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Abstract

We examine whether mutual funds experiencing financial misconduct in one or more of their portfolio firms subsequently influence the disclosure practices of their other portfolio firms. We construct a measure of each firm's exposure to financial fraud shocks through its mutual fund owners, and find that greater fraud shock exposure is associated with better voluntary disclosure outcomes. Several tests, including an instrumental-variable analysis, support an influence-based interpretation of these findings. Consistent with organizational learning and attention-based theories, the disclosure improvements are stronger among firms with prior financial reporting weaknesses and firms located closer to their mutual fund owners. Additional analyses distinguish the documented effect from common analyst coverage and broader governance activism. Overall, our findings support the argument that mutual funds actively influence their portfolio firms' disclosure practices after they experience adverse events that prompt them to demand higher disclosure quality.

Key words: Voluntary Disclosure, Mutual Funds, Accounting Fraud, Organizational Learning, Management Guidance, Investor Monitoring.

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1. Introduction

We examine whether mutual funds that experience a negative shock, specifically, financial misconduct in one or more of their portfolio firms, engage in organizational learning and subsequently influence the disclosure practices of other firms in their portfolios. We investigate whether such learning leads fund managers to encourage more frequent and higher-quality voluntary management guidance from their remaining portfolio companies.

Financial misconduct in the form of restatements undermines the reliability of financial reporting and hinders governance oversight. The Center for Audit Quality (2024) reports that the share of severe restatements has increased markedly in recent years, suggesting that accounting irregularities remain a material and recurring challenge. Given the continued occurrence and rising severity of such events, it is essential to understand whether they can serve as catalysts for learning and monitoring improvement. While prior research primarily examines the detrimental consequences of irregular restatements for firms and their stakeholders, we ask a more constructive question: ***Do market participants learn from such financial reporting failures, and do these experiences lead to improved corporate disclosure outcomes?***

We address this question by investigating learning among mutual funds, a significant class of institutional investors. Mutual funds are often perceived as passive users of information produced by corporate management, processing disclosures primarily to inform portfolio allocation decisions rather than actively shaping the firms' information environments by engaging in disclosure interventions.[1] However, this characterization may be incomplete. Mutual funds engage with corporate management repeatedly and rely heavily on credible firm disclosures for

[1] Bebchuk, Cohen, and Hirst (2017) point out several sources of agency problems or institutional frictions that discourage managers of mutual funds from investing in stewardship of their portfolio companies.

their research and analyses.[2] Financial misconduct at a portfolio firm can raise concerns about whether similar risks may be present elsewhere in their portfolios and create incentives for mutual funds to reevaluate their expectations for transparency and communicate these reassessed expectations to other portfolio firms. In this way, mutual funds move beyond passive information consumption to more active engagement with their portfolio firms to shape their disclosure practices.

Management guidance represents a key component of the firm's information environment that helps market participants form earnings expectations, reduces information asymmetry, and facilitates more efficient valuation and capital allocation decisions (Beyer, Cohen, Lys, and Walther 2010). Thus, understanding the factors that shape the frequency and quality of voluntary guidance is of broad interest. If mutual funds' responses to adverse experiences positively affect management guidance for a wide array of firms, such effects would produce positive externalities that enhance the information environment for all market participants.

Our theoretical predictions are grounded in the organizational learning perspective (Levitt and March 1988), whereby learning occurs as organizations adaptively encode interpretations of experience into routines that guide future behavior and decisions. Particularly relevant to our setting is Levitt and March's emphasis on learning from direct experience, which happens through two primary mechanisms. First, organizations use performance feedback to reinforce practices associated with successful outcomes and rely less on those linked to poor performance or failure. Second, adverse outcomes trigger organizational searches for alternative and improved practices.

[2] Survey evidence from McCahery, Sautner, and Starks (2016) shows that 63% of the institutions surveyed engaged in direct discussion with management over the past five years and that the engagement of mutual funds was not systematically different from that of other institutional investors.

As a result, organizations can learn through direct experience, especially when salient failures prompt organizational search and lead to improvements in existing practices.

Applying this framework to our setting, we view a portfolio firm's fraudulent restatement as a salient negative outcome in a mutual fund's investment experience. Consistent with Levitt and March (1988), we conceptualize mutual fund managers' responses to this event as a form of organizational search arising from learning through direct experience.[3] By heightening the fund's awareness of reporting risk and concerns about the reliability of disclosures, fraudulent restatements prompt the fund to reevaluate its expectations for transparency, increase scrutiny of disclosure quality, and encourage more transparent financial communication from the remaining portfolio companies. Through this adaptive response, the fund's direct experience with accounting misconduct serves as feedback that leads the fund to adjust its monitoring approach.

We hypothesize that firms improve their management guidance after the mutual funds that own them experience accounting fraud shocks in the rest of their portfolios and demand greater reporting transparency. To test this hypothesis, we relate our key explanatory variable, Fraud Shock Exposure (FSE), to subsequent management guidance outcomes. We define FSE at the firm-year level as the fraction of the focal firm's shares outstanding held by mutual funds that experienced accounting shocks in the rest of their portfolio companies. Focusing on earnings-per-share (EPS) guidance, we construct four measures of management guidance outcomes that capture the following aspects: likelihood (whether guidance is issued), quantity (number of guidance updates), timeliness (guidance horizon), and guidance precision (whether guidance is in the form of a point estimate or a range of estimates). We use firm fixed effects to control for time-invariant differences

[3] In the aftermath of Enron and WorldCom scandals, mutual fund companies that experienced sizable losses, such as Putnam and Janus, implemented major changes to strengthen accounting fraud-detection and accounting-diligence processes (Financial Planning 2002). This is consistent with organizational learning, as mutual funds recalibrate their investment processes.

across firms in disclosure policy, governance, and information environment, and year fixed effects to account for common time-varying shocks.

Our baseline panel regressions support the main prediction of our framework. We document that when a firm experiences greater exposure to accounting fraud shocks through its mutual fund owners, the firm significantly improves its management guidance in the next year. In particular, the firm is more likely to issue management earnings guidance, issues more guidance updates, and issues guidance that is timelier and more precise.

To interpret our baseline results in a causal light, we take several steps. First, we lag our main independent variable (FSE) to mitigate reverse causality concerns. Second, we address a potential portfolio selection effect, whereby fraud-shocked mutual funds reallocate their portfolios toward firms with stronger, or improving, voluntary disclosure practices, which they consider safer. This could mechanically result in higher FSE among firms with better or improving voluntary disclosure and thus potentially generate the positive relation we document. In all our baseline tests, we mitigate this concern by requiring a focal firm to be in a mutual fund's portfolio in both the year when the mutual fund experiences an accounting shock and the year following it.

We further address this concern using an IV approach, which instruments FSE with the average flow of the focal firm's mutual fund owners that were exposed to accounting fraud shocks. The idea is that investor flows cause mutual funds to adjust their existing portfolio positions for reasons that are unrelated to the fundamentals of individual portfolio firms (Coval and Stafford, 2007; Frazzini and Lamont, 2008; Lou, 2012), thus making ownership changes driven by flows unlikely to reflect anticipated changes in the voluntary disclosure practices of individual portfolio firms. Our IV results show that, when accounting fraud-shocked funds increase their holdings in a focal firm due to investor flows, the focal firm improves its management earnings guidance

outcomes in the subsequent year. This finding supports our "influence" hypothesis and mitigates the concern that our key results are driven by the portfolio selection effect discussed above.

Finally, we address another endogeneity concern arising from industry-level spillovers. A severe accounting fraud event at a given firm may increase scrutiny of other firms in the same industry from the media, regulators, analysts, and investors. If mutual funds hold multiple firms from the same industry, the same fraud event could potentially cause both greater fraud shock exposure and improvements in the voluntary disclosure of a focal firm, even if mutual funds exert no influence. We follow two approaches to address this concern. First, we modify FSE so that it excludes fraud shocks originating from firms in the focal firm's industry. Second, we augment our baseline specifications with industry-by-year fixed effects to control for any time-varying industry-level shocks. Our key result remains significant under both tests, helping to rule out correlated industry-level effects.

The attention-based view of the firm (Ocasio, 1997) emphasizes that because organizations face limited attention, they focus their attention and efforts on matters that are perceived as more relevant, salient, or risky based on historical experiences, and additional scrutiny is perceived as most valuable (Ocasio 1997). Applying this view, we argue that mutual funds that experience a fraudulent restatement cannot monitor or influence the disclosure practices of all remaining portfolio firms. Instead, they reallocate attention to firms perceived as most vulnerable, that is, firms with financial reporting weaknesses. For these firms, disclosure reliability concerns are most salient, making additional scrutiny and demands more valuable. As a result, the effect of a fund's adverse experience on voluntary disclosure quality is expected to be stronger among portfolio firms with prior reporting problems, where focused attention and influence are most likely to occur.

To test this prediction, we use two measures for a firm's financial reporting weaknesses. The first captures the number of financial restatements in the last two years. The second identifies firms with at least one internal control weakness identified by the firms' auditor in the past two years. Using both measures, we document that the effect of fraud shock exposure on subsequent management guidance outcomes is stronger among portfolio firms with greater financial reporting weaknesses. Consistent with the limited attention-based prediction, these findings indicate that accounting fraud shocks heighten mutual funds' attention to reporting risk, which in turn makes them focus their monitoring and influence on portfolio firms where reporting concerns are more salient and the scope of disclosure improvement is greater.

While limited attention influences effort allocation, costs associated with such efforts are also likely to influence this allocation. Holding expected benefits constant, we expect fraud-exposed mutual funds to direct greater monitoring effort to portfolio firms for which information acquisition and interaction are less costly. Ayers, Ramalingegowda, and Yeung (2011) suggest that geographic proximity constitutes a natural proxy for these costs. They argue that proximity lowers these costs and document that institutional investors are more effective monitors of portfolio firms located in closer proximity to them. Therefore, we expect mutual funds exposed to accounting fraud shocks to direct greater monitoring effort to geographically proximate portfolio firms and be more effective in influencing the voluntary disclosure practices of these firms. Accordingly, we expect the effect of fraud shock exposure on subsequent voluntary disclosure to be stronger when mutual funds and their portfolio firms are geographically closer. This is indeed what we find: the effect of accounting fraud shock exposure on subsequent management guidance outcomes is greater among portfolio firms that are in closer geographic proximity with the mutual funds holding them. This is consistent with fraud-shocked mutual funds allocating greater monitoring

effort toward firms with lower monitoring costs and these efforts being more effective when funds and firms are geographically proximate.

In additional analyses designed to strengthen the interpretation of our results, we address two alternative explanations. First, we rule out the possibility that our results are driven by the influence of analysts who demand better voluntary disclosure from other firms in their coverage set after they experience severe accounting restatements among firms that they cover. We also rule out that our results are simply driven by mutual funds broadly intensifying governance engagement with their portfolio firms, rather than specifically targeting their voluntary disclosure practices. Finally, our results remain robust across multiple alternative disclosure measures, including 8-K filings and revenue, capital expenditure, and other management guidance..

