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Managerial Ability and Financial Statement Comparability

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Managerial Ability and Financial Statement Comparability

ABSTRACT: This study examines the relationship between managerial ability and financial statement comparability. We find that accounting comparability is associated with managerial ability. Specifically, firm-pairs by industry-year with similar managerial ability are associated with more comparable financial statements. We also find that firm-pairs with similarly low-level ability managers are associated with more comparable earnings than firm-pairs with similarly high-level ability managers. Overall, the results suggest that managers can impact the comparability of earnings and that less able managers are associated with more comparable financial statements.

Keywords: *managerial ability; financial statement comparability.*

Managerial Ability and Financial Statement Comparability

I. INTRODUCTION

Management is compensated for its ability to not only run the firm's operations, but also for its ability to produce and certify useful financial statements to be utilized by investors, analysts, and regulators in various capacities (Ge et al. 2011). Because management is responsible for preparing and certifying the financial statements, it also has the ability to choose among alternative accounting methods under Generally Accepted Accounting Principles (GAAP), as well as to exercise judgment in arriving at accounting estimates. Financial statement comparability has been shown to be impacted by these very decisions (Kim et al. 2013). This study examines the relationship between managerial ability and accounting comparability.

Following Francis et al. (2014), we measure comparability as the closeness of total accruals and discretionary accruals between pairs of firms in the same industry and year. We utilize the Demerjian et al. (2012) measure of managerial ability, which is based on managers' efficiency in converting corporate resources to revenues. We first examine whether there is an impact of similar managerial ability versus dissimilar managerial ability on earnings comparability, and then examine whether there is an impact of high managerial ability versus low managerial ability on earnings comparability.

Our results suggest that financial statement comparability is associated with managerial ability. Specifically, firm-pairs with management teams that have similar ability are associated with more comparable financial statements than firm-pairs with dissimilar managerial ability. We also find that firm-pairs with similarly low-level ability managers are associated with more comparable financial statements than firm-pairs with similarly high-level ability managers.

Overall, the results indicate that managers can impact the comparability of earnings and that less able managers are associated with more comparable financial statements.

This study contributes to the literature in the following ways. Our study provides evidence that firm management is an important factor in the manufacturing of financial statement comparability. The results suggest that the effects of accounting standards motivated to increase comparability may also depend on the enforcement of GAAP by management. In addition, we contribute to the managerial ability literature that examines the role management plays in the production of financial statements. Kothari et al. (2010) states that economic agents can develop their own in-house rules that give rise to comparability in the production of financial statements. Results from our study support the idea that economic agents such as managers facilitate comparability in financial statements through discretion in application of accounting standards.

The remainder of the paper proceeds as follows. Section II reviews relevant literature and formulates the hypotheses. Section III describes the research design. Section IV presents the sample selection and summary statistics. Section V discusses results from the empirical tests and Section VI concludes. The Appendix provides variable definitions used in the study.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Financial Statement Comparability

The importance of financial statement comparability is prefaced by investors, regulators, practitioners, and academics (De Franco et al. 2011). Many of the comparability studies show the value of comparability to financial statement users (De Franco et al. 2011; Kim et al. 2013; Li et al. 2016; Chen et al. 2018) but research into determinants of comparability is limited and has mainly focused on IFRS adoption (Lang et al. 2010; Barth et al. 2012; Barth et al. 2018) and auditor characteristics (Francis et al. 2014; Chen et al. 2020; Endrawes et al. 2020).

Lang et al. (2010) find that IFRS mandatory adoption increased earnings comovement, however it did not increase accounting comparability relative to a control sample of non-adopting firms and the increases in earnings comovement may not have enhanced the ability to extract information from cross-country firm comparisons. Barth et al. (2012) find that accounting system and value relevance comparability with US firms is greater when IFRS firms apply IFRS, where comparability is greater for mandatory adopters and earnings smoothing, accrual quality, and timeliness are possible sources of the greater comparability. Barth et al. (2018) find that after firms voluntarily adopt IFRS, their accounting amounts are more comparable to those of firms that previously adopted and less comparable to those of firms that do not adopt, where the higher comparability firms have greater capital market benefits after adopting.¹

Francis et al. (2014) find that firm-pairs in the same industry-year and audited by the same Big 4 auditor have more comparable earnings than firm-pairs audited by two different Big 4 auditors, and that Big 4 auditors have a greater effect on accounting comparability than non-Big 4 auditors. Chen et al. (2020) find that the effect of individual auditor style outweighs the effects of audit office style and audit firm style on earnings comparability and suggest that client firms report more comparable earnings when they are audited by the same individual auditor than when they are audited by different firms, the same firm but different offices, and the same office but different individual auditors. Endrawes et al. (2020) find that financial information tends to be more comparable among industry peers when audit committees are larger and more members have financial and accounting expertise, and that the effect of expertise on comparability is stronger for firms with less independent and smaller boards, firms with non-Big 4 auditors, and firms with CEOs servings as board chairpersons.

