

## Accepted Manuscript

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PII: S0929-1199(17)30529-1  
DOI: [doi:10.1016/j.jcorpfin.2017.09.022](https://doi.org/10.1016/j.jcorpfin.2017.09.022)  
Reference: CORFIN 1271

To appear in: *Journal of Corporate Finance*

Received date: 5 September 2017

Accepted date: 23 September 2017

Please cite this article as: Jarrad Harford, Ambrus Kecskés, Sattar Mansi , Do long-term investors improve corporate decision making?. The address for the corresponding author was captured as affiliation for all authors. Please check if appropriate. Corfin(2017), doi:[10.1016/j.jcorpfin.2017.09.022](https://doi.org/10.1016/j.jcorpfin.2017.09.022)

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## Do Long-Term Investors Improve Corporate Decision Making?

JARRAD HARFORD, AMBRUS KECSKÉS, and SATTAR MANSI\*

### 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.

September 26, 2017

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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\* Harford is at the University of Washington, Kecskés is at the Schulich School of Business, York University, and Mansi is at Virginia Tech. We greatly appreciate the comments of Gennaro Bernile, Sreedhar Bharath, Neil Brisley, Henrik Cronqvist, Dave Denis, Sandra Dow, Ying Duan, Alex Edmans, Veljko Fotak, Laura Gonzales, Wei Jiang, Pab Jotikasthira, Jeff Harris, Harrison Hong, Andrew Karolyi, Jon Karpoff, Simi Kedia, Lily Li, Yili Lian, Alexander Ljungqvist, Paul Malatesta, Pedro Matos, Costanza Meneghetti, Shawn Mobbs, Jeff Netter (the Editor), Phuong-Anh Nguyen, Lukasz Pomorski, Jeff Pontiff, Krishna Reddy, Ed Rice, Jay Ritter, Alexander Schandlbauer, Sheridan Titman, Roberto Wessels, Andrew Winton, Kazuo Yamada, and seminar participants at 2016 American Finance Association Conference, the 2015 Asian Finance Association Conference, the 2015 China International Conference in Finance, the 2016 European Financial Management Association Conference, the 2015 Finance Down Under Conference, the 2015 Financial Management Association Applied Finance Conference, the 2015 Financial Management Association Conference, the 2016 Financial Management Association European Conference, the 2016 Global Finance Conference, the Hong Kong University of Science and Technology, the 2015 Mid-Atlantic Research Conference in Finance, the 2015 Midwest Finance Association Conference, the 2015 Northern Finance Association Conference, the 2015 Northeastern University Corporate Finance Conference, the 2016 Rotman International Center for Pension Management Discussion Forum, the 2016 Rising Stars Conference, the 2015 Southern Finance Association Conference, the 2016 Conference of the Swiss Society for Financial Market Research, the 2015 Summer Institute of Finance, the 2015 Symposium on Financial Institutions and Intermediaries, the 2017 Telfer Conference on Accounting and Finance, the University of New South Wales, the University of Washington, the 2015 Vietnam International Conference in Finance, Washington State University, WHU – Otto Beisheim School of Management, and the 2015 World Finance & Banking Symposium. We especially thank Laura Starks for her guidance. We are grateful to Patricia Dechow and the Center for Financial Reporting and Management for sharing data with us. This research was supported by the Social Sciences and Humanities Research Council of Canada.

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