Earnings management by powerful new CEOs across ownership structures

Abstract

We examine whether earnings management is more likely when the board grants more power to a new CEO (i.e., the new CEO is elected as the chairman of the board). We focus on CEO turnover in France, where firms have the option of either maintaining a unitary board structure, in which the CEO has the ability to serve on the board and potentially chair it, or adopting a two-tier board structure, in which the CEO is not allowed to serve on the board. The results suggest that new CEOs tend to engage in more accrual-based earnings management after their appointment, but not in more real earnings management. However, the results are sensitive to the level of CEO power. Only powerful new CEOs show a propensity to engage in accrual earnings management, and they tend to inflate earnings. In addition, the ownership structure of the firm also influences the results. Powerful new CEOs show a propensity to manage earnings more in family firms, but only when family control is weak (i.e., when the family owns less than 50% of the voting rights), compared to firms with dispersed ownership. Our results hold when the non-random nature of CEO turnover is accounted for using a two-stage Heckman model. Thus, we conclude that boards should be cautious in quickly granting additional power to new CEOs, as there may be short-term negative consequences for investors.

Keywords: CEO turnover, CEO power, Earnings management, Ownership structure.

JEL Classifications: G34, M41.

Earnings management by powerful new CEOs across ownership structures

1. Introduction

The composition and functioning of the board can greatly influence its ability to effectively advise and monitor the CEO, which ultimately affects firm performance (e.g., Adams et al., 2010; Dalton & Dalton, 2011; Jensen, 1993). In particular, a crucial question concerns the leadership of the board: Should a CEO also chair the board? Market participants often voice concerns regarding the potential impact of a powerful CEO[1] on the board's capacity to effectively fulfill its advisory and monitoring functions. This viewpoint is particularly pronounced among Institutional Shareholder Services (ISS), the preeminent proxy advisor globally, which recommends to "*generally vote for shareholder proposals requiring that the board chair position be filled by an independent director*" (p. 21).[2]

This perspective is shared by numerous researchers (e.g., Dalton & Dalton, 2011; Jensen, 1993; Krause et al., 2014). Documenting a lower probability of forced CEO turnover in poorly performing firms when the CEO is also the chairperson of the board, Goyal and Park (2002) confirm that powerful CEOs are in a superior position to maximize their own interests. Moreover, Kim et al. (2009) emphasize the exacerbated conflict of interest between powerful CEOs and minority investors with well-diversified portfolios (Amihud & Lev, 1981) by demonstrating that powerful CEOs tend to favor firm diversification into unrelated industries.

However, it has been suggested that the presence of powerful CEOs may also confer certain benefits (Dalton & Dalton, 2011; Finkelstein & D'Aveni, 1994; Krause et al., 2014). Consequently, assigning these two roles to two individuals may be counterproductive in some contexts (Baliga et al., 1996; Faleye, 2007). Furthermore, it could be argued that the

---

[1] In extant literature, the term *CEO duality* is employed to denote a scenario in which a single individual occupies the roles of Chief Executive Officer and chairperson of the board. In the present paper, the term *powerful CEO* is used instead.

[2] The voting guidelines published in December 2022 are available on https://www.issgovernance.com/

combination of the two roles may not pose significant challenges if effective monitoring mechanisms are in place to mitigate CEO opportunism, thereby reducing the associated costs and risks. For instance, the presence of independent directors on the board and shareholder activism serve as two effective disciplinary mechanisms, particularly in firms with a dispersed ownership structure (Denes et al., 2017; Jensen, 1993). In family firms, blockholders with undiversified portfolios have strong incentives to discipline the CEO to protect their wealth and reputation. They can do so by either sitting on the board of directors or by electing board members who are related to the family (Anderson & Reeb, 2003; Bertrand & Schoar, 2006; Minichilli et al., 2022).

The present study contributes to this debate by examining the influence of powerful new CEOs on earnings management and whether the results are similar in family firms and firms with dispersed ownership. This analysis aims to improve our understanding of the influence of the different monitoring mechanisms present in these two groups of firms on CEO opportunism. Earnings management is generally considered to be a reliable indicator of CEO opportunism (see Dechow et al., 2010; Leuz et al., 2003). While previous studies have documented the involvement of new CEOs in earnings management (Ali & Zhang, 2015; Ansari et al., 20-21; Chen et al., 2013; Choi et al., 2014; Fan et al., 2012; Hazarika et al., 2012; Murphy & Zimmerman, 1993; Pourciau, 1993), no study has yet examined the impact of new powerful CEOs on financial reporting quality across ownership structures.

In our empirical analysis, we implement a staggered difference-in-differences design, which allows for the comparison of a treatment group consisting of 141 CEO changes in French firms over the period 2009-2017 with a control group of firms that experienced no CEO change during this time. The French context is particularly salient for this analysis due to the heterogeneity of ownership structures (Faccio & Lang, 2002) and the legal framework governing boards of directors (Belot et al., 2014). Specifically, French firms can opt for either

unitary boards, where the CEO can serve on the board and potentially chair it, or two-tier boards, where the CEO is not permitted to participate. This provides a unique opportunity to compare companies that grant additional powers to the CEO through board decisions with those that do not. Additionally, the weaker legal protection afforded to minority shareholders in France increases the likelihood of earnings management, in contrast to the stronger protections observed in countries like the United States and the United Kingdom (see Leuz et al., 2003).

Our main findings are as follows. First, new CEOs are generally associated with increased accrual-based earnings management, but not with increased real earnings management. This finding is consistent with the existing literature (Ali & Zhang, 2015; Ansari et al., 20-21; Chen et al., 2013; Choi et al., 2014; Fan et al., 2012; Hazarika et al., 2012; Murphy & Zimmerman, 1993; Pourciau, 1993). Second, the evidence suggests that only powerful new CEOs significantly engage in earnings management, suggesting that the power granted by the board to new CEOs may have some negative consequences for minority shareholders in the short run. Third, the tendency of powerful new CEOs to manage earnings in an upward direction is noteworthy. This tendency is likely due to the positive effect that accounting performance can have on their compensation (Bergstresser & Philippon, 2006; Gaver & Gaver, 1998) and on the likelihood of CEO turnover (Ghosh & Wang, 2019). Fourth, the propensity of powerful new CEOs to engage in earnings management is more pronounced in family firms than in firms with dispersed ownership. However, this result is sensitive to the degree of family control: Earnings management is only observed when the family holds less than 50% of the voting rights (i.e., weaker family control), suggesting that CEO opportunism is more likely when monitoring mechanisms are less effective. Fifth, the main conclusions of this study hold even when only firms with unitary boards are examined, excluding firms with two-tier boards that do not allow CEOs to serve on the board. Sixth, our results hold when a two-stage Heckman model is employed to account for the fact that CEO turnover is not random. The results obtained suggest

4

that powerful new CEOs exhibit a greater degree of opportunism than their less powerful counterparts, particularly in contexts where monitoring mechanisms are less effective. This observation underscores the potential negative consequences of CEO opportunism for investors in the short run. Consequently, it is recommended that boards consider the potential consequences of compromised financial reporting quality before granting more power to a newly appointed CEO.

Thus, this paper extends the existing literature on the consequences of CEO power. While it has been documented that both positive and negative consequences are associated with powerful CEOs (e.g., Finkelstein & D'Aveni, 1994; Dalton & Dalton, 2011; Krause et al., 2014), our findings add nuance by showing that financial reporting quality is only affected by newly appointed powerful CEOs in certain contexts (i.e., when monitoring mechanisms are less effective). We also contribute to the literature on the impact of CEO turnover on financial reporting quality (Ali & Zhang, 2015; Choi et al., 2014; Fan et al., 2012; Haggard et al., 2015; Hazarika et al., 2012; Murphy & Zimmerman, 1993; Pourciau, 1993) by finding that only powerful new CEOs tend to inflate earnings through accrual-based earnings management in certain contexts. Finally, we contribute to the extant literature on the influence of ownership structure on earnings management (e.g., Bhaumik & Gregoriou, 2010; Gomez-Mejia et al., 2014; Prencipe et al., 2014; Wang, 2006) by documenting that powerful new CEOs are more likely to negatively affect financial reporting quality in family firms with weaker family control than in family firms with stronger family control or firms with dispersed ownership.

The rest of the paper is organized as follows. The second section is devoted to the literature review and the development of our hypotheses. The third section describes the research design. The fourth section presents and discusses our results. Finally, we discuss our findings and conclude in the last section.

2. Literature review and hypotheses

2.1. CEO opportunism and monitoring mechanisms

There is an extensive literature on CEO opportunism in public firms, defined as the maximization of CEOs' personal interests at the expense of minority shareholders. Jensen and Meckling (1976) identify several factors that contribute to such conflicts of interest. First, CEOs have a shorter time horizon because they tend to be relatively old (and approaching retirement age), whereas important minority shareholders, such as pension funds, have a longer time horizon because their pension obligations are spread over many years in the future. Second, CEOs invest their human capital in the company and are therefore not inclined to take significant risks, which is not in the interests of minority shareholders such as pension funds that hold well-diversified portfolios. Finally, CEOs have direct access to the firm's resources, which makes it easier to extract private benefits.

While acknowledging the potential opportunism of all CEOs, this study posits that the extent of such opportunism is contingent on CEO power. Specifically, the study defines a powerful CEO as one who concurrently holds the position of board chairperson. A CEO in this position possesses the capacity to exert significant influence over the discourse during board meetings, thereby affecting the decisions made by the board of directors (Dalton & Dalton, 2011; Finkelstein & D'Aveni, 1994; Krause et al., 2014). Consequently, a CEO in a position of power is better able to safeguard his or her own interests, particularly by reducing the probability of being replaced (Goyal & Park, 2002).