¹ Capital market benefits examined in the study include share liquidity, share turnover, and stock return synchronicity.

Managerial Ability

Research has investigated the effects of managerial characteristics on financial reporting behavior. Aier et al. (2005) find that firms with CFOs that have greater financial expertise are less likely to restate earnings. Koh (2011) find that reputable CEOs engage in more conservative accounting practices and are less likely to manage earnings in order to meet short-term earnings benchmarks. Schrand and Zechman (2012) find that overconfident managers are more likely to manage earnings. Hsieh et al. (2014) find that before the Sarbanes Oxley Act (SOX), overconfident CEOs were more likely to engage in real activities management and after SOX, overconfident CEOs are more likely to engage in accrual-based earnings management. Demerjian et al. (2017) find that high-ability managers are significantly more likely to engage in intentional earnings smoothing. Huang and Sun (2017) find that higher-ability managers engage in less real earnings management and reduce the negative impact of real earnings management on future firm performance.

Francis et al. (2008) find that more reputable CEOs are associated with poorer earnings quality. Matsunaga and Yeung (2008) find that CEO's financial expertise is a significant determinant of a firm's financial disclosure quality. Bamber et al. (2010) find that top executives have particular "styles" and exert unique and economically significant influence (manager-specific fixed effects) on their firms' voluntary disclosures. Demerjian et al. (2013) find that earnings quality is positively associated with managerial ability, suggesting that managers impact the quality of the judgments and estimates used to form earnings. Wells (2020) finds that managers have a statistically and economically significant role in determining accounting quality.

Ge et al. (2011) find that unobservable characteristics of CFOs are a statistically significant determinant of accounting choices. Graham et al. (2011) find that manager fixed effects explain most of the variation in executive compensation which may significantly influence their reporting behavior. DeJong and Ling (2013) find that manager fixed effects are significantly associated with abnormal accruals. Choi et al. (2015) find that the relationship between current period accruals and future cash flows is stronger when the CEO demonstrates higher operating ability, suggesting that CEO ability is an important determinant of the informativeness of current accruals for future cash flows. Baik et al. (2018) find a positive association between managerial ability and a firm's information environment. Overall, the findings suggest that manager characteristics are associated with corporate reporting choices.

Hypotheses

If there are managerial ability effects on financial reports, we expect to observe greater consistency in the financial statements of two firms in the same industry-year that have similar manager ability relative to firm-pairs with dissimilar ability. We state our first hypothesis (in the alternative form) as follows:

H1: A pair of firms with similar managerial ability will have more comparable earnings than a pair of firms with non-similar managerial ability.

The relationship between managerial ability and financial statement comparability is a controversial area of inquiry. More talented top management teams are potentially associated with more comparable financial statements with their peer firms because they (1) have greater understanding of industries and the economy, (2) can consistently and appropriately apply GAAP in manners not atypical of peers, (3) have incentives to achieve comparability (such as

benchmarking and reputation) and/or avoid costs related to low comparability (such as cost of capital and reputation), and (4) inherently are impacted from higher levels of intelligence/cognitive ability.

However, there are also reasons to expect the opposite: (1) financial statement comparability is a “relative” quality (as the characteristics of the comparison-firm counterpart are also relevant to the joint relationship), and so the characteristics associated with managerial ability may lead to unique, non-comparable behavior due to this fact; (2) increased management ability could enable opportunistic manipulation of financials that hinders comparability; (3) increased ability may not necessarily be a good thing, as insider purchases by low ability managers in firms with poorer information environments are more informative (Wang 2013); and (4) there may be a trade-off between the various qualities of a firm’s information and its comparability.²

Because of the competing views regarding the role of managerial ability in financial statement comparability for high management ability versus low management ability, we do not offer a directional hypothesis. We rely on empirical testing to reject the following null hypothesis in favor of either of the two alternatives:

H2 (null): The effect of managerial ability on earnings comparability for a pair of firms does not differ between higher ability levels and lower ability levels.

² Many of the factors associated with financial statement comparability result from strategic goals and competitive advantages of the firm, and it may not be advantageous to improve comparability by changing these factors (Schipper and Vincent, 2003). The FASB maintains that a reason a firm may not have comparable financial statements is “sometimes, one enhancing qualitative characteristic may have to be diminished to maximize another qualitative characteristic. For example, a temporary reduction in comparability as a result of prospectively applying a new financial reporting standard may be worthwhile to improve relevance or faithful representation in the longer term. Appropriate disclosures may partially compensate for non-comparability” (FASB 2010).

III. RESEARCH DESIGN

Financial Statement Comparability

To test accounting comparability, we follow Francis et al. (2014) and examine accruals differences for firm-pairs in the same industry and year, conditional on managerial ability.

