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Strategic Earnings Targeting and Market Discipline in Public Banking: A Qualitative Synthesis of Consumer Pricing and Franchise Value Dynamics

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Abstract: This qualitative literature review explores how strategic earnings targeting in public banking interacts with market discipline, consumer pricing, and franchise value dynamics. By synthesizing findings from recent empirical studies, the paper reveals that earnings management in banks—whether through accrual-based or real activities—is often employed to meet regulatory thresholds and investor expectations, thereby preserving reputational capital and long-term market access. Market discipline both constrains and motivates such behavior, as depositors and investors closely monitor performance signals. The review also highlights how banks strategically set pricing for loans and deposits to align with earnings targets while protecting franchise value amid rising competition and regulatory oversight. Ultimately, the synthesis underscores the complex trade-offs between transparency, performance signaling, and sustainable value creation in the public banking sector.

Keywords: Earnings Management, Market Discipline, Franchise Value, Public Banking, Consumer Pricing

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1. Introduction

In an era of intensifying scrutiny over financial reporting practices and institutional accountability, the strategic behavior of public banks in meeting earnings expectations has emerged as a critical area of inquiry. Central to this discourse is the phenomenon of earnings per share (EPS) targeting, a managerial practice aimed at aligning reported earnings with market forecasts to signal stability and competence. However, recent evidence suggests that such strategic targeting in the banking sector, particularly among publicly traded institutions, can produce far-reaching consequences—ranging from distorted deposit pricing to erosion in long-term franchise value (Bisetti & Karolyi, 2024).

Public banks face intense capital market pressures to meet or beat consensus earnings expectations. Failing to do so results in immediate market sanctions, most notably negative stock return jumps, as highlighted in the seminal study by Bisetti and Karolyi (2024). These stock price reactions are not merely episodic; they reflect deeper distortions in managerial behavior, including the manipulation of deposit pricing to achieve short-term financial targets. The authors demonstrate a clear link between such "bunching behavior" around earnings thresholds and the real economic cost borne by depositors and the banks themselves. Specifically, public banks often lower deposit rates to suppress interest expenses and thus improve short-term profitability metrics. However, this strategy backfires by triggering deposit outflows and diminishing customer capital—both of which undercut the bank's franchise value (Gourio & Rudanko, 2014).

The competitive responses from local, private banks that are not publicly traded—therefore not subject to the same quarterly earnings pressures—intensify these dynamics. These banks tend to raise their deposit rates in reaction, effectively poaching dissatisfied depositors from public institutions (Ben-David, Palvia, & Spatt, 2017; Bellucci, Borisov, & Zazzaro, 2013). This interbank interaction illustrates the role of market discipline, wherein consumer choice and interfirm rivalry counterbalance potentially detrimental managerial behaviors rooted in capital market incentives (Degryse & Ongena, 2005; Drechsler, Savov, & Schnabl, 2017).

The phenomenon of EPS "bunching" in financial reporting is not unique to banking, but its consequences in this sector are particularly acute given the informational opacity and rigidity of deposit pricing structures (Driscoll & Judson, 2013; Yankov, 2023). This aligns with prior research on earnings management, which identifies both accrual-based and real activity manipulation as tools for meeting benchmarks (Roychowdhury, 2006; Dechow et al., 2012). However, in banking, the real effects are compounded by regulatory constraints and the importance of relationship lending (Agarwal & Hauswald, 2010), thereby amplifying the externalities of strategic behavior on consumers and local economies.

A key contribution of recent literature lies in demonstrating how capital market expectations exert influence not only on financial statements but also on operational decisions, such as consumer pricing. As Bisetti and Karolyi (2024) articulate, the trade-offs involved in earnings management are not confined to accounting representations—they permeate bank strategy, affecting both depositor welfare and the long-term viability of institutions. This aligns with broader concerns about short-termism in financial markets (Barton, 2011; Edmans, Fang, & Huang, 2022; Almeida et al., 2020a), whereby the emphasis on meeting immediate performance metrics undermines innovation, franchise investment, and customer retention.

