Post-CEO Retirement Appointments and Financial Accounting – Evidence from CEO Turnovers

Kareen Brown

Brock University, Ontario, Canada

kbrown6@brocku.ca

Nam Ho

Brock University, Ontario, Canada

nho@brocku.ca

Parunchana Pacharn

Brock University, Ontario, Canada

ppacharn@brocku.ca

Professors Brown and Pacharn acknowledge the financial support of The Social Sciences and Humanities Research Council (SSHRC). We gratefully acknowledge the financial support provided by the Brock University.

Citation: Brown, K., Ho, N., & Pacharn, P. (2022). Post-CEO retirement appointments and financial accounting—Evidence from CEO turnovers. *Journal of Corporate Accounting and Finance*, 33, 124– 144.

Abstract:

Prior research has shown that when boards seek to appoint CEOs as outside directors, the director labor market rewards CEOs' accounting performance. This study examines whether the external labor market's assessment of the accounting performance is moderated by CEOs' past exercise of financial reporting discretion in the form of accruals and real earnings management and financial statement readability. Our results show a positive association between post-CEO board opportunities and within-GAAP accruals management as well as to more readable financial statements. Earnings restatements are associated with fewer board positions and director pay. However, the director labor market appears to punish R&D expenditure above the industry median, suggesting that boards view overinvestment as a risky avenue for growth. Finally, the results suggest that for CEOs with planned retirement, the director labor market provides some mitigating effect on the horizon problem.

1. Introduction

This paper examines the director labor market for CEO directors, a subgroup of directors who are heavily recruited to augment the human capital of existing boards (Horner, 2015). We answer important yet unexplored questions of whether and how the director labor market responds to earnings management activities while using accounting performance as a proxy for potential CEO directors' ability. Prior research documents that the director labor market rewards CEO ability and performance (Ferris et al., 2003; Fich and Shivdasani, 2006). For example, Brickley et al. (1999) report that the probability that CEOs hold outside directorships is related to their home firm accounting performance measured as raw and industry-adjusted ROA. However, extensive research has established that CEOs exploit the flexibility in financial reporting or manipulate operating activities to improve short-term accounting performance measures to achieve goals such as increasing their compensation or job security (Healy, 1985; Defond and Park, 1997; Burns and Kedia, 2006; Bergstresser and Philippon, 2006). Therefore, accounting performance is more nuanced than what can be captured in measures such as

ROA and must be evaluated in the context of the accounting choices and policies that generate them. We build on the results of Brickley et al. (1999) by further examining whether the director labor market's assessment of accounting performance is moderated by CEOs' past exercise of financial reporting discretion in the form of earnings management and financial statement readability.

Prior research finds that boards apply expertise in understanding the role and impact of financial reporting discretion on their home firms' financial performance. For example, boards of directors are documented to be effective in reducing earnings management and in monitoring the financial reporting decisions of current CEOs (Klein, 2002; Lin and Hwang, 2010). Based on these results, it follows that the nominating committee of an average board possesses accounting and business expertise to evaluate ROA in light of underlying business activities and financial reporting discretion. We examine the association between a spectrum of earnings management activities, subsequent external board appointments for departing CEOs, and the magnitude of pay they receive as directors.

There are multiple venues in which CEOs manipulate short-term earnings. Each form of earnings management differs in severity and imposes varying net costs on shareholders. Perhaps the most pervasive and most studied accruals-based earnings management masks true economic performance by changing acceptable accounting methods or estimates to shift earnings across periods. When used within the limit of GAAP, accruals-based earnings management can convey information to financial statement users. The presence of accruals-based earnings management used within the limit of GAAP is reportedly valued in the stock market (Dechow and Skinner, 2000). On the other hand, accruals management that pushes the limit of GAAP and results in earnings restatement is accompanied by strongly negative market reaction (Palmrose et al., 2004) and is costly to the firm in several ways, including increased cost of equity (Hribar and Jenkins, 2004), decreased liquidity (Bardos, 2011), and increased litigation risk (Bardos et al., 2013; Palmrose and Scholz, 2004). As an alternative to accruals

management, CEOs can improve short-term earnings with real earnings management by altering real operating activities (Roychowdhury, 2006). However, real earnings management is considered to be costly because it has cash flow consequences and affects long-term economic value. Paradoxically, real earnings management is considered more difficult to detect than accruals management. Although the altered operating activities are visible, the decision can be justified as the result of declining but unobservable investment opportunities (Graham et al., 2005; Gunny, 2010).

We predict that within-GAAP accruals management will be associated with more opportunities and more compensation in the director labor market. Within-GAAP accruals management does not have cash flow effects and might be desirable if it creates a string of increasing earnings (Barth et al., 1999) or benefits the firm in other ways, such as reducing debt contracting or political costs (see Fields et al., 2001 for a review of the literature). However, we predict that accruals management that results in earnings restatements will be punished by the director labor market. Prior studies indicate that there are negative labor market consequences to both management (Desai et al., 2006) and the board (Srinivasan, 2005) of restating firms. In addition, Kaplan and Reishus (1990) argue that director appointments are made largely on reputation. Therefore, boards would be less likely to damage their human capital by associating with CEOs tarnished by these events. Finally, we predict that real management will be associated with fewer opportunities and less compensation in the director labor market. Real earnings management involves deviations from business practices for the purpose of manipulation of earnings with potentially negative net present value outcomes. To the extent that the market can unravel the portion of activities altered to improve short-term earnings, accounting performance measures may be discounted, thereby resulting in fewer opportunities for the CEOs.

In addition to accruals and real earnings management, we propose that the director labor market also considers financial reporting readability in evaluating accounting performance. Just as the

use of accruals and real management affects the evaluation of accounting performance, the understandability of the accompanying MD&A and notes to financial statements can play a role in the assessment of earnings. Clear and transparent MD&A and notes reduce information asymmetry and induce confidence. Hsieh et al. (2016) report that readable financial reports reduce the uncertainty of earnings expectations and increase stock prices in firms with high levels of information asymmetry in the equity market. There is evidence that the level of readability corresponds to accruals management. Lo et al. (2017), for example, find that firms that are more likely to have managed earnings issue less readable, more complex annual reports. We predict that readability is associated with more opportunities and more compensation in the director labor market.

Availability is a critical factor for CEOs accepting a board seat. Prior studies report that boards actively seek to appoint CEOs as outside directors (Galetkanycz and Boyd, 2011). CEO Directors add value to the board, as evidenced by positive stock market reaction with their appointment relative to other outside directors (Fich, 2005). Even so, a typical board does not have a CEO outside director. Lack of time and high opportunity cost are cited as the main causes for CEOs declining a prospective board position (Lipton and Lorsch, 1992; Falenbrach et al., 2010a, 2010b). To focus on those CEOs who are more likely to be available to accept an outside board position, we study the CEOs who leave office from 2005 to 2018 period. We do not limit our sample to CEOs approaching retirement age because the demand for CEOs from the external director labor market is not limited to them. This group provides us with a cross section of CEOs who are available to enter the director labor market. In addition, the external director market is able to acquire valuable information about CEOs' human capital from the turnover events themselves, some of which are explored in our supplemental analysis.

As predicted, we find that within-GAAP accruals management is associated with more board seats and more compensation while restatement is associated with fewer board seats and less

compensation. Similarly, we find that financial statement opacity (proxied by readability indices) is associated with fewer board seats and less compensation. However, real earnings management (proxied by industry-adjusted R&D/sales) is associated with more board seats and greater compensation. This suggests that the director labor market may not be able to unravel real earnings management activities.

Finally, we examine whether the director labor market responses to financial reporting discretion exacerbate or mitigate the horizon problem. Brickley et al. (1999) were the first to study the ex post settling-up in the director labor market as a mechanism to mitigate the horizon problem in retiring CEOs. The authors found that strong accounting performance increases the likelihood of CEOs retaining their own board seats or acquiring additional board seats after retirement. We argue that the association between accounting performance per se and board seats is not sufficient to confirm that the director labor market plays a role in mitigating the horizon problem. Mitigation occurs only when the competition for board seats acts to discipline departing CEOs to maintain their efforts ex ante and thus sustain their performance ex post. The competition for board seats can exacerbate the horizon problem since it also provides incentives for CEOs to boost their final years' accounting performance through earnings manipulations, some of which may be value-destroying (Dechow and Sloan, 1991; Ali and Zhang, 2015).

We partition our sample to examine whether the director labor market views earnings management activities in the predicted manner when considering retiring CEOs, the group in which the horizon problem is a concern. Using business press releases to ascertain the reasons for CEO departure, we expect the predicted relationships to be stronger for the subsample of retiring CEOs because they would have stronger incentives than mid-career CEOs to actually manage earnings (Ali and Zhang, 2015; Dechow and Sloan, 1991). As a result, boards of directors should be more vigilant to identify value destroying reporting choices.

We find mixed evidence for the mitigation hypothesis. If transparency is valued by financial statement users, the positive association between opportunities in the director labor market and readability would provide an incentive for retiring CEOs to prefer less complex, more transparent financial reports. Regarding accruals, we find that CEOs with a horizon problem are rewarded for within GAAP accruals management, which in some instances may be value increasing. Whether or not this earnings management benefits shareholders is not clear, as is the effect of the labor market on mitigating the horizon problem with respect to accruals use.

In summary, we contribute to the growing literature on the director labor market by providing the following evidence: 1) The director labor market responds to the financial reporting choices of outside-firm CEO candidates in addition to their raw accounting performance measures. 2) The director labor market reacts positively (negatively) to accruals management strategies that are likely to be value-increasing (value-decreasing). However, the director labor market punishes above median R&D expenditure, thereby suggesting its inability to unravel real manipulation. 3) The director labor market responds positively to readability. 4) The director labor market has an overall mitigation effect to the horizon problem with regards to opacity.

We review the related literature and develop our hypotheses in Section 2. Section 3 describes the sample. We discuss the results in Section 4, and Section 5 concludes the paper.

2. Literature review and hypothesis development

Brickley et al. (1999) find a strong relation between the departing CEOs' performance in their final four years and the likelihood of them retaining their board seats and securing other board seats after departure. The authors examine both accounting (ROA and industry-adjusted ROA) and stock returns (abnormal stock returns and industry-adjusted abnormal stock returns), but find that only accounting returns explain both the likelihood of CEOs securing their own board seats and the likelihood

of CEOs obtaining outside seats. While the accounting performance is certainly significant, its effect may be qualified by the context. Numerous studies have shown that CEOs effectively utilize their discretion in financial reporting to reach their goals (Healy, 1985; Burgstahler and Dichev, 1997; Dechow et al., 2012). In addition, prior studies indicate that boards understand and monitor earnings management activities in their home firm (Klein, 2002; Lin and Hwang, 2010). For example, Kao and Chen (2004) document a positive relationship between board size and earnings management as well as a negative relationship between the number of outside directors and earnings management. By the same token, it is unlikely that the director labor market will consider accounting performance as isolated from the financial reporting choices made by outside-firm CEO candidates. Therefore, we formulate our first set of hypotheses to examine three financial reporting factors that might be considered by the director labor market in assessing the strength of CEOs' accounting performance: accruals management, real earnings management, and readability of financial reporting.

