrease the chance of reporting too aggressively.

On the other hand, when a company is enduring periods of poor performance, a prevention-oriented corporate culture is likely to drive employees to risk anything to reverse the situation. If employees view that aggressive reporting is the only way to avoid losses, thus improving the financial outlook of the company, it is likely that employees will resort to aggressive reporting. Hence, we suggest that lessening the frequency of prevention-oriented messages or adding some promotion-oriented spirit to the messages would be useful to tone down an overly defensive attitude toward losses.

We suggest that organizations take a more nuanced approach in which having both promotion- and prevention-focused mind-sets instilled in a corporate culture would help a company to promote healthy, situationally appropriate risk-taking reporting behaviors. Perceiving one motivational orientation as better or more important than the other could drive a company to take excessive risks in some circumstances. A promotion-focused culture, while seemingly appearing to encourage more aggressive reporting, does not necessarily aggravate the company’s risk appetite when the company’s financial outlook is not rosy. In contrast, constant calls for a corporate culture with cautious attitudes or safety mind-sets may create unintended effects by causing companies to unexpectedly report profits very aggressively when experiencing poor performance. Simply put, the key takeaway of our study is that every organization needs both motivational orientations—promotion and prevention—to build cultures with a high regard for ethical values. ■

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ENDNOTES

1 E. Tory Higgins and his colleagues wrote multiple journal articles and books regarding regulatory focus theory. A comprehensive summary of this emerging theory can be found in E. Tory Higgins, *Beyond Pleasure and Pain: How Motivation Works*, Oxford University Press, New York, N.Y., 2014.

2 E. Tory Higgins, "Beyond Pleasure and Pain," *American Psychologist*, December 1997, pp. 1,280-1,300; E. Tory Higgins, "Promotion and Prevention: Regulatory Focus as a Motivation Principle," *Advances in Experimental Social Psychology*, 1998, pp. 1-46.

3 Higgins, 1997, 1998.

4 Regulatory focus theory advances the classic Prospect Theory from Amos Tversky and Daniel Kahneman, "Prospect Theory: An Analysis of Decision under Risk," *Econometrica*, March 1979, pp. 263-292. Prospect Theory asserts that people become risk-averse in the domain of gains, whereas they become risk-seeking in the domain of losses. Regulatory focus theory suggests that people can display either risk-averse or risk-seeking orientation in any one domain. For more discussions, see, for example, Lorraine Chen Idson, Nira Liberman, and E. Tory Higgins, "Distinguishing Gains from Nonlosses and Losses from Nongains: A Regulatory Focus Perspective on Hedonic Intensity," *Journal of Experimental Social Psychology*, May 2000, pp. 252-274; Joel Brockner and E. Tory Higgins, "Regulatory Focus Theory: Implications for the Study of Emotions at Work," *Organizational Behavior and Human Decision Processes*, February 2001, pp. 35-66; Peter Bryant and Richard Dunford, "The Influence of Regulatory Focus on Risky Decision-Making," *Applied Psychology: An International Review*, April 2008, pp. 335-359; Abigail A. Scholer, Xi Zou, Kentaro Fujita, Steven J. Stroessner, and E. Tory Higgins, "When risk seeking becomes a motivational necessity," *Journal of Personality and Social Psychology*, August 2010, pp. 215-231; Xi Zou, Abigail A. Scholer, and E. Tory Higgins, "In Pursuit of Progress: Promotion Motivation and Risk Preference in the Domain of Gains," *Journal of Personality and Social Psychology*, February 2014, pp. 183-201.

5 Zou, et al., 2014.

6 Scholer, et al., 2010.

7 For examples of extensive literature reviews regarding regulatory focus theory in the workplace, see Paul D. Johnson, Mickey B. Smith, J. Craig Wallace, Aaron D. Hill, and Robert A. Baron, "A Review of Multilevel Regulatory Focus in Organizations," *Journal of Management*, July 2015, pp. 1,501-1,529; Klodiana Lanaj, Chu-Hsiang Chang, and Russell E. Johnson, "Regulatory Focus and Work-Related Outcomes: A Review and Meta-Analysis," *Psychological Bulletin*, April 2012, pp. 998-1,034.

