Customer Internal Control Weaknesses and Management Revenue Forecast

Abstract

Internal control weaknesses are significant issues that disrupt operations and raise concerns about a firm's information quality. This study investigates whether and how corporate customers' internal control weaknesses impact a firm's revenue forecast disclosures. Although increased disclosure could help reduce information uncertainty from such disruptive conditions, we find that firms tend to reduce the issuance of management revenue forecasts when they have greater sales exposure to customers who disclose internal control weaknesses. Our analysis of economic mechanisms reveals that this withholding effect is driven by bad news concealment and information asymmetry between firms and their corporate customers. Additionally, we find that investor information demand and high CEO ability mitigate the tendency to withhold disclosure, whereas ex-ante litigation risk supports the choice to reduce disclosures. Further analysis suggests that firms exposed to customer control weaknesses provide less accurate revenue forecasts, with range forecasts being more common than point forecasts. Lastly, the market appears to react more strongly to negative forecast news from these firms, while positive news does not trigger an exaggerated response. Overall, this paper examines how operational deficiencies at customer firms spill over to affect the disclosure behaviour of upstream firms.

1. Introduction

Corporate customers are crucial to financial performance and stability for non-retail businesses, as they typically provide the largest share of revenue, collaborative innovation, and mutual growth opportunities (Patatoukas, 2012; Irvine et al., 2016; Chu et al., 2019).[1] For instance, among many manufacturing firms, Intel is one example that places significant reliance on its major corporate clients, with three largest customers (Dell, Lenovo, and HP) accounting for a substantial 39% of its net revenue and 43% of its accounts receivable in 2020.[2] Although the benefits are shared, the nature of economic linkage also suggests that negative economic shocks could ripple through these connections. Disruptive events affecting major customers can significantly impact their suppliers' performance and investment efficiencies (e.g., Hertzel et al., 2008; Intintoli et al., 2017; Chen et al., 2022). While the transmissive effect of customer events on supply chain performance is widely documented in various scenario, the impact of such events on suppliers' disclosure decisions warrants further investigation. The latter research perspective presents an opportunity to examine how customer-related events influence the transparency and information sharing practices of suppliers to the public. In this paper, we use the revelation of corporate customer internal control weakness as a material event to investigate how it affects the supplier firm's decision to issue management revenue forecasts.

Using the disclosure of internal control weaknesses as a spillover event in the supply chain setting offers advantages over other types of events because it captures both direct operational impacts and indirect informational effects. The direct effect comes from operation deterioration in the customer firm, where control deficiencies may lead to inventory

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[1] Business-to-business relationships are also important to the economy. According to a report, interbusiness transactions contributed $9.17 trillion in revenue, representing approximately 51% of the total U.S. economy (Bonde and Bruno, 2019).
[2] See https://www.intc.com/intel-online-annual-report.

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mismanagement, delayed payment, or halt in transactions, which could affect the supplier's operational and financial health (Costello and Wittenberg-Moerman, 2011; Su et al., 2014; Feng et al., 2015; Dhaliwal et al., 2016). The indirect effect is tied to the information quality that corporate customers provided to their suppliers. Firms with internal control weaknesses often produce noisier financial reports and carry higher information risk (Doyle et al., 2007; Ashbaugh-Skaife et al., 2008; Ashbaugh-Skaife et al., 2009; Feng et al., 2009). The conveyance of low-quality information and the risk of potential misstatements can affect a supplier firm's perception of the reliability of business outlook shared by customers who report internal control weaknesses and thus revise its revenue forecasting behaviours accordingly.[3]

Revenue is the top line of income statement and directly reflects the sales performance of the firm. This makes revenue forecasts particularly sensitive to changes in customer demand or disruptions in supply chain relationships. Other front-line earnings forecasts such as ROA or EBITDA are influenced by both revenue and operational efficiencies such as cost management or capital structure decisions, and thus may not capture the immediate risks or opportunities that disruptions may create for suppliers more effectively. Revenue forecasts also provide ease of comparison and transparency because revenue figures are often more straightforward and less subject to accounting adjustments or estimates than other earnings metrics (Koo and Lee, 2018). For instance, non-operational factors such as depreciation are sensitive to a firm's accounting policies and vary across firms. Therefore, using management

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[3] Anecdotal evidence suggests that customer internal control weaknesses can influence a firm's revenue forecasting decisions in different ways. For instance, Nortech Systems Inc. stopped issuing revenue forecasts after 2006, following its major customer, General Electric Co., disclosing internal control weaknesses in 2006. In contrast, Lantronix Inc. began issuing revenue forecasts in 2014 after its major customer, Tech Data Corp., disclosed material control weaknesses in 2013, though it subsequently ceased issuing forecasts again in 2015.

revenue forecasts provides a clearer and more direct measure of the immediate perceived financial impact of customer firms' operations.

When confronted with customer internal control weaknesses, it remains an empirical question how managers would respond regarding the decision to issue management revenue forecasts. *Strategic withholding hypothesis* suggest that supplier firms may decrease the issuance of management revenue forecasts in response to a customer's internal control weaknesses to avoid the risk associated with forecasting in an uncertain environment. This is evident in the literature, which reveals that withholding information is a relatively common practice, particularly when managers face disclosure frictions or perceive potential risks in disclosing certain information (e.g., Bao et al., 2019; Bertomeu et al., 2020; Kothari et al., 2009). Increased uncertainty associated with customer's information quality and financial health may lead to potential negative fallout from missing forecasted targets such as share price declines, loss of reputation, and shareholder lawsuits (Kasznik and Lev, 1995; Beyer and Dye, 2012; Bourveau et al., 2018; Marshall and Skinner, 2022). In uncertain situations, increased disclosure often demands clear communication of tangible plans to manage the uncertainty. This creates pressure for managers to delay disclosing bad news, allowing time to further analyze the information or waiting the firm's situation improves through coordination with customers before the next required release (Graham et al., 2005).

On the other hand, the *uncertainty reduction hypothesis* posits that when faced with increased uncertainty due to a customer's internal control weaknesses, supplier firms may respond by increasing the issuance of management forecast on revenue to reduce information asymmetry and reassure investors and stakeholders about their resilience and prospects. The potential spillover effect of customer material events on supplier performance could prompt managers to pre-emptively disclose bad news, driven by the asymmetric loss function (Han and Wild, 1991; Skinner, 1994). In times of disruption, realised forecasts help align the

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equilibrium value of common stocks with informed expectation and ensure that the firm's true value is reflected (Healy and Palepu, 2001; Clement et al., 2003). The incentive is amplified when significant news or events involving a major customer deviate from expectations, increasing investor demand for additional disclosures from supplier firms to address concerns (Cho et al., 2020). Moreover, the warning or communicative effect of such disclosures can help resolve potential controversies and mitigate the risk of litigation (Houston et al., 2019; Huang et al., 2020).

To empirically examine this question, we analyse the relationship between customer internal control weaknesses and firms' subsequent revenue forecast decisions using a sample of 13,557 U.S. firm-customer observations from 2005 to 2023. We measure the relative importance of customers with disclosed internal control weaknesses by summing the proportion of sales from these customers. Consistent with the strategic withholding hypothesis, our findings indicate that firms issue fewer revenue forecasts when they have greater exposure to customer internal control weaknesses. Specifically, our estimates suggest that a 10% sales exposure to such customers is associated with a 12.2% reduction in revenue forecasts. This relationship remains robust across various alternative measures of customer internal control weaknesses and management forecasts, as well as fixed effects and change specifications. Furthermore, the result is not driven by contagion effects, as it persists even when controlling for the firm's own internal control weaknesses. In fact, we do not find evidence that customer internal control weaknesses lead to deteriorations in the internal control practices of supplier firms.

In addition, we explore several economic mechanisms to understand the strategic motivations and constraints influencing firms' disclosure responses to customer ICWs. First, prior studies suggest that managers often delay releasing bad news to protect the firm's reputation, manage market reactions, or maintain stock price stability (Kothari et al., 2009;

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Bao et al., 2019). Supporting the bad news concealment channel, we find that the negative relationship between customer internal control weaknesses and the frequency of management revenue forecasts is concentrated in firms with poor operating performance, as measured by return on assets and loss occurrences. Second, customer ICWs indicate potential information quality issues. Firms already experiencing information asymmetry with their supply chain counterparts may find it challenging to fully verify the quality of customer-provided information regarding future prospects, orders, or performance, and thus may withhold disclosures related to future revenue. We measure information asymmetry between firms and their customers using physical distance and customer accounting quality, following prior literature (Chu et al., 2019; Chen et al., 2021). Our results indicate that the withholding effect of customer ICWs on corporate revenue forecasts is only present when there is high information asymmetry between firms and their customers.

Next, we examine whether firms' tendency to withhold revenue forecasts after customer internal control weaknesses (ICWs) could be moderated in contexts where investor demand for information is higher. We measure investor demand using two proxies: the percentage of institutional investor ownership and abnormal EDGAR search activity on supplier filings after a customer's ICWs are disclosed. Our findings suggest that firms facing higher investor demand are less able to avoid disclosure, as the documented withholding effect is absent among firms with high investor demand. Furthermore, prior research indicates that litigious environments can either discourage or encourage disclosure (Bourveau et al., 2018; Houston et al., 2019; Huang et al., 2020). We measure litigation risk using a composite score developed by Kim and Skinner (2012) and a judge ideology measure from Huang et al. (2019). Our results show that litigation risk influences disclosure decisions, with firms facing higher legal risks being more cautious about releasing forecasts after customer ICWs. Lastly, we examine managerial characteristics and find that high-ability managers are better

equipped to handle external disruptions and are less likely to withhold information in these circumstances.

We conduct several additional analyses to further validate our findings. First, in examining the characteristics of revenue forecasts, we find that the uncertainty introduced by customer ICWs likely makes it more challenging for supplier firms to accurately predict future revenues, leading to reduced forecast accuracy. Additionally, firms exposed to customer ICWs are less likely to issue point forecasts, preferring range forecasts to mitigate the effects of increased uncertainty. Second, market reactions to revenue forecast news reveal that customer ICWs do not appear to influence responses to positive forecasts, but there is a stronger market reaction to negative forecasts from these firms. This heightened reaction may reflect that negative news validates investors' concerns about spillover effects and amplify the impact of adverse information as investors adjust their risk perceptions (e.g., Zhang, 2006; Kothari et al., 2009a). Finally, we find that firms have lower relationship-specific investments, such as R&D, selling expenses, and capital expenditures, when exposed to customer ICWs. They also tighten credit terms by extending less total and trade receivables, indicating that firms actively seek to limit their exposure to customer-related risks by adjusting both disclosure practices and other corporate policies to mitigate financial impact.