Furthermore, this study posits that powerful CEOs are less likely to behave opportunistically in certain contexts. Specifically, the presence of effective monitoring mechanisms, which are closely related to the firm's ownership structure, may constrain CEO opportunism. For example, firms with dispersed ownership have a higher proportion of independent board members, who are known to better protect the interests of minority shareholders (see Adams et al., 2010; García-Meca & Sánchez-Ballesta, 2009). In addition, a company is more vulnerable to a hostile

takeover or shareholder activism if it has a dispersed ownership structure and is poorly managed (DeAngelo & De Angelo, 1989; Denes et al., 2017; Jensen, 1993; Shivdasani, 1993). In family firms, CEO opportunism may also be constrained, particularly because family blockholders have significant incentives (i.e., they have "skin in the game") to devote their efforts to monitoring the CEO (Bertrand & Schoar, 2006; Minichilli et al., 2022; Prencipe et al., 2014; Shleifer & Vishny, 1997). This phenomenon is particularly pronounced when families maintain under-diversified portfolios (Roger & Schatt, 2016). Moreover, family blockholders closely monitor the CEO because they are concerned with maintaining their reputation, which enables long-term stakeholder relationships (Deephouse & Jaskiewicz, 2013), enhances collaboration (Anderson & Reeb, 2003), and facilitates the attraction of capital and talent (Eckert, 2017). Overall, it may be difficult for powerful CEOs to behave opportunistically in firms with a dispersed shareholder base or in family firms if the checks and balances established within these structures are effective.

2.2. CEO turnover and earnings management

In this paper, we focus on CEO opportunism of newly appointed CEOs across ownership structures. It has been documented that CEO turnover is a key event that can significantly influence the firm's strategy, operations, and financial reporting quality (e.g., Bertrand & Schoar, 2003; Hambrick & Mason, 1984; Pourciau, 1993; Murphy & Zimmerman, 1993). A substantial body of literature posits that CEO turnover can be beneficial for minority shareholders, particularly in cases where firms are underperforming and in need of restructuring (e.g., Hutzschenreuter et al., 2012; Schepker et al., 2017). Conversely, alternative perspectives argue that this assertion is not universally applicable because new chief executive officers (CEOs) may engage in opportunistic behavior that favors their own interests over those of minority shareholders (e.g., Jensen & Meckling, 1976), particularly through earnings management (Ali & Zhang, 2015; Ansari et al., 20-21; Choi et al., 2014; Fan et al., 2012;

Hazarika et al., 2012; Murphy & Zimmerman, 1993; Pourciau, 1993). However, there is no consensus on the direction of earnings management by new CEOs.

On the one hand, new CEOs may be tempted to inflate earnings to report superior financial performance, potentially impacting the board's perception of their leadership capabilities (Ali & Zhang, 2015). This phenomenon can increase CEO compensation (Bergstresser & Philippon, 2006; Gaver & Gaver, 1998) and reduce the probability of CEO tenure (Ghosh & Wang, 2019). Conversely, new CEOs may also attempt to manage earnings downward by artificially increasing expenses, which are subsequently reversed (Haggard et al., 2015; Murphy & Zimmerman, 1993). This practice, referred to as a "big bath" accounting, may create the impression that the new CEO can enhance the firm's performance in the years following their appointment.

In the United States, Pourciau (1993) examines earnings management by new CEOs in the context of non-routine executive changes, defined as those that were not anticipated. The results indicate that new CEOs manage accruals in a way that reduces earnings in the year of the executive change. This is evidenced by significant write-offs and special items in the year of the change. At the same time, an increase in earnings is observed in subsequent years, supporting the "big bath" hypothesis. In Korea, Choi et al. (2014) also find that new CEOs engage in downward earnings management through both discretionary accruals and real earnings management. Conversely, incoming CEOs recruited from outside the firm engage in upward earnings management after peaceful departures. This finding is consistent with the observations of Ali and Zhang (2015), who argue that incoming CEOs often exaggerate earnings in the early years in order to positively influence the market's perception of their leadership ability.

2.3. Hypotheses

The various arguments presented in sections 2.1. and 2.2. lead us to develop three hypotheses. The first hypothesis concerns earnings management by powerful new CEOs. Given that a new CEO who is also elected chairperson has more influence on the board's decisions (Dalton & Dalton, 2011; Krause et al., 2014), we expect that such a CEO will be tempted to manage earnings in order to maximize his (or her) own interests. Consequently, our initial hypothesis is as follows:

H1: Ceteris paribus, powerful new CEOs manage earnings more than non-powerful ones.

Our second hypothesis concerns the direction of earnings management. Given the importance of the short-term benefits associated with upward versus downward earnings management (e.g., "big bath" accounting), particularly the positive effect on CEO compensation (Bergstresser & Philippon, 2006; Gaver & Gaver, 1998) and the reduced likelihood of being replaced (Ghosh & Wang, 2019), we hypothesize that strong new CEOs will engage in upward earnings management. As a result, our second hypothesis is as follows:

H2: Ceteris paribus, powerful new CEOs are more likely to inflate earnings.

We also develop a hypothesis related to the ownership structure of the firm. In firms with dispersed ownership, certain market mechanisms are more effective (i.e., board independence, hostile takeovers, and shareholder activism). However, CEO monitoring is also effective in family firms (Shleifer & Vishny, 1997) because the family blockholder has strong incentives to curb earnings management to protect its wealth and reputation (Bhaumik & Gregoriou, 2010; Gomez-Mejia et al., 2014; Prencipe et al., 2014). Since there are different effective disciplinary mechanisms in firms with dispersed ownership and in family firms, we state our third hypothesis in the null form:

H3: Ceteris paribus, powerful new CEOs do not manage earnings more in family firms than in firms with dispersed ownership.

3. Research Design

3.1. The sample

To test our hypotheses, we implement a staggered difference-in-differences approach. To capture the influence of new powerful CEOs on earnings management, we identify two groups of firms: a treatment group that includes firms with CEO turnover, and a control group with no CEO turnover. To construct the sample, we start with all French non-financial firms listed on Euronext Paris during the period 2009-2017.[3] This period was chosen for two main reasons. First, it would have been difficult to extend the time period because companies inevitably experience a CEO change, which leads to a reduction in the size of the control group (i.e., companies that did not experience such a change). Second, the intention was to exclude the years of the COVID-19 pandemic and its aftermath, as this major event may have had a significant impact on the frequency of CEO changes and earnings management.

We focus on the French stock market because it is one of the largest in Europe in terms of the number of listed companies and market capitalization, and it is characterized by a diversity of ownership structures (Faccio & Lang, 2002; OECD, 2020), which allows us to study the influence of powerful new CEOs on earnings management across ownership structures. Moreover, the weaker legal protection of minority shareholders in France compared to countries such as the United States or the United Kingdom (André et al., 2016; Leuz et al., 2003) suggests a higher likelihood of earnings management in France. It is therefore interesting to analyze in which context (e.g., CEO turnover in family firms) earnings management is more (or less) pronounced. Finally, French firms can opt for either unitary boards, where the CEO can sit on the board and possibly chair it, or two-tier boards, where the CEO cannot sit on the board. The

---

[3] Foreign firms listed on Euronext Paris are excluded because they may face different legal constraints. We excluded French firms using French GAAP, which is possible when they do not produce consolidated financial statements (Poretti et al., 2022), because analyzing firms that use different accounting standards is challenging for the computation of abnormal accruals.

legal structure of the board has a significant impact on CEO turnover, as shown by Belot et al. (2014), who observe that CEO turnover is more sensitive to performance in firms with two-tier boards.

To ensure a comprehensive analysis of the data, only CEO transitions that occured at least three years apart are considered for further review. For example, we did not include two consecutive CEO changes in 2009 and 2011 because 2010 corresponds to the first year after the 2009 CEO transition and the last year before the 2011 CEO transition. We also excluded cases involving interim CEOs because these individuals have unique incentives to manage earnings (Ballinger & Marcel, 2010; Chen et al., 2015). Finally, we excluded CEO changes that occurred in conjunction with CFO changes within the three-year period because new CFOs can have a significant impact on earnings management practices (Florackis & Sainani, 2021; Geiger & North, 2006; Jiang et al., 2010).The rigorous selection process used in this study allows for a more accurate assessment of the impact of CEO changes on earnings management, particularly by mitigating confounding effects. It should be noted, however, that this approach slightly reduces the sample size.

The treated group encompasses 141 instances of CEO chnages, for which we conducted a comprehensive analysis of the impact on earnings management over a three-year period, extending from one year prior to the transition to one year following it (3 x 141 = 423 observations). This sample size is slightly smaller than that of Ansari et al. (2021), who compared 152 CEO successions and reappointments in France with 95 German and 59 UK events over the period 2001-2016. The difference is due to the shorter time period of our study and our stricter selection of CEO changes. The control group consists of firms with no CEO (or CFO) change during the 11-year period (539 firm-year observations). To analyze the influence of ownership structure on earnings management by new strong CEOs, we define two types of firms: those with dispersed ownership, which are firms in which no shareholder holds at least

20% of the voting rights, and family firms, which are firms in which a family holds at least 20% of the voting rights. This is the threshold commonly used in the prior literature (e.g., Faccio and Lang, 2002).[4]

As illustrated in Panel A of Table 1, the distribution of CEO changes reveals a total of 13 to 20 occurrences annually. Among these, 99 changes were observed in firms with a unitary board, while 42 changes occurred in firms with a two-tier board. Additionally, 92 changes were noted in companies with a dispersed ownership structure, and 49 changes were recorded in family firms. The higher number of changes observed in firms with dispersed ownership is consistent with the findings of Chen et al. (2013), who demonstrated that CEO turnover is less probable in family firms. Panel B illustrates the distribution of powerful and non-powerful CEOs exclusively in firms with unitary boards, as it is not feasible to be both CEO and board chair in firms with two-tier boards (Belot et al., 2014). The data indicates that the presence of a new powerful CEO is more prevalent in firms with dispersed ownership (40 cases) compared to family firms (13 cases).

