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Overinvestment, subsequent earnings management, and CEO tenure

Sobreinversión, manipulación posterior de los resultados, y antigüedad del CEO

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Abstract

In this study, I empirically examine whether the managers of firms that overinvest have an incentive to subsequently distort financial information for keeping up with stakeholders' expectations about investment returns. Also, because CEO tenure is related to the capacity of the manager to influence both firm's resources allocation and the financial reporting process, I hypothesise that the expected positive association between overinvestment and subsequent earnings management does not hold for newly appointed CEOs. By using several proxies for both overinvestment and earnings management to test my expectations, results suggest that firms' current

overinvestment is positively associated with subsequent earnings management, measured through both the opportunistic use of accruals and sales manipulation. Finally, empirical tests support the expectation that the opportunistic behaviour of concealing investment inefficiencies through subsequent earnings management only holds for CEOs with greater tenure.

Este trabajo analiza si la sobreinversión genera incentivos para que los gerentes distorsionen posteriormente la información contable y así consigan satisfacer las expectativas de los distintos grupos de interés sobre la rentabilidad de las inversiones. Como los gerentes con mayor antigüedad son los que tienen más capacidad de influencia sobre los recursos de las empresas y sobre el proceso contable, se prevé también que la previsible asociación positiva entre sobreinversión y posterior manipulación no se mantenga en caso que los gerentes posean una menor antigüedad. Usando varias medidas de sobreinversión y manipulación, los resultados sugieren que la sobreinversión está positivamente relacionada con la posterior manipulación del resultado contable, medida tanto a través del uso oportunista de los devengos como de la manipulación de las ventas. Finalmente, los resultados muestran que dicha asociación positiva solo se mantiene para gerentes de mayor antigüedad.

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