Our study makes several contributions to the literature. First, we highlight the externalities of negative critical incidents involving supply chain partners on the corporate information environment. Due to the interconnected nature of supply chains, prior research has shown that suppliers experience declines in sales and adopt inefficient corporate policies when their customers undergo bankruptcy, restructuring, executive turnover, misconduct, or face short selling pressure (Fee and Thomas, 2004; Hertzel et al., 2008; Intintoli et al., 2017; Yin et al., 2021; Chen et al., 2022). We demonstrate that uncertainty triggered by customer events significantly influences a supplier's voluntary disclosure decisions. In a recent paper,

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Cho, Kim, and Zang (2020) find that investors of supplier firms demand more disclosure to address uncertainty when the firm's corporate customer's earnings announcement deviates from market expectations. Our study differs by focusing on the supply side of disclosure and find that when corporate customers encounter internal control weaknesses, suppliers tend to withhold private information stemming from information uncertainty with their customers.

Second, we contribute to the literature on the consequences of internal control weaknesses. The adverse effects of such weaknesses on a firm's information environment are well established. Internal control deficiencies degrade the quality of financial data processing and delivery, leading to inaccurate management forecasts, increased information asymmetry, and inefficiencies in securing necessary funding (Ashbaugh-Skaife et al., 2009; Feng et al., 2009; Costello and Wittenberg-Moerman, 2011; Dhaliwal et al., 2011). Two papers are related to the externalities of internal control weaknesses. Bauer, Henderson, and Lynch (2018) show that information quality issues triggered by internal control weaknesses on the supplier side hinder its ability to reliably contract with and retain key customers. Cheng, Felix, and Indjejikian (2019) find that shared audit committee members across firms have incentives to prevent internal control weaknesses when one of their firms discloses such issues. Building on these studies, we document that the effect of internal control weaknesses on information environment extends beyond the disclosing firms, spilling over to transactional parties' disclosure decisions and characteristics and affecting the broader information environment.

The remainder of this paper is organized as follows. Section 2 reviews the prior literature and develops the hypotheses. Section 3 describes the sample and research design. Section 4 presents the main results, explores the economic mechanisms, performs robustness checks, and includes other additional analyses. Lastly, Section 5 provides the conclusion.

2. Literature and hypothesis development

2.1 Supply chain and disclosure

Disruptions initiated by customer firms can ripple through supply chains and significantly impact supplier firms' operations and strategies.[4] Prior research has documented such spillover effects across various types of events. For example, Hertzel et al. (2008) show that customer bankruptcies have both pre-filing and filing-date contagion effects on supplier firms' stock returns, whereas these effects are generally not observed when supplier firms themselves declare financial distress. Supplier firms can also be misled by customers' fraudulent activities, leading them to overinvest based on distorted information and subsequently incur financial losses when the fraud is exposed (Yin et al., 2021). To mitigate information asymmetry, supplier firms monitor customer short interest and reduce their investments in anticipation of declining demand or potential disruption (Chen et al., 2022). Interestingly, positive developments for customers can sometimes have negative spillover effects on suppliers. Suppliers often experience adverse stock price reactions when their customers engage in takeovers, particularly when the acquisition increases buyer power, allowing the merged firm to negotiate lower input costs from concentrated suppliers (Fee and Thomas 2004). Leadership transitions such as CEO turnover can also strain supplier-customer relationships due to strategic shifts such as asset divestitures, operational restructuring, or supplier changes (Intintoli et al. 2017).

An additional body of work explores the relationship between supply chain dynamics and voluntary disclosure. Supply chain information is typically proprietary, and competitors can exploit it to uncover strategic alignments or poach customers through stronger

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[4] Studies also examine how disruptions from supplier firms affect customer firms, such as labor unionization, internal control weaknesses, credit market disruptions, or CSR incidents (e.g., Bauer et al., 2017; Costello, 2020; Chen et al., 2021; Bisetti et al., 2023).

negotiations. Studies suggest that suppliers often withhold customer identities when the proprietary cost of disclosure is high (Ellis et al., 2012; Li et al., 2018). Customer bargaining power also affects supplier disclosure. When customers hold greater power, such as through concentration or vertical integration, they are more likely to demand private disclosures and thus reduce the supplier's public disclosure (Crawford et al., 2020; Bourveau et al., 2024). Focusing on information externalities, Cho et al. (2020) find that when customers experience earnings announcement surprises, suppliers respond by increasing their disclosures to address uncertainties about their own prospects and satisfy investors' information needs.

Our study extends two strands of literature by examining how disruptive events from customer firms affect suppliers' decisions to provide voluntary disclosure. While prior studies generally document the adverse impact of such customer incidents on suppliers' operations and prospects, the suppliers' responses to these events are not widely explored. We focus on the revelation of internal control weaknesses by customers, which have a tangible impact on their operations and raise concerns about information quality. Specifically, we investigate how these revelations influence suppliers' management decisions regarding the issuance of revenue forecasts.

2.2. Hypotheses

The revelation of internal control weaknesses (ICWs) is a significant adverse event for a firm, disrupting operations and reducing sales potential due to reputational damage (Su et al., 2014). This adverse effect on sales growth suggests that suppliers may face reduced orders and increased instability when their corporate customers experience ICWs. Suppliers may also see their credit risk rise, as customers with ICWs are often associated with higher debt costs and stricter loan conditions (Dhaliwal et al., 2011; Costello and Wittenberg-Moerman, 2010). Additionally, governance changes, such as CEO turnover frequently accompany ICW

disclosures and thus heighten the risk of supply chain termination (Johnstone et al., 2011; Intintoli et al. 2017). ICWs also imply information risk and potential deficiencies in information capture, processing, and delivery, which can create opportunities for system exploitation (Doyle et al., 2007; Ashbaugh-Skaife et al., 2008, 2009; Feng et al., 2009). The possible decline in the quality of financial reporting can increase information asymmetry, alter suppliers' perceptions of customer reliability, and lead suppliers to adopt a more conservative stance, even in the absence of direct communication.

The disruptive nature of a customer's ICWs impacts a supplier's assessment of both the costs and benefits of issuing revenue forecasts, which, in turn, influences managerial decisions on whether to provide such guidance. As discussed above, ICWs at a customer firm may introduce substantial uncertainty regarding future orders and information quality. For a supplier, this unpredictability can make it challenging to project accurate revenue, and any forecast made under such uncertain conditions risks being unreliable. Issuing a revenue forecast that may later require revision due to unforeseen changes in customer demand or information inconsistency could harm the supplier's reputation and credibility with investors (Beyer and Dye, 2012; Marshall and Skinner, 2022). In uncertain times, increased disclosure often requires managers to present clear plans for handling risks from the customers side, which can add pressure to delay disclosing negative news. These arguments suggest that customer ICWs create a *strategic withholding effect* on managers' decisions to issue revenue forecasts.

However, the increased performance risk posed by customer ICWs may also amplify the adverse effects of withholding information. When the impact of customer issues is fully realized on the supplier's side, the cost of withholding bad news early on could surpass the cost of disclosing it, potentially resulting in severe consequences such as a sharp drop in stock price or damaged investor trust (Han and Wild, 1991; Skinner, 1994). Additionally,

providing transparent and accurate forecasts helps firms ensure that their stock price reflects its true value in light of the latest disruptions in customer operations, rather than being over- or under-valued due to uncertainty or opacity (Healy and Palepu, 2001; Clement et al., 2003). This alignment benefits both the firm and its investors by reducing market volatility and strengthening confidence in the firm's valuation, highlighting a potential *uncertainty reduction effect* of disclosure when customer firms reveal ICWs.

In summary, the costs and benefits of voluntary disclosure are likely to intensify following a customer's revelation of internal control weaknesses. Therefore, whether corporate managers are deterred from or motivated to provide revenue forecasts in this situation remains an open empirical question. Accordingly, we present our main hypothesis in the null form as follows:

H1: Customer ICWs have no effect on the firm's decision to issue revenue forecasts.

To further understand the complex drivers behind a firm's strategic consideration to issue voluntary revenue forecasts, we propose testing five economic mechanisms that could shed light on the costs and benefits associated with disclosure following customer ICWs: bad news concealment, information asymmetry, litigation risk, heightened information demand, and managerial ability.

First, studies show that when bad news is likely or has already occurred, managers often hesitate to release it immediately, intending to protect the firm's reputation, manage market reactions, or maintain stock price stability (Kothari et al., 2009; Bao et al., 2019). Consequently, when managers anticipate that a customer's ICWs could lead to unfavourable outcomes for the firm, this ex-ante expectation of bad news may prompt them to limit what they disclose to the public. This perspective of a bad news hiding channel aligns with the strategic withholding hypothesis, leading to the following hypothesis:

H2: The intention to withhold revenue forecasts is stronger when the firm's performance is likely to be affected by the customer's ICW.

Second, customer ICWs signal potential issues with the accuracy and reliability of the customer's financial information. Suppliers facing information asymmetry with customers may find it challenging to fully verify the quality of the information provided regarding future prospects, orders, or performance. Given this uncertainty, firms may perceive a higher risk that their own revenue forecasts could be inaccurate if based on potentially unreliable customer data. This increased risk of error or misalignment can make firms more cautious about issuing forecasts. This view suggests that firms are less likely to disclose after a customer's ICW when the information asymmetry between the two parties is high.

H3: The intention to withhold revenue forecasts is stronger after a customer's ICW when the information asymmetry between the firm and customer is high.

Third, the increased information risk posed by customer ICWs may also heighten shareholders' demand for transparency. Investors may seek greater insight into the supplier's revenue outlook to better understand the potential impact of customer disruptions. This aligns with empirical studies showing that firms tend to increase voluntary disclosure when investors face greater information asymmetry and demand more information (Nagar et al., 2019)Therefore, we hypothesize that firms' intention to withhold information could be mitigated in situations where investors are more likely to demand clarification.

