Do Changes in Accounting Standards Alter Boards' Decision-Making Formula?

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ABSTRACT
There has been a boiling debate on the effect of ASC 606 adoption, a shift from a rules-based to a principles-based accounting framework in revenue recognition. We explore whether ASC 606 adoption affects boards' CEO turnover decisions that result in a revamping of corporate policies on real variables. Using a staggered difference-in-differences (DID) and an alternative DID model with U.S. GAAP versus IFRS firms, we find that following ASC 606 adoption, boards reduce the reliance on accounting earnings relative to stock returns when making CEO turnover decisions, suggesting that changes in accounting standards alter boards' decision-making formula on CEO turnover, attributable to the reduced informativeness of earnings for future firm performance under the new standard. In contrast, peer-adjusted accounting earnings, a relative accounting performance measure, do not encounter such performance-sensitivity declines, possibly due to an offset by the improvement in accounting comparability among peers driven by the shift to the principles-based accounting standard. Overall, our findings suggest that the change in accounting standards alters the board's decision-making paradigm.

I. INTRODUCTION

The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, in May 2014 which is required for all public firms in the U.S. whose reporting periods begin after December 15, 2017. ASC 606 replaces detailed industry- and transaction-specific revenue recognition guidelines under ASC 605 (the legacy U.S. GAAP) with a uniform revenue recognition principle that encompasses all possible forms of transactions. ASC 606 aims to enhance the usefulness of accounting information by transitioning from a rules-based to a principles-based accounting framework. While a one-size-fits-all principle is often pursued to enhance flexibility and comparability at the expense of clarity, the principles-based accounting framework inevitably allows for considerable managerial discretion in financial reporting.

Even though ASC 606 has significantly changed the financial reporting process, the evidence on the adoption effects remains inconsistent or mixed. On one hand, recent studies find, following the adoption of ASC 606, increases in precision and comparability of the

accounting report, proxied by the degree to which economic events map into the financial reports (Ferreira 2021), informativeness, and mapping of revenue accruals to cash collections (Choi, Kim, and Wang 2022). Chung and Chuwonganant (2021) also find that ASC 606 improves earnings informativeness and market liquidity. On the other hand, K. Lee and S. Lee (2020) suggest that earnings predictability, measured by absolute analyst forecast errors and dispersion, has decreased after the adoption of ASC 606 due to an increase in managerial discretion in reporting earnings numbers. Chang and Suk (2023) present that firms significantly increased discretionary revenues to inflate revenues or accelerate revenue recognition as a way of earnings management after ASC 606 adoption. While the evidence regarding the effects of ASC 606 on managerial behavior and the usefulness of accounting information to investors is mixed, there has been no investigation on whether ASC 606 adoption alters *the board of directors'* use of accounting information in their decision-making. Our study fills this void.

We argue that ASC 606 adoption alters the board's monitoring function in which accounting earnings, along with market returns, are used to assess the firm's future performance and managerial ability.[1] Among various decisions made by boards, our study focuses on CEO turnover decisions because we are keen to investigate the long-term implications of accounting standard changes for real variables through boards' CEO replacement decisions. Compared to other board decisions, such as CEO compensation decisions, the decision to replace a CEO is one of the most crucial decisions made by the board of directors. This decision entails more drastic changes in corporate policies on real variables, including financing, investing, and operating activities (Huson et al., 2000) and has longer-term consequences (Shleifer and Vishny 1997; Huson, Parrino, and Starks 2001; Suk et al. 2021).[2] Therefore, it is particularly important

[1] For example, prior studies find that accounting earnings is an important determinant in CEO turnover decisions (e.g., Murphy and Zimmerman 1993; Denis and Denis 1995; Engel, Hayes, and Wang 2003; Farrell and Whidbee 2003; Suk, Lee, and Kross 2021).

[2] Distinguished from boards' CEO compensation decision, for example, their CEO turnover decision reflects not so much the incentive for motivating a CEO but rather a board's assessment of a CEO's ability from a long-term perspective (Suk et al. 2021). Further, forced CEO turnover can result in a change in the firm's institutional

to understand whether and how ASC 606 adoption affects the board's CEO turnover decision. Our investigation extends the understanding of how accounting standards affect the board's decision-making formula, and as a result, real policy variables.

On one hand, if the board of directors finds that accounting earnings become more informative about future firm performance or CEO ability due to the *enhanced signaling role* of accounting earnings following the adoption of ASC 606, they will increase the weight on accounting earnings relative to stock returns regarding CEO turnover. On the other hand, if the board of directors expects that after the implementation of ASC 606, the predictability of earnings for future performance will decrease because more discretion in revenue recognition leads to *more opportunistic revenue recognition and earnings management*, it will place less weight on the accounting performance measure in CEO turnover decisions. Allowing both possibilities, we investigate whether ASC 606 adoption alters the role of earnings in CEO turnover decisions.

To investigate the effect of ASC 606 on CEO turnover decision, we primarily employ a staggered difference-in-differences (DID) design. Specifically, we utilize the effective date of ASC 606, which is the annual reporting period beginning after December 15, 2017. As such, firms with a December fiscal year end are mandated to report financial statements of the fiscal year 2018 in calendar year 2018. In contrast, firms with other fiscal year ends are not required to report financial statements for the fiscal year 2018 in calendar year 2018. This staggered adoption of ASC 606 enables us to construct a difference-in-differences (DID) design and compare how differently boards of directors of firms that have adopted ASC 606 use accounting performance measures in CEO turnover decisions, compared to those that have not yet adopted ASC 606. Our primary analysis using the staggered DID model reveals that boards

ownership (Parrino, Sias, and Starks 2003).

rely less on accounting performance measures after the adoption of ASC 606. This finding supports the notion that boards reduce the weight on the accounting performance measure in CEO turnover decisions possibly because boards regard accounting earnings to be less informative for the firm's future performance due to heightened managerial opportunism after ASC 606 adoption.

To properly attribute changes in boards' utilization of the accounting performance measure in CEO turnover decisions to the ASC 606 adoption event, we conduct three robustness checks in the staggered DID framework. First, to address a potential concern that the observed result is driven by differences in firm characteristics between treatment and control firms, we employ an entropy balancing approach and adjust the distributions of control firm characteristics similar to those of treatment firms. This balancing process improves the balance of covariate distributions and reduces possible bias in estimating the treatment effects (McMullin and Schonberger 2020). The result indicates that the main finding is robust to the use of an entropy-balancing approach.

Second, we conduct a dynamic analysis to validate the parallel trend assumption. If boards expect a decrease in the usefulness of accounting information and incorporate that expectation into their CEO turnover decisions before the actual adoption of ASC 606, it is difficult to make a causal inference based on the DID. Moreover, it is also critical to ensure that the parallel trends assumption is well-kept in the pre-adoption period. We thus examine the dynamic effects of the adoption of ASC 606 by adding to the main model an indicator variable that captures the year before ASC 606 adoption and its interactions with the treatment indicator and the accounting performance measure. The finding indicates that there was no change in the use of accounting information before the adoption of ASC 606, satisfying the parallel trend assumption.

Third, we conduct a falsification test by examining the impact of the adoption of ASC

606 on the sensitivity of voluntary and non-forced CEO turnovers to accounting performance measures. Unlike forced CEO turnovers, voluntary and non-forced CEO turnovers do not reflect the boards' disciplinary decisions. Therefore, we expect no changes in the sensitivity of voluntary and non-forced CEO turnovers to accounting performance following ASC 606. Consistent with this prediction, we find that the sensitivity of voluntary and non-forced CEO turnovers to accounting performance does not change after ASC 606.

Next, we employ an alternative DID framework based on the distinctions between U.S. GAAP and IFRS regarding revenue recognition. While the adoption of ASC 606 under U.S. GAAP brings a significant change in revenue recognition by transitioning from a rules-based to a principles-based standard, the corresponding standard in IFRS, IFRS 15, simply integrates previously issued several principles-based standards. The alternative DID approach that focuses on the differences between U.S. GAAP and IFRS reveals a more significant decline in the use of accounting performance measures in CEO turnover decisions among firms adhering to U.S. GAAP, compared to IFRS firms.

Next, we conduct four cross-sectional analyses to examine the underlying mechanism that induced our main finding. First, we split the sample according to the material impact of ASC 606 adoption. We observe that boards diminish the reliance on accounting performance measures in their CEO turnover decisions only in firms that have been materially impacted by ASC 606. Second, we examine whether the impact of ASC 606 differs between firms with industry specialist auditors and other firms. The findings suggest that boards of directors in firms with non-industry specialist auditors decrease their reliance on accounting information for CEO turnover decisions after ASC 606 adoption, whereas boards in firms with industry specialist auditors do not exhibit such a reduction. Third, we extend our analysis to explore whether the pre-adoption accounting quality, measured by earnings quality and accounting conservatism, is related to the extent to which boards reduce the reliance on accounting

information in CEO turnover decisions after the adoption of ASC 606. We find that the post-ASC 606 decrease in boards' reliance on accounting earnings is more pronounced in firms with high pre-adoption earnings quality and high pre-adoption conservatism scores. Overall, the evidence from cross-sectional analyses aligns with our inference that following ASC 606 adoption, the board of directors refers less to accounting information when making turnover or retention decisions on incumbent CEOs.

Finally, we examine the effect of ASC 606 adoption on CEO turnover sensitivity to relative earnings performance. Unlike the findings in the main analysis, we do not find a post-adoption decline in the sensitivity of turnover to peer-adjusted accounting earnings (i.e., industry-adjusted ROA). We interpret this as indicating that the reduced predictability of accounting earnings for future firm performance is offset by the improvement in accounting comparability among peers driven by the shift from the rules-based accounting standard to the principles-based accounting standard. Overall, our evidence suggests that the change in accounting standards significantly alters the role accounting information plays in the board's decision-making process.

Our study contributes to the literature in several strands. First, our study extends the literature that provides mixed evidence on the effect of ASC 606 adoption on financial reporting quality such as earnings management, the predictability, value relevance, and informativeness of accounting information (e.g., Ferreira 2021; K. Lee and S. Lee 2020; Choi et al. 2022; Chung and Chuwonganant 2021; Ali and Tseng 2022; Chang and Suk 2023).[3] As

[3] Using earlier regulatory changes on revenue recognition standards, such as Staff Accounting Bulletin (SAB) No. 101, Statement of Position (SOP) 91-1, SOP 97-2, and Accounting Standards Update (ASU) 2009-13/14, Accounting Standards Update (ASU) 2009-13 and ASU 2009-14, which restrict or expand managerial discretion, prior studies have examined how financial reporting quality changes after regulatory changes (Altamuro, Beatty, and Weber 2005; Zhang 2005; Srivastava 2014). Unlike these minor or fragmental revisions whose impacts are limited to a certain industry or product, ASC 606 applies to almost all areas of financial reporting for the whole U.S. public firms across industries which enables researchers to investigate the effect of managerial discretion in financial reporting in a generalizable manner (Chang and Suk 2023).

such, prior studies mainly focus on how managers' financial reporting behavior changes in response to the new regulation or whether accounting information becomes more or less useful to investors after the regulation change. Departing from the extant literature, our study focuses on whether ASC 606 alters the board's decision-making formula, specifically its future performance-prediction model in CEO turnover decision.