Our paper is closely related to an active literature that examines how firms adapt their voluntary disclosure practices to the needs and constraints of their institutional investors. Boone and White (2015) document that firms provide more frequent and specific voluntary disclosures when they experience exogenous increases in stock ownership by quasi-indexer institutions. These institutions value greater firm transparency because producing private information is more costly for them. Lin, Mao, and Wang (2018) document that this effect spills over to peers of firms that experienced institutional ownership-induced improvements in voluntary disclosure, which they attribute to competition for financing. Tsang, Xie, and Xin (2019) provide international evidence, showing that non-U.S. companies improve voluntary disclosure in response to their foreign institutional investors' needs, who face greater information asymmetries or operate in higher-transparency environments. Other studies show that firms adjust their voluntary disclosure practices to the attention constraints of institutional investors (e.g., Basu, Pierce, and Stephan 2026; Abramova, Core, and Sutherland 2020; Bertomeu, Hu, and Liu 2023). Our paper contributes

to this literature by documenting that firms respond to changes in the needs of their institutional investors resulting from these investors' organizational learning following adverse outcomes.

More generally, our study relates to the literature examining the effect of institutional investors on the corporate policies and outcomes of their portfolio companies. The impact of this influence depends on the institutional investors' incentives and their capacity to monitor. When their incentives are aligned with long-term performance, their monitoring and influencing activities lead to value-enhancing outcomes (Chen, Harford, and Li 2007). However, when institutional investors face short-term performance pressure, they influence portfolio companies to take actions that improve short-term performance at the expense of long-term performance (Agarwal, Vashishtha, and Venkatachalam 2018). Furthermore, when institutions' monitoring capacity gets constrained, the quality of corporate and governance actions declines (Liu, Low, Masulis, and Zhang 2020; Kempf, Manconi, and Spalt 2017; and Iliev, Kalodimos, and Lowry 2021). We complement this literature, especially Kempf, Manconi, and Spalt (2017), by showing that salient events elsewhere in an institutional investor's portfolio need not simply divert scarce attention and weaken monitoring but can also redirect attention toward heightened monitoring of other portfolio firms. Our paper contributes to this literature by documenting a new mechanism through which institutional investors' influence evolves: organizational learning in response to adverse outcomes, which changes investors' information needs and prompts portfolio companies to provide more frequent and higher-quality voluntary management guidance.

Our study also contributes to a nascent literature examining how institutional investors respond to fraud within their portfolios. Nguyen (2022) and Davidson, Pirinsky, and Zhang (2021) document that mutual funds tilt their portfolios away from stocks with a high risk of fraud after some of their portfolio companies are exposed to fraud. They also respond by voting against the

management of their portfolio companies (Nguyen 2022). These patterns resemble a loss of trust by retail investors, who react to fraud by reducing their participation in the stock market (Giannetti and Wang 2016; Gurun, Stoffman, and Yonker 2023). In contrast to these studies, our focus is on how firms, rather than institutional investors, change their behavior. Specifically, we show that firms linked via institutional ownership to other firms that experience fraud change their voluntary disclosure practices in response to organizational learning within the connecting institutions.

Our findings have broad implications for corporate managers, board members, and users of financial disclosures. We show that fraud shocks experienced by mutual funds in one or more of their portfolio firms positively influence the voluntary disclosure practices of other firms connected through common ownership. Corporate managers and board members may face demand for transparency after their institutional investors experience shocks elsewhere in their portfolios, which might be even more intense if their firms already have weak disclosure practices or are geographically close to those institutions. Users of financial disclosure, such as investors, analysts, and auditors might benefit from these improvements in voluntary disclosure transparency that enhance the information environment of the affected firms, respectively, by making better-informed investment decisions, producing more accurate research reports, and making better assessments of financial reporting risk.

2. Data and Sample Construction

2.1 Sample Construction and Data Sources

We obtain data from various sources. Our data on fund holdings come from Thomson Reuters Mutual Fund database, and we supplement it with the price information for each stock from CRSP to determine the market value of fund holdings. We also obtain data on daily stock

returns from CRSP. In addition, we collect information regarding each fund's location from CRSP Mutual Fund database. Given the purpose of our study, we exclude index funds and ETFs.

We next construct a dataset with severe accounting frauds based on data from AuditAnalytics. Particularly, we label a firm as committing accounting fraud (i.e., severe accounting-misconduct restatement) if it files a restatement that AuditAnalytics identifies as "financial fraud, irregularities and misrepresentations." We also collect data on other types of accounting restatements from AuditAnalytics.

Data from I/B/E/S are used to construct our measures of management earnings guidance quality. Particularly, we gather the following information for each management earnings guidance a firm issues (for the fiscal year): fiscal period, value (or the range of value), announcement date, and actual earnings. We obtain firm fundamental information such as total assets, location, and internal control weakness from Compustat, and observe mutual fund voting records based on data from ISS Voting Analytics. We also collect data on financial analyst coverage from I/B/E/S.

We merge all of our data and obtain a sample with 132,916 firm-year observations. Our sample contains 12,251 unique mutual funds and 15,744 unique firms. The sample covers the period between 1995 and 2023. Table 1 presents the summary statistics of our key variables.

2.2 Constructing the Fraud Exposure Measure

We follow a two-part process to define our Fraud Exposure Measure, our main variable of interest, which captures the fraction of a firm's shares outstanding held by mutual funds that experienced accounting fraud shocks elsewhere in their portfolios. In the first part, we first identify whether a given mutual fund experiences an accounting fraud shock. We consider severe accounting fraud announcements as exogenous fraud shocks to mutual funds holding the affected

firms. Particularly, for each quarter, we identify whether any firm in mutual fund *f*'s portfolio has a severe accounting fraud announcement. We then label mutual fund f as being exposed to accounting fraud shock in a given quarter if at least one firm in its portfolio announces a severe accounting fraud; otherwise, we consider the mutual fund not to be exposed to accounting fraud shock.[4] We note that only 15.62% of funds experience accounting fraud shocks over our sample years, which suggests that the incidence of such events is non-trivial.

In the second part, we focus on each focal firm in our sample to construct a measure that captures the extent to which that firm is owned by mutual funds that experienced accounting fraud shocks.[5] First, for each focal firm-year, we identify all mutual funds that hold the corresponding firm. Then, for each focal firm *i*–fund *f* pair in year *t*, we define $Fraud_ShockExposed_t^f$ as an indicator variable that equals one if fund f was exposed to accounting fraud shock in at least one of the quarters of year *t*, and zero otherwise.[6] Mutual funds may have more influence on their portfolio firms if they hold higher ownership stakes in these firms. We explicitly account for this variation by computing an ownership-weighted average of $Fraud_ShockExposed_t^f$. Specifically, we weight $Fraud_ShockExposed_t^f$ for each fund *f* holding focal firm *i* by the percentage of firm *i*'s shares outstanding held by fund *f* at the end of year *t*, denoted by $Fund_Ownership_{i,t}^f$ and then sum it across all funds holding the focal firm. In addition, we require fund *f* to hold firm *i*'s stock

[4] To ensure that the accounting fraud shock exposure is not negligible to a fund, we require that the fund holds at least 1% of its portfolio in the firm that commits accounting fraud for the fund be considered exposed to accounting fraud shock. If the portfolio position is less than 1%, the fund may pay little attention to the announcement. Nonetheless, even when we eliminate this requirement as part of a robustness test, we obtain generally similar results (results documented in Internet Appendix Table IA4).

[5] We exclude focal firms that committed accounting frauds to ensure that mutual funds' exposure to fraud shocks is not through the focal firms. Our results are robust without this filter (results documented in Internet Appendix Table IA3).

[6] In another robustness check, we replace $Fraud_ShockExposed_t^f$ with a continuous measure that considers all firms with accounting fraud announcements in the fund portfolio and weights each firm-specific fraud announcement by the size of the firm position in the fund portfolio. As shown in Internet Appendix Table IA1, we obtain similar findings using this alternative measure.

in the year after the focal year to ensure that the fund continues to exert influence.[7] Based on these requirements, we define Fraud Shock Exposure (FSE) for a focal firm as the fraction of the firm's ownership held by mutual funds that experienced accounting fraud shocks elsewhere in their portfolios. More specifically, we compute $FSE_{i,t}$, Fraud Shock Exposure for firm *i* in year *t*, as follows:

$$FSE_{i,t} = \sum_{f=1}^{N_{i,t}} Fund_Ownership_{i,t}^{f} \times Fraud_ShockExposed_{t}^{f}, \quad (1)$$

where $N_{i,t}$ is the number of mutual funds holding firm *i* in year *t*.

3. Research Design

To examine whether a focal firm improves its management guidance as its exposure to fraud-shocked mutual fund owners increases, we study the relation between $FSE_{i,t}$ and subsequent management guidance outcomes by estimating the following panel regression.

$$Guidance\ Outcome_{i,t} = \beta_0 + \beta_1 FSE_{i,t-1} + \gamma Controls + \sigma_i + \theta_t + \epsilon_{i,t}, \quad (2)$$

where $Guidance\ Outcome_{i,t}$ measures management guidance outcome for firm *i* in year *t*, $FSE_{i,t-1}$, as defined in Equation (1), is the lagged fraction of shares outstanding of firm *i* held by mutual funds that experienced accounting fraud shocks elsewhere in their portfolio. We lag *FSE* by one year for two reasons. First, doing so mitigates concerns about simultaneity between changes in management guidance and changes in fund ownership that might result from reverse causality. Second, this is consistent with our conceptual framework whereby mutual funds first experience accounting fraud and subsequently adjust their expectation for disclosure in the rest of the portfolio firms. We employ firm fixed effects, denoted by σ_i, which allow us to study the relation between

[7] We show in a robustness check that our results are not affected by this requirement (results in Internet Appendix Table IA2).

$FSE_{i,t-1}$ and $Guidance\ Outcome_{i,t}$ using within-firm variation and to control for time-invariant differences across firms in disclosure policy, governance, and information environment. Our regressions also employ year fixed effects, denoted by θ_t, to account for systematic time-varying effects that could affect all sample firms.

We construct four different measures of $Guidance\ Outcome$ by focusing on earnings-per-share (EPS) guidance and following the literature. The four measures, respectively, capture the following four aspects of management guidance outcomes (1) the likelihood of a management guidance, measured as an indicator variable for whether a firm issues management earnings guidance or not; quantity of management guidance, measured as the number of guidance updates issued in a year; (3) the timeliness of management guidance, measured as guidance horizon (i.e., how early management provides guidance); and (4) guidance precision, measured by whether management issues guidance in the form of a point or a range estimate.

The relation between $FSE_{i,t-1}$ and $Guidance\ Outcome_{i,t}$ could reflect factors that are not related to our proposed explanation. For example, more skilled mutual funds could anticipate improvements in the management guidance of certain companies and increase their ownership in those companies.[8] To control for this possibility, we include the value-weighted alpha of the funds that hold a focal firm's stock in year *t* as an additional control, with weights determined by each fund's ownership stake in the focal firm.[9] We also include a slate of control variables to account for other factors that may influence a firm's management earnings guidance choice. Particularly, we include firm size, market-to-book value, return on assets, cash flow volatility, analyst coverage, institutional ownership, leverage, and litigation risks. Although firm fixed effects control for

[8] By investing in companies that subsequently improve management guidance, mutual funds could realize positive returns since better disclosure reduces information asymmetry, which results in subsequent lower cost of capital and higher valuations for such firms.
[9] Fund alpha is estimated based on the Fama-French three factor plus momentum model.

differences in stable characteristics across our sample firms, within-firm changes in some of these variables could still influence management guidance outcomes. For example, as a firm gets larger, the firm may experience more scrutiny and greater demand for transparency by various constituencies such as regulators, information intermediaries (analyst firms or credit rating agencies) and institutional investors.