We measure the similarity of accruals for firm-pairs as follows:

$$TA_Diff_{ijt} = |TA_{it} - TA_{jt}| \quad (1)$$

where TA_Diff_{ijt} is the absolute value of the difference in signed total accruals between firm-pair, firm i and firm j , in year t . Total accruals are defined as income before extraordinary items less operating cash flows adjusted for extraordinary items, divided by lagged total assets. We multiply TA_Diff by -1 for ease of interpretation.

We measure the similarity of discretionary accruals for firm-pairs as follows:

$$DA_Diff_{ijt} = |DA_{it} - DA_{jt}| \quad (2)$$

where DA_Diff_{ijt} is the absolute value of the difference in discretionary accruals between firm-pair, firm i and firm j , in year t . Discretionary accruals are the residuals from the modified Jones (1991) model with Kothari et al. (2005) performance control. We multiply DA_Diff by -1 for ease of interpretation.

Managerial Ability

Our proxy for managerial ability was developed by Demerjian et al. (2012). This measure outperforms previously existing ability measures and is based on manager's efficiency in

generating revenues compared to industry peers, where high-quality managers will produce a higher output rate than lower quality managers, provided a set of inputs.³

To construct the measure, Demerjian et al. (2012) first solve the following optimization problem to estimate firm efficiency within industry using data envelopment analysis:

$$\begin{aligned} \text{Max } \theta = & (Sales) \cdot (v_1 CoGS + v_2 SG\&A + v_3 PPE + v_4 OpsLease + v_5 R\&D + v_6 Goodwill \\ & + v_7 OtherIntan)^{-1} \end{aligned} \quad (3)$$

where generated sales by each firm are compared, conditional on cost of goods sold, selling and administrative expenses, net PP&E, net operating leases, net R&D, purchased goodwill, and other intangible assets. The efficiency measure produced by the optimization takes a value between 0 and 1, where observations with a value of 1 are the most efficient.

Because this efficiency measure is attributable to both the firm and management, Demerjian et al. (2012) modify the efficiency measure by removing essential firm-specific aspects that are expected to assist or impede management's effort, and estimate the following Tobit regression model by industry:

$$\begin{aligned} FirmEfficiency_i = & \alpha + \beta_1 \ln(TotalAssets)_i + \beta_2 MarketShare_i + \beta_3 FreeCashFlowIndicator_i \\ & + \beta_4 \ln(Age)_i + \beta_5 BusinessSegmentConcentration_i \\ & + \beta_6 ForeignCurrencyIndicator_i + Year_i + \varepsilon_i \end{aligned} \quad (4)$$

³ Prior to the Demerjian et al. (2012) measure, managerial ability had mainly been derived using proxies including historical industry-adjusted stock returns (Fee and Hadlock [2003]; Milbourn [2003]), historical industry-adjusted return on assets (Rajgopal et al. [2006]), CEO compensation (Tervio [2008]), CEO tenure (Milbourn [2003]), media acknowledgment (Milbourn [2003]; Rajgopal et al. [2006]), and manager fixed effects (Bamber et al. [2010]; Ge et al. [2011]). However, Demerjian et al. (2012) state that most of these measures reflect significant firm facets that are outside of management's control and that even direct manager attributes do not offer solid ability measures and can only be applied to relatively small samples of firms.

where the firm-specific characteristics affecting management include firm size, market share, positive free cash flow, firm age, complex multi-segment operations, and international operations. The residual from Equation (4) estimation is the managerial ability measure, which is attributed to the management team. We form quintile ranks of the managerial ability measure by year and industry to create our ability measure (*MA*) and make it more comparable across time and industries and to reduce the impact of outliers.⁴

Impact of Similar Managerial Ability versus Dissimilar Ability on Earning Comparability

To examine the impact of similar managerial ability versus dissimilar managerial ability on financial statement comparability and test Hypothesis H1, we estimate the following OLS regression model:

$$Comparability_{ijt} = \alpha + \beta_1 MA_Same_{ijt} + \gamma Controls_{ijt} + \varepsilon_{ijt} \quad (5)$$

where *Comparability_{ijt}* is one of our financial statement comparability measures, *TA_Diff_{ijt}* or *DA_Diff_{ijt}*, as defined above. *MA_Same_{ijt}* is an indicator variable coded 1 if firm-pair, firm *i* and firm *j*, are in the same managerial ability quintile ranking, and 0 if firms in a pair are in different managerial ability quintile ranking, where managerial ability is defined above.

Because the dependent variables involve differences between a firm-pair in each year, the control variables also control for yearly characteristics of the firm-pair. We follow Francis et al. (2014) and include control variables for size, leverage, market-to-book, cash flow from operations, losses, standard deviation of sales, standard deviation of cash flows, sales growth, level of accruals, and industry fixed effects. All model variables are defined in the Appendix.

⁴ Results from untabulated analyses are similar using a managerial ability difference measure.