Second, our study contributes to the literature that examines whether accounting regulation has real effects (Shroff 2017; Roychowdhury, Shroff, and Verdi 2019). CEO turnover entails significant long-term ramifications for firm performance as it alters a firm's operating, investing, as well as financing activities (e.g., Shleifer and Vishny 1997; Huson et al. 2001; Suk et al. 2021). Our analysis of the effect of ASC 606 adoption on CEO turnover has important implications for real effects (capital investment, employment, innovation, etc.) because boards' CEO turnover decisions generally lead to a revamping of corporate policies on real variables.

Third, our paper contributes to the literature that emphasizes the use of relative performance evaluation measures (e.g., DeFond and Park 1999; Jenter and Kannan 2015). While our main results suggest that after ASC 606 adoption, the weight of earnings reduced in boards' CEO turnover decisions when peer firm earnings are not adjusted, its weight did not reduce in boards' CEO turnover decisions when peer firm earnings are adjusted. Therefore, in the era under ASC 606, improving earnings performance relative to their peers appears important to improve CEO tenure. This suggests that accounting earnings are still useful when relative or peer-adjusted earnings performance measures are used in the board's performance evaluation formula. Our results suggest that it is premature to conclude that the principles-based new accounting standard reduced the usefulness of accounting information due to increased managerial opportunism because such a negative effect can be balanced out by the improvement in accounting comparability among peers driven by the new principles-based

accounting standard.

II. BACKTROUND, LITERATURE REVIEW, AND HYPOTHESIS DEVELOPMENT

Institutional Backgrounds: ASC 606

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) jointly issued the new revenue standards: Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*, codified as ASC 606, and International Financial Reporting Standard 15 *Revenue from Contracts with Customers* (IFRS 15 – IASB 2014), respectively. After all, public entities are required to adopt ASC 606 for reporting periods beginning after December 15, 2017.[4] This new standard substantially modifies how firms acknowledge and declare their revenue. Revenue recognition under ASC 606 includes the following five steps. First, a firm shall identify the contract with a customer. Second, a firm shall identify a performance obligation, a promise to transfer a good or service to the customer. Third, a firm shall determine the amount of the transaction price.[5] Fourth, if a contract contains more than one performance obligation, the transaction price is allocated to each performance obligation.[6] Finally, revenue is recognized when the control of the promised goods or services is transferred to the customer. Each performance obligation may be satisfied over time (paragraphs 606-10-25-27 through 25-29) or at a point in time (paragraph 606-10-25-30).

Both expectations and concerns surround this accounting standard change. On one hand,

[4] In August 2015, the Board issued Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.* The amendments in that Update deferred the effective date of Update 2014-09 for all entities by one year. Public business entities, certain NFP entities, and certain employee benefit plans were required to apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

[5] Determining the transaction price requires managers' discretion regarding various and complex issues, including variable consideration, the existence of a significant financing component, noncash consideration, and consideration payable to the customer.

[6] A contract may involve transferring more than one good or service. Allocating the transaction price is based on a relative 'standalone selling price' basis. If a standalone selling price is not observable, it should be estimated using suitable methods.

practitioners and researchers believe that this transition from a rules-based to a principles-based standard will remove a significant source of inconsistency in GAAP. The main purpose of the new revenue recognition principle is to improve financial reporting quality by establishing a robust and consistent framework for the accounting of contract-based transactions while eliminating inconsistencies in the previous guidance. Moreover, the new standard includes a list of disclosure standards to ensure transparency in revenue recognition from contracts with customers. By providing a more comprehensive revenue recognition framework, ASC 606 ultimately aims to foster consistency in revenue recognition and improve the usefulness and comparability of financial statements.

On the other hand, some scholars and experts have expressed concerns regarding ASC 606. Critics suggest that the additional judgment required by the shift towards a principles-based framework could increase exposure to fraud or noncompliance (Deloitte 2018).[7] Under the new standard, revenues are recognized when a *performance obligation* is satisfied, rather than when the *delivery* of goods or services occurs. Although the new standard requires a customer's *approval of a contract* to satisfy a *performance obligation*, its flexible definition of *approval* leaves considerable room for managerial discretion as to whether a *performance obligation* is satisfied. Under the new standard, the *approval* by a customer is not limited to a specific written order from a customer but also includes a customer's verbal *promise* or a *promise* implied by the firm's *business practices*. This broad definition of *approval of a contract* implies that managers can recognize revenues without a specific written contract with a customer if it is deemed appropriate in light of the firm's *business practices*. However, in the absence of specific guidance on the definition of *business practice*, a manager's private information and expertise allow a large room for interpretation of the firm's *business practice*

[7] https://www2.deloitte.com/content/dam/Deloitte/us/Documents/audit/ASC/HU/2018/us-aers-hu-sec-comments-reflect-registrants-efforts-to-implement-asc606.pdf

and thereby for flexibility in revenue recognition. Overall, while the implementation of ASC 606 aims to standardize revenue recognition and promote transparency, it also presents significant challenges for businesses and financial statement users.

CEO Turnover and the Quality of Accounting Earnings

According to agency theory, the board of directors in a firm hires a manager to maximize firm value or shareholder wealth and thus proposes a contract to the manager to fulfill this objective. Since the manager's effort is not verifiable, the contract is based on the output of the firm as a proxy for the manager's effort. If there is more than one variable that provides information about a manager's effort, optimal contracts should include all informative variables (Holmström 1979). Banker and Datar (1989) show that the importance of the information of each variable (i.e., the weights on each contract variable) in a linear compensation contract depends on the relative precision and sensitivity of the information about the agent's effort.

In addition, while the incentive contract induces managers to exert effort to maximize the firm value, low-ability managers or poor-performing managers whose skill sets and efforts are not well matched with the firm's needs should be replaced. Thus, prior literature documents a negative relation between firm performance and CEO turnover. While most prior studies on CEO turnover show that stock price performance affects boards' CEO turnover decisions (e.g., Hermalin and Weisbach 1998; Jenter and Lewellen 2021), many studies also find that earnings performance significantly affects boards' CEO turnover decisions (e.g., Murphy and Zimmerman 1993; Weisbach 1988; Denis and Denis 1995). In sum, prior research indicates that both earnings and stock market performance provide significant information regarding the CEO's ability or skill sets that drive positive future firm performance and thus facilitate boards' decisions to change or retain incumbent CEOs.

Prior accounting research examines how the board utilizes accounting information

along with stock market information for forced CEO turnover decisions. Based on Banker and Datar (1989), Engel et al. (2003) empirically examine whether accounting characteristics affect the weights of earnings and returns for CEO turnover decisions. They employ earnings and returns variances as proxies for the precision of the signals for the agent's effort (Bushman, Indjejikian, and Smith 1996; Lambert and Larcker 1987) and the timeliness of earnings as a proxy for the sensitivity of the agent effort (Basu 1997). They show that earnings get more weight in CEO turnover decisions when earnings are less variable and timelier. It means that less variable and timelier earnings provide more useful information about the CEO's ability or skill sets required to operate the firm. Suk et al. (2021) also show that CEOs with poor earnings performance are more likely to be replaced when their firms' earnings are more persistent. By horse-racing with other earnings characteristics, they report that earnings persistence is the most important earnings characteristic to affect CEO turnover followed by earnings variability and timeliness while other characteristics (e.g., conservatism, accruals, and smoothness) have weaker impacts on the sensitivity of forced CEO turnovers to accounting earnings. Overall, prior studies suggest that the quality of accounting earnings affects the sensitivity of forced CEO turnovers to accounting earnings.

Hypothesis: Accounting Standard and Turnover-earnings Sensitivity

On one hand, managerial discretion in financial reporting could facilitate private information communication, thereby improving the value relevance of financial information (Watts and Zimmerman 1986; Dye and Verrecchia 1995; Subramanyam 1996; Louis and Robinson 2005; Hann, Lu, and Subramanyam 2007). Accordingly, the flexibility in the concept of *performance obligation* under ASC 606 might facilitate the communication of managers' private information and thereby improve the performance implication of reported earnings (*enhanced signaling hypothesis*). [8] For example, managers can use increased reporting

[8] In this context, prior studies find increases in precision, comparability, informativeness, and market liquidity

flexibility to recognize revenues from an implied contract based on their private information garnered through a long-standing relationship with a recurring customer or the firm's monopolistic position in the market. In this case, managers will incorporate more value-relevant private information into accounting earnings, which will increase the weight of accounting earnings in boards' CEO turnover decisions. Further, if ASC 606 successfully reduces the inconsistency as intended, it is likely to increase earnings comparability, an important characteristic that enhances the value of accounting earnings. Prior research shows that more comparable earnings increase the quality of earnings (De Franco, Kothari, and Verdi 2011). If ASC 606 increases the comparability of earnings, earnings will reflect more useful information about the CEO's ability relative to other peer CEOs. Therefore, ASC 606 increases the usefulness of information on earnings in boards' CEO turnover decisions.

Alternatively, managers may opportunistically use financial reporting flexibility to manipulate accounting numbers (D'Souza, Jacob, and Ramesh 2000; Ewert and Wagenhofer 2005; Bartov, Mohanram, and Nissim 2007; Dechow, Myers, and Shakespeare, 2010b). In such a scenario, managers will use the increased discretion afforded by the new principles-based standard to opportunistically manipulate earnings (*increased opportunism hypothesis*).[9] For example, because the new standard does not require *delivery* of goods or a specific written order to recognize revenues, premature revenue recognition schemes such as bill-and-hold sales and channel stuffing could be justified as the firm's *business practice*. Furthermore, because ASC 606 allows managerial discretion as to whether contracts should be combined, managers might opportunistically combine contracts that were entered into near the same time to inflate current revenues, thereby reducing earnings' role in reflecting past and future

effect and decreases in information asymmetries (Ferreira 2021; Choi et al. 2022). Chung and Chuwonganant (2021) also find that ASC 606 improves earnings informativeness and market liquidity.

[9] Consistent with this view, prior studies find increases in analyst forecast errors and dispersion, discretionary accruals, discretionary revenues for earnings management, and accelerated revenue recognition after ASC 606 adoption (e.g., K. Lee and S. Lee 2020; Hao and Pham 2022; Ali and Tseng 2023; Chang and Suk 2023).

performance. Especially, CEOs with poor performance facing high turnover threats are more likely to engage in earnings management by exercising their increased discretion and judgment.[10] If boards perceive the effect of ASC 606 on accounting earnings in this way, boards will reduce the weight of accounting earnings in CEO turnover decisions.[11] Allowing both possibilities, we advance our hypothesis (H1) in a null form:

H1: *The usefulness of accounting earnings in boards' CEO turnover decisions does not alter after the adoption of ASC 606.*

III. SAMPLE AND DESCRIPTIVE STATISTICS

Sample Selection

We begin sample selection for the staggered DID analysis. For firms with fiscal years ending between 2016-2018, we obtain data on CEO turnover following Gentry, Harrison, Quigley, and Boivie (2021), who collect the reasons for CEO departure in S&P 1500 firms. Following Gentry et al. (2021), we classify CEO turnovers into eight categories such as (1) Involuntary-CEO death, (2) Involuntary-CEO illness, (3) Involuntary-CEO dismissal by the board for performance, (4) Involuntary-CEO dismissed for personal issues, (5) Voluntary-CEO retired, (6) Voluntary-New opportunity, (7) Other, and (8) Missing. We identify forced CEO turnovers when the CEO is forced out by the board for performance-related reasons (CEO departure code 3). Voluntary CEO turnovers are identified when the CEO steps down voluntarily to retire or to work at another company and zero otherwise. (CEO departure codes 5 and 6). We further define non-forced CEO turnovers when the CEO steps down for any non-performance-related reasons (CEO departure codes 1, 2, 4, 5, and 6), which include voluntary

[10] Detecting earnings management is not an easy task for boards as well as for investors. Using the Jones-type discretionary accruals model for detecting earnings management has been criticized for its measurement error and bias (e.g., Dechow et al. 1995; Bernard and Skinner 1996; McNichols 2000; Stubben 2010; Ball 2013; Dhole, Manchiraju and Suk 2016; McMullin and Schonberger 2020).