4. Main Results

4.1 Fraud Shock Exposure and Subsequent Management Guidance

We start our analysis by examining whether firms improve their management guidance after their exposure to fraud-shocked mutual funds increases. Using each of the four management guidance outcome measures discussed above as the dependent variable, we estimate Equation (2) and report estimation results in separate columns in Table 2. The coefficient estimates on $FSE_{i,t-1}$ are all positive and significant at the 1% level across all columns. These findings suggest that firms significantly change their management guidance after the fraction of their mutual fund owners that experience accounting fraud shocks increases. Particularly, the results show that portfolio firms: (1) are more likely to issue management earnings guidance (2.146, t-statistic = 5.706); (2) deliver more updates on their management earnings guidance (15.35, t-statistic = 9.399); (3) issue more timely management earnings guidance (1.250, t-statistic = 4.674); and (4) announce more precise management earnings guidance (4.304, t-statistic = 5.286).

These findings are not only statistically significant, but also economically meaningful. Specifically, the findings from Table 2 show that a one standard deviation increase in fraud shock exposure (*FSE*) is associated with 3.4% increase in the probability of issuing a management

earnings guidance, 7% increase in the number of management earnings guidance, 3.6% increase in the timeliness of management earnings guidance, and 3.3% increase in the probability of issuing a point rather than range management earnings guidance, when compared to the average firm in our sample. To put these into perspective, the impact of *FSE* is economically similar to that of cash flow volatility and ranks number five in terms of economic significance out of the 10 independent variables included in the model when estimating the number of management earnings guidance. Therefore, our findings are both statistically significant and economically meaningful.

In addition, we note that these findings are incremental to the influence of other fund and firm characteristics on management earnings guidance outcomes. For example, results from Table 2 show that larger firms, better-performing firms, and firms followed by more financial analysts have greater management earnings guidance quality (e.g., Feng, Li, and McVay, 2009; Arikan et al., 2023). Taken together, our findings suggest that greater exposure to accounting fraud shocks by mutual funds that own a given firm is associated with significant improvements in the management earnings guidance provided by the firm in the future.

4.2 Addressing Endogeneity Concerns

4.2.1 Mutual fund influence vs portfolio selection

Our baseline results demonstrate a clear and meaningful association between fraud shock exposure to a firm's mutual fund owners and the firm's subsequent management earnings guidance, which is consistent with our main hypothesized effect. Several potential endogeneity concerns could, however, raise alternative explanations for this relation. We address these concerns through both features embedded in our baseline research design and additional tests described below.

Two of the features already embedded in the current methodological design are worth revisiting. First, we have lagged our main independent variable of interest (FSE) to address reverse causality. Second, we also require a focal firm to be in a mutual fund's portfolio in both the year when the mutual fund experiences an accounting shock and the year following it. This addresses the concern that what we document might reflect a portfolio selection effect whereby, after experiencing an accounting fraud shock, mutual funds reallocate their existing portfolios toward firms with stronger, or improving, voluntary disclosure practices, which they consider safer.

Although this restriction rules out part of the selection effect by excluding extreme portfolio changes whereby mutual funds completely sell poor-guidance quality firms and newly add better-guidance quality firms, this effect may still remain. In particular, fund managers could still engage in partial rebalancing that reduces positions in poor-guidance quality firms or adds to existing portfolio firms with better guidance after experiencing accounting fraud shocks. Because FSE is constructed using fund ownership stakes, such endogenous portfolio rebalancing could generate a positive relation between FSE and subsequent management guidance even in the absence of an influence effect.

To address this endogeneity concern, we implement an instrumental variable (IV) approach. The proposed instrument combines flows to the mutual funds holding the focal firm with information on whether those mutual funds were exposed to accounting fraud shock in the previous year. Prior research documents that mutual funds increase (reduce) their existing portfolio positions when they experience inflows (outflows) and exploit such flow-driven trading as a plausible source of variation in mutual fund portfolio holdings that is not driven by changes in the fundamentals of the portfolio companies (Coval and Stafford, 2007; Frazzini and Lamont, 2008; Lou, 2012). Our approach is related to Edmans, Goldstein, and Jiang (2012) and Dong and

Zhu (2024), which use mutual fund flows to construct instruments that exploit plausibly exogenous variation in mutual funds' trading or ownership decisions. Our strategy builds on the same intuition. Fund investors' decisions to purchase or redeem mutual fund shares originate at the fund level and are unlikely to be driven by information about changes in the voluntary disclosure practices of individual firms that are held by the fund. Investors wanting to trade on such firm-specific information could do so by trading the stock of the firm rather than shares of a mutual fund holding the firm. Therefore, flow-driven changes in a fund's ownership stake in a focal firm are less likely to reflect the fund manager's endogenous decision to increase or decrease its position based on the firm's expected disclosure practices. By exploiting this source of variation, our IV approach isolates changes in fraud shock exposure that are less likely to arise from the portfolio selection effect discussed above.

We take the following steps to construct the IV. First, for each fund *f* that holds firm *i* at time *t*, as discussed above in Section 2.2, we code $Fraud_ShockExposed_t^f = 1$ if at least one of the firms in the rest of its portfolio announces a severe accounting fraud, and set it to 0 otherwise. Second, we follow Sirri and Tufano (1998) to measure the investment flow of fund *f* in year *t,* denoted by $Flow_{i,t}^f$ and defined as

$$Flow_t^f = \frac{TNA_t^f - TNA_{t-1}^f \times (1 + R_t^f)}{TNA_{t-1}^f}, \qquad (3)$$

where TNA_t^f is fund *f*'s total net assets at the end of year *t*, and R_t^f is the fund's return during year *t*.

Finally, exploiting variation that stems from the flows of the funds that own the focal firm we define the IV for $FSE_{i,t}$ as the average flow of firm *i*'s fraud-shock-exposed mutual fund owners. In particular, we compute our IV for firm *i* in year *t* as

$$IV_{i,t} = \frac{1}{N_{i,t}^{FS}} \sum_{f=1}^{N_{i,t}} Flow_t^f \times Fraud_ShockExposed_t^f, \quad (4)$$

where $N_{i,t}$ is the number of mutual funds holding firm *i* in year *t*, and $N_{i,t}^{FS}$ is the number of funds holding firm *i* that were exposed to fraud shock in year *t,* computed as

$$N_{i,t}^{FS} = \sum_{f=1}^{N_{i,t}} Fraud_ShockExposed_t^f, \quad (5)$$

Results based on the IV approach are presented in Table 3. Panel A documents the first-stage results. As shown, our IV is very positively associated with FSE (0.0329, t-statistic = 95.40). Panel B documents the findings based on the instrumented FSE.[10] The coefficient estimates on FSE (IV) are all positive and significant at the 1% level, except column (3) which is significant at the 5% level. Particularly, the results show that portfolio firms (1) are more likely to issue management earnings guidance (3.016, t-statistic = 2.644), (2) deliver more updates on their management earnings guidance (27.49, t-statistic = 5.234), (3) issue more timely management earnings guidance (2.152, t-statistic = 2.525), and (4) announce more precise management earnings guidance (7.591, t-statistic = 2.990). These results indicate that, when accounting fraud shocked funds increases their holdings in a focal firm due to investment flows, this firm is likely to improve its management earnings guidance outcomes in the subsequent year. This finding supports our hypothesis that portfolio firms respond to the demands of accounting fraud-shocked mutual funds for greater voluntary disclosure transparency by improving their management earnings guidance outcomes. It also alleviates concerns that our key results are driven by portfolio selection effect discussed above.

4.2.2 Industry-level fraud spillovers

[10] Our IV regressions contain slightly more observations (1%) than our main results (Table 2) because the instrumented FSE, as a predicted variable, contains more within firm variations that are not absorbed by the firm fixed effects than the within firm variations in the actual FSE.

In this section, we address another potential omitted factor – industry-level spillovers due to clustering of accounting frauds within industries. Accounting frauds may cluster within industries and a severe fraud event at one firm may increase scrutiny of all other firms in the same industry by the media, regulators, auditors, analysts, investors, and the public.[11] Responding to this heightened scrutiny, other firms in this industry may engage in efforts to improve their financial reporting and voluntary disclosure policies to establish credibility. If a mutual fund happens to have many positions in the same industry, a mutual fund exposed to accounting fraud shock in one portfolio firm may also hold other firms in that industry whose voluntary disclosure practices improve subsequent to the initial shock in that industry, even if the fund is not exerting any influence. These spillover effects at the industry level could give rise to a positive association between the focal firm's FSE and its subsequent voluntary disclosure that is not driven by the influence channel we proposed. To address this concern, we conduct two analyses.

First, we repeat our analysis relying on a modified version of our key independent variable, FSE. Recall that our original FSE measure for a focal firm is defined as the fraction of its shares held by mutual funds that experience accounting fraud shocks. To construct the modified measure, we exclude accounting fraud shocks from the focal firms' industry when we determine whether each of its mutual fund owners experienced accounting fraud shock. We define industries based on the first two digits of SIC codes. This ensures that a mutual fund is classified as fraud-shocked for a given focal firm if it is exposed to accounting fraud shocks in portfolio firms that are outside the focal firm's own industry. Thus, it eliminates the possibility that clustered accounting fraud

[11] In untabulated results, we find no clear clustering of accounting frauds by industry. Furthermore, we performed a robustness check by excluding industries with relatively more accounting frauds and find that our results are not affected by those removals (Internet Appendix Table IA5).

shocks in the same industry gives rise to increases in FSE and subsequent improvement in voluntary disclosure practices for the focal firm.

Table 4 Panel A shows the results from using this alternative FSE measure. As shown, again, we continue to observe that the coefficient estimates on FSE remain positive and significant at the 1% level in all columns. These results eliminate the concern that common industry fraud shocks drive both the fraud shock exposure of the focal firm and its subsequent improvement in voluntary disclosure practices.

The second analysis for addressing the possibility that same industry-level spillover effects described above give rise to increases in FSE and subsequent improvement in voluntary disclosure practices for the focal firm follows a different approach. Specifically, we keep the construction of FSE as before but modify the estimation approach by augmenting our baseline specification in Equation (2) with industry-by-year fixed effects, where industries are defined based on the first two digits of SIC codes. These fixed effects control for any time-varying factors common to firms within the same industry, including heightened regulatory, auditor, analyst, investor, or media scrutiny following accounting fraud events in that industry. Thus, we estimate the relation between FSE and subsequent voluntary disclosure after accounting for such industry-year-specific shocks. Table 4 Panel B documents findings from this analysis. As shown, we continue to observe that the coefficient estimates on FSE remain positive and significant at the 1% level in all columns.