8 Our study offers a novel contribution by examining the influence of corporate leaders' motivational foci in an accounting setting and coins the term *a collective situational focus*. Our work builds on similar studies that investigate how corporate leaders' motivational foci can activate corresponding foci in their employees (see, for example, Russell E. Johnson, Danielle D. King, Szu-Han Lin, Brent A. Scott, Erin M. Jackson Walker, and Mo Wang, "Regulatory focus trickle-down: How leader regulatory focus and behavior shape follower regulatory focus," *Organizational Behavior and Human Decision Processes*, March 2017, pp. 29-45).

9 Given that the task in our experiment required participants to be familiar with managerial decision making or investment-related judgment, we defined our eligible participants as

Amazon Mechanical Turk workers who had either prior experience in managerial roles or experience in investing directly to a company's stock or a mutual fund. Fifty-two percent of our participants had experience in managerial roles, and 70% had direct investment experience in any stock or mutual fund.

10 Our initial experimental design manipulated 2 × 5 factors, i.e., two types of motivational focus (a promotion focus or a prevention focus) and five levels of earnings trend (a major downward in earnings trend, a minor downward in earnings trend, no change in earnings trend, a minor upward in earnings trend, and a major upward in earnings trend). We obtained 178 Amazon Mechanical Turk workers to participate in our initial design. We decided to test five different levels of earnings trend because the work of Zou, et al. (2014) suggested that participants' responses depend not only on the presence of gains or losses, but also the magnitude of the gains or losses. Our overall results did not support this claim, however. Instead, we found that smaller magnitudes of earnings trends were not strong enough to "turn the dial," reducing our ability to detect significant results. Therefore, we decided to exclude all experimental conditions with smaller magnitudes and kept the conditions with the ends of the continuum; that is, a major downward in earnings trend and a major upward in earnings trend. We did not find statistical significance in our analysis when we included all 10 experimental conditions.

11 The questionnaire is downloadable from the website of Higgins Lab: higginsweb.psych.columbia.edu/measures/#RFS.

12 We required participants to write their responses with a minimum of 50 words.

13 We use LIWC (Linguistic Inquiry and Word Count), a widely known text analysis tool (see liwc.wpengine.com for more information). The promotion-oriented and prevention-oriented keywords were obtained from the work of Daniel L. Gamache, Gerry McNamara, Michael J. Mannor, and Russell E. Johnson, "Motivated to Acquire? The Impact of CEO Regulatory Focus on Firm Acquisitions," *Academy of Management Journal*, July 2014, pp. 1,261-1,282.

14 Because of the inverse relationship between estimated product return rates and levels of reporting aggressiveness (i.e., a lower product return rate suggests a higher level of reporting aggressiveness), we depicted Figure 1 by converting the choices of product return rates to 100% minus corresponding return rates for the purpose of reading ease. We assume that the inverse scale indicates the level of reporting aggressiveness. For example, a 20% rate of product returns would be converted to an 80% of reporting aggressiveness level, whereas a 15% rate of product returns would be converted to an 85% reporting aggressiveness level in the y-axis. We do not make a claim, however, whether certain levels of reporting aggressiveness shown in the chart would be deemed either appropriate or inappropriate from a financial reporting perspective.

15 To support our extended analysis, we ran moderating-mediation statistical analysis guided by the work of Andrew Hayes, *Introduction to Mediation, Moderation, and Conditional Process Analysis: A Regression-Based Approach*, first edition, The Guilford Press, New York, N.Y., 2013. We found that our results were statistically significant and consistent with our findings discussed in this article.

16 The absence of monetary incentives is the key difference between our study and prior research (for example, Scholer, et al., 2010, and Zou, et al., 2014).

17 Higgins, 1997, 1998.