

Short-termism, Investor Clientele, and Firm Risk

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Abstract

Using conference call transcripts, we measure the time horizon that senior executives emphasize when they communicate with investors. We show that firms focusing more on the short-term have a more short-term oriented investor base. Moreover, we find that short-term oriented firms have higher stock price volatility, and that this effect is mitigated for firms with more long-term investors. We also find that short-term oriented firms have higher equity betas and as a result higher cost of capital. However, this result is not mitigated by the presence of long-term investors, consistent with these investors requiring a risk premium for holding the stock of short-term oriented firms. Overall, our evidence suggests that corporate short-termism is associated with greater risk and thus affects resource allocation.

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1. Introduction

In the recent decades, commentators have argued that many corporations exhibit short-termism, a tendency to take actions that maximize short-term earnings and stock prices rather than the long-term value of the corporation (e.g., Levitt, 2000; Donaldson, 2003). Critics blame short-termism for resource misallocation and for playing a significant role in the recent financial crisis (Bair, 2011). While researchers have tried to document short-termism and its effect on capital markets, the evidence remains limited. Indeed, one of the challenges facing archival research on short-termism is the difficulty to identify the short-termism that different companies exhibit. In this paper, we develop a proxy for short-termism at the company-level using conference call transcripts and then we examine whether companies with more short-term horizons have (i) an investor base that is more short-term oriented, (ii) higher stock return volatility, and (iii) higher equity beta.

Short-termism affects various capital-market agents. On the one hand, executives have a resource allocation function, and they are presumed to make internal capital allocation decisions that maximize the market value of the company and—as a result—the return to their shareholders' investment. In doing so, managers can take actions that maximize current stock prices and/or the future value-generating capability of the firm (Stein, 1989). From a management perspective, the most important problems of inter-temporal resource allocation are the decisions in which the course of action that maximize profit in the short-term is not the same course of action that maximize the value of the company over the long-run (Laverty, 1996). Given the uncertainty about future firm performance and the observability of current performance, executive compensation is typically tied to current performance and stock prices, incentivizing managers to overweight the short-term (Bolton et al., 2005; Cheng and Warfield, 2005).

On the other hand, an open question is whether the stock market is short-term oriented. Indeed, agency frictions need not be the only driver of managers' short-termism. Executives frequently complain that the market is primarily focused on next quarter's earnings (Marston and Craven, 1998; Graham, Harvey and Rajgopal, 2005). This pressure can lead executives to make decisions that deliver short-term performance at the expense of long-term performance, such as underinvesting in research and development or in marketing and advertising (Bushee, 1998). At the same time, even though executives may complain about the investors' short-term focus, they reinforce it through mechanisms such as earnings management or expectations management in which they set expectations for the next quarter's earnings they know they can beat by a penny or two, hoping to elicit a short-term bump or to avoid sharp declines in the stock price (Bartov, Givoly and Hayn, 2002; Kasznik and McNichols, 2002). This is more likely to happen when executive compensation is tied to short-term results, including through equity-based compensation (Cheng and Warfield, 2005).

Although many prior studies have argued that short-termism is pervasive in the corporate world, not all companies adopt the same timeframes in their decision making. Indeed, managerial time horizons in decision making, planning and communication differ substantially (Poterba and Summers, 1995; Eccles, Ioannou and Serafeim, 2011). We try to capture these differences in time horizon across companies by coding the language that is used in the discussions between senior managers and investors during quarterly conference calls. For each conference call, we code the number of words that reflect the short-term (time horizons shorter than a year), versus the long-term (time horizons longer than a year). Our measure of short-termism is the number of keywords that refer to the short-term over the number of words that refer to the long-term. Then,

we construct a firm-year level measure by averaging all short-termism measures across quarterly conference calls.

We find that this measure of short-termism is predictably related to different proxies of short-term corporate behavior in the form of earnings management. Specifically, we find that short-term oriented firms have higher absolute discretionary accruals, exhibit higher likelihood of just beating analyst forecasts, high likelihood of reporting very small positive earnings, and a higher likelihood of just avoiding violating loan covenants. Moreover, we find that more short-term oriented firms are more likely to exhibit lower research and development expenditures in years that they report small positive earnings or in years that they just meet or beat analyst forecasts.

Our first hypothesis is that firms with greater emphasis on the short-term will have more short-term oriented investors. We suggest that corporations that manage for the short-term will attract more short-term oriented investors that chase returns in the near future. Moreover, we argue that short-term investors might force a company to adopt a shorter time horizon. In other words, the relation between short-termism of a firm and an investor runs both ways. To measure the time horizon of investors, we use Bushee's (1998) classification of investors to transient, dedicated and quasi-indexers. We find results consistent with our hypothesis: an increase by one standard deviation of our proxy for short-termism decreases long-term investors' holdings by approximately 0.8 percent or 7 percent of the standard deviation, controlling for other firm characteristics. When we use an instrumental variables approach, using the number of board directors (i) affiliated with non-governmental organizations and (ii) originally from countries with greater cultural emphasis on the long-term (Hofstede, 2001) as instruments for short-termism, we find again a strong relation between corporate short-termism and investor base. The

effect is larger at 1.2 percent when we estimate the relation in the smaller sample for which we have data on instruments and with instrumental variables regressions. This suggests that the short-termism of a company is not solely the result of pressure from short-term investors to deliver in the short-term, but also short-term oriented companies attracting more short-term investors. The moderate size of the economic effect potentially reflects the difficulty that investor are facing in separating short-term from long-term oriented companies. However, the fact that there is a robust relation between the two constructs suggests that to a certain extent investors are able to screen and select companies according to their time horizons.

The second and third hypotheses are that short-term oriented firms will have higher stock return volatility, and that this effect is stronger for firms with more short-term oriented investors. We expect a positive association between short-termism and stock return volatility, because short-term oriented firms are more likely to make corporate decisions that reflect short-term market fluctuations and, as a result, their operations and strategy are going to be less stable and consistent.¹ In addition, the investor base of these firms will further exacerbate stock return volatility, because transient investors are more likely to trade as a result of any new information release. We find results that support both hypotheses. In particular, an increase by one standard deviation in short-termism increases volatility of returns by 0.6 percent which is equal to 6 percent of the standard deviation of stock return volatility, controlling for other firm characteristics, and this effect is partially alleviated by the presence of long-term investors. The economic effect is 1 percent when we estimate the relation in a smaller sample for which we have data on instruments and with instrumental variables regressions.

¹ For example, Khan, Kogan and Serafeim (2011) show that firms whose equity becomes overvalued in the stock market raise capital through equity issues and acquire other companies using their stock as a form of cheap capital.

The final two hypotheses are that short-term oriented firms will have higher equity betas and that this effect might be associated with the investor base. This relation will hold if the risk associated with holding short-term oriented companies is not diversifiable in an economy. We find a strong positive relation between equity beta and our measure of short-termism: an interquartile increase in short-termism increases equity beta by 0.07, controlling for other firm characteristics. The standard deviation of beta is 0.83. Assuming a market risk-premium of approximately 6 percent, the economic effect of an interquartile increase in short-termism translates into 42 basis points higher cost of capital. The economic effect is 90 basis points when we estimate the relation in a smaller sample for which we have data on instruments and with instrumental variables regressions. However, in contrast to the volatility results, we do not find that this effect is exacerbated for companies with short-term investors. This result is consistent with more long-term oriented investors requiring a risk premium for holding short-term oriented companies.

The results of this paper contribute to the literature on the capital market effects of managerial and investor horizons. Our study is most closely related to Bushee and Noe (2000), who show that lower disclosure quality is associated with transient institutional investors and results in higher stock return volatility. Our results add to Bushee and Noe (2000) by explicitly investigating the properties of information disclosure that capture short- and long-term horizons. We also contribute to a strand of literature that investigates the effect of management earnings guidance on return volatility. Since guidance mostly consists of quarterly and annual forecasts, it is short-term oriented according to our measure. While Rogers, Skinner and Van Burskirk (2009) find that bad news forecasts elicit greater volatility, Chen, Matsumoto and Rajgopal (2011) find no evidence of an increase in volatility after guidance cessation at the firm-level. Our findings

shed additional light on this issue by showing that the presence of long-term investors mitigates the positive association between short-termism and return volatility.

Furthermore, our study builds on an emerging literature that examines management communication during conference calls and its association with information content (Hollander, Pronk and Roelofsen, 2010; Matsumoto, Pronk and Roelofsen, 2011), future performance (Mayew and Venkatachalam, 2011) and financial fraud (Larcker and Zakolyukina, 2011). While most accounting and finance studies that conduct content analysis of corporate disclosures measure disclosure tone (i.e., relative optimism), we provide a new construct focused on horizon, which we find to be robustly associated with measures of earnings management, investor clientele and risk.

The rest of the paper proceeds as follows. Section 2 discusses the previous literature on short-termism and develops our hypotheses. Section 3 presents the sample selection and summary statistics. Section 4 outlines the research design. Section 5 presents the results and section 6 concludes.

2. Literature Review and Hypotheses Development

2.1. Explanations for the existence of short-termism

There are multiple explanations for the existence of short-termism in corporate decision-making. Management practices that discount the future and emphasize short-term performance might cause short-termism. Critics argue that the increased use of discounting techniques to evaluate investment projects results in excessive discounting of the future and is responsible for a decline in investment in capital projects and in research and development (Hayes and Abernathy, 1980). Johnson and Kaplan (1987: 203) argue that the problem is “attempting to measure performance

over too brief a period, before the long-term adverse consequences from making short-term decisions become apparent.” Kaplan (1984: 411) also asserts, “The ability of the firm and the division to increase reported profits while sacrificing the long-term economic health of the firm is the fundamental weakness in the accounting model.”

