

Conversing with OpenAI's Deep Research to Create a Case Study Draft

A Note About This Content

Below is the exact conversation I had with Deep Research when generating a case study on "Expectations Management and the Earnings Game" for this blog post on the [MIT Sloan AI Hub: Deep Research: Transforming the Creation of Learning Materials with Research-Backed AI](#).

I'm sharing this unedited exchange so you can see firsthand how the tool approached the problem. In the document [Deep Research Case Study Draft- Expectations Management and the Earnings Game](#), you can see the case study that Deep Research produced as a result of this conversation.

Conversation with OpenAI's Deep Research Tool

This is a copy of a conversation between ChatGPT & Anonymous.

You said:

Write a case study on Expectations Management and the Earnings Game. Begin with a compelling and vivid narrative that introduces the key conflict or dilemma, engaging the reader with a real-world scenario. The first few pages should tell a story that sets the stage for the analytical discussion. After this introduction, provide a structured analysis that includes historical background, key actors, incentives, relevant regulations, and the consequences of the case. Incorporate deep research, financial data, regulatory excerpts, and impact analysis. The case study should follow a logical structure with an engaging introduction (story-driven), followed by an in-depth technical and analytical exploration of the topic, using academic sources and relevant examples

ChatGPT said:

Before I begin the case study, could you clarify a few details?

- Do you have a specific company or real-world example in mind for the story-driven introduction, or should I select one?
- Are you looking for a particular industry focus (e.g., tech, finance, pharmaceuticals)?
- Should the financial data be recent (last 5-10 years), or would historical cases be acceptable?
- Do you have any preferred academic sources or regulatory frameworks to reference?
- Should the case study be formatted in a particular academic style (e.g., APA, Harvard)?

You said:

Choose whatever company or real-world example you think is the best. The same for the industry. Use historical and recent cases. Both academic and regulatory frameworks. Use APA, please

ChatGPT said:

Great. I'll research a case study on Expectations Management and the Earnings Game, starting with a compelling real-world narrative to engage the reader. The analysis will include historical and recent examples, key actors, incentives, relevant regulations, financial data, and impact analysis. The study will follow APA formatting and incorporate academic and regulatory sources. I'll let you know once the research is complete.

Activity Tab:

ChatGPT

I'm working through the key elements of the study, focusing on historical background, key actors, incentives, and regulatory impacts, while incorporating real-world cases and emphasizing readability.

I'm examining the market distortions, legal issues, and long-term corporate harm due to earnings management, while analyzing both historical and recent notable cases.

Searched for expectations management and earnings game

ChatGPT

I'm piecing together information on acquiring finance industry knowledge through University of California's Berkeley-Haas courses and articles.

Read [researchgate.net](https://www.researchgate.net)

ChatGPT

I'm pulling together key reports and SEC guidelines to deepen our understanding of the consequences of focusing on quarterly earnings expectations.

I'm working through citing academic, regulatory, and news sources, ensuring meticulous APA formatting with detailed source citations, upwards of 250 words. Progress is steady and focused.

Searched for CFO survey on R&D and earnings target

ChatGPT

I'm digging into quarterly earnings guidance trends, from post-1990s expectations to early 2000s scandals and new regulations, and how it's moderated since then.

Read pages.stern.nyu.edu

ChatGPT

Microsoft consistently outperforms earnings expectations. Investors benefit from share price increases, while companies navigate earnings targets through strategic management.

Read more from pages.stern.nyu.edu

ChatGPT

Reviewing how firms manage analyst expectations and smooth earnings, especially when disappointing results loom.

Read more from pages.stern.nyu.edu

ChatGPT

I'm analyzing the credibility of an article with guidance as its main subject, examining its narrative potential, historical context, key players, and incentives to guide my thinking.

Read more from pages.stern.nyu.edu

ChatGPT

The text might cover topics such as deferring expenses or using reserves, possibly mentioning companies like Boston Chicken and Cisco.

Read more from pages.stern.nyu.edu

ChatGPT

Microsoft's approach involves using accounting strategies like deferring revenue to manage earnings, which shows the impact of GAAP on earnings management.

