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Do Long-Term Investors Improve Corporate Decision Making?

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Abstract

We study the effect of investor horizons on a comprehensive set of corporate decisions. We argue that monitoring by long-term investors generates decision making that maximizes shareholder value. We find that long-term investors strengthen governance and restrain managerial misbehaviors such as earnings management and financial fraud. They discourage a range of investment and financing activities but encourage payouts. Innovation increases, in quantity and quality. Shareholders benefit through higher profitability that the stock market does not fully anticipate, and lower risk.

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JEL classification: G23, G31, G32, G34, G35
Keywords: Agency problems; Monitoring; Managerial myopia; Investor horizons; Corporate governance; Managerial misbehavior; Investment; Innovation; Financing; Off balance sheet debt; Debt maturity; Payouts; Valuation; Profitability; Volatility; Credit events

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