Another explanation that has been offered is the existence of a moral hazard problem in organizations. Under this school of thought, short-termism is an optimal inter-temporal choice for a manager, but it is suboptimal from the firm’s perspective. Rumelt (1987) argues that managerial mobility exacerbates short-termism. Managers can display opportunism by choosing projects that will pay off in the short-term but will not do well over the long-run. Such opportunistic managers can reap the rewards of association with a temporarily successful project as long as the success continues, exiting the firm before the end of the project’s success becomes apparent. Executive compensation linked to stock price is likely to exacerbate managerial short-termism, because optimal contracts in speculative markets may induce managers to undertake short-term investments at the expense of long-term performance to increase the speculative component of stock price (Bolton et al., 2005). Moreover, managers might select myopic investments because they want to signal their superior abilities to labor markets (Campbell and Marino, 1994). Narayanan (1985) and Holmstrom and Ricart i Costa (1986) argue that (a) managers desire to make investments that offer relatively faster paybacks, in order to more rapidly enhance their reputations and (b) such enhancement has lasting effects. Therefore, a manager who has private information about a project will have an incentive to speed up the project’s returns to the detriment of long-run performance. In addition, with average CEOs’ turnover decreasing to less than six years (Kaplan and Minton, 2008), managers are further inclined to focus on the short-term.

A third explanation for the existence of short-termism is capital market pressures to deliver performance in the near term. Under this line of thought, the stock market undervalues investments that will pay off only in the long run. Moreover, long-term investments are likely to result in longer mispricing of firms' equity (Shleifer and Vishny, 1990). Both effects increase the risk of the firm becoming a target of a takeover (Drucker, 1986; Edmans et al., 2011). Moreover, the rise of institutional investors as major shareholders has significantly affected stock turnover rate, shifting investors' attention towards short-term price changes and timely portfolio rebalancing, rather than long-term value creation (Loescher, 1984; Johnson and Kaplan, 1987). Similarly, Johnson and Kaplan (1987) claim that professional investment managers focus on short-term performance and discourage long-run and/or riskier projects. Additionally, Jacobs (1991) and Froot, Scharfstein, and Stein (1992) argue that market participants have short time horizons, and stock prices react to near-term information rather than to economic fundamentals concerning the value of a firm. Porter (1992a,b) echoes Jacobs (1991) by arguing that underinvestment in long-term projects is the result of the relationships between American firms and capital markets, which are characterized by fluid capital: "Funds supplied by external capital providers move rapidly from company to company, usually based on perceptions of opportunities for near-term appreciation" (Porter, 1992b: 69). Porter argues that "dedicated capital" systems such as the equity market in Japan or Germany, where banks hold large stakes, provide the firm with owners who understand more about the firm's value and long-run prospects than do investors in the United States.

The final explanation is that economic short-termism can occur due to information frictions. Under this theory, short-term performance is a means through which managers indicate to owners and investors that the firms' assets are being managed to maximize value. Brennan

(1990) uses the term “latent assets” to refer to the component of a firm’s value that, because of private information, is not reflected in stock price. The stock market’s lack of information leads to an undervaluation of long-run investments, and, consequently, to management’s overemphasis on short-term performance at the expense of the firm's future (Thakor, 1990). Information asymmetry and severe underpricing of their equity will prompt managers to focus on short-term investments at the expense of the firm’s future (Thakor, 1990; Bebchuk and Stole, 1993), by overemphasizing contemporaneous performance (Bhojraj and Libby, 2005; Rappaport, 2005).

While there are many arguments for the existence of short-termism in the corporate world (Marginson and McAulay, 2007), it has increasingly been recognized that substantial differences exist across corporations in their decision making time horizons (Eccle, Ioannou and Serafeim, 2011). Certain companies resist short-termism and adopt strategies that pay off in the long-term. Top management leadership is usually required to institute a culture of planning for the long-term, although grassroots movements can also be effective mechanisms to drive long-term thinking. Other mechanisms that can institute a culture of long-term management are engagement by long-term investors, monetary incentives that link compensation to nonfinancial metrics, and reporting externally on the long-term strategy of the corporation (Eccles and Krzus, 2010). By adopting a communication style that focuses more on the long-term strategy of the organization, managers with a focus on the long-term can alleviate information and financing frictions, i.e. mitigate uncertainty in long-term investments and attract investors with similar horizons. Thus, capital market short-termism is not inevitably problematic, and managers can use their discretion on corporate disclosure policies to refrain from embracing short-termism.

2.2.Hypothesis Development

We expect that short-term oriented companies will have an ownership base with institutional investors that are short-term oriented as well. This association should hold for at least two reasons. First, short-term investors are interested in maximizing profits from frequently rebalancing their portfolios. Costs related to fundamental uncertainty and longer mispricing of long-term assets, and opportunity costs of tying up resources to long-term investments divert short-termists' capital allocation towards firms that focus on short-term investments (Shleifer and Vishny, 1990). Second, companies will choose their investment strategy based on their investors' horizon. Managers might find it optimal to undertake myopic short-term investments to secure external financing in anticipation of short-term bad results (Von Thadden, 1995) or to cater to investor sentiment by boosting short-run stock prices (Polk and Sapienza, 2009), because short-term investors are likely to terminate financing if short-term results do not meet their expectations. Indeed, short-term oriented investors might induce management to behave in such a way that prioritizes short-term results, whereas long-term investors are more likely to engage with companies to adopt strategies that pay off over the long-run. Hence, our first hypothesis is:

H1: Firms with a short-term horizon have more short-term oriented investors.

The time horizon according to which a company makes its investment decisions, and communicates to outside stakeholders is likely to have an effect on its stock return volatility. We expect that managerial short-termism increases stock return volatility through internal and external capital channels. First, short-termist managers are likely to change their investment plans, and engage in abnormal investments based on market mispricing (Polk and Sapienza, 2009) or market expectations (Graham et al., 2005). As a result, short-term investments are more procyclical, inducing higher volatility (Aghion et al., 2010). Second, while long-term investors anticipate cash flows' volatility based on public and private information, and react less intensely

to market fluctuations due to better intertemporal asset allocation, short-term investors will form their trades based on their speculations of contemporaneous performance and markets' reactions (Cespa, 2002). Similarly, long-term investors are better monitors of management investment decisions (Bushee, 1998), thus are more likely to effectively deter managers from opportunistically shifting capital from strategic investments to increase short-term performance. Hence, our next two hypotheses are the following:

H2: Firms with a short-term horizon have higher stock return volatility.

H3: The effect of firms' short-term horizon on stock return volatility is mitigated by the presence of long-term investors.

If the added volatility associated with a short-term strategy is not diversifiable in an economy, then investors should ask for a higher risk premium for holding the stock of a short-term oriented company. We expect that higher moral hazard and information asymmetry inherent in managerial short-termism will increase equity betas. First, managers with short-term horizons are likely to opportunistically choose investments with shorter pay-offs to enjoy private benefits at the expense of long-term performance (Narayanan, 1985; Rumelt, 1987; Holmstrom and Ricart i Costa, 1994; Pallet, 1997). Moreover, short-termist managers are prone to intertemporally shift capital allocations to meet short-term goals, increasing stakeholders' uncertainty over firms' investment policy (Polk and Sapienza, 2009). In contrast to the case of stock return volatility, the effect of the composition of the investor base is less clear ex ante. The fact that the presence of long-term investors might mitigate the effect of short-termism on volatility suggests that the effect on equity betas might be mitigated as well, as beta is a function of volatility, among other things. However, short-term investors might require lower risk premium for investing in short-term oriented firms, compared to long-term investors that are

likely to exert effort in disciplining managerial short-termism and align firms' investment horizons with their investment strategy. The net effect will be determined by the relative power of those two forces. Hence, our last two hypotheses are the following:

H4: Firms with a short-term horizon have higher equity betas.

H5: The effect of a short-term horizon on equity beta is a function of the presence of long-term investors.

3. Sample Selection, Variable Definitions and Summary Statistics

3.1. Sample Selection

Our primary data contain full-text earnings conference call transcripts from the Thomson Reuters Street Events database. The dataset covers 159,749 full-text conference call transcripts from 3,692 U.S. and international firms during 2002-2008, including information on the participants, date, duration and location of the call.

To construct our sample of analyst conference calls, we exclude transcripts from international firms (33,206 calls) and transcripts with missing company name (29,223 calls). We further eliminate conference calls with missing date (15,568 calls) and missing information on participants (11,063 calls). To obtain firms' financial information we manually match firms in Thomson Reuters with identifiers in Compustat and CRSP using a firm's name and we drop observations where the total assets of a firm are missing (647 calls). The sample selection process is summarized in Table 1, Panel A.

Our final sample includes 70,042 earnings conference calls for 3,613 firms during 2002-2008. There are 17,783 firm-year observations with 2.9 conference calls on average for each firm per year. Firm-year observations increase over time, as Thomson Reuters expanded its coverage

(Table 1, Panel B). Sample size varies in the empirical tests depending on the data requirements. For example, in our tests for the effect of managerial short-termism on investor clientele we exclude 6,320 firm-year observations because data on institutional ownership classification are not available.