H4: The intention to withhold revenue forecasts is reduced following a customer's ICW when investor demand for information is high.

Fourth, ex-ante litigation risk can significantly influence managers' disclosure decisions following a customer's ICW. In highly litigious environments, the risk of legal repercussions can make withholding bad news riskier, as investors and regulators may interpret

nondisclosure as an attempt to mislead or conceal material impacts. This heightened litigation risk may compel firms to be more transparent, thus weakening the incentive to withhold revenue forecasts (Houston et al., 2019; Huang et al., 2020). Conversely, firms might choose to withhold information to avoid potential legal challenges that could arise from disclosing inaccurate or speculative information (Bourveau et al., 2018). Therefore, in anticipation of litigation risk, the withholding effect could be either strengthened or weakened, leading us to propose our hypothesis in null form:

H5: The intention to withhold revenue forecasts following a customer's ICW is not influenced by the level of the firm's litigation risk.

Lastly, prior studies show that high-ability managers possess superior skills in information processing and thus tend to issue more frequent forecasts to keep the market informed of changes in their firm's economic environment (Baik et al., 2011). High-ability managers are generally better equipped to anticipate and respond to shifts in the economic landscape, including interpreting signals of operational risk from their customer base. When exposed to customer ICWs, such managers may strategically adjust their communication by issuing more forecasts to keep the market informed. Therefore, we hypothesize that firms' tendency to withhold information could be mitigated in situations where managers possess high ability.

H6: The intention to withhold revenue forecasts is diminished following a customer's ICW when managers possess high ability.

3. Research design

3.1 Model specifications

We employ the following regression model to investigate the relationship between a customer's ICWs and the firm's decision to issue management revenue forecasts.

$$MFREVENUE = \beta_0 + \beta_1 CICW + \sum_n \beta_n Controls + e \qquad (1)$$

The dependent variable, *MFREVENUE*, is the natural logarithm of the number of

revenue forecasts issued by firm i in year t. Our main independent variable of interest, *CICW*,

is calculated as the total proportion of sales from customers with SOX 404 ICWs to firm i in

year t-1.[5] Incorporating the sales transactions reflects the relative importance of each

customer to the firm and provides a more detailed measure of the potential impact of a

customer's ICW.[6] We focus solely on SOX 404 ICWs as they include independent audit

verification and are disclosed annually, which aligns with the annual sales transaction data

available between a firm and its corporate customers.[7] We include a vector of control

variables related to the firm's fundamentals: firm size (*SIZE*), market-to-book ratio (*MB*),

leverage (*LEV*), return on assets (*ROA*), and loss condition (*LAG_LOSS*). Additionally, we

account for factors related to the volatility of the firm's operations, which may influence its

voluntary disclosure decisions: earnings volatility (*EARNVOL*), return volatility (*RETVOL*),

cash flow volatility (*CFVOL*), and analyst following (*ANALYST*). For customer

characteristics, the model controls for the total number of corporate customers a firm has

(*CNUMBER*), and the weighted average of customers' size (*CSIZE*) and operating

performance (*CROA*). The baseline model also incorporates year and industry fixed effects to

eliminate unobserved heterogeneities that vary across time and industries, which may

influence the firm's disclosure decisions. Continuous variables are winsorized at the 1st and

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[5] We use lagged customer ICWs because SOX 404 disclosures occur at the year-end with audit verification, meaning the supplier may only become aware of these issues once they are verified and disclosed. However, firms may notice control issues with their major customers before the formal disclosure. Therefore, our untabulated test includes both ICWs from year t-1 and year t in our analysis and find that our results remain robust.

[6] In our robustness checks, we also employ various alternative measures of customer ICWs and our results remain consistent.

[7] In our untabulated tests, we also convert SOX 302 into an annual indicator and interact it with annual transactions. We find that the results remain robust when focusing on SOX 302 alone or when considering both SOX 302 and SOX 404 simultaneously.

99th percentiles. Standard errors of the coefficient estimates are clustered at the firm level.

Detailed definitions of the variables used in the study are provided in Appendix A.

3.2 Sample and descriptive statistics

We construct our supplier-customer pairs using data from Compustat Segment files and merge them with firm fundamental data from Compustat and CRSP.[8] Management forecast information is obtained from the I/B/E/S Guidance database, while analyst following and institutional ownership data are sourced from I/B/E/S Estimates and Thomson Reuters 13F. Our main proxies for customers' internal control weaknesses are weighted by the customer's sales proportion to the supplier. Therefore, we do not set a threshold for customers to be considered critical, such as contributing more than 10% of sales to the firm, as the variable itself assigns lower weights to less significant customers, even if they experience internal control weaknesses.[9] After eliminating missing observations, our initial sample consists of 13,557 observations from 2,433 unique firms, covering the period from 2005 to 2023.

Table 1 Panel A reports the summary statistics of variables. The mean value of CICW suggest that on average when customers have internal control weaknesses, about 1% of a firm's total sales are exposed to those customers.[10] Untabulated result shows that approximately 5.24% of the firm-year observations have at least one customer that incurred internal control weaknesses. The mean logarithmic value of MFREVENUE is 0.719, which corresponds to firms issuing approximately 2.15 management revenue forecasts on average per year in the raw value. Also, 42.61% of firm-year observations issue at least one

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[8] As Compustat Segment reports customers using abbreviated names without additional identifiers, we use the WRDS Supply Chain link to match the identifiers of supplier and customer firm pairs. This tool links customer identifiers to historical CRSP and Compustat company fields through a fuzzy name-matching algorithm, which is then manually verified (Cen et al., 2017; Cohen and Frazzini, 2008).

[9] Our results remain robust even when we restrict the sample to customers that contribute more than 10% of the firm's sales.

[10] The 99th percentile of CICW is 17.4%, indicating that while most firms have relatively low exposure, a small portion faces substantial risk when their customers encounter internal control weaknesses.

management revenue forecast in our sample. In addition, on average, most firms work with two to three key customers, and these customers tend to be larger in size and generally outperform the firms they work with.

Lastly, to assess the potential multicollinearity among variables in our model, we conducted a variance inflation factor analysis. The untabulated results indicate that all variables have VIF values well below the commonly accepted threshold of 10, with a mean VIF of 1.44, which suggest that multicollinearity is not a concern in our analysis.

4. Empirical results

4.1 Hypothesis 1: Main results

Table 2 presents the estimation results for the relationship between customers' internal control weaknesses and a firm's decision to issue management revenue forecasts. In column (1), we find a negative and statistically significant univariate correlation between *CICW* and *MFREVENUE*, suggesting that firms issue fewer revenue forecasts when they face greater sales uncertainty due to their customers' disclosure of internal control weaknesses. The results remain robust after including control variables, as shown in columns (2). The coefficient estimate for variable *CICW* in the multivariate fixed effects model is -0.013 and statistically significant at the 1% level. In terms of economic significance, a one percentage point increase in the percentage of customer sales exposed to internal control weaknesses leads to approximately a 1.3% reduction in revenue forecasts. For instance, when sales exposure increases from 0% to 10%, the revenue forecast decreases by approximately 12.2%.

The results for the control variables align with prior studies on management revenue forecasts (e.g., Koo and Lee, 2018). Larger firms and those with stronger operating performance tend to issue more revenue forecasts, while firms with operating losses are less likely to do so. Firms with greater market share are less inclined to disclose, whereas analyst

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coverage encourages more frequent disclosure. Regarding customer characteristics, firms with a larger number of corporate clients issue more forecasts, but weaker customer performance results in fewer supplier disclosures about future revenue. This supports the notion that customer conditions affect supplier disclosure decisions. Overall, the findings support the strategic withholding hypothesis, showing that customer internal control weaknesses reduce the likelihood of revenue forecast disclosures by supplier firms.

4.2 Economic channels

In this subsection, we test the economic channels that drive managers' decisions to issue management revenue forecasts. These mechanism tests help us understand not only the surface-level relationship but also the strategic motivations and constraints that influence firms' disclosure responses to customer ICWs.

4.2.1 Hypothesis 2: bad news concealment

Our second hypothesis predicts that firms are more likely to withhold revenue forecasts when their motivation to conceal bad news is stronger. Firms with weaker financial performance or those experiencing losses are more prone to engage in strategic reporting, as they face increased pressure to manage market reactions and avoid exacerbating negative sentiment.

To explore the notion regarding the association between customer firm's ICW and supplier operation condition, we first examine the effect of customer ICW on firm performance, as measured by return on assets (*ROA*), loss occurrence (*LOSS*), and firm value (*TobinQ*). Table 3 presents the results. In column (1), the negative and statistically significant coefficient for *CICW* on *ROA* (-0.007, $p < 0.05$) suggests that exposure to customer ICWs leads to a deterioration in the firm's operating performance. Column (2) reports a positive and highly significant relationship between *CICW* and the likelihood of reporting a loss

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(coefficient = 0.015, p < 0.01). Finally, in column (3), the negative and significant coefficient for *CICW* on Tobin's Q (-0.015, p < 0.10) suggests that customer ICWs have a negative effect on the firm's market valuation. Overall, these findings highlight the adverse impact of customer ICWs on both operational performance and firm value.[11]

To further ensure that one of the economic channels behind withholding disclosure is driven by the incentives for bad news concealment, we split the full sample based on the median return on assets for the year, as well as whether the firm is reporting a loss in the year. Table 4 presents the results. The coefficient for *CICW* in the high ROA group is negative (-0.153) in column (1), but it is not statistically significant, indicating that firms with strong financial performance do not reduce their revenue forecasts in response to customer ICWs. However, for the low ROA group in column (2), the coefficient is -0.013, which is statistically significant at the 1% level, suggesting that firms with weaker financial performance are more likely to reduce their revenue forecasts in the presence of customer ICWs. Similarly, in column (3), for firms reporting losses, the coefficient is -0.011 and statistically significant at the 1% level, showing that loss-making firms reduce revenue forecasts in response to customer ICWs. In contrast, in column (4), for firms not reporting losses, the coefficient is negative (-0.222), but it is not statistically significant, indicating that firms without losses do not reduce their revenue forecasts based on customer ICWs. Overall, the results in this section support the bad news concealment hypothesis, indicating that firms with more at stake (e.g., those already performing poorly) are more likely to conceal bad news following customers' ICW.