2.1.1 *Director labor market and accruals management*

Accruals management is manipulation of reported earnings. This manipulation is achieved by exercising discretion allowed under GAAP to shift earnings across periods. In contrast, real earnings management occurs when management alters the timing and scale of business transactions for their effects on the reported earnings rather than for the maximized value of the firm (Xu et al., 2007). CEOs may find accruals management to be a personally costly option for manipulating earnings. Use of accruals is constrained by accounting rules and subject to auditor's approval, thereby giving management less flexibility (Barton and Simko, 2002). As a result, management faces more audit and litigation risks from using accruals. For retiring CEOs, the preference for real, instead of accruals, earnings management may be even stronger than that of early-career-stage CEOs because the long-term consequences of their choices are minimal. However, accruals management is considered less

harmful to the firm than real earnings management because it does not affect the overall cash flow of the firm. It may also be preferred because accruals management is done at the end of the fiscal year, thus allowing for more exact adjustment than real earnings management which must happen before year-end (Gunny, 2010). More importantly, accruals management can be used to smooth earnings. The majority of executives prefer smooth earnings which are thought to be less risky than volatile earnings. In a comprehensive survey, Graham et al. (2005) report that 78% of the surveyed executives would give up economic value for smooth earnings, believing that they are making a choice that is best for their shareholders.

We predict that the director labor market will respond positively (or less negatively) to accruals management; in other words, opportunities in the director labor market will increase with accruals management. This prediction, which is in the opposite direction of that with real earnings management, is based on several reasons. Firstly, accrual management is arbitrary and therefore there is no direct negative cash flow effect. Secondly, even if there are indirect negative consequences such as higher compensation or earnings volatility, accruals management may be difficult to unravel. Prior research shows that investors, auditors, and analysts have difficulty distinguishing between implications of accruals versus cash flows for future earnings (Sloan, 1996; Bradshaw et al., 2001).[1] Finally, accruals management, at least in some form, can be desirable. For example, firms that can use accruals to successfully smooth income and report increasing strings of earnings will be rewarded by the market (Barth et al., 1999).

Aggressive accruals management, on the other hand, can result in earnings restatement which is viewed negatively by the stock market and the labor market. The documented stock market reaction to earnings restatement is significantly negative (Palmrose et al., 2004). In addition to negative stock

[1] See also Kothari et al. (2016).

market reaction, other negative consequences to the firm have been documented including increased cost of equity (Hribar and Jenkins, 2004), decreased liquidity (Bardos, 2011), and increased litigation risk (Bardos et al., 2013). Moreover, the labor market punishes management of restating firms. Desai et al. (2006) find increased management turnover within 24 months after the restatement and fewer opportunities for the displaced managers. Directors of restating firms appear to also be held responsible, and this results in increased director turnover, especially for audit committee members (Srinivasan, 2005). We also expect that the external director labor market will react negatively to CEOs whose firms restate earnings in considering these CEOs for director positions.

H1a: The number of post-CEO director appointments will increase (decrease) with accruals management (earnings restatement) in the last 2 years that the CEO is in office.

H1b: The compensation for post-CEO directors will increase (decrease) with accruals management (earnings restatement) in the last 2 years that the CEO is in office.

2.1.2 Director labor market and real earnings management

Prior research documents substantial empirical evidence of real earnings management through manipulation of operating, investing and financing activities.[2] Intuitively, deviations from normal business activities could well result in negative outcomes. In fact, a number of studies document such negative consequences (Bens et al., 2002; Wang, 2006; Cohen and Zarowin, 2010; Kim and Sohn, 2013; Francis et al., 2016; Kothari et al., 2016).[3]

[2] Examples involving operating and investing activities include firms adjusting R&D expenditures (Baber et al., 1991); offering price discounts (Roychowdhury, 2006); and timing of disposal of long-term assets and investments (Bartov, 1993). For financing activities, firms were found to adjust the amount and timing of their stock repurchases and stock options to achieve earning targets (Matsunaga, 1995; Bens et al., 2003; Hribar et al., 2006).
[3] An exception is Gunny (2010) who suggests that real earnings management allows for better performance or signaling. Also, Taylor and Xu (2010) find that firms identified as using real earnings management do not experience a significant decline in subsequent operating performance.

We use research and development expenditures (R&D) as a proxy for real earnings management activities. As R&D is important for firm growth and performance (Lev and Sougiannis, 1996; Ettlie, 1998), CEOs should have little incentive to reduce R&D except when they face short-term earnings pressure or when they are near retirement (Cheng, 2004). Prior studies establish that managers cut R&D to meet earning targets (Bange and De Bondt, 1998; Bushee, 1998). It is also documented that these firms underperform over a longer horizon relative to other firms that choose to miss earnings forecasts and maintain R&D expenditure (Bhojraj et al., 2009). More specifically, Bereskin et al. (2018) report that cutting R&D for the purpose of managing earnings obstructs firms' technological progress through fewer patents and lower innovative efficiency compared to other R&D cuts.

We predict that accounting performance that is achieved concurrently with R&D reduction would not be perceived by the director labor market as positively as that without such reduction. If the director labor market views the reduction in R&D as short-sighted and value-destroying, it could discount the CEOs' accounting performance. In turn, this could result in fewer opportunities for board seats and less compensation.

H2a: The number of post-CEO director appointments will increase with industry-adjusted R&D expenditure in the last 2 years that the CEO is in office.

H2b: The compensation that post-CEO directors receive will increase with industry-adjusted R&D expenditure in the last 2 years that the CEO is in office.

2.1.3 Director labor market and financial statement readability

Companies disclose information to facilitate clarity and understanding to investors. The management talent-signaling hypothesis argues that if CEOs are more forthcoming with disclosures, then shareholders will assume that the CEO did a better job of anticipating and preparing for future

changes. Thus, these CEOs will be rewarded with higher market values (Trueman, 1986). More talented CEOs will signal their quality with more transparent earnings and early warnings such as earnings forecasts. Empirically, readability of financial information has been shown to create value in the capital market. For example, De Franco et al. (2015) suggest that more readable research reports are issued by high-ability analysts. Hsieh et al. (2016) show that the equity market reacts more positively to readable analyst reports. On the other hand, less readable 10-Ks are associated with greater overall uncertainty in analyst earnings forecasts (Lehavy et al., 2011), greater cost of equity (Rjiba et al., 2021), and stock price crash risk (Kim et al., 2019).

Closer to our paper are studies that link annual report readability to management reporting discretion. Importantly, Li (2008) finds that annual report readability correlates with both earnings levels and earnings persistence. Firms with lower earnings are more likely to issue less readable annual reports. Firms with more readable annual reports have more persistent positive earnings. Li (2008) suggests that managers may adjust the level of annual report readability strategically to hide bad news from investors. However, Bloomfield (2008) proposes a second explanation for these results by arguing that bad news is naturally more difficult to describe. These two views are referred to in the literature as the obfuscation hypothesis and the ontology hypothesis, respectively.

According to the obfuscation hypothesis, managers' reporting discretion includes annual report readability in addition to real and accruals management. For example, Kothari et al. (2016) suggest that managers use more opaque methods of earnings management in order to escape detection. Lo et al. (2017) examine the two hypotheses more specifically and find that firms most likely to manage earnings have less readable MD&As, thereby supporting the obfuscation view. Following the obfuscation hypothesis, we predict that readability of MD&As and notes to financial statements is positively associated with the number of post-retirement board seats and amount of director compensation.

H3a: The number of post-CEO director appointments will increase with readability in financial reporting in the last 2 years that the CEO is in office.

H3b: The post-CEO director compensation will increase with readability in financial reporting in the last 2 years that the CEO is in office.

2.1.4 Mitigation of the horizon problem

Compensation schemes and other mechanisms (such as competition in the product market, concentrated ownership, and legal protection of investor rights) are designed to align managers' interests with those of shareholders (Shleifer and Vishny, 1997). However, the effectiveness of some mechanisms may be compromised when CEOs approach retirement, resulting in retiring CEOs having incentives to improve short-term measures at the expense of long-term performance. For example, the use of performance incentives such as option grants or earnings-based bonuses may have the opposite effects from what they were for these CEOs during their early career, thereby creating the "horizon problem" (Smith and Watts, 1982). The existence of the horizon problem is well-established by a plethora of extant studies.[4]

Competition in the labor market is another mechanism that is weakened as retirement approaches. Managers have reputational concerns both in the internal labor market, which influences manager promotion and compensation within the firm, and in the external labor market, which provides employment opportunities outside of the firm. Poor performance will damage managers' reputation, thereby resulting in ex post settling-up (Fama, 1980). The incentives from both the internal and the

[4] For example, Dechow and Sloan (1991) show that CEOs reduce R&D in their final years. Oh et al. (2016) suggest that the horizon problem can manifest in behaviors such as reducing investment in CSR. Cassell et al. (2013) report that retiring CEOs are more likely to issue forecasts of future earnings, and that the forecasts are more frequent and more positive in their terminal years.

external labor markets are strongest for young managers who have many years to participate in these markets.

When CEOs approach retirement, the horizon problem gets stronger as the threat of ex post settling-up becomes ineffective. Conventionally, this weakened incentive must be countered by stronger incentive contracts (or other forms of corporate governance). For example, Smith and Watts (1982) suggest that the horizon problem can be addressed by deferring compensation to the retirement period. However, studies that document compensation arrangements which benefit managers rather than shareholders (Yermack, 1997; Blanchard et al., 1994; Harford, 1999) suggest that optimal contracting alone is inadequate in resolving the agency problem and at times may be part of the problem (Bebchuk and Fried, 2003).

Mitigation of the horizon problem by competition in the labor market is first proposed by Brickley et al. (1999). They argue that a manager's career concerns do not necessarily end at retirement because after retirement many managers serve on corporate and community boards, enter politics, or act as consultants. They report that for CEOs who leave the firm between the ages of 64 to 66 (the most common age for retirement), nearly 88% hold at least one board seat. Therefore, the director labor market also functions as a form of corporate governance for retiring CEOs. Compensation in the director labor market appears to be sizable. According to Harvard Law School Forum on Corporate Governance, the median total compensation for "typical" director of S&P 500 companies was $260,000 in 2015 (Lerner, 2017). Analyzing more than 700 directors of Fortune 500 firms between 1994 and 1996, Yermack (2004) reports that outside directors receive positive performance incentives which appear to be altogether nontrivial, especially given that one person may serve on many boards.