Impact of High Managerial Ability versus Low Ability on Earnings Comparability

To examine the impact of high managerial ability versus low managerial ability on financial statement comparability and test Hypothesis H2, we estimate the following OLS regression model:

$$Comparability_{ijt} = \alpha + \beta_1 MA_High_{ijt} + \gamma Controls_{ijt} + \varepsilon_{ijt} \quad (6)$$

where $Comparability_{ijt}$ is one of our financial statement comparability measures, TA_Diff_{ijt} or DA_Diff_{ijt} , as defined above. MA_High_{ijt} is an indicator variable coded 1 if firm-pair, firm i and firm j , are in the top managerial ability quintile ranking, and 0 if firms in a pair are in the lowest managerial ability quintile ranking, where managerial ability is defined above. The same control variables are used as in the model above. All model variables are defined in the Appendix.

IV. SAMPLE SELECTION AND DESCRIPTIVE STATISTICS

Sample Selection

We use Standard & Poor's Compustat database to collect U.S. incorporated firm-level data for the period 1987 through 2018. This period allows for the use of operating cash flows in the total accruals measure and construction of control variables.⁵ Following De Franco et al. (2011), we exclude holding firms, American Depository Receipts, limited partnerships, and firms without fiscal years ending in March, June, September, or December. Following Francis et al. (2014), we require at least 20 firms per two-digit industry-year and delete firms with total assets less than \$10 million. We then exhaustively pair all firms within the same industry and year and

⁵ Operating cash flow data is available from 1987 when the Statement of Cash Flows became required.

retain only unique pairings.⁶ We also eliminate financial firms from our sample and all continuous variables are winsorized at 1 percent and 99 percent.

The composition of the sample is presented in Table 1, with sample attrition shown in Panel A. Of the 11,725,542 firm-pairs in the same industry and year with necessary accruals data to construct the dependent comparability variables, 27,644 firm-pair observations are excluded for firms in the financial industry. Additionally, 6,312,101 firm-pair observations are eliminated due to missing managerial ability data. Finally, 4,076,842 observations are not included because of insufficient data needed to construct the control variables in the models. The final sample consists of 1,308,955 firm-pair observations.

Panel B in Table 1 reports industry composition by 1-digit SIC code for the full accruals-difference sample. The largest concentrations are in manufacturing (55.63 percent), services (30.08 percent), and mining and construction (8.89 percent). Overall, a wide variety of industries is represented in the sample.

[Insert Table 1 here]

Descriptive Statistics

Table 2 presents descriptive statistics for the full accruals-difference sample and managerial ability quintile rankings. Panel A provides summary statistics for all variables in the study. For the accruals-difference measures, the mean difference in total accruals between firm-pairs is 11.2 percent of total assets and the mean difference in discretionary accruals between firm-pairs is 16.3 percent of total assets. The test variable, *MA_Same*, is coded 1 for 20.5 percent of the sample and the test variable, *MA_High*, is coded 1 for 2.7 percent of the sample.

⁶ For example, if there are three firms *i*, *j*, and *k*, then the retained unique pairings would be *i-j*, *i-k*, and *j-k*.

Table 2, Panel B reports mean total accruals comparability for firm-pairs across managerial ability quintiles. Quintile 1 represents the lowest manager ability where the mean difference in total accruals between firm-pairs is 10.1 percent of total assets. Quintile 5 represents the highest manager ability where the mean difference in total accruals between firm-pairs is 11.7 percent of total assets. Panel C reports mean discretionary accruals comparability for firm-pairs across managerial ability quintiles. Quintile 1 represents the lowest manager ability where the mean difference in discretionary accruals between firm-pairs is 15.5 percent of total assets. Quintile 5 represents the highest manager ability where the mean difference in discretionary accruals between firm-pairs is 15.3 percent of total assets.

[Insert Table 2 here]

Table 3 presents Spearman correlations for the main variables in the study. The correlation between the two accruals-based comparability measures, *TA_Diff* and *DA_Diff*, is 0.24 and significant as expected.

[Insert Table 3 here]

V. EMPIRICAL RESULTS

Impact of Similar Managerial Ability versus Dissimilar Ability on Earning Comparability

Table 4 reports the estimates of Equation (5). The coefficient for the variable *MA_Same*, β_1 , which captures the impact of similar manager ability versus dissimilar manager ability on financial statement comparability, is positive and statistically significant at a p -value < 0.01 for both accruals comparability measures, *TA_Diff* and *DA_Diff*. This is consistent with greater

similarity in the accruals structure for firm-pairs with similar manager ability and supports Hypothesis H1 regarding the effect of managerial ability on earnings comparability.