[INSERT TABLE 1]

3.2. Models

A staggered difference-in-differences design allows us to compare the differences between our treatment group (i.e., firms with a CEO change) and our control group (i.e., firms without a CEO change) before and after a CEO change. The main model is as follows:

$$EARNINGS\_MANAGEMENT_{i,t} = \alpha_0 + \alpha_1\ TREAT_{i,t} + \alpha_2\ POST_{i,t} + \alpha_3\ TREAT_{i,t}\ \#\ POST_{i,t}$$

$$+\ CONTROLS + \varepsilon_{i,t} \tag{eq. 1}$$

EARNINGS_MANAGEMENT is a measure of accrual-based earnings management or a measure of real earnings management, as described in *section 3.2.1*. *TREAT* is a dummy

---

[4] We do not consider the few French subsidiaries or state-owned firms, because the incentives of the blockholders are different.

variable equal to one for firms with a CEO change, and zero otherwise. *POST* is a dummy variable equal to one for the year of the CEO change and the year after, and zero for the year before the change.[5] The interaction variable *TREAT # POST* captures the influence of a new CEO on earnings management. A positive coefficient α_3 would indicate more earnings management by the new CEO (relative to earnings management by the former CEO and adjusted for earnings management in the control group). *CONTROLS* is a vector of control variables capturing firm-specific financial and corporate governance characteristics that influence accruals and financial reporting quality (see *section 3.2.2* for details).

To test our first hypothesis, we split the variable *TREAT* into two different variables. The first is *TREATCHAIR*, a dummy variable that equals one for treated firms if the new CEO is powerful (i.e., the CEO is also the chairman of the board) and zero otherwise. The second is *TREATNOTCHAIR*, a dummy variable equal to one for treated firms if the new CEO is not powerful. Thus, our developed model is as follows:

$ABSABNACC_{i,t} = \alpha_0 + \alpha_1\ TREATCHAIR_{i,t} + \alpha_2\ POST_{i,t} + \alpha_3\ TREATCHAIR_{i,t}\ \#\ POST_{i,t} + \alpha_4$

$TREATNOTCHAIR_{i,t} + \alpha_5\ TREATNOTCHAIR_{i,t}\ \#\ POST_{i,t} + CONTROLS + \varepsilon_{i,t}$ \hfill (eq. 2)

It is expected that only the coefficient on $\alpha 3$ will be positive and significant. (i.e. powerful new CEO manage earnings more than non-powerful ones). To test our second hypothesis, the sample was split based on the signed (positive or negative) values of abnormal accruals. The coefficient $\alpha 3$ is expected to be positive and significant only for the subsample of positive abnormal accruals (i.e., powerful new CEOs inflate earnings). Finally, to test our last hypothesis, we split the sample into two subsamples of firms with dispersed ownership and family firms. We expected no difference in the coefficient $\alpha 3$ for these subsamples. Note that

---

[5] The variable *POST* cannot be estimated in our regressions, because there is no PRE-period and POST-period for the control group in a staggered difference-in-differences design. Since we introduce year fixed effects and mainly care about the coefficient on the interaction variable (*TREAT#POST*), this is not an issue.

we test our three hypotheses on the full sample as well as on the subset of firms with unitary boards, because this is the only group in which it is possible to have powerful CEOs.

3.2.1. Measures of earnings management

We use two different measures to capture earnings management: a measure of accrual-based EM (*ABSABNACC*) and a measure of real EM (*REM*). *ABSABNACC* stands for absolute abnormal accruals, which is a standard measure of earnings management (Francis et al., 2013). DeFond and Zhang (2014) note that this continuous measure captures within-GAAP manipulation as well as undetected misstatements, which are more egregious than a dummy variable such as a financial restatement. The higher values of *ABSABNACC* indicate more earnings management (i.e., lower financial reporting quality) and thus reflect greater CEO opportunism. To measure real earnings management (*REM*), we follow Roychowdhury (2006) and assume that REM is a function of abnormal production costs (PC), abnormal cash flow from operations (CFO), and abnormal discretionary expenses (DEX).[6] Abnormal levels are then computed as the difference between observed (i.e., actual) and predicted (i.e., normal) levels. The underlying idea is that for a given level of sales, abnormally low (high) production costs, abnormally high (low) cash flow from operations, or abnormally high (low) discretionary expenses could signal downside (upside) earnings management. All three components are then aggregated to create our proxy for real earnings management (*REM*).

3.2.2. Control variables

We select the control variables based on previous literature (Ansari et al., 2021; Bryan & Mason, 2020; Dechow et al., 2010; Minichilli et al., 2022).The financial characteristics include firm size, measured by the logarithm of total assets (*SIZE*); leverage (*LEVERAGE*) measured as the ratio of total liabilities to total asset; financial performance captured by a dummy variable

---

[6] We calculate normal levels of PC, CFO and DEX by using cross-sectional regression models at the industry level. To make abnormal PC, CFO, and DEX comparable, abnormal CFO and DEX are multiplied by minus one.

equal to one if net income is negative, and zero otherwise (*LOSS*); growth opportunities, measured by the market-to-book ratio (*MTB*); market performance, captured by the annual stock return (*STOCK_RET*). Corporate governance characteristics include: *CEO_FOUNDER*, a dummy variable equal to one if the CEO is the founder, and zero otherwise;[7] *BOARD_SIZE* measured as the number of members sitting on the board of directors; *BOARD_INDEP* measured as the percentage of independent members sitting on the board. Given that French firms disclosing consolidated financial statements are required to hire two auditors (e.g., André et al., 2016), we include two variables to account for the particularities of the joint audit system: *TWO_BIG4* is a dummy variable equal to one if two Big Four are in charge of the audit and zero otherwise, and *ONE_BIG4* is a dummy variable equal to one if one Big Four and one non-Big Four are in charge of the audit, and zero otherwise. We also include industry and year fixed effects to capture some unobservable factors in all our regressions.[8] All variable definitions are summarized in Appendix A. Table 2 presents descriptive statistics for all variables used in our models, for all firms in the treated group for the year preceding the CEO change (Panel A) and for the control group (Panel B).

[INSERT TABLE 2]

In line with our first hypothesis, we expect a positive coefficient α_3 in equation 2 (i.e., new powerful CEOs manage more earnings) and a non-significant coefficient α_5. For the third hypothesis, we expect a positive coefficient α_3 and a non-significant coefficient α_5 for both sub-samples (i.e., firms with a dispersed ownership and family firms). We test the two models (equations 1 and 2) on the full sample, as well as on the sub-group of firms with unitary boards only (in which it is possible to have powerful CEOs).

---

[7] CEOs who are the founders are also usually considered as more powerful when compared to other CEOs.
[8] All continuous variables are winsorized at 1% and 99%, and standard errors are adjusted for heteroscedasticity and firm-level clustering.

4. Results

4.1. Earnings management by new CEOs

Table 3 shows the results using our accrual-based measure of earnings management, *ABSASBACC* (columns 1 and 2), and our measure of real earnings management, *REM* (columns 3 and 4). Columns 1 and 3 show the results for the full sample of CEO changes, while columns 2 and 4 are devoted to firms with a unitary board only.

The coefficient on *TREAT#POST* is positive and significant ($p < 0.05$) in column 1 suggesting that new CEOs manage earnings more than their predecessors compared to before the CEO change and compared to the control group. A similar result is found for the subsample of firms with only a unitary board (column 2), suggesting that the legal structure of the board does not affect our results. However, the insignificant results in columns 3 and 4 suggest no real earnings management by new CEOs.

[INSERT TABLE 3]

Table 4 shows the results when distinguishing between powerful (TREATCHAIR) and non-powerful (TREATNOTCHAIR) new CEOs. We find a coefficient and significant ($p < 0.01$) on TREATCHAIR#POST in columns 1 and 2, supporting the idea that only powerful new CEOs manage earnings. However, this result holds only for our accrual-based measure of earnings management, as the coefficient on *TREATCHAIR#POST* is insignificant for our measure of real earnings management in columns 3 and 4. Interestingly, the coefficient on *TREATNOTCHAIR#POST* is negative and significant ($p>0.5$) for the full sample (column 3), suggesting less real earnings management by non-powerful new CEOs, but the result is not significant for the subsample of firms with unitary boards (column 4). Overall, these results support our first hypothesis, suggesting that only powerful new CEOs engage in significant earnings management. Since the results are similar in both columns, we also conclude that they are not sensitive to the legal structure of the board.

[INSERT TABLE 4]

In an additional analysis, we examine whether powerful new CEOs manage earnings in the year of their arrival and in the following year. We examine this issue by splitting our variable POST into two variables: $POST_{t0}$ (the year of a new CEO's arrival) and $POST_{t+1}$ (the year after). The results reported in Appendix B support this idea. New CEOs manage earnings in the year of their arrival, as shown by the positive and significant coefficient on $TREAT\#POST_{t0}$ in columns 1 and 2, but not in the following year. Again, this result holds only for powerful new CEOs, as the coefficient on $TREATCHAIR\#POST_{t0}$ is highly significant (p>0.01) in columns 3 and 4.

4.2. Upward vs downward earnings management

The extant literature has examined the direction of earnings management, with new CEOs sometimes being susceptible to *big bath* accounting, which involves increasing expenses in the year of their arrival and reversing those expenses in subsequent years (Haggard et al., 2015; Murphy and Zimmerman, 1993). Conversely, new CEOs may also engage in upward earnings management to showcase their suitability for the role to the board of directors (Ali et al., 2015). To discern the most plausible explanation in our case, we consider the sign of the abnormal accruals. In the event that powerful new CEOs seek to inflate earnings, we should observe positive abnormal accruals. Conversely, negative abnormal accruals would be indicative of downward earnings management.

The coefficient is positive and highly significant (p < 0.01) on the variable *TREATCHAIR#POST* in columns 1 and 2 of Table 5, but not in columns 3 and 4. These findings indicate that powerful new CEOs manage earnings upwards, while no significant result is found for non-powerful CEOs, which supports our second hypothesis. This suggests that new powerful CEOs may proactively seek to inflate earnings, as this strategy could yield immediate benefits. This finding is consistent with the observations of Bergstresser & Philippon (2006)

and Gaver & Gaver (1998), who proposed that CEOs are inclined to increase earnings due to the short-term positive impact on their variable compensation. Alternatively, the reduced likelihood of being replaced by a new CEO could also serve as a significant incentive (Ghosh & Wang, 2019).