Taken together, the results based on analysis that excludes same-industry fraud shocks from the construction of FSE and the analysis that controls for industry-by-year fixed effects provide no support for the possibility that the relation between fraud shock exposure and subsequent voluntary disclosure outcomes is due to common industry-level shocks.

5. When Is Mutual Fund Influence Stronger?

5.1 Financial Reporting Weaknesses of Focal Firms

The evidence we have presented so far suggests that mutual funds experiencing an accounting fraud shock in their portfolios tend to influence the voluntary disclosure practices of their other portfolio firms, on average. However, mutual funds face significant attention and resource constraints that keep them from intensively monitoring or influencing the disclosure practices of all remaining portfolio firms simultaneously.[12] Therefore, following an accounting fraud shock, mutual funds are likely to focus their attention on firms that exhibit observable indicators of elevated reporting risk in the form of financial reporting weaknesses, such as a history of financial reporting issues or internal control weaknesses. For these firms, concerns about disclosure reliability are likely to be most salient, making additional monitoring and demands for higher-quality voluntary disclosure more valuable since the scope of disclosure improvements for such firms is greater.

We test this prediction by using two different proxies for a portfolio firm's own financial reporting weaknesses. The first proxy is based on the firm's own history of financial restatements and is measured as the number of financial restatements in the last two years, denoted by *Restate_num*. Firms with a greater number of restatements in the last two years are likely to have greater financial reporting weaknesses. Our second proxy, denoted by *Icweak,* captures weaknesses of internal controls. It is defined as an indicator variable that equals one for firms with

[12] For example, following the experience of accounting fraud shock, funds might be unable to assess the frequency and quality of management guidance of all their other portfolio firms because they do not have enough research support. Similarly, fraud shock-exposed mutual funds might be unable to engage with all the portfolio firms to exert their influence simply because such engagement would require many hours of meetings and discussions with portfolio firms.

at least one internal control weakness identified by the auditor in the past two years and zero otherwise.

We then modify Equation (2) by separately adding the interactions of *FSE* with the natural logarithm of *Restate_num* and *Icweak*. Results from this analysis are reported in Table 5. The results from Panel A of Table 5 show that the coefficient estimate on the interaction term *FSE x Log_Restate_num* is positive and statistically significant in columns (1), (2), and (4). These findings indicate that mutual funds' influence on a given portfolio firm's management guidance choices is stronger (for three of the four guidance outcomes) when the firm itself exhibits more financial restatements. Results from Panel B of Table 5 show that the coefficient estimate on the interaction term *FSE x Icweak* is positive and statistically significant in all columns, suggesting that mutual funds' influence on a given portfolio firm's management guidance choices is stronger when the firm itself has internal control weakness. Taken together, the findings from Table 5 support the notion that accounting fraud shocks increase the mutual funds' attention to disclosure quality and lead them to focus their monitoring and influence on portfolios firms with weaker reporting quality where the scope for disclosure improvements is expected to be greater.

5.2 Monitoring Costs and Geographic Proximity

Our analysis in the previous subsection shows that mutual funds exposed to accounting fraud shocks focus their monitoring efforts on companies where the benefits from disclosure improvement are greater. Another factor that might influence how mutual funds allocate their monitoring efforts is the cost associated with acquiring information, monitoring, and interacting with firms. Given that mutual funds are likely to consider both benefits and costs associated with monitoring activities, we would expect mutual funds to allocate greater monitoring efforts to firms

for which the expected benefits are high and the costs are low. Thus, holding the expected benefits constant, following an accounting fraud shock incident in their portfolios, mutual funds should exert greater influence on management guidance among portfolio firms for which information acquisition and monitoring costs are lower.

The work by Ayers, Ramalingegowda, and Yeung (2011) suggests that geographic proximity provides a natural proxy for these costs. They argue that institutions located closer to a firm should incur lower information-acquisition costs because proximity facilitates observation, potential interactions, and access to local information networks. Accordingly, using geographic distance as a proxy for monitoring costs, Ayers, Ramalingegowda, and Yeung (2011) find that firms with geographically proximate monitoring institutions exhibit lower levels of financial reporting discretion than those monitored primarily by distant institutions. Applying these insights to our setting, we expect mutual funds exposed to accounting fraud shocks to direct greater monitoring effort to geographically proximate portfolio firms. Moreover, geographic proximity between a mutual fund and its portfolio firms can facilitate more effective monitoring by lowering the costs of information acquisition and interaction. When funds are located closer to portfolio companies, fund managers are better positioned to engage in more frequent and effective communication with corporate managers, obtain richer firm-specific information, and face lower barriers to monitoring disclosure practices. These advantages reduce information asymmetry and enhance the fund's ability to translate monitoring efforts into observable disclosure outcomes making their monitoring efforts more effective in influencing these firms' voluntary disclosure practices. Therefore, because geographical proximity is expected to both increase the monitoring effort targeting geographically proximate firms and increase the effectiveness of such efforts, we expect the effect of fraud shock

exposure on subsequent voluntary disclosure to be stronger when mutual funds and their portfolio firms are geographically closer.

To test this prediction, we examine whether the influence of mutual funds that experience accounting fraud shocks on the voluntary disclosure practices of portfolio firms is greater for firms where mutual funds face lower information acquisition and monitoring costs, as proxied by geographic proximity between mutual funds and portfolio firms. We construct our proximity measure by utilizing information about the locations of firm headquarters and the location of mutual funds that hold their stocks. We then modify Equation (2) by adding the interaction between *FSE* and *Distance*, where *Distance* is the average physical distance between a firm and all the funds that hold their stocks. Table 6 presents the findings. Results show that the coefficient estimate on the interaction term between *FSE* and *Distance* is negative and statistically significant in all models. These findings indicate that mutual funds that are exposed to accounting fraud shocks have a greater influence on the voluntary disclosure practices of geographically proximate portfolio firms. This is consistent with the interpretation that such funds allocate greater monitoring effort toward firms with lower monitoring cost and such efforts are more effective when funds and firms are geographically proximate. Taken together, the results from Sections 5.1 and 5.2 suggest that mutual funds that experience accounting fraud shocks exert greater influence on the voluntary disclosure practices of portfolio firms for which the benefits of improvement are greater and the costs of the influence are lower.

6. Additional Analysis

6.1 Alternative Explanations

6.1.1 Common analyst coverage

Our findings show that accounting fraud shocks in a portfolio firm may affect management guidance practices among other firms connected through common mutual fund ownership. But firms may also be connected through other channels, which may have a similar effect. In particular, a similar pattern could arise when certain firms are in the coverage set of the same analysts. As information intermediaries, financial analysts rely on firm disclosures to generate their forecasting estimates and research reports. When one firm that analysts cover engages in severe accounting fraud, they may find that their previously issued earnings estimates and research reports were based on inaccurate information, which could potentially hurt their forecasting accuracy and reputation. This experience might increase analysts' concerns about disclosure reliability, which would prompt them to demand more and higher-quality voluntary disclosure in the form of management earnings guidance for the rest of the firms that are in their coverage set. Therefore, firms that appear in the coverage set of the same analyst might exhibit changes in management guidance if one of the firms in the coverage set experiences accounting fraud shock even in the absence of common mutual fund ownership.

If there is a large overlap between common mutual fund ownership and common analyst coverage, one alternative explanation for our findings could be that they arise through common analyst coverage, rather than through common mutual fund ownership. The idea is that similar to the notion of fraud shock exposure experienced by a focal firm through its ownership by mutual funds that experience accounting fraud shocks, this firm could also experience fraud shock exposure through coverage by analysts that experience fraud shocks in the other firms that they cover. This raises concerns that the subsequent performance improvement in the disclosure of the focal firm results from the influence of the fraud-shocked analysts that cover that firm rather than from the influence of its fraud-shocked mutual fund owners.

To examine this possibility, we control for common analyst coverage using two measures for the fraud shock exposure experienced by focal firms through analyst coverage. The first one, labeled *FSE Analyst*, is constructed similar to our *FSE* measure but replaces mutual funds with analysts. In particular, we define *FSE Analyst* as the fraction of all analysts covering a focal firm that experienced an accounting fraud shock among their other covered firms during the previous 12 months.

$$FSE\ Analyst_{i,t} = \frac{1}{A_{i,t}} \sum_{a=1}^{A_{i,t}} Fraud_ShockExposed_t^a, \quad (6)$$

where $A_{i,t}$ is the number of analysts covering firm *i* in year *t,* $Fraud_ShockExposed_t^a$ equals one if analyst a experienced at least one accounting fraud shock in the rest of its coverage firms (excluding firm *i*) in at least one of the quarters of year *t*, and zero otherwise.

The second measure, labeled $Shock\ Analyst\ Dummy_{i,t}$, is an indicator variable that equals one if at least one of the analysts that cover focal firm *i* experienced an accounting fraud shock among the other firms (excluding firm *i*) in the analyst's coverage set in at least one of the quarters of year *t*, and zero otherwise.

We modify Equation (2) by separately adding *FSE Analyst* and *Shock Analyst Dummy* as additional control variables and report estimation results respectively in Panels A and B in Table 7. Results from Panel A of Table 7 show that the coefficient estimates on *FSE Analyst* are insignificant in all models. Results from Panel B show similar findings that the coefficients on *Shock Analyst Dummy* are not significant. More importantly, the coefficient estimate on *FSE* remains positive and statistically significant in all models even after we control for fraud shock exposure through the analyst channel. These results suggest that our main findings are not driven by common analyst coverage and continue to support the importance of the common mutual fund

ownership channel in improving the management guidance of firms held by mutual fund owners that experience accounting fraud shocks elsewhere in their portfolios.

6.1.2 Broader governance activism

Our explanation for the main findings documented in the paper is that accounting fraud shocks experienced elsewhere in their portfolios make mutual funds more attentive to voluntary disclosure standards, causing them to demand more frequent and higher-quality voluntary disclosure in the rest of their portfolio firms. An alternative explanation is that fraud-shocked mutual funds increase their broader corporate governance activities toward their other portfolio firms (Nguyen 2022). As the management of these firms faces greater governance pressure, they also improve management guidance. In other words, the improvement in management guidance quality does not necessarily come directly from mutual funds demanding better voluntary disclosure, but indirectly from mutual funds trying to improve corporate governance in general. Since our hypothesis emphasizes a response by mutual funds focused on demanding improved voluntary disclosure rather than mutual funds increasing their general governance activism to improve overall corporate governance standards, distinguishing between these two explanations is important.

To capture changes in governance activism by fraud-shocked mutual funds, we focus on their voting behavior with respect to proposals sponsored by the management of the portfolio firms. In particular, using data from ISS Voting Analytics, we first calculate the proportion of management-backed proposals that a shocked mutual fund votes against in a given year. We next calculate the change in this proportion for each fund. Finally, for each focal firm-year, we average the change in the proportion of votes against management-backed proposals across all mutual

funds owning a firm that experienced accounting fraud shock. We denote this measure as *ΔAntiMgmtVote* and include it as an additional explanatory variable in Equation (2).