Searched for average percentage of companies beating earnings estimates

ChatGPT

I'm mapping out how companies often set low expectations, leading to a high rate of surpassing earnings forecasts.

Read [investopedia.com](https://www.investopedia.com)

ChatGPT

I'm pulling together various cases of companies consistently surpassing earnings projections, noting recent trends like the reduction in quarterly guidance focus. Progressing towards a more comprehensive analysis.

Searched for academic study on earnings management

ChatGPT

Je suis en train de chercher des statistiques ou des histoires connues qui illustrent le comportement des CFOs pour atteindre leurs objectifs.

Read people.duke.edu

ChatGPT

I'm focusing on vital survey results, such as "cut R&D" and "maximize quarter," from the extensive 72-page CFO document. This approach aims to streamline the analysis process.

Read more from people.duke.edu

ChatGPT

CFOs are likely to cut discretionary spending by 79.9%, delay new projects by 55.3%, and book revenues now rather than next quarter by 40.4%.

Read more from people.duke.edu

ChatGPT

I'm gathering info on CFOs' approaches to meet targets, including discretionary spending cuts and project delays, while also examining regulations and accounting standards that influence these decisions.

Searched for SEC SAB 99 earnings management

ChatGPT

Piecing together the actual content from the SEC site is tricky, as it only offers a partial view.

Read [sec.gov](https://www.sec.gov)

ChatGPT

I'm thinking through how even minor numeric misstatements become material if they help meet earnings targets, crucial for investor confidence.

Read tax.thomsonreuters.com

Read [justice.gov](https://www.justice.gov)

ChatGPT

I'm noting essential insights from SAB 99, highlighting its emphasis on the qualitative impact of small misstatements on a company's objectives.

Searched for example of SAB 99 meeting analysts expectations

Read blog.auditanalytics.com

ChatGPT

The blog introduces a vivid narrative of a CFO, 'John', contemplating actions like adjusting reserves or pulling deals, to navigate quarterly earnings expectations.

John faces the challenge of balancing earnings expectations with regulatory pressures, recalling past scandals like Enron, and considering the implications of the 'earnings game'.

Searched for Enron earnings management

ChatGPT

I looked into Enron's impressive track record during 1990-2000, consistently surpassing analysts' forecasts by 77%. This consistency highlights Enron's strong performance.

Read [researchgate.net](https://www.researchgate.net)

ChatGPT

Enron's surprising 83% earnings from asset sales highlights risky accounting. This led to a significant lack of sustainability in their corporate growth strategy.

Searched for Buffett and Dimon stop earnings guidance 2018

ChatGPT

Jamie Dimon and Warren Buffett criticized quarterly earnings guidance in 2018, noting its detrimental short-term focus.

Read [wsj.com](https://www.wsj.com)

ChatGPT

The snippet from WSJ indicates the article's relevance, though it might be behind a paywall.

Read fortune.com

Read [marketwatch.com](https://www.marketwatch.com)

Read [cnbc.com](https://www.cnbc.com)

ChatGPT

It's interesting to see that companies are responding quickly to recent policy changes, with some even pausing evaluations to align better with updated criteria.

Searched for unhealthy focus on short term earnings guidance

ChatGPT

Thinking about how quarterly earnings guidance can inadvertently prioritize short-term profit over strategic long-term growth.

Read [fcltglobal.org](https://www.fcltglobal.org)

ChatGPT

I'll use markdown headings and citations for concise formatting. Referencing the HBR Collingwood abstract from lines 53-65, I'll explore daily fluctuations with Enron's historical context.

Read digitalcommons.coastal.edu

ChatGPT

As I reflect on GE's impressive streak of surpassing earnings expectations for 80 consecutive quarters, I noted it peaked in the mid-2000s, concluding shortly after Welch's departure.

Searched for GE meeting earnings estimates under Jack Welch

Read [reuters.com](https://www.reuters.com)

ChatGPT

GE's impressive earnings, Jack Welch's tactics, and the push by business leaders to stop quarterly EPS forecasts and focus on long-term investments.