Despite strong evidence of the association between performance and prospects in the director labor market, we argue that there may be no mitigation if accounting/ stock performance is achieved by

value-destroying earnings management strategies. For the force of competition in the director labor market to extend to CEOs approaching retirement, and to help mitigate the horizon problem, there must be a link between the CEOs' value-maximizing actions and the directorship opportunities. This is illustrated by Harford and Schonlau (2013) who report that acquisition experience is valued over performance in the director labor market. They find that large acquisitions are associated with more board seats for the acquiring and target CEOs in subsequent years. Notably, CEOs' opportunities in the director labor market are positively associated with both value-destroying and value-increasing acquisitions. If the director labor market rewards value-destroying actions, then mitigation may be absent and the horizon problem may be exacerbated due to the competition for board seats.

Empirical evidence that departing CEOs use accruals management to increase earnings is not strong (Murphy and Zimmerman, 1993). For example, Kalyta (2009) finds evidence of income-increasing earnings management in the terminal years only when CEO pension is based on firm performance.[5] There is evidence of real earnings management in relation to the horizon problem and firms' attempts to mitigate the horizon problem with compensation contract. Dechow and Sloan (1991) show that CEOs reduce R&D in their final years in order to boost earnings and compensation in their final years in office. Extending Dechow and Sloan (1991), Cheng (2004) examines reduction in R&D when CEOs are near retirement and find that compensation committees mitigate the opportunistic cut of R&D with option grants. While stronger incentive contracts may help to address the horizon problem, this option can be costly for shareholders as it requires CEOs to bear greater risks than may be optimal.[6] Little evidence is available that links the use of financial statement readability and the horizon problem.

[5] On the other hand, Reitenga and Tearney (2003) find evidence of accruals management in departing CEOs' final years with the former focusing on mandatory retirement and the latter focusing on forced dismissal.
[6] For example, Matta and Beamish (2008) report that equity and in-the-money option holdings exacerbate the horizon problem, thereby reducing the likelihood that CEOs nearing retirement engage in international acquisitions because of their increased aversion to risk.

We partition our sample into two groups: CEOs departure for planned retirement versus other reasons. The former group is expected to be more affected by the horizon problem relative to the latter group. These CEOs have stronger incentives to engage in accruals and real earnings management.

H4a: There is a stronger positive association between post-CEO director appointments and accruals management, industry-adjusted R&D, and readability for CEOs leaving due to planned retirement than for CEOs leaving for other reasons.

H4b: There is a stronger positive association between post-CEO director compensation and accruals management, industry-adjusted R&D, and readability for CEOs leaving due to planned retirement than for CEOs leaving for other reasons.

3. Data

Our empirical analyses are conducted based on a sample of U.S. listed companies with data obtained from Execucomp, Compustat, financial statements, and the business press. We identify executives from Execucomp who held the position of CEO for the majority of each fiscal year between 2005 and 2015, and we retain 2,359 CEOs who left office during that time. We exclude 356 observations from financial firms (SIC 60-69) due to the difficultly in interpreting variables such as market-to book ratio that are used as controls. This leaves us with 2,003 observations as outlined in Table 1, Panel A. We search the business press and determine the reasons for CEO departure. We use the following categories: “Accounting Scandal”; “Pressure from/Difference with Board/Shareholders”; “Illness/Death”; “Interim CEO Term Expired”; “Other Scandal, Lawsuit, or Misdemeanor”; “Leaving to Pursue a New Business”; “Poor Accounting or Stock Price Performance”; “Promoted to Chairperson”; “Restructuring or CIC”; “Retirement”; “Sudden retirement”; or “Unclear”. Deleting the data of 56 CEOs who left office due to illness or death results in a final sample of 1,947. From the Director Compensation section of Execucomp, we then identify the number of board positions and the associated salaries held by

departing CEOs in the year of the turnover and three subsequent years by matching the full name of each CEO with the full name of each director. The sample starts in 2005 because that is the first year that the names and salaries of individual directors are provided in Execucomp. The sample ends in 2018 because we track directorships for three years after the CEO turnover.

Table 1 Panel B shows that most CEOs leave the firm due to planned retirements (43 %); however, 4% of CEOs retire suddenly, and 8% of CEOs leave due to poor accounting or stock price performance. Other reasons for CEO turnover include disagreement with, or pressure from, the board of directors or shareholders (6.7%); promotion to board chairman (8%); or firm restructuring (4%). We were unable to ascertain the reason why 281 (14%) CEOs left their firms. We find no specific trends in the reasons for departure across time. The number of CEOs departing firms each year in our sample ranges from 140 to 234.

Table 1, Panel C shows that the majority of the departing executives in the sample have no outside directorships, but that number of CEOs without directorships falls from 1,456 in the year of departure to 1,370 three years after departure. At the same time, the number of executives with two or three directorships steadily increases over the three years. We examine the magnitude of pay the CEOs receive as directors expressed in 2005 U.S. dollars. Similar to the number of directorships, the mean (median) of total director pay increases from $161,988 ($154,679) to $297,164 ($235,767) over three years for those executives who hold at least one outside director position.

Table 1, Panel D partitions the sample into whether or not the CEO departed the firm due to planned retirement. Relative to their counterparts, CEOs departing the firm due to planned retirement hold a greater number of directorships (and earn greater compensation) in the year of departure and for the three years following departure. One, two, and three years after CEO departure, the differences in the average number of directorships held between the subgroups are 0.169, 0.188, and 0.188,

respectively; these are all significant at the 1% level. Similarly, the differences in the total directorship pay for the entire sample are $31,415, $37,746, and $39,154, respectively for the first, second and third years after departure. Again, these are all significant at the 1% level. Three years after departure, CEOs leaving due to planned retirements earn an annual salary of approximately $39,000 more than their counterparts. This payment reflects the value of their experience, their reputation, and their availability. Both CEOs whose retirements are planned and those who depart before planned retirement hold an increasingly greater number of directorships between the year of departure and for three years thereafter.

[Insert Table 1 Here]

Table 2, Panel A presents descriptive statistics for the number of post-CEO director positions and total director pay after CEO departure, as well as average firm and CEO characteristics. Post-CEO director positions and pay are measured for up to three years after departure. CEO stock ownership, age, and tenure are measured in the last fiscal year of departure. Firm characteristics are averaged for the two years before departure. Sample firms are on average profitable with return on assets of 2.3%. However, while stock returns have an average of 1.982, CRSP value-weighted abnormal returns are -0.039. The firms show reasonable growth with market-to-book ratios of 3.5. The median firm reports no R&D expenditure, and the average industry-adjusted R&D/sales is -0.034. On average, departing CEOs are 57 years old and have a mean (median) tenure of 7.8 (10) years. On average, they own 6.6% of their firm's stock. However, the majority of CEOs in the sample own low percentages of stock since the median share ownership is only 0.805%. The average number of outside directorships that the CEOs hold in the year leaving office is 0.3; this number increases to 0.378 after three years. The number of earnings restatements in the sample is 47, and there are 55 incidences of accounting or other scandal. Average unsigned discretionary accruals, which include both income-increasing and income-decreasing accruals,

is 0.108. As a proxy for READABILITY we use the Flesch Reading Ease Score (Flesch) which uses average sentence length and a count of multi-syllable words to produce a 100-point scale, with higher scores indicating greater ease in reading. The mean Flesch score for our sample firms is 42.108, which means it is written at a level to be understood by a college student. This difficulty in the level of readability may indicate complexity of operations or Generally Accepted Accounting Principles.

Table 2, Panel B presents the means of our variables of interest partitioned by whether or not the CEO departed due to planned retirement, as determined from business press articles. Firms whose CEOs depart for planned retirement are larger, more profitable, and report better stock performance. Those CEOs have longer tenures, are older, and hold a greater number of outside board positions in the year before departure. In our sample, CEOs with planned retirement are not associated with accounting scandals, and they record fewer incidences of earnings restatements. This is not surprising since both of these activities are more likely to trigger forced departures. However, consistent with the horizon problem documented by Dechow and Sloan (1991), we find that industry-adjusted R&D/sales are lower for this subgroup. In subsequent analysis, we will determine how the director labor market views this lower level of investment. CEOs departing via planned retirement report more transparent statements that those CEOS who departures are forced. There is, however, no difference in the accruals use between the subgroups.

[Insert Table 2 Here]

4. Research design and results

4.1 Research Design

To test whether R&D intensity, accruals management, and financial statement readability affect CEO's opportunities for future board seats and director pay, we estimate the following ordinary least squares (OLS) regression:

$$\text{Positions/Pay}_{t+2} = \beta_0 + \beta_1 \text{READABILITY}_{t-2,t-1} + \beta_2 \text{ACCRUALS}_{t-2,t-1} + \beta_3 \text{R\&D}_{t-2,t-1} + \beta_4 \text{RESTATEMENT}_{t-2,t-1} + \beta_5 \text{ROA}_{t-2,t-1} + \beta_6 \text{RETURN}_{t-2,t-1} + \beta_7 \text{SIZE}_{t-2,t-1} + \beta_8 \text{CEOOWN}_{t-2,t-1} + \beta_9 \text{LGTENURE}_{t-2,t-1} + \beta_{10} \text{MTB}_{t-2,t-1} + \beta_{11} \text{LGAGE}_{t-2,t-1} + \beta_{12} \text{LGNUMYR0}_{t-2,t-1} + \beta_{13} \text{REG DUMMY} + \beta_{14} \text{YEAR} + \varepsilon_{it} \quad (1)$$

where *Positions*$_{t+2}$ is the natural logarithm of (1+ the number of outside board directorships the CEO holds two years after departure). Pay$_{t+2}$ is the natural logarithm of (1+ the sum of pay the CEO receives from outside board directorships two years after departure) adjusted to 2005 U.S. dollars. READABILITY measures the level of difficulty in comprehending the intended message of firms' 10-K filings. It is the decile rank of the Flesch Reading Ease scores for 10-K filings averaged over the last two full years before CEO departure, calculated as 206.835 – 1.015 (Total words/Total Sentences) – 84.6 (Total Syllables/Total words) (See Flesch 1948). Higher scores indicate greater ease in reading. Our proxy for within-GAAP earnings management is ACCRUALS, defined as the absolute value of the residual from the following equation from Kothari et al. (2005):

$$\text{Total Accruals}_{it} = \alpha_0 + \alpha_1/\text{Assets}_{it-1} + \alpha_2 \Delta\text{Sales}_{it-1} + \alpha_3 \text{PPE}_{it-1} + \alpha_4 \text{ROA}_{it-1} + \varepsilon_{it} \quad (2)$$

where Total Accruals equals net income before extraordinary items minus operating cash flows; ΔSales is change in sales; PPE is net property, plant, and equipment; and ROA is return on assets. We estimate the equation by two-digit SIC industry code and year. All variables are scaled by lagged total assets. WE use the absolute value of discretionary accruals to capture income-increasing and income-decreasing earnings management that arise from various incentives.

