

The Revenue Halo Effect:
How Revenues and Expenses Asymmetrically Affect Perceptions of Profitability

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Abstract

There are two primary ways to boost profits: increase revenues or decrease expenses. For example, whether a company increases revenues by \$1 million or decreases expenses by \$1 million, its profits will increase by \$1 million (all else equal). But how do people *subjectively* evaluate such changes to revenues and expenses, and what inferences do they draw as a result? Across nine experiments ($N = 6,045$), an archival data analysis, and four supplemental studies, we document a robust “revenue halo” effect: increases in revenues, relative to equivalent decreases in expenses, lead to more positive *perceptions* of profitability, in both the short and long run, and result in more favorable overall impressions of financial strength, performance, potential, and trajectory. Consequently, managers who propose ideas for increasing revenues (vs. decreasing expenses) are viewed as more competent; consultants who develop such strategies are more likely to be rehired; and companies that report higher revenues are more attractive to investors. We furthermore propose that the revenue halo effect can be explained, in part, by the belief that strategies for increasing revenues are more innovative than strategies for decreasing expenses. Finally, to underscore the real-world relevance of our account, we analyze approximately 13 million financial news articles, finding that when firms reported increased revenues (vs. decreased expenses), they subsequently rose in *Fortune*’s “World’s Most Admired Companies” rankings (the following year). This research identifies a novel asymmetry in judgments of organizational performance, with implications for managerial decision-making, corporate communication, and capital allocation.

Keywords: profit, profitability, financial decision making, revenues, expenses, innovation, corporate strategy

Introduction

Perhaps the simplest and yet most fundamental accounting identity is the definition of profit (or net income), which reflects the difference between a company's revenues (i.e., the amount a firm earns) and its expenses (i.e., the amount a firm spends) during a given period. Companies can maximize profits, therefore, in one of two key ways: decrease expenses or increase revenues.

For example, to boost profitability, Walmart invested heavily in supply chain automation, decreasing its U.S. delivery costs by 40% per order (Walmart Inc., 2024); Lululemon, another retailer, did so by increasing prices for its athletic apparel (Lululemon, 2026). In the energy sector, Shell reported higher profits from a cost-cutting initiative (Wearden & Ambrose, 2025), while ExxonMobil reported higher profits from expanded production (Krauss, 2022). Even governments face the same basic trade-off: although the U.S. Department of Government Efficiency (DOGE) originally focused on reducing costs, the *New York Times* reported on “a shift in mission...from its initial task of cutting government costs toward a new goal of generating revenue” (Mac & Aleaziz, 2025).

In this research, we explore how people *subjectively* evaluate such changes to revenues and expenses, and what inferences they draw as a result. Across a wide range of companies, industries, and magnitudes, we document a robust “revenue halo” effect: increases in revenues, relative to equivalent decreases in expenses, lead to more positive *perceptions* of profitability, in both the short and long run, and result in more favorable overall impressions of financial strength, performance, potential, and trajectory. We additionally offer process evidence (through both mediation and moderation) for a key underlying mechanism—that strategies for increasing revenues are viewed as more innovative than strategies for decreasing expenses.

We believe this work makes several important theoretical and managerial contributions. First, the revenue halo effect characterizes a novel asymmetry in judgments of organizational performance (Aaker et al., 2010; Bhattacharjee et al., 2017; Dess & Robinson, 1984; Woolley et al., 2023; Wry et al., 2014). It suggests that financially equivalent paths to profitability may not be viewed as *psychologically* equivalent. Second, we identify a novel distinction (i.e., increases in revenues vs. decreases in expenses) that various stakeholders seem to interpret as a meaningful signal of innovation (Kunz et al., 2011; Ruvio et al., 2014). Finally, our framework yields implications for managerial decision-making, corporate communication, and capital allocation. For example, we find managers who propose ideas for increasing revenues (vs. decreasing expenses) are viewed as more competent; consultants who develop such strategies are more likely to be rehired; and companies that report increased revenues are more attractive to investors.

Theoretical Background

Perceptions of Profitability

From an objective accounting perspective, revenues represent the total income a company earns through its business activities (e.g., selling products or services, charging subscription fees, investing in various assets, etc.). Expenses refer to the total costs that the company incurred to engage in those activities (e.g., paying for raw materials, labor, or warehouse operations). *Profit* is simply the difference between revenues and expenses. To illustrate: suppose a company renegotiates supplier contracts and is thus able to decrease its expenses by \$1 million (while its revenues remain constant).¹ All else equal, profits will increase by \$1 million. Suppose another

¹ The majority of our studies deliberately isolate increases in revenues and decreases in expenses to cleanly test their independent effects on perceptions of profitability. Yet these changes often co-occur in the real world. For example, increasing revenues sometimes results in increased expenses, and decreasing expenses sometimes results in

company raises prices and is thus able to increase its revenues by \$1 million (while its expenses remain constant). Again, all else equal, profits will increase by \$1 million.

In this research, however, we explore *perceptions* of profitability, which are distinct from objective measures of accounting profit. Perceptions of profitability include not only *subjective* evaluations of financial gain (i.e., how much money a company makes), but also overall impressions of financial strength, performance, potential and trajectory. Unlike the accounting treatment of profit—for which there is a precise, definitive, and ultimately “correct” answer that can be calculated from financial statements—perceptions of profitability instead reflect *lay beliefs* about a firm’s broader financial standing. Notably, this interpretation is consistent with prior research that has proposed and conceptualized various subjective metrics for evaluating business success (Dess & Robinson, 1984; Phillips, 1981; Venkatraman & Ramanujam, 1986, 1987). Moreover, these lay beliefs can and do matter—views about a company’s societal value, for instance, are more strongly associated with perceptions of profitability than with actual profitability (Campbell, 1999; Bhattacharjee et al., 2017).

Yet surprisingly little work has investigated the factors that shape perceptions of profitability. Prior research has instead tended to focus on various consequences (Campbell, 1999). For example, when consumers perceive companies as profitable, they rate them as more competent, better managed, and more successful (Wry et al., 2014), and they express stronger purchase intentions for their products and services (Aaker et al., 2010). At the same time, many people maintain “anti-profit” beliefs, which can cause them to distrust or disfavor for-profit firms relative to nonprofits (Bhattacharjee et al., 2017). While this past work has illuminated numerous

decreased revenues. We find that the revenue halo effect is robust to such co-occurrence (see Supplemental Study 2), and elaborate on additional implications in the General Discussion.

important downstream effects of these perceptions, we compare their *causes*: increases in revenues versus decreases in expenses.

Revenues Versus Expenses

Several recent findings are consistent with our theorizing (i.e., that equivalent changes to revenues and expenses might nevertheless trigger different perceptions of profitability). For example, Sussman and Shafir (2012) found that people with objectively identical net worths were perceived as subjectively more or less wealthy, depending on their relative balance of assets to debts.² This raises the possibility of a corresponding asymmetry in perceptions of profitability, depending on *firms'* relative balance of revenues to expenses. It would moreover be broadly consistent with research demonstrating that people often fail to differentiate between stocks (e.g., assets and liabilities) and flows (e.g., revenues and expenses; Spiller et al., 2020).

Past work also hints that revenues and expenses may be perceived as psychologically distinct in important ways. For example, Bolton, Warlop, and Alba (2003) found that consumers tend to neglect cost considerations when evaluating the fairness of price hikes, and overattribute price differences (which directly affect revenues) to profit motives. Relatedly, Trupia and Shaddy (2025) demonstrated that consumers infer stronger profit motives when firms ask customers to spend money to save time (vs. spend time to save money), such as when charging more for faster shipping (vs. charging less for slower delivery). While not empirically tested, another potential explanation (about which the authors speculate) is that people may appreciate how asking customers to spend money to save time (e.g., charging more for expedited shipping) increases profit, but overlook how asking customers to spend time to save money (e.g., charging

² For example, a person with \$200 in assets and \$44,200 in debt was perceived as less wealthy than a person with \$42,100 in assets and \$86,100 in debt, despite identical net worths of −\$44,000.

less for slower delivery) can *also* improve the bottom line (e.g., through lower logistical and fulfillment costs).

Together, these findings suggest that perceptions of profitability may indeed systematically depend on whether a firm increases revenues or decreases expenses. To explain why, we propose that people make different inferences about the extent to which the strategies for achieving each outcome (e.g., increasing revenues or decreasing expenses) are innovative (we highlight other possible mechanisms in the General Discussion). Importantly, inferences about innovation have been associated with a host of downstream positive outcomes—including, potentially, perceptions of profitability.

Inferences About Innovation

Innovation refers to an ability to produce novel, creative, and impactful ideas and solutions (Kunz et al., 2011; Ruvio et al., 2014). Prior research has focused on understanding the subjective factors that lead people to view firms as innovative (above and beyond objective metrics like patent volume or research-and-development expenditure; Rogers & Shoemaker, 1971). For example, people view firms as innovative when they introduce products, processes, or ideas that depart from the status quo (Crawford & Di Benedetto, 2003; Kunz et al., 2011), when their efforts are unique and distinctive (Amabile, 1988; Im & Workman, 2004; Smith et al., 2007), and when they challenge established norms (Jacobsen et al., 2025; Kamins et al., 2000; Moorman & Miner, 1997).