[Insert Table 4 here]

Impact of High Managerial Ability versus Low Ability on Earnings Comparability

Table 5 reports the estimates of Equation (6). The coefficient for the variable, *MA_High*, β_1 , which captures the impact of high manager ability versus low manager ability on financial statement comparability, is negative and statistically significant at a *p*-value < 0.01 for both accruals comparability measures, *TA_Diff* and *DA_Diff*. This is consistent with greater similarity in the accruals structure for firm-pairs with lower manager ability than for firm-pairs with higher manager ability. Therefore, we reject the null form of Hypothesis H2 and offer support to the alternative form that there is an impact of high manager ability versus low manager ability on earnings comparability, where firm-pairs with similar low manager ability exhibit more financial statement comparability than firm-pairs with similar high manager ability.

[Insert Table 5 here]

VI. SUMMARY AND CONCLUSION

Financial statement comparability has been shown to be impacted by managerial decisions (Kim et al. 2013). This study examines whether a relationship exists between the ability of management to efficiently generate revenues and the comparability of a firm's financial statements. Results indicate that earnings comparability is associated with managerial ability and firms with similarly able managers are associated with more comparable financial statements. Further results indicate that firm-pairs with similarly low-ability managers are

associated with more comparable earnings than firm-pairs with similarly high-ability managers.

Overall, the results suggest that managers can impact the comparability of earnings and that less able managers are associated with more comparable financial statements. This study should be of interest to researchers and standard setters.

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APPENDIX

Variable Definitions

Dependent Variables

TA_Diff Absolute value of the difference in signed total accruals between firm-pair, firm *i* and firm *j*, multiplied by -1. Total accruals are income before extraordinary items less operating cash flows adjusted for extraordinary items, divided by lagged total assets.

DA_Diff Absolute value of the difference in discretionary accruals between firm-pair, firm *i* and firm *j*, multiplied by -1. Discretionary accruals are residuals from the modified Jones (1991) model with Kothari et al. (2005) performance control.

Explanatory Variables

MA_Same Indicator variable coded as 1 if both firms in a pair are in the same managerial ability quintile ranking, and 0 if firms in a pair are in two different managerial Ability quintile rankings. Managerial ability is the residual from the firm efficiency estimation in Demerjian et al. (2012).

MA_High Indicator variable coded as 1 if both firms in a pair are in the same top managerial ability quintile ranking, and 0 if firms in a pair are in the same lowest managerial ability quintile ranking. Managerial ability is the residual from the firm efficiency estimation in Demerjian et al. (2012).

Control Variables

TA_Min Minimum value of total accruals in firm-pair, firm *i* and firm *j*.

DA_Min Minimum value of discretionary accruals in firm-pair, firm *i* and firm *j*.

Size_Diff Absolute value of the difference in size between firm-pair, firm *i* and firm *j*. Size is the natural logarithm of total assets.

Size_Min Minimum value of size in firm-pair, firm *i* and firm *j*.

Lev_Diff Absolute value of the difference in leverage between firm-pair, firm *i* and firm *j*. Leverage is total debt divided by total assets.

Lev_Min Minimum value of leverage in firm-pair, firm *i* and firm *j*.

MTB_Diff Absolute value of the difference in the market-to-book ratio between firm-pair, firm *i* and firm *j*. The

	market-to-book ratio is market value of equity divided by book value of equity.
<i>MTB_Min</i>	Minimum value of the market-to-book ratio in firm-pair, firm <i>i</i> and firm <i>j</i> .
<i>CFO_Diff</i>	Absolute value of the difference in operating cash flows between firm-pair, firm <i>i</i> and firm <i>j</i> . Operating cash flows are divided by lagged total assets.
<i>CFO_Min</i>	Minimum value of operating cash flows in firm-pair, firm <i>i</i> and firm <i>j</i> .
<i>PLoss_Diff</i>	Absolute value of the difference in loss probability between firm-pair, firm <i>i</i> and firm <i>j</i> . Loss probability is the proportion of quarters with negative income before extraordinary items in the last 16 quarters.
<i>PLoss_Min</i>	Minimum value of loss probability in firm-pair, firm <i>i</i> and firm <i>j</i> .
<i>SD_Sales_Diff</i>	Absolute value of the difference in the standard deviation of quarterly sales between firm-pair, firm <i>i</i> and firm <i>j</i> . The standard deviation is calculated over the preceding 16 quarters.
<i>SD_Sales_Min</i>	Minimum value of the standard deviation of quarterly sales in firm-pair, firm <i>i</i> and firm <i>j</i> .
<i>SD_CFO_Diff</i>	Absolute value of the difference in the standard deviation of quarterly operating cash flows between firm-pair, firm <i>i</i> and firm <i>j</i> . The standard deviation is calculated over the preceding 16 quarters.
<i>SD_CFO_Min</i>	Minimum value of the standard deviation of quarterly operating cash flows in firm-pair, firm <i>i</i> and firm <i>j</i> .
<i>SD_Growth_Diff</i>	Absolute value of the difference in the standard deviation of sales growth between firm-pair, firm <i>i</i> and firm <i>j</i> . Sales growth is current quarter sales minus the same quarter's sales in the previous year, divided by the same quarter's sales in the previous year. The standard deviation is calculated over the preceding 16 quarters.
<i>SD_Growth_Min</i>	Minimum value of the standard deviation of sales growth in firm-pair, firm <i>i</i> and firm <i>j</i> .