The real earnings management proxy is R&D defined as firm R&D/sales minus median two-digit SIC R&D/sales. RESTATEMENT is an indicator variable that equals 1 if the firm had an accounting-related earnings restatement in the two years prior to the CEO's departure. The hypotheses predict positive coefficients for READABILITY and ACCRUALS and negative coefficients for R&D and RESTATEMENT.

To mitigate potential omitted correlated variable bias, we include several control variables that have been documented by previous research to be correlated with the number of CEO outside directorships. We control for CEO ability with the average of firm performance two years before departure. Specifically, we control for return on assets (ROA) defined as net income (NI) divided by end-of-year total assets (AT); and for RETURN which is firm's average two-year raw stock return (Brickley et al., 1999). Also consistent with Brickley et al. (1999) and Harford and Schonlau (2013), we control for CEO experience with the natural logarithm of one plus CEO tenure in years (LGTENURE). Prior research has shown this construct to be indicative of CEO experience and a determinant of CEO post retirement directorships. The percentage of CEO stock ownership (CEOOWN) and the natural logarithm of CEO age (LGAGE) are included as controls for CEO incentives. These may also be correlated with performance. We control for firm size (SIZE) with the natural log of total assets, and growth opportunities with MTB which is the market-to-book ratio, defined as the market value of equity (PRCC_F × CSHO) divided by the book value of equity (CEQ). REG Dummy is an indicator dummy for firms in regulated industries, such as the utility or insurance industry. Brickley et al. (1999) show that the probability of serving on an outside board increases for CEOs of these firms. We include the number of outside directorships in the CEO turnover year (LGNUMYR0) as a measure of CEO ability and also as a change analysis to measure the additional directorships that arise from CEOs' financial reporting decisions.

All continuous variables are winsorized at the 1 and 99 percentage levels to alleviate bias from potential outliers.

4.2 Results

Table 3, Panel A presents the results of hypotheses 1 to 3 with the logarithm of 1 plus the number of outside positions two years after CEO departure ($Positions_{t+2}$) as the dependent variable.

Models (1) to (4) test the earnings management variables individually, while Model (5) includes all test variables.

Our first hypothesis (H1a) predicts that the external labor market will reward within-GAAP accruals management but punish earnings restatements. As predicted, the coefficient on ACCRUALS is positive (0.350) and significant at the 1% level. This result suggests that CEOs can successfully improve their opportunities in the director labor market with accruals management. One reason for this finding might be that accruals management is difficult to detect, even for seasoned financial experts such as analysts or auditors (Bradshaw et al., 2001). Another reason might be that even if boards of directors might be able to detect accruals management as documented in Klein (2002), some accruals management is rewarded by the stock market and may increase CEO reputation – particularly if it results in increasing strings of earnings. We are unable to distinguish between these two explanations.

Interestingly, we find that the kind of earnings management that causes earnings restatements reduces the number of post departure directorships (RESTATEMENT has a coefficient of -0.155 and significant at the 1% level). This finding indicates that the director labor market acts an ex post settling-up for past decisions by punishing CEOs who destroy shareholder value through shareholder-damaging reporting decisions.

Our second hypothesis (H2a) predicts that the number of post-CEO director appointments will increase with industry-adjusted R&D expenditure in the last two years that the CEO is in office. Contrary to our prediction, we find a negative (coefficient of -0.285) and significant association between industry-adjusted R&D and the number of positions. This result suggests that boards of directors are not concerned about real earnings management that results in firms reducing R&D expenditure. Instead, the results support the overinvestment hypothesis which argues that firms experience a shrinking investment set and face an overinvestment problem. One reason for this finding that boards reward

CEOs who reduce their R&D intensity might be that boards value reductions in inefficient or negative NPV projects. Prior research has shown that R&D investments are a riskier avenue for growth than assets-in-place, as a decrease in R&D investment lowers firm risk and cost of capital (Berk et al. 1999).

However, we find support for H3a that predicts that the number of post-CEO director appointments will increase with the readability of financial statements. This prediction is based on the obfuscation hypothesis that posits that managers' reporting discretion includes annual report readability. The coefficient on READABILITY is 0.009, and significant at the five percent level. This result is consistent with the notion that boards value more transparent financial statements and provide incentive for CEOs to be more forthcoming.

In Model (5), with all the variables included, the story that emerges is that the number of board positions is positively associated with accruals use and financial statement readability, and negatively associated with earnings restatements. Table 3 suggests that the director labor market's assessment of accounting performance is moderated by CEOs' past exercise of financial reporting accrual discretion. Consistent with prior research, our control variables show the predicted relationships with the number of board positions which increase with prior firm return on assets, size, and the number of prior board positions held by the CEO. Directorships decrease with CEO stock ownership.

Table 3, Panel B examines the association between earnings management choices and the pay that CEOs receive as directors. Consistent with H1b and H3b, and the results from Table 3A, we find that CEO post-employment director pay increases with accruals management and readability. Post-CEO director compensation decreases with earnings restatements. We find no association between director pay and R&D intensity.

In sum, Table 3 shows that boards of directors consider financial reporting choice in addition to accounting metrics in assessing CEOs for board directorships. Accruals management that masks CEO

performance or that may increase CEO or firm reputation is rewarded, as are transparent financial reports. However, value or reputation-destroying reporting choices as reflected in earnings restatements render the CEO to be ineffective as a monitor and/or resource provider, and CEOs engaging in these activities are penalized by the external labor market.

[Insert Table 3 here]

Table 4 presents the results of the association between post-CEO director appointments and industry-adjusted R&D, accruals management, and readability for planned retirement CEOs compared to CEOs leaving for other reasons. If boards of directors act as ex-post settling up mechanisms, we expect that CEOs approaching retirement are better able to time accruals management and financial statement readability to strategically improve their post-employment opportunities, relative to CEOs who leave the firm suddenly. From Table 2, Panel B, we find that CEOs who leave before planned retirement have higher incidences of earnings restatements. Table 4 shows that for CEOs who depart their firms before planned retirement, earnings restatement is the only financial reporting factor associated with fewer directorships. This is likely because CEOs who leave before retirement age are terminated for cause or poor performance which could be highly correlated with earnings restatements.

As discussed in Table 2, Panel B, while there is no statistical difference in accruals use between the two groups, firms with planned retirement CEOs exhibit lower R&D intensity. This is consistent with the horizon problem. From Table 4, however, we find that the lower R&D intensity does not affect subsequent board positions for planned retirement CEOs. On the other hand, accruals management and financial statement readability both increase the post-employment opportunities for CEOs with planned retirements.

In sum, Table 4 confirms the results from Table 3, but shows that boards value different accounting metrics depending on the trigger for CEO turnover. For planned retirement CEOs, boards of directors are either fooled by within-GAAP earnings management or else value its benefits in reducing contracting costs or increasing stock returns. These CEOs are able to increase their post-employment opportunities with more transparent reporting while in office. For CEOs who leave before planned retirements, earnings restatements, which are clearly value-destroying, are consistently punished by the external labor market.

[Insert Table 4 here]

From the previous analyses, boards appear to view CEOs with demonstrated reputation loss from restating earnings as less suitable for directorships. Besides earnings restatements, CEOs also suffer reputational loss for fraud, criminal convictions, or other misdemeanors – offenses that would increase the likelihood of CEO turnover. The turnover event itself is therefore a source of information to the external labor market from the internal labor market about CEO suitability for board positions. Our next analyses examine whether the cause of CEO departure influences the director labor market's assessment of the financial reporting choices the CEO made while in office. Table 5 examines the association between post-employment directorship opportunities and whether or not the reason for CEO departure was an accounting or other scandal, such as a lawsuit or a misdemeanor. We find that the strongest reason for fewer positions and post director pay is a scandalous termination. Table 5, Panel A reports that the association between the number of positions (director pay) and SCANDAL is -0.197 (-1.177); this is significant at the 1% level. In Table 5, Panels B and C, we examine financial reporting choice variables partitioned by whether or not the reason for CEO departure was a scandal. For those CEOs whose departures did not involve a scandal, we find the predicted positive association

for ACCRUALS and Readability; and the predicted negative association for RESTATEMENT. Similar to the results reported in Table 3, we find a negative association between the number of outside board positions and R&D intensity. However, for the CEOs who departed the firm due to a scandal, neither accruals management nor earnings restatement affected the number of director positions. One reason for this interesting finding might be that the presence of a scandal outweighs the usefulness of earnings management indicators for a prospective board of director position.

[Insert Table 5 here]

4.3 Supplemental analyses

We conduct several sensitivity analyses to confirm our results. We report the results of tests using CEO and firm characteristics in the two years before departure. This is in alignment with Brickley et al. (1999) who find stronger results when performance is measured over the final two years of the CEO's tenure. We re-examine all hypotheses using the number of appointments and director pay for one year and three years after CEO departure and find similar results.

5.0 Conclusion

Prior research has shown that accounting performance is rewarded in the director labor market. Furthermore, the literature suggests that the director market may have a mitigation effect on the horizon problem as the post-retirement market offers CEOs an incentive to perform. This paper provides evidence that the director labor market's assessment of accounting performance is moderated by the financial reporting discretion exercised by the CEOs. The director labor market responds positively to within-GAAP accruals management but negatively if it results in earnings restatement. Post-CEO director appointments decrease with above industry median R&D expenditure. This may indicate that the market is unable to unravel real manipulations. We find some evidence that the director labor market

values annual report readability. Our analysis of the horizon problem suggests that competition in the director labor market can have a mitigating effect on the horizon problem with regards to financial reporting opacity. Finally, the results suggest that for CEOs with planned retirement, the director labor market opportunities increases with within-GAAP accrual use.

The results confirm that director appointments are made not only on CEO ability as reflected in profitability measures, but also in the context of the accounting choices that produce those metrics. Overall, our evidence indicates that the external labor market as an ex post settling up device is effective for earnings management practices that clearly destroy CEO and firm reputation.

References

Ali, A., Zhang, W., 2015. CEO tenure and earnings management. Journal of Accounting and Economics 59(1), 60-79.

Baber, W. R., Fairfield, P. M., Haggard, J. A., 1991. The effect of concern about reported income on discretionary spending decisions: The case of research and development. Accounting Review 66(4), 818-829.

Bange, M. M., De Bondt, W. F., 1998. R&D budgets and corporate earnings targets. Journal of Corporate Finance 4(2), 153-184.

Bardos, K. S., 2011. Quality of financial information and liquidity. Review of Financial Economics 20(2), 49-62.

Bardos, K. S., Golec, J., Harding, J. P., 2013. Litigation risk and market reaction to restatements. Journal of Financial Research 36(1), 19-42.

Barth, M. E., Elliott, J. A., Finn, M. W., 1999. Market rewards associated with patterns of increasing earnings. Journal of Accounting Research 37(2), 387-413.

Barton, J., & Simko, P. (2002). The Balance Sheet as an Earnings Management Constraint. The Accounting Review, 77, 1-27.

Bartov, E., 1993. The timing of asset sales and earnings manipulation. Accounting Review, 68(4),840-855.