[INSERT TABLE 5]

4.3. Earnings management by new CEOs across ownership structures

Table 6 presents the results of equation 2, distinguishing between firms with dispersed ownership and family firms. For firms with dispersed ownership (in columns 1 and 2), the coefficient on *TREATCHAIR#POST* is positive and slightly significant ($p < 0.1$). Analogous outcomes are observed for family firms, though the coefficients on *TREATCHAIR#POST* are of greater magnitude and more significant in columns 3 ($p < 0.05$) and 4 ($p < 0.01$). Consequently, it can be concluded that the various monitoring (or disciplinary) mechanisms in place in firms with dispersed ownership and in family firms may lack sufficient efficacy to impede earnings management by powerful new CEOs.

[INSERT TABLE 6]

In an additional analysis, the impact of the degree of family control on the results is investigated. It is acknowledged that a blockholder with a majority shareholding exerts more substantial control over the CEO, while this control is less pronounced in the absence of a majority shareholder. Assuming other factors remain constant, a blockholder with a more substantial shareholding should allocate greater resources to monitoring the CEO. To conduct this analysis, family firms are categorized into two groups. The first group, designated as "weak family control," comprises family firms with a family holding of between 20% and 50% of shares, falling short of a majority stake. The second group, classified as "strong family control," encompasses family firms that hold at least 50% of shares, thereby possessing a majority stake.

As illustrated in Table 7, the findings diverge between the two categories of family firms. There is substantial earnings management by newly appointed CEOs in firms with weak family control, as evidenced by the positive and significant coefficient on *TREATCHAIR#POST* (p<0.01). Conversely, no substantial result is observed for family firms with a majority shareholder (columns 3 and 4). This finding lends further credence to the notion that new CEOs possess greater discretion in environments characterized by less stringent control, leveraging this discretion to favor their own interests.

[INSERT TABLE 7]

4.4. Mitigating the endogeneity concern

In our previous analyses, we did not consider the fact that CEO turnover is not random, meaning that the variable TREAT is not independent. A substantial body of research has demonstrated that CEO changes can occur voluntarily as CEOs approach retirement age, or can be forced when the strategy or the performance of the firm are deemed unsatisfactory (Ansari et al., 2014; Chen et al., 2013; Ghosh & Wang, 2019; Hillier & McColgan, 2009; Nguyen, 2011). The present study employs a two-stage Heckman model to address the endogeneity issue.

In the first stage, a probit model is employed to examine the factors that influence the turnover of CEOs, encompassing both CEO-specific and firm-specific elements. Three measures of firm performance are employed: an accounting measure of performance (LOSS), where a value of one is assigned for accounting losses and zero otherwise, to capture managerial failure (Ghosh & Wang, 2019); a market-based measure of performance (STOCK_RET); and a mixed measure of performance (MTB) that captures investor satisfaction (Hillier & McColgan, 2009). It is hypothesized that the probability of turnover will increase as performance declines. In addition to the aforementioned factors, we incorporate the concept of firm size (SIZE) and financial risk (LEVERAGE) as two variables that have the potential to

influence the probability of CEO turnover. Furthermore, we consider the presence of a founder CEO (CEO_FOUNDER), the size of the board of directors (BOARD_SIZE), and the percentage of independent members sitting on the board (BOARD_INDEP). The aforementioned characteristics should impact the effectiveness of CEO monitoring (Chen et al., 2013; Jensen, 1993).

The results of the probit model are documented in Appendix C.[9] In columns 1 and 2, it appears that the probability of a CEO change is lower when the CEO is a founder (CEO_FOUNDER), which supports the results of Chen et al. (2013), and when more independent members are present on the board, which aligns with the notion that increased ex-ante monitoring and counsel by independent boards diminishes the necessity for ex-post discipline (Adams et al., 2010; Jensen, 1993). Nevertheless, the probability of CEO turnover is elevated when a firm discloses a loss (LOSS), thereby supporting the concept that a loss functions as a heuristic for managerial failure (Ghosh & Wang, 2019).

When focusing on the subset of firms with dispersed ownership (columns 3 and 4) and family firms (columns 5 and 6), the results diverge slightly from those for the full sample. Specifically, the coefficient on LOSS is found to be insignificant for family firms (columns 5 and 6). However, it functions as a pivotal indicator in capturing managerial failure within firms with dispersed ownership (columns 3 and 4), as previously theorized by Ghosh & Wang (2019). Collectively, these findings lend support to the notion that CEO turnover is not random. This consideration must be taken into account when analyzing the consequences of CEO turnover.

We present the results of the second stage of the Heckman model in Tables 8 and 9. In these tables, we explain the absolute abnormal accruals by including the inverse Mills ratio (IMR) obtained from the first stage as an independent variable. Note that to satisfy the exclusion restriction (Certo et al., 2016), we exclude *CEO_FOUNDER* from the second stage because it

---

[9] The sample size is reduced due to the use of lagged values in the model (i.e., the first year is lost).

is highly significant (p < 0.01) in the first stage but would not be significant if included in the second stage. Table 8 shows that the results are similar to our main tests reported in Table 4. In Table 9, we focus on the effect of new CEO power in firms with dispersed ownership and in family firms. The results are similar to those reported in Table 6. Only new powerful CEOs are associated with more earnings management, as evidenced by the positive and significant coefficients on *TREATCHAIR#POST* in all columns, but this effect is also more significant in family firms than in firms with dispersed ownership. Overall, after accounting for the fact that CEO turnover is not random with a two-stage Heckman model, we confirm that only powerful new CEOs significantly manage earnings, and this effect is stronger in family firms than in firms with dispersed ownership.

[INSERT TABLES 8 and 9]

5. Conclusion

This paper examines whether powerful new CEOs are more likely to engage in opportunistic behavior (i.e., earnings management) than other new CEOs. Using a staggered difference-in-differences design, we document that new powerful CEOs are, in fact, more opportunistic than their non-powerful counterparts, particularly in family firms where family blockholders exert weak control. Overall, by showing that powerful new CEOs tend to inflate earnings, which undermines financial reporting quality, we highlight a negative short-term consequence for investors of the additional power granted to new CEOs by the board.

While this paper presents new and interesting results and thus contributes to the literature on the consequences of CEO power (e.g., Finkelstein & D'Aveni, 1994; Dalton & Dalton, 2011; Krause et al., 2014), the impact of CEO turnover on financial reporting quality (e.g., Ali & Zhang, 2015; Choi et al., 2014; Fan et al., 2012; Hazarika et al., 2012; Murphy & Zimmerman, 1993; Pourciau, 1993), and the influence of ownership structure on earnings management (e.g.,

Bhaumik & Gregoriou, 2010; Gomez-Mejia et al., 2014; Prencipe et al., 2014; Wang, 2006), we must acknowledge some limitations.

First, the findings of this study indicate that boards should exercise caution when promptly allocating additional power to newly appointed CEOs, as this may result in adverse short-term repercussions for investors. Subsequent research endeavors could involve the evaluation of the costs and benefits associated with a highly influential CEO across various timeframes. Specifically, it would be a worthwhile pursuit to investigate which board composition is more prone to underestimating the expenses or overestimating the advantages of bestowing greater authority upon a CEO.

Second, the present sample is limited to French firms. While the results obtained may be analogous in countries with analogous institutional characteristics, future research could focus on the influence of powerful new CEOs on earnings management in different institutional contexts. Such studies could examine how different monitoring mechanisms, such as national culture or legal protection for shareholders, may constrain CEO opportunism.

Third, our staggered difference-in-differences approach allows us to better capture a causal relationship between CEO power and CEO opportunism. While this approach is more effective than cross-sectional analyses, we believe that other approaches can also provide valuable insights. For example, surveys and interviews with board members and audit committees that oversee corporate financial reporting can provide a deeper understanding of the dynamics and decision-making processes that influence CEO behavior.

Despite the aforementioned limitations, the results of this study are likely to be of interest not only to researchers but, more crucially, to boards of directors tasked with evaluating the costs and benefits of granting additional authority to a newly appointed CEO.

The paper also raises questions about international board regulation. In Germany, companies are required to adopt a two-tier board, in which the CEO is not permitted to sit on the board

22

and, therefore, cannot be given additional power. Conversely, in the United States and numerous other countries, companies adhere to a unitary board structure, wherein the CEO can be elected to the position of chairman. Finally, France grants companies the autonomy to select between the two structures (Belot et al., 2014). A salient question to pose is whether offering such flexibility would be advantageous in other countries.

The prevalence of such disparities, particularly within the European Union where numerous regulations have converged in recent decades, warrants further examination. For instance, new accounting rules were adopted in 2002 (effective from 2005)[10] and new regulations concerning statutory audits were implemented in 2014 (effective from 2016).[11] However, international regulations concerning the board of directors, and especially the possibility for a CEO to chair the board, remain absent. The present research aims to inform those responsible for regulating corporate governance by documenting some of the costs associated with the presence of powerful CEOs and the context in which these costs are most important.