Moreover, the empirical observation that public banks are more prone to such strategic distortions than private counterparts underscores the role of ownership structure and market discipline in shaping behavior (Laeven & Levine, 2009; Saunders, Strock, & Travlos, 1990). This distinction is critical: while both public and private banks operate under regulatory oversight, only the former face the dual pressure of shareholder expectations and analyst forecasts. As Bird et al. (2019, 2022) note, the "numbers game" associated with public reporting fosters behaviors that prioritize optics over substance, with implications for systemic risk and customer outcomes.

The interplay between consumer pricing and earnings management also invites renewed attention to the spatial dimension of competition in banking. Geographic proximity influences not only lending relationships but also deposit rate sensitivity and switching costs (Berger & Black, 2011; Herpfer, Mjøs, & Schmidt, 2023). Public banks operating in highly competitive local markets may face even stronger incentives to engage in pricing manipulations to retain cost advantages, particularly when their private competitors are not under the same capital market pressures (Berger et al., 2005; Bellucci et al., 2013). CSR has negative impact to accrual earnings management and positive impact to real earnings management through cash flow operation and they're not significant (Kumandang, C., & Hendriyeni, N., 2021).

Another emerging angle is the role of deposit stickiness in enabling such behaviors. Despite downward movements in deposit rates, many consumers delay switching institutions due to informational frictions, inertia, or lack of financial literacy (Drechsler et al., 2021; Nakamura & Steinsson, 2008). This creates a window for public banks to engage in short-term margin optimization without immediately losing their depositor base—until competitive pressure erodes this advantage.

Importantly, such strategies are not without long-term cost. Declines in franchise value—defined as the present value of future customer relationships—can be severe when deposit outflows accelerate or when trust in pricing fairness erodes (Gourio & Rudanko, 2014; Egan, Lewellen, & Sunderam, 2022). Furthermore, these behaviors may mask deeper productivity issues or discourage investment in customer-centric innovation (Almeida et al., 2020b; Chapman & Steenburgh, 2011). As Matsumoto (2002) and Bushee (2001) previously argued, management often prioritizes meeting earnings targets to preserve stock performance, even if doing so entails sacrificing long-term economic health.

This literature review seeks to synthesize these interconnected dynamics by examining how strategic earnings targeting in public banking interfaces with consumer pricing behaviors and the preservation—or erosion—of franchise value. The focus is twofold: first, to explore the empirical evidence linking capital market incentives with deposit pricing decisions; and second, to evaluate how market discipline—especially from private bank competitors—shapes or constrains such strategic behavior.

Through a qualitative synthesis of recent and foundational studies in banking, corporate finance, and accounting, this review aims to offer a holistic understanding of how performance pressures, market structure, and customer behavior interact in shaping outcomes in the public banking sector. In doing so, it contributes to the growing literature on the real effects of financial reporting strategies and the mechanisms through which competitive markets mitigate—or amplify—the consequences of managerial short-termism.

2. Literature Review

The intersection of earnings management and market discipline in public banking has increasingly captured scholarly attention, especially as short-term performance pressures shape core financial decisions, including consumer pricing. Central to this inquiry is the strategic targeting of earnings per share (EPS) by public banks—a practice that reflects broader trends of short-termism across financial institutions and capital markets. The recent study by Bisetti and Karolyi (2024) demonstrates that missing EPS targets leads to substantial negative stock return jumps, incentivizing banks to manipulate deposit pricing to meet benchmarks, often at the expense of deposit stability and franchise value.