Table 8 tabulates results from this estimation. The significant coefficient estimates on *ΔAntiMgmtVote* indicate that changes in the voting behavior of mutual funds that experienced accounting fraud shock indeed are significantly associated with management earnings guidance outcome variables. Nevertheless, more importantly, the coefficient estimate on *FSE* remains positive and significant in all four specifications. These findings mitigate the concern that our results are simply driven by mutual funds intensifying their broad governance efforts on their other portfolio firms, as captured by changes in their voting behavior, subsequent to experiencing accounting fraud shock in their portfolios. Instead, these results support the view that mutual funds affected by accounting fraud shocks place a greater emphasis on targeting improvements in the voluntary disclosure practices of their portfolio firms, which, indeed, results in such improvements.

6.2 Other Voluntary Disclosure Measures

We follow the literature and focus on earnings (i.e., EPS) guidance provided by management to assess the voluntary practices of our sample firms. However, firms could voluntarily disclose other types of information. In this section, we check robustness of our findings using alternative proxies for voluntary disclosure frequency and quality. Results are reported in Table 9. Our first alternative proxy is the number of 8-Ks filed by a firm in a year. As shown in Column (1), the coefficient estimate on *FSE* is positive and statistically significant (34.11, t-statistic = 6.333), suggesting that firms tend to file more 8-Ks with the SEC after the mutual funds that own them experience severe accounting fraud shocks elsewhere in their portfolios. We next

employ two additional proxies related to another management guidance item, namely revenue estimates. These proxies are (1) an indicator for whether the firm issues management guidance on their revenue and (2) number of revenue guidance updates issued in a year. As shown in Columns (2) and (3), consistent with our findings on management earnings guidance, firms are significantly more likely to issue revenue guidance and issue more revenue guidance updates after the mutual funds that hold them experience severe accounting frauds. We present analogous tests in Columns (4) and (5), whereby we focus on management guidance on capital expenditures and in Columns (6) and (7), whereby we focus on other forms of management guidance. The coefficient on our key variable *FSE* continues to be significant across all alternative voluntary disclosure proxies.

7. Conclusion

Using an organizational learning framework, we study whether mutual funds that experience financial misconduct in one or more of their portfolio firms subsequently influence the disclosure practices of other firms in their portfolios. We operationalize this examination by constructing a measure of focal firm's exposure to financial fraud shocks through its mutual fund owners. As such exposure increases for a focal firm, meaning that an increasing number of mutual funds that hold the focal firm experience financial misconduct in their portfolios, the subsequent voluntary disclosure practices of the focal firm improve. These findings suggest that mutual funds learn from adverse experiences and subsequently demand more frequent and higher-quality management guidance from their other portfolio firms. Consistent with mutual funds facing limited attention resources, the effects we document are stronger among firms with salient financial reporting weaknesses, where the benefits for disclosure improvement are greater, and geographically proximate firms, where monitoring costs are lower.

A series of additional analyses strengthens this interpretation. First, our IV analysis and tests that account for industry-level spillovers support a causal interpretation of the results. Second, we rule out two alternative explanations. Specifically, we find no evidence that our results are driven by analysts who respond to accounting fraud experienced in one or more of their covered firmsby demanding greater transparency in the rest of their covered firms. We also rule out that fraud-shocked mutual funds broadly intensify their governance activities rather than specifically targeting voluntary disclosure of their portfolio firms. Finally, our findings remain robust across alternative disclosure outcomes, including 8-K filings and revenue, capital expenditure, and other management guidance.

Our study makes several contributions to prior research. First, we show that firms respond to changes in their institutional investors' information needs that arise from learning that follows adverse experiences by improving their own voluntary disclosures. This extends the literature studying the effect of institutional ownership on voluntary disclosure by showing that firms do not only respond to relatively stable characteristics and constraints of their institutional investors but also to changes in their needs. Second, we contribute to the broader literature on institutional investor monitoring by identifying organizational learning in response to adverse outcomes as a new channel through which investors' monitoring and influence over portfolio firms evolve. Finally, we extend the literature on investors' responses to corporate fraud. Whereas prior studies focus primarily on how fraud affects institutional investors' own portfolio allocation and governance activities, we study and show how these experiences affect the behavior of portfolio firms. Collectively, our findings demonstrate how financial misconduct at one portfolio company can ultimately improve the information environment of otherwise unrelated firms with which they share common institutional ownership.

Our findings have broad implications for corporate managers, board members, and users of financial disclosures. By showing that mutual funds' adverse experiences elsewhere in their portfolios influence the disclosure practices of other portfolio firms, we identify an important external force through which common institutional ownership can shape firms' information environments. Corporate managers and boards may face heightened scrutiny and demands for transparency and may need to respond accordingly when their institutional investors experience such shocks. The resulting improvements in voluntary disclosure can also benefit users of financial information by facilitating better-informed investment decisions, more accurate analyst assessments, and more informed auditor assessments of financial reporting risk.

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Table 1. Summary Statistics

This table presents the summary statistics of our key variables. All continuous variables are winsorized at the 1st and the 99th percentiles (variable definitions are available in Appendix A).

Variable	N	Mean	Std	Q1	Q2	Q3
Alpha	132255	-0.0160	0.1878	-0.0551	-0.0008	0.0207
Cash Flow Std	108790	0.0643	0.0952	0.0146	0.0335	0.0712
Fraud Shock Exposure (FSE)	116790	0.0009	0.0029	0.0000	0.0000	0.0000
Guide Horizon	132916	0.1014	0.2726	0.0000	0.0000	0.0000
Institutional Ownership	132916	0.3094	0.3616	0.0000	0.1126	0.6405
Issue Guide	132916	0.1841	0.3875	0.0000	0.0000	0.0000
Leverage	126392	0.2303	0.2220	0.0336	0.1793	0.3631
Litigation	107621	0.3429	1.7583	0.0271	0.0536	0.1188
Market-to-Book	126628	3.0303	5.0739	1.1258	1.8798	3.4188
Num Analysts	132916	6.5820	7.5834	1.0000	4.0000	9.0000
Num Guide	132916	0.6346	1.5480	0.0000	0.0000	0.0000
Point Guide	132916	0.3776	0.8146	0.0000	0.0000	0.0000
ROA	126802	-0.0386	0.2381	-0.0282	0.0183	0.0627
Total Assets (log)	126942	6.5652	2.2181	4.9407	6.4903	7.9916

Table 2. Mutual Fund Accounting Fraud Shock Exposure and Management Earnings Guidance

This table presents results from the analysis of how mutual funds' exposure to accounting fraud shocks (FSE) affects a firm's decision on management earnings guidance. *FSE* measures the extent to which a focal firm's holding mutual funds are exposed to accounting fraud shock, as defined in Section 2.2 (variable definitions are available in Appendix A). Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	2.146***	15.35***	1.250***	4.304***
	(5.706)	(9.399)	(4.674)	(5.286)
Total Assets (log)	0.0465***	0.198***	0.0251***	0.0993***
	(11.18)	(10.67)	(7.905)	(11.36)
Alpha	-0.00519	-0.0138	-0.00343	-0.0167
	(-0.939)	(-0.651)	(-0.892)	(-1.412)
Market-to-Book	0.000529*	0.00373***	0.000573**	0.00112*
	(1.791)	(2.749)	(2.496)	(1.764)
ROA	0.0559***	0.231***	0.0261***	0.117***
	(6.467)	(6.928)	(4.164)	(6.278)
Cash Flow Std	-0.0749***	-0.282***	-0.0530***	-0.157***
	(-3.591)	(-3.321)	(-3.539)	(-3.497)
Num Analysts	0.00387***	0.0137***	0.00251***	0.00770***
	(6.612)	(5.160)	(5.855)	(6.213)
Institutional Ownership	0.0450***	0.208***	0.0649***	0.0916***
	(4.083)	(4.462)	(7.677)	(3.960)
Leverage	-0.00474	-0.0668	0.0127	-0.0138
	(-0.336)	(-1.104)	(1.248)	(-0.460)
Litigation	-0.00125**	-0.00441**	-0.000430	-0.00181
	(-2.195)	(-2.276)	(-1.151)	(-1.465)
Constant	-0.126***	-0.686***	-0.0863***	-0.282***
	(-4.667)	(-5.750)	(-4.197)	(-5.002)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	96,441	96,441	96,441	96,441
Adjusted R-squared	0.555	0.604	0.577	0.536

Table 3. Endogeneity Check – Instrumental Variable Approach

This table presents results from our instrumental variable (IV) based endogeneity checks on the relation between mutual funds' exposure to accounting fraud shocks (FSE) and a firm's decision on management earnings guidance. The employed IV is mutual fund flow (Flow), as defined in Section 4.2.1. Panel A documents the first-stage results, and Panel B presents the results from the second-stage of our IV tests. Variable definitions are available in Appendix A. Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Panel A. First-stage Results

VARIABLES	(1)
Instrument Variable (Flow)	0.0329***
	(95.40)
Total Assets (log)	0.00072***
	(3.464)
Alpha	-0.00093*
	(-1.946)
Market-to-Book	-0.000004*
	(-1.921)
ROA	-0.000255***
	(-3.738)
Cash Flow Std	-0.000303*
	(-1.768)
Num Analysts	0.00016***
	(5.501)
Institutional Ownership	0.000399***
	(7.636)
Leverage	-0.000482***
	(-6.060)
Litigation	-0.000006
	(-0.973)
Constant	-0.000509***
	(-3.968)
Firm FE	YES
Year FE	YES
Observations	97,776
Adjusted R-squared	0.217

Panel B. Second-stage Results

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE (Instrumented)	3.016***	27.49***	2.152**	7.591***
	(2.644)	(5.234)	(2.525)	(2.990)
Total Assets (log)	0.0468***	0.199***	0.0252***	0.0999***
	(11.22)	(10.68)	(7.923)	(11.38)
Alpha	-0.00489	-0.0115	-0.00313	-0.0160
	(-0.883)	(-0.542)	(-0.814)	(-1.354)
Market-to-Book	0.000549*	0.00385***	0.000589**	0.00116*
	(1.852)	(2.825)	(2.556)	(1.831)
ROA	0.0574***	0.240***	0.0271***	0.120***
	(6.590)	(7.146)	(4.288)	(6.418)
Cash Flow Std	-0.0750***	-0.280***	-0.0529***	-0.157***
	(-3.570)	(-3.274)	(-3.509)	(-3.483)
Num Analysts	0.00370***	0.0128***	0.00243***	0.00732***
	(6.324)	(4.788)	(5.654)	(5.896)
Institutional Ownership	0.0445***	0.202***	0.0644***	0.0904***
	(4.037)	(4.328)	(7.614)	(3.899)
Leverage	-0.00313	-0.0583	0.0138	-0.00964
	(-0.221)	(-0.963)	(1.360)	(-0.319)
Litigation	-0.00121**	-0.00441**	-0.000400	-0.00170
	(-2.114)	(-2.247)	(-1.059)	(-1.359)
Constant	-0.252***	-1.345***	-0.157***	-0.514***
	(-9.895)	(-11.96)	(-8.243)	(-9.536)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	97,776	97,776	97,776	97,776
Adjusted R-squared	0.0874	0.1079	0.0909	0.0835

