



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

Department of Accounting

## **Does Accounting Conservatism Impede Corporate Innovation?**

Dr Gilles Hilary  
INSEAD

*Date:* 20 March 2013

*Time:* 16.00-17.30

*Venue:* OLD.3.21

### **Abstract**

We examine the impacts of accounting conservatism on corporate innovation. We find that firms with a greater degree of accounting conservatism generate fewer patents and patent citations. They engage less in R&D activities but our results hold after controlling for this lower activity. Moreover, the cash-flows generated by the innovations in firms with more conservative accounting have shorter horizons. The negative effects of accounting conservatism are more pronounced when firms' need for innovation is higher, when the principal is less informed about the behavior of the managers, when the product development cycle is longer, when managers face higher pay sensitivity to accounting performance, or when managers have shorter investment horizons or are under heavier pressure from short-term institutional investors.