4.2.2 Hypothesis 3: information asymmetry

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[11] In our untabulated analysis, where we examine whether customer ICWs would lead to the termination of supply chain relationships, we fail to find such evidence. This suggests that suppliers are more reluctant to terminate relationships due to customer ICWs, likely because of their dependency on the customer's revenue and the higher switching costs involved.

The third hypothesis suggests that information asymmetry is one of the mechanisms explaining the intention to withhold forecasts. The greater the information asymmetry between the supplier and the customer, the more uncertainty the firm faces regarding the customer's operational conditions. We measure information asymmetry using two proxies: (1) the physical distance (*CDISTANCE*) between the headquarters of the supplier and the customer, as prior studies often use physical distance to capture information asymmetry between supply chain counterparties (Chu et al., 2019; Chen et al., 2021); and (2) the customer's accounting quality, measured by absolute discretionary accruals (*UDAC*) (Kothari et al., 2005), since financial information serve as an important source of hard information that helps reduce the information risk the customer poses to the supplier firm.

Table 5 explores the role of information asymmetry in the relationship between customer internal control weaknesses and the supplier firm's decision to issue management revenue forecasts. In columns (1) and (2), the results show that when the physical distance between firms is high, there is a statistically significant negative relationship between *CICW* and *MFREVENUE* (-0.014, $p<0.01$). However, when the distance is low, *CICW* does not have a statistically significant effect on *MFREVENUE*. For firms with customers that have worse accounting quality, *CICW* significantly reduces revenue forecasts, with a coefficient of -0.012 at a 5% significance level (column 3). In contrast, when customer accounting quality is better, *CICW* has no significant impact on *MFREVENUE* (column 4). Overall, these results suggest that when there is higher information asymmetry supplier firms reduce their revenue forecasts in response to customer internal control weaknesses to avoid providing unreliable guidance to the public.

4.2.3 Hypothesis 4: investor demand for information

Our conjecture on the investor information demand channel indicate that firms' intention to reduce the supply of information could be mitigated in situations where investors are more likely to demand clarification. We construct two proxies for investor demand for information. The first proxy is the percentage of institutional investors' ownership (IO), as prior studies show that institutional investors typically have more sophisticated capabilities and greater resources to actively monitor and influence financial transparency practices (e.g., Lin et al., 2018). The second proxy we use to measure investor information demand is the change in EDGAR search volume for supplier firms following their customers' filing of internal control weaknesses (ICWs) reports within the event window of [-1, 1].[12] An abnormal increase in EDGAR search volume may signal heightened investor attention, indicating that investors are not only focusing on the customer's ICWs but are also concerned about the potential spillover effects on the supplier firm.

We present the results in Table 6. In the first set of columns, we observe that firms with low institutional ownership (column 2) show a significant negative relationship between CICW and management revenue forecasts, with a coefficient of -0.011 and statistical significance at the 5% level. This suggests that when institutional ownership is low, firms reduce revenue forecasts following customer ICWs due to reduced pressure from sophisticated investors to disclose information. In contrast, for firms with high institutional ownership (column 1), the coefficient is negative but not statistically significant, indicating that firms with more institutional investors might not have the capability to avoid disclosure, aligning with the hypothesis that investor demand can mitigate the strategic withholding effect. For the EDGAR search volume, the results in column 4 show that firms experiencing a low increase in EDGAR views following a customer ICW disclosure are more likely to

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[12] We obtain the cleaned EDGAR log file data from James Ryan's website (http://www.jamesryans.com/). Since EDGAR log file data from July 1, 2017, to May 18, 2020, is no longer available, we only use data up to June 30, 2017.

withhold revenue forecasts, with a statistically significant negative coefficient of -0.014 at the

1% level. In contrast, when EDGAR search volume is abnormally high (column 3), there is

no significant relationship between CICW and revenue forecasts, suggesting that increased

investor attention to the firm may pressure managers to provide more transparency, reducing

the likelihood of withholding information. These findings support the notion that investor

demand for information can reduce firms' intention to withhold information in response to

customer ICWs.

4.2.4 Hypothesis 5: litigation risk

The next hypothesis explores the role of litigation risk in the relationship between

customer ICWs and a firm's decision to issue management revenue forecasts. Our first proxy

for litigation risk is the composite score (*KS_INDEX*) derived from securities class action

lawsuits, as developed by Kim and Skinner (2012). The second proxy measures litigation risk

based on the proportion of Democratic judges (*LIBERALCOURT*) in the circuit court

covering the firm's headquarters, as Huang et al. (2019) find that firms are more likely to face

securities class action lawsuits when a higher percentage of the judges are Democrats.

Table 7 presents the results for testing the litigation risk channel on the relationship

between customer internal control weaknesses and management revenue forecast decision.

The results in column (1) and (2) indicate that CICWs are associated with a significant

reduction in revenue forecast issuance when the litigation risk is high (coefficient = -0.017, p

< 0.01). This effect is notably weaker for firms with low litigation risk (coefficient = -0.009,

p < 0.05). Untabulated analysis shows that the difference between the two coefficients is

statistically significant at the 1% level, suggesting that firms facing higher litigation risk are

more prone to reduce supply of information in response to customer ICWs. Columns (3) and

(4) show that customer internal control weaknesses lead to a significant reduction in revenue

forecasts for firms under more liberal courts (coefficient = -0.015, p < 0.001), but not for firms under less liberal courts. These findings highlight the role of litigation risk in shaping firms' disclosure decisions, with firms more exposed to legal risks being more cautious about releasing forecasts following customer ICWs.

4.2.5 Hypothesis 6: managerial ability

The final hypothesis examines whether managerial ability plays a role in the negative relationship between customer ICWs and a firm's revenue forecasts. We measure managerial ability using the measure from Demerjian et al. (2012) and partition the sample into high-ability and low-ability managers. The results, presented in Table 8, show that for firms with high-ability managers (column 1), the coefficient for CICW is negative but not statistically significant, suggesting that the presence of customer ICWs does not significantly impact these firms' likelihood to withhold revenue forecasts. In contrast, for firms with low-ability managers (column 2), the coefficient for CICW is significantly negative at the 1% level, with a coefficient of -0.014. This indicates that customer ICWs lead to a stronger intention to withhold forecasts when managerial ability is low. These findings support the hypothesis that high-ability managers are better equipped to respond to external disruptions, such as customer ICWs, and are less likely to withhold information in such circumstances.

4.3 Robustness check

4.3.1 Alternative measures of exposure to customer internal control weaknesses

To further validate our findings, we employ several alternative measures of exposure to customer internal control weaknesses. First, we use a binary indicator that equals one if any of the firm's key customers disclose an ICW in a given year (CICW_OCCU), and zero otherwise. Second, we utilize the number of customers with ICWs (CICW_NUM) as a continuous variable to reflect the breadth of a firm's exposure. Third, we examine the total

number of internal control weaknesses disclosed by all customers (CICW_NUMWEAK) to assess the cumulative severity of weaknesses. As shown in Panel A of Table 9, all three alternative measures are negatively and significantly associated with revenue forecast issuance, confirming the robustness of our main findings.

4.3.2 Alternative fixed effect

While reverse causality between customer internal control weaknesses and supplier forecast disclosure is unlikely to be a major concern, any omitted variables correlated with internal control weaknesses might still bias our results. We re-ran the baseline model with alternative fixed effects to address potential omitted variable bias. Panel B of Table 9 reports models incorporating firm fixed effects along with year fixed effects or year-industry fixed effects. The coefficient on customer internal control weaknesses remains statistically significant in each case, suggesting that omitted time-invariant, firm-specific characteristics are unlikely to drive the observed relationship between customer ICWs and supplier forecast disclosure.

4.3.3 Change analysis

Next, we investigate whether changes in the level of exposure to customer ICWs are associated with subsequent changes in supplier firms' revenue forecast issuance. By focusing on variations within firms over time, this approach helps control for unobserved, firm-specific characteristics that remain constant and could potentially influence both ICWs and disclosure decisions. The result of the change analysis are presented in Panel C of Table 9. An increase in exposure to customer ICWs is significantly associated with a decrease in supplier firms' revenue forecast disclosures, further reinforcing the robustness of the baseline results.

4.3.4 Firm's own internal control weaknesses

One concern is that a customer's internal control weaknesses could have a contagious effect on their supplier firms, leading to the supplier's own internal control weaknesses, and thus influencing the supplier's disclosure reaction. We address this concern in several ways. First, we control for the incidence of the supplier firm's own internal control weaknesses in our baseline model. Untabulated results show that the exposure to customer internal control weaknesses remains negatively and significantly associated with management revenue forecasts, while the firm's own internal control weaknesses have no significant effect on the revenue forecast. Second, to examine the direct effect of this potential contagion, we test whether customer internal control weaknesses lead to the supplier firm developing its own weaknesses. We consider both the mere occurrence of customer ICWs and the sales exposure to customer ICWs. Panel D of Table 9 presents the results. In column (1), we find that the occurrence of customer ICWs is not associated with subsequent supplier firm ICWs. In column (2), using a measure of sales exposure to customer ICWs, we find that greater exposure is actually associated with a lower likelihood of supplier firms developing internal control weaknesses. This may suggest that control risks arising from the customer side prompt a more cautious response from the supplier, reducing the chance of their own internal control failures. Overall, the results in this section address the alternative explanation that the firm's change in revenue forecast behaviour is driven by its own internal control weaknesses.

4.3.5 Other types of management forecast

Lastly, we examine whether customer ICWs also affect other types of management earnings forecasts. We construct two alternative measures for other earnings forecasts: (1) all types of earnings-related forecasts excluding revenue forecasts, and (2) EPS forecasts. The results, shown in Panel E of Table 9, indicate that customer ICWs negatively affect both measures, consistent with our main findings. However, the economic and statistical

significance of these results is weaker compared to the revenue forecasts, suggesting that while the effects extend to broader earnings forecasts, the impact is less pronounced.