Table 4. Industry Level Fraud Spillovers

This table presents results from our analysis of potential industry-level fraud spillovers' effect on the relation between mutual funds' exposure to accounting fraud shocks (FSE) and a firm's decision on management earnings guidance. Panel A shows results where we exclude same-industry fraud shocks (as discussed in Section 4.2.2), and Panel B documents the findings from including an industry by year fixed effects. Variable definitions are available in Appendix A. Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Panel A. Excluding same industry fraud shocks

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE (excluding industry fraud shock)	2.084***	14.69***	1.058***	4.114***
	(5.193)	(8.428)	(3.702)	(4.748)
Total Assets (log)	0.0464***	0.198***	0.0250***	0.0992***
	(11.16)	(10.67)	(7.889)	(11.34)
Alpha	-0.00513	-0.0141	-0.00341	-0.0165
	(-0.926)	(-0.666)	(-0.887)	(-1.400)
Market-to-Book	0.000528*	0.00374***	0.000572**	0.00111*
	(1.783)	(2.750)	(2.489)	(1.756)
ROA	0.0563***	0.232***	0.0262***	0.118***
	(6.493)	(6.943)	(4.177)	(6.307)
Cash Flow Std	-0.0747***	-0.282***	-0.0529***	-0.156***
	(-3.568)	(-3.304)	(-3.518)	(-3.477)
Num Analysts	0.00387***	0.0137***	0.00251***	0.00771***
	(6.617)	(5.171)	(5.866)	(6.218)
Institutional Ownership	0.0448***	0.208***	0.0648***	0.0913***
	(4.065)	(4.454)	(7.668)	(3.943)
Leverage	-0.00432	-0.0665	0.0129	-0.0131
	(-0.306)	(-1.096)	(1.268)	(-0.437)
Litigation	-0.00124**	-0.00443**	-0.000426	-0.00179
	(-2.181)	(-2.277)	(-1.138)	(-1.443)
Constant	-0.125***	-0.685***	-0.0859***	-0.281***
	(-4.644)	(-5.735)	(-4.172)	(-4.980)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	96,355	96,355	96,355	96,355
Adjusted R-squared	0.555	0.603	0.577	0.536

Panel B. Adding industry by year fixed effects

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	2.130***	14.31***	1.313***	4.193***
	(5.672)	(8.801)	(4.815)	(5.176)
Total Assets (log)	0.0421***	0.182***	0.0229***	0.0915***
	(10.14)	(10.07)	(7.224)	(10.52)
Alpha	-0.00631	-0.0215	-0.00469	-0.0190
	(-1.087)	(-0.964)	(-1.166)	(-1.521)
Market-to-Book	0.000386	0.00326**	0.000389*	0.000791
	(1.329)	(2.492)	(1.705)	(1.267)
ROA	0.0485***	0.203***	0.0207***	0.101***
	(5.537)	(6.159)	(3.255)	(5.353)
Cash Flow Std	-0.0498**	-0.158*	-0.0409***	-0.102**
	(-2.360)	(-1.834)	(-2.699)	(-2.248)
Num Analysts	0.00502***	0.0188***	0.00324***	0.00999***
	(8.866)	(7.415)	(7.660)	(8.248)
Institutional Ownership	0.0532***	0.246***	0.0642***	0.107***
	(4.912)	(5.371)	(7.573)	(4.675)
Leverage	0.00399	0.0216	0.0119	0.00695
	(0.294)	(0.385)	(1.160)	(0.239)
Litigation	-0.000685	-0.00230	-0.000161	-0.000725
	(-1.202)	(-1.228)	(-0.423)	(-0.583)
Constant	-0.112***	-0.656***	-0.0775***	-0.260***
	(-4.121)	(-5.590)	(-3.742)	(-4.603)
SIC2 by Year FE	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	96,334	96,334	96,334	96,334
Adjusted R-squared	0.570	0.625	0.589	0.550

Table 5. Financial Reporting Weakness of Focal Firms

This table presents results from our analysis of the effect of a focal firm's own financial reporting weakness on the relation between mutual funds' exposure to accounting fraud shocks (FSE) and the firm's decision on management earnings guidance. Panel A shows results where we measure focal firm financial reporting weakness using the number of restatements in the last two years (*Log_Restate_Num*), and Panel B documents the findings where we measure focal firm financial reporting weakness based on whether they are flagged by their auditors as having internal control weakness in the last two years (*Icweak*). Variable definitions are available in Appendix A. Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Panel A. Number of Restatements

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	1.743***	12.94***	1.306***	3.546***
	(4.014)	(7.034)	(4.211)	(3.772)
Log_Restate_Num	-0.00584	-0.0212	-0.00759**	-0.00940
	(-1.189)	(-0.993)	(-2.162)	(-0.898)
FSE x Log_Restate_Num	1.910**	10.40**	-0.127	3.584*
	(2.076)	(2.303)	(-0.181)	(1.789)
Total Assets (log)	0.0467***	0.199***	0.0254***	0.100***
	(11.11)	(10.59)	(7.913)	(11.33)
Alpha	-0.00513	-0.0150	-0.00327	-0.0163
	(-0.920)	(-0.703)	(-0.846)	(-1.369)
Market-to-Book	0.000552*	0.00384***	0.000593**	0.00115*
	(1.850)	(2.794)	(2.547)	(1.802)
ROA	0.0568***	0.235***	0.0260***	0.118***
	(6.436)	(6.896)	(4.053)	(6.233)
Cash Flow Std	-0.0770***	-0.295***	-0.0555***	-0.162***
	(-3.608)	(-3.383)	(-3.611)	(-3.523)
Num Analysts	0.00382***	0.0134***	0.00246***	0.00760***
	(6.489)	(5.024)	(5.718)	(6.093)
Institutional Ownership	0.0447***	0.203***	0.0653***	0.0911***
	(4.024)	(4.317)	(7.666)	(3.905)
Leverage	-0.00487	-0.0675	0.0125	-0.0149
	(-0.342)	(-1.104)	(1.224)	(-0.490)
Litigation	-0.00121**	-0.00459**	-0.000367	-0.00170
	(-2.084)	(-2.318)	(-0.965)	(-1.349)
Constant	-0.125***	-0.681***	-0.0872***	-0.284***
	(-4.597)	(-5.636)	(-4.177)	(-4.972)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	94,959	94,959	94,959	94,959
Adjusted R-squared	0.556	0.604	0.578	0.537

Panel B. Auditor Opinion on Internal Control Weakness

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	0.607	6.382***	0.267	1.452
	(1.412)	(3.362)	(0.858)	(1.513)
Icweak	-0.0207***	-0.110***	-0.0187***	-0.0464***
	(-2.637)	(-3.289)	(-3.368)	(-2.710)
FSE x Icweak	4.143**	14.05*	2.336*	8.854**
	(2.425)	(1.749)	(1.876)	(2.393)
Total Assets (log)	0.0367***	0.157***	0.0223***	0.0772***
	(5.820)	(5.785)	(4.458)	(5.841)
Alpha	-0.00608	0.0138	-0.00791*	-0.0134
	(-0.958)	(0.525)	(-1.657)	(-0.968)
Market-to-Book	0.000452	0.00190	0.000488	0.000753
	(1.097)	(0.958)	(1.504)	(0.833)
ROA	0.0764***	0.401***	0.0412***	0.168***
	(5.339)	(6.731)	(3.981)	(5.491)
Cash Flow Std	-0.168***	-0.713***	-0.0945***	-0.361***
	(-4.599)	(-4.504)	(-3.399)	(-4.581)
Num Analysts	0.00170**	0.00710**	0.000885*	0.00331**
	(2.401)	(2.179)	(1.776)	(2.193)
Institutional Ownership	0.0151	0.146**	0.0205*	0.0311
	(1.029)	(2.323)	(1.718)	(1.010)
Leverage	-0.0127	-0.201**	0.0217	-0.0229
	(-0.621)	(-2.128)	(1.466)	(-0.526)
Litigation	-0.00296***	-0.0149***	-0.00178***	-0.00548**
	(-2.831)	(-3.475)	(-2.678)	(-2.490)
Constant	-0.0173	-0.142	-0.0268	-0.0423
	(-0.364)	(-0.690)	(-0.704)	(-0.424)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	45,984	45,984	45,984	45,984
Adjusted R-squared	0.711	0.735	0.737	0.685

Table 6. Geographic Proximity

This table presents results from our analysis of the effect of the distance between a focal firm and the mutual funds that hold its shares on the relation between mutual funds' exposure to accounting fraud shocks (FSE) and the firm's decision on management earnings guidance. *Distance Ave* is defined as the average physical distance between all the mutual funds that hold the focal firm's stocks and the focal firm's headquarters. Variable definitions are available in Appendix A. Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	1.367**	9.292***	0.657	2.449*
	(2.262)	(3.439)	(1.515)	(1.829)
Distance Ave	0.000113	0.000992**	0.000108*	0.000218
	(1.264)	(2.418)	(1.906)	(1.099)
FSE x Distance Ave	-0.0173*	-0.0830*	-0.0158**	-0.0381*
	(-1.781)	(-1.773)	(-2.352)	(-1.756)
Total Assets (log)	0.0481***	0.267***	0.0322***	0.109***
	(5.068)	(5.808)	(4.356)	(5.380)
Alpha	0.00337	0.0403	-0.00273	0.00774
	(0.320)	(0.912)	(-0.356)	(0.336)
Market-to-Book	0.000583	0.00161	0.000465	0.00115
	(0.882)	(0.490)	(0.900)	(0.797)
ROA	0.156***	0.870***	0.0842***	0.351***
	(4.540)	(5.951)	(3.441)	(4.677)
Cash Flow Std	-0.209***	-1.064***	-0.176***	-0.459***
	(-2.894)	(-3.238)	(-3.091)	(-2.888)
Num Analysts	0.00232**	0.0105**	0.00149**	0.00478**
	(2.458)	(2.283)	(2.066)	(2.384)
Institutional Ownership	-0.0135	-0.00499	0.00750	-0.0375
	(-0.600)	(-0.0490)	(0.412)	(-0.798)
Leverage	0.0189	-0.0412	0.0483**	0.0406
	(0.582)	(-0.274)	(1.979)	(0.583)
Litigation	-0.00360	-0.0222	-0.00503*	-0.00466
	(-1.134)	(-1.519)	(-1.924)	(-0.644)
Constant	0.00653	-0.573*	-0.0471	-0.0544
	(0.0894)	(-1.650)	(-0.826)	(-0.352)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	23,096	23,096	23,096	23,096
Adjusted R-squared	0.649	0.670	0.693	0.624

Table 7. Considering Fraud Shock by Covering Analysts

This table presents results from our analysis of the relation between mutual funds' exposure to accounting fraud shocks (FSE) and the firm's decision on management earnings guidance with the additional control for fraud shocks through covering analysts. Panel A shows results where we measure a focal firm's exposure to fraud shocks through covering analysts as the fraction of covering analysts whose portfolio firms engaged in accounting fraud in the previous year (*FSE Analyst*). Panel B replicates this analysis by measuring a focal firm's exposure to fraud shocks through covering analysts as a dummy variable (*Shock Analyst Dummy*) that equals one if at least one covering analyst is exposed to accounting fraud shocks through their portfolio firms in the previous year, and equal to zero otherwise. Variable definitions are available in Appendix A. Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Panel A. Controlling for FSE Analyst