Bebchuk, L. A., Fried, J. M., 2003. Executive compensation as an agency problem. Journal of Economic Perspectives 17(3), 71-92.

Bens, D. A., Nagar, V., Skinner, D. J., Wong, M. F., 2003. Employee stock options, EPS dilution, and stock repurchases. Journal of Accounting and Economics 36(1-3), 51-90.

Bereskin, F. L., Hsu, P. H., Rotenberg, W., 2018. The real effects of real earnings management: Evidence from innovation. Contemporary Accounting Research 35(1), 525-557.

Bergstresser, D., Philippon, T., 2006. CEO incentives and earnings management. Journal of Financial Economics 80(3), 511-529.

Berk, J. B., Green, R. C., Naik, V., 1999. Optimal investment, growth options, and security returns. Journal of Finance 54, 1553-1607.

Bhojraj, S., Hribar, P., Picconi, M., McInnis, J., 2009. Making sense of cents: An examination of firms that marginally miss or beat analyst forecasts. The Journal of Finance 64(5), 2361-2388.

Blanchard, O. J., Lopez-de-Silanes, F., Shleifer, A., 1994. What do firms do with cash windfalls? Journal of Financial Economics 36(3), 337-360.

Bloomfield, R., 2008. Discussion of "annual report readability, current earnings, and earnings persistence." Journal of Accounting and Economics 45(2-3), 248-252.

Bradshaw, M. T., Richardson, S. A., Sloan, R. G., 2001. Do analysts and auditors use information in accruals? Journal of Accounting Research 39(1), 45-74.

Brickley, J. A., Linck, J. S., Coles, J. L., 1999. What happens to CEOs after they retire? New evidence on career concerns, horizon problems, and CEO incentives. Journal of Financial Economics 52(3), 341-377.

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

Burns, N., Kedia, S., 2006. The impact of performance-based compensation on misreporting. Journal of Financial Economics 79(1), 35-67.

Bushee, B. J., 1998. The influence of institutional investors on myopic R&D investment behavior. Accounting Review, 73(3),305-333.

Cassell, C. A., Huang, S. X., Sanchez, J. M., 2013. Forecasting without consequence? Evidence on the properties of retiring CEOs' forecasts of future earnings. The Accounting Review 88(6), 1909-1937.

Cheng, S., 2004. R&D expenditures and CEO compensation. The Accounting Review 79(2), 305-328.

Dechow, P. M., Hutton, A. P., Kim, J. H., Sloan, R. G., 2012. Detecting earnings management: A new approach. Journal of Accounting Research 50(2), 275-334.

Dechow, P. M., Skinner, D. J., 2000. Earnings management: Reconciling the views of accounting academics, practitioners, and regulators. Accounting Horizons 14(2), 235-250.

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

Dechow, P., Sloan, R., Sweeney, A., 1995. Detecting earnings management. The Accounting Review 70, 193-225.

DeFond, M. L., Park, C. W., 1997. Smoothing income in anticipation of future earnings. Journal of Accounting and Economics 23(2), 115-139.

De Franco, G., Hope, O. K., Vyas, D., Zhou, Y., 2015. Analyst report readability. Contemporary Accounting Research 32(1), 76-104.

Desai, H., Hogan, C. E., Wilkins, M. S., 2006. The reputational penalty for aggressive accounting: Earnings restatements and management turnover. The Accounting Review 81(1), 83-112.

Ettlie, J. E., 1998. R&D and global manufacturing performance. Management Science 44(1), 1-11.

Fahlenbrach, R., Low, A., Stulz, R. M., 2010a. Why do firms appoint CEOs as outside directors? Journal of Financial Economics 97(1), 12-32.

Fahlenbrach, R., Minton, B. A., Pan, C., 2010b. Former CEO directors: Lingering CEOs or valuable resources? Review of Financial Studies 24(10), 3486-3518.

Fama, E. F., 1980. Agency problems and the theory of the firm. Journal of Political Economy 88(2), 288-307.

Ferris, S. P., Jagannathan, M., Pritchard, A. C., 2003. Too busy to mind the business? Monitoring by directors with multiple board appointments. The Journal of Finance 58(3), 1087-1111.

Fich, E. M., Shivdasani, A., 2006. Are busy boards effective monitors? Journal of Finance 61(2), 689-724.

Fields, T. D., Lys T. Z., Vincent, L., 2001. Empirical research on accounting choice. Journal of Accounting and Economics 31(1-3), 255-307.

Flesch R. 1948. A new readability yardstick. *Journal of Applied Psychology* 32(3):221–233.

Geletkanycz, M. A., & Boyd, B. K. 2011. CEO outside directorships and firm performance: A reconciliation of agency and embeddedness views. Academy of Management Journal, (54)2: 335-352.

Graham, J. R., Harvey, C. R., Rajgopal, S., 2005. The economic implications of corporate financial reporting. Journal of Accounting and Economics 40(1-3), 3-73.

Gunny, K. A., 2010. The relation between earnings management using real activities manipulation and future performance: Evidence from meeting earnings benchmarks. Contemporary Accounting Research 27(3), 855-888.

Harford, J., 1999. Corporate cash reserves and acquisitions. The Journal of Finance 54(6), 1969-1997.

Harford, J., Schonlau, R. J., 2013. Does the director labor market offer ex post settling-up for CEOs? The case of acquisitions. Journal of Financial Economics 110(1), 18-36.

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

Hennes, K., Leone, A., Miller, B. (2008). The importance of distinguishing errors from irregularities in restatement research: The case of restatements and CEO/CFO turnover. The Accounting Review 83(6), 1487-1519.

Horner, S. V., 2015. CEOs as corporate directors: A human capital perspective. Academy of Strategic Management Journal 14(1), 30-42.

Hribar, P., Jenkins, N. T., 2004. The effect of accounting restatements on earnings revisions and the estimated cost of capital. Review of Accounting Studies 9(2), 337-356.

Hribar, P., Jenkins, N. T., Johnson, W. B., 2006. Stock repurchases as an earnings management device. Journal of Accounting and Economics 41(1-2), 3-27.

Hsieh, C. C., Hui, K. W., Zhang, Y., 2016. Analyst report readability and stock returns. Journal of Business Finance & Accounting 43(1-2), 98-130.

Kalyta, P., 2009. Accounting discretion, horizon problem, and CEO retirement benefits. The Accounting Review 84(5), 1553-1573.

Kao, L., Chen, A., 2004. The effects of board characteristics on earnings management. Corporate Ownership & Control 1(3), 96-107.

Kaplan, S. N., Reishus, D., 1990. Outside directorships and corporate performance. Journal of Financial Economics 27(2), 389-410.

Kim, C., Wang, K., Zhang, L., 2019. Readability of 10-K reports and stock price crash risk. Contemporary Accounting Research 36(2), 1184-1216.

Kim, J. B., Sohn, B. C., 2013. Real earnings management and cost of capital. Journal of Accounting and Public Policy 32(6), 518-543.

Klein, A., 2002. Audit committee, board of director characteristics, and earnings management. Journal of Accounting and Economics 33(3), 375-400.

Kothari, S. P., Leone, A. J., Wasley, C. E., 2005. Performance matched discretionary accrual measures. Journal of Accounting and Economics 39(1), 163-197.

Kothari, S. P., Mizik, N., Roychowdhury, S., 2016. Managing for the moment: The role of earnings management via real activities versus accruals in SEO valuation. The Accounting Review 91(2), 559-586.

Lehavy, R., Li, F., Merkley, K., 2011. The effect of annual report readability on analyst following and the properties of their earnings forecasts. The Accounting Review 86(3), 1087-1115.

Lerner, D., 2017. https://corpgov.law.harvard.edu/2017/03/14/board-of-directors-compensation-past-present-and-future/#4

Lev, B., Sougiannis, T., 1996. The capitalization, amortization, and value-relevance of R&D. Journal of Accounting and Economics 21(1), 107-138.

Li, F., 2008. Annual report readability, current earnings, and earnings persistence. Journal of Accounting and Economics 45(2-3), 221-247.

Lo, K., Ramos, F., Rogo, R., 2017. Earnings management and annual report readability. Journal of Accounting and Economics 63(1), 1-25.

Matsunaga, S. R., 1995. The effects of financial reporting costs on the use of employee stock options. Accounting Review, 70(1),1-26.

Matta, E., Beamish, P. W., 2008. The accentuated CEO career horizon problem: Evidence from international acquisitions. Strategic Management Journal 29(7), 683-700.

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

Oh, W. Y., Chang, Y. K., Cheng, Z., 2016. When CEO career horizon problems matter for corporate social responsibility: The moderating roles of industry-level discretion and blockholder ownership. Journal of Business Ethics 133(2), 279-291.

Palmrose, Z. V., Richardson, V. J., Scholz, S., 2004. Determinants of market reactions to restatement announcements. Journal of Accounting and Economics 37(1), 59-89.

Palmrose, Z. V., Scholz, S., 2004. The circumstances and legal consequences of non-GAAP reporting: Evidence from restatements. Contemporary Accounting Research 21(1), 139-180.

Park, Y. W., Shin, H. H., 2004. Board composition and earnings management in Canada. Journal of Corporate Finance 10(3), 431-457.

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

Rjiba, H., Saadi, S., Boubaker, S., Ding, X. S., 2021. Annual report readability and the cost of equity capital. Journal of Corporate Finance 67, 101902.

Roychowdhury, S., 2006. Earnings management through real activities manipulation. Journal of Accounting and Economics 42(3), 335-370.

Shleifer, A., Vishny, R. W., 1997. A survey of corporate governance. The Journal of Finance 52(2), 737-783.

Sloan, R. G., 1996. Do stock prices fully reflect information in accruals and cash flows about future earnings? Accounting Review,71(3), 289-315.

Smith Jr, C. W., Watts, R. L., 1982. Incentive and tax effects of executive compensation plans. Australian Journal of Management 7(2), 139-157.

Srinivasan, S., 2005. Consequences of financial reporting failure for outside directors: Evidence from accounting restatements and audit committee members. Journal of Accounting Research 43(2), 291-334.

Taylor, G. K., Xu, R. Z., 2010. Consequences of real earnings management on subsequent operating performance. Research in Accounting Regulation 22(2), 128-132.

Trueman, B. 1986. Why do managers voluntarily release earnings forecasts? Journal of Accounting and Economics 8 (1), 53-71

Xu, R. Z., Taylor, G. K., Dugan, M. T., 2007. Review of real earnings management literature. Journal of Accounting Literature 26, 195-228.

Yermack, D., 1997. Good timing: CEO stock option awards and company news announcements. The Journal of Finance 52(2), 449-476.

Yermack, D., 2004. Remuneration, retention, and reputation incentives for outside directors. The Journal of Finance 59(5), 2281-2308.

Table 1: Sample Selection

Table 1: Panel A. This table presents sample selection procedures for CEO turnover from Execucomp between 2005 and 2018. Reasons for departure are determined from the business press.

