



Earnings management and nonroutine executive changes ☆

[Susan Pourciau](#)

Show more

Share Cite

[https://doi.org/10.1016/0165-4101\(93\)90015-8](https://doi.org/10.1016/0165-4101(93)90015-8) ↗

[Get rights and content](#) ↗

Abstract

This paper examines evidence of earnings management associated with nonroutine executive changes. The empirical evidence is consistent with the hypothesis that incoming executives manage accruals in a way that decreases earnings in the year of the executive change and increases earnings the following year. Further, incoming executives record large write-offs and special items the year of the management change. Contrary to expectation, departing executives record accruals and write-offs that decrease earnings during their last year of tenure. Several possible reasons for this result are suggested.

References (17)

A. Coughlan *et al.*

[Executive compensation, management turnover, and firm performance: An empirical investigation](#)

Journal of Accounting and Economics (1985)

L. DeAngelo

[Managerial competition, information costs, and corporate governance: The use of accounting performance measures in proxy contests](#)

Journal of Accounting and Economics (1988)

P.M. Dechow *et al.*

[Executive incentives and the horizon problem: An empirical investigation](#)

Journal of Accounting and Economics (1991)

P. Healy

[The effect of bonus schemes on accounting decisions](#)

Journal of Accounting and Economics (1985)

J. Warner *et al.*

Stock prices and top management changes

Journal of Financial Economics (1988)

M. Weisbach

Outside directors and CEO turnover

Journal of Financial Economics (1988)

W.S. Albrecht *et al.*

The time series properties of annual earnings

Journal of Accounting Research (1977)

R. Ball *et al.*

Some time series properties of accounting income

Journal of Finance (1972)

There are more references available in the full text version of this article.

Cited by (238)

Short selling and SME irregular CEO succession: Witnessing the moderating role of earnings management

2023, International Review of Economics and Finance

Show abstract 

What do outside CEOs really do? Evidence from plant-level data

2023, Journal of Financial Economics

Show abstract 

Easy cleanups or forbearing improvements: The effect of CEO tenure on successor's performance

2022, Journal of Financial Stability

Citation Excerpt :

...Since all the estimations are conducted as a diff-in-diff and the endogenous firm-CEO match is taken into consideration, these results show that, ceteris paribus, the CEOs following a long-tenured predecessor implement deeper restructuring and more serious earnings management to “wipe the slate clean” relative to other CEOs.²⁰ These findings are novel to the literature, as they clarify that the reported restructurings (Weisbach, 1995; Barron et al., 2011) and earnings management (Pourciau, 1993; Elliott and Hanna, 1996; Hazarika et al., 2012; Ali and Zhang, 2015) that are implemented after CEO turnovers are primarily driven by the subsample of long-tenured CEOs. Again, these CEOs tend to do some operational damage to the firm in their last years of management (Huson et al., 2004; Brochet et al., 2021), and thus the new CEOs feel the need to take more drastic measures....

Show abstract 

[Does the disclosure of internal control deficiency matter for accrual quality? Evidence from China](#)

2022, Journal of Contemporary Accounting and Economics

[Show abstract](#) 

[Military directors, governance and firm behavior](#)

2021, Advances in Accounting

[Show abstract](#) 

[Do Competent Managers Hoard Bad News? Self-regulation Theory and Korean Evidence](#)

2021, Finance Research Letters

[Show abstract](#) 



[View all citing articles on Scopus](#)

Recommended articles (6)

Research article

[Does family involvement explain why corporate social responsibility affects earnings management?](#)

Journal of Business Research, Volume 75, 2017, pp. 8-16

[Show abstract](#) 

Research article

[The effect of mandatory IFRS adoption on real and accrual-based earnings management activities](#)

Journal of Accounting and Public Policy, Volume 33, Issue 6, 2014, pp. 551-572

[Show abstract](#) 

Research article

[How efficient ownership structure monitors income manipulation? Evidence of real earnings management among Malaysian firms](#)

Research in International Business and Finance, Volume 41, 2017, pp. 54-66

[Show abstract](#) 

Research article

[Ownership structure and real earnings management: Evidence from China](#)

Journal of Accounting and Public Policy, Volume 39, Issue 3, 2020, Article 106733

[Show abstract](#) 

Financial Expert CEOs and Earnings Management Around Initial Public Offerings

The International Journal of Accounting, Volume 53, Issue 2, 2018, pp. 102-117

[Show abstract](#) ✓

A cross-country study of legal-system strength and real earnings management

Journal of Accounting and Public Policy, Volume 35, Issue 5, 2016, pp. 477-512

[Show abstract](#) ✓

-
- ★ This paper has benefited from the comments of Tom Schaefer, Jerry Zimmerman, the conference participants at the University of Rochester, and the workshop participants at the Florida State University, Linda DeAngelo provided helpful suggestions on an earlier version of this paper. Very special thanks are due to Abbie Smith (the discussant), Ross Watts (the editor), and an anonymous referee for their insightful comments. Research assistance was provided by Tim Louwers, Bob Rambo, and Mark Wilder.

[View full text](#)

Copyright © 1993 Published by Elsevier B.V.



Copyright © 2023 Elsevier B.V. or its licensors or contributors.
ScienceDirect® is a registered trademark of Elsevier B.V.