In this research, we propose that strategies for increasing revenues are regarded as more innovative than strategies than decreasing expenses. Although no prior work has tested this prediction directly, we expect that strategies for increasing revenues will be viewed as more novel, creative, and impactful (i.e., innovative). For example, people may associate increases in

revenue with value creation (Kim et al., 2015; Ruvio et al., 2014), such as when a firm increases revenues by launching a new product or targeting a new segment. These strategies result in products, processes, or ideas that did not previously exist (Kamins et al., 2000; Moorman & Miner, 1997). When a firm decreases expenses by renegotiating contracts or streamlining operations, on the other hand, they effectively modify something that has already been established (e.g., an existing cost). These strategies could thus seem inherently subtractive rather than additive (Adams et al., 2021). Moreover, many strategies for increasing revenues also require perspective-taking (Laursen & Salter, 2006; Pira et al., 2025)—such as when a firm is the first to identify and satisfy an unmet consumer need (Foss et al., 2011)—potentially further bolstering perceptions of creativity (and thus, innovation).

Critically, inferences about innovation have been shown to systematically improve various judgments of firms. Extensive research has demonstrated that innovative firms are seen as progressive, dynamic, and forward-looking (Clark et al., 2025; Kunz et al., 2011; Schumpeter, 1934), and these perceptions can increase purchase intentions, word-of-mouth, brand loyalty, and customer satisfaction (Cuong et al., 2024; Foroudi et al., 2016; Jacobsen et al., 2025; Kim et al., 2015; Kunz et al., 2011; Lin, 2015; Pappu & Quester, 2016; Spieth et al., 2021). Inferences about innovation have also been found to increase valuation. For example, consumers perceive greater value in the offerings of firms they view as innovative (Bairrada et al., 2018; Kurtmollaiev et al., 2022; Lin, 2016) and are willing to pay higher prices for their products and services (Henard & Dacin, 2010; Hubert et al., 2017). We rely on this link between innovation and valuation to motivate our central prediction—that changes to revenues and expenses will asymmetrically affect perceptions of profitability (i.e., a form of valuation).

The Present Research

Altogether, we predict that increases in revenues, relative to decreases in expenses, will result in more positive perceptions of profitability. We furthermore anticipate that these perceptions will lend a positive “halo” to other downstream judgments of key stakeholders (e.g., managers, consultants, investors, etc.), underscoring the managerial implications of our account.

H_{1A} (main effect). Increases in revenues, relative to equivalent decreases in expenses, lead to more positive perceptions of profitability (i.e., the revenue halo effect).

H_{1B} (managerial implications). The revenue halo effect results in more favorable evaluations of key stakeholders who propose and/or execute strategies for increasing revenues (vs. decreasing expenses).

To explain the revenue halo effect, we propose and test a key underlying mechanism: inferences about innovation. Specifically, we suggest that strategies for increasing revenues are viewed as more innovative (relative to strategies for decreasing expenses), thereby boosting perceptions of profitability. We therefore test two theoretical implications of this proposed process. First, beliefs about innovation should mediate the effect. Second, the effect should be moderated by factors that shape inferences about innovation. For example, when beneficial accounting errors result in financial gain—but do not seem particularly innovative—we expect the revenue halo effect to attenuate.

H₂ (mediation). The revenue halo effect is mediated by the belief that strategies for increasing revenues (vs. decreasing expenses) are more innovative.

H₃ (moderation). The revenue halo effect attenuates when increases in revenues (vs. decreasing expenses) require no innovation on the part of the firm.

Overview of Studies and Empirical Strategy

We test our account across nine experiments ($N = 6,045$; see Table 1), an archival analysis, and four supplemental studies. Studies 1A–B and 2 document the basic effect (H_{1A}) across a wide range of companies, industries, and magnitudes. Studies 3A–C explore various managerial implications (H_{1B}). Study 4 offers process evidence through mediation (H_2); Study 5 through moderation (H_3). Our final studies explore real-world companies and consequences. Study 6 reveals that firms are liked and admired more when they increase revenues (vs. decrease expenses). And in Study 7, we analyze approximately 13 million financial news articles, finding that when firms reported increases in revenues (vs. decreases in expenses), they subsequently rose in *Fortune's* “World’s Most Admired Companies” rankings (the following year).

We are careful to acknowledge several caveats with respect to our conceptualization and empirical strategy. First, while we examine one potential mechanism (i.e., inferences about innovation), we expect the revenue halo effect to be multiply determined. To motivate future research, we highlight other potential processes in the General Discussion. Second, we designed our studies to address several plausible alternative explanations. For example, in several studies, we required participants to pass various comprehension checks (to avoid confusion). We also employ a within-subjects design to rule out negative inferences about the financial health of companies that pursue strategies for decreasing expenses, and we observe the effect when participants evaluate perceptions of profitability across both short- and long-run time horizons (including when they were explicitly told that changes to revenues and expenses would not trigger any unanticipated long-term consequences). Finally, we emphasize that we make no normative claims about whether these *perceptions* of profitability are accurate—only that these

lay beliefs result in a novel asymmetry, with important implications for organizational behavior (see General Discussion).

Open Science and General Disclosures

Studies 1A–B, 4, 5, and 6 were preregistered. All preregistrations, original materials, data, and code are publicly available.³ For all studies, we report any and all preregistered exclusions. We ran each study separately, with newly recruited samples that excluded previous participants. All studies targeted sample sizes sufficient to detect a standardized effect size of *Cohen's d* = .25 (computed from a pilot study) with between 80%–90% power (approximately *N* = 600–800). We deliberately recruited larger samples in Studies 2 and 4–5 to sufficiently power tests of alternative mediation models (addressing other plausible mechanisms) and interactions. This research was approved by the Institutional Review Board at the second author's university, and we obtained informed consent from all participants.

³ https://researchbox.org/4047&PEER_REVIEW_passcode=OSNFKG

Table 1*Overview of studies*

Study	N	Main finding(s)	DV(s)	Increases in revenues	Decreases in expenses	Effect size	Sig.
1A	588	Increases in revenues resulted in stronger perceptions of profitability than equivalent decreases in expenses.	Perceptions of profitability	3.55 (0.97)	3.32 (1.00)	$d = 0.25$	**
1B	583	Within-subjects replication (i.e., controlling for inferences about baseline profitability).	Perceptions of profitability	2.70 (0.91)	2.56 (1.00)	$d = 0.22$	**
2	1,001	Multiple scenarios describing various company sizes and industry types (e.g., products vs. services).	Perceptions of profitability	2.43 (1.12)	2.13 (1.12)	$d = 0.27$	***
3A	601	Managers who proposed ideas for increasing revenues were viewed as more competent.	Managerial evaluations	5.28 (1.21)	5.06 (1.26)	$d = 0.18$	*
3B	400	Consultants who recommended revenue-increasing strategies were more likely to be rehired.	Managerial evaluations	5.63 (1.19)	5.20 (1.37)	$d = 0.33$	***
3C	797	Companies that reported increased revenues were more attractive to investors.	Managerial evaluations	5.82 (0.91)	5.25 (1.28)	$d = 0.51$	***
4	961	Beliefs about innovation mediated the effect (while ease/difficulty and anticipated trade-offs did not).	Perceptions of profitability	2.81 (1.22)	2.42 (1.26)	$d = 0.32$	***
5	995	Attenuation of the effect when changes to revenues and expenses were not viewed as innovative.	Perceptions of profitability	2.34 (1.14)	2.10 (0.93)	$d = 0.22$	*
6	479	Real-world companies that reported increases in revenues (vs. decreases in expenses) were liked more, admired more, and viewed more positively.	Admiration and liking	57.98 (26.2)	52.66 (26.4)	$d = 0.21$	*
7	293 firm-years	Real-world companies that reported increases in revenues (vs. decreases in expenses) subsequently rose in <i>Fortune's</i> "World's Most Admired Companies" rankings.	"Most Admired Companies" ranking	$b = -11.51$ (4.35)	$b = 21.54$ (60.42)	-	-

Note. * $p < .05$, ** $p < .01$, *** $p < .001$. For Studies 1A–6, we report means (standard deviations) for conditions testing the basic effect. For Study 7, we report standard errors from a fixed-effects panel regression with firm-level clustered standard errors (comprising 57 firms and 293 firm-year observations; lower numbers correspond to a higher ranking)

Study 1A: Basic Effect (Generic Scenario)

Study 1A (<https://aspredicted.org/wc8z6y.pdf>) offers an initial test of the revenue halo effect. We predicted that increases in revenues, relative to equivalent decreases in expenses, would lead to stronger perceptions of profitability (H1A). To capture different dimensions of this underlying construct, we presented a battery of questions that included both direct and indirect measures of profitability, as well as measures of both short-term and long-term effects.

Method

Participants

We recruited 599 participants on Connect and excluded failures to preregistered comprehension and attention checks, leaving a final sample of 588 participants ($M_{\text{age}} = 40.54$, $SD = 13.02$; 51% female).