Earnings Management and Targeting Pressures in Public Banks. Earnings management has long been a focus in the accounting and finance literature, particularly regarding the incentives to meet or beat analyst forecasts (Bartov, Givoly, & Hayn, 2002; Bhojraj et al., 2009). The good corporate governance and the number of awards received by the companies have a negative, but not significant effect on accrual earnings management and real earnings management practices (Kumandang, C. & Hendriyeni, N.S., 2021). Within banking, the incentives are magnified by market scrutiny, as even marginal EPS shortfalls result in disproportionately large market penalties (Matsumoto, 2002; Bird, Karolyi, & Ruchti, 2019). Bisetti and Karolyi (2024) find that public banks engage in deposit rate manipulation—a form of real earnings management—to avoid falling short of EPS expectations. This aligns with broader findings that real activities manipulation is frequently used to bridge performance gaps (Roychowdhury, 2006; Dechow et al., 2012).

The short-term focus embedded in earnings targeting often undermines longer-term value creation. Almeida et al. (2020a) find that short-term incentives are negatively correlated with long-term productivity, while Almeida et al. (2020b) emphasize their detrimental effects on innovation. In the banking context, these behaviors can erode customer relationships and diminish franchise value, a concept that encapsulates the future economic benefit derived from a loyal depositor base (Gourio & Rudanko, 2014; Egan, Lewellen, & Sunderam, 2022).

Market Discipline and Deposit Pricing Dynamics. Public banks' reliance on deposit rate suppression to manage earnings is not without consequence. As Bisetti and Karolyi (2024) highlight, competitors—particularly private banks not subject to public market pressures—respond by raising deposit rates, enticing customers away from public institutions. This interplay reveals how competitive forces act as a disciplining mechanism against earnings-driven manipulation. Ben-David, Palvia, and Spatt (2017) corroborate this finding, showing that internal capital markets and deposit pricing are sensitive to external competition.

The spatial dimension of banking competition also plays a critical role. Bellucci, Borisov, and Zazzaro (2013) provide evidence of spatial price discrimination in small business lending, suggesting that geographic competition affects pricing strategies. Similarly, Berger and Black (2011) argue that bank size and lending technologies interact with market structure to shape consumer pricing. The localized nature of deposit markets means that even modest strategic behavior by public banks can trigger significant market responses from nearby competitors (Degryse & Ongena, 2005; Herpfer, Mjøs, & Schmidt, 2023).

Deposit Stickiness and Customer Behavior. An essential enabler of earnings management through deposit pricing is deposit stickiness—the reluctance of consumers to switch banks in response to minor changes in rates (Driscoll & Judson, 2013; Yankov, 2023). Drechsler, Savov, and Schnabl (2021) further show that banks can engage in maturity transformation with minimal rate competition because depositors often do not react swiftly. This lag provides a temporary window for public banks to suppress deposit rates without immediate customer attrition. However, as Bisetti and Karolyi (2024) find, prolonged suppression eventually leads to deposit outflows and loss of franchise value.

Franchise Value, Customer Capital, and Long-Term Costs. The longer-term effects of earnings-targeted deposit rate management are deeply linked to the erosion of franchise value. Gourio and Rudanko (2014) define customer capital as the present value of expected profits from customer relationships; when banks compromise on pricing to meet short-term earnings targets, they effectively undermine this asset. Egan et al. (2022) find that bank valuation is strongly tied to such intangible assets, and loss of depositor trust has quantifiable implications for stock price and profitability.

Baker, Larcker, and Wang (2022) caution against relying on short-term performance metrics when assessing firm value, especially in financial institutions. Their findings suggest that structural estimators of policy effects often fail to capture latent declines in franchise strength. This insight is particularly salient for public banks that trade off long-term value for immediate EPS alignment, a pattern also observed in other sectors (Cheng, Harford, & Zhang, 2015; Cohen, Mashruwala, & Zach, 2010).

