Financial Constraints and Long-Run Performance

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Abstract
This study considers overinvestment and financial constraints as factors that are associated with managerial incentives of firms undertaking seasoned equity offerings (SEOs). The results show that pre-issue overinvestment and financial slack are negatively related to the long-run performance of SEO firms. We contend that SEOs of firms with these two characteristics are more likely to be driven by managerial incentive misalignment, resulting in lackluster long-run performance. In other words, overinvested and financially unconstrained firms may conduct SEOs due to managers’ empire-building intention.

Key Words: Seasoned Equity Offerings (SEOs); Overinvestment; Financial Constraints; Managerial Incentives