Procedure

Study 1A employed a single-factor (source of change: increase in revenues vs. decrease in expenses), between-subjects design. All participants first read: “Revenues are the money a company earns from selling its products or services. Think of revenues as the company’s income, or the cash flowing in from customers. Expenses are the money a company spends to run its business (e.g., paying employees or buying materials). Think of expenses as the company’s costs, or the cash flowing out to employees and suppliers. Profit is what’s left over after the company subtracts its expenses from its revenues. In other words, profit is the money the company makes after covering all its costs.” We included this prompt in all studies, after which participants completed a comprehension check (see Appendix A).

Participants then learned that a company had “recently implemented a strategic change.” In the revenues condition, they read: “Suppose that, as a result of this strategic change, the

company increases its revenues by \$100,000, while its expenses remain the same.” In the expenses condition, participants read: “Suppose that, as a result of this strategic change, the company decreases its expenses by \$100,000, while its revenues remain the same.” To reduce potential inferences about unanticipated consequences of either strategy, we explained: “there will be no negative long-term consequences for product/service quality, to customer service and loyalty, and for its employees.” Participants then answered six questions (in random order) capturing perceptions of profitability (see Table 2).

Table 2

Study 1A perceptions of profitability measures

Dependent variable	Question	Scale
Short-term profitability	“How will this impact the company’s profit in the short term?”	–4 = “Extremely large decrease in profit;” 0 = “No effect on profit;” +4 = “Extremely large increase in profit”
Long-term profitability	“How will this impact the company’s profit in the long term?”	–4 = “Extremely large decrease in profit;” 0 = “No effect on profit;” +4 = “Extremely large increase in profit”
Financial performance	“How will this impact the company’s financial performance?”	–4 = “Extremely large decrease in financial performance;” 0 = “No effect on financial performance;” +4 = “Extremely large increase in financial performance”
Financial strength	“How will this impact the company’s financial strength?”	–4 = “Extremely large decrease in financial strength;” 0 = “No effect on financial strength;” +4 = “Extremely large increase in financial strength”
Overall potential	“How would you describe the overall financial potential of this company?”	1 = “Very low potential;” 7 = “Very high potential”
Overall trajectory	“How would you describe the overall trajectory of this company?”	1 = “Very negative trajectory;” 7 = “Very positive trajectory”

Note. Question order was counterbalanced across participants

Results and Discussion

As preregistered, we first averaged the six measures (*Cronbach's* $\alpha = .92$).⁴ Increases in revenues ($M = 3.55$, 95% CI = [3.44, 3.67]) led to stronger perceptions of profitability than equivalent decreases in expenses ($M = 3.32$, 95% CI = [3.20, 3.43]), $t(586) = 2.91$, $p = .004$, *Cohen's* $d = .25$. While this perceptions of profitability composite served as our preregistered dependent variable, we report results for each question separately in Table 3.

Table 3

Study 1A results

Dependent variable	Increases in revenues (SD)	Decreases in expenses (SD)	$t(586)$	p-value	Cohen's d
Short-term profitability	2.58 (1.15)	2.28 (1.28)	3.00	.003	.25
Long-term profitability	2.41 (1.18)	2.17 (1.40)	2.23	.026	.18
Financial performance	2.43 (1.15)	2.26 (1.23)	1.72	.086	.14
Financial strength	2.46 (1.19)	2.22 (1.30)	2.34	.020	.19
Overall potential	5.63 (1.07)	5.41 (1.01)	2.61	.009	.22
Overall trajectory	5.81 (.99)	5.56 (1.02)	3.08	.002	.25
Perceptions of profitability	3.55 (0.97)	3.32 (1.00)	2.91	.004	.25

The results of Study 1A provide initial evidence for the revenue halo effect: increases in revenues, relative to equivalent decreases in expenses, result in more positive perceptions of profitability over both the short term and long term. This also included more positive perceptions of financial performance and strength, as well as overall impressions of the company's potential and trajectory. To address the possibility that a company that decreases its expenses may be

⁴ All items were highly correlated ($r_s = .57-.83$). A factor analysis additionally confirmed that the six items loaded onto a single factor (eigenvalue = 4.36), explaining 72.6% of the variance, with strong loadings across all items (.75-.91). For all studies that include these six items (Studies 1A–B), we performed the same set of analyses, which yielded qualitatively similar results (see Supplemental Materials).

assumed to be in worse financial shape than a company that increases its revenues, we next conceptually replicate Study 1A using a within-subjects design.

Study 1B: Basic Effect (Within-Subjects)

Study 1B (<https://aspredicted.org/ng4k6t.pdf>) serves as a conceptual replication of Study 1A (H1_A). However, participants evaluated *both* an increase in revenues and a decrease in expenses for the same firm, which we described as equally profitable at baseline.

Method

Participants

We recruited 601 participants on Connect and excluded failures to preregistered comprehension and attention checks, leaving a final sample of 583 participants ($M_{\text{age}} = 40.85$, $SD = 13.43$; 53% female).

Procedure

Study 1B employed a single-factor (source of change: increase in revenues vs. decrease in expenses), within-subjects design. All participants first reviewed the definitions of revenues, expenses, and profit from Study 1A, and completed two comprehension checks (to confirm their understanding of the terminology; see Appendix A). All participants then read: “Consider the following company, which is profitable. Last year, its financials were: Revenues: \$5,000,000, Expenses: \$4,000,000, Profit: \$1,000,000.” They subsequently learned that “the company is considering implementing one of two potential strategic changes. One option will increase the company’s revenue by \$100,000, while its expenses remain the same. The other option will decrease the company’s expenses by \$100,000, while its revenues remain the same. For both options, assume there will be no negative long-term consequences for product/service quality, to

customer service and loyalty, and for its employees (nor any differences in these long-term consequences between options).”

We next presented each option on a separate page (counterbalanced). In the revenues condition, participants read: “Suppose that the company increases its revenues by \$100,000, while its expenses remain the same.” They then responded to the six measures of perceived profitability from Study 1A. In the expenses condition, participants read: “Suppose that the company decreases its expenses by \$100,000, while its revenues remain the same.” They then responded to the same six measures of perceived profitability. The order in which each option was mentioned in the scenario, as well as the order in which participants evaluated the two scenarios, was fully counterbalanced.

Results and Discussion

As preregistered, we first averaged the six measures (*Cronbach’s* $\alpha = .93$). Increases in revenues ($M = 2.70$, 95% CI = [2.63, 2.77]) led to stronger perceptions of profitability than equivalent decreases in expenses ($M = 2.56$, 95% CI = [2.48, 2.64]), $t(582) = 3.30$, $p = .001$, *Cohen’s* $d = .22$. While this perceptions of profitability composite served as our preregistered dependent variable, we report results for each question separately in the Supplemental Materials.

Study 1B complements Study 1A by addressing the possibility that the revenue halo effect is explained by different inferences about the financial standing of companies that choose to either increase their revenues or decrease their expenses. Because Studies 1A–B described generic stimuli (to cleanly isolate the effect), we designed Study 2 to examine a broader set of realistic scenarios.

Study 2: Basic Effect (Realistic Scenarios)

Study 2 examines the robustness of the revenue halo effect across various company sizes (e.g., small, medium, and large) and industry types (e.g., products vs. services; H_{1A}).

Additionally, given that Studies 1A–B captured multiple dimensions of perceptions of profitability (all of which were highly correlated), and because participants evaluated multiple scenarios in Study 2, we presented only a single-item measure of perceptions of profitability.

Method

Participants

We recruited 1,001 CloudResearch approved MTurk workers ($M_{age} = 44.47$, $SD = 12.02$; 52% female). All participants were included in the analysis.

Procedure

Study 2 employed a 2 (source of change: increase in revenues vs. decrease in expenses; between-subjects) $\times$ 2 (industry: products vs. services; between-subjects) $\times$ 3 (size: small vs. medium vs. large; within-subjects), mixed design. All participants first reviewed the definitions of revenues, expenses, and profit from Study 1A.

In the products condition, participants read about companies that sold physical goods (e.g., a bookstore, deli, and clothing retailer; see Table 4). In the services condition, participants read about companies that offered services (e.g., tutoring, landscaping, and catering).

Participants then learned that the company had either increased its revenues by a specific amount (while its expenses remained the same) or decreased its expenses by the same amount (while its revenue remained the same). Within each condition, participants evaluated three companies of different sizes (e.g., small, medium, and large), which were presented in random order and evaluated on separate pages. For each company, they answered: “How will this impact the

company's profits?" ("Extremely large decrease in profit" = -4; "No effect on profit" = 0; "Extremely large increase in profit" = +4).