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	1.830***	12.82***	0.950***	3.635***
	(4.633)	(7.543)	(3.381)	(4.247)
FSE Analyst	-0.00582	0.125	-0.00727	0.0144
	(-0.0954)	(0.485)	(-0.154)	(0.112)
Total Assets (log)	0.0473***	0.208***	0.0264***	0.101***
	(9.356)	(9.180)	(6.830)	(9.539)
Alpha	-0.00611	0.00167	-0.00374	-0.0177
	(-1.045)	(0.0742)	(-0.913)	(-1.418)
Market-to-Book	0.000638*	0.00477***	0.000718***	0.00128*
	(1.908)	(3.086)	(2.737)	(1.795)
ROA	0.0751***	0.325***	0.0369***	0.158***
	(7.169)	(7.975)	(4.852)	(7.039)
Cash Flow Std	-0.116***	-0.413***	-0.0770***	-0.244***
	(-4.341)	(-3.787)	(-3.958)	(-4.261)
Num Analysts	0.00331***	0.0118***	0.00212***	0.00655***
	(5.372)	(4.270)	(4.728)	(5.022)
Institutional Ownership	0.0300**	0.145***	0.0579***	0.0625**
	(2.496)	(2.860)	(6.273)	(2.475)
Leverage	-0.0104	-0.0967	0.0113	-0.0266
	(-0.626)	(-1.345)	(0.932)	(-0.746)
Litigation	-0.00122*	-0.00545**	-0.000295	-0.00137
	(-1.661)	(-2.157)	(-0.617)	(-0.853)
Constant	-0.103***	-0.656***	-0.0815***	-0.238***
	(-2.984)	(-4.266)	(-3.085)	(-3.302)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	80,632	80,632	80,632	80,632
Adjusted R-squared	0.552	0.602	0.578	0.531

Panel B. Controlling for Shock Analyst Dummy

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	1.830***	12.83***	0.950***	3.637***
	(4.636)	(7.545)	(3.383)	(4.250)
Shock Analyst Dummy	-0.00656	-0.00504	-0.00320	-0.00792
	(-0.545)	(-0.0957)	(-0.361)	(-0.304)
Total Assets (log)	0.0473***	0.208***	0.0264***	0.101***
	(9.355)	(9.179)	(6.830)	(9.538)
Alpha	-0.00609	0.00175	-0.00373	-0.0177
	(-1.042)	(0.0778)	(-0.911)	(-1.416)
Market-to-Book	0.000636*	0.00477***	0.000718***	0.00128*
	(1.905)	(3.082)	(2.736)	(1.791)
ROA	0.0751***	0.325***	0.0370***	0.158***
	(7.170)	(7.974)	(4.853)	(7.039)
Cash Flow Std	-0.116***	-0.412***	-0.0770***	-0.244***
	(-4.342)	(-3.782)	(-3.959)	(-4.260)
Num Analysts	0.00331***	0.0119***	0.00212***	0.00656***
	(5.382)	(4.278)	(4.733)	(5.028)
Institutional Ownership	0.0300**	0.145***	0.0579***	0.0625**
	(2.498)	(2.861)	(6.274)	(2.476)
Leverage	-0.0104	-0.0966	0.0113	-0.0266
	(-0.625)	(-1.343)	(0.932)	(-0.745)
Litigation	-0.00122*	-0.00544**	-0.000295	-0.00137
	(-1.659)	(-2.158)	(-0.616)	(-0.852)
Constant	-0.103***	-0.656***	-0.0815***	-0.238***
	(-2.984)	(-4.264)	(-3.085)	(-3.301)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	80,632	80,632	80,632	80,632
Adjusted R-squared	0.552	0.602	0.578	0.531

Table 8. Considering Shocked Fund's Voting

This table presents results from our analysis of the effect of shocked funds' potential general increase in governance activism on the relation between mutual funds' exposure to accounting fraud shocks (FSE) and the firm's decision on management earnings guidance. *ΔAntiMgmtVote* is defined as the average of the changes in the proportion of votes against management-backed proposals across all mutual funds owning a firm that experienced accounting fraud shock. Variable definitions are available in Appendix A. Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	2.077***	15.04***	1.159***	4.100***
	(5.373)	(8.911)	(4.214)	(4.900)
ΔAntiMgmtVote	0.0467***	0.200***	0.0249***	0.0999***
	(10.40)	(9.861)	(7.271)	(10.56)
Total Assets (log)	-0.00617	-0.0133	-0.00426	-0.0184
	(-1.057)	(-0.599)	(-1.062)	(-1.472)
Alpha	-0.398	-3.004	0.847	-3.351
	(-0.118)	(-0.185)	(0.344)	(-0.455)
Market-to-Book	0.000550*	0.00409***	0.000599**	0.00129*
	(1.666)	(2.729)	(2.349)	(1.806)
ROA	0.0610***	0.252***	0.0308***	0.129***
	(6.207)	(6.668)	(4.311)	(6.056)
Cash Flow Std	-0.0844***	-0.317***	-0.0570***	-0.183***
	(-3.574)	(-3.293)	(-3.374)	(-3.576)
Num Analysts	0.00394***	0.0132***	0.00243***	0.00782***
	(6.420)	(4.730)	(5.413)	(5.992)
Institutional Ownership	0.0416***	0.191***	0.0648***	0.0867***
	(3.571)	(3.854)	(7.271)	(3.538)
Leverage	-0.000579	-0.0504	0.0148	-0.00382
	(-0.0375)	(-0.758)	(1.332)	(-0.116)
Litigation	-0.000810	-0.00295	-0.000255	-0.000681
	(-1.219)	(-1.284)	(-0.566)	(-0.466)
Constant	-0.123***	-0.678***	-0.0830***	-0.277***
	(-4.165)	(-5.131)	(-3.694)	(-4.492)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	85,005	85,005	85,005	85,005
Adjusted R-squared	0.556	0.606	0.579	0.537

Table 9. Considering Other Voluntary Disclosure Measures

This table presents results from our analysis of the relation between mutual funds' exposure to accounting fraud shocks (FSE) and the firm's decision on other types of voluntary disclosures. Column (1) considers the number of 8-k filings, Columns (2) and (3) consider management revenue guidance, Columns (4) and (5) consider management capital expenditure guidance, and Columns (6) and (7) consider all other types of management guidance. Variable definitions are available in Appendix A. Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

VARIABLES	(1) num 8k	(2) issue rev guide	(3) num rev guide	(4) issue capex guide	(5) num capex guide	(6) issue other guide	(7) num other guide
FSE	34.11***	2.477***	9.739***	5.023***	12.15***	5.078***	19.14***
	(6.333)	(6.133)	(6.494)	(12.11)	(9.101)	(11.05)	(8.812)
Total Assets (log)	0.497***	0.0405***	0.167***	0.0225***	0.0601***	0.0362***	0.205***
	(8.378)	(9.400)	(9.339)	(5.277)	(3.861)	(8.791)	(8.141)
Alpha	0.176***	-0.0294***	-0.0905***	0.00711	0.00510	0.0137**	0.0570*
	(2.604)	(-5.506)	(-4.583)	(1.292)	(0.287)	(2.398)	(1.834)
Market-to-Book	0.00193	0.000557*	0.00292**	-1.42e-05	0.000604	7.62e-05	0.00278
	(0.464)	(1.663)	(2.226)	(-0.0471)	(0.552)	(0.217)	(1.348)
ROA	-1.209***	0.0860***	0.373***	-0.0216***	-0.0666**	0.0359***	0.166***
	(-9.229)	(8.883)	(9.980)	(-2.727)	(-2.453)	(4.142)	(3.825)
Cash Flow Std	1.272***	-0.135***	-0.571***	0.0321*	0.158**	-0.0830***	-0.342***
	(3.831)	(-5.755)	(-6.403)	(1.666)	(2.499)	(-3.846)	(-3.221)
Num Analysts	-0.00428	0.00259***	0.0144***	0.00400***	0.0169***	0.00330***	0.0148***
	(-0.536)	(4.533)	(5.930)	(6.854)	(7.167)	(5.765)	(4.537)
Institutional Ownership	0.971***	0.0570***	0.218***	0.0526***	0.121***	0.100***	0.547***
	(5.933)	(5.715)	(5.232)	(5.198)	(3.277)	(9.721)	(8.667)
Leverage	1.323***	0.0622***	0.263***	0.0226	0.0805	0.0736***	0.459***
	(6.495)	(4.100)	(4.325)	(1.588)	(1.510)	(5.128)	(5.563)
Litigation	0.0551***	-0.00195***	-0.00642***	0.00105**	0.00334**	-0.00251***	-0.0112***
	(5.364)	(-3.323)	(-3.347)	(2.239)	(2.011)	(-4.405)	(-3.994)
Constant	2.183***	-0.120***	-0.679***	-0.00980	-0.0349	-0.109***	-0.947***
	(5.756)	(-4.323)	(-5.782)	(-0.355)	(-0.350)	(-4.086)	(-5.783)
Firm FE	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES
Observations	94,959	96,441	96,441	96,441	96,441	96,441	96,441
Adjusted R-squared	0.708	0.535	0.572	0.542	0.556	0.468	0.525

Appendix A

This Appendix defines our key variables.

Alpha: The value-weighted alphas of the funds that hold a focal firm's stock. Fund alpha is estimated based on the Fama-French three factor plus momentum model (Fama and French, 1993; Carhart, 1997).

Cash Flow Std: The standard deviation of cash flows in the last three years.

Fraud Shock Exposure (FSE): Holding-weighted measure of the extent to which a firm's holding mutual funds are exposed to accounting fraud shocks, as defined in Section 2.2.

Guide Horizon: The number of days between the issuance date of the first management earnings guidance and the end of the period divided by 365.

Institutional Ownership: The proportion of shares owned by financial institutions.

Issue Guide: An indicator variable with a value of one if a firm issues management earnings guidance in a fiscal year, and zero otherwise.

Leverage: Total debt over total assets.

Litigation: The estimated probability of litigation using Model (2) in Table 7 in Kim and Skinner (2012).

Market-to-Book: The ratio of market price per share and book value per share.

Num Analysts: The number of analysts following a firm.

Num Guide: The number of management earnings guidance issued for a fiscal year.

Point Guide: The proportion of management earnings guidance that are a point.

ROA: Net income divided by total assets.

Total Assets (Log): The natural logarithm of the summation of one and total assets.