---

[10] Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.
[11] Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

REFERENCES

Adams R. B., Hermalin B. E., Weisbach M. S. (2010). The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey. *Journal of Economic Literature*, *48*(1), 58-107. https://doi.org/10.1257/jel.48.1.58

Ali, A., & Zhang, W. (2015). CEO tenure and earnings management. *Journal of Accounting and Economic*s, *59*(1), 60-79. https://doi.org/10.1016/j.jacceco.2014.11.004

Amihud, Y., & Lev, B. (1981). Risk reduction as a managerial motive for conglomerate mergers. *The Bell Journal of Economics*, *12*(2), 605-617. https://doi.org/10.2307/3003575

André, P., Broye, G., Pong, C., & Schatt, A. (2016). Are Joint Audits Associated with Higher Audit Fees? *European Accounting Review, 25*(2), 245-274. https://doi.org/10.1080/09638180.2014.998016

Anderson, R. C., & Reeb, D. M. (2003). Founding-Family Ownership and Firm Performance: Evidence from the S&P 500. *The Journal of Financ*e, *58*(3), 1301-1328. https://doi.org/10.1111/1540-6261.00567

Ansari, I. F., Goergen, M., & Mira. S. (2014). The determinants of the CEO successor choice in family firms. *Journal of Corporate Finance, 28*, 6-25. https://doi.org/10.1016/j.jcorpfin.2013.12.006

Ansari, I. F., Goergen, M., & Mira, S. (2021). Earnings management around founder CEO reappointments and successions in family firms. *European Financial Management, 27*(5), 925-958. https://doi.org/10.1111/eufm.12307

Baliga, B. R., Moyer, R. C., & Rao, R. S. (1996). CEO duality and firm performance: What's the fuss? *Strategic Management Journal*, *17*(1), 41-53. https://doi.org/10.1002/(SICI)1097-0266(199601)17:1<41::AID-SMJ784>3.0.CO;2-%23

Ballinger, G. A., & Marcel, J. J. (2010). The use of an interim CEO during succession episodes and firm performance. *Strategic Management Journal*, *31*(3), 262-283. https://doi.org/10.1002/smj.808

Belot, F., Ginglinger, E., Slovin M.B., & Sushka, M.E. (2014). Freedom of choice between unitary and two-tier boards: An empirical analysis. *Journal of Financial Economics*, *112*(3), 364-385. https://doi.org/10.1016/j.jfineco.2014.02.011

Bergstresser, D., & Philippon, T. (2006). CEO incentives and earnings management. *Journal of Financial Economics, 80(*3), 511-529. https://doi.org/10.1016/j.jfineco.2004.10.011

Bertrand, M., & Schoar, A. (2003). Managing with Style: The Effect of Managers on Firm Policies. *Quarterly Journal of Economics, 118*(4), 1169-1208. https://doi.org/10.1162/003355303322552775

Bertrand, M, & Schoar, A. (2006). The Role of Family in Family Firms. *Journal of Economic Perspectives, 20*(2), 73-96. https://doi.org/10.1257/jep.20.2.73

Bhaumik, S. K., & Gregoriou, A. (2010). Family ownership, tunneling and earnings management: A review of the literature. *Journal of Economic Surveys, 24*(4), 705-730. https://doi.org/10.1111/j.1467-6419.2009.00608.x

Bryan, D., & Mason, T. W. (2020). Independent director reputation incentives, accruals quality and audit fees. *Journal of Business Finance & Accounting, 47*(7/8), 982-1011. https://doi.org/10.1111/jbfa.12435

Certo, S. T., Busenbark, J. R., Woo, H., & Semadeni, M. (2016). Sample selection bias and Heckman models in strategic management research. *Strategic Management Journal, 37*(13), 2639–2657. https://doi.org/10.1002/smj.2475

Chen, X., Cheng, Q., & Dai, Z. (2013). Family ownership and CEO turnover. *Contemporary Accounting Research, 30*(3), 1166-1190. https://doi.org/10.1111/j.1911-3846.2012.01185.x

Chen, G., Luo, S., Tang Y., & Tong, J. Y. (2015). Passing probation: Earnings management by interim CEOs and its effect on their promotion prospects. *Academy of Management Journal*, *58*(5), 1389-1418. https://doi.org/10.5465/amj.2013.0351

Choi, J. S., Kwak, Y. M., & Choe, C. (2014). Earnings management surrounding CEO turnover: Evidence from Korea. *Abacus, 50*(1), 25-55. https://doi.org/10.1111/abac.12021

Dalton, D. R., & Dalton, C. M., (2011). Integration of Micro and Macro Studies in Governance Research: CEO Duality, Board Composition, and Financial Performance. *Journal of Management*, *37*(2), 404-411. https://doi.org/10.1177/0149206310373399

De Angelo, H., & De Angelo, L. (1989). Proxy contests and the governance of publicly held corporations. *Journal of Financial Economics, 23*(1), 29-59. https://doi.org/10.1016/0304-405X(89)90004-4

Dechow, P., Ge, W., & Schrand, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting & Economics, 50*(2/3), 344-401. https://doi.org/10.1016/j.jacceco.2010.09.001

Deephouse, D. L., & Jaskiewicz, P. (2013). Do Family Firms Have Better Reputations Than Non-Family Firms? An Integration of Socioemotional Wealth and Social Identity Theories. *Journal of Management Studies, 50*(3), 337-360. https://doi.org/10.1111/joms.12015

DeFond, M., & Zhang, J. (2014). A review of archival auditing research. *Journal of Accounting and Economics*, *58*(2-3), 275-326. https://doi.org/10.1016/j.jacceco.2014.09.002

Denes, M. R., Karpoff, J. M., & McWilliams, V. B. (2017). Thirty years of shareholder activism: A survey of empirical research. *Journal of Corporate Finance, 44*, 405-424. https://doi.org/10.1016/j.jcorpfin.2016.03.005

Eckert, C. (2017). Corporate reputation and reputation risk: Definition and measurement from a (risk) management perspective. *The Journal of Risk Finance, 18*(2), 145-158. https://doi.org/10.1108/JRF-06-2016-0075

Faccio, M., & Lang, L. H. P. (2002). The ultimate ownership of Western European corporations. *Journal of Financial Economics, 65*(3), 365-395. https://doi.org/10.1016/S0304-405X(02)00146-0

Faleye, O. (2007). Does one hat fit all? The case of corporate leadership structure. *Journal of Management and Governance*, *11*, 239-259. https://doi.org/10.1007/s10997-007-9028-3

Fan, J., Wong, T. J., & Zhang., T. (2012). Founder succession and accounting properties. *Contemporary Accounting Research, 29*(1), 283-311. https://doi.org/10.1111/j.1911-3846.2011.01099.x

Finkelstein, S., & D'aveni, R. A. (1994). CEO duality as a double-edged sword: How boards of directors balance entrenchment avoidance and unity of command. *Academy of Management Journal*, *37*(5), 1079-1108. https://doi.org/10.5465/256667

Florackis, C., & Sainani, S. (2021). Can CFOs resist undue pressure from CEOs to manage earnings? *Journal of Corporate Finance, 67*, https://doi.org/10.1016/j.jcorpfin.2020.101859

Francis, J. R., Michas, P. N., & Seavey, S. E. (2013). Does Audit Market Concentration Harm the Quality of Audited Earnings? Evidence from Audit Markets in 42 Countries. *Contemporary Accounting Research*, *30*(1), 325-355. https://doi.org/10.1111/j.1911-3846.2012.01156.x

García-Meca, E., & Sánchez-Ballesta, J. P. (2009). Corporate Governance and Earnings Management: A Meta-Analysis. *Corporate Governance: An International Review, 17*(5), 594-610. https://doi.org/10.1111/j.1467-8683.2009.00753.x

Gaver, J. I., & Gaver, K. M. (1998). The relation between nonrecurring accounting transactions and CEO cash compensation. *The Accounting Review, 73*(2), 235-253. http://www.jstor.org/stable/248467

Geiger, M. A., & North, D. (2006). Does hiring a new CFO change things? An investigation of changes in discretionary accruals. *The Accounting Review, 81*(4), 781-809. https://doi.org/10.2308/accr.2006.81.4.781

Ghosh, A., & Wang, J. (2019). Accounting Losses as a Heuristic for Managerial Failure: Evidence from CEO Turnovers. *Journal of Financial and Quantitative Analysis, 54*(2), 877-906. https://doi.org/10.1017/S0022109018000728

Gomez-Mejia, L., Cruz, C., & Imperatore, C. (2014). Financial Reporting and the Protection of Socioemotional Wealth in Family-Controlled Firms, *European Accounting Review, 23*(3), 387-402. https://doi.org/10.1080/09638180.2014.944420

Goyal, V. K., & Park, C. W. (2002). Board leadership structure and CEO turnover. *Journal of Corporate Finance, 8*(1), 49-66. https://doi.org/10.1016/S0929-1199(01)00028-1

Haggard, K. S., Howe, J. S., & Lynch, A. A. (2015). Do baths muddy the water or clear the air? *Journal of Accounting and Economics, 59*(1), 105-117. https://doi.org/10.1016/j.jacceco.2014.09.007

Hambrick, D. C., & Mason, P. A. (1984). Upper Echelons: The Organization as a Reflection of Its Top Managers. *The Academy of Management Review, 9*(2), 193-206. https://doi.org/10.5465/amr.1984.4277628

Hazarika, S., Karpoff, J. M., & Nahata, R. (2012). Internal corporate governance, CEO turnover, and earnings management. *Journal of Financial Economics, 104*(1), 44-69. https://doi.org/10.1016/j.jfineco.2011.10.011

Hillier, D., & McColgan, P. (2009). Firm Performance and Managerial Succession in Family Managed Firms. *Journal of Business Finance and Accounting, 36*(3-4), April-May: 461-484. https://doi.org/10.1111/j.1468-5957.2009.02138.x

Hutzschenreuter, T., Kleindienst, I., & Greger, C. (2012). How new leaders affect strategic change following a succession event: A critical review of the literature. *The Leadership Quarterly*, *23*(5), 729-755. https://doi.org/10.1016/j.leaqua.2012.06.005

Jensen, M. C. (1993). The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. *The Journal of Finance*, *48*(3), 831-880. https://doi.org/10.1111/j.1540-6261.1993.tb04022.x

Jensen, M. C., & Meckling, W.H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4), 305-360.

