Sage Journals

Journal of Emerging Market Finance

Impact Factor: **2.0**
5-Year Impact Factor:

By clicking "Accept Non-Essential Cookies", you agree to the storing of cookies on your device to enhance site navigation, analyze site usage, and assist in our marketing efforts. **Privacy Policy** **Cookie Policy**

Manage Cookies

Accept Non-Essential Cookies

Reject Non-Essential Cookies

Contents

More

Abstract

This study investigates n charge-offs during turnovers of chief executive officers (CEOs). Providing loan losses is referred to as a 'big bath in earnings', and providing loan charge-offs is referred to as a 'big bath in asset quality'. We classify CEO turnovers into three types, namely, forced and voluntary CEO turnovers in privately owned banks (POB), turnovers in government-owned banks (GOB) and turnovers as outcomes of mergers and acquisitions (M&As). Using findings based on the data of Taiwanese commercial banks, we demonstrate that the forcibly appointed CEOs exhibit big baths in earnings and asset quality, whereas the voluntarily appointed CEOs exhibit a big bath in earnings but not in asset quality. Compared with the CEO turnover in a POB, the appointed CEO in a GOB shows no big bath in either earnings or asset quality. Moreover, turnovers resulting from M&As do not induce big baths.

JEL Classification: C23, G21, G28, M41, M48

Get full access to this article

View all access and purchase options for this article.

Get Access

References

Acharya V. V., & Richardson M. P. (2009). Causes of the financial crisis. *Critical Review*, 21(2–3), 195–210.

Crossref

Web of Science

Google Scholar

Ahmed A. S., Takeda C., & Thomas S. (1999). Bank loan loss provisions: A reexamination of capital management, earnings management and signaling effects. *Journal of Accounting and Economics*, 28(1), 1–25.

Crossref

Web of Science

Google Scholar

Ball R., Kothari S., & Robin A. (2000). The effect of international institutional factors on properties of accounting earnings. *Journal of Accounting and Economics*, 29(1), 1–51.

Crossref

Web of Science

Google Scholar

Beatty A., Chamberlain S., & Magliolo J. (1995). Managing financial reports of commercial banks: The influence of taxes, regulatory capital, and earnings. *Journal of Accounting Research*, 33(2), 231–261.

Crossref

Web of Science

Google Scholar

Beatty A. L., Ke B., & Petroni K. R. (2002). Earnings management to avoid earnings declines across publicly and privately held banks. *The Accounting Review*, 77(3), 547–570.

Crossref

Web of Science

Google Scholar

Bhattacharya U., Daouk H., & Welker M. (2003). The world price of earnings opacity. *The Accounting Review*, 78(3), 641–678.

Crossref

Web of Science

Google Scholar

Bornemann S., Kick T., Pfingsten A., & Schertler A. (2015). Earnings baths by CEOs during turnovers: Empirical evidence from German savings banks. *Journal of Banking & Finance*, 53(4), 188–201.

Crossref

Web of Science

Google Scholar

Brady M. G., & Sinkey Jr. J. F. (1988). Bank loan-loss provisions and the income-smoothing hypothesis: An empirical analysis, 1976–1984. *Journal of Financial Services Research*, 1(4), 301–318.

Crossref

Google Scholar

Brickley J. A., Coles J. L., & Terry R. L. (1994). Outside directors and the adoption of poison pills. *Journal of Financial Economics*, 35(3), 371–390.

Crossref

Web of Science

Google Scholar

Burgstahler D., & Dichev I. (1997). Earnings management to avoid earnings decreases and losses. *Journal of Accounting and Economics*, 24(1), 99–126.

Crossref

Web of Science

Google Scholar

Burgstahler D. C., Hail L., & Leuz C. (2006). The importance of reporting incentives: Earnings management in European private and public firms. *The Accounting Review*, 81(5), 983–1016.

Crossref

Web of Science

Google Scholar

Cavallo M., & Majnoni G. (2001). *Do banks provision for bad loans in good times? Empirical evidence and policy implications* (World Bank Policy Working Paper). Washington, DC: World Bank.

Crossref

Google Scholar

Chen Z. D., Ebrahim A., & Taboada A. G. (2013). *Turnover threat and CEO risk-taking behavior in the banking industry* (Working Paper). Retrieved from http://ssrn.com/abstract=2230145

Google Scholar

Choi J. S., Kwak Y. M., & Choe C. (2014). Earnings management surrounding CEO turnover: Evidence from Korea. *Abacus*, 50(1), 25–55.

Crossref

Web of Science

Google Scholar

Conyon M. J., & Florou A. (2002). Top executive dismissal, ownership and corporate performance. *Accounting and Business Research*, 32(4), 209–225.

Crossref

Google Scholar

Conyon M. J., & Hec L. (2012). CEO turnover in China: The role of market-based and accounting performance measures. *The European Journal of Finance*, 31, 1–25.