[11] Engel et al. (2003) and Suk et al. (2021) show that more managed earnings is less likely to be used in CEO turnover decisions.

CEO turnovers. Following prior studies that examine the use of accounting information in CEO turnover decisions (e.g., Engel et al. 2003; Huson et al. 2001; Suk et al. 2021), we specifically focus on performance-related forced CEO turnovers. We identify these CEO turnovers based on the criteria defined as 'Involuntary-CEO dismissed by the board for performance' (code (3) in Gentry et al. (2021)). We obtain data related to executives from ExecuComp, data on the board of directors from BoardEx, and firms' accounting data from COMPUSTAT. Institutional ownership data is collected from Thompson S34.

We drop observations with missing total assets (#AT), common equity (#CEQ), income before extraordinary items (#IB), common shares outstanding (#CSHO), and price (#PRCC_F). We additionally require that total assets be higher than one million dollars. Finally, we exclude IFRS firms to keep the consistency of accounting standards.[12] Our main sample (used for the staggered DID setting to be explained in the next section) covers the period from 2016 to 2018. The pre-adoption period for ASC 606 is between 2016 and 2017, and the post-adoption period is the year 2018 in the staggered DID model. This process results in a panel of 1,408 firms (3,823 firm-years) with fiscal years ending between January 1 and December 31 in calendar years 2016-2018. Our final sample for the staggered DID analysis comprises 1,068 treatment firms (2,910 firm-years) and 340 control firms (913 firm-years). TABLE 1 provides a summary of our sample selection process.

Identification Strategy

We use the adoption of ASC 606 to examine the effect of accounting standard changes on CEO turnover decisions. This regulation change setting provides several advantages to examine. First, the adoption of ASC 606 has a significant impact on revenue recognition which is the main path to report accounting earnings. Second, we can use the staggered difference-in-

[12] In the alternative DID setting with U.S. GAAP firms vs. IFRS, we include IFRS firms as the control group in the test sample. We discuss this later.

differences (DID) model to examine the effect of accounting standard changes on CEO turnover decisions. ASC 606 is effective for the annual reporting period beginning after December 15, 2017, resulting in staggered adoptions of ASC 606, which provides a quasi-experimental setting. This indicates that firms with a December 31 fiscal year end began to report their financial statements under ASC 606 in calendar year 2018, while other firms began adopting ASC 606 in the following calendar year.[13] As a result, we can compare the role the accounting performance measure played in CEO turnover decisions for firms that have already adopted ASC 606 (treatment firms) for firms that have not yet adopted ASC 606 (control firms).

We estimate the following staggered DID model under the ordinary least square (OLS) framework:[14]

$$FTO_{,t} = \beta_0 + \beta_1 Treat_i \times Post_t \times ROA_{i,t} + \beta_2 Treat_i \times Post_t \times RET_{i,t} + \beta_3 Treat_i \times Post_t + \beta_4 ROA_{i,t} + \beta_5 RET_{i,t} + X_{i,t}\gamma + f_i + \mu_t + \varepsilon_{it.} \quad (1)^{15}$$

In equation (1), subscripts i and t denote firm and year, respectively. *FTO* is Forced CEO Turnover, an indicator which equals one if the CEO is forced out by the board for performance-related reasons (CEO departure code 3), and zero if no turnover occurs. To examine voluntary CEO turnover, we construct an indicator that equals one if the CEO stepped down voluntarily to retire or to work at another company (CEO departure codes 5 and 6) and zero if no turnover occurs (*VTO*). Further, we examine non-forced CEO turnover using an indicator that equals one if the CEO stepped down for any non-performance-related reasons (CEO departure codes 1, 2, 4, 5, and 6), and zero if no turnover occurs (*NonFTO*). $Treat_i$ equals one if the fiscal year ending month is December (treatment firms), and zero otherwise (control firms). $Post_t$ equals

[13] Chang, Dambra, Schonberger, and Suk (2023) use a similar DID strategy to examine the effect of pay ratio disclosure reform on executive compensation.

[14] To avoid the inconsistency problem in estimating the average marginal effect from logit models with fixed effects (Wooldridge 2005), we primarily use OLS models. When we alternatively estimate a logit model without fixed effects, our inference does not alter.

[15] When we estimate equation (1) alternatively after adding $Treat_i \times ROA_{it}$ and $Treat_i \times RET_{it}$, the coefficients on $Treat_i \times ROA_{it}$ and $Treat_i \times RET_{it}$ are insignificant and the coefficients on $Treat_i \times Post_i \times ROA_{it}$ and $Treat_i \times Post_i \times RET_{it}$ remain similar to those estimated with equation (1), yielding an identical inference.

one for fiscal year 2018 ending in calendar year 2018 (i.e., calendar year 2018) and zero otherwise (i.e., calendar years 2016-2017). *ROA* denotes the return on assets, which is the most commonly used accounting performance measure. *RET* is stock returns, a proxy for the market-based performance measure.

The interaction between $Treat_i$ and $Post_t$ ($Treat_i \times Post_t$), captures the effect of adopting ASC 606. The main effects of $Treat_i$ are subsumed by firm fixed effects while the $Post_t$ indicator is always zero for control firms and thus identical to $Treat_i \times Post_t$. The coefficient of interest is β_1. A significantly positive (negative) β_1 coefficient indicates that the role of ROA in the board's forced turnover decision decreases (increases) after the adoption of ASC 606 for treatment firms (December FYE firms) compared to control firms. X contains a vector of firm-level control variables and γ is a corresponding column vector of unknown parameters to be estimated. f_i and μ_t denote firm fixed effects and year fixed effects, respectively. With firm and year fixed effects in the model, we control for unobservable time-invariant differences between firms that have adopted ASC 606 in the fiscal year 2018 and firms that have not yet adopted ASC 606.

Following prior studies (e.g., Engel et al. 2003; Suk et al. 2021), we control for various factors that are related to CEO turnover decisions. Specifically, we include stock return volatility (*RETVol*) and earnings volatility (*ROAVol*) to control for idiosyncratic risk and operation risk, respectively. An indicator variable of earnings decreases (*Decrease*) is added to additionally control for earnings performance. To control for the possible earnings management around CEO turnover, discretionary accruals (*DACC*), measured following Dechow, Sloan, and Sweeney (1995), are included. We further control for general firm characteristics such as market-to-book ratio (*LMB*) and market value of equity (*LMVE*). Finally, we include the CEO duality indicator (*CEOChair*), the proportion of independent directors on the board (*BoardIndep*), and institutional ownership (*InstOwn*), measured following Kwak, Ro, and Suk

(2012), to control for the effect of corporate governance on CEO turnover decisions. Detailed variable definitions are presented in Appendix A.

Descriptive Statistics

TABLE 2, Panel A presents descriptive statistics of the forced CEO turnover (*FTO*) test sample used in the staggered DID model, which includes 89 cases of forced CEO turnover and the other firm-year observations without any CEO turnover. The mean of *ROA* is 0.0461 with a standard deviation of 0.0867. The mean of *RET* (0.001) is much lower than its median (0.0102), indicating the left-skewed distribution. The distributions of other variables are comparable to prior studies (e.g., Suk et al. 2021; Chang et al. 2023). Panels B and C report descriptive statistics of voluntary CEO turnover (*VTO*) and non-forced CEO turnover test samples (*NonFTO*), respectively.

IV. EMPIRICAL RESULTS

The Effect of ASC 606 on CEO Turnover: Staggered DID Model

TABLE 3 reports the results from estimating equation (1). The first column contains the result from the baseline regression without control variables. The significantly negative coefficients on accounting earnings (*ROA*) and stock returns (*RET*) indicate that CEO is more likely to be forced out by the board of directors when either performance in accounting earnings (*ROA*) or stock returns (*RET*) is poor, which is consistent with prior studies (e.g., Murphy and Zimmerman 1993; D.J. Denis and D.K. Denis 1995; Engel et al. 2003; Farrell and Whidbee 2003; Suk et al. 2021). We also find that *Treat*Post* is negatively related to CEO turnover, indicating that there are fewer CEO turnover cases in firms that adopted ASC 606 in 2018 compared to other firms. More importantly, we find that the coefficient on *Treat*Post*ROA* is significantly positive. This significantly positive coefficient indicates that the board of directors relies less on accounting earnings in CEO turnover decisions following the adoption of ASC 606. This implies that the board of directors considers earnings to be less informative for the

firm's future performance. In sharp contrast, the interaction term between *Treat*Post*RET* is insignificant, suggesting that there is no significant change in the role of stock returns in boards' CEO turnover decisions.

In the second column, we find a similar result after including various control variables. The coefficients on *ROA* and *RET* are still significantly negative, but the coefficient on *Treat*Post*ROA* is significantly positive while the coefficient on *Treat*Post*RET* is insignificant. The result suggests that the board of directors considers earnings to be less informative for the firm's future performance. Economically, the role of ROA in boards' CEO turnover decisions in the pre-adoption period (-0.1510) disappears after ASC 606 adoption (0.2094), suggesting that the board does not refer to accounting earnings anymore in CEO turnover decisions after ASC 606 adoption. Turning to control variables, we find that market-to-book ratio (*LMB*) and *CEOChair* are negatively related to CEO turnover, which is consistent with Hazarika, Karpoff, and Nahata (2012). In addition, independent directors on the board (*BoardIndep*) are positively related to CEO turnover, suggesting the role of corporate governance in boards' important decisions. This finding is consistent with Hazarika et al. (2012) and Suk et al. (2021). Overall, the results in Table 3 indicate that following the implementation of ASC 606, boards reduce the reliance on accounting earnings when making CEO turnover decisions, suggesting that changes in accounting standards alter boards' decision-making formula on CEO turnover, which is attributable to the reduced informativeness of earnings for future firm performance or CEO ability under the new standard

Robustness of the Findings from the Staggered DID Model

To mitigate possible concerns and enhance the strength of our inference that, following ASC 606, boards rely on accounting performance measures less in their CEO turnover decisions, we employ an entropy balancing approach, a parallel trends analysis, and a falsification test as robustness checks.

Entropy Balancing

One possible issue regarding the effect of ASC 606 on CEO turnover is that the treatment group is not randomly assigned. Specifically, we utilize firms with the December fiscal period end as treatment firms and other firms as control firms. However, we acknowledge that firms do not select their fiscal year ending month in a purely random manner. To ensure that the characteristics of treatment firms are comparable to those of control firms, we employ the entropy balancing approach (Hainmueller 2012). With the entropy balancing approach, we adjust the differences in the distributions of firm characteristics between firms with the December fiscal period end (treatment firms) and other firms (control firms). This enables us to effectively control for the effect stemming from observable differences between treatment firms and control firms.

