

Summary of Paper: [Passive Investment and Share Repurchases](#)

What is this Study About?

This study investigates how passive institutional investors—such as index funds—affect companies’ decisions to repurchase their own shares. Specifically, it examines whether firms with higher passive ownership are more likely to engage in opportunistic repurchases that manipulate reported earnings, enabling firms to just meet or beat analysts’ earnings forecasts, which they would have missed absent the repurchase.

What are the major findings of the study?

Firms with more passive investors (like BlackRock or Vanguard) repurchase shares more frequently and in greater amounts. These repurchases often allow firms to just meet or slightly exceed analysts’ earnings forecasts—a red flag for earnings management. This opportunistic behavior is significantly more likely for firms with more passive ownership when executive compensation includes performance-based equity incentives. Moreover, repurchasing firms with high passive ownership tend to have reduced future employment, capital investment, and financial performance. In contrast to firms with high passive ownership, firms active active institutional investors do not show the same association with opportunistic repurchases, underscoring the unique risk posed by passive ownership.

Why is the study important?

It challenges the traditional assumption that institutional investors always enhance corporate governance. Passive investors, unlike active ones, rarely intervene or monitor firm behavior. This lax oversight may enable managers to manipulate earnings through buybacks, thereby distorting financial reporting quality and misleading stakeholders.

What is the impact on professional practice and society at large?

The findings raise important concerns for auditors, analysts, and regulators. Reduced monitoring may erode the integrity of financial reports, and the redirection of capital to earnings manipulation rather than productive investment could harm long-term firm value and employment. This study supports calls for reforms to empower passive investors to play a stronger governance role.