Table 4

Study 2 stimuli

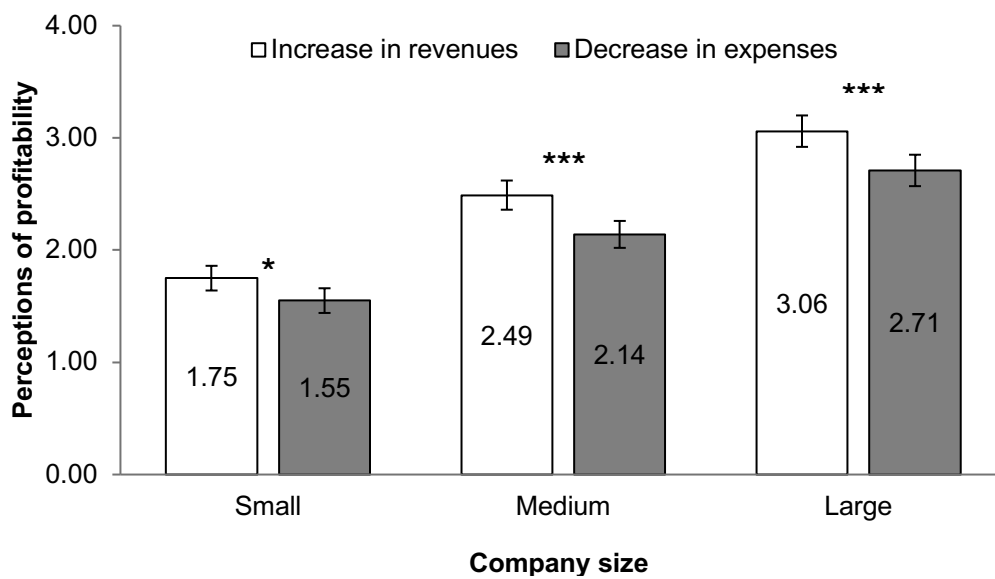
Size	Industry	Increases in revenues	Decreases in expenses
Small	Products	Cornerstone Books is a small bookstore with one location servicing customers in a suburban area. Suppose Cornerstone Books increases its revenues by \$10,000, while its expenses remain the same.	Cornerstone Books is a small bookstore with one location servicing customers in a suburban area. Suppose Cornerstone Books decreases its expenses by \$10,000, while its revenues remain the same.
	Services	Bright Minds Tutoring is a small tutoring service with one location servicing customers in a suburban area. Suppose Bright Minds Tutoring increases its revenues by \$10,000, while its expenses remain the same.	Bright Minds Tutoring is a small tutoring service with one location servicing customers in a suburban area. Suppose Bright Minds Tutoring decreases its expenses by \$10,000, while its revenues remain the same.
Medium	Products	Harborview Deli is a medium-sized deli chain with three locations servicing customers in an urban area. Suppose Harborview Deli increases its revenues by \$100,000, while its expenses remain the same.	Harborview Deli is a medium-sized deli chain with three locations servicing customers in an urban area. Suppose Harborview Deli decreases its expenses by \$100,000, while its revenues remain the same.
	Services	GreenThumb Landscaping is a medium-sized landscaping service with three locations servicing customers in an urban area. Suppose GreenThumb Landscaping increases its revenues by \$100,000, while its expenses remain the same.	GreenThumb Landscaping is a medium-sized landscaping service with three locations servicing customers in an urban area. Suppose GreenThumb Landscaping decreases its expenses by \$100,000, while its revenues remain the same.
Large	Products	Urban Threads is a large online clothing retailer with multiple warehouses servicing customers in the United States. Suppose Urban Threads increases its revenues by \$1,000,000, while its expenses remain the same.	Urban Threads is a large online clothing retailer with multiple warehouses servicing customers in the United States. Suppose Urban Threads decreases its expenses by \$1,000,000, while its revenues remain the same.
	Services	Grand Table Events is a large catering service with multiple locations servicing customers in the United States. Suppose Grand Table Events increases its revenues by \$1,000,000, while its expenses remain the same.	Grand Table Events is a large catering service with multiple locations servicing customers in the United States. Suppose Grand Table Events decreases its expenses by \$1,000,000, while its revenues remain the same.

Results and Discussion

A 2 (source of change; between-subjects) $\times$ 2 (industry; between-subjects) $\times$ 3 (size; within-subjects) mixed ANOVA revealed a significant main effect of the source of change, $F(1,997) = 17.43, p < .001$, such that increases in revenues ($M = 2.43$, 95% CI = [2.33, 2.53]) led to stronger perceptions of profitability than equivalent decreases in expenses ($M = 2.13$, 95% CI = [2.03, 2.23]), $p < .001, \eta_p^2 = .02$ (see Figure 1).

Figure 1

Study 2 results: increases in revenues led to stronger perceptions of profitability than equivalent decreases in expenses (across various industry types and company sizes)



Note. Error bars represent 95% CIs

Moreover, the effect was not moderated by industry type, $F(1,997) = .67, p = .412$, nor company size, $F(1,997) = 2.36, p = .125$, and there was no three-way interaction, $F(1,997) = .18, p = .669$. Though not critical to our theorizing, we also observed main effects of company size that scaled with the magnitude of changes to revenues and expenses, $F(1,997) = 626.14, p <$

.001, $\eta_p^2 = .39$ (large: $M = 2.89$, 95% CI = [2.79, 2.98]; medium: $M = 2.32$, 95% CI = [2.23, 2.40]; small: $M = 1.64$, 95% CI = [1.57, 1.73]) and industry type, $F(1,997) = 6.44$, $p = .011$, $\eta_p^2 = .01$ (services: $M = 2.37$, 95% CI = [2.27, 2.47]; products: $M = 2.19$, 95% CI = [2.09, 2.29]).

Study 2 corroborates Studies 1A–B by testing realistic scenarios across various company sizes and industry types. We note that in the studies thus far, we intentionally described increases in revenues and decreases in expenses in general terms, to cleanly isolate the effect and limit extraneous inferences about *how* each change was realized (i.e., because certain strategies may be viewed more positively or negatively than others). Nevertheless, to bolster robustness, we conducted two preregistered conceptual replications of the large-company-product scenario from Study 2, which described the same underlying strategy used to increase revenues or decrease revenues.⁵ With convergent evidence for the basic effect across Studies 1A–B and 2, we designed Studies 3A–C to explore implications for various organizational stakeholders: managers, service providers, and investors.

Study 3A: Implications for Managers

Study 3A extends the revenue halo effect to evaluations of managers. If increases in revenues lead to stronger perceptions of profitability than equivalent decreases in expenses, an implication is that managers who propose strategies to increase revenues may likewise be viewed more favorably than managers who propose strategies to decrease expenses (H_{1B}).

⁵ In Supplemental Study 1, we framed the adoption of an AI tool as resulting in either increased revenues or decreased expenses; in Supplemental Study 2, we framed the introduction of a \$10,000 employee training program as resulting in either increased revenues or decreased expenses. In both, we additionally provided all participants with an income statement for the company (i.e., to hold constant baseline profitability across all conditions). Supplemental Studies 1–2 conceptually replicated the results of the large-company-product scenario from Study 2 ($d = .20$ and $d = .25$, respectively; see Supplemental Materials for full methods and results).

Method

Participants

We recruited 601 CloudResearch approved MTurk workers ($M_{\text{age}} = 44.73$, $SD = 12.93$; 50% female). All participants were included in the analysis.

Procedure

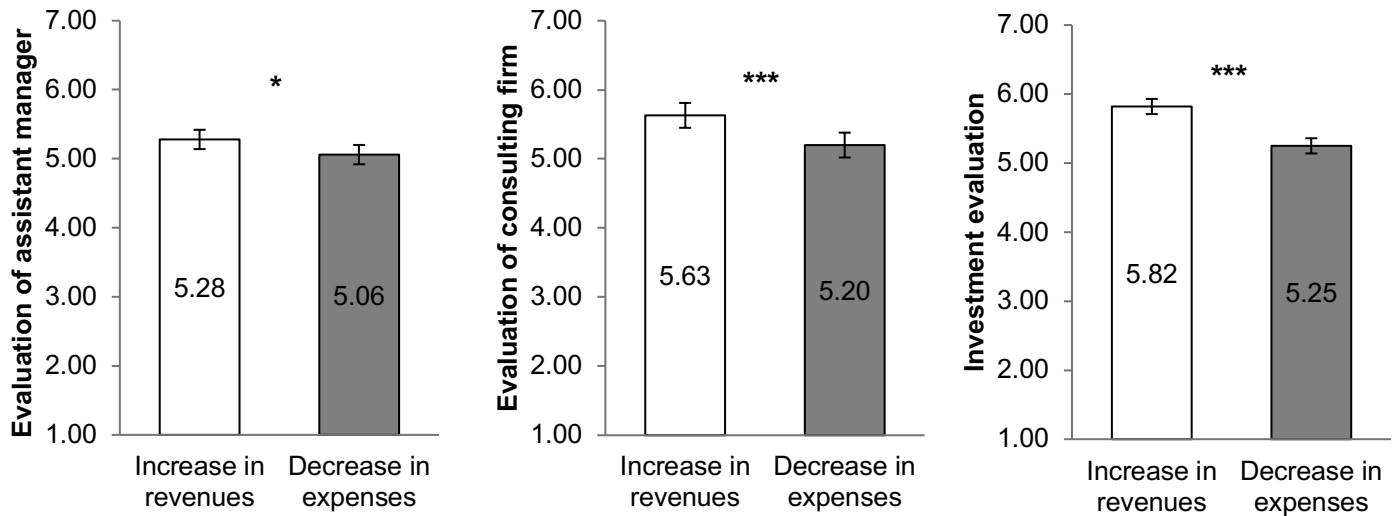
Study 3A employed a single-factor (source of change: increase in revenues vs. decrease in expenses), between-subjects design. We adapted the small-company-product condition stimuli from Study 2. After reviewing the definitions of revenues, expenses, and profit from Study 1A, we asked participants to imagine they were the “General Manager” at “Cornerstone Books” (e.g., “a small bookstore with one location servicing customers in a suburban area”). In the revenues condition, participants read that “to increase profits, your Assistant Manager has proposed a plan to increase revenues by \$10,000, while keeping expenses the same.” In the expenses condition, they read that “to increase profits, your Assistant Manager has proposed a plan to decrease expenses by \$10,000, while keeping revenues the same.” We then presented three counterbalanced measures: “How [competent/productive/knowledgeable] does your Assistant Manager seem?” (“Not at all” = 1; “Extremely” = 7).