Panels A and B of TABLE 4 report the summary statistics and test results after entropy balancing. Panel A indicates that, prior to the entropy balancing, the mean, variance, and skewness of control firms differ from those of treatment firms. However, after entropy balancing between treatment and control groups, the firm characteristics of control firms are well balanced with the firm characteristics of treatment firms up to the third moment. Panel B presents the weighted ordinary least squares (WLS) results based on the entropy-balanced sample. Similar to the results in TABLE 3, the coefficients on both *ROA* and *RET* are significantly negative in both columns, suggesting that *ROA* is a useful measure for boards in determining CEO turnovers before the adoption of ASC 606. However, the coefficient on *Treat*Post*ROA* is positive and significant, while the coefficient on *Treat*Post*RET* is insignificant. This suggests that after ASC 606 adoption, the board perceives accounting earnings as less informative or uninformative for the firm's future performance. As such, the board significantly reduces its reliance on the accounting performance measure or completely ignores it in CEO turnover decisions after ASC 606 adoption. Overall, the results based on the

entropy-balanced sample in TABLE 4 are consistent with the main result in TABLE 3.

Parallel Trends

The parallel trends assumption must be satisfied to use a difference-in-differences design (Angrist and Pischke 2008). Specifically, *treatment firms* (12/31 FYE firms) and *control firms* (non-12/31 FYE firms) should exhibit parallel trends in CEO turnover-performance sensitivity in the pre-adoption period to attribute the changes in CEO turnover-performance sensitivity to the implementation of ASC 606. To validate the parallel trends assumption, we create a pseudo-adoption year by switching the adoption year of ASC 606 (the calendar year of 2018) to a pre-adoption year (the calendar year of 2017) which is a pseudo-adoption year. Accordingly, we construct an indicator, *Pre1*, which equals one if the fiscal period ends in the calendar year of 2017 (i.e., for the calendar year of 2017) and zero otherwise. Then we estimate equation (1) after adding interaction terms, *Treat*Pre1, Treat*Pre1*ROA,* and *Treat*Pre1*RET.*

TABLE 5 reports the results. In column (1), which includes *Treat*Pre1* and its interactions with *RET* and *ROA*, the coefficient on *Treat*Pre1*ROA* is insignificant, indicating that the decreased usefulness of accounting performance measures in boards' CEO turnover decision is not observed in the pre-adoption period. In column (2) and column (3), we omit *Treat*Pre1*RET* and *Treat*Pre1*RET* with *Treat*Pre1*, respectively. Columns (2) and (3) confirm that the interaction between *Treat*Pre1* and *ROA* is consistently insignificant. These results ensure that there is no change in boards' use of accounting information in CEO turnover decisions before the adoption of ASC 606. The effect of ASC 606 on CEO turnover decisions materializes in the adoption year of ASC 606, indicated by the significantly positive coefficient on *Treat*Post*ROA*. Overall, the results in TABLE 5 do not show significantly differential trends in CEO turnover-performance sensitivity between the treatment and control samples in

the pre-adoption period, ensuring that our DID estimation satisfies the parallel trends assumption.

Falsification Tests with Voluntary CEO Turnovers

As we examine the effect of ASC 606 on boards' reliance on accounting performance measures in CEO turnover decisions, our focus is on the forced CEO turnovers (*FTOs*), which reflect boards' disciplinary decisions using performance-related measures. Because voluntary CEO turnovers (*VTOs*) or non-forced CEO turnovers (*NonFTOs*) are not expected to be significantly associated with boards' reliance on accounting performance measures, as a falsification or placebo test, we investigate whether the relations of accounting performance measures with voluntary CEO turnovers (*VTOs*) and non-forced CEO turnovers (*NonFTOs*) are affected by the adoption of ASC 606. If the reduced role of accounting performance measures in boards' CEO turnover decisions after ASC 606 is attributable to boards' consideration of the deteriorated informativeness of accounting earnings driven by the expanded managerial discretion in revenue recognition under the new standard, we do not expect ASC 606 adoption to significantly affect the voluntary CEO turnover-ROA sensitivity. This reasoning does not expect the coefficient on *Treat*Post*ROA* to be significantly positive for voluntary CEO turnovers (*VTOs*) or non-forced CEO turnovers (*NonFTOs*). On the other hand, if the positive coefficient on *Treat*Post*ROA* in forced CEO turnover is due to other common factors than boards' concern about the reduced informativeness of accounting earnings, we will observe similar results for voluntary CEO turnovers (*VTOs*) or non-forced CEO turnovers (*NonFTOs*).

TABLE 6, column (1) presents the results of voluntary CEO turnover (*VTO*). The coefficients on *ROA* and *Treat*Post*ROA* are both insignificant, suggesting that voluntary CEO turnovers do not reflect accounting performance measures in both pre- and post-ASC 606 periods. In contrast, the coefficient on *RET* is negative and significant at the conventional levels.

This indicates that there are fewer voluntary CEO turnovers when a firm performs well in the stock market, which is consistent with Jenter and Lewellen (2021) who find that some voluntary turnovers are induced by poor market returns. Nonetheless, the insignificant coefficient on *Treat*Post*RET* imply that the accounting standard change does not affect the low return-induced voluntary turnover. In column (2), we present the results with non-forced CEO turnovers (*NonFTOs*). Similar to the results with voluntary CEO turnover (*VTO*), the coefficients on both *ROA* and *Treat*Post*ROA* are insignificant while the coefficient on *RET* is significantly negative but the coefficient on *Treat*Post*RET* is insignificant. These results indicate that CEOs' reliance on either accounting earnings or stock returns does not change when making voluntary or non-forced turnover decisions after ASC 606 adoption, suggesting that changes in accounting standards do not significantly alter CEOs' decision-making on voluntary turnover, distinct from the decision-making process of boards. Overall, TABLE 6 ensures that voluntary CEO turnovers are not induced by poor accounting performance in the pre-ASC 606 period and this relation does not alter after the adoption of ASC 606. In contrast, TABLEs 3-5 indicate that forced turnovers are induced by poor accounting performance in the pre-ASC 606 period and this relation weakens after the adoption of ASC 606, supporting the idea that boards are less likely to rely on accounting performance measures in their turnover decisions following the adoption of ASC 606.

Alternative DID Design: U.S. GAAP versus IFRS Firms

In the main analysis, we utilize the staggered adoption of ASC 606 based on differential fiscal year ends across firms to set up a difference-in-differences (DID) research design. In this section, we employ an alternative DID design to examine the effect of ASC 606 adoption on boards' use of accounting performance measures in CEO turnover decisions. As a joint project with ASC 606 adoption in U.S. GAAP, the International Accounting Standards Board (IASB) also adopted the International Financial Reporting Standard (IFRS) 15, which is a revenue

recognition standard in IFRS. However, their adoption has significantly different implications from ASC 606 adoption. ASC 606 replaces more than 200 industry- or transaction-specific rules. More importantly, the adoption of ASC 606 indicates a transition from a rules-based to a principles-based standard. In contrast, IFRS 15 simply synthesizes prior standards that are already principles-based.[16] Thus, the adoption of ASC 606 affects firms using US GAAP more dramatically than IFRS 15 adoption does for those using IFRS.

Relying on the difference between firms that use U.S. GAAP (U.S. GAAP firms) and firms that use IFRS (IFRS firms), we design an alternative DID model where U.S. GAAP firms are the treatment group (*Treat* = 1) and IFRS firms (*Treat* = 0) are the control group. Since a control group of firms already adopted the principles-based accounting standard before the implementation of IFRS 15, we conjecture that the adoption effect for a control group is not as significant as for a treatment group. The post-adoption period (*Post* =1) is fiscal years 2018 - 2019 and the pre-adoption period (*Post* =0) encompasses fiscal year 2016-2017.[17] As such, this alternative DID model allows a longer post-adoption period than the staggered DID setting while extending the sample to embrace the IFRS firms. We replicate equation (1) with these alternative treatment and post indicators, along with the control variables, firm fixed, and year fixed effects.

TABLE 7 reports the estimation results of the alternative DID design using U.S. GAAP and IFRS firms. Column (1) presents the results of whether ASC 606 adoption affects boards' reliance on accounting earnings and stock returns in CEO turnover decisions. The result indicates that accounting performance measures are effectively used by the board of directors for the control group or the pre-adoption treatment group, as indicated by the negative (-0.095)

[16] IFRS 15 synthesizes IAS 11 (Construction contracts), IAS 18 (Revenue), IFRIC 13 (Customer Loyalty Programs), IFRIC 15 (Agreements for the Construction of Real Estate), IFRIC 18 (Transfers of Assets from Customers), and SIC-31 (Revenue - Barter Transactions Involving Advertising Services).

[17] In the staggered DID model, the post indicator (*Post*) is dropped because *Post* and *Treat*Post* are identical while it is dropped in the model with U.S. GAAP vs. IFRS firms because year fixed effects subsume it.

and significant coefficient on *ROA*. However, the coefficient *Treat*Post*ROA* is positive (0.078) and significant, suggesting that, compared to IFRS firms, the board of directors of U.S. firms almost no longer depend on accounting performance measures when making CEO turnover decisions. This further implies that, following the adoption of ASC 606, the accounting information has become less useful for contracting purposes between the board of directors and incumbent CEOs in U.S. GAAP firms than IFRS firms. Columns (2) and (3) present the results of whether ASC 606 adoption alters the roles of accounting earnings and stock returns for voluntary and non-forced CEO turnovers. Consistent with the results from the staggered DID design in TABLE 6, we confirm that the role of accounting earnings in voluntary and non-forced CEO turnovers, in contrast to that of forced CEO turnovers, did not alter after ASC 606 adoption.

When we estimate the DID model with U.S. GAAP vs. IFRS firms alternatively after adding *Post*×*ROA* and *Post*×*RET*, both of which coefficients are insignificant, indicating that the turnover-ROA sensitivity does not change significantly for IFRS firms. Further, similar to the results in column (1) of TABLE 7, the coefficient on *Treat*Post*ROA* remains significantly ($p < 0.1$) positive while the coefficient on *Treat*Post*RET* is insignificant. Overall, the results from the alternative DID design with U.S. GAAP and IFRS firms suggest that the adoption of the new principles-based standard for U.S. GAAP firms has reduced significantly the role of accounting numbers in boards' executive turnover decisions while the adoption of IFRS 15 for IFRS firms does have such significant impacts on boards' executive turnover decisions.

V. CROSS-SECTIONAL ANALYSIS: THE MECHANISM FOR THE CHANGE IN BOARDS' DECISION FORMULA

In this study, we suggest that the board reduces the reliance on accounting performance measures in CEO turnover decisions following the adoption of ASC 606. To strengthen this inference, we conduct several cross-sectional analyses to clarify the underlying mechanism of

the main finding. We first partition the sample based on the material impact of ASC 606 adoption. We also investigate whether the decrease in boards' reliance on accounting performance measures in CEO turnover decisions is more evident when firms' financial statements are audited by non-specialist auditors and when pre-adoption earnings quality and accounting conservatism are high.