4.4 Additional analyses

4.4.1 Forecast characteristics

In this subsection, we examine whether firms disclosing management forecasts are affected by exposure to customer internal control weaknesses in terms of the characteristics of their revenue forecasts. Specifically, we focus on two dimensions: the accuracy of the forecast and the likelihood of issuing a point forecast. Exposure to customer internal control weaknesses could lower forecast accuracy as the uncertainty and operational disruptions may lead to unpredictability in future revenue streams and thus render less accurate revenue forecast. Additionally, the risk associated with customer ICWs might discourage firms from issuing point forecasts, which are more definitive and can be subject to greater scrutiny if inaccurate. Instead, firms may opt for broader, less specific range forecasts to allow for flexibility and buffer the potential impact of unforeseen customer-related disruptions.

To conduct this analysis, we select the first annual revenue forecast issued after the previous fiscal year-end date. Focusing on the first forecast avoids the potential confounding effects of forecast revisions, which may be influenced by managers' and firms' incentives to meet their own or analysts' expectations, and are generally less pessimistically biased than quarterly forecasts (Matsumoto, 2002; Cotter et al., 2006). Forecast accuracy (*ACCURACY*) is calculated as the absolute difference between realized sales and the first annual sales estimate, transformed using the natural logarithm and scaled by stock prices. To standardize accuracy across industries and time periods, we convert the variable into deciles by industry and year, and multiply by negative one so that larger values represent greater accuracy. The point forecast (*POINT*) is a binary variable set to one if the forecast is a point estimate, and

zero otherwise. In addition, we control for the forecast horizon in the model to account for potential differences in the length of time between the forecast issuance and the actual realization of revenue.

As shown in Table 10, column (1) indicates that CICW exposure is associated with lower forecast accuracy, with a coefficient of -0.165, significant at the 5% level. This suggests that the uncertainty introduced by customer ICWs likely increases the difficulty for supplier firms to accurately predict their future revenues, potentially due to disruptions or unclear signals from their customers. In column (2), the coefficient for CICW on the likelihood of issuing a point forecast is -0.255, significant at the 10% level. This implies that firms exposed to customer ICWs are less likely to provide point forecasts, possibly opting for more cautious or less precise forms of guidance, such as range forecasts, to hedge against the increased uncertainty. These findings align with the idea that customer ICWs can create challenges for firms in both estimating and communicating their future performance.

4.4.2 Market reactions to revenue forecast news

Next, we examine whether the market reacts differently to revenue forecast news depending on whether the firm is exposed to customer internal control weaknesses. We use the cumulative abnormal return (*CAR*) over a six-day window (-3, 3) around the forecast release as the dependent variable in our main model. The unit of analysis is each revenue forecast release. Both good news and bad news variables are included, each interacting with the extent of exposure to customer ICWs. Good news forecast (*GOODNEWS*) is defined as the difference between the actual revenue forecast and the closest mean analyst revenue forecast before the announcement, divided by the absolute value of the analyst consensus, if the difference is greater than or equal to zero; otherwise, it is set to zero. Bad news forecast (*BADNEWS*) is calculated similarly but is set to the difference when it is less than zero and

multiplied by negative one for ease of interpretation. We also control for the actual surprise (*SURPRISE*), calculated as the difference between actual revenue and the mean analyst forecast before the earnings announcement, divided by the absolute value of the analyst consensus.

The results in Table 11 show that market react positively and negative to good news forecast (*GOODNEWS*) and bad news forecast (*BADNEWS*), respectively. However, the interaction term between customer internal control weaknesses and good news forecasts (*CICW*GOODNEWS*) is not statistically significant, indicating that the presence of customer ICWs does not seem to influence the market's reaction to good news. In contrast, the interaction term between customer ICWs and bad news forecasts (*CICW*BADNEWS*) is negative and significant. In this case, the stronger reaction to bad news forecasts for firms with customers experiencing internal control weaknesses might suggest that the bad news serves as validation of investors' fears regarding the firm's vulnerabilities. This is consistent with prior studies, which suggest that higher firm-level uncertainty can amplify the impact of negative information, and investors react more strongly due to adjustments in their perceptions of risk (e.g., Zhang, 2006; Kothari et al., 2009a).

4.4.3 Customer ICWs and other corporate policies

Furthermore, we test whether the extent of exposure to customer internal control weaknesses affects the firm's policies, such as investment and credit extension to mitigate potential risk exposure. Following prior literature (e.g., Liu et al., 2021), we construct three proxies for relationship-specific investments: (1) R&D investment (*RD*); (2) selling expenses (*SELLEXP*); and (3) capital expenditures (*CAPX*). We measure credit extension to customers by examining the firm's total accounts receivable (REC) as well as trade receivables specifically (*RECT*).

The results in Table 12 indicate that firms have lower relationship-specific investments, such as R&D spending, selling expenses, and capital expenditures, when there is increased exposure to customer ICWs. In addition, firms extend less total accounts receivable and trade receivables, suggesting a tightening of credit terms to customers with internal control weaknesses.[13] These findings align with the idea that firms seek to limit their exposure to customer-related risks by not only adjusting their disclosure practices but also modifying other corporate policies to mitigate potential financial vulnerabilities.

5. Conclusion

Despite evidence suggesting that disruptive events at corporate customers spill over to impact the operational performance of upstream firms, few studies examine whether these spillover effects influence the upstream firm's voluntary disclosure decisions. This study investigates whether and how corporate customers' internal control weaknesses—a specific example of customer disruptions—affect a firm's revenue forecast disclosures. Consistent with a withholding effect, we find that firms reduce their revenue forecasts when they have greater sales exposure to customers with internal control weaknesses. Mechanism analysis reveals five channels influencing this relationship: (1) bad news concealment, (2) information asymmetry, (3) investor demand for information, (4) litigation risk, and (5) managerial ability. Additional analysis shows that firms exposed to customer control weaknesses tend to provide less accurate revenue forecasts, are more likely to issue range forecasts than point forecasts, and experience stronger market reactions to negative forecast news.

Although our results remain robust across various robustness checks, lending confidence to the conclusion that customer internal control weaknesses impact a firm's revenue forecast

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[13] Our results remain robust when we include R&D spending, selling expenses, capital expenditures, total accounts receivable, and trade receivables as additional control variables.

decisions, this study is subject to the caveat that the presented tests may not entirely address all endogeneity concerns. The observed relationship between customer internal control weaknesses and firms' revenue forecast decisions could still be partially driven by underlying economic factors or other unobserved characteristics of the firms.

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Appendix A: Variable Definition

Variable Name	Definition
ABILITY	Managerial ability score developed by Demerjian et al. (2012) (Source: hand-collected).
ACCURACY	Absolute difference between realized sales and the first annual sales estimate, transformed using the natural logarithm and scaled by stock prices (Source: I/B/E/S).
ANALYST	An indicator variable equal to one if the firm is covered by at least one analyst and zero otherwise (Source: I/B/E/S).
BADNEWS	Difference between the actual revenue forecast and the closest mean analyst revenue forecast before the announcement, divided by the absolute value of the analyst consensus, if the difference is less than zero and multiplied by negative one for ease of interpretation; otherwise, it is set to 0 (Source: I/B/E/S and CRSP).
CAPX	Capital expenditure scaled by the firm's total asset (Source: Compustat).
CAR	Cumulative abnormal return over a six-day window (-3, 3) around the forecast release (Source: CRSP).
CDISTANCE	Average physical distance between the headquarters of the firm and their customer firms (Source: Compustat Segment).
CICW	Total proportion of sales from customers with ICWs to firm i in year t-1 (Source: Audit Analytics and Compustat Segment).
CICW_NUM	Total number of customers with ICWs in year t-1 (Source: Audit Analytics and Compustat Segment).
CICW_NUMWEAK	Total number of internal control weaknesses disclosed by all customers in year t-1 (Source: Audit Analytics and Compustat Segment).
CICW_OCCU	An indicator variable that equals one if any of the firm's key customers disclose an ICW in year t-1, and zero otherwise (Source: Audit Analytics and Compustat Segment).
CFVOL	Standard deviation of the firm's operating cash flow from t-1 to t-5 (Source: Compustat).
CNUMBER	Total number of customer firms that the firm has (Source: Compustat Segment).
CROA	Average return on assets of the firm's customers (Source: Compustat Segment).
CSIZE	Average size of the firm's customers, measured by the natural logarithm of their total assets (Source: Compustat Segment).
EDGARVIEW	The change in EDGAR search volume for supplier firms following their customers' filing of internal control weaknesses (ICWs) reports within the event window of [-1, 1] (Source: hand-collected).
EARNVOL	Standard deviation of the firm's return on asset from t-1 to t-5 (Source: Compustat).
GOODNEWS	Difference between the actual revenue forecast and the closest mean analyst revenue forecast before the announcement, divided by the absolute value of the analyst consensus, if the difference is

	greater than or equal to zero; otherwise, it is set to 0 (Source: I/B/E/S and CRSP).
HORIZON	Natural logarithm of the time difference between forecast issuance and actual revenue realization (Source: I/B/E/S).
ICW	An indicator variable that equals one if the firm has internal control weaknesses in year t and zero otherwise (Source: Audit Analytics).
IO	Percentage of institutional investors holding shares in the firm (Source: Thomson-Reuters 13F).
KS_INDEX	Composite score of litigation risk developed by Kim and Skinner (2012) (Source: CRSP and Compustat).
LAG_LOSS	Indicator variable equal to one if the firm has an operating loss in year t-1, and zero otherwise (Source: Compustat).
LEV	Total debt scaled by lagged total assets (Source: Compustat).
LIBERALCOURT	Litigation risk based on the proportion of Democratic judges in the circuit court covering the firm's headquarters as developed by Huang et al. (2019).
LOSS	Indicator variable equal to one if the firm has an operating loss in year t, and zero otherwise (Source: Compustat).
MARKETSHARE	Firm's sales divided by the total sales of all firms within the same 2-digit SIC industry (Source: Compustat).
MB	Market value of equity divided by the book value of equity (Source: Compustat).
MFEARN	Natural logarithm of the number of earnings-related forecasts (excluding revenue forecasts) issued in year t (Source: I/B/E/S).
MFREVENUE	Natural logarithm of the number of revenue forecasts issued in year t (Source: I/B/E/S).
MFEPS	Natural logarithm of the number of earnings per share forecasts issued in year t (Source: I/B/E/S).
POINT	A binary variable set to one if the forecast is a point estimate, and zero otherwise (Source: I/B/E/S).
RD	R&D expenditure scaled by total asset (Source: Compustat).
REC	Total accounts receivable issued scaled by total asset (Compustat).
RETVOL	Standard deviation of stock returns over the past 12 months (Source: CRSP).
ROA	Income before extraordinary items scaled by total assets (Source: Compustat).
SELLEXP	Selling, general, and administrative expenses scaled by total asset (Source: Compustat).
SIZE	Natural logarithm of total assets (Source: Compustat).
SURPRISE	Difference between actual revenue and the mean analyst forecast before the earnings announcement, divided by the absolute value of the analyst consensus (Source: I/B/E/S).
RECT	Total trade receivable issued scaled by total asset (Compustat).
UDAC	The customer's accounting quality, measured by absolute discretionary accruals (Kothari et al., 2005).