Results and Discussion

We first averaged the three measures (*Cronbach’s* $\alpha = .94$). Participants rated their Assistant Manager as more competent, productive, and knowledgeable when they proposed plans to increase revenues ($M = 5.28$, 95% CI = [5.14, 5.42]) than when they proposed plans to decrease expenses by the same amount ($M = 5.06$, 95% CI = [4.92, 5.20]), $t(599) = 2.18$, $p = .030$, *Cohen’s* $d = 0.18$ (see Figure 2).

Figure 2

Studies 3A–C results: increases in revenues, relative to equivalent decreases in expenses, led to more favorable evaluations of managers, consulting firms, and companies



Note. Error bars represent 95% CIs

Study 3B: Implications for Service Providers

Study 3B extends the revenue halo effect to evaluations of service providers (e.g., consultants; H_{1B}). If increases in revenues lead to stronger perceptions of profitability than equivalent decreases in expenses, consulting firms that propose strategies for increasing revenues may likewise be viewed more positively than consulting firms that propose strategies for decreasing expenses.

Method

Participants

We recruited 400 CloudResearch approved MTurk workers ($M_{\text{age}} = 44.19$, $SD = 12.53$; 51% female). All participants were included in the analysis.

Procedure

Study 3B employed a single-factor (source of change: increase in revenues vs. decrease in expenses), between-subjects design. We adapted the medium-company-product condition stimuli from Study 2. After reviewing the definitions of revenues, expenses, and profit from Study 1A, we asked participants to imagine they were the “owner” of “Harborview Deli” (e.g., “a medium-sized deli chain with three locations servicing customers in an urban area”). In the revenues condition, participants read that “the consulting firm has proposed a plan to increase revenues by \$100,000, while keeping expenses the same.” In the expenses condition, they read that “the consulting firm has proposed a plan to decrease expenses by \$100,000, while keeping revenues the same.” We then presented three counterbalanced measures: “How effective does this plan seem?”; “How likely is it that you would implement this plan?”; and “How likely is it that you would hire this consulting firm again?” (“Not at all” = 1; “Extremely” = 7).

Results and Discussion

We first averaged the three measures (*Cronbach’s* $\alpha = .93$). Perceived effectiveness, implementation intentions, and willingness to rehire the consulting firm were higher when it proposed plans to increase revenues ($M = 5.63$, 95% CI = [5.45, 5.81]) than when it proposed plans to decrease expenses by the same amount ($M = 5.20$, 95% CI = [5.02, 5.38]), $t(398) = 3.33$, $p < .001$, *Cohen’s* $d = 0.33$ (see Figure 2).

Study 3C: Implications for Investors

Study 3C extends the revenue halo effect to evaluations of investors (H_{1B}). If increases in revenues lead to stronger perceptions of profitability than equivalent decreases in expenses, companies that announce increases in revenues may likewise be viewed as better investment opportunities than companies that announce decreases in expenses.

Method

Participants

We recruited 797 CloudResearch approved MTurk workers ($M_{\text{age}} = 44.72$, $SD = 12.76$; 43% female). All participants were included in the analysis.

Procedure

Study 3C employed a single-factor (source of change: increase in revenues vs. decrease in expenses), between-subjects design. We adapted the large-company-product condition stimuli from Study 2. After reviewing the definitions of revenues, expenses, and profit from Study 1A, participants read about “Urban Threads” (e.g., a large online clothing retailer with multiple warehouses servicing customers in the United States), which had recently announced financial results. In the revenues condition, participants read that “over the last 12 months, Urban Threads increased its revenues by \$1,000,000, while its expenses remained the same.” In the expenses condition, they read that “over the last 12 months, Urban Threads decreased its expenses by \$1,000,000, while its revenues remained the same.” We then presented three counterbalanced measures: “If you were a shareholder in this company, how satisfied would you be with the management team?”, “How attractive is this company as an investment opportunity?”, and “How likely is it that the stock price will increase as a result of this announcement?” (“Not at all” = 1; “Extremely” = 7).

Results and Discussion

We first averaged the three measures (*Cronbach's* $\alpha = .90$). Participants anticipated greater shareholder satisfaction, viewed the company as a more attractive investment, and expected a larger stock price increase when it announced increased revenues ($M = 5.82$, 95% CI

= [5.71, 5.93]) than when it announced decreased expenses of the same amount ($M = 5.25$, 95% CI = [5.14, 5.36]), $t(795) = 7.25$, $p < .001$, *Cohen's d* = 0.51 (see Figure 2).

Studies 3A–C build on Studies 1–2 by highlighting and testing managerial implications associated with more positive perceptions of profitability. The next studies examine a potential mechanism: inferences about innovation.

Study 4: Mediation

We propose that people believe that strategies that increase revenues are more innovative than strategies that decrease expenses (e.g., Kim et al., 2015; Ruvio et al., 2014). Because innovation is associated with increased valuation (e.g., Henard & Dacin, 2010) and more favorable evaluations of firms (e.g., Kunz et al., 2011), these inferences may in turn boost perceptions of profitability. Therefore, in Study 4 (<https://aspredicted.org/hu47md.pdf>), we directly measure inferences about innovation to test their mediating role (H_2).

Method

Participants

We recruited 1,011 Connect participants and excluded failures to preregistered comprehension and attention checks, leaving a final sample of 961 participants ($M_{\text{age}} = 40.32$, $SD = 13.04$; 56% female).

Procedure

Study 4 employed a single-factor (source of change: increase in revenues vs. decrease in expenses), between-subjects design. The stimuli and procedure were identical to Study 1A, and the dependent variable was identical to Study 2. However, on a subsequent page, we also measured perceptions of innovation, ease, and trade-offs (see Table 5). For each set of measures, participants read: “Consider the company’s strategy for [increasing its revenues/decreasing its

expenses] by \$100,000 (while keeping [expenses/revenues] the same).” Our key mediator was beliefs about innovation (Kunz et al., 2011; *Cronbach’s* $\alpha = .89$). We also measured the extent to which the strategy was perceived as easy or difficult to accomplish ($r = .65$). Finally, because participants may believe that decreasing expenses leads to negative downstream consequences in the long run, we also measured the perceptions that increasing revenues (vs. decreasing expenses) required making trade-offs between the short- and the long-term. The order of the mediation measures and the dependent variable was counterbalanced across participants.

Table 5

Study 4 mediation measures

Mediator	Question	Scale
Perceptions of innovation	“How much innovation will be required?”, “How much creativity will be required?”, “How much novelty will be required?”	1 = “Very little innovation”, 7 = “A lot of innovation;” 1 = “Very little creativity”, 7 = “A lot of creativity;” 1 = “Very little novelty”, 7 = “A lot of novelty”
Perceptions of ease	“How easy is it to accomplish?”, “How difficult is this to accomplish?” (reverse-coded)	1 = “Not at all easy”, 7 = “Very easy”; 1 = “Not at all difficult”, 7 = “Very difficult”
Perceptions of trade-offs	“To what extent will this require resolving short-term versus long-term trade-offs?”	1 = “Not at all”, 7 = “A great deal”

Note. The order of both the mediators and the questions contained within each mediator were randomized. We also counterbalanced whether participants completed the mediation measures first and the dependent variable second (or vice versa)

Results and Discussion

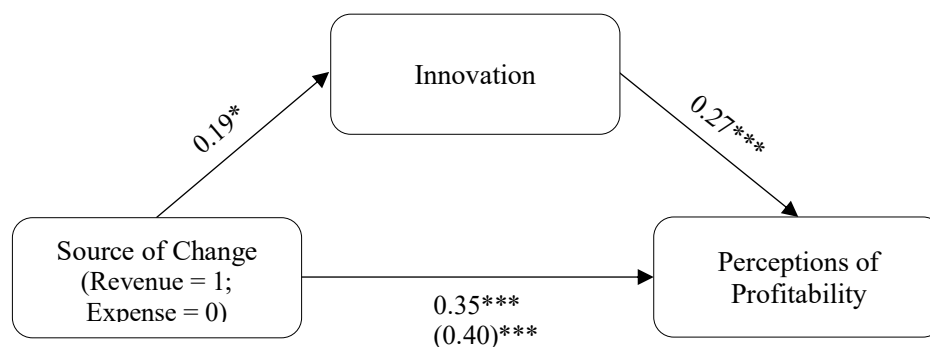
Because our counterbalancing of the mediation measures and the dependent variable did not alter the substantive pattern of results or the conclusions (see Supplemental Materials for full results), we report analyses collapsed across measurement order. First, as in Study 1A, increases in revenues led to stronger perceptions of profitability ($M = 2.81$, 95% CI = [2.70, 2.92]) than equivalent decreases in expenses ($M = 2.42$, 95% CI = [2.31, 2.53]), $t(959) = 4.95$, $p <$

.001, *Cohen's d* = 0.32. Second, consistent with our theorizing, participants believed that increasing revenues ($M = 5.35$, 95% CI = [5.24, 5.46]) required greater innovation on the part of the firm than decreasing expenses ($M = 5.16$, 95% CI = [5.05, 5.27]), $t(959) = 2.36$, $p = .019$, *Cohen's d* = 0.15. Finally, participants did not view decreasing expenses strategies as involving more trade-offs than increasing revenue strategies, $t(959) = 1.63$, $p = .104$, *Cohen's d* = 0.10. The two strategies also did not differ in perceived ease, $t(959) = .38$, $p = .707$, *Cohen's d* = 0.02.