Material Impact of ASC 606 Adoption

If the reduced effect of earnings on forced CEO turnover is driven by the adoption of ASC 606, such an effect should be more pronounced when the adoption effect is material. As such, we examine whether the extent to which the board decreases the reliance on accounting performance measures in CEO turnover decisions varies by the material impact of ASC 606 adoption. We obtain data on firms that disclosed a material impact of the ASC 606 adoption from Audit Analytics. First, we categorize firms into materially impacted firms and non-materially impacted firms (*Materiality 1*) based on whether firms disclosed a material impact of ASC 606 adoption on their reported revenues in accordance with the SEC Staff Accounting Bulletin (SAB) No. 74 *during the first adoption year of the new standard*. Alternatively, we define firms as having been materially impacted by ASC 606 (*Materiality 2*) when firms disclosed a material impact of ASC 606 adoption at least once during 2017-2020 (even after the adoption of ASC 606). We have 1,574 (2,614) material firm-years and 1,367 (1,209) non-material firm-years based on the first (second) classification.[18] Then we replicate equation (1) for each subsample of materially impacted and non-materially impacted firms. If the positively significant coefficient on *Treat*Post*ROA* is induced by a decrease in earnings usefulness in boards' CEO turnover decision following ASC 606, we expect such an effect to be more

[18] The sum of the observations in these subsamples are smaller than the observations (3, 823) of the main table because some firms are dropped to estimate the model with firm fixed effects.

pronounced among firms that are materially impacted by ASC 606-related accounting adjustments in revenue recognition.

TABLE 8 presents the estimation results. Columns (1) and (2) report the results for the sample of firms materially impacted by ASC 606 and for non-materially impacted firms, respectively, that are defined by the first classification. The coefficient on *Treat*Post*ROA* is positive and significant in firms that are materially impacted by ASC 606 (column (1)), whereas it is positive but insignificant in other firms (column (2)). Similarly, in columns (3) and (4) which identify materially impacted firms based on the second classification, the coefficient on *Treat*Post*ROA* is positive and significant only in firms that are materially impacted by ASC 606. These results suggest that the decreased weight of earnings in boards' CEO turnover decisions is concentrated in firms where the impact of ASC 606 is material. These findings are consistent with our expectation that the board's discount of accounting performance measures in CEO turnover decisions post-ASC 606 adoption is more pronounced in firms that are materially impacted by ASC 606 adoption than other firms as the usefulness of accounting information is expected to be more deteriorated in these firms.

Auditor Expertise: Industry Specialist Auditors

Thus far, our findings suggest that boards rely on accounting performance measures less in CEO turnover decisions after the adoption of ASC 606. We infer that this change is due to the decreased usefulness of accounting information, which we mainly attribute to increased managerial discretion in revenue recognition following ASC 606 (Chang and Suk 2023). To reinforce this inference, we examine whether boards' consideration of accounting performance measures in CEO turnover decisions varies with auditor expertise. Reichelt and Wang (2010) find that industry specialist auditors deliver earnings of higher quality. Therefore, we conjecture that firms with industry specialist auditors are better controlled over the discretion in revenue recognition after the implementation of ASC 606. As a result, boards' decrease in the weight

of accounting performance measures in CEO turnover decisions will be less (more) pronounced when firms' financial statements are (not) audited by industry specialist auditors. We employ two classifications to identify industry specialist auditors. *Specialist Auditor 1* refers to auditors with an annual market share greater than 30% within a given industry among Fama-French 49 industries, while *Specialist Auditor 2* refers to auditors with the largest annual market share within a given industry, and its market share is at least 10 percent points greater than the closest competitor.

TABLE 9 presents the results for firms with non-industry specialist auditors and firms with industry specialist auditors, based on the two classifications to define industry specialist auditors. Columns (1) and (3) show that the coefficients on the interaction between *Treat*Post* and *ROA* are positively and significantly related to boards' CEO turnover decisions for firms with non-industry specialist auditors. In contrast, in columns (2) and (4), the coefficients on *Treat*Post*ROA* are not significant for firms with industry specialist auditors. Overall, the results in TABLE 9 indicate that even after ASC 606 adoption, boards do not decrease the weight of accounting performance measures in their CEO turnover decisions when financial statements are audited by industry specialist auditors and the decreased weight of earnings in boards' CEO turnover decisions is concentrated in firms whose financial statements are not audited by industry specialist auditors. These findings support our inference that the board's discount of accounting performance measures in CEO turnover decisions post-ASC 606 adoption is more pronounced in firms whose accounting numbers are not well audited.

Earnings Quality

We further examine whether the reduced weight of accounting performance measures in boards' CEO turnover decisions after the adoption of ASC 606 varies with the pre-adoption earnings quality. High-quality earnings provide more useful information about the features of a firm's financial performance that are relevant to a specific decision made by a specific

decision-maker (Dechow, Ge, and Schrand 2010a). In our context, high-quality earnings provide information that is more relevant to CEO turnover decisions made by the board of directors. Engel et al. (2003) suggest that earnings get more weight in boards' CEO turnover decisions when earnings are less variable and timelier. Likewise, Suk et al. (2021) find that persistent earnings enhance boards' understanding of future earnings based on current earnings and increase the sensitivity of CEO turnover to earnings performance measures. Therefore, we anticipate that the accounting performance measures will be more heavily referred by boards in their CEO turnover decisions for firms with high earnings quality in the pre-adoption period. Given this, we expect that the decrease in the board's reference to accounting performance measures in CEO turnover decisions after the adoption of ASC 606 will be more pronounced for firms whose pre-adoption earnings quality was is high. To test this prediction, earnings quality is measured as the standard deviation of accrual residuals from accrual-cash flow regressions in years t−5 to t−1, following McNichols (2002) and Suk et al. (2021). We then split the sample into firms with high earnings quality and those with low earnings quality based on the pre-adoption industry-year (i.e., fiscal year 2017) earnings quality.

The first two columns (Panel A) of TABLE 10 present the results of the cross-sectional analysis based on pre-adoption earnings quality. Column (1) reports the results for firms with high earnings quality, while column (2) reports the results for firms with low earnings quality. In the first column, we find that the coefficients on both *ROA* and *RET* are significantly negative in firms with high earnings quality. In contrast, in the second column, only the coefficient on *RET* is significantly negative in the firms with low earnings quality. This finding suggests that boards do not depend on accounting performance measures for CEO turnover decisions when earnings quality is low. More importantly, we find that the coefficient on *Treat*Post*ROA* is significantly positive when the pre-adoption earnings quality is high whereas it is insignificant when the pre-adoption earnings quality is low. These findings align

with our prediction that the board's reduced reliance on accounting performance measures in CEO turnover decisions after the adoption of ASC 606 varies with the pre-adoption earnings quality.

Accounting Conservatism

Next, we investigate whether the reduced use of accounting performance measures in boards' CEO turnover decisions after ASC 606 adoption is more apparent for firms with more conservative accounting in the pre-adoption period. Prior studies suggest that accounting conservatism reduces agency costs and provides an efficient contracting mechanism (e.g., Watts 2003). This implies that earnings reported by more conservative firms provide a more efficient contracting mechanism between CEOs and boards regarding CEO retentions or turnovers. As such, the board's reliance on accounting performance measures in boards' CEO turnover decisions would be stronger when accounting conservatism was high in the pre-adoption period. Given this, we predict that the extent to which the board's reliance on accounting performance measures in CEO turnover decisions decreases after the adoption of ASC 606 will be more apparent when accounting conservatism was high in the pre-adoption period. To test this prediction, following Khan and Watts (2009), we use C-Score as an accounting conservatism measure and split the sample into firms with high and low accounting conservatism based on the pre-adoption industry-year (i.e., fiscal year 2017) median level of accounting conservatism.

The last two columns (Panel B) of TABLE 10 contain the results for firms with high and low levels of accounting conservatism. The results indicate that the coefficient on *ROA* is negative and statistically significant only for firms with high conservatism, whereas it is negative but insignificant for firms with low conservatism. This suggests that in the pre-ASC 606 period, the board's consideration of accounting performance measures in CEO turnover decisions was stronger when firms' accounting conservatism level was high, consistent with our prediction.

More importantly, the coefficient on *Treat*Post*ROA* is positive and significant for firms with a high level of accounting conservatism in the pre-adoption period whereas it is not significant for firms with a low level of accounting conservatism in the pre-adoption period. Collectively, the results reported in columns (3) and (4) of TABLE 10 indicate that the extent to which the board reduces the weight of accounting information in CEO turnover decisions after ASC 606 adoption varies with the level of accounting conservatism in the pre-adoption period.

VI. INDUSTRY-ADJUSTED OPERATING PERFORMANCE: RELATIVE PERFORMANCE EVALUATION

Thus far, our findings suggest that boards weigh earnings performance less in CEO turnover decisions after ASC 606 adoption. ASC 606 replaces detailed industry- and transaction-specific revenue recognition guidelines under ASC 605 (the legacy U.S. GAAP) with a uniform revenue recognition principle that encompasses all possible forms of transactions. While the principles-based accounting framework is often pursued to enhance flexibility and comparability at the expense of clarity, it inevitably allows for considerable managerial discretion in financial reporting. The increased discretion encourages managers to engage in earnings management (K. Lee and S. Lee 2020; Chang and Suk 2023). Further, CEOs facing higher turnover threats are more likely to engage in earnings management by exercising their increased discretion and judgment from ASC 606. Engel et al. (2003) and Suk et al. (2021) show that managed earnings are less likely to be used as a measure of future firm performance or CEO ability in CEO turnover decisions. As such, our finding that boards consider earnings performance less in CEO turnover decisions after ASC 606 adoption can be explained by boards' concern about the heightened managerial opportunism in revenue recognition after the adoption of ASC 606 which decreases the usefulness of accounting earnings in CEO turnover decisions.

Nonetheless, ASC 606 intends to reduce the inconsistency in revenue recognition

across firms and industries. Thus, if ASC 606 successfully reduces the inconsistency in revenue recognition across firms and industries as intended, it is likely to increase earnings comparability which is an important characteristic of earnings to increase the value relevance of accounting information. Prior research shows that the quantity and quality of earnings to analysts increase with more comparable earnings increase but information acquisition costs increase as earnings are less comparable (De Franco et al., 2011). Lobo, Neel, and Rhodes (2018) show that relative accounting performance is more likely to be used in compensation contracts for firms with more comparable earnings because comparable earnings facilitate the performance evaluation of executives relative to their peers. If ASC 606 increases the comparability of earnings, earnings will be more informative about a CEO's earnings-generating ability relative to the CEO's peer CEOs.[19] Given this, while as our main findings suggest, boards weigh earnings performance less in CEO turnover decisions after ASC 606 adoption on one hand, on the other hand, the increased comparability of earnings information across firms by ASC 606 can facilitate boards' evaluation of accounting performance of a CEO relative to CEO's peers when boards make CEO turnover decisions.

