

**EARNINGS PRESSURES FROM SHAREHOLDERS, ACTIVISM AND  
ANALYST RECOMMENDATIONS: HOW DO MANAGERS USE MANAGEMENT  
CONTROL SYSTEMS IN RESPONSE?**

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## **Abstract**

Earnings pressures from shareholders increase demands on managerial processes to assuage problems. We investigate how managers interactively use management control systems (MCS) to alleviate shareholder concerns. We also identify two factors that help explain the variation in the level of interactive use: (i) shareholder activism and (ii) broad-scope MCS design. In addition, an open question is to what extent the diagnostic use of MCS plays a role in alleviating shareholder pressures. We argue that it depends on the analysts' recommendations in the current year. Our hypotheses are empirically tested with survey, archival and hand-collected data from 224 managers. Results provide support for our predictions, suggesting that managers use the interactive lever to assuage shareholder pressure. This effect is more pronounced for managers facing high shareholder activism and for those equipped with low broad-scope MCS design. We further find that in a setting of favorable analyst recommendations, managers use the diagnostic lever instead of the interactive one to cope with shareholder pressure. Overall, the study's results may help inform our understanding of how firms manage earnings pressures from shareholders from a management control perspective.

**Keywords:** *Shareholder pressure; Interactive use; Diagnostic use; Management control systems; Shareholder activism; Analyst recommendation.*

**JEL codes:** *G32, M40, M41.*