Searched for Reg FD 2000 selective disclosure earnings guidance

ChatGPT

OK, let me see. I'm piecing together powerful titles like "Expectations Management and the Earnings Game" and "The Earnings Game: A Case Study in Expectations Management." This is the first step in engaging clearly with the reader.

I'm crafting headings for sections like "Historical Background," "Key Actors," and "Consequences and Implications" to ensure clarity and maintain narrative flow. This structuring is ready for the next step.

Research completed in 6m · 22 sources

22 Sources tab:

Citations

pages.stern.nyu.edu

[LEARN TO PLAY THE EARNINGS GAME \(AND WALL STREET WILL](#)

[high-priced growth stocks. In the growth stock](#)

people.duke.edu

[Microsoft Word - FinReportPrac2005_01_11.doc](#)

[\(1\) decrease discretionary spending \(e.g. R&D advertising maintenance etc.\) 79.9% 11.2% 1.00
***\(2\) delay starting a new project even if this entails a small sacrifice in value 55.3% 23.5%
0.33 ***\(3\) book revenues now rather than next quarter \(if justified in either quarter\) 40.4%
38.1% -0.12 \(4\) provide incentives for customers to buy more product this quarter 39.1%
40.8% -0.11 \(5\) draw down on reserves previously set aside 27.9% 50.5% -0.45 *** \(6\) postpone
taking an accounting charge 21.3% 62.7% -0.72 *** \(7\) sell investments or assets to recognize
gains this quarter 20.2% 61.3% -0.77 *** \(8\) repurchase common shares 12.4% 68.5% -1.02
*** \(9\) alter accounting assumptions \(e.g. allowances](#)

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[prominence of the consensus earnings estimates](#)

pages.stern.nyu.edu

[LEARN TO PLAY THE EARNINGS GAME \(AND WALL STREET WILL
merciless measure of corporate success in the 1990s](#)

pages.stern.nyu.edu

[LEARN TO PLAY THE EARNINGS GAME \(AND WALL STREET WILL
and keeping earnings rising smoothly and predictably](#)

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[LEARN TO PLAY THE EARNINGS GAME \(AND WALL STREET WILL
Meeting the estimates is made easier by the fact that](#)

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[LEARN TO PLAY THE EARNINGS GAME \(AND WALL STREET WILL
companies have in recent years figured out that it](#)

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[LEARN TO PLAY THE EARNINGS GAME \(AND WALL STREET WILL
better job of hitting their targets: For an](#)

pages.stern.nyu.edu

[LEARN TO PLAY THE EARNINGS GAME \(AND WALL STREET WILL
expectational interplay, the price of missing a](#)

pages.stern.nyu.edu

[LEARN TO PLAY THE EARNINGS GAME \(AND WALL STREET WILL
height of corporate boneheadedness--that is, if you](#)

[researchgate.net](https://www.researchgate.net)

[\(PDF\) DID EARNINGS MANAGEMENT CONTRIBUTE TO THE OVERVALUATION OF ENRON'S STOCK?](#)

[recorded business history. We also provide evidence of earnings management by the company that may have contributed to extravagant investor expectations of earnings growth. Between 1990 and 2000 the firm's reported earnings met or exceeded analysts' earnings forecasts 77% of the time. Furthermore, beginning in 1997 Enron used asset sales \(often to related parties\) to generate as much as 83% of its annual earnings.](#)

[researchgate.net](https://www.researchgate.net)

[\(PDF\) DID EARNINGS MANAGEMENT CONTRIBUTE TO THE OVERVALUATION OF ENRON'S STOCK?](#)

[earnings growth. Between 1990 and 2000 the firm's reported earnings met or exceeded analysts' earnings forecasts 77% of the time. Furthermore, beginning in 1997 Enron used asset sales \(often to related parties\) to generate as much as 83% of its annual earnings.](#)

[compensationstandards.com](https://www.compensationstandards.com)

[\[PDF\] sab 99: materiality as we know it or brave new world for securities law](#)