We thus examine whether a firm's earnings performance relative to its peers is also less used by the board in CEO turnover decisions after ASC 606 adoption. To this end, we replicate our main model after replacing *ROA* and *RET* with "industry-adjusted" ROA (*IAROA*) and RET(*IARET*). Industry-adjusted ROA and RET are obtained by subtracting the median ROA and RET of other firms in the given industry-year.[20] TABLE 11 reports the results from our modified DID model with industry-adjusted *ROA* and *RET*. In the forced turnover models in columns (1) and (2), the coefficients on both *IAROA* and *IARET* are significantly negative,

[19] Ferreira (2021) and Chung and Chuwonganant (2021) find that market liquidity has increased following ASC 606 adoption, attributing to improved earnings comparability.
[20] Accordingly, we also adjust the market-to-book (*IALMB*) and firm size (*IALMVE*) by their industry median-values in this modified model.

suggesting that prior to the implementation of ASC 606, the board depends on both relative performance measures, *IAROA* and *IARET*, when making CEO ouster decisions, consistent with prior literature on CEO turnover documents that CEOs are more likely to forced out if their performance is poor relative to their peers (e.g., DeFond and Park 1999; Jenter and Kannan, 2015).

However, the coefficient on *Treat*Post*IAROA,* as well as *Treat*Post*IARET*, is insignificant, suggesting that, unlike raw accounting earnings, boards do not reduce the weight of industry-adjusted earnings performance in CEO turnover decisions after ASC 606 adoption. As such, in the era under ASC 606, improving earnings performance relative to their peers appears crucial for the CEO to improve their tenure. We interpret this as indicating that the deteriorated earnings quality caused by expanded discretion and earnings management under the new principles-based standard is offset by the improved earnings comparability across peers under the new standard. Overall, the results in TABLE 11 suggest that accounting earnings are still useful when relative or peer-adjusted earnings performance measures are used in the board's CEO turnover decision.

VII. CONCLUSION

We investigate whether the adoption of the new principles-based accounting standard (ASC 606) affects boards' decisions on CEO turnover, a process that usually leads to significant changes in corporate policies on real variables. Using a staggered difference-in-differences (DID) and an alternative DID model with U.S. GAAP versus IFRS firms, our finding indicates that, subsequent to the implementation of ASC 606, boards reduce their reliance on accounting earnings relative to stock returns when making CEO turnover decisions. This suggests that changes in accounting standards alter boards' decision-making formula on CEO turnover. These effects concentrate in firms (1) where the ASC 606 adoption effects are material, (2) whose auditors are not industry specialists, and (3) whose pre-adoption accounting is of high

quality and more conservative.

While our main results indicate that after ASC 606 adoption, the weight of accounting earnings is reduced in boards' CEO turnover decisions, our relative performance analysis shows that the weight of earnings does not reduce in boards' CEO turnover decisions when peer firm earnings are adjusted. This suggests that accounting earnings are still useful when relative or peer-adjusted earnings performance measures are used in the board's performance evaluation formula. Our results imply that it is premature to conclude that the principles-based new accounting standard reduces the usefulness of accounting earnings due to increased earnings manipulation. Such a deleterious effect can be offset by the improvement in accounting comparability among peers driven by the shift to the principles-based accounting standard. To improve the informativeness value of accounting information for future firm performance under the new standard, FASB should continue to reinforce ASC 606 with supplementary contents-specific and industry-specific disclosure requirements and guidelines in recognizing revenue over the next decades.

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APPENDIX A
Definitions of Variables

Variable	Explanation
Dependent Variables	
FTO	Forced CEO Turnover, is an indicator that equals one if the CEO is forced out by the board for a performance-related reason, and zero if no turnover occurs. (CEO departure code 3 in Gentry et al. (2021).)
VTO	Voluntary CEO Turnover, an indicator that equals one if the CEO stepped down voluntarily to retire or to work at another company and zero if no turnover occurs. (CEO departure codes 5 and 6 in Gentry et al. (2021).)
NonFTO	Non-Forced CEO Turnover, an indicator which equals one if the CEO stepped down but is not forced out by the board for a performance-related reason, and zero if no turnover occurs. (CEO departure codes 1, 2, 4, 5, and 6 in Gentry et al. (2021).)
Variables of Interest	
Treat	An indicator that equals one if the fiscal year ending month is December, and zero otherwise.
Post	An indicator that equals one if the fiscal year ends in calendar year 2018, and zero otherwise.
ROA	Return on Assets, measured as income before extraordinary items scaled by lagged total assets.
RET	Returns, measured as cumulative stock returns adjusted for value-weighted market returns over 12 months before the month the CEO left the firm. For the non-CEO turnover firms, we use pseudo-event months that are based on the distribution of CEO turnover firms following Suk et al. (2021).
Control Variables	
ROAVol	*ROA* volatility, measured as the standard deviations of ROA over the previous ten years (at least 5 years required).
RETVol	Return volatility, measured as the standard deviations of *RET* for 24 months (at least 12 months required) before the month the CEO left the firm. For the non-CEO turnover firms, we use pseudo-event months that are based on the distribution of CEO turnover firms following Suk et al. (2021).
Decrease	Earnings Decrease, an indicator which equals one if income before extraordinary items decrease from the previous year, and zero otherwise.
DACC	Discretionary Accruals, measured using the modified Jones model estimated at the industry-year level (SIC 2 digits) following Dechow et al. (1995).
LMB	Logged market-to-book ratio, measured as the log of market capitalization divided by book value at the beginning of the year.
LMVE	Logged market value, measured as the log of market capitalization at the beginning of the year.
CEOChair	CEO duality, an indicator that equals one if the CEO of a company is the chairman of the board, and zero otherwise.

BoardIndep	Independent Board Members, measured as the proportion of independent directors on the board.
InstOwn	Institutional Ownership, measured as the ratio of shares held by institutional investors.

Additional Explanatory and Control Variables

Pre1	An indicator that equals one if the fiscal period ends in calendar year 2017, and zero otherwise.
IFRS	IFRS firms, an indicator which equals one if Compustat item 'ACCTSTD' is 'DI', and zero otherwise. 'DI' indicates that "Domestic standards generally are in accordance with or fully compliant with International Financial Reporting Standards (IFRS)."
IAROA	Industry-adjusted Return on Assets, measured as *ROA* adjusted for the Fama-French 49 industry medians for each year.
IARET	Industry-adjusted Returns, measured as *RET* adjusted for the Fama-French 49 industry medians for each year.
IAROAVol	Industry-adjusted *ROA* volatility, measured as the standard deviations of *IAROA* over the previous ten years (at least 5 years required).
IARETVol	Industry-adjusted return volatility, measured as the standard deviations of *IARET* for 24 months (at least 12 months required) before the month the CEO left the firm. For the non-CEO turnover firms, we use pseudo-event months that are based on the distribution of CEO turnover firms following Suk et al. (2021).
IALMB	*I*ndustry-adjusted *LMB*, measured as *LMB* adjusted for the Fama-French 49 industry medians for each year.
IALMVE	*I*ndustry-adjusted *LMVE*, measured as *LMVE* adjusted for the Fama-French 49 industry medians for each year.

Partitioning Variables

Material1	An indicator that equals one when firms disclosed a material impact of ASC 606 adoption during the first adoption year of the new standard and zero when they did not. (from Audit Analytics)
Material2	An indicator that equals one when firms disclosed a material impact of ASC 606 adoption at least once during 2017-2020 (*Material2*) and zero when they did not. (from Audit Analytics)
Specialist Auditor1	Auditors with an annual market share greater than 30% in a Fama-French 49 industry, measured following Reichelt and Wang (2010).
Specialist Auditor2	Auditors with the largest annual market share in a Fama-French 49 industry, and its market share is at least 10 percent points greater than the closest competitor, measured following Reichelt and Wang (2010).
Earnings Quality	Earnings quality, measured following McNichols (2002) and Suk et al. (2021).
Conservatism	Conservatism measure (C-score), measured following Khan and Watts (2009) and Suk et al. (2021).

TABLE 1

Sample Selection

	Number of observations
Annual Compustat matched with CRSP between 2016 and 2018 (require at least 5 previous years)	9,908
Less: Observations without required EXECUCOMP	(5,141)
Less: Observations without required BoardEx	(127)
Less: Observations without required S34	(234)
Less: Observations without required control variables	(3)
Less: Singletone observations	(580)
Final sample for FTO likelihood test	3,823

This table reports the sample selection procedure for the main sample using forced CEO turnovers (*FTO*).

TABLE 2
Summary Statistics

Panel A: Sample for forced CEO turnover likelihood test

Variable	N	Mean	Std. Dev	Q1	Median	Q3
FTO	3,823	0.0233	0.1508	0	0	0
ROA	3,823	0.0461	0.0867	0.0117	0.0418	0.0851
RET	3,823	0.0001	0.3143	-0.1537	0.0102	0.1747
ROAVol	3,823	0.0623	0.0772	0.0174	0.0381	0.0732
RETVol	3,823	0.0817	0.0425	0.0525	0.0695	0.0975
Decrease	3,823	0.3798	0.4854	0	0	1
DACC	3,823	-0.0455	0.0826	-0.1159	-0.0183	0.0137
LMB	3,823	0.9072	0.8532	0.3746	0.8541	1.4111
LMVE	3,823	8.2076	1.6453	7.1221	8.0737	9.2957
CEOChair	3,823	0.5985	0.4903	0	1	1
BoardIndep	3,823	0.8048	0.1567	0.7500	0.8333	0.8889
InstOwn	3,823	0.8160	0.1837	0.7269	0.8469	0.9311

Panel B: Sample for voluntary CEO turnover likelihood test

Variable	N	Mean	Std. Dev	Q1	Median	Q3
VTO	3,974	0.0601	0.2378	0	0	0
ROA	3,974	0.0476	0.0853	0.0122	0.0429	0.0861
RET	3,974	0.0048	0.3054	-0.1504	0.0118	0.1746
ROAVol	3,974	0.0612	0.0761	0.0174	0.0377	0.0716
RETVol	3,974	0.0810	0.0416	0.0524	0.0691	0.0969
Decrease	3,974	0.3787	0.4851	0	0	1
DACC	3,974	-0.0456	0.0824	-0.1159	-0.0183	0.0134
LMB	3,974	0.9086	0.8480	0.3770	0.8516	1.4080
LMVE	3,974	8.2157	1.6264	7.1384	8.0784	9.2877
CEOChair	3,974	0.5951	0.4909	0	1	1
BoardIndep	3,974	0.8050	0.1557	0.7500	0.8333	0.8889
InstOwn	3,974	0.8170	0.1822	0.7289	0.8483	0.9318

Panel C: Sample for non-forced CEO turnover likelihood test

Variable	N	Mean	Std. Dev	Q1	Median	Q3
NonFTO	4,011	0.0681	0.2519	0	0	0
ROA	4,011	0.0478	0.0854	0.0121	0.0431	0.0862
RET	4,011	0.0040	0.3049	-0.1511	0.0109	0.1737
ROAVol	4,011	0.0612	0.0760	0.0174	0.0375	0.0714
RETVol	4,011	0.0810	0.0416	0.0524	0.0691	0.0969
Decrease	4,011	0.3785	0.4851	0	0	1
DACC	4,011	-0.0454	0.0825	-0.1159	-0.0183	0.0136
LMB	4,011	0.9064	0.8488	0.3745	0.8504	1.4070
LMVE	4,011	8.2200	1.6275	7.1412	8.0778	9.2911
CEOChair	4,011	0.5946	0.4910	0	1	1
BoardIndep	4,011	0.8054	0.1552	0.7500	0.8333	0.8889
InstOwn	4,011	0.8172	0.1820	0.7291	0.8477	0.9317

This table presents summary statistics for the variables used in regression analyses. Panel A reports summary statistics of the sample for the forced CEO turnover (*FTO*) likelihood test. Panel B reports summary statistics of the sample for voluntary CEO turnover (*VTO*) likelihood test. Panel C reports summary statistics of the sample for non-forced CEO turnover (*NonFTO*) likelihood test. All continuous variables are winsorized at the 1 and 99th percentiles. The variables are defined in the Appendix A.