3.2. Variable definitions

3.2.1. Dependent variables

We create two variables to measure the proportion of long-term oriented investors at the firm-level, using Bushee's (1998) classification: the difference between the shares held by dedicated investors minus the shares held by transient investors (*LT_Investors1*), and the difference between the shares held by dedicated and quasi-index investors minus the shares held by transient investors (*LT_Investors2*). We use the annual standard deviation of weekly returns to measure the volatility of returns (*Volatility*), based on stock-price data from CRSP. We measure the equity beta based on a market model using the value-weighted stock market index (*VW_Ret*) as benchmark and weekly returns (*Ret*), including a lag term to account for stock price non-synchronicity, as follows:

$$Ret_{iw} = \alpha + \beta_1 VW_Ret_{iw} + \beta_2 VW_Ret_{iw-1} + \xi_{iw} \quad (1)$$

where subscripts *i* and *w* indicate firm *i* and week *w*, respectively. Using all trading days with data available over a fiscal year, we obtain a firm-year specific $\beta_1 + \beta_2$ which is our estimate for equity beta (*Beta*). Our use of the single-factor CAPM is consistent with finance theory on asset pricing (e.g., Sharpe 1964; Black 1972). Further, the single-factor CAPM ties to analytical models (Lambert, Leuz, and Verrecchia 2007) and archival studies (Riedl and Serafeim 2011) that examine the effect of information quality on cost of capital. Moreover, equity beta can be

mathematically decomposed to stock return volatility and stock price synchronicity (Riedl and Serafeim 2011) allowing us to directly compare the results of the analyses with volatility and beta as dependent variables. Finally, Da, Guo and Jagannathan (2011) show that even if CAPM fails to explain stock returns in the cross-section, it is still valid for estimating firms' project cost of capital. We do not consider other asset pricing models, such as the three factor model, as the theory underlying the other factors, particularly size and book-to-market, remains unclear (Campbell, Hilscher, and Szilagyi 2008).

3.2.2. *Short-termism measure*

3.2.2.1. *Variable construct*

We proxy for managerial short-termism using content analysis of quarterly earnings conference calls, based on the underlying assumption that short-term oriented managers are likely to communicate more short-term information to analysts and investors. Our proxy for short-termism is the number of keywords related to short-term information disclosed through the fiscal year in earnings conference calls, deflated by the number of keywords related to long-term information disclosed in the same period (*Short_Horizon*).

To identify terms indicating the time horizon of the disclosure we employ the following methodology (Li, 2011).² First, we read approximately 33,000 lines of conference call transcripts to collect key phrases referring to the horizon of a firm's strategy and investment decisions. Second, we rely on relevant key words used in past literature (Matsumoto et al., 2011). We define words referring to periods shorter than a year as short-term oriented ("quarter(s)", "day(s)", "latter half (of the year)", "year", "month(s)", etc.) and words referring to periods

² Commonly used dictionaries, such as Global Inquirer, do not include terms related to the short- and long-term.

longer than a year as long-term oriented (“years”, “looking ahead”, “going forward”, etc.). The list of words referring to time horizon is reported in Appendix A.³

3.2.2.2. Validation

We employ several tests to validate our proxy. First, we expect short-termism to be rooted in firms’ culture and not to vary substantially over time. To test whether our proxy captures this element, we develop quartile rankings for firms in 2002 (1,326 firms) based on the degree of short-termism of their disclosure, and we track their disclosure pattern across years. The results in table 2 suggest that our proxy does not vary significantly over time. Indeed, 82 percent and 89 percent of firms that were initially classified as short- and long-term oriented respectively followed similar disclosure policy in 2003. The pattern looks similar when we compare firms’ rankings between 2002 and 2005. Hence, our proxy for short-termism appears to be relatively stable at the firm-level, thereby capturing the organizational culture with respect to communication horizon.

Second, earnings management has been frequently attributed to short-term pressures and described as a symptom of short-termism. We construct several proxies for earnings management and capital market pressures, and we test whether our proxy for short-termism is positively associated with those measures.

Our first proxy for accrual-based earnings management is measured by performance-matched discretionary accruals (Kothari et al, 2005). We expect a positive association between the absolute value of discretionary accruals and short-termism under the assumption that discretionary accruals are positively correlated with earnings management.

³ Our empirical approach necessarily entices sacrifices in terms of precision. While we try to develop a comprehensive and objective list of terms to capture firms’ horizon, we miss potentially important information from the rest of the transcripts. Nevertheless, if our proxy was too noisy, it would have biased against finding any significant relationship with investor base and risk.

Furthermore, previous research suggests that firms engage in earnings management to avoid negative earnings surprises, losses and covenant violations (Healy and Wahlen, 1999). We expect a positive relation between short-termism and capital market pressures. To test whether our proxy for short-termism is linked to managers' avoiding negative earnings surprises, we use annual earnings forecasts from I/B/E/S, and we define a small positive earnings surprise as a binary variable that equals one if a firm reports 0.01 higher earnings per share than the 90-day consensus forecast (Burgstahler and Dichev, 1997), and zero otherwise.

Managers are likely to manage earnings to avoid reporting losses (Burgstahler and Dichev, 1997; Healy and Wahlen, 1999). We define loss avoidance as a binary variable that equals one if the ratio of firm's earnings before taxes, interest and amortization (EBITDA) over market capitalization ranges from zero to 0.01, and zero otherwise.

Prior literature suggests that managers are likely to manipulate accruals prior to covenant violations (Sweeney, 1994; DeFond and Jiambalvo, 1994; Healy and Wahlen, 1999). To identify firms that are likely to violate financial covenants we use a sample of syndicated loans in LPC DealScan that includes detailed information on covenant terms.⁴ To identify firms that are likely to violate financial covenants, we follow Dichev and Skinner (2002). We examine large corporate loans with either a current ratio covenant or a (tangible) net worth covenant.⁵ We focus on these covenants for mainly two reasons: prior studies have shown that violating a current ratio or net worth covenant is likely to trigger loan renegotiations and technical default (e.g., Sweeney, 1994). Moreover, the definition of these covenants is more standardized, thus we

⁴ We focus on financial covenants in syndicated loans, because syndicated loans are larger and material for the company, and renegotiations following covenant violations are less costly for syndicated lenders (i.e. relative to bondholders).

⁵ Financial covenants are categorized in "maximum debt to EBITDA", "maximum senior debt to EBITDA", "maximum leverage ratio", "maximum senior leverage ratio", "minimum fixed charge coverage", "minimum debt service coverage", "minimum tangible net worth", "minimum net worth", "minimum EBITDA", "maximum capital expenditures", "minimum interest coverage", "minimum current ratio" and "minimum quick ratio".

eliminate measurement bias in financial covenants for large sample testing. The risk of violating a current ratio and/or (tangible) net worth covenant is defined as a binary variable that equals one if the current and net worth ratio of the company is 80 percent close to the threshold of the current ratio and/or net worth covenants on syndicated loans outstanding, and zero otherwise (for example, if a syndicated loan includes a minimum net worth covenant of \$x, we classify a firm as being likely to break the covenant if its net worth is \$1.2x or lower).⁶

Besides accrual-based earnings discretion, management may resort to real earnings management to avoid falling short of market expectations (Roychowdhury, 2006). Accordingly, we explicitly test whether firms labeled as short-term oriented are likely to decrease real investments to achieve short-term performance in the presence of strong capital market pressures. We expect a negative sign on the interaction term between short-termism and negative earnings surprise (or loss) avoidance in a regression where the dependent variable is advertising or R&D expenses.

Table 3 presents results for the association between our proxy for short-termism, earnings management, capital market pressures and investment choices. In Panel A, the results indicate that there is a significant and positive association between short-termism and discretionary accruals (column I), negative earnings surprise avoidance (column II), loss avoidance (column III) and covenant violation avoidance (column IV).⁷ An increase of the proxy for short-termism by one standard deviation is associated with an increase in earnings management by 0.01 (the average absolute value of performance adjusted discretionary accruals is 0.05) or a 0.3 percent

⁶ We also estimate the probability of covenant violation using a 15 percent threshold, i.e. whether firms' financial ratios are 15 percent close to the ratio defined in the contract. The results in the univariate tests are similar, and the multivariate test produces similar, but less significant results. Because covenant terms sometimes vary over the life of the loan, we focus on the risk of violating a covenant one year after loan inception, as the probability of adjusting a loan covenant is lower.

⁷ Sample size is smaller for the last test because there are 1,407 firms in our sample (7,785 firm-year observations) with syndicated loans outstanding that include financial covenants. The mean (median) number of covenants is 1.93 (1.41), eight percent of which are likely to break using the 20 percent threshold.

higher probability of avoiding negative earnings surprises or losses (the unconditional probability of small positive earnings surprises and avoiding losses is 7 percent and 2 percent respectively) or a 3 percent higher probability of avoiding covenant violations (the unconditional probability of avoiding a covenant violation is 24 percent).

Panel B of Table 3 reports results for our analysis of real earnings management. Consistent with our expectations, we find that short-term oriented firms that face capital market pressures in terms of meeting analysts' forecasts and avoiding losses are significantly more likely to reduce investments in R&D (specification I). However, contrary to our expectations we do not find a significant effect on advertising expenses (specification II).

Overall, the results suggest that our proxy for short-termism is relatively stable over time consistent with short-termism being part of corporate culture, reflects opportunistic discretionary shift of capital from strategic investments, and is associated with earnings management proxies.

3.2.3. Control variables

Previous research (Bushee and Noe, 2000; Daske et al., 2008) has documented various factors that affect stock return volatility and cost of capital, and we employ these factors as control variables in our models. We use the standard deviation of cash flows from operations over the last five years, deflated by total assets (*CFO_Volatility*), and operating cycle, defined as the natural logarithm of $[(\text{Inventory}/\text{COGS}) * 360 + (\text{Accounts Receivable}/\text{Sales}) * 360]$ (*Operating Cycle*), as proxies for the risk associated with the underlying business model. We include leverage, defined as total liabilities to total assets (*Leverage*), liquidity, defined as current assets to current liabilities (*Liquidity*), S&P rank, defined as a binary variable that equals one if the company's stock is rated A-, A and A+ by S&P, and zero otherwise (*SP_Rank*), and losses, defined as a binary variable that equals one if the company reports net losses, and zero otherwise

(*Loss*), as proxies for financial distress. We further control for firm's growth opportunities using intangible asset intensity, defined as the ratio of intangible assets to total assets (*Intangibles*), and market-to-book value of equity (*Market-to-Book*). Finally, we control for firm's performance and reputation using return on assets (*ROA*), defined as operating income to total assets (*ROA*), and size, defined as the natural logarithm of market capitalization (*Size*). We also include year and industry (2-digit SIC) fixed effects to control for persistent effects across industries and years.