Jiang, J., Petroni, K., & Wang, I. (2010). CFOs and CEOs: Who have the most influence on earnings management? *Journal of Financial Economics, 96*(3), 513-526. https://doi.org/10.1016/j.jfineco.2010.02.007

Kim, K.H., Al-Shammari, H.A., Kim, B, & Lee, S.H. (2009). CEO duality leadership and corporate diversification behavior. *Journal of Business Research*, *62*(11), 1173-1180. https://doi.org/10.1016/j.jbusres.2008.10.017

Krause, R., Semadeni, M., & Cannella, A. A. (2014). CEO Duality: A Review and Research Agenda. *Journal of Management, 40*(1), 256-286. https://doi.org/10.1177/0149206313503013

Leuz, C., Nanda, D., & Wysocki, P. D. (2003). Earnings management and investor protection: an international comparison. *Journal of Financial Economics, 69*(3), 505-527. https://doi.org/10.1016/S0304-405X(03)00121-1

Minichilli, A., Prencipe, A., Radhakrishnan, S., & Siciliano, G. (2022). What's in a name? Eponymous private firms and financial reporting quality. *Management Science*, *68*(3), 2330-2348. https://doi.org/10.1287/mnsc.2021.3974

Murphy, K. J., & Zimmerman, J. L. (1993). Financial performance surrounding CEO turnover. *Journal of Accounting and Economics, 16*(1-3), 273-315. https://doi.org/10.1016/0165-4101(93)90014-7

Nguyen, B. D. (2011). Ownership Structure and Board Characteristics as Determinants of CEO Turnover in French-Listed Companies. *Finance, 32*(2), 53-89. https://doi.org/10.3917/fina.322.0053

Poretti, C., Schatt, A., & Magnan, M. (2022). An empirical examination of relative valuation of publicly listed firms using French GAAP after IFRS adoption. *Accounting Auditing & Control, 28*(2), *55-81.* https://shs.cairn.info/article/E_CCA_282_0055?lang=en

Pourciau, S. (1993). Earnings management and nonroutine executive changes. *Journal of Accounting and Economics, 16*(1-3), 317-336. https://doi.org/10.1016/0165-4101(93)90015-8

Prencipe, A., Bar-Yosef, S., & Dekker, H.C. (2014). Accounting research in family firms: Theoretical and empirical challenges. *European Accounting Review, 23*(3), 361-385. https://doi.org/10.1080/09638180.2014.895621

Roger, P., & Schatt, A. (2016). Idiosyncratic Risk, Private Benefits, and the Value of Family Firms. *Finance Research Letters*, *17*, 235-245. https://doi.org/10.1016/j.frl.2016.03.015

Schepker, D. J., Kim, Y., Patel, P. M., Thatcher, S. M. B., & Campion, M. C. (2017). CEO succession, strategic change, and post-succession performance: A meta-analysis. *The Leadership Quarterly, 28*(6), 701-720. https://doi.org/10.1016/j.leaqua.2017.03.001

Shivdasani, A. (1993). Board composition, ownership structure, and hostile takeovers. *Journal of Accounting & Economics*, *16*(1-3), 167-198. https://doi.org/10.1016/0165-4101(93)90009-5

Shleifer, A., Vishny, R. W. (1997). A Survey of Corporate Governance. *The Journal of Finance, 52*(2), 737-783. https://doi.org/10.1111/j.1540-6261.1997.tb04820.x

Wang, D. (2006). Founding family ownership and earnings quality. *Journal of Accounting Research, 44*(3), 619-656. https://doi.org/10.1111/j.1475-679X.2006.00213.x

Table 1. Sample of CEO changes

Panel A. CEO changes distribution

	CEO changes								
	Full sample			Family firms			Firms with dispersed ownership		
Year	All	Two-tier board	Unitary board	All	Two-tier board	Unitary board	All	Two-tier board	Unitary board
2007	20	6	14	5	3	2	15	3	12
2008	13	4	9	4	1	3	9	3	6
2009	19	7	12	6	3	3	13	4	9
2010	14	3	11	4	2	2	10	1	9
2011	18	4	14	9	3	6	9	1	8
2012	14	5	9	4	2	2	10	3	7
2013	16	4	12	6	1	5	10	3	7
2014	13	5	8	4	4	0	9	1	8
2015	14	4	10	7	3	4	7	1	6
Total	*141*	*42*	*99*	*49*	*22*	*27*	*92*	*20*	*72*

Panel B. CEO power across CEO changes in firms with a unitary board

	CEO power					
	Full sample		Family firms		Firms with dispersed ownership	
Year	The CEO is chairperson of the board	The CEO is not chairperson of the board	The CEO is chairperson of the board	The CEO is not chairperson of the board	The CEO is chairperson of the board	The CEO is not chairperson of the board
2007	7	7	1	1	6	6
2008	4	5	1	2	3	3
2009	6	6	1	2	5	4
2010	7	4	01	1	6	3
2011	6	8	2	4	4	4
2012	5	4	2	0	3	4
2013	6	6	3	2	3	4
2014	5	3	0	0	5	3
2015	7	3	2	2	5	1
Total	*53*	*46*	*13*	*14*	*40*	*32*

29

Table 2. Descriptive statistics

All variable definitions are provided in Appendix A.

	Mean	St. dev.	1st quartile	Median	3rd quartile
Panel A. Treated group (statistics for the year before the CEO change)					
ABSABNACC	0.036	0.035	0.012	0.025	0.049
SIZE	13.661	2.447	11.590	13.638	15.297
LEVERAGE	0.224	0.150	0.099	0.202	0.323
MTB	1.842	1.657	0.836	1.396	2.270
STOCK_RET	0.040	0.420	-0.175	0.042	0.231
BOARD_SIZE	9.142	3.929	6.000	9.000	12.000
BOARD_INDEP	0.320	0.243	0.140	0.300	0.500
LOSS	0.206	0.406			
CEO_FOUNDER	0.156	0.364			
TWO_BIG4	0.227	0.420			
ONE_BIG4	0.567	0.497			
Panel B. Control group					
ABSABNACC	0.044	0.044	0.012	0.031	0.059
SIZE	12.671	1.862	11.303	12.433	13.621
LEVERAGE	0.191	0.154	0.073	0.167	0.280
MTB	1.991	1.549	1.004	1.561	2.470
STOCK_RET	0.118	0.401	-0.126	0.075	0.324
BOARD_SIZE	7.373	3.706	4.000	6.000	10.000
BOARD_INDEP	0.317	0.232	0.140	0.330	0.500
LOSS	0.095	0.293			
CEO_FOUNDER	0.612	0.488			
TWO_BIG4	0.128	0.334			
ONE_BIG4	0.464	0.499			

Table 3. Earnings management by new CEOs

This table reports the results of an OLS model. All variable definitions are provided in Appendix A. Robust z-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Dependent variable	ABSABNACC		REM	
	All CEO changes	CEO changes in firms with a unitary board	All CEO changes	CEO changes in firms with a unitary board
	(1)	(2)	(3)	(4)
TREAT	-0.01	-0.00	0.17	-0.07
	(-1.06)	(-0.61)	(0.69)	(-0.21)
TREAT#POST	0.01**	0.01**	-0.07	-0.00
	(2.37)	(2.02)	(-0.85)	(-0.02)
FAMILY_FIRM	-0.01	-0.01	-0.52*	-0.78**
	(-1.18)	(-0.68)	(-1.91)	(-2.50)
SIZE	-0.01***	-0.01***	-0.65***	-0.75***
	(-3.32)	(-3.60)	(-6.85)	(-6.51)
LEVERAGE	0.00	0.00	0.17	0.10
	(0.22)	(0.05)	(0.28)	(0.14)
LOSS	0.01*	0.01	0.09	-0.03
	(1.82)	(1.14)	(0.60)	(-0.16)
MTB	0.00	0.00	0.20**	0.23**
	(1.33)	(1.36)	(2.12)	(2.36)
STOCK_RET	0.01	0.01*	-0.12	-0.16*
	(1.59)	(1.72)	(-1.35)	(-1.68)
CEO_FOUNDER	0.00	0.00	-0.01	0.24
	(0.56)	(0.46)	(-0.05)	(0.84)
BOARD_SIZE	0.00	0.00	0.04	0.08
	(0.20)	(0.78)	(1.22)	(1.59)
BOARD_INDEP	-0.00	-0.01	-0.15	-0.20
	(-0.07)	(-0.57)	(-0.34)	(-0.34)
TWO_BIG4	0.00	0.00	-0.14	0.31
	(0.57)	(0.62)	(-0.34)	(0.68)
ONE_BIG4	0.01	0.01*	-0.34	-0.10
	(1.30)	(1.66)	(-1.19)	(-0.32)
Constant	0.10***	0.11***	7.97***	8.72***
	(3.80)	(3.97)	(6.84)	(6.50)
Time FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Cluster	Firm	Firm	Firm	Firm
Observations	962	765	932	738
Adjusted R-squared	0.10	0.11	0.49	0.49
F-statistic	3.1***	3.3***	15.57	17.67

Table 4. Earnings management by powerful vs non-powerful new CEOs

This table reports the results of an OLS model. All variable definitions are provided in Appendix A. Robust z-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Dependent variable	ABSABNACC		REM	
	All CEO changes	CEO changes in firms with a unitary board	All CEO changes	CEO changes in firms with a unitary board
	(1)	(2)	(3)	(4)
TREATCHAIR	-0.00	-0.01	0.03	-0.15
	(-0.63)	(-0.79)	(0.11)	(-0.40)
TREATCHAIR#POST	0.01***	0.02***	0.09	0.10
	(2.58)	(2.86)	(0.78)	(0.77)
TREATNOTCHAIR	-0.01	-0.00	0.25	0.03
	(-1.18)	(-0.40)	(0.92)	(0.08)
TREATNOTCHAIR#POST	0.00	0.00	-0.21**	-0.19
	(0.67)	(0.13)	(-1.98)	(-1.19)
FAMILY_FIRM	-0.01	-0.00	-0.53*	-0.79***
	(-1.10)	(-0.59)	(-1.96)	(-2.58)
SIZE	-0.01***	-0.01***	-0.65***	-0.75***
	(-3.20)	(-3.57)	(-6.85)	(-6.48)
LEVERAGE	0.00	0.00	0.16	0.08
	(0.25)	(0.11)	(0.27)	(0.11)
LOSS	0.01*	0.01	0.10	-0.03
	(1.82)	(1.19)	(0.63)	(-0.21)
MTB	0.00	0.00	0.20**	0.23**
	(1.38)	(1.43)	(2.13)	(2.38)
STOCK_RET	0.01	0.01*	-0.12	-0.16*
	(1.59)	(1.72)	(-1.40)	(-1.66)
CEO_FOUNDER	0.00	0.00	0.02	0.27
	(0.64)	(0.25)	(0.07)	(1.04)
BOARD_SIZE	0.00	0.00	0.04	0.08
	(0.07)	(0.73)	(1.21)	(1.57)
BOARD_INDEP	-0.00	-0.01	-0.20	-0.22
	(-0.14)	(-0.53)	(-0.44)	(-0.37)
TWO_BIG4	0.00	0.00	-0.13	0.32
	(0.39)	(0.37)	(-0.32)	(0.69)
ONE_BIG4	0.01	0.01	-0.34	-0.09
	(1.24)	(1.64)	(-1.21)	(-0.28)
Constant	0.09***	0.10***	8.03***	8.80***
	(3.84)	(3.79)	(6.79)	(6.59)
Time FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Cluster	Firm	Firm	Firm	Firm
Observations	962	765	932	738
Adjusted R-squared	0.11	0.12	0.49	0.49
F-statistic	3.7***	4.2***	15.47	16.56