Table 1

Panel A: summary statistics

Variable	(1) N	(2) Mean	(3) Median	(4) Std	(5) P25	(6) P75
MFREVENUE	13,557	0.719	0.000	0.894	0.000	1.609
CICW	13,557	0.011	0.000	0.443	0.000	0.000
SIZE	13,557	6.553	6.602	1.955	5.119	7.977
MB	13,557	2.931	1.990	5.599	1.169	3.494
LEV	13,557	0.282	0.224	0.289	0.034	0.435
ROA	13,557	-0.023	0.026	0.215	-0.059	0.077
LAG_LOSS	13,557	0.277	0.000	0.448	0.000	1.000
EARNVOL	13,557	0.131	0.051	0.343	0.021	0.125
RETVOL	13,557	4.058	2.343	5.154	1.087	4.819
CFVOL	13,557	0.086	0.046	0.160	0.024	0.088
MARKETSHARE	13,557	0.007	0.001	0.021	0.000	0.004
ANALYST	13,557	0.820	1.000	0.385	1.000	1.000
CNUMBER	13,557	2.589	2.000	2.312	1.000	3.000
CSIZE	13,557	10.440	10.630	1.605	9.482	11.680
CROA	13,557	0.053	0.055	0.076	0.026	0.087
LOSS	13,557	0.285	0.000	0.451	0.000	1.000
CDISTANCE	11,817	898.6	742.4	684.2	373.0	1317
UDAC	13,292	0.046	0.035	0.043	0.017	0.061
KS_INDEX	13,266	-0.889	-1.239	2.048	-2.152	-0.113
LIBERALCOURT	12,219	0.401	0.388	0.205	0.215	0.581
IO	13,557	0.526	0.618	0.379	0.0819	0.877
EDGARVIEW	8,303	0.500	0.011	1.666	-0.320	0.577
ABILITY	11,533	-0.003	-0.034	0.148	-0.091	0.038

This table provides descriptive information for the sample and variables of interest. Panel A presents summary statistics for the variables. Panel B displays the differences in key variables between firms with customers that have internal control weaknesses and those without. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix A.

Table 2

Customer Internal Control Weaknesses and Management Revenue Forecast

VARIABLE	(1) MFREVENUE	(2) MFREVENUE
CICW	-0.033***	-0.013***
	(0.006)	(0.004)
SIZE		0.079***
		(0.012)
MB		0.004***
		(0.001)
LEV		0.161***
		(0.047)
ROA		0.210***
		(0.051)
LAG_LOSS		-0.051*
		(0.026)
EARNVOL		0.051
		(0.042)
RETVOL		0.001
		(0.003)
CFVOL		-0.347***
		(0.090)
MARKETSHARE		-3.164***
		(1.048)
ANALYST		0.576***
		(0.038)
CNUMBER		0.011**
		(0.006)
CSIZE		-0.003
		(0.008)
CROA		0.218*
		(0.121)
Year FE	YES	YES
Industry FE	YES	YES
Observations	13,557	13,557
R-squared	0.360	0.467

This table presents the results examining the effects of customer internal control weaknesses on the frequency of a firm's revenue forecast decisions. The dependent variable, *MFREVENUE*, is the natural logarithm of one plus the number of management revenue forecasts issued in year *t*. The independent variable of interest, *CICW*, is defined as the total percentage of sales from all customers with internal control weaknesses in year *t-1*, with a value of zero if no such weaknesses are present. All variables are defined in Appendix A. Standard errors are reported in parentheses below the coefficient estimates and are clustered by firm. *, **, and *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 3

Does Customer Internal Control Weaknesses Affect Operating Performance and Firm Value

VARIABLES	(1) ROA	(2) LOSS	(3) TobinQ
CICW	-0.007**	0.015***	-0.015*
	(0.003)	(0.002)	(0.009)
SIZE	0.034***	-0.077***	-0.171***
	(0.003)	(0.005)	(0.021)
MB	0.001	-0.001*	0.080***
	(0.001)	(0.001)	(0.010)
LEV	-0.092***	-0.008	0.211**
	(0.016)	(0.019)	(0.101)
EARNVOL	-0.009	0.024	-0.005
	(0.021)	(0.023)	(0.140)
RETVOL	0.005***	-0.008***	0.089***
	(0.001)	(0.001)	(0.007)
CFVOL	-0.205***	0.129**	1.223***
	(0.054)	(0.056)	(0.358)
MARKETSHARE	-0.978***	0.520	3.609***
	(0.178)	(0.373)	(1.315)
ANALYST	0.006	-0.029*	0.297***
	(0.007)	(0.015)	(0.063)
CNUMBER	0.001	-0.003	-0.002
	(0.001)	(0.003)	(0.010)
CSIZE	-0.005***	0.011***	-0.014
	(0.002)	(0.004)	(0.014)
CROA	0.192***	-0.324***	0.554**
	(0.040)	(0.063)	(0.234)
Year FE	YES	YES	YES
Industry FE	YES	YES	YES
Observations	13,557	13,557	13,557
R-squared	0.324	0.350	0.469

This table presents the effects of customer internal control weaknesses on the firm's operating performance and firm value. The independent variable of interest, *CICW*, is defined as the total percentage of sales from customers with internal control weaknesses in year *t-1*, with a value of zero if no such weaknesses are present. The dependent variables are return on assets (*ROA*), loss occurrence indicator (*LOSS*), and Tobin's Q (*TobinQ*), shown in columns (1), (2), and (3), respectively. All variables are defined in Appendix A. Standard errors are reported in parentheses below the coefficient estimates and are clustered by firm. *, **, and *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 4
Economic Channel: Concealment of Bad News

	ROA		LOSS	
	High	Low	Yes	No
	(1)	(2)	(3)	(4)
VARIABLES	MFREVENUE	MFREVENUE	MFREVENUE	MFREVENUE
CICW	-0.153	-0.013***	-0.011***	-0.222
	(0.175)	(0.004)	(0.003)	(0.158)
SIZE	0.085***	0.081***	0.109***	0.069***
	(0.016)	(0.014)	(0.018)	(0.015)
MB	0.006***	0.003*	0.004**	0.005***
	(0.002)	(0.002)	(0.002)	(0.002)
LEV	0.106*	0.179***	0.153**	0.173***
	(0.054)	(0.061)	(0.062)	(0.060)
ROA			0.165**	-0.047
			(0.065)	(0.115)
LAG_LOSS	-0.059	-0.058**	0.013	-0.083***
	(0.043)	(0.028)	(0.030)	(0.031)
EARNVOL	0.008	0.073*	0.030	0.027
	(0.066)	(0.044)	(0.044)	(0.058)
RETVOL	-0.002	0.006	-0.006*	0.002
	(0.003)	(0.004)	(0.004)	(0.003)
CFVOL	-0.415***	-0.377***	-0.194*	-0.380***
	(0.149)	(0.101)	(0.101)	(0.128)
MARKETSHARE	-3.156***	-4.339***	-7.794**	-2.717**
	(1.166)	(1.109)	(3.259)	(1.109)
ANALYST	0.630***	0.522***	0.462***	0.648***
	(0.054)	(0.038)	(0.045)	(0.048)
CNUMBER	0.008	0.013*	0.035***	0.004
	(0.007)	(0.007)	(0.011)	(0.006)
CSIZE	-0.020*	0.010	0.004	-0.010
	(0.012)	(0.010)	(0.012)	(0.011)
CROA	0.198	0.236*	0.236	0.243
	(0.212)	(0.138)	(0.157)	(0.180)
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	6,778	6,779	3,863	9,694
R-squared	0.518	0.428	0.406	0.506

This table presents cross-sectional analyses for the economic channel of bad news concealment. The subsamples are formed based on return on assets (*ROA*) and the operating loss indicator (*LOSS*). The *ROA* group is divided into two groups, with observations above the median *ROA* for year *t* in one group and those below in the other. The *LOSS* group is based on whether firms reported operating losses in year *t*. The dependent variable, *MFREVENUE*, is the natural logarithm of one plus the number of management revenue forecasts issued in year *t*. The independent variable of interest, *CICW*, is defined as the total percentage of sales from customers with internal control weaknesses in year *t-1*, with a value of zero if no such weaknesses are present. All variables are defined in Appendix A. Standard errors are reported in parentheses below the coefficient estimates and are clustered by firm. *, **, and *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 5