TABLE 1
Sample Selection

Panel A: Sample Attrition

	Observations
Unique firm-pairs in the same industry-year with accruals data	11,725,542
<i>Less:</i>	
Observations in the financial industry	(27,644)
Observations with missing managerial ability data	(6,312,101)
Observations with missing control variables	(4,076,842)
Unique firm-pairs for accruals-difference test	1,308,955

Panel B: Industry Composition

Industry	1-Digit SIC	Observations
Agriculture	0	0
Mining and Construction	1	116,380
Manufacturing	2	196,309
Manufacturing	3	531,879
Transportation and Utilities	4	34,893
Wholesale and Retail Trade	5	35,741
Services	7	366,709
Services	8	27,044
Other	9	0
Total		1,308,955

Table 1 presents the sample selection. Panel A reports the sample attrition for the accruals-difference comparability sample for the period 1987–2018. Panel B reports the 1-digit SIC industry composition for the accruals-difference comparability sample.

TABLE 2
Descriptive Statistics

Panel A: Summary Statistics

Variable	Mean	STD	25%	Median	75%
<i>TA_Diff</i>	-0.112	0.119	-0.148	-0.077	-0.034
<i>DA_Diff</i>	-0.163	0.225	-0.194	-0.095	-0.041
<i>MA_Same</i>	0.205	0.404	0.000	0.000	0.000
<i>MA_High</i>	0.027	0.162	0.000	0.000	0.000
<i>TA_Min</i>	-0.133	0.123	-0.172	-0.105	-0.059
<i>DA_Min</i>	-0.106	0.207	-0.166	-0.070	-0.009
<i>Size_Diff</i>	1.835	1.365	0.732	1.561	2.673
<i>Size_Min</i>	4.482	1.393	3.359	4.313	5.418
<i>Lev_Diff</i>	0.189	0.190	0.048	0.144	0.274
<i>Lev_Min</i>	0.083	0.120	0.000	0.012	0.140
<i>MTB_Diff</i>	2.795	3.708	0.644	1.535	3.337
<i>MTB_Min</i>	1.485	2.067	0.849	1.419	2.203
<i>CFO_Diff</i>	0.154	0.158	0.048	0.108	0.205
<i>CFO_Min</i>	-0.015	0.175	-0.066	0.030	0.087
<i>PLoss_Diff</i>	0.351	0.292	0.125	0.250	0.563
<i>PLoss_Min</i>	0.168	0.233	0.000	0.063	0.250
<i>SD_Sales_Diff</i>	38.155	68.977	3.836	13.214	40.188
<i>SD_Sales_Min</i>	9.016	18.127	1.455	3.380	8.971
<i>SD_CFO_Diff</i>	51.596	99.336	4.516	15.473	51.495
<i>SD_CFO_Min</i>	12.157	25.962	2.034	4.506	11.275
<i>SD_Growth_Diff</i>	0.515	1.262	0.067	0.168	0.407
<i>SD_Growth_Min</i>	0.203	0.239	0.090	0.149	0.246

TABLE 2 (continued)**Panel B: Mean Total Accruals Comparability across Managerial Ability Quintiles**

(Firm_i, Firm_j)	Q1	Q2	Q3	Q4	Q5
Q1	-0.102 (41,868)	-0.106 (48,984)	-0.110 (48,944)	-0.113 (42,220)	-0.115 (34,974)
Q2	-0.104 (58,224)	-0.107 (67,979)	-0.109 (69,259)	-0.113 (60,910)	-0.114 (51,242)
Q3	-0.110 (57,526)	-0.109 (68,649)	-0.110 (68,589)	-0.114 (61,650)	-0.115 (52,730)
Q4	-0.115 (50,304)	-0.116 (60,888)	-0.113 (61,517)	-0.115 (54,701)	-0.118 (46,729)
Q5	-0.116 (37,022)	-0.117 (44,005)	-0.114 (44,517)	-0.116 (40,364)	-0.117 (35,160)

Panel C: Mean Discretionary Accruals Comparability across Managerial Ability Quintiles

(Firm_i, Firm_j)	Q1	Q2	Q3	Q4	Q5
Q1	-0.155 (41,868)	-0.156 (48,984)	-0.161 (48,944)	-0.167 (42,220)	-0.170 (34,974)
Q2	-0.164 (58,224)	-0.159 (67,979)	-0.164 (69,259)	-0.174 (60,910)	-0.175 (51,242)
Q3	-0.159 (57,526)	-0.155 (68,649)	-0.155 (68,589)	-0.161 (61,650)	-0.166 (52,730)
Q4	-0.172 (50,304)	-0.168 (60,888)	-0.163 (61,517)	-0.170 (54,701)	-0.167 (46,729)
Q5	-0.172 (37,022)	-0.160 (44,005)	-0.155 (44,517)	-0.159 (40,364)	-0.153 (35,160)