[\[PDF\] sab 99: materiality as we know it or brave new world for securities law bide the companys failure to meet analysts expectations and to mask a change in the companys 50-year earnings Uend. It alleged that the ...](#)

[reuters.com](https://www.reuters.com)

[As GE gives up guidance game, others may follow | Reuters](#)

[NEW YORK \(Reuters\) - For many years, General Electric Co not only produced consistent earnings growth -- it also consistently met or topped earnings forecasts. But this year its growth has been interrupted and now it has decided to scrap quarterly forecasts.](#)

[reuters.com](https://www.reuters.com)

[As GE gives up guidance game, others may follow | Reuters](#)

[Over the past few years business leaders ranging from consulting firm McKinsey & Co to The Business Roundtable and](#)

[reuters.com](#)

[As GE gives up guidance game, others may follow | Reuters](#)

[Under its previous CEO Jack Welch, GE was seen as the master of the earnings forecast. It managed to hit or just beat Wall Street earnings forecasts in every quarter, bar two, over a 10-year period \(1992-2002\).](#)

[reuters.com](#)

[As GE gives up guidance game, others may follow | Reuters](#)

[quarter, bar two, over a 10-year period \(1992-2002\).](#)

[reuters.com](#)

[As GE gives up guidance game, others may follow | Reuters](#)

[Some critics even accused Welch of managing earnings by, for example, being prepared to make up for any shortfall from one business by selling an asset and taking a gain in another.](#)

[reuters.com](#)

[As GE gives up guidance game, others may follow | Reuters](#)

[He said that one reporter suggested if the company took a loss from closing one business in one quarter and a gain on the sale of another in the following quarter, then its earnings wouldn't have been consistent. His reply: "Duh!!! Our job is to fix the leak, when we get the cash. If you didn't do that you would be managing nothing."](#)

[reuters.com](#)

[As GE gives up guidance game, others may follow | Reuters](#)

[The move, announced by the conglomerate's CEO Jeff Immelt on Tuesday, will be seen as a victory for business leaders who think companies have been making too many short-term decisions to ensure they don't disappoint Wall Street by falling short of their own forecasts.](#)

[reuters.com](https://www.reuters.com)

[As GE gives up guidance game, others may follow | Reuters](#)

[former U.S. Securities and Exchange Commission Chairman William Donaldson, have encouraged companies to drop quarterly earnings forecasts, saying it pushes businesses to cut costs from areas like research and development that are about long-term growth rather than immediate profits.](#)

[fcltglobal.org](https://www.fcltglobal.org)

[Sarah Williamson on Ending Quarterly Guidance - FCLTGlobal](#)

[7 June 2018 - Buffett, who runs Berkshire Hathaway \(BRK-B\), and Dimon, JPMorgan Chase & Co.'s \(JPM\) chief executive officer, said in a joint Wall Street Journal editorial that they are encouraging all public companies to consider moving away the practice, arguing that it can stifle long-term investments. "Quarterly earnings guidance often leads to an unhealthy focus on short-term profits at the expense of long-term strategy, growth and sustainability," they said.](#)

[investopedia.com](https://www.investopedia.com)

[Fourth-Quarter Earnings Are Beating the Street's Estimates. Here's How Much](#)

[Fourth-quarter earnings are coming in stronger than Wall Street expected.](#)

[researchgate.net](https://www.researchgate.net)

[The earnings game. Everyone plays, nobody wins](#)

[to nothing about a company's prospects beyond the next quarter. Nonetheless, meetings analysts' expectations that earnings will rise in a smooth, steady, unbroken line has become, at many corporations, a game whose imperatives override even the imperative to deliver the highest possible return to shareholders. The fetishistic attention paid to this almost meaningless indicator might be cause for amusement, except for one thing: the earnings game does real harm. It distorts corporate decision making. It reduces securities analysis and investing to a guessing contest. It compromises the integrity of corporate audits. Ultimately, it undermines the capital markets. As market](#)

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brokerage analysts who make the estimates were, as a](#)

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consensus of 51 cents, but not so far above as to](#)

wilmerhale.com

[Practical Guidance for Living with Regulation FD - WilmerHale](#)

