

## **Preference for Appearance over Substance and Corporate Investment**

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## **Preference for Appearance over Substance and Corporate Investment**

**Abstract:** Preference for appearance over substance (hereafter, AOS) indicates people's desire to look better than what they truly are. This paper explores the economic implication of AOS on corporate investment behavior. Using novel country-level proxies for AOS based on the prevalence of plastic surgeries and the cosmetic industry concentration from 2010 to 2014, we document the followings. First, AOS is negatively (positively) associated with investment sensitivity to growth opportunities (investment sensitivity to internal cash flows), suggesting inefficient corporate investments in strong AOS countries. Second, while external financing is less (more) affected by growth opportunities (internal cash flows) in strong AOS countries, further evidencing inefficient resource allocation in such countries. Third, firms in countries with strong AOS are involved in income smoothing activities to a larger extent, consistent with our prediction that strong AOS motivates firms to obscure true underlying performance via income smoothing.