Table 2 presents descriptive statistics. Panel A reports summary statistics for all 1,308,955 firm-pairs for the accruals-difference comparability sample for the period 1987–2018. Panel B reports the means of the total accruals-difference comparability measure (*TA_Diff*) across managerial ability quintiles. Panel C reports the means of the discretionary accruals-difference comparability measure (*DA_Diff*) across managerial ability quintiles. The number of firm-pair observations are in parentheses. *TA_Diff* is the absolute value of the difference in signed total accruals between firm-pair, firm *i* and firm *j*, multiplied by -1. *DA_Diff* is the absolute value of the difference in discretionary accruals between firm-pair, firm *i* and firm *j*, multiplied by -1. All variables are defined in the Appendix.

TABLE 3
Spearman Correlation Matrix

		(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)	(X)	(XI)	(XII)
<i>TA_Diff</i>	(I)	0.245	0.010	-0.002	-0.009	-0.031	-0.092	-0.231	-0.118	0.111	0.126	-0.138
<i>DA_Diff</i>	(II)		0.010	0.008	-0.038	-0.029	-0.099	-0.184	-0.093	0.037	0.046	-0.111
<i>MA_Same</i>	(III)			0.327	-0.041	-0.015	-0.020	-0.029	-0.015	-0.028	-0.029	-0.009
<i>MA_High</i>	(IV)				0.005	-0.047	0.029	0.013	-0.028	0.011	0.031	-0.002
<i>Size_Diff</i>	(V)					0.084	0.059	0.085	0.171	0.533	0.580	0.028
<i>Lev_Diff</i>	(VI)						0.098	0.000	0.033	0.089	0.083	0.035
<i>MTB_Diff</i>	(VII)							0.230	0.124	-0.009	0.012	0.078
<i>CFO_Diff</i>	(VIII)								0.330	-0.096	-0.076	0.231
<i>PLoss_Diff</i>	(IX)									-0.022	-0.012	0.194
<i>SD_Sales_Diff</i>	(X)										0.778	-0.071
<i>SD_CFO_Diff</i>	(XI)											-0.078
<i>SD_Growth_Diff</i>	(XII)											

Table 3 reports Spearman correlations for variables used in the full accruals-difference sample. Bold font indicates significance at a p -value < 0.0001 . *TA_Diff* is the absolute value of the difference in signed total accruals between firm-pair, firm i and firm j , multiplied by -1. *DA_Diff* is the absolute value of the difference in discretionary accruals between firm-pair, firm i and firm j , multiplied by -1. All variables are defined in the Appendix.

TABLE 4
Impact of Similar Managerial Ability versus Dissimilar Managerial Ability on Financial Statement Comparability

$$Comparability_{ijt} = \alpha + \beta_1 MA_Same_{ijt} + \gamma Controls_{ijt} + \varepsilon_{ijt}$$

Variable	Dependent Variable = <i>TA_Diff</i>			Dependent Variable = <i>DA_Diff</i>		
	Coeff.	<i>t</i> -stat	<i>p</i> -value	Coeff.	<i>t</i> -stat	<i>p</i> -value
Intercept	-0.105	-40.08	0.000***	-0.088	-13.54	0.000***
<i>MA_Same</i>	0.002	7.11	0.000***	0.002	3.84	0.000***
<i>TA_Min</i>	0.752	126.44	0.000***			
<i>DA_Min</i>				0.548	55.18	0.000***
<i>Size_Diff</i>	0.005	17.47	0.000***	-0.001	-0.93	0.352
<i>Size_Min</i>	0.010	21.56	0.000***	0.003	2.63	0.009***
<i>Lev_Diff</i>	0.004	3.33	0.001***	-0.042	-7.63	0.000***
<i>Lev_Min</i>	0.029	10.67	0.000***	-0.031	-5.27	0.000***
<i>MTB_Diff</i>	-0.001	-10.06	0.000***	-0.002	-7.57	0.000***
<i>MTB_Min</i>	-0.001	-6.03	0.000***	-0.004	-8.73	0.000***
<i>CFO_Diff</i>	0.126	29.88	0.000***	-0.021	-2.34	0.019**
<i>CFO_Min</i>	0.244	42.13	0.000***	0.164	15.15	0.000***
<i>PLoss_Diff</i>	0.039	33.36	0.000***	0.005	1.77	0.077*
<i>PLoss_Min</i>	0.091	37.03	0.000***	0.017	2.98	0.003***
<i>SD_Sales_Diff</i>	-0.000	-12.76	0.000***	-0.000	-0.26	0.798
<i>SD_Sales_Min</i>	-0.000	-16.45	0.000***	-0.000	-5.80	0.000***
<i>SD_CFO_Diff</i>	0.000	7.84	0.000***	-0.000	-1.13	0.258
<i>SD_CFO_Min</i>	0.000	13.23	0.000***	0.000	2.73	0.000***
<i>SD_Growth_Diff</i>	-0.001	-3.63	0.000***	-0.004	-6.43	0.000***
<i>SD_Growth_Min</i>	-0.003	-2.67	0.001***	-0.019	-5.94	0.000***
Industry FE		Yes			Yes	
Adjusted R ²		0.610			0.288	
Number of Obs.		1,308,955			1,308,955	

*, **, *** Significantly different from zero at 0.10, 0.05, and 0.01 levels (two-tailed), respectively.