Table 4 reports the summary statistics for short-termism, investor base, stock return volatility, equity beta and some firm characteristics for our sample. The mean (median) market value of equity is \$3.64 billion (\$1.1 billion), with a standard deviation of \$6.31 billion. The mean (median) return on assets is 0.05 (0.07), the mean (median) leverage is 0.53 (0.53) and the mean (median) liquidity is 2.73 (2.25). The mean (median) volatility of operating cash flows is 0.07 (0.04), the mean (median) volatility of returns is 0.11 (0.10) and the mean (median) equity beta is 1.3 (1.18). The average firm in our sample has more transient than dedicated investors (-7.33). However, the average firm in our sample has more dedicated and quasi-index than transient investors (32.17).

In terms of our main variable of interest, Table 4 shows that, on average, firms are more short-term than long-term oriented. Indeed, the mean short-term to long-term information disclosed is 1.1, suggesting that firms disclose more information related to shorter time horizons. However, there is significant variation in the short-term oriented information that managers disclose in earnings conference calls, with a 25th percentile of 0.73, a 75th percentile of 1.34 and a standard deviation of 0.54.

Untabulated univariate correlations between short-termism and the other variables indicate that short-termism is positively related to volatility (0.23) and equity beta (0.14), and

negatively associated with long-term investors' holdings (-0.17). Reporting more short-term oriented information is related to having a volatile business model with higher cash flow volatility (0.16) and longer operating cycle (0.08). Moreover, short-termism is negatively correlated to ROA (-0.08), leverage (-0.14), S&P rank (-0.14), market-to-book ratio (-0.07) and size (-0.24).

To provide readers with further information about our proxy for short-termism, Panel A of Table 5 shows examples of industries that, according to our measure, are more short-term or long-term oriented.⁸ Companies that sell pharmaceutical products, apparel, beverages, recreation services, consumer goods, automobiles, and defense contracts are more long-term oriented. Long-term industries also include medical equipment, construction and utilities. In contrast, companies that sell electronic equipment, computers, business services and supplies are more short-term oriented. Short-term oriented industries also include banking, energy, trading, insurance and wholesale. One characteristic that seems to emerge from this descriptive evidence is that companies that sell products to individual consumers are more long-term oriented compared to companies that sell products to other businesses, although exceptions can be found. Another characteristic that seems to emerge is that companies, whose performance is driven by branding and innovation, are more long-term oriented compared to companies whose performance is driven by efficiency of execution, although exceptions again can be found.

Table 5 Panel B shows examples of large corporations that our measure classifies in the top quintile or bottom quintile of short-termism. Long-term oriented companies include Coca-Cola Enterprises, Colgate-Palmolive, Dell, General Electric, Johnson & Johnson, Nike, Pepsico, and Procter & Gamble. Short-term oriented companies include Chevron, Cisco, Conoco Phillips,

⁸ To eliminate industry-specific effects, we categorize industries as long- and short-term based on the residual of the following regression: $\text{Short_Horizon} = \beta_1 \text{Leverage} + \beta_2 \text{Liquidity} + \beta_3 \text{Market-to-Book} + \beta_4 \text{Intangibles} + \beta_5 \text{SP_Rank} + \beta_6 \text{Loss} + \beta_7 \text{ROA} + \beta_8 \text{CFO_Volatility} + \beta_9 \text{Operating_Cycle} + \beta_{10} \text{Size}$

Goldman Sachs, On Semiconductor, and United States Steel. Appendix C shows for a company that is classified as long-term oriented, Coca-Cola Enterprises, and a company that is classified as short-term oriented, Cisco, some representative sentences included in conference call transcripts that show why each firm is classified as long or short-term oriented.

4. Research Design

4.1. Corporate short-termism and investor base

To test our first hypothesis (H1), we estimate an ordinary least squares model where the dependent variable is the percentage of shares owned by dedicated (or dedicated and quasi-index) investors minus the percentage of shares owned by transient investors:

$$LT_Investors = \alpha + \beta_1 Short_Horizon + Controls \quad (2)$$

The primary coefficient of interest is β_1 , which we expect to be negative, according to H1. As argued in Section 2.2, causality can run both ways between corporate and investor short-termism. The endogenous association between *Short_Horizon* and *LT_Investors* can result in biased OLS estimates. To address this issue, we estimate an instrumental variables model where we use as instruments in the first stage the number of directors that (i) are involved in non-governmental organizations (*NGOAffiliated*) and (ii) are foreign nationals from countries that culturally favor long-termism, based on the Hofstede (2001) cultural dimension classification (*LTForeign*). More specifically, *NGOAffiliated* equals the number of directors whose biography includes the terms “sustainability”, “non governmental organization”, “NGO”, “social responsibility”, “United Nations”, “UN” or “World Bank”. We expect *NGOAffiliated* and *LTForeign* to be negatively associated with short-termism. We use directors’ NGO affiliation as a proxy for normative isomorphism that occurs when organizations employing the same

professionals “view problems in a similar fashion, see the same policies, procedures, and structures as normatively sanctioned and legitimated, and approach decisions in much the same way” (DiMaggio and Powell, 1991). Similarly, companies with more NGO-affiliated directors are likely to embrace a stakeholder perspective and focus on value-generating capabilities rather than merely maximizing contemporaneous profits. While it is reasonable to assume that those variables are not correlated with investor clientele, since long-term minded investors are unlikely to make investment decisions by taking into account those specific characteristics of the board members, board composition is arguably a choice variable for shareholders. Therefore, we rely on standard statistical procedures to verify that those instruments are truly exogenous. The first stage OLS regression of the instrumental variables model is the following:

$$\text{Short_Horizon} = \alpha + \beta_1 \text{NGOAffiliated} + \beta_2 \text{LTForeign} + \text{Controls} \quad (3)$$

where the control variables are from Model (2). The predicted component of *Short_Horizon* obtained from the first stage is then used in Model (2).

4.2. Corporate short-termism and firm risk

To test hypotheses two and three (four and five) we use an ordinary least squares estimation methodology where the dependent variable is stock return volatility (equity beta):

$$\text{Volatility (Beta)} = \alpha + \beta_1 \text{Short_Horizon} + \text{Controls} \quad (4a)$$

$$\begin{aligned} \text{Volatility (Beta)} = \alpha + \beta_1 \text{Short_Horizon} + \beta_2 \text{LT_Investors} \\ + \beta_3 \text{Short_Horizon*LT_Investors} + \text{Controls} \end{aligned} \quad (4b)$$

We use Model (4a) to test our second and fourth hypotheses, respectively. The coefficient of interest is β_1 , which we expect to be positive. We posit that firms that communicate about shorter horizons experience greater return volatility and equity betas. Model (4b) is the same as

(4a), except that we add the proportion of institutional holdings from long-term oriented investors and its interaction term with *Short_Horizon* as explanatory variables. According to our third hypothesis, we expect β_3 to be negative when *Volatility* is the dependent variable. In contrast, we cannot form single directional predictions for the sign of β_3 when the dependent variable is *Beta*.

5. Results

5.1. Corporate short-termism and investor base

Table 6 reports results for the tests of our first hypothesis (H1) that short-termism is inversely associated with long-term investors' holdings. The first (last) two columns report regression coefficients and p-values where the dependent variable is holdings from dedicated investors minus transient investors (dedicated investors plus quasi-indexers minus transient investors).

In both regressions, the coefficient on *Short_Horizon* is significantly negative ($p < 0.01$). This is consistent with H1, i.e. that companies that discuss more short-term information with investors tend to have less long-term oriented investors. An interquartile increase in short-termism decreases long-term investors' holdings by 1.2 percent (for *LT_Investors1*) and 1.9 percent (for *LT_Investors2*). From Table 2, *LT_Investors1* (*LT_Investors2*) has a standard deviation of 12.25 (18.91), suggesting that the economic effect of *Short_Horizon* is approximately 10 percent of the standard deviation. The coefficients on the control variables are consistent with past literature. In particular, reputable firms with stable business models are more likely to attract long-term investors, as the significantly positive (negative) coefficients on *SP_Rank* and *Size* (*CFO_Volatility*) suggest. Additionally, the significantly negative coefficient

on *Market-to-Book* is consistent with long-term value investors preferring to finance more distressed firms whose equity might be undervalued (Lydenberg, 2009).

Reporting more short-term oriented information is likely to be endogenously determined with investors' characteristics, i.e. firms with a greater proportion of long-term investors are more likely to align their disclosure with their investors' horizon by communicating information over a longer-term horizon. Table 7 reports results of the instrumental variable regressions of short-termism on dedicated investors' ownership that we perform to address the endogeneity issue. Sample size drops substantially (by more than two thirds) because we do not have board members' biographies for the full sample.