As preregistered, we estimated a mediation model (PROCESS Model 4; 10,000 bootstrap resamples; Hayes, 2017) with inferences about innovation as the mediator. This analysis revealed that innovation ratings mediated the effect of the source of change (increase in revenues vs. decrease in expenses) on perceptions of profitability (indirect effect = 0.05, 95% CI [.01, .10]; see Figure 3). We then replicated this analysis by including perceived innovation, perceived ease, and perceived trade-offs as parallel mediators. Neither perceived ease (indirect effect = 0.01, 95% CI [−.02, .04]) nor perceived trade-offs (indirect effect = −.01, 95% CI [−.03, .00]) mediated the effect. Only perceived innovation remained a significant mediator in the parallel specification (indirect effect = .03, 95% CI [.01, .06]).

Figure 3

Study 4 mediation model



Note. * $p < .05$, *** $p < .001$. Mediation based on 10,000 bootstrapped resamples (PROCESS Model 4; Hayes, 2017)

Notably, we did not observe full mediation in Study 4, suggesting other potential mechanisms (we discuss several possibilities in the General Discussion). With mediation evidence consistent with our account, we next employ a process-by-moderation approach (Spencer et al., 2005).

Study 5: Moderation

A theoretical implication of our proposed process is that the revenue halo effect should be moderated by factors that shape beliefs about innovation (H_3). Therefore, in Study 5 (<https://aspredicted.org/y8dd4r.pdf>), we manipulated whether increases in revenue and decreases in expenses resulted from a more versus less innovative strategy.

Method

Participants

We recruited 1,003 participants on Connect and excluded failures to preregistered comprehension and attention checks, leaving a final sample of 995 participants ($M_{\text{age}} = 41.49$, $SD = 13.76$; 53% female).

Procedure

Study 5 followed a 2 (source of change: increase in revenues vs. decrease in expenses) $\times$ 2 (innovation: low vs. high), between-subjects design. All participants first read: “Suppose a company [increases its revenues/decreases its expenses], while [its expenses/its revenues] remain the same.” In the high innovation condition, prior to measuring perceptions of profitability, we additionally wrote: “This [increase in revenues/decrease in expenses] was entirely attributable to the company’s development of a cutting-edge predictive analytics platform to improve customer targeting and order processing, meaning that substantial internal innovation was required on its part (i.e., the outcome was wholly driven by the company’s innovation).” In the low innovation

condition, we wrote: “This [increase in revenues/decrease in expenses] was entirely attributable to an accounting billing error that was automatically identified and corrected by the company’s accounting software, meaning that no internal innovation was required on its part (i.e., the outcome was not driven by the company’s innovation).”⁶

Results and Discussion

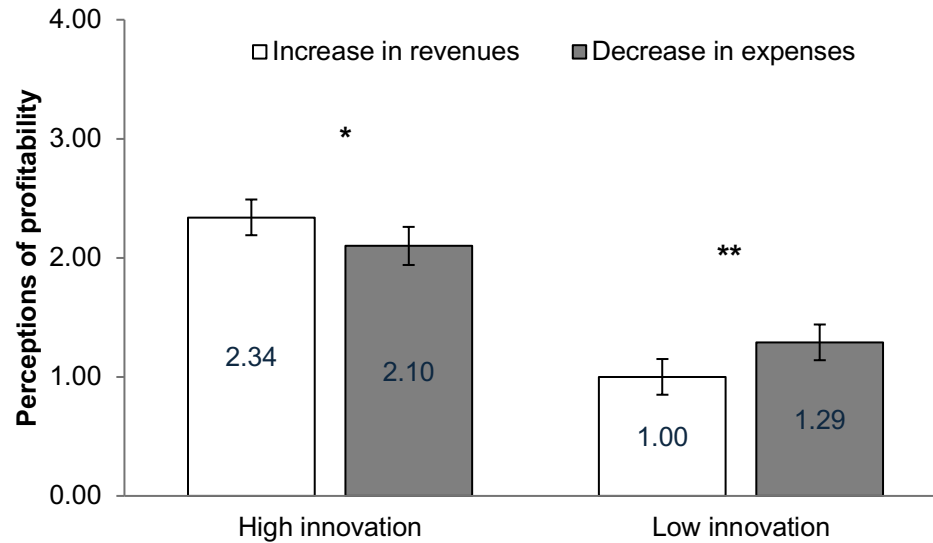
A 2 (source of change) $\times$ 2 (innovation) between-subjects ANOVA on perceptions of profitability revealed a significant main effect of innovation, $F(1,991) = 192.10, p < .001, \eta_p^2 = .16$, and a significant interaction, $F(1,991) = 11.61, p < .001, \eta_p^2 = .012$. Simple effects analyses revealed that in the high innovation condition, increases in revenues ($M = 2.34, 95\% \text{ CI} = [2.19, 2.49]$) led to stronger perceptions of profitability than equivalent decreases in expenses ($M = 2.10, 95\% \text{ CI} = [1.95, 2.26]$), $F(1,991) = 4.58, p = .033, \text{Cohen's } d = .22$ (replicating the revenue halo effect). However, in the low innovation condition, the effect reversed ($M_{\text{increase-in-revenues}} = 1.00, 95\% \text{ CI} = [0.85, 1.15]$ vs. $M_{\text{decrease-in-expenses}} = 1.29, 95\% \text{ CI} = [1.14, 1.44]$), $F(1,992) = 10.71, p = .007, \text{Cohen's } d = .21$ (see Figure 4).

Study 5 reveals that the revenue halo effect is moderated by factors that shape beliefs about innovation, consistent with our theorizing. With several lab-based demonstrations of the basic effect, along with two tests of our proposed process, our final two studies bolster the external validity of our account—extending the revenue halo effect to judgments of real companies (Study 6) and highlighting implications for an important real-world outcome: performance in *Fortune's* “World’s Most Admired Companies” annual rankings (Study 7).

⁶ A pretest confirmed that the low innovation condition resulted in lower ratings of innovation ($M = 3.29, 95\% \text{ CI} = [2.86, 3.72]$), $t(96) = 7.00, p < .001, \text{Cohen's } d = 1.42$, compared to the high innovation condition (innovation: $M = 5.40, 95\% \text{ CI} = [4.99, 5.81]$). See Supplementary Materials for details.

Figure 4

Study 5 results: the revenue halo effect is eliminated when perceived innovation is low



Note. Error bars represent 95% CIs

Study 6: Judgments of Real Companies

Study 6 (<https://aspredicted.org/byst-y4ny.pdf>) tests whether the revenue halo effect extends to evaluations of well-known, established companies with strong reputations (H_{1B}).

Method

Participants

We recruited 508 CloudResearch approved MTurk workers and excluded failures to preregistered comprehension and attention checks, leaving a final sample of 479 participants ($M_{\text{age}} = 42.44$, $SD = 13.37$; 55% female).

Procedure

Study 6 employed a single-factor (source of change: increase in revenues vs. decrease in expenses), between-subjects design. We selected the top 10 companies from *Fortune*'s most recent "Most Admired Companies" rankings (e.g., Apple, Microsoft, Amazon, Berkshire

Hathaway, JPMorgan Chase, Costco Wholesale, Alphabet, American Express, Walmart, and Nvidia). Participants evaluated one randomly selected company. After reviewing the definitions of revenues, expenses, and profit from Study 1A, participants read a brief description of their assigned company (e.g., “Apple is a multinational corporation that designs, manufactures, and markets consumer electronics, personal computers, and software”).

Participants then learned that the company had recently announced a change in revenues or expenses. In the revenues condition, participants read that “last year, [Company] increased its revenues, while its expenses remained the same.” In the expenses condition, they read that “last year, [Company] decreased its expenses, while its revenues remained the same.” We measured overall impressions of the firm using three counterbalanced measures: “How much do you like this company?” (0 = “Not at all”; 100 = “Very much”); “How much do you admire this company?” (0 = “Not at all”; 100 = “Very much”); and “To what extent is your impression of this company positive or negative?” (0 = “Very negative”; 100 = “Very positive”).