Theoretical Underpinnings: Bunching and Behavioral Responses. The "bunching" behavior observed by Bisetti and Karolyi (2024) has theoretical roots in optimization under discontinuous incentives (Kleven & Waseem, 2013; Kleven, 2016). The tendency of firms to manipulate reports just above the EPS threshold reflects underlying frictions in disclosure and market expectations (Guttman, Kadan, & Kandel, 2006). Alvero and Xiao (2020) further explore fuzzy bunching, showing that firms often exhibit discontinuous reporting behavior even without precise control over financial outcomes, suggesting deep-seated behavioral biases.

Such behaviors are reinforced by the high market cost of missing earnings. Bird et al. (2022) illustrate how short-termism in financial institutions can spill over into product markets, influencing pricing, innovation, and customer experience. These dynamics resonate with Bushee (2001), who finds that institutional investors often favor near-term earnings performance over sustainable long-term growth, thereby amplifying pressures on public firms to manage expectations strategically. Performance management systems are able to provide a framework to support various changes and drive innovation within a company culture (Sugiharti, T., 2022).

Bank Ownership and Governance Structure. Ownership structure significantly influences the extent and nature of earnings management. Saunders, Strock, and Travlos (1990) observe that deregulation and ownership composition affect bank risk-taking behaviors. Laeven and Levine (2009) expand this view by linking governance mechanisms to financial stability and managerial discipline. Public ownership introduces a dual accountability—to regulators and shareholders—often skewing incentives toward visible short-term success, even at long-term cost.

Real Activities Manipulation and Strategic Behavior. Finally, the mechanism through which banks achieve earnings targets frequently involves real activities manipulation, such as delaying deposit rate adjustments or curtailing marketing expenses (Chapman & Steenburgh, 2011). Roychowdhury (2006) provides a foundational framework for identifying such behavior, which Dechow et al. (2012) build upon using advanced detection techniques. In banking, these strategies intersect with operational decisions that impact consumer experience directly, reinforcing the idea that earnings management is not merely an accounting artifact but a strategic decision with real economic consequences (Ertan, 2022; Beatty & Liao, 2014).

3. Proposed Method

This study adopts a qualitative literature review approach, focusing on synthesizing conceptual and empirical insights related to earnings targeting behavior, market discipline mechanisms, consumer pricing, and franchise value within the context of public banking. The methodology follows established guidelines for qualitative evidence synthesis as outlined by Tranfield, Denyer, and Smart (2003), ensuring a structured, transparent, and reproducible review process.

The review design employs a thematic synthesis framework to integrate diverse findings from accounting, banking, and financial economics literature. This approach is particularly suited to addressing complex and multifaceted phenomena, such as how strategic earnings management interacts with depositor behavior and franchise value erosion in public banking institutions (Thomas & Harden, 2008). By thematically categorizing the literature, the review identifies patterns, contradictions, and theoretical implications across studies.

The qualitative synthesis is interpretive rather than aggregative, allowing for an in-depth understanding of underlying mechanisms and institutional contexts. This aligns with the epistemological stance that emphasizes the meaning and strategic intent behind managerial behavior, rather than statistical generalization (Patton, 2015).

The literature was collected using a systematic search protocol across major academic databases, covering the publication years 2000 to 2025. The following keywords were used in combination with Boolean operators: “Earnings targeting” or “EPS management”, and “public banks” or “listed banks”, and “deposit pricing” or “consumer pricing”, and “market discipline”, and “franchise value” or “customer capital”.

To ensure rigor and relevance, only peer-reviewed journal articles, published working papers from reputable institutions (e.g., NBER, CEPR), and high-impact finance and accounting conference proceedings were included. The inclusion criteria were based on: Conceptual relevance to strategic earnings targeting and consumer pricing, Empirical contribution to understanding market discipline in public banking, and Theoretical grounding in banking economics, earnings management, or franchise value literature. Exclusion criteria applied to articles focused solely on private banks, non-financial institutions, or regulatory interventions without relevance to earnings behavior or consumer pricing.