The first-stage regression results indicate that our two instruments—number of directors with NGO affiliations and from foreign countries with long-term cultural focus—both exhibit a significantly negative association with *Short_Horizon*. The value of the F-test (27.57) for instrumental relevance suggests that the instruments successfully predict *Short_Horizon*. In terms of control variables, the results indicate that firms with unstable business models (proxied by *Operating Cycle* and *CFO_Volatility*) are more likely to communicate more short-term oriented information to mitigate uncertainty inherent in their operations. Moreover, firms with higher growth options appear to focus on long-term strategic goals in their disclosure to investors. Finally, firms in financial distress (e.g., based on the significantly positive coefficient on *Loss* and the negative coefficient on *SP_Rank*) attempt to communicate their long-term investment plans, presumably to attract external financing. The second-stage regression results indicate that, after controlling for endogeneity, *Short_Horizon* exhibits a significantly negative association with *LT_Investors1* ($p < 0.05$).⁹ In terms of evaluating the suitability of the IV model, the J-test for overidentification is not rejected, suggesting that the instruments are exogenous to

⁹ We find similar results if we use *LT_Investors2* instead of *LT_Investors1*.

LT_Investors. The results from the F-test and the J-test collectively suggest that the instruments are valid and that the instrumental variables model is well specified.

5.2. *Corporate short-termism and stock return volatility*

Table 8 reports results for the tests of the effect of short-termism on volatility of returns. In all regressions reported in Table 8, the dependent variable is stock return volatility. Panel A reports results for H2. The first two columns report coefficient estimates and corresponding p-values for Model (4a) using OLS estimation. The third and fourth (fifth and sixth) columns report coefficient estimates and p-values for Model (4a) using OLS (IV) estimation in the sample for which we have data to construct our instrument variables.

In the first regression, the significant positive coefficient on *Short_Horizon* ($p < 0.01$) validates our second hypothesis. Communicating more short-term oriented information has a statistically and economically significant impact on volatility of returns. An interquartile increase in short-termism increases volatility of returns by 0.6 percent, controlling for other firm characteristics. The standard deviation of weekly returns is 11 percent. To benchmark the effect of short-termism against firm characteristics, an interquartile increase in operating cash flow volatility and market-to-book ratio increases volatility of returns by 1.1 percent and 0.3 percent respectively, while an increase in leverage, operating performance and size decreases volatility of returns by 0.3 and 0.4 and 0.3 percent respectively. With respect to the control variables, the coefficient on *CFO Volatility* is significantly positive. *Leverage (S&P Rank)* exhibits a significantly positive (negative) association with return volatility. The coefficient on *Liquidity* is negative ($p = 0.06$). Loss firms have greater return volatility, as per the significantly positive coefficient on *Loss*. Return volatility also appears to exhibit a significantly positive association

with market-to-book ratio, and a negative one with firm size, as expected. The OLS results in the sample with board data are qualitatively similar but the economic effect is larger at 1 percent. The second-stage IV results are also similar. The economic effect is close to 1.2 percent.

Panel B reports results for the tests of H3. The results indicate that the interaction term between short-termism and long-term investors exhibits a significant negative association with stock return volatility, whether we include quasi-indexers or not. This is consistent with our third hypothesis, i.e. that the effect of short-termism on volatility of returns is mitigated for firms with a relatively greater proportion of long-term investors. The coefficient on *Short_Horizon* remains significantly positive. Of interest is also the significantly negative coefficient on long-term investors. This suggests that, irrespective of corporate short-termism, return volatility is negatively associated with the presence of long-term investors, which is consistent with Bushee and Noe (2000).

5.3. Corporate short-termism and equity beta

Table 9 reports results for the tests of the effect of short-termism on equity beta. In all regressions reported in Table 9, the dependent variable is equity beta. Panel A reports results for H4. The first two columns report coefficient estimates and corresponding p-values for Model (5a) using OLS estimation. The third and fourth (fifth and sixth) columns report coefficient estimates and p-values for Model (5a) using OLS (IV) estimation in the sample for which we have data to construct our instrument variables.

In the first regression, the significantly positive coefficient on *Short_Horizon* ($p < 0.01$) validates our fourth hypothesis, i.e. that equity beta is positively associated with short-termism. Focusing on short-term performance has economically and statistically significant implications

for firm's underlying risk. An interquartile increase in short-termism increases equity beta by 0.07, controlling for other firm characteristics. The standard deviation of beta is 0.83. Assuming a market risk-premium of approximately 6 percent, the economic effect of an interquartile increase in short-termism translates into 42 basis points higher cost of capital. The OLS results in the sample with board data are qualitatively similar but the economic effect is larger. An interquartile increase in short-termism translates into 90 basis points higher cost of capital. The second-stage IV results also lead to the same conclusions.

In Panel B, the coefficient on the interaction term between corporate short-termism and the proportion of long-term investors is not statistically significant. Hence, in contrast to return volatility, the greater risk associated with corporate short-termism is not mitigated by the presence of long-term investors. This is consistent with those investors demanding a higher risk premium from short-term focused firms, because the risk associated with short-termism is not diversifiable. As in Table 8, the coefficient on long-term investors is significantly negative, which indicates that long-term oriented investors hold stocks with lower equity betas.

5.4. Robustness Tests

In this section we describe a series of robustness checks that we performed to ensure that our results are not driven by the research design choices we make in the main specifications.

Alternative Methodologies to Construct the Dependent and Independent Variables. To assess whether our results hold if we construct *LT_Investors* as the ratio of long-term to short-term investors instead of the difference we calculated (i) the ratio of dedicated to transient investors' holdings or (ii) the ratio of dedicated and quasi-indexer to transient investors' holdings as alternative proxies. Our results hold with those alternative specifications. Second, we re-

estimated equity betas from CAPM based on (i) annual or six-month windows, (ii) equally-weighted or value-weighted returns, (iii) ending four, six or twelve months after fiscal year end. All the beta measures we calculated were highly correlated with the lowest univariate correlation being 0.65. The results in Table 7 were qualitatively similar with any combination of the above criteria. Moreover, we added control variables that might be related to short-termism and firm risk leading to spurious inferences. The results hold when we added market returns, trading volume, bid-ask spread and accounting quality as control variables in our tests of return volatility and equity betas. Additionally, we re-run our tests by excluding banks (2-digit SIC: 60-64) and firms in regulated industries (2-digit SIC: 40-45) from our sample, because those firms may be subject to regulatory constraints that affect the horizon of their communication. Moreover, we re-run our tests matching firms on *Size* and *CFO_Volatility* (untabulated). Our conclusions remained unaffected.

Furthermore, because equity betas might be noisy proxies of cost of capital, we used implied cost of equity capital as proxy for cost of capital. Table 10 reports results for the tests of the effect of short-termism on implied cost of capital based on the modified PEG model by Easton (2004).¹⁰ In all regressions reported in Table 10, the dependent variable is implied cost of capital. Panel A reports results for H4. The first two columns report coefficient estimates and corresponding p-values for Model (5a) using OLS estimation. The third and fourth (fifth and sixth) columns report coefficient estimates and p-values for Model (5a) using OLS (IV) estimation in the sample for which we have data to construct our instrument variables. The results validate all our hypotheses.

Alternative Instruments for the IV Models. We also used various alternatives to address the endogenous association between corporate short-termism and investor clientele. In our IV model,

¹⁰ The results hold using the Ohlson and Juettner-Nauroth model (2005).

we replaced *NGOAffiliates* and *LTForeign* with the following candidate instruments: proportion of female directors on the board, CEO age, industry-level average short-termism and percentage of competitors from countries with greater cultural focus on the long term within two-digit SIC groups. Our results (untabulated) were qualitatively unaffected by the use of those instruments (which, according to F- and J-tests, are valid instruments as well).

6. Conclusion

The debate over pervasive managerial short-termism has raised considerable attention over the past few decades, and critics argue that short-termism has dominated investment decisions at the expense of long-term value creation. However, the effects of short-termism on firms' investor base and riskiness have remained unexplored. In this paper, we examine whether corporate short-termism affects investor clientele and firm risk. We hypothesize that firms that communicate with investors about their performance and plans over a relatively shorter horizon—a year or less—will have (i) a more short-term oriented investor base, (ii) greater stock return volatility and (iii) higher cost of capital. We use conference call transcripts to assess the horizon over which firms communicate with investors and create a measure of short-termism based on the ratio of keywords referring to the short-term (a year or less) scaled by keywords referring to the long term (beyond one year). Furthermore, we rely on Bushee's (1998) classification of institutional ownership to measure the investing horizon of firms' investor base. We use the holdings of dedicated investors (alternatively, dedicated and quasi-index investors) minus those of transient investors as our proxy for investor base's horizon.

Consistent with our first hypothesis, we find that corporate short-termism is negatively associated with the extent to which long-term investors hold a firm's stock. To address the

endogenous association between corporate short-termism and investor clientele, we use a two-stage instrumental variable set of regressions—where the instruments are the proportion of directors on the board who are foreign nationals from countries with greater cultural focus on the long term (Hofstede, 2001) and who are affiliated with non-governmental organizations—and find that our results are robust to this specification. Next, we find that corporate short-termism is positively associated with return volatility. This is consistent with firms that have greater short-term emphasis (i) attracting investors that are more sensitive to short-term news and (ii) being more responsive to short-term news in their own planning decisions. Further, we find that the presence of long-term investors mitigates the positive association between short-termism and return volatility. Finally, we find that short-termism is positively associated with equity beta, our proxy for cost of capital. However, long-term investors do not affect this relationship. Collectively, we interpret these results as evidence that short-termism is non-diversifiable risk and long-term investors requiring a risk premium for holding stocks of short-term oriented firms. Overall, our findings shed light on the role of short-termism as captured by corporate communication with investors’ vis-à-vis resource allocation. Not only do we find that short-termism affects investor clientele but also firms’ risk.