All *p*-values are based on robust standard errors clustered at the firm level. There are 5,656 unique firms/clusters for the *t*-tests. Table 4 reports OLS regression results from examining the impact of having similar managerial ability on the pairwise financial statement comparability between firms. *TA_Diff* is the absolute value of the difference in signed total accruals between firm-pair, firm *i* and firm *j*, multiplied by -1. *DA_Diff* is the absolute value of the difference in discretionary accruals between firm-pair, firm *i* and firm *j*, multiplied by -1. *MA_Same* is coded 1 if both firms are in the same managerial ability quintile ranking, and 0 if firms in a pair are in two different managerial ability quintile rankings. All variables are defined in the Appendix.

TABLE 5
Impact of High Managerial Ability versus Low Managerial Ability on Financial Statement Comparability

$$Comparability_{ijt} = \alpha + \beta_1 MA_High_{ijt} + \gamma Controls_{ijt} + \varepsilon_{ijt}$$

Variable	Dependent Variable = <i>TA_Diff</i>			Dependent Variable = <i>DA_Diff</i>		
	Coeff.	<i>t</i> -stat	<i>p</i> -value	Coeff.	<i>t</i> -stat	<i>p</i> -value
Intercept	-0.078	-13.61	0.000***	-0.051	-3.75	0.000***
<i>MA_High</i>	-0.031	-13.34	0.000***	-0.017	-2.93	0.003***
<i>TA_Min</i>	0.762	41.61	0.000***			
<i>DA_Min</i>				0.512	26.26	0.000***
<i>Size_Diff</i>	0.005	6.89	0.000***	0.003	1.63	0.103
<i>Size_Min</i>	0.008	8.15	0.000***	0.001	0.52	0.604
<i>Lev_Diff</i>	0.004	1.33	0.183	-0.079	-6.93	0.000***
<i>Lev_Min</i>	0.039	6.75	0.000***	-0.062	-4.85	0.000***
<i>MTB_Diff</i>	-0.000	-1.29	0.198	-0.000	-0.57	0.570
<i>MTB_Min</i>	-0.001	-1.61	0.107	-0.002	-3.09	0.002***
<i>CFO_Diff</i>	0.127	12.23	0.000***	-0.058	-3.90	0.000***
<i>CFO_Min</i>	0.234	17.96	0.000***	0.097	4.99	0.000***
<i>P_Loss_Diff</i>	0.025	9.75	0.000***	-0.022	-3.75	0.000***
<i>P_Loss_Min</i>	0.084	15.51	0.000***	-0.019	-1.90	0.058*
<i>SD_Sales_Diff</i>	-0.000	-6.36	0.000***	-0.000	-1.39	0.164
<i>SD_Sales_Min</i>	-0.000	-9.44	0.000***	-0.000	-3.07	0.002***
<i>SD_CFO_Diff</i>	0.000	5.13	0.000***	-0.000	-1.16	0.247
<i>SD_CFO_Min</i>	0.000	10.05	0.000***	0.000	5.27	0.000***
<i>SD_Growth_Diff</i>	-0.002	-3.07	0.002***	-0.002	-1.52	0.128
<i>SD_Growth_Min</i>	0.004	1.49	0.137	-0.015	-3.14	0.002***
Industry FE		Yes			Yes	
Adjusted R ²		0.655			0.271	
Number of Obs.		77,028			77,028	

*, **, *** Significantly different from zero at 0.10, 0.05, and 0.01 levels (two-tailed), respectively.

All *p*-values are based on robust standard errors clustered at the firm level. There are 3,354 unique firms/clusters for the *t*-tests. Table 5 reports OLS regression results from examining the impact of having high managerial ability on the pairwise financial statement comparability between firms. *TA_Diff* is the absolute value of the difference in signed total accruals between firm-pair, firm *i* and firm *j*, multiplied by -1. *DA_Diff* is the absolute value of the difference in discretionary accruals between firm-pair, firm *i* and firm *j*, multiplied by -1. *MA_High* is coded 1 if both firms are in the same top managerial ability quintile ranking, and 0 if firms in a pair are in the same lowest managerial ability quintile ranking. All variables are defined in the Appendix.