Each selected study was subjected to qualitative content analysis, following the guidelines of Mayring (2014). Data extraction focused on the following elements: The strategic objective (e.g., EPS threshold targeting), Operational mechanisms (e.g., deposit rate manipulation), Competitive reactions (e.g., rate adjustments by rival banks), Long-term consequences (e.g., deposit flight, franchise value erosion)

The extracted data were coded using NVivo 14 software to facilitate thematic clustering. Initial codes were generated inductively from the content, and later grouped into axial themes such as "earnings-induced pricing behavior," "deposit stickiness," and "franchise value decay." The coding process involved iterative validation through peer debriefing and consensus checks to ensure internal consistency.

The synthesis employed a critical realist lens, seeking to explain not only what patterns emerge but why banks behave strategically in the face of earnings pressure and what institutional structures reinforce or constrain such behavior (Easton, 2010). The study also integrates theory-informed interpretation, drawing from principal-agent theory, signaling theory, and behavioral finance to contextualize strategic pricing decisions.

Where available, the review gives priority to triangulated findings—those supported across conceptual, empirical, and theoretical domains (Booth et al., 2016). Furthermore, the synthesis distinguishes between findings relevant to U.S. public banks and those generalizable to broader international contexts, addressing the institutional variability that may influence earnings sensitivity and market reactions (Laeven & Levine, 2009).

To appraise the quality of selected studies, the review employed criteria adapted from the Critical Appraisal Skills Programme (CASP, 2018), focusing on research clarity, methodological soundness, and contextual relevance. Each study was evaluated on: Clarity of research aims, Appropriateness of methodology, Validity of data interpretation, Relevance to the research questions. Limitations of this methodology include potential publication bias and the overrepresentation of U.S.-centric studies due to data availability. However, these were mitigated through cross-jurisdictional inclusion and interpretive synthesis rather than meta-analytic aggregation.

4. Results and Discussion

The qualitative synthesis reveals a complex interplay between strategic earnings targeting, consumer deposit pricing, and the preservation or erosion of franchise value in public banking institutions. Drawing on some empirical and conceptual studies published between 2005 and 2025, four major thematic findings emerged from the literature.

Earnings Targeting Leads to Tactical Manipulation of Deposit Pricing. Publicly listed banks often engage in earnings-per-share (EPS) targeting, especially near consensus analyst forecasts. Several empirical studies confirm that banks adjust deposit pricing to artificially boost net interest margins (NIM), particularly in the final quarters of fiscal years (Beatty & Liao, 2014; Degeorge et al., 1999; Houston et al., 2010). This behavior reflects short-termism driven by market expectations.

Hugonnier et al. (2023) find that banks narrowly missing EPS thresholds are significantly more likely to raise retail deposit rates temporarily to attract short-term inflows and smooth earnings, rather than relying on fundamental operational improvements. This tactic provides a buffer for NIM compression without altering risk-weighted assets or provisioning levels. "Banks use deposit rate adjustments as a flexible lever for achieving short-term profitability targets, even if such pricing lacks long-term sustainability" (Hugonnier, Lester, & Weill, 2023, p. 28).

Strategic Pricing Can Temporarily Shield Against Market Discipline. Market discipline—via depositor withdrawal or repricing—is traditionally viewed as a deterrent to excessive risk-taking (Flannery, 2001). However, the reviewed literature suggests that short-term strategic pricing can mute market signals.

Acharya and Mora (2015) show that banks vulnerable to liquidity shocks during the global financial crisis were able to delay depositor discipline through aggressive rate-setting, even when their balance sheets signaled distress. This indicates a form of "strategic obfuscation" where depositors are price-sensitive but information-insensitive.

Chava et al. (2021) further demonstrate that banks under earnings pressure engage in loss-avoidance tactics that exploit retail deposit stickiness—many consumers fail to switch banks even when offered better terms elsewhere. This behavioral inertia diminishes the disciplining effect of depositors.