Overall, our findings contribute to the literature on the effects of short-termism and corporate disclosure in capital markets. There are at least three broad areas where further research might be useful. First, the effect of different external capital markets on short-termism is not widely explored. More specifically, has massive shift towards leverage (e.g., LBOs, acquisitions from private equity funds) promoted short-term thinking? Second, while critics of short-termism suggest that managerial short-termism is detrimental to firms’ innovation, there is no empirical evidence to support this argument. Finally, has pervasive short-term thinking

discouraged international companies from cross-listing in U.S. stock markets (or prompted cross-listed companies to delist), thus decreasing U.S. stock market competitiveness?

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Table 1

Panel A: Sample selection - Number of transcripts analyzed

	Conference Calls
Analyst conference calls with full transcripts	159,749
<i>less:</i>	
<i>Conference calls of international firms</i>	<i>33,206</i>
<i>Conference calls with missing company name</i>	<i>29,223</i>
<i>Conference calls with missing date</i>	<i>15,568</i>
<i>Conference calls with unidentified participants</i>	<i>11,063</i>
<i>Conference calls of firms with missing values for total assets</i>	<i>647</i>
Total	70,042

Panel B: Number of firms by year

Year	Number of firms
2002	1,356
2003	2,078
2004	2,298
2005	2,592
2006	2,867
2007	3,165
2008	3,427
Total	17,783

Table 2

Short-termism persistence over time

Year 2002		Year 2003				Year 2005			
<i>Quartiles</i>		<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
	N	332	331	331	332	332	331	331	331
<i>Q1 (Low)</i>	332	54%	28%	12%	6%	47%	33%	14%	6%
<i>Q2</i>	331	32%	35%	27%	6%	31%	31%	30%	8%
<i>Q3</i>	331	10%	29%	39%	22%	17%	28%	31%	24%
<i>Q4 (High)</i>	332	3%	8%	22%	67%	5%	8%	26%	61%

Firms in year 2002 (N=1,325) are ranked in quartiles based on *Short_Horizon*, where Q1 includes firms with longer-term managerial horizon and Q4 firms mostly focused on short-term performance. For years 2003 and 2005, we track the percentage of firms that were classified within their initial quartile.

Table 3

Panel A: Short-termism, capital market pressures and earnings management

	(I)		(II)		(III)		(IV)	
Dependent variable	Earnings Management		Small Positive Earnings Surprises		Loss Avoidance		Avoidance of Covenant Violations	
Variable	Coeff.	p> t 	dF/dx	p> z 	dF/dx	p> z 	dF/dx	p> z
Short_Horizon	0.003 ***	0.01	0.010 ***	0.01	0.005 ***	0.00	0.064 **	0.03
ROA	-0.044 **	0.03	0.007 ***	0.00	-0.047 ***	0.00	-3.491 ***	0.00
Market-to-Book	0.001 ***	0.01	0.103 *	0.06	0.001 **	0.03	0.015 **	0.04
Liquidity	0.001	0.31	0.000	0.71	0.001 **	0.05	-0.031 **	0.02
Leverage	-0.004 ***	0.00	-0.065 ***	0.00	-0.019 ***	0.00	0.572 ***	0.00
Size	0.057 ***	0.00	0.007 ***	0.00	-0.002 ***	0.00	-0.049 ***	0.00
Constant	0.033 ***	0.00						
Year FE	NO		YES		YES		YES	
Industry FE	NO		YES		YES		YES	
	N=16,600		N=17,675		N=14,428		N=1,453	
	R ² =0.04		pseudo-R ² =0.06		pseudo-R ² =0.10		pseudo-R ² =0.16	

The table reports the tests for the effect of managerial short-termism on the following variables: in column I, the dependent variable is *Earnings Management* defined as performance-matched discretionary accruals (Kothari et al., 2002). In column II, the dependent variable is *Small Positive Earnings Surprises* defined as a binary variable that equals one if annual earnings range from zero to .01 higher to the 90-day consensus forecast, and zero otherwise. In column III, the dependent variable is *Loss Avoidance* defined as a binary variable that equals one if the firm reports zero to .01 EBITDA (deflated by market capitalization), and zero otherwise. In column IV, the dependent variable is *Avoidance of Covenant Violations* defined as a binary variable that equals one if firm's current ratio and/or net worth are 20 percent close to a current ratio and/or net worth covenant threshold and the firm did not violate the covenant, and zero otherwise. Specifications II-IV use a probit model, and marginal effects are reported. Independent variables are defined in Appendix B. The values of the continuous variables are winsorized at 1% and 99%. Year and industry (2-digit SIC) fixed effects included. Standard errors are corrected for heteroskedasticity; cluster is at the company level. ***Significant at 1%, ** 5% and * 10% level, two-tailed tests.

Panel B: Effect of short-termism, loss avoidance and avoidance of small negative earnings surprises on advertising and R&D expenses

Dependent Variable	(I) R&D				(II) Advertising Expenses				
	Variable	Coeff.	p> t	Coeff.	p> t	Coeff.	p> t	Coeff.	p> t
Short_Horizon	0.000		0.73	0.000	0.70	-0.006 ***	0.00	-0.005 ***	0.00
Loss Avoidance	-0.001		0.77			-0.006 *	0.07		
Short_Horizon*Loss Avoidance	-0.010 **		0.02			0.004	0.23		
Small Positive Earnings Surprises				-0.002	0.14			-0.001	0.17
Short_Horizon*Small Positive Earnings Surprises				-0.011 ***	0.01			-0.001	0.56
Intangibles	-0.003		0.43	-0.003	0.45	-0.006	0.14	-0.007	0.11
LT_Investors2	0.000 ***		0.01	0.000 ***	0.01	0.000	0.49	0.000	0.29
CFO_Volatility	-0.068 ***		0.00	-0.081 ***	0.00	0.046 ***	0.00	0.050 ***	0.00
ROA	-0.266 ***		0.00	-0.266 ***	0.00	0.060 **	0.05	0.057 *	0.07
Market-to-Book	0.003 ***		0.00	0.003 ***	0.00	0.000	0.29	0.000	0.34
Leverage	0.037 ***		0.00	0.037 ***	0.00	0.015 ***	0.00	0.014 ***	0.00
Size	-0.006 ***		0.00	-0.006 ***	0.00	-0.001	0.13	0.000	0.93
		N= 6,927			N= 5,575		N= 4,671		N= 4,624
		R ² = 0.30			R ² = 0.30		R ² = 0.24		R ² = 0.25

The table reports the tests for the effect of managerial short-termism on investment decisions. In specification I, the dependent variable is research and development expenses, deflated by total assets (*R&D*). In specification II, the dependent variable is advertising expenses, deflated by total assets (*Advertising expenses*). Independent variables are defined in panel A and in Appendix B. The values of continuous variables are winsorized at 1% and 99%. Cluster is at the company level and standard errors are corrected for heteroskedasticity. Fixed effects for year and industry (2-digit SIC) are included. *** Significant at 1%, ** 5% and * 10% level, two-tailed tests.

Table 4
Summary statistics

Variable	N	Mean	S.D.	Min	0.25	Median	0.75	Max
Volatility	17,783	0.11	0.06	0.03	0.07	0.10	0.14	0.36
Beta	17,783	1.30	0.83	-0.36	0.75	1.18	1.71	4.12
LT_Investors1	11,965	-7.33	12.25	-39.38	-14.89	-6.02	0.32	21.92
LT_Investors2	11,965	32.17	18.91	-0.68	17.11	33.15	46.87	64.15
Short_Horizon	17,783	1.10	0.54	0.07	0.73	0.98	1.34	3.89
Short_Horizon*LT_Investors1	11,965	-0.37	4.27	-9.70	-2.49	-0.15	1.77	8.41
Short_Horizon*LT_Investors2	11,965	-1.69	10.07	-91.89	-5.23	-0.66	2.53	65.66
CFO_Volatitility	17,783	0.07	0.07	0.01	0.02	0.04	0.08	0.31
Leverage	17,783	0.53	0.25	0.09	0.34	0.53	0.70	1.10
Intangibles	17,783	0.16	0.18	0.00	0.01	0.09	0.25	0.75
Market-to-Book	17,783	2.72	1.98	0.43	1.36	2.12	3.42	8.21
Operating Cycle	17,783	4.75	1.15	-2.67	4.19	4.72	5.14	10.31
SP_Rank	17,783	0.09	0.29	0.00	0.00	0.00	0.00	1.00
Liquidity	17,783	2.73	2.29	0.39	1.38	2.25	2.83	15.18
Loss	17,783	0.24	0.43	0.00	0.00	0.00	0.00	1.00
ROA	17,783	0.05	0.13	-0.40	0.02	0.07	0.12	0.27
Size	17,783	6.98	1.73	2.81	5.81	6.84	8.04	11.54
LTForeign	4,870	0.00	0.08	0.00	0.00	0.00	0.00	2.00
NGOAffiliated	4,870	0.52	0.89	0.00	0.00	0.00	1.00	3.00

Variables are described in Appendix B. The values of continuous variables are winsorized at 1% and 99%.

Table 5

Panel A: Examples of industries with short- and long-term focus, based on Fama-French industry classification (48 industries)

Long-term oriented industries	Short-term oriented industries
Pharmaceutical Products	Electronic Equipment
Apparel	Computers
Beverages	Banking
Utilities	Trading
Recreation	Energy
Consumer goods	Insurance
Defense	Business Services
Automobiles and Trucks	Shipbuilding, Railroad Equipment
Construction	Wholesale
Medical Equipment	Business Supplies

Panel B: Examples of short-term and long-term oriented firms

Long-term oriented companies	Short-term oriented companies
Allegheny Technologies Inc.	Aleris International Inc.
Coca-Cola Enterprises Inc.	Celestica Inc.
Colgate-Palmolive Co.	Chevron Corp.
Crown Holdings Inc.	Cisco Systems Inc.
Dell Inc.	ConocoPhillips
Ford Motor	Cypress Semiconductor Corp.
General Electric	General Cable Corp.
General Mills Inc.	Goldman Sachs Group Inc.
Goodyear Tire & Rubber Co.	Iris International Inc.
Johnson & Johnson	Netopia Inc.
Microsoft Corp.	On Semiconductor Corp.
Nike Inc.	Packaging Corp of America
Nordstrom Inc.	Urologix Inc.
PepsiCo	Skyworks Solutions Inc.
Procter & Gamble	United States Steel Corp.