Table 5. Earnings management by new CEOs

This table reports the results of an OLS model. All variable definitions are provided in Appendix A. Robust z-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Dependent variable	Positive ABNACC		Negative ABNACC	
	All CEO changes	CEO changes in firms with a unitary board	All CEO changes	CEO changes in firms with a unitary board
	(1)	(2)	(3)	(4)
TREATCHAIR	-0.01	-0.01	-0.00	-0.01
	(-1.32)	(-1.38)	(-0.04)	(-0.50)
TREATCHAIR#POST	0.03***	0.03***	0.01	0.01*
	(2.71)	(2.82)	(0.97)	(1.72)
TREATNOTCHAIR	-0.02**	-0.01	0.00	0.00
	(-2.50)	(-1.09)	(0.15)	(0.29)
TREATNOTCHAIR#POST	0.01	0.00	-0.00	-0.01
	(1.17)	(0.38)	(-0.39)	(-0.79)
FAMILY_FIRM	-0.01	-0.01	-0.01	-0.00
	(-1.44)	(-1.05)	(-0.74)	(-0.18)
SIZE	-0.01***	-0.01***	-0.00	-0.00
	(-3.61)	(-3.94)	(-1.22)	(-1.53)
LEVERAGE	0.03	0.02	-0.02	-0.03
	(1.42)	(1.22)	(-0.77)	(-0.94)
LOSS	0.01	0.01	0.01**	0.01
	(1.24)	(0.98)	(2.18)	(1.34)
MTB	0.00	0.00	0.00	0.00*
	(0.13)	(0.01)	(1.49)	(1.65)
STOCK_RET	0.00	0.01	0.01*	0.01
	(0.52)	(1.33)	(1.82)	(1.12)
CEO_FOUNDER	-0.00	0.00	0.01	0.00
	(-0.00)	(0.03)	(0.67)	(0.06)
BOARD_SIZE	-0.00	0.00	0.00	0.00
	(-0.23)	(0.11)	(0.12)	(1.45)
BOARD_INDEP	-0.01	-0.01	-0.00	-0.02
	(-1.03)	(-0.83)	(-0.06)	(-1.22)
TWO_BIG4	0.01	0.01	-0.00	-0.00
	(0.87)	(1.06)	(-0.08)	(-0.06)
ONE_BIG4	0.01	0.01**	0.01	0.01
	(1.51)	(2.17)	(0.75)	(1.04)
Constant	0.16***	0.17***	0.04	0.05
	(5.08)	(5.03)	(1.43)	(1.56)
Time FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Cluster	Firm	Firm	Firm	Firm
Observations	481	400	481	365
Adjusted R-squared	0.13	0.13	0.09	0.14
F-statistic	3.97	3.20	2.77	3.84

Table 6. Earnings management by new CEOs across ownership structures

This table reports the results of an OLS model. All variable definitions are provided in Appendix A. Robust z-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Dependent variable	ABSABNACC			
	Firms with dispersed ownership		Family firms	
	All CEO changes	CEO changes in firms with a unitary board	All CEO changes	CEO changes in firms with a unitary board
	(1)	(2)	(3)	(4)
TREATCHAIR	-0.00	-0.00	-0.01	-0.02*
	(-0.17)	(-0.27)	(-1.35)	(-1.85)
TREATCHAIR#POST	0.01*	0.01*	0.02**	0.03***
	(1.74)	(1.86)	(2.19)	(2.89)
TREATNOTCHAIR	-0.01	-0.01	-0.01	0.01
	(-0.73)	(-0.61)	(-0.99)	(0.60)
TREATNOTCHAIR#POST	-0.00	-0.00	0.01	0.00
	(-0.25)	(-0.10)	(1.46)	(0.03)
SIZE	-0.01***	-0.01***	-0.00	-0.00
	(-3.26)	(-3.76)	(-1.40)	(-1.41)
LEVERAGE	0.01	0.00	0.02	0.03
	(0.28)	(0.09)	(0.98)	(1.03)
LOSS	0.01	0.01	0.01	0.00
	(1.00)	(0.72)	(0.68)	(0.08)
MTB	0.00	0.00	0.00*	0.00*
	(0.74)	(0.95)	(1.66)	(1.70)
STOCK_RET	0.01*	0.01*	0.01	0.01
	(1.80)	(1.84)	(1.22)	(1.32)
CEO_FOUNDER	0.01	0.00	0.00	-0.00
	(0.96)	(0.54)	(0.34)	(-0.03)
BOARD_SIZE	0.00	0.00	-0.00	-0.00
	(0.16)	(0.77)	(-0.69)	(-0.15)
BOARD_INDEP	-0.00	-0.00	-0.01	-0.01
	(-0.06)	(-0.28)	(-0.76)	(-1.02)
TWO_BIG4	0.01	0.01	-0.00	-0.00
	(0.97)	(0.94)	(-0.49)	(-0.68)
ONE_BIG4	0.01	0.01	0.01	0.01
	(1.16)	(1.58)	(1.11)	(1.32)
Constant	0.11***	0.13***	0.08**	0.07
	(3.98)	(3.90)	(2.21)	(1.62)
Time FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Cluster	Firm	Firm	Firm	Firm
Observations	815	682	686	547
Adjusted R-squared	0.11	0.13	0.09	0.10
F-statistic	5.0***	6.3***	19.3***	14.9***

Table 7. The degree of family control

This table reports the results of an OLS model. All variable definitions are provided in Appendix A. Robust z-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Dependent variable	ABSABNACC			
	Weak family control		Strong family control	
	All CEO changes	CEO changes in firms with a unitary board	All CEO changes	CEO changes in firms with a unitary board
	(1)	(2)	(3)	(4)
TREATCHAIR	-0.02*	-0.02	-0.01	-0.01
	(-1.75)	(-1.19)	(-0.46)	(-0.95)
TREATCHAIR#POST	0.05***	0.05***	0.01	0.02
	(5.06)	(4.10)	(0.68)	(1.11)
TREATNOTCHAIR	-0.00	0.02	-0.01	0.01
	(-0.07)	(0.76)	(-1.23)	(0.41)
TREATNOTCHAIR#POST	0.01	-0.01	0.01	0.00
	(0.90)	(-0.86)	(1.10)	(0.22)
SIZE	-0.00	-0.00	-0.00	-0.00
	(-1.54)	(-1.26)	(-1.04)	(-1.35)
LEVERAGE	0.02	0.03	0.02	0.03
	(0.80)	(0.82)	(1.00)	(1.13)
LOSS	0.00	-0.00	0.00	-0.00
	(0.23)	(-0.23)	(0.14)	(-0.18)
MTB	0.00	0.00*	0.00*	0.00*
	(1.51)	(1.81)	(1.80)	(1.89)
STOCK_RET	0.01	0.01	0.00	0.01
	(1.56)	(1.16)	(0.96)	(1.62)
CEO_FOUNDER	0.00	0.00	0.00	-0.00
	(0.19)	(0.11)	(0.36)	(-0.02)
BOARD_SIZE	-0.00	-0.00	-0.00	-0.00
	(-0.48)	(-0.50)	(-0.81)	(-0.31)
BOARD_INDEP	-0.01	-0.01	-0.00	-0.01
	(-0.67)	(-0.42)	(-0.40)	(-0.76)
TWO_BIG4	-0.00	-0.00	-0.00	-0.00
	(-0.09)	(-0.48)	(-0.27)	(-0.44)
ONE_BIG4	0.01	0.01	0.01	0.01
	(1.06)	(1.22)	(1.26)	(1.47)
Constant	0.08***	0.07*	0.06*	0.07**
	(2.78)	(1.68)	(1.89)	(2.09)
Time FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Cluster	Firm	Firm	Firm	Firm
Observations	587	495	638	516
Adjusted R-squared	0.09	0.11	0.09	0.11
F-statistic	18.00	20.69	2.59	2.67

Table 8. Two-stage Heckman model

This table reports the results of the second stage of a Heckman two-stage model. All variable definitions are provided in Appendix A. Robust z-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Dependent variable	ABSABNACC			
	All CEO changes	CEO changes in firms with a unitary board	All CEO changes	CEO changes in firms with a unitary board
	(1)	(2)	(3)	(4)
TREAT	-0.00	-0.00		
	(-0.89)	(-0.46)		
TREAT#POST	0.01**	0.01*		
	(2.27)	(1.94)		
TREATCHAIR			-0.00	-0.01
			(-0.37)	(-0.81)
TREATCHAIR#POST			0.01**	0.02***
			(2.57)	(2.82)
TREATNOTCHAIR			-0.01	-0.00
			(-1.05)	(-0.39)
TREATNOTCHAIR#POST			0.00	-0.00
			(0.44)	(-0.14)
SIZE	-0.01***	-0.01***	-0.01***	-0.01***
	(-3.50)	(-3.91)	(-3.37)	(-3.84)
LEVERAGE	0.00	0.00	0.00	0.00
	(0.19)	(0.12)	(0.24)	(0.15)
LOSS	0.01*	0.01	0.01*	0.01
	(1.66)	(1.06)	(1.71)	(1.00)
MTB	0.00	0.00	0.00	0.00
	(1.57)	(1.51)	(1.64)	(1.55)
STOCK_RET	0.01	0.01	0.01	0.01
	(1.44)	(1.62)	(1.46)	(1.59)
CEO_CHAIRPERSON	0.01*	-0.00		
	(1.68)	(-0.03)		
BOARD_SIZE	0.00	0.00	0.00	0.00
	(0.33)	(0.92)	(0.20)	(0.80)
BOARD_INDEP	0.00	-0.01	-0.00	-0.00
	(0.20)	(-0.58)	(-0.05)	(-0.50)
TWO_BIG4	0.00	0.00	0.00	0.00
	(0.30)	(0.37)	(0.24)	(0.11)
ONE_BIG4	0.01	0.01	0.01	0.01
	(0.92)	(1.30)	(0.93)	(1.23)
IMR	-0.00	-0.00	-0.00	-0.00
	(-0.39)	(-0.16)	(-0.15)	(-0.47)
Constant	0.09***	0.11***	0.09***	0.11***
	(3.43)	(3.65)	(3.44)	(3.68)
Time FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Cluster	Firm	Firm	Firm	Firm
Observations	962	765	962	765
Adjusted R-squared	0.10	0.12	0.10	0.12
F-statistic	3.6***	3.5***	4.0***	4.3***