Economic Channel: Information Asymmetry

VARIABLES	CDISTANCE		UDAC	
	High	Low	High	Low
	(1)	(2)	(3)	(4)
	MFREVENUE	MFREVENUE	MFREVENUE	MFREVENUE
CICW	-0.014***	-0.064	-0.012**	0.039
	(0.005)	(0.141)	(0.006)	(0.241)
SIZE	0.108***	0.082***	0.089***	0.074***
	(0.018)	(0.018)	(0.015)	(0.014)
MB	0.002	0.007***	0.005**	0.004**
	(0.002)	(0.002)	(0.002)	(0.002)
LEV	0.182**	0.134**	0.211***	0.126**
	(0.081)	(0.053)	(0.057)	(0.056)
ROA	0.155**	0.211**	0.239***	0.174***
	(0.069)	(0.092)	(0.063)	(0.066)
LAG_LOSS	-0.001	-0.108***	-0.026	-0.068**
	(0.040)	(0.035)	(0.032)	(0.034)
EARNVOL	0.066	0.086	0.052	0.072
	(0.060)	(0.063)	(0.049)	(0.063)
RETVOL	0.001	-0.003	0.000	0.003
	(0.005)	(0.003)	(0.003)	(0.003)
CFVOL	-0.354***	-0.300**	-0.368***	-0.338**
	(0.136)	(0.130)	(0.108)	(0.134)
MARKETSHARE	-5.382***	-0.826	-3.831**	-3.522***
	(1.661)	(1.495)	(1.544)	(1.148)
ANALYST	0.591***	0.566***	0.610***	0.541***
	(0.054)	(0.058)	(0.053)	(0.040)
CNUMBER	0.014*	0.005	0.004	0.021***
	(0.008)	(0.009)	(0.006)	(0.008)
CSIZE	0.014	-0.014	0.004	-0.002
	(0.013)	(0.013)	(0.010)	(0.011)
CROA	0.202	0.316*	0.147	0.176
	(0.190)	(0.168)	(0.131)	(0.214)
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	5,907	5,910	6,646	6,646
R-squared	0.468	0.521	0.480	0.463

This table presents cross-sectional analyses for the economic channel of information asymmetry. The subsamples are formed based on the physical distance between firms and their customer firms (CDISTANCE) and the absolute value of discretionary accruals (UDAC) (Kothari et al., 2005). The dependent variable, MFREVENUE, is the natural logarithm of one plus the number of management revenue forecasts issued in year t. The independent variable of interest, CICW, is defined as the total percentage of sales from customers with internal control weaknesses in year $t-1$, with a value of zero if no such weaknesses are present. All variables are defined in Appendix A. Standard errors are reported in parentheses below the coefficient estimates and are clustered by firm. *, **, and *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 6
Economic Channel: Investor Demand

	IO		EDGARVIEW	
	High	Low	High	Low
	(1)	(2)	(3)	(4)
VARIABLES	MFREVENUE	MFREVENUE	MFREVENUE	MFREVENUE
CICW	-0.093	-0.011**	0.011	-0.014***
	(0.103)	(0.005)	(0.180)	(0.004)
SIZE	0.054**	0.063***	0.095***	0.054***
	(0.022)	(0.013)	(0.016)	(0.016)
MB	0.003	0.003	0.001	0.005**
	(0.002)	(0.002)	(0.003)	(0.002)
LEV	0.225***	0.095*	0.168**	0.142**
	(0.067)	(0.049)	(0.069)	(0.065)
ROA	0.302***	0.077	0.216**	0.323***
	(0.102)	(0.050)	(0.087)	(0.079)
LAG_LOSS	-0.017	-0.012	-0.074*	-0.024
	(0.043)	(0.029)	(0.040)	(0.041)
EARNVOL	0.164**	0.006	0.030	0.023
	(0.064)	(0.048)	(0.069)	(0.067)
RETVOL	-0.004	0.001	-0.003	0.001
	(0.003)	(0.003)	(0.005)	(0.004)
CFVOL	-0.568***	-0.208**	-0.313**	-0.335**
	(0.169)	(0.095)	(0.148)	(0.151)
MARKETSHARE	-1.218	-4.377***	-4.724***	-2.381
	(1.602)	(1.193)	(1.518)	(1.617)
ANALYST	0.777***	0.394***	0.586***	0.569***
	(0.078)	(0.033)	(0.050)	(0.050)
CNUMBER	0.006	0.023***	0.015*	0.007
	(0.007)	(0.008)	(0.008)	(0.007)
CSIZE	-0.014	0.018*	0.003	-0.014
	(0.013)	(0.010)	(0.012)	(0.012)
CROA	0.285	-0.012	0.424**	0.199
	(0.179)	(0.136)	(0.213)	(0.199)
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	6,778	6,779	4,151	4,152
R-squared	0.545	0.381	0.471	0.466

This table presents cross-sectional analyses for the economic channel of investor demand for information. The subsamples are based on institutional investor coverage (*IO*) and abnormal viewing activity on the SEC EDGAR platform for firms' filings when their customer firms disclose internal control weaknesses (*EDGARVIEW*). The dependent variable, *MFREVENUE*, is the natural logarithm of one plus the number of management revenue forecasts issued in year *t*. The independent variable of interest, *CICW*, is defined as the total percentage of sales from customers with internal control weaknesses in year *t-1*, with a value of zero if no such weaknesses are present. All variables are defined in Appendix A. Standard errors are reported in parentheses below the coefficient estimates and are clustered by firm. *, **, and *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 7

Economic Channel: Litigation Risk

VARIABLES	KS_INDEX		LIBERALCOURT	
	High	Low	High	Low
	(1)	(2)	(3)	(4)
	MFREVENUE	MFREVENUE	MFREVENUE	MFREVENUE
CICW	-0.017***	-0.009**	-0.015***	0.007
	(0.003)	(0.004)	(0.003)	(0.247)
SIZE	0.063***	0.102***	0.105***	0.066***
	(0.015)	(0.015)	(0.018)	(0.017)
MB	0.003	0.005***	0.004**	0.004**
	(0.002)	(0.002)	(0.002)	(0.002)
LEV	0.199***	0.142**	0.180**	0.132**
	(0.051)	(0.068)	(0.070)	(0.062)
ROA	0.199***	0.230***	0.163**	0.286***
	(0.057)	(0.075)	(0.068)	(0.082)
LAG_LOSS	-0.083***	-0.001	-0.014	-0.095***
	(0.031)	(0.037)	(0.039)	(0.035)
EARNVOL	0.052	0.027	0.050	0.098
	(0.050)	(0.055)	(0.066)	(0.062)
RETVOL	0.001	0.004	-0.003	-0.000
	(0.003)	(0.004)	(0.004)	(0.003)
CFVOL	-0.330***	-0.317***	-0.338**	-0.326**
	(0.113)	(0.118)	(0.136)	(0.133)
MARKETSHARE	-3.567***	-2.886**	-2.899	-2.432*
	(1.268)	(1.200)	(1.857)	(1.384)
ANALYST	0.598***	0.531***	0.593***	0.511***
	(0.054)	(0.042)	(0.066)	(0.051)
CNUMBER	0.010	0.012*	0.012*	0.012
	(0.008)	(0.006)	(0.007)	(0.009)
CSIZE	-0.010	0.005	-0.008	0.011
	(0.010)	(0.011)	(0.012)	(0.012)
CROA	0.302**	0.118	0.293*	0.035
	(0.143)	(0.171)	(0.166)	(0.174)
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Observations	6,633	6,633	6,101	6,118
R-squared	0.487	0.466	0.532	0.462

This table presents cross-sectional analyses for the economic channel of litigation risk. The subsamples are based on the lawsuit likelihood score (*KS_INDEX*) from Kim and Skinner (2012) and the circuit-level judge ideology measure (*LIBERALCOURT*) from Huang et al. (2019). The dependent variable, *MFREVENUE*, is the natural logarithm of one plus the number of management revenue forecasts issued in year *t*. The independent variable of interest, *CICW*, is defined as the total percentage of sales from customers with internal control weaknesses in year *t-1*, with a value of zero if no such weaknesses are present. All variables are defined in Appendix A. Standard errors are reported in parentheses below the coefficient estimates and are clustered by firm. *, **, and *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 8
Economic Channel: Managerial Ability

| VARIABLES | ABILITY | |
	High	Low
	(1)	(2)
	MFREVENUE	MFREVENUE
CICW	-0.018	-0.014***
	(0.265)	(0.003)
SIZE	0.097***	0.068***
	(0.015)	(0.017)
MB	0.005***	0.003
	(0.002)	(0.002)
LEV	0.218***	0.076
	(0.058)	(0.053)
ROA	0.114	0.251***
	(0.071)	(0.078)
LAG_LOSS	-0.017	-0.069*
	(0.033)	(0.037)
EARNVOL	0.035	0.043
	(0.068)	(0.053)
RETVOL	-0.002	0.001
	(0.004)	(0.003)
CFVOL	-0.309**	-0.423***
	(0.144)	(0.129)
MARKETSHARE	-3.322**	-1.713
	(1.306)	(1.439)
ANALYST	0.617***	0.594***
	(0.050)	(0.048)
CNUMBER	0.019**	0.023**
	(0.009)	(0.009)
CSIZE	-0.020*	0.007
	(0.011)	(0.012)
CROA	0.172	0.447***
	(0.192)	(0.169)
Year FE	YES	YES
Industry FE	YES	YES
Observations	5,766	5,767
R-squared	0.477	0.439

This table presents cross-sectional analyses for the economic channel of managerial ability. The subsamples are partitioned based on the managerial ability score developed by Demerjian et al. (2012). The dependent variable, *MFREVENUE*, is the natural logarithm of one plus the number of management revenue forecasts issued in year *t*. The independent variable of interest, *CICW*, is defined as the total percentage of sales from customers with internal control weaknesses in year *t-1*, with a value of zero if no such weaknesses are present. All variables are defined in Appendix A. Standard errors are reported in parentheses below the coefficient estimates and are clustered by firm. *, **, and *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 9

Robustness Check

Panel A: Alternative Measures of Customer Internal Control Weaknesses

VARIABLES	(1) MFREVENUE	(2) MFREVENUE	(3) MFREVENUE
CICW_OCCU	-0.048*		
	(0.028)		
CICW_NUM		-0.056**	
		(0.022)	
CICW_NUMWEAK			-0.036***
			(0.008)
Control Variables	YES	YES	YES
Year FE	YES	YES	YES
Industry FE	YES	YES	YES
Observations	13,557	13,557	13,557
R-squared	0.467	0.468	0.468

Panel B: Alternative Fixed Effects

VARIABLES	(1) MFREVENUE	(2) MFREVENUE
CICW	-0.013***	-0.013***
	(0.003)	(0.004)
Control Variables	YES	YES
Firm FE	YES	YES
Year FE	YES	NO
Year*Industry FE	NO	YES
Observations	13,557	13,557
R-squared	0.765	0.767

Panel C: Change Analysis

VARIABLES	(1) d_MFREVENUE
d_CICW	-0.235*
	(0.132)
Control Variables	YES
Year FE	NO
Industry FE	NO
Observations	11,302
R-squared	0.00528

Panel D: Customer Internal Control Weaknesses and Supplier firm Internal Control Weaknesses