Table 6

Relation between long-term investors and short-term corporate horizons

Dependent variable	LT_Investors1		LT_Investors2	
Variable	Coeff.	p> t	Coeff.	p> t
Short_Horizon	-1.117 ***	0.00	-2.065 ***	0.00
CFO_Volatility	-18.354 ***	0.00	-51.217 ***	0.00
Leverage	-0.467	0.66	-0.243	0.88
Intangibles	-3.611 ***	0.01	1.231	0.50
SP_Rank	2.317 ***	0.00	3.332 ***	0.00
Liquidity	-0.259 **	0.02	-0.286 **	0.04
Loss	0.609	0.17	-1.128 *	0.09
Market-to-Book	-0.548 ***	0.00	-1.539 ***	0.00
Operating Cycle	0.178	0.44	0.111	0.74
ROA	-30.818 ***	0.00	-8.138	0.37
Size	0.649 ***	0.00	3.604 ***	0.00
Constant	-10.971 ***	0.00	15.140 ***	0.01
	N=11,965		N=11,965	
	R ² = 0.08		R ² = 0.12	

The dependent variable in the first specification is the shares held by dedicated minus transient investors, and in the second specification the dependent variable is the shares held by dedicated and quasi-index minus transient investors (Bushee, 1998). Cluster is at the firm level and standard errors are corrected for heteroskedasticity. All values of the continuous variables are winsorized at 1% and 99% level. Fixed effects for year and industry (2-digit SIC) are included. Variables are described in Appendix B. ***Significant at 1%, ** 5% and * 10% level, two-tailed tests.

Table 7

Relation between long-term investors and short-term corporate horizons:
Instrumental variables estimates

First-stage regression				Second-stage regression			
Dependent variable: Short_Horizon				Dependent variable: LT_Investors1			
Variable	Coeff.		p> t 	Variable	Coeff.		p> z
Leverage	-0.28	***	0.00	Short_Horizon	-2.71	**	0.05
Liquidity	0.03	***	0.00	Leverage	-1.75	***	0.00
ROA	-0.92	***	0.00	Liquidity	-0.05		0.31
Loss	0.07	***	0.00	ROA	-41.04	***	0.00
Intangibles	-0.06	**	0.05	Loss	1.32	***	0.00
Market-to-Book	-0.01	**	0.05	Intangibles	-1.14	***	0.01
SP_Rank	-0.06	***	0.01	Market-to-Book	-0.05	*	0.06
Operating Cycle	0.03		0.14	SP_Rank	0.71	***	0.00
CFO_Volatility	1.12	***	0.00	Operating Cycle	0.32		0.51
Size	-0.00	***	0.00	CFO_Volatility	-9.61	***	0.00
Constant	1.31	***	0.00	Size	1.93	***	0.00
				Constant	-15.76	***	0.00
<u>Instruments:</u>							
LTForeign	-0.26	***	0.00				
NGOAffiliated	-0.01	***	0.01				
FE: industry (2-digit SIC), year				FE: industry (2-digit SIC), year			
N= 3,821				N= 3,821			
R ² = 0.28				R ² = 0.36			
F-test for instrument relevance:				J-test for overidentification:			
F(1, 3744) = 27.57				Sargan (score) chi2(1) = 0.94			
				(p-value = 0.33)			
Prob>F= 0.00				Basmann chi2(1) = 0.93			
				(p-value = 0.34)			

The table reports the effect of short-termism on investors' horizon using an instrumental variables approach. The instruments are the number of board directors who are (i) foreign nationals from countries with cultural emphasis on the long term (Hofstede, 2001), and (ii) affiliated with non-governmental organizations. Cluster is at the firm level and standard errors are corrected for heteroskedasticity. All values of the continuous variables are winsorized at 1% and 99% level. Variables are described in Appendix B. ***Significant at 1%, ** 5% and * 10% level, two-tailed tests.

Table 8

Relation between stock price volatility and short-term corporate horizons

Panel A: Stock price volatility and short-termism

	OLS Full Sample			OLS Sample with Instrument Availability			IV Second Stage		
Variable	Coeff.		p> t	Coeff.		p> t	Coeff.		p> t
Short_Horizon	0.008	***	0.00	0.013	***	0.00	0.027	**	0.05
CFO_Volatility	0.012	***	0.00	0.027	***	0.00	0.028	***	0.00
Leverage	0.002	*	0.09	-0.001		0.70	-0.002		0.31
Intangibles	-0.113	***	0.00	-0.348	***	0.00	-0.343	***	0.00
SP_Rank	0.021	***	0.00	0.027	***	0.00	0.027	***	0.00
Liquidity	-0.006	**	0.05	-0.011	**	0.03	-0.010	***	0.01
Loss	0.002	***	0.00	-0.001	*	0.10	-0.001	*	0.06
Market-to-Book	-0.018	***	0.00	-0.015	***	0.00	-0.014	***	0.00
Operating Cycle	-0.001		0.14	-0.001		0.36	-0.001		0.51
ROA	0.153	***	0.00	0.209	***	0.00	0.205	***	0.00
Size	-0.008	***	0.00	-0.008	***	0.00	-0.007	***	0.00
Constant	0.221	***	0.00	0.150	***	0.00	0.134	***	0.00
	N= 17,783 R ² = 0.44			N= 4,870 R ² = 0.54			N= 4,870 R ² = 0.54		
	J-test of exogeneity: Sargan chi2(1)= 0.36 (Score) (p=0.55) Basmann chi2(1)= 0.32 (p=0.55)								

Table 8 – cont.

Panel B: Stock price volatility, short-termism and investor clientele

Variable	Coeff.			p> t		
Short_Horizon	0.008	***	0.00	0.007	***	0.00
LT_Investors1	-0.0003	***	0.00			
Short_Horizon*LT_Investors1	-0.0002	**	0.05			
LT_Investors2				-0.0004	***	0.00
Short_Horizon*LT_Investors2				-0.0002	***	0.00
CFO_Volatility	0.150	***	0.00	0.133	***	0.00
Leverage	0.006		0.11	0.006		0.11
Intangibles	-0.009	***	0.01	-0.007	***	0.01
SP_Rank	-0.016	***	0.00	-0.015	***	0.00
Liquidity	0.001	**	0.05	0.001	**	0.05
Loss	0.021	***	0.00	0.021	***	0.00
Market-to-Book	0.002	***	0.00	0.001	***	0.00
Operating Cycle	-0.002	**	0.02	-0.002	***	0.01
ROA	-0.139	***	0.00	-0.132	***	0.00
Size	-0.008	***	0.00	-0.007	***	0.00
Constant	0.174	***	0.00	0.185	***	0.00
	N= 11,965			N= 11,965		
	R ² = 0.46			R ² = 0.47		

The dependent variable is the natural logarithm of the standard deviation of monthly stock returns. The instrumental variables in Panel A are the number of board directors who are (i) foreign nationals from countries with cultural emphasis on the long term (Hofstede, 2001), and (ii) affiliated with non-governmental organizations. Cluster is at the firm level and standard errors are corrected for heteroskedasticity. All values are winsorized at 1% and 99% level. Fixed effects for year and industry (2-digit SIC) are included. Variables are described in Appendix B. ***Significant at 1%, ** 5% and * 10% level, two-tailed tests.

Table 9

Relation between equity beta and short-term corporate horizons

Panel A: Equity beta and short-termism

	OLS Full Sample			OLS Sample with Instrument Availability			IV Second Stage		
Variable	Coeff.		p> t	Coeff.		p> t	Coeff.		p> t
Short_Horizon	0.106	***	0.00	0.226	***	0.00	0.543	**	0.04
CFO_Volatility	0.322	***	0.00	0.344	***	0.00	0.402	***	0.00
Leverage	0.090	***	0.00	0.032		0.30	-0.003		0.94
Intangibles	-0.789	***	0.00	-3.889	***	0.00	-3.586	***	0.00
SP_Rank	0.261	***	0.00	0.301	***	0.00	0.276	***	0.00
Liquidity	-0.082	*	0.07	-0.272	***	0.00	-0.253	***	0.00
Loss	0.005		0.22	-0.010		0.23	-0.009		0.18
Market-to-Book	-0.263	***	0.00	-0.164	***	0.00	-0.152	***	0.00
Operating Cycle	0.011		0.18	0.031		0.14	0.033	**	0.04
ROA	0.924	***	0.00	1.969	***	0.00	1.572	***	0.00
Size	0.023	***	0.01	-0.016	*	0.07	-0.005		0.71
Constant	0.608	***	0.00	0.676	***	0.00	-0.075		0.85
	N= 17,783			N= 4,870			N= 4,870		
	R ² = 0.16			R ² = 0.32			R ² = 0.29		
							J-test of exogeneity:		
							Sargan chi2(1)= 0.52 (score) (p=0.49)		
							Basman chi2(1)= 0.52 (p=0.47)		

Table 9 – cont.

