This dissertation investigates how external factors shape a firm’s information environment. A transparent firm information environment is important to the efficiency of capital markets. To make informed decisions, economic agents such as investors, creditors, and suppliers rely not only on the information provided by firms, but also on other sources outside of the firms’ controls. The dissertation aims to expand our understanding of how external factors, namely financial analysts’ earnings forecasts, quality of auditors’ assurance services, and peer firms’ influence, contribute to a firm’s information environment.

In the first essay, I find evidence of bounded rationality in financial analysts and how it affects the information analysts produce. I argue that analysts face a limited attention constraint. Consequently, they must strategically choose which information to pay attention to and which information to ignore when making earnings forecasts. This prevents them from fully utilizing the available information to produce the most accurate forecasts. I rely on rational inattention theory (Sims 2003) to develop and formalize the relationship among factors that determine analyst attention and how analyst attention affects forecast accuracy. To map my theoretical predictions to the data, I construct a novel measure of attention that varies across stocks followed by the same analyst during the same fiscal period. I find that analysts tend to pay more attention to firms with volatile earnings and firms in their industry specialization while paying less attention to those that are new to their portfolio. Importantly, I find that attentive analysts are more accurate, and the effect of attention is larger for inexperienced analysts and stocks with highly volatile earnings. My findings imply that it is not just analyst coverage that matters; it is attentive coverage that reduces the information asymmetry between firms and investors.

In the second essay, I study whether and to what extent the job satisfaction of employees affects the quality of their auditing services. To do so, I utilize a novel large-scale data set on job satisfaction from Glassdoor.com and an identification approach based on local precipitation to pin down the direction of causality and to show that employee job satisfaction has a significant positive effect on audit quality. Further, the evidence suggests that satisfied employees are better at detecting significant accounting irregularities but remain the same as other employees at detecting minor accounting errors. Among job satisfaction indicators, these effects are driven by management quality and career opportunities. Overall, these findings demonstrate the importance of individual audit employees to the audit process and have practical implications for audit firms’ treatment of employees and audited firms’ information environments.
In the third essay, I investigate the strategic interactions among industry peers with respect to financial reporting behaviors. Exploiting quasi-exogenous variation in the timing of peers' earnings announcements based on the SEC's threshold-based reporting deadline rules, I present evidence that peers have a disciplining effect on firm disclosure timing decisions. I find that firms respond to early peer announcements by announcing their own earnings early. Furthermore, I show evidence suggesting that peer effects operate under two mechanisms: disciplining and information transfer. Discipline occurs because investors may infer bad news from delay relative to reporting peers. Information transfer occurs because peer reports contain information that is directly value relevant for the focal firm. Importantly, peer effects impose a significant spillover cost in the form of increased audit fees on firms facing peer pressure to report early. My findings highlight a novel externality of financial reporting regulation with benefits and costs that should be considered by policymakers concerned with the timing of earnings information releases.