Results and Discussion

As preregistered, we first averaged the three measures (*Cronbach's* $\alpha = .96$). Participants liked the companies more, admired companies more, and held more positive impressions of companies when they announced increases in revenues ($M = 57.98$, 95% CI = [54.66, 61.29]) than when they announced decreases in expenses ($M = 52.66$, 95% CI = [49.34, 55.98]), $t(477) = 2.23$, $p = .026$, *Cohen's* $d = 0.21$. Secondary analyses revealed that condition did not significantly interact with company, $F(9,477) = 1.51$, $p = .140$. However, the revenue halo effect was largest for Amazon ($M_{\text{revenue}} = 59.61$, 95% CI = [49.47, 69.74] vs. $M_{\text{expense}} = 39.91$, 95% CI = [29.99, 49.83]), $t(477) = 7.46$, $p = .007$, *Cohen's* $d = .70$, and Alphabet ($M_{\text{revenue}} = 65.59$, 95% CI

= [56.05, 75.14] vs. $M_{\text{expense}} = 44.49$, 95% CI = [34.76, 56.22]), $t(477) = 9.26$, $p = .002$, *Cohen's* $d = .87$ (see Supplemental Materials).

The results of Study 6 extend the effect to judgments of well-known, established companies with strong reputations—persisting even when participants were (presumably) already at least somewhat familiar with these firms. Our final study complements Study 6 by reporting an analysis of archival data, drawing from approximately 13 million financial news articles spanning a 10-year period.

Study 7: Archival Data Analysis

While Study 6 directly manipulated changes in revenues and expenses for real companies, Study 7 leverages natural variation in changes to revenues and expenses reported in earnings announcements for a broader set of 57 real companies (including the original 10 described in Study 6). To do this, we analyzed a database of actual financial news articles to correlate publicly announced financial results with changes in public perceptions, as measured by *Fortune's* “World’s Most Admired Companies” annual rankings. We predicted that companies reporting revenue increases (vs. expense decreases) in a given year would subsequently improve their ranking in the following year (H_{1B}).

Method

News Coverage Data

For our independent variables, we used the Financial News and Stock Price Integration Dataset (FNSPID; Dong et al., 2024), which comprises approximately 13 million financial news articles from NASDAQ and covers 6,620 S&P500 companies between 1999–2023. The dataset contained each article’s headline, main text, publication date, and the stock ticker symbol of the relevant company.

We first analyzed whether each article mentioned changes to revenues or expenses using systematic keyword combination search. Increases in revenues were identified by searching for mentions of “revenue” or “revenues,” paired with the following terms: “increase”; “increased”; “rose”; “grew”; “climbed”; “jumped”; “surged”; “up”; and “growth.” Decreases in expenses were identified by searching for mentions of “expense” or “expenses,” paired with the following terms: “decrease”; “decreased”; “fell”; “declined”; “dropped”; “down”; “cut”; “reduction”; and “lowered.”

We collapsed these data to the company-year level, calculating for each company in each year: (1) the total number of news articles, (2) the total number of news articles that mentioned revenue increases, and (3) the total number of news articles that mentioned expense decreases. For each company-year, we then computed two indexes, one capturing (a) the proportion of “revenue-increase” mentions relative to total news coverage and another capturing (b) the proportion of “expense-decrease” mentions relative to total news coverage.

Public Perceptions Data

For our dependent variable, we used *Fortune*’s “World’s Most Admired Companies” annual rankings, spanning 2014–2024.⁷ To compile these rankings, *Fortune*, in partnership with Korn Ferry, begins with roughly 1,500 companies (i.e., the 1,000 largest U.S. firms, along with 500 international firms with annual revenues of at least \$10 billion), narrows them to approximately 650 companies across 51 industries, and then surveys over 3,000 executives, directors, and analysts. Respondents are asked to rate companies on nine attributes, including quality of management, quality of products and services, innovation, financial soundness, long-term investment value, ability to attract, develop and retain talent, social responsibility, use of

⁷ The earliest year for which the rankings are publicly accessible is 2014; the latest is 2024.

corporate assets, and global competitiveness. A company must place in the top half of its industry on these attributes to qualify. From this pool, *Fortune* identifies the 50 most admired companies (i.e., the “All-Stars”) each year.⁸

Final Dataset

We merged the public perceptions data (i.e., the *Fortune* rankings) with the news coverage data (i.e., the FNSPID), based on stock ticker symbol and year. We then lagged the news coverage data (i.e., the proportion of “revenue-increase” mentions and the proportion of “expense-decrease” mentions) by one year to test whether news coverage in year $t-1$ predicted changes to public perceptions in year t (i.e., for the most recent year, 2024, we correlated 2023 “revenue-increase” mentions with the 2024 rankings and 2023 “expense-decrease” mentions with the 2024 rankings).

The final sample contained 293 company-year observations, representing 57 distinct companies. Each observation included: the *Fortune* ranking (from #1–#50) and the lagged “revenue-increase” and “expense-decrease” proportions. Each company ranked by *Fortune* appeared on the list for an average of 5.1 years, with “revenue-increase” mentions comprising an average of 8.9% ($SD = 15.5\%$) of total news coverage and “expense-decrease” mentions comprising an average of 1.5% ($SD = 4.8\%$) of total news coverage.

Results and Discussion

To control for all time-invariant company characteristics, we estimated a fixed-effects panel regression, which isolates within-company changes over time and allows us to test whether fluctuations in “revenue-increase” mentions and “expense-decrease” mentions in year $t-1$ predict subsequent performance in each company’s *Fortune* ranking in year t . We also clustered

⁸ For detailed methodology, see: <https://fortune.com/franchise-list-page/methodology-worlds-most-admired-companies-2024/>.

standard errors at the firm level to account for statistical dependence within firms over time. We found that companies with higher proportions of “revenue-increase” mentions in a given year achieved higher *Fortune* rankings in the following year ($b = -11.51$, 95% CI = $[-20.22, -2.81]$), $t(57) = -2.65$, $p = .010$. However, companies with higher proportions of “expense-decrease” mentions in a given year did not achieve higher *Fortune* rankings in the following year ($b = 21.54$, 95% CI = $[-99.51, 142.58]$), $t(57) = .36$, $p = .723$.

Study 7 finds that when companies announced increases in revenues, they subsequently rose (the following year) in a highly consequential real-world ranking (i.e., *Fortune*’s “World’s Most Admired Companies”). When the same companies announced decreases in expenses, however, they did not. Although any correlational analysis cannot conclusively establish causality (as in the Study 6 paradigm), these results underscore the practical relevance and managerial implications of our account.

General Discussion

Across nine experiments ($N = 6,045$), an archival data analysis, and four supplemental studies, this research documents a robust “revenue halo” effect: increases in revenues, relative to equivalent decreases in expenses, lead to more positive perceptions of profitability, in both the short and long run, and result in more favorable overall impressions of financial strength, performance, potential, and trajectory. The effect generalizes across a wide range of companies, industries, and magnitudes, and is explained, in part, by the belief that strategies for increasing revenues are more innovative than strategies for decreasing expenses.

Theoretical Implications and Future Directions

We view this work as contributing theoretical insights to research on beliefs about innovation, as well as judgments of organizational performance. Specifically, the revenue halo

effect introduces a novel asymmetry in judgments of organizational performance (e.g., Aaker et al., 2010; Bhattacharjee et al., 2017; Woolley et al., 2023; Wry et al., 2014). While work in this area has primarily focused on the consequences of profitability perceptions, we identify a novel cause: its *source* (e.g., increases in revenues vs. decreases in expenses). We also view our framework as helping to integrate recent findings across perceived innovation (e.g., Kim et al., 2015; Ruvio et al., 2014) and overall evaluations of organizations (e.g., Buechel & Solinas, 2025; Fang & Maglio, 2024; Zingoni & Byron, 2017). These findings furthermore connect inferences about innovation to perceptions of profitability (Cuong et al., 2024; Jacobsen et al., 2025; Kim et al., 2015; Kunz et al., 2011; Spieth et al., 2023).

We are also careful to note that our theory and findings explicate subjective *perceptions* of profitability, as opposed to objective measures of accounting profit. As such, our findings are consistent with past work demonstrating that people are sensitive to the various means by which firms generate profits (Bolton et al., 2003; Trupia & Shaddy, 2025)—and that these lay beliefs are associated with important downstream judgments. We make no normative claims about their accuracy, but we do note that in many contexts, there may be compelling reasons to pay more attention to one or the other. For example, venture capital interest in startups and market valuations of public companies are often based more on top-line growth potential (Damodaran, 2009), while private equity takeovers and mergers and acquisition (M&A) targets are typically driven more by the potential for cost-cutting and efficiency gains (Capozzi et al., 2025).

Although we found that the revenue halo effect was mediated by beliefs about innovation (as hypothesized), these inferences only partially mediated the effect in Study 4, and we observed a complete reversal in Study 5. Moreover, the results of Supplemental Studies 1–2 (see Supplemental Materials) suggest the effect is robust to providing more information about the

underlying strategy and specifying the cost of implementation. Although we described the same underlying strategy in both conditions (e.g., adoption of an AI tool in Supplemental Study 1 and introduction of a \$10,000 employee training program in Supplemental Study 2), one intriguing possibility is that participants imagined a more *innovative* application or implementation when it resulted in an increase in revenues, as opposed to a decrease in expenses.