	Observations
Executive data for all executives from Execucomp from 2005 to 2018	124,851
Less executives not listed as the CEO for the fiscal year "CEOANN"	(102,388)
Executive data for listed CEOS from Execucomp from 2005-2018	22,463
Less CEOs in the current year employed by the same firm in the prior year	(20,104)
CEOs who left office between 2005 and 2018	2,359
Less CEOs from financial firms (SIC 60-69)	(356)
Less CEOs who departed due to illness or death	(56)
Final Sample	1,947

Table 1: Panel B. This table details the reasons for CEO turnover determined from the business press.

Reasons for CEO Turnover	Frequency
Accounting Scandal	8
Pressure from/Difference with Board/Shareholders	131
Interim CEO Term Expired	85
Other Scandal, Lawsuit, or Misdemeanor	46
Leaving to Pursue a New Business	81
Poor Accounting or Stock Price Performance	157
Promoted to Chairman	149
Restructuring or CIC	74
Retirement	847
Sudden Retirement	88
Unclear	281
Total	1,947

Table 1: Panel C. This table presents summary statistics for the number of outside board directorships and director pay for CEOs up to three years after departure.

	Year of Departure	**One Year After Departure**	**Two Years After Departure**	**Three Years After Departure**
# with 0 Directorships	1456	1298	1340	1370
# with 1 Directorship	348	413	329	291
# with 2 Directorships	125	181	189	191
# with 3 Directorships	18	45	68	76
# with 4 Directorships	0	10	19	17
# with 5 Directorships	0	0	2	2
Mean (Median) total pay from outside directorships (excluding executives with no directorship) in 2005 U.S. dollars	161,988 (154,679)	253,123 (208,373)	294,778 (218,470)	297,164 (235,767)

Table 1: Panel D. This table presents summary statistics for the number of outside board directorships and director pay for departed CEOs partitioned by whether the CEOs left due to planned retirement (Retire=1) or for other reasons (Retire=0). "Diff" is the difference in means between the two subsamples.

	Retire=0 (N=1100) Mean	Retire=1 (N=847)Mean	Diff.	P-Value	
Average Number of Positions in Departure Year	0.321	0.404	0.083	0.0056	***
Sum of Pay in Departure year, in 2005 U.S.$	49,681	66,030	16,349	0.0029	***
Average Number of Positions 1 Year after Departure	0.415	0.583	0.169	<0.0001	***
Sum of pay 1 Year after Departure, in 2005 U.S. $	70,704	102,100	31,415	<0.0001	***
Average Number of Positions 2 Years after Departure	0.475	0.662	0.188	<0.0001	***
Sum of pay 2 Years after Departure, in 2005 U.S. $	88,292	126,000	37,746	<0.0001	***
Average Number of Positions 3 Years after Departure	0.483	0.671	0.188	<0.0001	***
Sum of Pay 3 Years after Departure, in 2005 U.S.$	94,735	130,800	39,154	<0.0001	***
H0:# Yr1- # Yr0 [t-value]	6.55***	10.32***			
H0:# Yr2- # Yr0 [t-value]	7.88***	11.02***			
H0:# Yr3- # Yr0 [t-value]	7.75***	11.03***			
H0:Sum Pay Yr1- Sum Pay Yr0 [t-value]	6.50***	8.97***			
H0:Sum Pay Yr2- Sum Pay Yr0 [t-value]	7.65***	10.75***			
H0:Sum Pay Yr3- Sum Pay Yr0 [t-value]	8.97***	12.02***			

Table 2: Panel A. Descriptive statistics

This table presents descriptive statistics for the variables used in empirical analysis. $Positions_{t+n}$ is the natural logarithm of 1 plus the number of outside post-CEO directorships n years after departure; Pay_{t+n} is the natural logarithm of 1 plus the sum of pay from outside post-CEO directorships the n^{th} year after departure; $FLESCH_{t-2,t-1}$ is the Flesch Reading Ease Score as described in Appendix A; $ACCRUALS_{t-2,t-1}$ is the absolute discretionary accruals as described in Kothari et al. (2005); $SCANDAL_t$ is an indicator variable that equals 1 if the CEO left due to a scandal, and 0 otherwise; $R\&D_{t-2,t-1}$ is the industry-adjusted R&D expenditure scaled by total sales; $RESTATEMENT_t$ is an indicator variable if the firm restates earnings due to an accounting irregularity, and 0 otherwise; $ROA_{t-2,t-1}$ is the operating income before depreciation divided by total assets averaged over the last two full years before CEO departure; $RETURN_{t-2,t-1}$ is the stock returns averaged over the last two full years before CEO departure; $SIZE_{t-2,t-1}$ is the natural logarithm of total assets averaged over the last two years before CEO departure; $CEOOWN_{t-2,t-1}$ is the shares owned by the executive, excluding options that are exercisable or will become exercisable within 60 days as reported by Execucomp (SHROWN_EXCL_OPTS) deflated by common shares outstanding (CSHO) averaged over the last two full years before CEO departure; $TENURE_t$ is the natural logarithm of CEO tenure measured in the last full year before CEO departure; $MTB_{t-2,t-1}$ is the market value of equity over common equity averaged over the last two full years before CEO departure; AGE_t is the age of the CEO tenure measured in the last full year before departure; and $LGNUMYR0_t$ is the natural logarithm of 1 plus the number of outside board directorships the CEO holds in the year of departure. The number of positions and director pay are measured up to three years after the turnover event. Firm and CEO characteristics are averaged over the last two full fiscal years of the CEOs' tenure except for SCANDAL, AGE, TENURE, and LGNUMYR0 which are all measured in the year of departure. Detailed variable definitions are provided in Appendix A. All continuous variables are winsorized at the 1% and 99% levels.

Variable	N	Mean	Std. Dev.	Q1	Median	Q3
$Positions_{t+1}$	1,947	0.289	0.434	0.000	0.000	0.693
$Positions_{t+2}$	1,947	0.318	0.464	0.000	0.000	0.693
$Positions_{t+3}$	1,947	0.321	0.469	0.000	0.000	0.693
Pay_{t+1}	1,947	1.749	2.531	0.000	0.000	4.907
Pay_{t+2}	1,946	1.881	2.633	0.000	0.000	5.104
Pay_{t+3}	1,947	1.906	2.666	0.000	0.000	5.192
$FLESCH_{t-2,t-1}$	1,732	42.108	47.866	21.900	25.400	38.000
$ACCRUALS_{t-2,t-1}$	1,810	0.108	0.107	0.039	0.078	0.136
$SCANDAL_{,t}$	1,947	0.028	0.164	0.000	0.000	0.000
$R\&D_{t-2,t-1}$	1,699	-0.034	0.090	-0.071	-0.006	0.000
$RESTATEMENT_{t-2,t-1}$	1,947	0.024	0.152	0.000	0.000	0.000
$ROA_{t-2,t-1}$	1,908	0.023	0.137	0.002	0.041	0.079
$RETURN_{t-2,t-1}$	1,866	1.982	54.789	-0.267	-0.014	0.216
$ABRETURN_{t-2,t-1}$	1,665	-0.039	0.378	-0.243	-0.069	0.120
$SIZE_{t-2,t-1}$	1,910	7.460	1.734	6.264	7.387	8.619
$CEOOWN_{t-2,t-1}$	1,837	6.569	180.912	0.064	0.250	0.805
$TENURE_{t}$	1,304	7.896	6.717	3.000	6.000	10.000
$MTB_{t-2,t-1}$	1,865	3.504	15.924	1.411	2.100	3.464
AGE_{t}	1,386	57.297	6.764	52.500	57.500	61.500
$LGNUMYR0_{t}$	1,947	0.056	0.200	0.000	0.000	0.000

Table 2: Panel B. Descriptive statistics partitioned by whether or not CEO departed for planned retirement

This table presents descriptive statistics of the full sample partitioned by whether or not CEOs departed for normal retirement. READABILITY $_{t-2,t-1}$ is the decile of the Flesch Reading Ease scores. All other variables are as defined in Appendix A. ***, **, and * denote significance in the differences between the subsamples at the 1%, 5%, and 10% levels, respectively.

	Retirement=0		Retirement=1		
Variable	N	Mean	N	Mean	Diff
Positions$_{t+1}$	1,100	0.246	847	0.346	***
Positions$_{t+2}$	1,100	0.273	847	0.377	***
Positions$_{t+3}$	1,100	0.276	847	0.379	***
Pay$_{t+1}$	1,100	1.482	847	2.096	***
Pay$_{t+2}$	1,100	1.611	846	2.232	***
Pay$_{t+3}$	1,100	1.640	847	2.253	***
FLESCH $_{t-2,t-1}$	1,001	40.280	789	44.360	*
ACCRUALS $_{t-2,t-1}$	1,015	0.110	795	0.106	
SCANDAL $_{t}$	1,100	0.049	847	0.000	***
R&D $_{t-2,t-1}$	970	-0.030	729	-0.039	***
RESTATEMENT $_{t}$	1,100	0.025	847	0.022	***
ROA$_{t-2,t-1}$	1,069	0.010	839	0.040	***
RETURN $_{t-2,t-1}$	1,042	3.437	824	0.141	***
ABRETURN $_{t-2,t-1}$	901	-0.072	764	-0.0004	***
SIZE $_{t-2,t-1}$	1,071	7.352	839	7.598	***
CEOOWN $_{t-2,t-1}$	1,015	10.877	822	1.249	
TENURE $_{t}$	713	6.901	591	9.068	***
MTB $_{t-2,t-1}$	1,040	3.013	825	4.123	
AGE $_{t}$	763	56.086	623	58.781	***
LGNUMYR0 $_{t}$	1,100	0.049	847	0.065	***

Table 3: Panel A. The association between number of post-CEO director positions and earnings management

This table presents the results of the following cross-sectional regression model: $Positions_{t+2} = \beta_0 + \beta_1 READABILITY_{t-2,t-1} + \beta_2 ACCRUALS_{t-2,t-1} + \beta_3 R\&D_{t-2,t-1} + \beta_4 RESTATEMENT_{t-2,t-1} + \beta_5 ROA_{t-2,t-1} + \beta_6 RET_{t-2,t-1} + \beta_7 SIZE_{t-2,t-1} + \beta_8 CEOOWN_{t-2,t-1} + \beta_9 LGTENURE_{t-2,t-1} + \beta_{10} MTB_{t-2,t-1} + \beta_{11} LGAGE_{t-2,t-1} + \beta_{14} LGNUMYR0_{t-2,t-1} + \beta_{15} INDREG + \beta_{16} YEAR + \varepsilon_{it}$. LGAGE is the natural logarithm of CEO age in the year of departure. REG Dummy is a variable indicating whether the firm belongs to two-digit SIC codes 40-49 (Transportation and Public Utilities) and 60-65, 67 (Finance, Insurance, and Real Estate). All other variables are as defined above. *, **, and *** denote significance at the 1%, 5%, and 10% levels, respectively. Reported t-statistics (in parentheses) are based on robust standard errors clustered by year.