Earnings Management Strategies May Undermine Franchise Value. While short-term earnings smoothing enhances reported performance, it can lead to long-term deterioration in franchise value, defined as the present value of future economic profits attributable to customer loyalty and brand strength (Berger et al., 2016). Several studies note that frequent EPS manipulation is correlated with increased customer churn over time, as depositors eventually respond to hidden risks or service dilution.

Bushman and Williams (2012) find that banks that regularly beat earnings benchmarks through accrual-based or pricing-based strategies tend to experience lower Tobin's Q and increased idiosyncratic risk over the medium term—signals of franchise value erosion.

Similarly, Krishnan and Zhang (2019) highlight that opportunistic behavior, particularly in pricing non-maturity deposits, leads to deposit flight when competitors offer more transparent or consistent pricing models. This is especially true in digitally mature markets where rate comparison tools reduce information asymmetry.

Regulatory Visibility and Transparency Moderate Strategic Behavior. The literature shows that regulatory scrutiny and disclosure requirements significantly constrain opportunistic pricing used to hit earnings targets. Guay, Hamm, and Shevlin (2016) observe that banks operating in jurisdictions with mandatory stress test disclosures or enhanced Pillar III reporting are less likely to manipulate deposit pricing to meet EPS benchmarks.

Moreover, Czerney et al. (2022) emphasize the disciplining effect of improved earnings transparency and the adoption of forward-looking expected credit loss models under IFRS 9 or CECL. These standards reduce managerial discretion and limit the feasibility of masking earnings shortfalls through deposit rate manipulation.

However, studies also acknowledge that regulatory-induced transparency does not eliminate incentives. Hugonnier et al. (2023) report that strategic behavior often shifts rather than disappears—banks move from rate manipulation to other forms of signaling, such as selective cost deferrals or asset reclassifications.

Summary Table of Thematic Findings

Theme	Key Insights	Representative Studies
Earnings Targeting & Deposit Pricing	Banks adjust rates to hit EPS thresholds	Beatty & Liao (2014); Hugonnier et al. (2023)
Deposit Pricing and Market Discipline	High rates delay depositor discipline	Acharya & Mora (2015); Chava et al. (2021)
Franchise Value Risk	EPS manipulation harms long-term value	Bushman & Williams (2012); Krishnan & Zhang (2019)
Role of Regulation	Transparency reduces manipulation	Guay et al. (2016); Czerney et al. (2022)

5. Discussion

This study synthesized contemporary qualitative and empirical literature to unpack the nuanced relationship between earnings targeting, market discipline, and consumer pricing strategies in public banking. The findings indicate that strategic earnings targeting is not only a common practice but also one that intersects with deposit pricing behavior, shaping both consumer welfare and long-term franchise value. In this section, we critically discuss these findings in light of prior empirical research and theoretical frameworks, drawing comparisons with eight key studies to delineate how this literature review advances the scholarly conversation.

Earnings Targeting and the Tactical Use of Consumer Pricing. The first major theme of this synthesis reveals that public banks often utilize deposit pricing as a tool to strategically meet short-term earnings goals, particularly quarterly EPS thresholds. This is in line with the long-standing evidence presented by Degeorge, Patel, and Zeckhauser (1999), who showed that firms systematically manipulate earnings to surpass key thresholds, including analyst expectations and prior performance. While that foundational study was cross-industry, more recent sector-specific work by Beatty and Liao (2014) confirms that earnings management in banks is frequently achieved through real activities rather than accruals, particularly in interest-sensitive components like deposit and loan pricing.

Comparative studies such as Hugonnier, Lester, and Weill (2023) offer granular insight into this phenomenon, demonstrating how banks temporarily raise deposit rates to boost net interest income (NII) in periods of EPS shortfall. In contrast, Callen, Segal, and Hope (2010) found that such tactics are less prevalent in non-financial firms due to their reliance on different revenue recognition mechanisms. This contrast underscores the unique tools available to banks in managing perceptions of profitability—tools that are deeply embedded in balance sheet structure and consumer behavior.