[Regulation FD prohibits the selective disclosure of material nonpublic information, such as
financial projections or earnings guidance, in non- ...](#)

blog.auditanalytics.com

[Non-GAAP Metrics in SAB 99 Materiality Analyses | Non-GAAP Metrics in SAB 99 Materiality
Analyses - Audit AnalyticsAudit Analytics](#)

[> “Whether the misstatement hides a failure to meet analysts’ consensus expectations for the
enterprise – The Company’s analysts’ expectations and estimates are all based on adjusted
non- GAAP earnings as discussed above. There was no impact to the Company’s adjusted
non-GAAP results.](#)

reuters.com

[As GE gives up guidance game, others may follow | Reuters
National Investor Relations Institute.](#)

nber.org

[\[PDF\] C:\Working Papers\10550.wpd](#)

[Most CFOs feel that their inability to hit the earnings target is seen by the executive labor
market as a “managerial failure.” Repeatedly failing to meet.](#)

researchgate.net

[The earnings game. Everyone plays, nobody wins](#)

[unbroken line has become, at many corporations, a game whose imperatives override even the imperative to deliver the highest possible return to shareholders. The fetishistic attention paid to this almost meaningless indicator might be cause for amusement, except for one thing: the earnings game does real harm. It distorts corporate decision making. It reduces securities analysis and investing to a guessing contest. It compromises the integrity of corporate audits. Ultimately, it undermines the capital markets. As market](#)

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[spending on R&D, advertising and maintenance \(Table 6, row 1\) to meet an earnings target.14
More than](#)

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[the smoothly rising earnings that it did post. By the](#)

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[LEARN TO PLAY THE EARNINGS GAME \(AND WALL STREET WILL](#)

[it hadn't been for the new accounting technique, the](#)

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[LEARN TO PLAY THE EARNINGS GAME \(AND WALL STREET WILL](#)

[company, and I would be in deep doo-doo with the SEC](#)

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[GAAP--the Generally Accepted Accounting Principles](#)

[researchgate.net](#)

[The earnings game. Everyone plays, nobody wins](#)

[shareholders. The fetishistic attention paid to this almost meaningless indicator might be cause for amusement, except for one thing: the earnings game does real harm. It distorts corporate decision making. It reduces securities analysis and investing to a guessing contest. It compromises the integrity of corporate audits. Ultimately, it undermines the capital markets. As market participants increasingly come to view the quarterly number as a sort of collective fiction, offered and received in a spirit of mutual cynicism, they lose faith in the numbers affected by quarterly earnings--including stock prices themselves. And no market can survive long if its participants see no](#)

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[looks a lot like earnings management--although not of](#)

[pages.stern.nyu.edu](#)

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[the sort that provokes penalties from the Securities](#)

[business.columbia.edu](#)

[\[PDF\] Meeting or Beating Analyst Expectations in the Post-Scandals World](#)

[\[PDF\] Meeting or Beating Analyst Expectations in the Post-Scandals World In the post-scandals period, managers tend to meet or just beat analysts' forecasts less often. Further, managers rely less on income-increasing discretionary ...](#)

[researchgate.net](#)

[The earnings game. Everyone plays, nobody wins](#)

[does real harm. It distorts corporate decision making. It reduces securities analysis and investing to a guessing contest. It compromises the integrity of corporate audits. Ultimately, it undermines the capital markets. As market participants increasingly come to view the quarterly number as a sort of collective fiction, offered and received in a spirit of mutual cynicism, they lose faith in the numbers affected by quarterly earnings--including stock prices themselves. And no market can survive long if its participants see no connection between prices and the intrinsic value of the goods on offer. In this article, HBR senior editor Harris Collingwood takes an in-depth look at these](#)

All Sources

[researchgate](#)²

[pages.stern.nyu](#)⁵

[investopedia](#)

[people.duke](#)³

[sec](#)

[tax.thomsonreuters](#)

[justice](#)

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[fortune](#)

[marketwatch](#)

[cnbc](#)

[fcltglobal](#)

[digitalc...s.coastal](#)

[reuters](#)