Table 9. Heckman two-stage model across ownership structures

This table reports the results of the second stage of a Heckman two-stage model. All variable definitions are provided in Appendix A. Robust z-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Dependent variable	ABSABNACC			
	Firms with dispersed ownership		Family firms	
	All CEO changes	CEO changes in firms with a unitary board	All CEO changes	CEO changes in firms with a unitary board
	(1)	(2)	(3)	(4)
TREATCHAIR	0.01	0.00	-0.01	-0.02**
	(0.93)	(0.48)	(-1.52)	(-2.06)
TREATCHAIR#POST	0.01*	0.01*	0.02**	0.03***
	(1.73)	(1.85)	(2.21)	(2.89)
TREATNOTCHAIR	0.00	-0.00	-0.01	0.01
	(0.06)	(-0.23)	(-1.07)	(0.57)
TREATNOTCHAIR# POST	-0.00	-0.00	0.01	-0.00
	(-0.21)	(-0.13)	(1.26)	(-0.44)
SIZE	-0.01***	-0.01***	-0.00	-0.00
	(-3.25)	(-3.77)	(-1.55)	(-1.41)
LEVERAGE	0.01	0.00	0.02	0.03
	(0.28)	(0.13)	(0.93)	(1.09)
LOSS	0.01	0.01	0.01	0.00
	(1.01)	(0.58)	(0.72)	(0.09)
MTB	0.00	0.00	0.00*	0.00*
	(0.95)	(0.97)	(1.71)	(1.84)
STOCK_RET	0.01*	0.01*	0.01	0.01
	(1.76)	(1.73)	(1.24)	(1.43)
BOARD_SIZE	0.00	0.00	-0.00	-0.00
	(0.40)	(0.86)	(-0.58)	(-0.12)
BOARD_INDEP	-0.00	-0.00	-0.01	-0.01
	(-0.18)	(-0.31)	(-0.79)	(-1.07)
TWO_BIG4	0.01	0.01	-0.00	-0.01
	(0.94)	(0.69)	(-0.47)	(-0.86)
ONE_BIG4	0.01	0.01	0.01	0.01
	(1.17)	(1.45)	(0.91)	(0.92)
IMR	0.00	0.00	0.00	-0.01
	(0.56)	(0.05)	(0.04)	(-0.72)
Constant	0.10***	0.12***	0.08***	0.07**
	(3.26)	(3.74)	(2.74)	(2.18)
Time FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Cluster	Firm	Firm	Firm	Firm
Observations	815	682	686	547
Adjusted R-squared	0.11	0.13	0.09	0.10
F-statistic	5.2***	6.1***	19.2***	15.9***

Appendix A. Variable definitions

Name	Definition
ABSABNACC	Absolute abnormal accruals computed as in Francis et (2013).
REM	Measure or real earnings management computed as in Roychowdhury (2006).
TREAT	Dummy variable equal to one for firms with a CEO change, and zero otherwise.
TREATCHAIR	Dummy variable equal to one for treated firms if the new CEO is powerful (i.e., the CEO is also Chairperson of the board), and zero otherwise.
TREATNOTCHAIR	Dummy variable equal to one for treated firms if the new CEO is not powerful.
POST	Dummy variable equal to one for the year of the CEO change and the year after, and zero for the year before the change.
FAMILY_FIRM	Dummy variable equal to one if a family holds at least 20% of voting rights, and zero otherwise.
SIZE	Logarithm of total assets.
LEVERAGE	Ratio of total liabilities to total asset.
LOSS	Dummy variable equal to one if net income is negative, and zero otherwise.
MTB	Ratio market to book.
STOCK_RET	Annual stock return.
CEO_FOUNDER	Dummy variable equal to one if the CEO is the founder, and zero otherwise.
CEO_CHAIRPERSON	Dummy variable equal to one if the CEO is also the chairperson of the board of directors, and zero otherwise.
BOARD_SIZE	Number of members sitting on the board of directors.
BOARD_INDEP	Percentage of independent members sitting on the board
TWO_BIG4	Dummy variable equal to one if two Big Four are in charge of the audit, and zero otherwise.
ONE_BIG4	Dummy variable equal to one if one Big Four and one non-Big Four are in charge of the audit, and zero otherwise.

Appendix B. The timing of earnings management by new CEOs

This table reports the results of an OLS model. All variable definitions are provided in Appendix A. Robust z-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

	Dependent variable: *ABSABNACC*			
	All CEO changes	CEO changes in firms with a unitary board	All CEO changes	CEO changes in firms with unitary board
	(1)	(2)	(3)	(4)
TREAT	-0.01	-0.00		
	(-1.06)	(-0.61)		
TREAT#POST$_{t0}$	0.01**	0.01**		
	(2.48)	(2.21)		
TREAT#POST$_{t+1}$	0.01	0.01		
	(1.47)	(1.10)		
TREATCHAIR			-0.00	-0.01
			(-0.63)	(-0.79)
TREATCHAIR#POST$_{t0}$			0.02***	0.02***
			(2.71)	(2.81)
TREATCHAIR#POST$_{t+1}$			0.01	0.01
			(1.32)	(1.62)
TREATNOTCHAIR			-0.01	-0.00
			(-1.17)	(-0.40)
TREATNOTCHAIR#POST$_{t0}$			0.00	0.00
			(0.54)	(0.25)
TREATNOTCHAIR#POST$_{t+1}$			0.00	-0.00
			(0.60)	(-0.01)
FAMILY_FIRM	-0.01	-0.01	-0.01	-0.00
	(-1.18)	(-0.68)	(-1.10)	(-0.60)
SIZE	-0.01***	-0.01***	-0.01***	-0.01***
	(-3.32)	(-3.60)	(-3.20)	(-3.57)
LEVERAGE	0.00	0.00	0.00	0.00
	(0.22)	(0.05)	(0.25)	(0.11)
LOSS	0.01*	0.01	0.01*	0.01
	(1.80)	(1.12)	(1.78)	(1.15)
MTB	0.00	0.00	0.00	0.00
	(1.33)	(1.35)	(1.37)	(1.41)
STOCK_RET	0.01	0.01*	0.01	0.01*
	(1.58)	(1.71)	(1.61)	(1.72)
CEO_FOUNDER	0.00	0.00	0.00	0.00
	(0.56)	(0.46)	(0.64)	(0.24)
BOARD_SIZE	0.00	0.00	0.00	0.00
	(0.21)	(0.79)	(0.08)	(0.74)
BOARD_INDEP	-0.00	-0.01	-0.00	-0.01
	(-0.07)	(-0.58)	(-0.16)	(-0.56)
TWO_BIG4	0.00	0.00	0.00	0.00
	(0.57)	(0.63)	(0.41)	(0.39)
ONE_BIG4	0.01	0.01*	0.01	0.01
	(1.30)	(1.67)	(1.24)	(1.63)
Constant	0.10***	0.11***	0.09***	0.10***
	(3.80)	(3.97)	(3.85)	(3.80)
Observations	962	765	962	765
Adjusted R-squared	0.10	0.11	0.10	0.12
Time FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Cluster	Firm	Firm	Firm	Firm
F-statistic	3.116	3.346	3.531	4.111

Appendix C. Likelihood of CEO turnover

This table reports the results of a Probit model. All variable definitions are provided in Appendix A. Robust z-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Dependent variable	CEO_CHANGE					
	Full Sample		Firms with dispersed ownership		Family firms	
	All CEO changes	Unitary board only	All CEO changes	Unitary board only	All CEO changes	Unitary board only
	(1)	(2)	(3)	(4)	(5)	(6)
LOSS (t-1)	0.73***	0.79***	1.16***	1.15***	-0.04	-0.11
	(3.14)	(3.01)	(4.34)	(4.07)	(-0.12)	(-0.27)
STOCK_RET (t-1)	-0.20	-0.35	-0.10	-0.33	-0.25	-0.19
	(-1.07)	(-1.51)	(-0.44)	(-1.20)	(-0.93)	(-0.51)
MTB (t-1)	-0.01	0.01	0.09	0.09	-0.19	-0.15
	(-0.17)	(0.10)	(1.18)	(1.09)	(-1.35)	(-1.03)
SIZE (t-1)	0.05	0.05	0.06	0.06	-0.02	0.00
	(0.67)	(0.56)	(0.71)	(0.64)	(-0.17)	(0.01)
LEVERAGE (t-1)	0.66	0.71	0.64	0.62	0.82	1.00
	(0.89)	(0.89)	(0.76)	(0.66)	(0.97)	(1.11)
CEO_FOUNDER (t-1)	-1.26***	-1.42***	-1.60***	-1.66***	-0.88***	-1.12***
	(-4.92)	(-4.72)	(-5.05)	(-4.43)	(-2.63)	(-3.05)
BOARD_SIZE (t-1)	0.04	0.07	0.06	0.09*	0.01	0.02
	(0.93)	(1.53)	(1.19)	(1.65)	(0.20)	(0.44)
BOARD_INDEP (t-1)	-1.27**	-1.91***	-0.82	-1.67**	-1.91**	-2.32***
	(-2.52)	(-2.97)	(-1.39)	(-2.21)	(-2.40)	(-2.75)
Constant	-1.16	-1.16	-2.16**	-1.95*	-0.27	-0.70
	(-1.23)	(-1.11)	(-2.06)	(-1.68)	(-0.26)	(-0.55)
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Cluster	Firm	Firm	Firm	Firm	Firm	Firm
Observations	631	521	582	494	539	429
Chi-squared	69.5***	0.7***	84.3***	76.0***	33.1***	25.5***