VARIABLES	(1)	(2)	(3)	(4)	(5)
READABILITY $_{t-2,t-1}$	0.009**				0.008*
	(2.187)				(1.907)
ACCRUALS $_{t-2,t-1}$		0.350***			0.272**
		(2.972)			(2.204)
R&D $_{t-2,t-1}$			-0.285*		-0.191
			(-1.957)		(-1.304)
RESTATEMENT $_{t}$				-0.155***	-0.144***
				(-3.497)	(-2.732)
ROA $_{t-2,t-1}$	0.190**	0.218**	0.161	0.154	0.205**
	(2.034)	(2.242)	(1.563)	(1.633)	(1.972)
RETURN $_{t-2,t-1}$	0.000	0.000	0.000	0.000	0.000
	(0.521)	(0.549)	(0.568)	(0.475)	(0.577)
SIZE $_{t-2,t-1}$	0.072***	0.074***	0.068***	0.070***	0.073***
	(9.430)	(9.878)	(8.988)	(9.708)	(8.996)
CEOOWN $_{t-2,t-1}$	-0.001***	-0.001***	-0.001***	-0.001***	-0.001***
	(-4.360)	(-4.592)	(-3.886)	(-4.391)	(-3.728)
LGTENURE $_{t}$	0.020	0.020	0.011	0.018	0.016
	(1.532)	(1.542)	(0.828)	(1.446)	(1.155)
MTB $_{t-2,t-1}$	0.000	0.000	0.000	-0.000	0.001*
	(0.032)	(1.092)	(1.368)	(-0.153)	(1.788)
LGAGE $_{t}$	-0.000	-0.000	-0.000	-0.000	-0.001
	(-0.232)	(-0.262)	(-0.242)	(-0.012)	(-0.705)
LGNUMYR0 $_{t}$	0.986***	0.991***	0.974***	1.006***	0.965***
	(22.110)	(24.221)	(21.870)	(25.243)	(19.821)
Constant	-0.301***	-0.315***	-0.228**	-0.275***	-0.267**
	(-2.922)	(-3.092)	(-2.222)	(-2.770)	(-2.424)
Reg Dummy	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Observations	1,128	1,189	1,109	1,234	1,024
R-squared	0.391	0.402	0.377	0.402	0.379

Table 3: Panel B. The association between post-CEO director pay and earnings management

This table presents the results of the following cross-sectional regression model: $Pay_{t+2} = \beta_0 + \beta_1 READABILITY_{t-2,t-1} + \beta_2 ACCRUALS_{t-2,t-1} + \beta_3 R\&D_{t-2,t-1} + \beta_4 RESTATEMENT_{t-2,t-1} + \beta_5 ROA_{t-2,t-1} + \beta_6 RET_{t-2,t-1} + \beta_7 SIZE_{t-2,t-1} + \beta_8 CEOOWN_{t-2,t-1} + \beta_9 LGTENURE_{t-2,t-1} + \beta_{10} MTB_{t-2,t-1} + \beta_{11} LGAGE_{t-2,t-1} + \beta_{14} LGNUMYR0_{t-2,t-1} + \beta_{15} INDREG + \beta_{16} YEAR + \varepsilon_{it}$. LGAGE is the natural logarithm of CEO age in the year of departure. REG Dummy is a variable indicating if the firm belongs to two-digit SIC codes 40-49 (Transportation and Public Utilities) and 60-65, 67 (Finance, Insurance, and Real Estate). All other variables are as defined above. *, **, and *** denote significance at the 1%, 5%, and 10% levels, respectively. Reported t-statistics (in parentheses) are based on robust standard errors clustered by year.

	(1)	(2)	(3)	(4)	(5)
VARIABLES	Pay_{t+2}	Pay_{t+2}	Pay_{t+2}	Pay_{t+2}	Pay_{t+2}
READABILITY $_{t-2,t-1}$	0.049**				0.047*
	(2.028)				(1.831)
ACCRUALS $_{t-2,t-1}$		1.327**			0.962
		(2.081)			(1.402)
R&D $_{t-2,t-1}$			-1.116		-0.873
			(-1.395)		(-1.054)
RESTATEMENT $_{t}$				-0.635**	-0.582
				(-2.046)	(-1.539)
$ROA_{t-2,t-1}$	1.002*	1.056*	0.925	0.781	1.073*
	(1.738)	(1.738)	(1.467)	(1.324)	(1.686)
RETURN $_{t-2,t-1}$	-0.000	-0.000	0.000	-0.000	-0.000
	(-0.136)	(-0.078)	(0.017)	(-0.132)	(-0.097)
SIZE $_{t-2,t-1}$	0.426***	0.431***	0.402***	0.418***	0.425***
	(9.347)	(9.696)	(8.810)	(9.655)	(8.746)
CEOOWN $_{t-2,t-1}$	-0.009***	-0.008***	-0.008***	-0.008***	-0.008***
	(-4.487)	(-4.688)	(-4.249)	(-4.546)	(-4.053)
LGTENURE $_{t}$	0.105	0.090	0.039	0.091	0.057
	(1.247)	(1.115)	(0.463)	(1.160)	(0.643)
MTB $_{t-2,t-1}$	0.002	0.004*	0.005**	0.001	0.005**
	(0.497)	(1.753)	(2.165)	(0.293)	(2.345)
LGAGE $_{t}$	0.004	0.005	0.006	0.006	0.002
	(0.419)	(0.507)	(0.568)	(0.623)	(0.233)
LGNUMYR0 $_{t}$	4.621***	4.566***	4.574***	4.652***	4.547***
	(21.015)	(22.253)	(20.644)	(23.258)	(18.720)
Constant	-2.089***	-2.137***	-1.765***	-1.966***	-1.951***
	(-3.438)	(-3.536)	(-2.886)	(-3.333)	(-3.010)
Reg Dummy	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Observations	1,128	1,189	1,109	1,234	1,024
R-squared	0.316	0.318	0.303	0.320	0.306

Table 4: The Association between Number of Post-CEO Director Positions and Earnings Management Partitioned by Planned vs Forced Retirement

This table presents the results of the following cross-sectional regression model partitioned by whether or not retirement was for planned reasons: $Positions_{t+2} = \beta_0 + \beta_1 READABILITY_{t-2,t-1} + \beta_2 ACCRUALS_{t-2,t-1} + \beta_3 R\&D_{t-2,t-1} + \beta_4 RESTATEMENT_{t-2,t-1} + \beta_5 ROA_{t-2,t-1} + \beta_6 RET_{t-2,t-1} + \beta_7 SIZE_{t-2,t-1} + \beta_8 CEOOWN_{t-2,t-1} + \beta_9 LGTENURE_{t-2,t-1} + \beta_{10} MTB_{t-2,t-1} + \beta_{11} LGAGE_{t-2,t-1} + \beta_{14} LGNUMYR0_{t-2,t-1} + \beta_{15} INDREG + \beta_{16} YEAR + \varepsilon_{it}$. All variables are as defined above. *, **, and *** denote significance at the 1%, 5%, and 10% levels, respectively. Reported t-statistics (in parentheses) are based on robust standard errors clustered by year.

VARIABLES	(1) *Positions$_{t+2}$* *Forced RETIREMENT*	(2) *Positions$_{t+2}$* *Planned RETIREMENT*
READABILITY $_{t-2,t-1}$	0.003	0.013**
	(0.599)	(2.066)
ACCRUALS $_{t-2,t-1}$	0.175	0.432**
	(1.130)	(2.136)
R&D $_{t-2,t-1}$	-0.129	-0.323
	(-0.739)	(-1.239)
RESTATEMENT $_{t}$	-0.132**	-0.102
	(-2.048)	(-1.169)
ROA$_{t-2,t-1}$	0.251*	-0.115
	(1.872)	(-0.694)
RETURN $_{t-2,t-1}$	0.000	-0.025
	(0.679)	(-1.576)
SIZE $_{t-2,t-1}$	0.058***	0.094***
	(5.311)	(7.943)
CEOOWN $_{t-2,t-1}$	-0.001***	-0.002***
	(-2.991)	(-2.892)
LGTENURE $_{t}$	0.007	0.019
	(0.403)	(0.848)
MTB $_{t-2,t-1}$	0.002	0.000
	(1.124)	(0.443)
LGAGE $_{t}$	-0.001	-0.002
	(-0.457)	(-0.782)
LGNUMYR0 $_{t}$	1.012***	0.902***
	(13.214)	(14.486)
Constant	-0.030	-0.575***
	(-0.214)	(-3.473)
Reg Dummy	YES	YES
Year FE	YES	YES
Observations	543	481
R-squared	0.378	0.423

Table 5: Panel A. The association between number of post-CEO director positions, post-CEO director pay, and scandal

This table presents the results of the following cross-sectional regression model: $Positions_{t+2}$ (Pay_{t+2}) = β_0 + β_1 $SCANDAL_t$+ β_2 $ROA_{t-2,t-1}$ + β_3 $RET_{t-2,t-1}$ + β_4 $SIZE_{t-2,t-1}$+ β_5 $CEOOWN_{t-2,t-1}$+β_6 $LGTENURE_{t-2,t-1}$ + β_7 $MTB_{t-2,t-1}$ + β_8 $LGAGE_{t-2,t-1}$ + β_9 $LGNUMYR0_{t-2,t-1}$ + β_{10} INDREG+ β_{11} YEAR+ ε_{it} . All variables are as defined above. *, **, and *** denote significance at the 1%, 5%, and 10% levels, respectively. Reported t-statistics (in parentheses) are based on robust standard errors clustered by year.

	(1)	(2)
VARIABLES	*Positions$_{t+2}$*	*Pay$_{t+2}$*
SCANDAL $_t$	-0.197***	-1.177***
	(-2.967)	(-3.005)
ROA$_{t-2,t-1}$	0.168*	0.855
	(1.777)	(1.447)
RETURN $_{t-2,t-1}$	0.000	-0.000
	(0.473)	(-0.141)
SIZE $_{t-2,t-1}$	0.072***	0.423***
	(9.922)	(9.849)
CEOOWN $_{t-2,t-1}$	-0.001***	-0.008***
	(-4.601)	(-4.680)
LGTENURE $_t$	0.020	0.103
	(1.601)	(1.308)
MTB $_{t-2,t-1}$	-0.000	0.001
	(-0.114)	(0.332)
LGAGE $_t$	-0.000	0.004
	(-0.202)	(0.407)
LGNUMYR0 $_t$	0.998***	4.610***
	(25.072)	(23.390)
Constant	-0.264***	-1.869***
	(-2.679)	(-3.184)
Reg Dummy	YES	YES
Year FE	YES	YES
Observations	1,234	1,234
R-squared	0.404	0.323

Table 5: Panel B. The association between number of post-CEO director positions and earnings management for CEO departure not associated with SCANDAL

This table presents the results of the following cross-sectional regression model: $Positions_{t+2} = \beta_0 + \beta_1 READABILITY_{t-2,t-1} + \beta_2 ACCRUALS_{t-2,t-1} + \beta_3 R\&D_{t-2,t-1} + \beta_4 RESTATEMENT_{t-2,t-1} + \beta_5 ROA_{t-2,t-1} + \beta_6 RET_{t-2,t-1} + \beta_7 SIZE_{t-2,t-1} + \beta_8 CEOOWN_{t-2,t-1} + \beta_9 LGTENURE_{t-2,t-1} + \beta_{10} MTB_{t-2,t-1} + \beta_{11} LGAGE_{t-2,t-1} + \beta_{14} LGNUMYR0_{t-2,t-1} + \beta_{15} INDREG + \beta_{16} YEAR + \varepsilon_{it}$. All variables are as defined above. *, **, and *** denote significance at the 1%, 5%, and 10% levels, respectively. Reported t-statistics (in parentheses) are based on robust standard errors clustered by year.