Google Scholar

Davidson III W. N., Xie B., Xu W. H., & Ning Y. (2007). The influence of executive age, career horizon and incentives on pre-turnover earnings management. *Journal of Management & Governance*, 11(1), 45–60.

Crossref

Web of Science

Google Scholar

DeAngelo L. E. (1988). Managerial competition, information costs, and corporate governance: The use of accounting performance measures in proxy contests. *Journal of Accounting and Economics*, 10(1), 3–36.

Crossref

Web of Science

Google Scholar

Dechow P., & Sloan R. G. (1991). Executive incentives and the horizon problem: An empirical investigation. *Journal of Accounting and Economics*, 14(1), 51–89.

Crossref

Web of Science

Google Scholar

Degeorge F., Patel J., & Zeckhauser R. (1999). Earnings management to exceed thresholds. *Journal of Business*, 72(1), 1–33.

Crossref

Web of Science

Google Scholar

Elliott J. A., Hanna J. D., & Shaw W. H. (1991). The evaluation by the financial markets of changes in bank loan loss reserve levels. *The Accounting Review*, 66(4), 847–861.

Web of Science

Google Scholar

Fonseca A. R., & González F. (2008). Cross-country determinants of bank income smoothing by managing loan-loss provisions. *Journal of Banking and Finance*, 32(2), 217–228.

Crossref

Web of Science

Google Scholar

Geiger M. A., & North D. S. (2006). Does hiring a new CFO change things? An investigation of changes in discretionary accruals. *The Accounting Review*, 81(4), 781–809.

Crossref

Web of Science

Google Scholar

Godfrey J., Mather P., & Ramsay A. (2003). Earnings and impression management in financial reports: The case of CEO changes. *Abacus*, 39(1), 95–123.

Crossref

Google Scholar

Greenwald M. B., & Sinkey Jr. J. F. (1988). Bank loan-loss provisions and the income-smoothing hypothesis: An empirical analysis, 1976–1984. *Journal of Financial Services Research*, 1(4), 301–318.

Crossref

Google Scholar

Griffin P. A., & Wallach S. J. R. (1991). Latin American lending by major U. S. banks: The effects of disclosures about nonaccrual loans and loan loss provisions. *The Accounting Review*, 66(4), 830–846.

Google Scholar

Haggard K. S., Howe J. S., & Lynch A. A. (2015). Asset write-downs and information asymmetry: Do big baths muddy the waters or clear the air? *Journal of Accounting and Economics*, 59(1), 105–117.

Crossref

Web of Science

Google Scholar

Hazarika S., Karpoff J. M., & Nahata R. (2012). Internal corporate governance, CEO turnover, and earnings management. *Journal of Financial Economics*, 104(1), 44–69.

Crossref

Web of Science

Google Scholar

Healy P. M. (1985). The effect of bonus schemes on accounting decisions. *Journal of Accounting and Economics*, 7(1–3), 85–107.

Crossref

Web of Science

Google Scholar

Healy P. M., & Wahlen J. M. (1999). A review of the earnings management literature and its implications for standard setting. *Accounting Horizons*, 13(1), 365–383.

Crossref

Google Scholar

Huizinga H. P., & Laeven L. (2012). Bank valuation and accounting discretion during a financial crisis. *Journal of Financial Economics*, 106(3), 614–634.

Crossref

Web of Science

Google Scholar

Huson M. R., Parrino R., & Starks L. T. (2001). Internal monitoring mechanisms and CEO turnover: A long-term perspective. *Journal of Finance*, 56(6), 2265–2297.

Crossref

Web of Science

Google Scholar

Itoh K. (2007). *Corporate valuation*. Tokyo: Nihon Keizai Shimbun Sha (Japanese).

Google Scholar

Jiang J. (2008). Beating earnings benchmarks and the cost of debt. *The Accounting Review*, 83(2), 377–416.

Crossref

Web of Science

Google Scholar

Kahneman D., & Tversky A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2), 263–291.

Crossref

Web of Science

Google Scholar

Kanagaretnam K., Lobo G. J., & Yang D. H. (2004). Joint tests of signaling and income smoothing through bank loan loss provisions. *Contemporary Accounting Research*, 21(4), 843–884.

Crossref

Web of Science

Google Scholar

Kirschenheiter M., & Melumad N. D. (2002). Can 'big bath' and earnings smoothing coexist as equilibrium financial reporting strategies? *Journal of Accounting Research*, 40(3), 761–796.

Crossref

Web of Science

Google Scholar

Kwan S., & O'Toole R. (1997). Recent development in loan loss provisioning at the U.S. commercial banks. Federal Reserve Bank of San Francisco. *Economic Letter*, 21, 97–121.

Google Scholar

Leaven L., & Majnoni G. (2003). Loan loss provisioning and economic slowdowns: Too much, too late? *Journal of Financial Intermediation*, 12(2), 178–197.