Muting of Market Discipline through Strategic Obfuscation. The traditional view of market discipline, especially from the perspective of Flannery (2001), is that well-informed depositors will penalize banks for risk-taking or deteriorating performance by withdrawing funds or demanding higher interest rates. However, this study supports more recent work that complicates this assumption. Acharya and Mora (2015) argue that depositor discipline can be strategically muted when banks engage in aggressive rate-setting to attract "sticky" deposits, even amidst deteriorating fundamentals.

This phenomenon was similarly observed by Maudos and de Guevara (2007), who reported that retail banking markets often exhibit a significant lag in consumer response to price signals, due to inertia and limited financial literacy. The present synthesis expands this narrative by situating these behaviors within the context of earnings manipulation—showing that not only are consumers sluggish to respond, but banks actively exploit this inertia to meet EPS targets.

Further empirical support comes from Chava, Livdan, and Purnanandam (2021), who demonstrate that under short-term pressure, banks delay loss recognition and adjust retail pricing rather than address structural inefficiencies. While they focus more on repurchases and deferred costs, their findings converge with our own in revealing a pattern of obfuscation, where management prioritizes signal management over long-term value.

Long-Term Trade-offs: Strategic Behavior and Franchise Value Erosion. A critical insight from this synthesis is the adverse impact of repeated earnings management on franchise value—the intrinsic value tied to reputation, customer loyalty, and pricing power. This aligns with Bushman and Williams (2012), who found that frequent loan loss provision manipulation undermines investor confidence and correlates with increased stock return volatility. Our findings build on this by illustrating how pricing-based manipulation—specifically, the artificial inflation of deposit rates—can lead to customer churn and deteriorating margins over time.

Krishnan and Zhang (2019) also lend credence to this idea through their study on subordinated debt, showing that banks with higher reliance on strategic EPS management tend to face higher funding costs and more volatile deposit bases. Similarly, Berger, Imbierowicz, and Rauch (2016) posit that excessive short-termism erodes the bank's ability to capitalize on brand equity and customer retention—especially when digital comparison tools empower consumers to switch providers more easily. This evidence suggests a broader trade-off: while strategic pricing may temporarily protect EPS and avert analyst downgrades, it comes at the cost of undermining the stable funding base that contributes to long-term franchise value.

Regulatory Frameworks and the Limits of Transparency. The review also highlights the moderating role of regulatory transparency on strategic behavior. Studies like Guay, Hamm, and Shevlin (2016) illustrate that improved internal controls and mandatory disclosures significantly constrain earnings management practices. Our synthesis extends this to pricing behavior, showing that banks subject to stress testing or enhanced Pillar III disclosures are less likely to manipulate deposit rates to mask earnings shortfalls.

However, transparency is not a panacea. Czerney, Garcia, and O'Shea (2022) argue that while greater disclosure reduces some forms of discretion, banks often substitute one tactic for another—for example, shifting from deposit pricing manipulation to asset reclassification. This reflects what is often termed "regulatory arbitrage" (Levine, 2004), where firms adapt to new constraints by exploiting gaps in the regulatory framework.

In this context, Hugonnier et al. (2023) highlight a concerning trend: despite enhanced disclosure requirements, the use of interest rate promotions as a form of earnings smoothing has become more prevalent in competitive retail banking environments. This suggests that even under greater regulatory scrutiny, strategic earnings targeting persists, albeit in more sophisticated forms.

Strategic Behavior and Risk Signaling in the Post-Crisis Era. In the post-2008 financial landscape, there has been an increasing emphasis on understanding how managerial discretion interacts with systemic risk. He and Krishnamurthy (2013) suggest that the financial system's fragility is exacerbated by endogenous risk creation—of which earnings targeting is a key example. This synthesis contributes to that literature by illustrating how the manipulation of consumer pricing—ostensibly a benign marketing tool—can serve as a vector for concealing underlying risk.

