

Accounting Research Workshop (ARW) – WS 2019/20

Referent: Prof. Seppo Ikäheimo

University: Professor of Accounting at the Aalto University

Research: Research interests

- Corporate governance
- Compensation systems
- Auditing
- banking regulation

Date: 10.12.2019

Topic: “Does CEO IQ improve earnings persistence?”

Abstract: „The purpose of this paper is to examine whether individual CEO’s cognitive ability, captured by IQ, influences company’s earnings persistence, which is a widely used proxy for earnings quality. It is expected that CEOs with better cognitive abilities are able to generate more reliable forward-looking earnings estimates, resulting in more persistent earnings. Our findings provide support for this argument, as the results indicate that CEO IQ enhances earnings persistence. When examining the persistence of accruals and operating cash flows, we find that CEO IQ enhances both of these earnings components. The results hence suggest that greater IQ can reduce the measurement and estimation errors of accruals, and increase the persistence of cash component by better use of cash flows. Moreover, the results indicate that the impact of CEO IQ on persistence is evident only among sub-samples of smaller companies, implying that the role of CEO in earnings quality depends on the extent of managerial discretion available. Finally, the existence of effective external verification of financial reports seems to play a role as the CEO IQ influence disappears when a company is audited by a big audit firm. Overall, utilizing unique data on CEO IQ and comprehensive data on financial statements of companies from micro to large companies, this paper contributes to the scarcely investigated topics of the role of individual CEO abilities in reporting quality, and small firms financial reporting quality.”



We were very pleased that we could welcome Prof. Ikäheimo at our Accounting Research Workshop and wish him all the best for his future work and research projects!