Table 3
ASC 606 and Forced CEO Turnover-Performance Sensitivity

	FTO	
Variables	**(1)**	**(2)**
*Treat*Post*ROA*	0.2015***	0.2094***
	(2.65)	(2.73)
*Treat*Post*RET*	-0.0142	-0.0002
	(-0.64)	(-0.01)
*Treat*Post*	-0.0345***	-0.0402***
	(-2.70)	(-3.08)
ROA	-0.1510**	-0.1510**
	(-2.56)	(-2.28)
RET	-0.0488***	-0.0481***
	(-4.09)	(-3.93)
ROAVol		0.0877
		(0.53)
RETVol		-0.1622
		(-0.93)
Decrease		-0.0046
		(-0.70)
DACC		0.0557
		(0.72)
LMB		-0.0217***
		(-2.61)
LMVE		-0.0128
		(-0.95)
CEOChair		-0.0663***
		(-3.94)
BoardIndep		0.1305**
		(2.05)
InstOwn		0.0383
		(0.91)
Constant	Yes	Yes
Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes
# of Obs.	3,823	3,823
Adjusted R Squared	0.043	0.053

This table examines the effect of ASC 606 adoption on forced CEO turnover-performance sensitivity. Column (1) reports the regression results of equation 1 without control variables. Column (2) reports regression results of equation 1. The dependent variable, *FTO*, is an indicator variable equal to one if the CEO is forced out by the board for a performance-related reason, and zero if no turnover occurs. All variables are defined in the Appendix A. t-statistics are in parentheses while standard errors are clustered by firm. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

TABLE 4
ASC 606 and Forced CEO Turnover-Performance Sensitivity: Entropy Balancing

Panel A. Entropy balancing between treatment and control sample

	Treat (N =2,910)			Control (N = 913)		
Variables	**Mean**	**Variance**	**Skewness**	**Mean**	**Variance**	**Skewness**
Pre-balance sample						
ROA	0.0404	0.0075	-0.7321	0.0607	0.0074	-0.3693
RET	-0.0057	0.0992	-0.3137	0.0053	0.1063	-0.2713
ROAVol	0.0628	0.0067	2.8030	0.0615	0.0037	3.2520
RETVol	0.0810	0.0019	1.7920	0.0864	0.0017	1.6110
Decrease	0.3754	0.2346	0.5144	0.4019	0.2406	0.4003
DACC	-0.0539	0.0074	0.0339	-0.0201	0.0042	-0.7836
LMB	0.8721	0.7330	0.4456	0.9711	0.7344	0.1472
LMVE	8.2190	2.6260	0.1190	8.0910	2.9660	0.2099
CEOChair	0.5965	0.2408	-0.3933	0.6232	0.2351	-0.5084
BoardIndep	0.8007	0.0277	-2.8460	0.8164	0.0144	-1.4750
InstOwn	0.8136	0.0350	-1.1450	0.8211	0.0325	-0.8768
Entropy-balanced sample						
ROA	0.0404	0.0075	-0.7321	0.0404	0.0075	-0.7320
RET	-0.0057	0.0992	-0.3137	-0.0057	0.0992	-0.3137
ROAVol	0.0628	0.0067	2.8030	0.0628	0.0067	2.8020
RETVol	0.0810	0.0019	1.7920	0.0810	0.0019	1.7920
Decrease	0.3754	0.2346	0.5144	0.3753	0.2347	0.5152
DACC	-0.0539	0.0074	0.0339	-0.0539	0.0074	0.0339
LMB	0.8721	0.7330	0.4456	0.8722	0.7331	0.4452
LMVE	8.2190	2.6260	0.1190	8.2200	2.6260	0.1177
CEOChair	0.5965	0.2408	-0.3933	0.5966	0.2409	-0.3939
BoardIndep	0.8007	0.0277	-2.8460	0.8008	0.0277	-2.8480
InstOwn	0.8136	0.0350	-1.1450	0.8137	0.0350	-1.1460

Panel B. Regression Results with Balanced Sample

	FTO	
Variables	**(1)**	**(2)**
*Treat*Post*ROA*	0.2541**	0.2235**
	(2.37)	(2.37)
*Treat*Post*RET*	-0.0207	-0.0038
	(-1.19)	(-0.36)
*Treat*Post*	-0.0190	-0.0252
	(-0.90)	(-1.19)
ROA	-0.2339**	-0.1919*
	(-2.03)	(-1.69)
RET	-0.0411***	-0.0360**
	(-2.78)	(-2.05)
ROAVol		0.5630
		(0.92)
RETVol		0.0773
		(0.27)
Decrease		0.0090
		(0.84)
DACC		0.1139
		(0.85)
LMB		-0.0221*
		(-1.81)
LMVE		-0.0203
		(-0.80)
CEOChair		-0.1115*
		(-1.71)
BoardIndep		0.1180
		(0.85)
InstOwn		0.0961
		(1.49)
Constant	Yes	Yes
Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes
# of Obs.	3,823	3,823
Adjusted R Squared	0.043	0.069

This table presents the results of the entropy-balanced sample analysis. Panel A reports the mean, variance, and skewness of relevant variables across the treated firm-years and controlled firm-years for the pre-balance sample and the entropy-balanced sample. Panel B reports the results of estimating equation (1) using the entropy-balanced sample with (column 2) and without control variables (column 1). The dependent variable, *FTO*, is an indicator variable equal to one if the CEO is forced out by the board for a performance-related reason, and zero if no turnover occurs. All variables are defined in the Appendix A. t-statistics are in parentheses while standard errors are clustered by firm. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

TABLE 5
ASC 606 and Forced CEO Turnover-Performance Sensitivity: Parallel Trends

	FTO		
Variables	**(1)**	**(2)**	**(3)**
*Treat*Pre1*ROA*	0.0917	0.0905	0.0558
	(1.14)	(1.13)	(0.71)
*Treat*Post*ROA*	0.2543***	0.2552***	0.2387***
	(2.91)	(2.92)	(2.74)
*Treat*Pre1*RET*	-0.0050		
	(-0.21)		
*Treat*Post*RET*	-0.0026	-0.0004	-0.0008
	(-0.10)	(-0.02)	(-0.03)
*Treat*Pre1*	-0.0298**	-0.0297**	
	(-2.06)	(-2.06)	
*Treat*Post*	-0.0557***	-0.0558***	-0.0403***
	(-3.70)	(-3.70)	(-3.08)
ROA	-0.1859**	-0.1852**	-0.1730**
	(-2.53)	(-2.52)	(-2.36)
RET	-0.0464***	-0.0482***	-0.0478***
	(-3.11)	(-3.93)	(-3.90)
ROAVol	0.0874	0.0877	0.0903
	(0.53)	(0.53)	(0.55)
RETVol	-0.2030	-0.2004	-0.1719
	(-1.16)	(-1.15)	(-0.99)
Decrease	-0.0044	-0.0044	-0.0046
	(-0.67)	(-0.67)	(-0.69)
DACC	0.0468	0.0465	0.0573
	(0.61)	(0.60)	(0.75)
LMB	-0.0219***	-0.0219***	-0.0217***
	(-2.63)	(-2.63)	(-2.60)
LMVE	-0.0130	-0.0134	-0.0134
	(-0.95)	(-0.99)	(-1.00)
CEOChair	-0.0664***	-0.0665***	-0.0665***
	(-3.95)	(-3.95)	(-3.95)
BoardIndep	0.1319**	0.1312**	0.1305**
	(2.07)	(2.06)	(2.05)
InstOwn	0.0400	0.0401	0.0396
	(0.95)	(0.96)	(0.94)
Constant	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes
# of Obs.	3,823	3,823	3,823
Adjusted R Squared	0.054	0.054	0.053

This table examines the dynamic effects of ASC 606 adoption on forced CEO turnover-performance sensitivity. *Pre1* is an indicator variable equal to 1 if the fiscal period ends in the calendar year of 2017 and zero otherwise. Column (1) provides regression results from the full model. Column (2) provides regression results after omitting *Treat*Pre1*RET*. Column (3) provides regression results after omitting *Treat*Pre1*RET* and *Treat*Pre1*. The dependent variable, *FTO*, is an indicator variable equal to one if the CEO is forced out by the board for a performance-related reason, and zero if no turnover occurs. All variables are defined in the Appendix A. t-statistics are in parentheses while standard errors are clustered by firm. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

TABLE 6
ASC 606 and Voluntary CEO Turnover-Performance Sensitivity: Falsification Tests

	VTO	***NonFTO***
Variables	**(1)**	**(2)**
*Treat*Post*ROA*	-0.0240	-0.0255
	(-0.19)	(-0.20)
*Treat*Post*RET*	0.0103	0.0090
	(0.27)	(0.23)
*Treat*Post*	-0.0004	-0.0057
	(-0.02)	(-0.26)
ROA	-0.0518	-0.0132
	(-0.48)	(-0.12)
RET	-0.0339*	-0.0399*
	(-1.72)	(-1.92)
ROAVol	-0.2512	-0.2684
	(-0.99)	(-1.00)
RETVol	0.0475	0.1614
	(0.17)	(0.55)
Decrease	0.0052	0.0054
	(0.51)	(0.50)
DACC	0.0762	0.0972
	(0.62)	(0.76)
LMB	0.0077	0.0070
	(0.60)	(0.51)
LMVE	-0.0275	-0.0126
	(-1.27)	(-0.55)
CEOChair	-0.2755***	-0.2868***
	(-11.32)	(-11.31)
BoardIndep	0.3231***	0.2998***
	(3.13)	(2.76)
InstOwn	0.0044	-0.0061
	(0.07)	(-0.09)
Constant	Yes	Yes
Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes
# of Obs.	3,974	4,011
Adjusted R Squared	-0.005	-0.004

This table examines the effect of ASC 606 adoption on voluntary CEO turnover-performance sensitivity. In column (1), the dependent variable is *VTO* defined as an indicator variable equal to one if the CEO stepped down voluntarily to retire or to work at another company, and zero if no turnover occurs. In column (2), the dependent variable is *NonFTO* defined as an indicator variable equal to one if the CEO stepped down but is not forced out by the board for a performance-related reason, and zero if no turnover occurs. All variables are defined in the Appendix A. t-statistics are in parentheses while standard errors are clustered by firm. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