We thus encourage future research to explore other potential mechanisms and boundary conditions. For example, inferences about organizational effort may play a meaningful role. Because innovation often requires the mobilization of organizational resources (Gendolla & Wright, 2009), people may infer that strategies for increasing revenues also require greater effort. Notably, previous research suggests both a positive link between effort and evaluations (e.g., Norton et al., 2012), as well as a positive (though often underappreciated) link between effort and innovation (Lucas & Nordgren, 2015). Hinting at this possibility, in a supplemental study, we found that the revenue halo effect attenuated (but was not fully eliminated) when participants learned that changes to revenues and expenses required no effort on the part of the firm (see Supplemental Study 3 in the Supplemental Materials).

More broadly, strategies for decreasing expenses may be overlooked to the extent that they represent *subtractive* rather than additive changes (Adams et al., 2021). Observers may also draw different inferences about managers' baseline intelligence, talents, or abilities when they propose one type of strategy or the other, as opposed to when they are proposed by third parties (e.g., consultants). For example, in Study 3A we found that an Assistant Manager who proposed increasing revenues was rated as more competent, productive, and knowledgeable than an Assistant Manager who proposed decreasing expenses. However, an open question is whether and how firms that fail to identify costs that can be eliminated are penalized (as opposed to

rewarded for identifying opportunities for growth). Importantly, our studies did not include a neutral baseline condition—we designed them to compare how increasing revenues versus decreasing expenses affects perceptions of profitability—though future research might explore such judgments, depending on whether they originate internally or externally.

Another potential consideration is that unlike the maximum magnitude of decreases in expenses, which are bounded by zero, the maximum magnitude of increases in revenue is theoretically unbounded. Increases in revenues may furthermore be cognitively easier to process, since they are directionally consistent (i.e., *increasing* profits by *increasing* revenues vs. *increasing* profits by *decreasing* expenses). Recent work has found that such causal chains are intuitively more appealing (Bharti & Sussman, 2024). Notably, however, we did not find a similarly asymmetric *negative* effect on perceptions of profitability when we tested *decreases* in revenues and *increases* in expenses (see Supplemental Study 4 in the Supplemental Materials).

Alternative Explanations and Limitations

We designed our studies to rule out several key alternative explanations, but future research might relax some of these assumptions to extend our account. First, in several studies, we required participants to pass a series of comprehension checks to ensure the revenue halo effect is not simply attributable to confusion about concepts like “revenue” and “profits.” Nevertheless, accounting knowledge or expertise in financial decision making (Fernandes et al., 2014; Cornil et al., 2019; Sung & Choi, 2012; Fernandes et al., 2014) could moderate our findings. It is also not simply the case that any increase in revenues is viewed more positively than an equivalent decrease in expenses (as demonstrated by the crossover pattern observed in Study 5). Instead, people seem to be sensitive to *how* companies improve their bottom lines.

Second, we examined whether the effect depends on time horizon (i.e., profitability over the short-term versus long term), or on inferences about negative long-term trade-offs tied to decreasing expenses. For example, in Studies 1A–B, we explicitly stated that neither strategy would negatively affect product quality, customer service and loyalty, or employees. Notably, perceptions of profitability did seem to produce modestly larger effect sizes when measured in the short-term (vs. the long-term), but follow-up analyses testing for an interaction between time horizon (e.g., short-term vs. long-term) and source of change (e.g., increase in revenues vs. decrease in expenses) in Studies 1A–B and Supplemental Studies 1–2 did not reveal any significant moderation (see Supplemental Materials). While we did not observe a significant difference in perceptions of whether increases in revenues versus decreases in expenses result in different long-term versus short-term trade-offs (Study 4), it nevertheless remains possible that the effect is larger (or smaller) in contexts when such trade-offs are obvious—such as boosting sales with deceptive practices, or cutting costs through mass layoffs—which future research could explore.

Third, we took several steps to ensure the revenue halo effect is not simply explained by negative inferences about the financial health of companies that pursue strategies for decreasing expenses. The within-subjects design of Study 1B asked participants to consider the *same* firm in both conditions and evaluate the perceived profitability of two equally feasible options (e.g., increase revenues or decrease expenses); in Supplemental Study 1–2, we presented the same sample income statement in both conditions (which described the same baseline profitability of \$1 million); and in Study 4, we explicitly measured beliefs about how easy or difficult each strategy (i.e., increasing revenues or decreasing expenses) would be to execute. Ratings of ease and difficulty did not differ, nor did they mediate the effect. At the same time, in many real-

world contexts, it *is* often the case that increasing revenues and decreasing expenses are not equally viable (e.g., for a firm in financial distress, it may be unrealistic or even impossible to increase revenues). Even within each type of strategy, some tactics may be more or less feasible (e.g., for most companies, it may be easier to raise prices than to acquire new customers). Future research could test such factors more systematically.

Managerial Implications and Practical Insights

We expect our findings to be of significant practical interest, given their implications for managerial decision-making, corporate communication, and capital allocation. For example, across Studies 3A–C, we found that managers who proposed ideas for increasing revenues (vs. decreasing expenses) were viewed as more competent; consultants who developed such strategies were more likely to be rehired; and companies that reported higher revenues were more attractive to investors.

Our results thus potentially offer managerial guidance for how to effectively communicate firm performance, both internally and externally. For example, Wall Street analysts likely care more about growth potential (e.g., increases in revenues) than employees, who likely care more about job security (e.g., decreases in expenses). Firms may also be more likely to reward or promote managers tasked with increasing revenues—despite the fact that strategies for decreasing expenses can also boost profits—and potentially even provide them with more organizational support (in the form of financial or operational resources). Indeed, innovation has been shown to account for 25% or more of revenue growth in several industries (McKinsey & Company, 2017). Meanwhile, many strategies for decreasing expenses could be perceived as innovative (such as the use of an AI tool described in Supplemental Study 1).

Companies also often face public backlash when announcing efforts to reduce expenses (even when such moves are financially justified). For example, Intel received negative media coverage after reporting its plans to cut costs, which critics argued signaled poor planning and a lack of strategic foresight (Carucci & Millward, 2023; King, 2025). Our conceptualization suggests that firms would be wise to highlight the significant organizational innovation required to undertake such initiatives. Companies could also frame the same initiative one way or another (i.e., as increasing revenues or decreasing expenses) to change perceptions of profitability. In particular, initiatives for decreasing expenses could be reframed as additionally unlocking opportunities for increasing revenues. For example, an announcement describing “a 15% reduction in operational costs” could be paired with the implication that doing so “will enable 15% more investment in revenue growth initiatives.”

Finally, our studies deliberately isolate increases in revenues and decreases in expenses to cleanly test their independent effects on perceptions of profitability. Yet these changes rarely happen in a vacuum. For example, increasing revenues by entering new geographic markets may require large investments (increases in expenses) in infrastructure, or decreasing expenses by reducing promotional spend might also limit new customer acquisition (decreases in revenues). Encouragingly, the results of both Supplemental Study 2 and our archival analysis reveal that the effect persists when this assumption is relaxed, though future research could further examine boundary conditions that arise when changes to revenues and expenses co-occur. For example, the revenue halo effect may be stronger when a company increases revenues and decreases expenses at the same time. Broader contextual factors, too, such as prevailing macroeconomic conditions, may affect whether cost-cutting or growth seem more appropriate.

Conclusion

Companies can increase profits in one of two basic ways: decrease expenses or increase revenues. While either strategy, in theory, can result in greater accounting profit, this research documents a systematic asymmetry in *perceptions* of profitability: increases in revenues lead to more positive perceptions of profitability than equivalent decreases in expenses. The resulting “revenue halo” effect reflects a novel theoretical insight that shapes judgments of organizational performance and yields meaningful implications for managerial decision-making. To that end, this work suggests profitability may be as much a *psychological* construct as a financial one.

Appendix A: Comprehension Checks

Study	Comprehension Check
Studies 1A–B, Supplemental Study 1–2	“Which of the following is TRUE?” (options: “Revenues show total sales; profit is what’s left after expenses” [correct answer], “Revenues and profit mean the same thing”, “Expenses are the same as profit”, “A company’s profit is always higher than its revenues”)
Study 1B	“A company has: - Revenues: \$10 million, - Expenses: \$7 million. What are the company’s profits?” (options: “\$17 million (revenues + expenses)”, “\$10 million (same as revenues)”, \$3 million (revenues – expenses) [correct answer], \$7 million (same as expenses)”
Supplemental Study 1–2	Participants were shown an example income statement displaying \$100,000 in revenues, \$90,000 in expenses, and \$10,000 in profit and then asked: “What are this company’s revenues?” (options: \$10,000, \$90,000, and \$100,000 [correct answer])
Supplemental Study 1–2	Participants were shown an example income statement displaying \$100,000 in revenues, \$90,000 in expenses, and \$10,000 in profit and then asked: “What are this company’s expenses?” (options: \$10,000, \$90,000 [correct answer], and \$100,000)
Supplemental Study 1–2	Participants were shown an example income statement displaying \$100,000 in revenues, \$90,000 in expenses, and \$10,000 in profit and then asked: “What are this company’s profits?” (options: \$10,000 [correct answer], \$90,000, and \$100,000)

Note. The response options were randomized in order. Only participants answering the comprehension questions correctly were allowed to participate

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