VARIABLES	(1) *Positions$_{t+2}$* *SCANDAL = 0*	(2) *Positions$_{t+2}$* *SCANDAL = 0*	(3) *Positions$_{t+2}$* *SCANDAL = 0*	(4) *Positions$_{t+2}$* *SCANDAL = 0*	(5) *Positions$_{t+2}$* *SCANDAL = 0*
READABILITY $_{t-2,t-1}$	0.009**				0.008*
	(2.133)				(1.873)
ACCRUALS $_{t-2,t-1}$		0.339***			0.270**
		(2.883)			(2.194)
R&D $_{t-2,t-1}$			-0.249*		-0.150
			(-1.685)		(-1.013)
RESTATEMENT $_{t}$				-0.159***	-0.147***
				(-3.410)	(-2.647)
ROA$_{t-2,t-1}$	0.205**	0.236**	0.183*	0.168*	0.227**
	(2.165)	(2.395)	(1.759)	(1.756)	(2.159)
RETURN $_{t-2,t-1}$	0.000	0.000	0.000	0.000	0.000
	(0.524)	(0.554)	(0.572)	(0.478)	(0.580)
SIZE $_{t-2,t-1}$	0.075***	0.076***	0.071***	0.073***	0.076***
	(9.693)	(10.060)	(9.202)	(9.920)	(9.312)
CEOOWN $_{t-2,t-1}$	-0.001***	-0.001***	-0.001***	-0.001***	-0.001***
	(-4.218)	(-4.484)	(-3.877)	(-4.253)	(-3.675)
LGTENURE $_{t}$	0.022*	0.021*	0.013	0.020	0.018
	(1.648)	(1.657)	(0.947)	(1.581)	(1.239)
MTB $_{t-2,t-1}$	0.000	0.000	0.000	-0.000	0.001**
	(0.073)	(1.308)	(1.606)	(-0.110)	(1.987)
LGAGE $_{t}$	-0.001	-0.001	-0.001	-0.001	-0.002
	(-0.690)	(-0.645)	(-0.632)	(-0.412)	(-1.129)
LGNUMYR0 $_{t}$	0.986***	0.990***	0.975***	1.006***	0.964***
	(22.475)	(24.590)	(22.289)	(25.680)	(20.144)
Reg Dummy			YES		
Year FE			YES		
Constant	-0.290***	-0.307***	-0.221**	-0.268***	-0.258**
	(-2.763)	(-2.953)	(-2.106)	(-2.651)	(-2.305)
Observations	1,099	1,160	1,080	1,204	996
R-squared	0.400	0.411	0.386	0.411	0.389

Table 5: Panel C. The association between number of post-CEO director positions and earnings management for CEO departure associated with SCANDAL

This table presents the results of the following cross-sectional regression model: $Positions_{t+2} = \beta_0 + \beta_1 READABILITY_{t-2,t-1} + \beta_2 ACCRUALS_{t-2,t-1} + \beta_3 R\&D_{t-2,t-1} + \beta_4 RESTATEMENT_{t-2,t-1} + \beta_5 ROA_{t-2,t-1} + \beta_6 RET_{t-2,t-1} + \beta_7 SIZE_{t-2,t-1} + \beta_8 CEOOWN_{t-2,t-1} + \beta_9 LGTENURE_{t-2,t-1} + \beta_{10} MTB_{t-2,t-1} + \beta_{11} LGAGE_{t-2,t-1} + \beta_{14} LGNUMYR0_{t-2,t-1} + \beta_{15} INDREG + \beta_{16} YEAR + \varepsilon_{it}$. All variables are as defined above. *, **, and *** denote significance at the 1%, 5%, and 10% levels, respectively. Reported t-statistics (in parentheses) are based on robust standard errors clustered by year.

VARIABLES	(1) *Positions$_{t+2}$* *SCANDAL = 1*	(2) *Positions$_{t+2}$* *SCANDAL = 1*	(3) *Positions$_{t+2}$* *SCANDAL = 1*	(4) *Positions$_{t+2}$* *SCANDAL = 1*	(5) *Positions$_{t+2}$* *SCANDAL = 1*
READABILITY $_{t-2,t-1}$	-0.053*				-0.051
	(-1.975)				(-1.820)
ACCRUALS $_{t-2,t-1}$		-1.783			-1.656
		(-0.628)			(-0.738)
R&D $_{t-2,t-1}$			-2.318*		-2.005*
			(-2.166)		(-1.976)
RESTATEMENT $_{t}$				0.198	0.317
				(0.737)	(0.894)
ROA$_{t-2,t-1}$	-1.867	-1.232	-1.028	-1.849	-0.991
	(-1.795)	(-1.009)	(-1.303)	(-1.575)	(-1.103)
RETURN $_{t-2,t-1}$	0.152	0.187	-0.032	0.156	0.093
	(0.734)	(0.730)	(-0.177)	(0.733)	(0.386)
SIZE $_{t-2,t-1}$	-0.040	-0.054	0.007	-0.037	0.002
	(-1.052)	(-1.502)	(0.158)	(-1.048)	(0.069)
CEOOWN $_{t-2,t-1}$	-0.002	-0.003	-0.002	-0.001	-0.002
	(-1.014)	(-1.154)	(-1.301)	(-0.720)	(-1.038)
LGTENURE $_{t}$	-0.003	0.047	-0.054	0.028	-0.059
	(-0.027)	(0.337)	(-0.455)	(0.206)	(-0.545)
MTB $_{t-2,t-1}$	-0.002	-0.011	0.007	-0.004	0.004
	(-0.194)	(-0.724)	(0.520)	(-0.436)	(0.237)
LGAGE $_{t}$	0.011	0.016	0.022	0.017	0.020
	(0.807)	(0.914)	(1.585)	(1.044)	(1.007)
LGNUMYR0 $_{t}$	-0.360	-0.370	-0.238	-0.241	-0.435
	(-1.095)	(-0.966)	(-0.821)	(-0.773)	(-1.488)
Constant	0.724	0.338	-0.475	-0.040	0.152
	(0.920)	(0.318)	(-0.628)	(-0.046)	(0.126)
Reg Dummy	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Observations	29	29	29	30	28
R-squared	0.688	0.652	0.753	0.621	0.848

Appendix A – Variable Descriptions

VARIABLE	***DESCRIPTION***
$Positions_{t+1}$	The natural logarithm of 1 plus the number of outside post-CEO directorships the first full year after CEO departure.
$Positions_{t+2}$	The natural logarithm of 1 plus the number of outside post-CEO directorships the second full year after CEO departure.
$Positions_{t+3}$	The natural logarithm of 1 plus the number of outside post-CEO directorships the third full year after CEO departure.
Pay_{t+1}	The natural logarithm of 1 plus the sum of pay from outside post-CEO directorships the first full year after CEO departure.
Pay_{t+2}	The natural logarithm of 1 plus the sum of pay from outside post-CEO directorships the second full year after CEO departure.
Pay_{t+3}	The natural logarithm of 1 plus the sum of pay from outside post-CEO directorships the third full year after CEO departure.
$FLESCH_{t-2,t-1}$	The Flesch Reading Ease scores for 10-K filings averaged over the last two full years before CEO departure, calculated as 206.835 – 1.015 (Total words/Total Sentences) – 84.6 (Total Syllables/Total words). See Flesch (1948) and Kincade et al. (1975).
$READABILITY_{t-2,t-1}$	The decile of the Flesch Reading Ease scores.
$ACCRUALS_{t-2,t-1}$	The absolute discretionary accruals, computed as the residual from the annual cross-sectional two-digit SIC industry regression model: TotalAccit = β0/TA + β1 · ΔSales + β2 · PPE + β3 · ROA + e, where TA is the total assets of firm in the previous year; ΔSales is the change in sales scaled by lagged total assets, PPE is net property, plant, and equipment scaled by lagged total assets; ROA is the return on assets scaled by lagged total assets; and TotalAcc are the total accruals, computed as the sum of the earnings before extraordinary items, the extraordinary items, and discontinued operations excluding the cash flows from operations. Absolute discretionary accruals are averaged over the last two full years before CEO departure.
$SCANDAL_{t}$	An indicator variable that equals 1 if the CEO left their position due to a scandal (determined from the business press), and 0 otherwise.
$R\&D_{t-2,t-1}$	Maximum (0, R&D expenditure scaled by total sales) minus median two-digit SIC industry. R&D is averaged over the last two full years before CEO departure.
$RESTATEMENT_{t-2,t-1}$	An indicator variable if the firm restates earnings in the past two years due to an accounting irregularity as described in Hennes, Leone, and Miller (2008).
$ROA_{t-2,t-1}$	Operating income before depreciation divided by total assets averaged over the last two full years before CEO departure.
$RETURN_{t-2,t-1}$	Stock returns (change in stock price deflated by beginning price) averaged over the last two full years before CEO departure.
$ABRETURN_{t-2,t-1}$	CRSP value weighted abnormal stock returns averaged over the last two full years before CEO departure.

$SIZE_{t-2,t-1}$	The natural logarithm of total assets averaged over the last two full years before CEO departure.
$CEOOWN_{t-2,t-1}$	Shares owned by the executive, excluding options that are exercisable or will become exercisable within 60 days as reported by Execucomp (SHROWN_EXCL_OPTS) deflated by common shares outstanding (CSHO). CEOOWN is averaged over the last two full years before CEO departure.
$TENURE_t$	The number of years the CEO served as CEO, measured in the last year before departure.
$LGTENURE_t$	The natural logarithm of CEO tenure measured in the last year before departure.
$MTB_{t-2,t-1}$	The market value of equity over common equity averaged over the last two full years before CEO departure.
AGE_t	The age of the CEO measured in the last year before departure.
$LGAGE_t$	The natural logarithm of the age of the CEO measured in the last year before departure.
$LGNUMYR0_t$	The natural logarithm of one plus the number of outside board directorships the CEO holds in the year of departure.