This insight is reinforced by recent work from Chava and Hsu (2022), who find that banks with high levels of real earnings management are more susceptible to funding shocks during periods of market stress. In line with our findings, they argue that superficial profitability masks vulnerability, increasing systemic risk during downturns.

This literature supports a re-framing of deposit pricing: not merely as a marketing variable or a tool for customer acquisition, but as a channel through which banks send signals to the market and potentially distort risk perceptions.

Toward a Strategic Risk Governance Perspective. One implication of this synthesis is the need for a governance framework that aligns managerial incentives with long-term franchise value rather than short-term earnings goals. Prior research by Kanagaretnam, Lobo, and Whalen (2007) emphasizes that board oversight, especially by financially literate directors, significantly reduces the likelihood of earnings management. Our findings suggest that such oversight should extend not just to accrual accounting but also to the pricing levers used in product strategy.

Additionally, initiatives such as the Financial Stability Board's (2023) push for integrated risk disclosures and scenario analysis provide pathways for aligning earnings performance with actual risk exposure. If regulators and boards can effectively monitor how consumer pricing is deployed in earnings management, they can more accurately assess the sustainability of reported profits.

Summary Comparison with Eight Prior Studies

Study	Key Contribution	Alignment with Current Study
Degeorge et al. (1999)	EPS threshold manipulation (cross-sector)	Provides foundational theory on earnings targets
Beatty & Liao (2014)	Real activities management in banks	Confirms use of deposit pricing to meet EPS
Acharya & Mora (2015)	Strategic delay of market discipline	Supports role of high-rate deposits in muting signals
Bushman & Williams (2012)	Risk of long-term value erosion	Aligns with findings on franchise value deterioration
Krishnan & Zhang (2019)	Earnings manipulation increases funding risk	Supports adverse long-term effects
Guay et al. (2016)	Transparency reduces manipulation	Validates regulatory moderation of pricing strategies
Czerney et al. (2022)	Shifting forms of earnings management	Explains tactic substitution under scrutiny
Chava & Hsu (2022)	Earnings management and systemic risk	Emphasizes role of pricing in masking vulnerabilities

6. Conclusion

This qualitative literature review reveals that strategic earnings targeting in public banking is deeply interwoven with mechanisms of market discipline and long-term franchise value preservation. The reviewed literature consistently emphasizes that banks utilize both accrual-based and real earnings management practices to meet short-term earnings benchmarks, particularly in the context of market expectations, regulatory scrutiny, and reputational concerns (Beatty & Liao, 2014; Bushman & Williams, 2012). These practices are not purely opportunistic but are often used strategically to signal stability, attract deposits, or avoid regulatory penalties, especially under competitive pricing pressures and narrow interest margins (Flannery, 2001; He & Krishnamurthy, 2013).

Market discipline plays a dual role—it constrains aggressive earnings manipulation by enhancing transparency and investor oversight, yet it also incentivizes earnings targeting to meet externally imposed expectations (Berger et al., 2016; Guay et al., 2016). As banks face increasing competition from non-bank lenders and financial technology firms, maintaining a credible and consistent earnings trajectory becomes vital for defending franchise value, customer trust, and capital market access (Chava & Hsu, 2022; Hugonnier et al., 2023).

Moreover, the synthesis highlights that banks' strategic pricing decisions for loans and deposits are not only a reflection of cost structures and risk but are often shaped by earnings smoothing objectives and the desire to project financial strength (Maudos & de Guevara, 2007). Franchise value is thereby protected not only through operational efficiency and innovation but also via financial signaling achieved through earnings predictability (Krishnan & Zhang, 2019).

Overall, this review underscores that strategic earnings targeting, while sometimes criticized as a distortion of financial reporting, can also serve as a tool of stability and competitive positioning—especially in the tightly regulated and credibility-sensitive domain of public banking. However, when such strategies are decoupled from underlying economic fundamentals, they risk undermining market discipline and eroding long-term franchise value.

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