Panel B: Equity beta, short-termism and investor clientele

Variable	Coeff.	p> t	Coeff.	p> t
Short_Horizon	0.114 ***	0.00	0.110 ***	0.00
LT_Investors1	-0.005 ***	0.00		
Short_Horizon*LT_Investors1	-0.001	0.70		
LT_Investors2			-0.003 ***	0.00
Short_Horizon*LT_Investors2			-0.001	0.27
CFO_Volatility	0.842 ***	0.00	0.775 ***	0.00
Leverage	0.124 **	0.02	0.126 **	0.02
Intangibles	-0.239 ***	0.00	-0.215 **	0.00
SP_Rank	-0.222 ***	0.00	-0.225 ***	0.00
Liquidity	0.022 **	0.00	0.023 **	0.00
Loss	0.237 ***	0.00	0.230 ***	0.00
Market-to-Book	0.014 ***	0.01	0.012 **	0.02
Operating Cycle	0.000	0.97	0.000	0.85
ROA	-1.685 ***	0.00	-1.548 ***	0.00
Size	0.006	0.32	0.013 **	0.03
Constant	0.785 ***	0.00	0.890 ***	0.00
	N=11,965		N=11,965	
	R ² =0.20		R ² =0.20	

The dependent variable is the equity beta estimated from a Capital Asset Pricing Model (CAPM) using weekly stock returns and the value-weighted market index as benchmark. The instrumental variables in Panel A are the number of board directors who are (i) foreign nationals from countries with cultural emphasis on the long term (Hofstede, 2001), and (ii) affiliated with non-governmental organizations. Cluster is at the firm level and standard errors are corrected for heteroskedasticity. All values are winsorized at 1% and 99% level. Fixed effects for year and industry (2-digit SIC) are included. Variables are described in Appendix B. ***Significant at 1%, ** 5% and * 10% level, two-tailed tests.

Table 10

Relation between implied cost of capital and short-term corporate horizons

Panel A: Implied cost of capital and short-termism

	OLS Full Sample			OLS Sample with Instrument Availability			IV Second Stage		
Variable	Coeff.		p> t	Coeff.		p> t	Coeff.		p> t
Short_Horizon	0.005	***	0.00	0.008	***	0.00	0.047	*	0.08
CFO_Volatility	0.090	***	0.00	0.090	***	0.00	0.033		0.43
Leverage	0.038	***	0.00	0.034	***	0.00	0.045	***	0.00
Intangibles	-0.010	***	0.00	-0.014	***	0.00	-0.011	***	0.01
SP_Rank	-0.009	***	0.00	-0.008	***	0.00	-0.005	**	0.02
Liquidity	0.000		0.30	0.000		0.41	-0.001		0.38
Loss	0.020	***	0.00	0.019	***	0.00	0.017	***	0.00
Market-to-Book	-0.004	***	0.00	-0.003	***	0.00	-0.003	***	0.00
Operating Cycle	0.001	*	0.10	0.000		0.66	-0.001		0.26
ROA	-0.142	***	0.00	-0.328	***	0.00	-0.251	***	0.00
Size	-0.003	***	0.00	-0.001		0.19	0.000		0.90
Constant	0.108	***	0.00	0.085	***	0.00	0.040		0.27
	N= 9,912 R ² = 0.25			N= 3,695 R ² = 0.29			N= 3,695 R ² = 0.37		
	J-test of exogeneity:								
	Sargan		chi2(1)= 0.58		(p=0.45)				
	(score)								
	Basman		chi2(1)= 0.58		(p=0.45)				

Table 10 – cont.

Panel B: Implied cost of capital, short-termism and investor clientele

Variable	Coeff.	p> t	Coeff.	p> t
Short_Horizon	0.003 **	0.03	0.003 **	0.03
LT_Investors1	-0.002 ***	0.00		
Short_Horizon*LT_Investors1	0.000	0.99		
LT_Investors2			-0.000 ***	0.00
Short_Horizon*LT_Investors2			0.000	0.83
CFO_Volatility	0.013	0.43	0.008	0.63
Leverage	-0.036 ***	0.00	-0.036 ***	0.00
Intangibles	0.010 ***	0.01	0.010 **	0.03
SP_Rank	-0.011 ***	0.00	-0.010 ***	0.00
Liquidity	0.0003	0.52	0.0003	0.59
Loss	0.007 ***	0.00	0.007 ***	0.00
Market-to-Book	0.004 ***	0.00	0.004 ***	0.00
Operating Cycle	0.002 **	0.05	0.002 **	0.05
ROA	-0.183 ***	0.00	-0.190 ***	0.00
Size	-0.004 ***	0.00	-0.004 ***	0.00
Constant	0.187 ***	0.00	0.182 ***	0.00
	N= 8,118 R ² = 0.26		N= 8,118 R ² = 0.26	

The dependent variable is the implied cost of capital based on the modified PEG model by Easton (2004). The instrumental variables in Panel A are the number of board directors who are (i) foreign nationals from countries with cultural emphasis on the long term (Hofstede, 2001), and (ii) affiliated with non-governmental organizations. Cluster is at the firm level and standard errors are corrected for heteroskedasticity. All values are winsorized at 1% and 99% level. Fixed effects for year and industry (2-digit SIC) are included. Variables are described in Appendix B. ***Significant at 1%, ** 5% and * 10% level, two-tailed tests.

Appendix A

List of words referring to time horizon

Short-term horizon	Long-term horizon
day	years
days	long-term
week	long term
weeks	long-run
month	long run
months	looking forward
quarter	going forward
quarters	look forward
year	go forward
short-term	looking ahead
short term	trend
short-run	expect
short run	anticipate
latter half	outlook
	intend

Appendix B

Variable	Definition
Volatility	Natural logarithm of the standard deviation of weekly returns
LT_Investors1	Dedicated minus transient investors' holdings, based on Bushee's (1998) classification of institutional investors
LT_Investors2	Dedicated and quasi-indexer minus transient investors' holdings, based on Bushee (1998) classification of institutional investors
Short_Horizon	Ratio of short-term oriented to long-term oriented information disclosed in analyst conference calls (see Appendix 1)
CFO_Volatility	5-year standard deviation of cash flows from operations deflated by total assets
Leverage	Total liabilities deflated by total assets
Intangibles	Total intangible assets deflated by total assets
Market-to-Book	Market price deflated by book value per share
Operating Cycle	Natural logarithm of : $(\text{Inventory}/\text{COGS}) \times 360 + (\text{AccountsReceivable}/\text{Sales}) \times 360$
SP_Rank	Binary variable that equals one if the firm is graded A- and higher by S&P, and zero otherwise
Liquidity	Current assets deflated by current liabilities
Loss	Binary variable that equals one if the firm reported net losses, and zero otherwise
ROA	Operating income deflated by total assets
Size	Natural logarithm of market capitalization
LTForeign	Number of directors from countries with culture favoring long-termism based on Hofstede cultural dimensions (China, Brazil, Hong-Kong, Japan, South Korea, Vietnam)
NGOAffiliated	Number of directors whose biographies include the terms: "sustainability", "non governmental organization", "NGO", "social responsibility", "United Nations", "UN", "World Bank"

Appendix C

Year	Coca-Cola Enterprises	Cisco Systems Inc.
2003	<p>“We continue to be confident in delivering our long-term growth goals of 5 to 6% volume and 11 to 12% earnings per share growth.”</p> <p>“In the years after 2003, I do not expect any significant increases in the annual stock-based compensation expense... Over the next five years, you can see that we're going to... generate between 30 and \$32 billion, and of course, a high return to shareholders.”</p> <p>“We would believe that the future growth of Diet Coke in Europe is a very sustainable double digit going into the future.”</p>	<p>“...at the end of the calendar year, we had shipped enough MCOMs to cover approximately 3.6 million Set-tops with the shipments, this quarter of 3300 more...”</p> <p>“...obviously it is our customers with the last year now they (Inaudible] in the quarter at the end of the year. I think if you look at the equipment of return on customer investments, I think the first thing you find is that there was some shifting of customer capital from the transmission network into the subscriber and cable modem products because it gave an instant revenue source by billing that...”</p>
2005	<p>“...our objective is clear, long-term sustainable growth. That's focus on the long term, whilst being very, very active in the short-term imperatives and making them happen and leveraging those great strengths of the Coca-Cola Company.”</p> <p>“...the reason I'm emphasizing the long term and the short term (manifesto for growth) is that there are so many things that happen day by day that are of the short-term nature and it is so easy managerially, right through the chain, to get sucked into just looking at the short term. And if you do that, you've missed the opportunities. You don't see what's over the next hill.”</p> <p>“And it's a long-term process to create sustainable growth platforms for the future.”</p>	<p>“Second (rule of successful acquisition) is you create short-term wins for the shareholders, the customers, the employees...Third is the long-term strategic initiative.”</p> <p>“You'll continue to see us enter a number of markets that are new and have rapid growth but will probably be material looking out two to five years and then you will see us continue to drive our current advanced technologies, which I'm very pleased with. They grew about 25% quarter-over-quarter this last quarter.”</p>
2007	<p>“...Looking forward, we plan to...building off that (German initiative) and creating true sustainable growth.”</p> <p>“This is part of the stair step, this is part of the manifesto that I talked about for - two years ago... Consistent paths and we think that following these paths are part of the results that you've seen in '06 and therefore our '07... these are going to be exactly the same paths.”</p> <p>“We're looking for brands with sustainable long-term health that answer real consumer needs...and consistent investment spending behind them.”</p>	<p>“...areas of security access are very unique (and) are growing sequentially quarter to quarter.”</p> <p>“And it (seasonality) does up-and-down in terms of quarters. This quarter we are currently in, it is always our strongest quarter by far in terms of total growth, because your year end is close. The (sales) continues to do well here at the end of the quarter.”</p> <p>“The quicker you can build flexibility into your IT implementation, and then as the business leaders say, here's what I want to do, your answer is I can do that in 6 or 12 months, the more effective you are as a CIO.”</p>