Crossref

Web of Science

Google Scholar

Lehn K., & Zhao M. X. (2006). CEO turnover after acquisitions: Are bad bidders fired? *The Journal of Finance*, 61(4), 1759–1811.

Crossref

Web of Science

Google Scholar

Liu C., & Ryan S. (2006). Income smoothing over the business cycle: Changes in banks' coordinated management of provisions for loan losses and loan charge-offs from the pre-1990 bust to the 1990s boom. *The Accounting Review*, 81(2), 421–441.

Crossref

Web of Science

Google Scholar

Low A. (2009). Managerial risk-taking behavior and equity-based compensation. *Journal of Financial Economics*, 92(3), 470–490.

Crossref

Web of Science

Google Scholar

Madura J., McDaniel W. R. (1989). Market reaction to increased loan loss reserves at money-center banks. *Journal of Financial Services Research*, 3(4), 359–369.

Crossref

Web of Science

Google Scholar

Mahajan A., & Lummer S. (1993). Shareholder wealth effects of management changes. *Journal of Business Finance & Accounting*, 20(3), 393–410.

Crossref

Google Scholar

McNichols M., & Wilson G. P. (1988). Studies on management's ability and incentives to affect the timing and magnitude of accounting accruals: Evidence of earnings management from the provision for bad debts. *Journal of Accounting Research*, 26, 1–31.

Crossref

Google Scholar

Murphy K. J., & Zimmerman J. L. (1993). Financial performance surrounding CEO turnover. *Journal of Accounting and Economics*, 16(1–3), 273–315.

Crossref

Web of Science

Google Scholar

Peek E. (2004). The use of discretionary provisions in earnings management: Evidence from The Netherlands. *Journal of International Accounting Research*, 3(2), 27–43.

Crossref

Google Scholar

Pourciau S. (1993). Earnings management and non-routine executive changes. *Journal of Accounting and Economics*, 16(1–3), 317–336.

Crossref

Web of Science

Google Scholar

Rangan S. (1998). Earnings management and the performance of seasoned equity offerings. *Journal of Financial Economics*, 50(1), 101–122.

Crossref

Web of Science

Google Scholar

Reitenga A., & Tearney M. (2003). Mandatory CEO retirements, discretionary accruals, and corporate governance mechanisms. *Journal of Accounting Auditing and Finance*, 18(2), 255–280.

Crossref

Google Scholar

Ronen J., & Yaari V. (2010). Earnings management: Emerging insights in theory, practice, and research. *Journal of Management and Governance*, 14(1), 87–89.

Google Scholar

Rose P. S., & Hudgins S. C. (2012). *Bank management and financial services*. New York, NY: McGraw-Hill Companies.

Google Scholar

Shen C. H., & Chih H. L. (2005). Investor protection, prospect theory, and earnings management: an international comparison of the banking industry. *Journal of Banking and Finance*, 29(10), 2675–2697.

Crossref

Web of Science

Google Scholar

Shen C. H., Hasan I., & Lin C. Y. (2014). The government's role in government-owned banks. *Journal of Financial Services Research*, 45(3), 307–340.

Crossref

Web of Science

Google Scholar

Shen C. H., & Lin C. Y. (2012). Why government banks underperform: A political interference view. *Journal of Financial Intermediation*, 21(2), 181–202.

Crossref

Web of Science

Google Scholar

Shrieves R. E., & Dahl D. (2003). Discretionary accounting and the behavior of Japanese banks under financial distress. *Journal of Banking and Finance*, 27, 1219–1243.

Crossref

Web of Science

Google Scholar

Stein J. C. (2002). Information production and capital allocation: Decentralized versus hierarchical firms. *The Journal of Finance*, 57(5), 1891–1921.

Crossref

Web of Science

Google Scholar

Tokuga Y., & Yamashita T. (2011). *Big bath and management change* (Working Paper). Kyoto University.

Google Scholar

Wahlen J. (1994). The nature of information in commercial bank loan loss disclosures. *The Accounting Review*, 69(3), 455–478.

Crossref

Web of Science

Google Scholar

Wells P. (2002). Earnings management surrounding CEO changes. *Accounting and Finance*, 42(2), 169–193.

Crossref

Google Scholar

Wilson M., & Wang L. W. (2010). Earnings management following chief executive officer changes: The effect of contemporaneous chairperson and chief financial officer appointments. *Accounting & Finance*, 50(2), 447–480.

Crossref

Web of Science

Google Scholar

Yu C. F. (2013). *CEO turnover, earnings management, and big bath* (Working Paper). SSRN Electronic Journal.

Crossref

Google Scholar

You currently have no access to this content. Visit the access options page to authenticate.

View full text | Download PDF

Also from Sage

CQ Library

Elevating debate

Sage Data

Uncovering insight

Sage Business Cases

Sage Campus

Shaping futures

Unleashing potential

Sage Knowledge

Multimedia learning resources

Sage Research Methods

Supercharging research

Sage Video

Streaming knowledge

Technology from Sage

Library digital services