Seminar Series: Computational Finance Seminar

Date: Monday, January 23, 2017
Time: 4:30 – 5:20 p.m.
Location: REC 122

Speaker: Prof. Yeejin Jang
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**Taking a Long View: Investor Trading Horizon and Earnings Management Strategy**

Abstract: This paper studies how the investment horizon of institutional investors affects firms' earnings management strategies. We find that firms with long-term investors are more likely to manage earnings through real activities manipulation than through accruals. The impact of the investor trading horizon on real activities manipulation is stronger in smaller firms, when market uncertainty is high, when long-term institutional investors experience low fund flows, and as a proportion of long-term investor increases. Overall, the evidence suggests that firms owned by long-term investors who face performance pressures manage earnings by adjusting long-term operating decisions rather than by short-term accounting manipulation. As a consequence, firms held by long-term investors that engage in high real activities manipulation experience high operating performance and long-run stock returns. Our identification strategy exploits the Russell 2000 Index as an instrumental variable for the investor horizon and confirms that our results are robust to endogeneity concerns.