Internet Appendix

Mutual Funds' Exposure to Accounting Fraud and their Influence on Corporate Disclosure

Internet Appendix Table IA1. Mutual Fund Accounting Fraud Shock Exposure and Management Earnings Guidance – Using a Continuous Measure for Funds' Exposure to Accounting Fraud Shock

This table presents results from the analysis of how mutual funds' exposure to accounting fraud shocks (FSE) affects a firm's decision on management earnings guidance. *FSE* measures the extent to which a focal firm's holding mutual funds are exposed to accounting fraud shock, as defined in Section 2.2 (variable definitions are available in Appendix A), with the modification that we replace $Fraud_ShockExposed_t^f$ with a continuous measure that considers all firms with accounting fraud announcements in the fund portfolio and weights each firm-specific fraud announcement by the size of the firm position in the fund portfolio. We obtain similar findings using this alternative measure. Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	49.59***	434.2***	25.42**	102.0***
	(3.496)	(7.165)	(2.539)	(3.340)
Total Assets (log)	0.0462***	0.201***	0.0250***	0.0993***
	(10.80)	(10.52)	(7.645)	(11.01)
Alpha	-0.00516	-0.00431	-0.00269	-0.0157
	(-0.925)	(-0.201)	(-0.693)	(-1.323)
Market-to-Book	0.000539*	0.00382***	0.000575**	0.00114*
	(1.766)	(2.717)	(2.412)	(1.742)
ROA	0.0606***	0.259***	0.0289***	0.128***
	(6.616)	(7.380)	(4.332)	(6.487)
Cash Flow Std	-0.0825***	-0.305***	-0.0581***	-0.173***
	(-3.798)	(-3.410)	(-3.686)	(-3.734)
Num Analysts	0.00384***	0.0136***	0.00250***	0.00766***
	(6.531)	(5.084)	(5.807)	(6.137)
Institutional Ownership	0.0389***	0.175***	0.0604***	0.0806***
	(3.475)	(3.693)	(7.035)	(3.429)
Leverage	-0.00240	-0.0650	0.0142	-0.00938
	(-0.165)	(-1.041)	(1.352)	(-0.302)
Litigation	-0.00158**	-0.00630***	-0.000611	-0.00243*
	(-2.564)	(-2.986)	(-1.503)	(-1.788)
Constant	-0.121***	-0.692***	-0.0840***	-0.276***
	(-4.299)	(-5.559)	(-3.900)	(-4.678)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	93,271	93,271	93,271	93,271
Adjusted R-squared	0.558	0.605	0.579	0.538

Internet Appendix Table IA2. Mutual Fund Accounting Fraud Shock Exposure and Management Earnings Guidance – Without the Continuous Holding Requirement

This table presents results from the analysis of how mutual funds' exposure to accounting fraud shocks (FSE) affects a firm's decision on management earnings guidance, without the requirement that fund *f* to hold firm *i*'s stock in the year after the focal year t. *FSE* measures the extent to which a focal firm's holding mutual funds are exposed to accounting fraud shock, as defined in Section 2.2 (variable definitions are available in Appendix A). We obtain similar findings using this alternative measure. Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	1.721***	11.69***	0.935***	3.606***
	(5.381)	(8.577)	(4.025)	(5.227)
Total Assets (log)	0.0440***	0.186***	0.0243***	0.0933***
	(11.46)	(11.01)	(8.255)	(11.60)
Alpha	-0.00576	-0.0160	-0.00619*	-0.0172*
	(-1.236)	(-0.909)	(-1.866)	(-1.729)
Market-to-Book	0.000551**	0.00327***	0.000530***	0.00115**
	(2.100)	(2.705)	(2.579)	(2.066)
ROA	0.0435***	0.179***	0.0209***	0.0913***
	(6.257)	(6.669)	(4.088)	(6.123)
Cash Flow Std	-0.0607***	-0.237***	-0.0466***	-0.127***
	(-3.495)	(-3.340)	(-3.701)	(-3.417)
Num Analysts	0.00416***	0.0151***	0.00279***	0.00835***
	(7.300)	(5.865)	(6.687)	(6.936)
Institutional Ownership	0.0474***	0.221***	0.0651***	0.0948***
	(4.580)	(5.056)	(8.126)	(4.371)
Leverage	-0.00993	-0.0830	0.00749	-0.0238
	(-0.792)	(-1.539)	(0.820)	(-0.892)
Litigation	-0.000739**	-0.00225**	-0.000215	-0.00113*
	(-2.338)	(-2.111)	(-0.982)	(-1.648)
Constant	-0.117***	-0.640***	-0.0832***	-0.259***
	(-4.766)	(-5.946)	(-4.393)	(-5.037)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	108,126	108,126	108,126	108,126
Adjusted R-squared	0.556	0.602	0.575	0.537

Internet Appendix Table IA3. Mutual Fund Accounting Fraud Shock Exposure and Management Earnings Guidance – Without Removing the Fraud Firm

This table presents results from the analysis of how mutual funds' exposure to accounting fraud shocks (FSE) affects a firm's decision on management earnings guidance, without removing the firm with accounting frauds from our sample. *FSE* measures the extent to which a focal firm's holding mutual funds are exposed to accounting fraud shock, as defined in Section 2.2 (variable definitions are available in Appendix A). We obtain similar findings using this alternative measure. Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	2.071***	14.99***	1.163***	4.217***
	(5.609)	(9.373)	(4.422)	(5.282)
Total Assets (log)	0.0463***	0.194***	0.0249***	0.0997***
	(11.25)	(10.53)	(7.937)	(11.48)
Alpha	-0.00548	-0.00755	-0.00438	-0.0164
	(-0.998)	(-0.358)	(-1.141)	(-1.398)
Market-to-Book	0.000482	0.00373***	0.000508**	0.00106*
	(1.630)	(2.726)	(2.203)	(1.680)
ROA	0.0573***	0.239***	0.0259***	0.120***
	(6.638)	(7.185)	(4.159)	(6.461)
Cash Flow Std	-0.0784***	-0.297***	-0.0542***	-0.163***
	(-3.770)	(-3.511)	(-3.642)	(-3.646)
Num Analysts	0.00397***	0.0141***	0.00254***	0.00786***
	(6.843)	(5.367)	(5.983)	(6.392)
Institutional Ownership	0.0455***	0.210***	0.0653***	0.0930***
	(4.217)	(4.582)	(7.881)	(4.095)
Leverage	-0.00243	-0.0597	0.0127	-0.00902
	(-0.174)	(-0.997)	(1.272)	(-0.303)
Litigation	-0.00128**	-0.00485**	-0.000504	-0.00193
	(-2.254)	(-2.490)	(-1.351)	(-1.552)
Constant	-0.123***	-0.651***	-0.0837***	-0.281***
	(-4.612)	(-5.496)	(-4.116)	(-5.010)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	99,282	99,282	99,282	99,282
Adjusted R-squared	0.553	0.601	0.575	0.534

Internet Appendix Table IA4. Mutual Fund Accounting Fraud Shock Exposure and Management Earnings Guidance – Considering Fraud from Firms with Small Weights in a Fund's Portfolio

This table presents results from the analysis of how mutual funds' exposure to accounting fraud shocks (FSE) affects a firm's decision on management earnings guidance. *FSE* measures the extent to which a focal firm's holding mutual funds are exposed to accounting fraud shock, as defined in Section 2.2 (variable definitions are available in Appendix A), with the modification that we consider all frauds including those from firms that account for very small portion (i.e., less than 1%) of a fund's portfolio. Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	0.378***	2.997***	-0.0243	0.790***
	(2.853)	(5.319)	(-0.263)	(2.797)
Total Assets (log)	0.0467***	0.199***	0.0252***	0.0997***
	(11.22)	(10.73)	(7.945)	(11.40)
Alpha	-0.00475	-0.0102	-0.00357	-0.0157
	(-0.860)	(-0.481)	(-0.928)	(-1.335)
Market-to-Book	0.000530*	0.00375***	0.000566**	0.00112*
	(1.792)	(2.753)	(2.465)	(1.767)
ROA	0.0563***	0.234***	0.0257***	0.118***
	(6.521)	(7.050)	(4.101)	(6.332)
Cash Flow Std	-0.0741***	-0.276***	-0.0534***	-0.155***
	(-3.550)	(-3.237)	(-3.567)	(-3.457)
Num Analysts	0.00393***	0.0142***	0.00253***	0.00783***
	(6.713)	(5.322)	(5.909)	(6.311)
Institutional Ownership	0.0446***	0.204***	0.0655***	0.0907***
	(4.031)	(4.359)	(7.737)	(3.904)
Leverage	-0.00518	-0.0693	0.0119	-0.0146
	(-0.368)	(-1.145)	(1.174)	(-0.487)
Litigation	-0.00129**	-0.00478**	-0.000435	-0.00191
	(-2.274)	(-2.455)	(-1.164)	(-1.542)
Constant	-0.129***	-0.710***	-0.0862***	-0.289***
	(-4.781)	(-5.951)	(-4.193)	(-5.114)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	96,441	96,441	96,441	96,441
Adjusted R-squared	0.555	0.603	0.577	0.536

Internet Appendix Table IA5. Mutual Fund Accounting Fraud Shock Exposure and Management Earnings Guidance – Excluding Industries with Relatively More Accounting Frauds

This table presents results from the analysis of how mutual funds' exposure to accounting fraud shocks (FSE) affects a firm's decision on management earnings guidance while removing firms from industries that have relatively more accounting frauds (i.e., firms with SIC2 = 73). *FSE* measures the extent to which a focal firm's holding mutual funds are exposed to accounting fraud shock, as defined in Section 2.2 (variable definitions are available in Appendix A). Standard errors are clustered at the firm level. All continuous variables are winsorized at the 1st and the 99th percentiles. *, **, and *** represent statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

VARIABLES	(1) issue mgt guide	(2) num mgt guide	(3) mgt guide horizon	(4) point mgt guide perc
FSE	2.041***	14.32***	1.380***	4.061***
	(5.222)	(8.302)	(4.856)	(4.816)
Total Assets (log)	0.0406***	0.178***	0.0226***	0.0890***
	(9.332)	(9.176)	(6.709)	(9.834)
Alpha	-0.00233	-0.00225	-0.00329	-0.0104
	(-0.384)	(-0.0968)	(-0.782)	(-0.799)
Market-to-Book	0.000152	0.00221	0.000293	0.000135
	(0.480)	(1.571)	(1.188)	(0.201)
ROA	0.0425***	0.191***	0.0143**	0.0849***
	(4.748)	(5.506)	(2.238)	(4.492)
Cash Flow Std	-0.0498**	-0.195**	-0.0375**	-0.105**
	(-2.264)	(-2.148)	(-2.387)	(-2.249)
Num Analysts	0.00469***	0.0190***	0.00291***	0.00926***
	(7.850)	(6.990)	(6.471)	(7.253)
Institutional Ownership	0.0533***	0.246***	0.0613***	0.109***
	(4.817)	(5.259)	(7.016)	(4.721)
Leverage	-0.000606	-0.0221	0.00598	-0.00463
	(-0.0431)	(-0.376)	(0.561)	(-0.155)
Litigation	-0.000816	-0.00303	-0.000198	-0.00103
	(-1.392)	(-1.522)	(-0.517)	(-0.791)
Constant	-0.111***	-0.670***	-0.0784***	-0.266***
	(-3.856)	(-5.200)	(-3.497)	(-4.423)
SIC2 by Year FE	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	86,350	86,350	86,350	86,350
Adjusted R-squared	0.569	0.626	0.588	0.550

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