VARIABLES	(1) ICW	(2) ICW
CICW_OCCU	0.250	
	(0.160)	
CICW		-0.075*

		(0.045)
Control Variables	YES	YES
Year FE	YES	YES
Industry FE	YES	YES
Observations	13,557	13,557
R-squared	0.0560	0.0585

Panel E: Other Types of Management Forecasts

	(1)	(2)
VARIABLES	MFEARN	MFEPS
CICW	-0.012**	-0.005*
	(0.005)	(0.003)
Control Variables	YES	YES
Year FE	YES	YES
Industry FE	YES	YES
Observations	13,557	13,557
R-squared	0.349	0.380

This table presents results for a series of robustness tests. Panel A presents the results examining the effects of customer internal control weaknesses on the frequency of a firm's revenue forecast decisions using alternative measures of customer internal control weaknesses. The dependent variable, *MFREVENUE*, is the natural logarithm of one plus the number of management revenue forecasts issued in year *t*. The independent variable of interest in column (1), *CICW_OCCU*, is an indicator variable equal to one if the firm has customers disclosing internal control weaknesses in year *t-1* and zero otherwise. *CICW_NUM* in column (2) is defined as the total number of customers disclosing internal control weaknesses in year *t-1*. *CICW_NUMWEAK* in column (3) represents the sum of internal control issues disclosed by all customers. Panel B presents the results examining the effects of customer internal control weaknesses on the frequency of a firm's revenue forecast decisions using alternative fixed effects. Column (1) includes firm and year fixed effects, while column (2) includes firm fixed effects and year-by-industry fixed effects. Panel C presents the results examining the relationship between changes in exposure to customer internal control weaknesses and subsequent changes in the frequency of a firm's revenue forecast decisions. The independent variable, *d_CICW*, is defined as the change in sales exposure from customers with internal control weaknesses from *t-2* to *t-1*. The dependent variable, *d_MFREVENUE*, is defined as the change in the frequency of management revenue forecasts from *t-1* to *t*. Panel D presents the results examining the relationship between exposure to customer internal control weaknesses and the likelihood of a firm's own internal control issues. The dependent variable, *ICW*, is an indicator variable that equals one if the firm has internal control weaknesses in year *t* and zero otherwise. The independent variable in column (1), *CICW_OCCU*, is an indicator variable equal to one if the firm has customers disclosing internal control weaknesses in year *t-1* and zero otherwise. The independent variable in column (2), *CICW*, is defined as the total percentage of sales from customers with internal control weaknesses in year *t-1*, with a value of zero if no such weaknesses are present. Panel E presents the results examining the effects of customer internal control weaknesses on the frequency of a firm's other types of management forecast decisions. The dependent variable in column (1), *MFEARN*, is the natural logarithm of one plus the number of earnings-related forecasts (excluding revenue forecasts) issued in year *t*. The dependent variable in column (2), *MFEPS*, is the natural logarithm of one plus the number of EPS

forecasts issued in year *t*. The independent variable of interest, *CICW*, is defined as the total percentage of sales from all customers with internal control weaknesses in year *t-1*, with a value of zero if no such weaknesses are present. All variables are defined in Appendix A. Standard errors are reported in parentheses below the coefficient estimates and are clustered by firm. *, **, and *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 10
Additional Analysis: Management Revenue Forecast Characteristics

VARIABLES	(1) *ACCURACY*	(2) *POINT*
CICW	-0.165**	-0.255*
	(0.079)	(0.136)
SIZE	0.060***	0.022**
	(0.004)	(0.009)
MB	0.000	-0.001
	(0.001)	(0.001)
LEV	-0.070***	-0.049
	(0.019)	(0.038)
ROA	0.242***	-0.011
	(0.035)	(0.061)
LAG_LOSS	-0.047***	0.002
	(0.014)	(0.023)
EARNVOL	-0.079	0.012
	(0.054)	(0.091)
RETVOL	0.007***	0.002
	(0.001)	(0.002)
CFVOL	0.004	0.175
	(0.093)	(0.188)
MARKETSHARE	-0.976**	0.320
	(0.453)	(0.978)
ANALYST	0.038*	-0.016
	(0.022)	(0.044)
CNUMBER	0.004	-0.007
	(0.003)	(0.005)
CSIZE	-0.004	-0.002
	(0.004)	(0.007)
CROA	0.074	0.295*
	(0.081)	(0.154)
HORIZON	-0.064***	-0.043**
	(0.008)	(0.018)
Year FE	YES	YES
Industry FE	YES	YES
Observations	4,135	4,135
R-squared	0.411	0.111

This table presents the results examining the effects of customer internal control weaknesses on the characteristics of management revenue forecasts. The dependent variable in column

(1), *ACCURACY*, is calculated as the absolute difference between realized sales and the first annual sales estimate, transformed using the natural logarithm and scaled by stock prices. To standardize accuracy across industries and time periods, we convert this variable into deciles by industry and year, then multiply by -1 so that larger values indicate greater accuracy. The dependent variable in column (2), *POINT*, is a binary variable equal to one if the forecast is a point estimate, and zero otherwise. The independent variable of interest, *CICW*, is defined as the total percentage of sales from all customers with internal control weaknesses in year *t-1*, with a value of zero if no such weaknesses are present. All variables are defined in Appendix A. Standard errors are reported in parentheses below the coefficient estimates and are clustered by firm. *, **, and *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 11

Additional Analysis: Market Reactions to Management Revenue Forecast

VARIABLES	(1) CAR
CICW	0.002
	(0.029)
GOODNEWS	0.182***
	(0.029)
CICW*GOODNEWS	0.398
	(0.351)
BADNEWS	-0.295***
	(0.054)
CICW*BADNEWS	-2.143**
	(1.067)
SURPRISE	0.051**
	(0.022)
HORIZON	0.004***
	(0.001)
SIZE	-0.004***
	(0.001)
MB	0.001***
	(0.000)
LEV	0.002
	(0.004)
ROA	0.074***
	(0.010)
EARNVOL	0.001
	(0.016)
RETVOL	0.000
	(0.000)
CFVOL	-0.007
	(0.029)
MARKETSHARE	0.111**
	(0.052)
ANALYST	-0.005
	(0.009)
CNUMBER	0.000
	(0.000)
CSIZE	0.001
	(0.001)
CROA	0.022
	(0.021)
Year FE	YES
Industry FE	YES
Observations	14,616
R-squared	0.0436

This table presents results examining whether the market reacts differently to revenue forecast news based on the firm's exposure to customer internal control weaknesses. The

dependent variable, *CAR*, is defined as the cumulative abnormal return over a six-day window (-3, 3) around the forecast release date. *Good news forecast* (*GOODNEWS*) is calculated as the difference between the actual revenue forecast and the closest mean analyst revenue forecast before the announcement, divided by the absolute value of the analyst consensus, if the difference is greater than or equal to zero; otherwise, it is set to zero. *Bad news forecast* (*BADNEWS*) is calculated similarly, but it is set to the difference when it is less than zero and is multiplied by -1 for ease of interpretation. The independent variable of interest, *CICW*, is defined as the total percentage of sales from all customers with internal control weaknesses in year *t-1*, with a value of zero if no such weaknesses are present. All variables are defined in Appendix A. Standard errors are reported in parentheses below the coefficient estimates and are clustered by firm. *, **, and *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 12

Additional Analysis: Customer Internal Control Weaknesses and Corporate Policy

VARIABLES	(1) RD	(2) SELLEXP	(3) CAPX	(4) REC	(5) RECT
CICW	-0.003*	-0.012***	-0.001**	-0.004**	-0.004**
	(0.002)	(0.001)	(0.000)	(0.002)	(0.002)
SIZE	-0.007***	-0.035***	-0.002**	-0.015***	-0.015***
	(0.001)	(0.003)	(0.001)	(0.001)	(0.001)
MB	0.000	0.002**	-0.000	-0.000	-0.000
	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)
LEV	-0.041***	-0.047***	0.011***	-0.005	-0.002
	(0.008)	(0.015)	(0.003)	(0.004)	(0.004)
ROA	-0.283***	-0.289***	-0.001	0.047***	0.046***
	(0.029)	(0.039)	(0.004)	(0.006)	(0.006)
LAG_LOSS	0.014**	0.022**	-0.003	-0.011***	-0.013***
	(0.006)	(0.009)	(0.002)	(0.003)	(0.003)
EARNVOL	-0.040**	0.046*	0.003	-0.005	-0.006
	(0.019)	(0.025)	(0.003)	(0.004)	(0.004)
RETVOL	0.001*	0.002***	0.001***	0.000	0.000
	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)
CFVOL	0.193***	0.028	-0.013*	-0.003	-0.006
	(0.062)	(0.059)	(0.007)	(0.010)	(0.010)
MARKETSHARE	0.339***	1.131***	-0.025	0.836***	0.767***
	(0.096)	(0.237)	(0.054)	(0.181)	(0.173)
ANALYST	0.025***	-0.011	0.005*	-0.013***	-0.008**
	(0.005)	(0.010)	(0.003)	(0.004)	(0.004)
CNUMBER	-0.000	0.002*	-0.000	0.001	0.001
	(0.001)	(0.001)	(0.000)	(0.001)	(0.001)
CSIZE	-0.000	0.001	-0.000	0.003***	0.003***
	(0.002)	(0.003)	(0.001)	(0.001)	(0.001)
CROA	-0.010	0.069	0.022***	0.012	0.018
	(0.035)	(0.049)	(0.007)	(0.014)	(0.014)
Year FE	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES
Observations	13,557	13,557	13,557	13,557	13,557
R-squared	0.480	0.436	0.498	0.519	0.521

This table presents the results examining the effects of customer internal control weaknesses on various corporate policies, including (1) R&D investment (*RD*), (2) selling expenses (*SELLEXP*), (3) capital expenditures (*CAPX*), (4) total accounts receivable (*REC*), and (5) trade receivables specifically (*RECT*). The independent variable of interest, *CICW*, is defined as the total percentage of sales from all customers with internal control weaknesses in year *t-1*, with a value of zero if no such weaknesses are present. All variables are defined in Appendix A. Standard errors are reported in parentheses below the coefficient estimates and are clustered by firm. *, **, and *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.