TABLE 7
Alternative DID design: U.S. GAAP vs. IFRS Firms

	FTO	***VTO***	***NonFTO***
Variables	**(1)**	**(2)**	**(3)**
*Treat*Post*ROA*	0.0780*	0.0128	0.0159
	(1.91)	(0.20)	(0.23)
*Treat*Post*RET*	-0.0006	0.0281	0.0341*
	(-0.05)	(1.45)	(1.66)
*Treat*Post*	-0.0105	0.4684**	0.4488**
	(-0.06)	(2.16)	(1.96)
ROA	-0.0951**	-0.0147	-0.0112
	(-2.55)	(-0.25)	(-0.18)
RET	-0.0338***	-0.0329**	-0.0429***
	(-4.03)	(-2.47)	(-3.07)
ROAVol	0.0210	-0.1123	-0.1081
	(0.39)	(-1.33)	(-1.21)
RETVol	-0.0796	0.1060	0.1890
	(-0.99)	(0.83)	(1.40)
Decrease	-0.0023	0.0033	0.0026
	(-0.56)	(0.51)	(0.38)
DACC	0.0828*	0.0209	0.0200
	(1.87)	(0.30)	(0.27)
LMB	-0.0120***	-0.0029	-0.0062
	(-2.76)	(-0.42)	(-0.87)
LMVE	0.0006	-0.0156	-0.0045
	(0.08)	(-1.41)	(-0.39)
CEOChair	-0.0330***	-0.1478***	-0.1550***
	(-4.28)	(-12.53)	(-12.54)
BoardIndep	0.0675*	0.1579***	0.1373**
	(1.86)	(2.73)	(2.26)
InstOwn	0.0143	-0.0091	-0.0095
	(1.06)	(-0.43)	(-0.43)
Constant	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes
# of Obs.	6,664	6,871	6,917
Adjusted R Squared	0.055	-0.001	-0.001

This table reports the results for the effect of ASC 606 adoption on CEO turnover-performance sensitivity when we use an alternative DID design where using U.S. GAAP and IFRS firms U.S. GAAP firms are the treatment group (*Treat* = 1) and IFRS firms (*Treat* = 0) are the control group. The sample period includes fiscal years 2016-2019 where fiscal years 2018 -2019 are the post-adoption period (*Post* =1) and fiscal year 2016-2017 are the pre-adoption period (*Post* =0). In column (1), the dependent variable is *FTO* defined as an indicator variable equal to one if the CEO is forced out by the board for a performance-related reason, and zero if no turnover occurs. In column (2), the dependent variable is *VTO* defined as an indicator variable equal to one if the CEO steps down voluntarily to retire or to work at another company, and zero if no turnover occurs. In column (3), the dependent variable is *NonFTO* defined as an indicator variable equal to one if the CEO steps down but is not forced out by the board for a performance-related reason, and zero if no turnover occurs. All variables are defined in the Appendix A. t-statistics are in parentheses while standard errors are clustered by firm. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

TABLE 8
Materiality of ASC 606 Adoption

	FTO			
	Materiality 1		***Materiality 2***	
	Material1	***NonMaterial1***	***Material2***	***NonMaterial2***
Variables	**(1)**	**(2)**	**(1)**	**(2)**
*Treat*Post*ROA*	0.3620***	0.0921	0.2037**	0.1736
	(2.92)	(0.72)	(2.19)	(1.27)
*Treat*Post*RET*	-0.0364	0.01	-0.0065	0.0119
	(-0.84)	(0.27)	(-0.22)	(0.30)
*Treat*Post*	-0.0485*	-0.0239	-0.0329**	-0.0433**
	(-1.85)	(-1.21)	(-2.01)	(-1.98)
ROA	-0.1391*	-0.1760**	-0.1447*	-0.1805**
	(-1.69)	(-2.17)	(-1.78)	(-2.00)
RET	-0.0405**	-0.0479***	-0.0533***	-0.0398**
	(-2.48)	(-2.66)	(-3.42)	(-1.99)
ROAVol	0.2687	0.0197	0.0619	0.4012
	(0.92)	(0.05)	(0.37)	(0.77)
RETVol	-0.2685	-0.2505	-0.1986	-0.1442
	(-0.65)	(-0.95)	(-0.91)	(-0.50)
Decrease	-0.0045	-0.0039	-0.0063	0.0011
	(-0.35)	(-0.38)	(-0.79)	(0.09)
DACC	-0.0478	0.1795	-0.0062	0.1872
	(-0.34)	(1.43)	(-0.07)	(1.31)
LMB	0.0024	-0.0289**	-0.0163	-0.0294*
	-0.15	(-2.11)	(-1.64)	(-1.95)
LMVE	0.0387	-0.0372*	0.0062	-0.0379
	-1.25	(-1.76)	(0.38)	(-1.59)
CEOChair	-0.0162	-0.0942***	-0.0419**	-0.1093***
	(-0.38)	(-3.89)	(-2.09)	(-3.60)
BoardIndep	0.7708***	0.0402	0.2327***	0.0332
	-5.07	-0.45	(2.77)	(0.33)
InstOwn	0.111	0.0768	0.0099	0.0843
	-1.26	-1.19	(0.18)	(1.24)
Constant	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes
# of Obs.	1,574	1,367	2,614	1,209
Adjusted R Squared	0.059	0.024	0.060	0.047

This table reports the subsample analysis of the effect of ASC 606 adoption on forced CEO turnover-performance sensitivity using the materiality of ASC 606 accounting adjustments as the partition. Columns (1) and (2) report regression results when firms disclosed a material impact of ASC 606 adoption during the first adoption year of the new standard (*Material1*) or did not (*NonMaterial1*). Columns (3) and (4) report regression results when firms disclosed a material impact of ASC 606 adoption at least once during 2017-2020 (*Material2*) or did not (*NonMaterial2*). The dependent variable, *FTO*, is an indicator variable equal to one if the CEO is forced out by the board for a performance-related reason, and zero if no turnover occurs. All variables are defined in the Appendix A. t-statistics are in parentheses while standard errors are clustered by firm. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

TABLE 9
Industry Specialist Auditors

	FTO			
	Auditor Expertise 1		***Auditor Expertise 2***	
	Non-Specialist Auditor 1	***Specialist Auditor 1***	***Non-Specialist Auditor 2***	***Specialist Auditor 2***
Variables	**(1)**	**(2)**	**(3)**	**(4)**
*Treat*Post*ROA*	0.3328***	-0.0082	0.2455***	-0.0821
	(3.50)	(-0.05)	(3.06)	(-0.20)
*Treat*Post*RET*	-0.0306	0.0619	-0.0105	-0.0050
	(-1.10)	(1.19)	(-0.43)	(-0.05)
*Treat*Post*	-0.0496***	-0.0119	-0.0419***	-0.0573
	(-3.06)	(-0.45)	(-2.98)	(-1.00)
ROA	-0.1157	-0.2270	-0.1501**	0.0095
	(-1.44)	(-1.49)	(-2.18)	(0.03)
RET	-0.0403***	-0.0810***	-0.0384***	-0.1096**
	(-2.80)	(-3.02)	(-3.00)	(-2.04)
ROAVol	0.1543	0.0067	0.0907	0.0778
	(0.67)	(0.03)	(0.49)	(0.18)
RETVol	-0.2442	-0.0400	-0.1392	-1.5972*
	(-1.18)	(-0.10)	(-0.78)	(-1.83)
Decrease	-0.0036	0.0020	-0.0056	-0.0063
	(-0.44)	(0.15)	(-0.81)	(-0.23)
DACC	0.1627*	-0.1213	0.0975	0.1754
	(1.73)	(-0.73)	(1.22)	(0.48)
LMB	-0.0145	-0.0338*	-0.0232***	-0.0194
	(-1.43)	(-1.89)	(-2.69)	(-0.50)
LMVE	-0.0308*	0.0279	-0.0171	0.0523
	(-1.93)	(0.96)	(-1.21)	(0.82)
CEOChair	-0.0851***	-0.0325	-0.0723***	-0.0063
	(-3.95)	(-1.04)	(-3.97)	(-0.09)
BoardIndep	0.1897**	0.0842	0.1262*	0.0642
	(2.35)	(0.72)	(1.78)	(0.32)
InstOwn	0.0303	0.1207	0.0100	0.1275
	(0.64)	(1.12)	(0.23)	(0.63)
Constant	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes
# of Obs.	2,530	1,069	3,284	373
Adjusted R Squared	0.055	0.064	0.080	-0.026

This table reports the subsample analysis of the effect of ASC 606 adoption on forced CEO turnover-performance sensitivity using industry specialist auditors as the partition. In columns (1) and (2), we measure industry specialist auditors (*Specialist Auditor 1*) as auditors with an annual market share greater than 30% in a given industry among Fama-French 49 industries. In columns (3) and (4), we measure alternative industry specialist auditors (*Specialist Auditor 2*) as auditors with the largest annual market share in a given industry among Fama-French 49 industries, and its market share is at least 10 percent points greater than the closest competitor. The dependent variable, *FTO*, is an indicator variable equal to one if the CEO is forced out by the board for a performance-related reason, and zero if no turnover occurs. All variables are defined in the Appendix A. t-statistics are in parentheses while standard errors are clustered by firm. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

TABLE 10
Pre-Adoption Earnings Quality and Accounting Conservatism

	FTO			
	(A) Earnings Quality		**(B) Accounting Conservatism**	
	High Earnings Quality	***Low Earnings Quality***	***High Conservatism***	***Low Conservatism***
Variables	**(1)**	**(2)**	**(3)**	**(4)**
*Treat*Post*ROA*	0.3672***	0.0750	0.3568***	0.0472
	(2.81)	(0.73)	(3.21)	(0.41)
*Treat*Post*RET*	0.0516	0.0425	-0.0113	-0.0044
	(1.33)	(1.27)	(-0.37)	(-0.11)
*Treat*Post*	-0.0810***	-0.0066	-0.0509***	-0.0149
	(-4.40)	(-0.33)	(-2.84)	(-0.75)
ROA	-0.2849**	-0.0898	-0.1689*	-0.1108
	(-2.42)	(-1.03)	(-1.83)	(-1.14)
RET	-0.0639***	-0.0558***	-0.0525***	-0.0359*
	(-3.27)	(-3.23)	(-3.35)	(-1.76)
ROAVol	0.1720	0.0427	0.1061	0.0706
	(0.67)	(0.19)	(0.48)	(0.28)
RETVol	-0.0198	0.0640	-0.3895*	0.2165
	(-0.07)	(0.27)	(-1.78)	(0.73)
Decrease	-0.0101	0.0017	-0.0138	0.0035
	(-1.09)	(0.15)	(-1.40)	(0.39)
DACC	-0.0502	0.1061	0.1055	-0.0309
	(-0.42)	(1.04)	(1.01)	(-0.27)
LMB	-0.0203	-0.0279**	-0.0329**	-0.0173*
	(-1.52)	(-2.49)	(-2.34)	(-1.69)
LMVE	-0.0567***	0.0038	-0.0277	0.0316
	(-2.64)	(0.20)	(-1.50)	(1.41)
CEOChair	-0.0463**	-0.1187***	-0.0742***	-0.0629***
	(-2.04)	(-4.21)	(-2.98)	(-2.75)
BoardIndep	0.1564	0.1488	0.2333***	0.0344
	(1.60)	(1.62)	(2.61)	(0.37)
InstOwn	0.0689	0.0389	0.0449	0.0584
	(1.19)	(0.60)	(0.77)	(0.94)
Constant	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes
# of Obs.	1,822	1,717	1,887	1,934
Adjusted R Squared	0.027	0.089	0.064	0.045

This table reports the subsample analysis of the effect of ASC 606 adoption on forced CEO turnover-performance sensitivity using pre-ASC 606 adoption levels of earnings quality (A) and accounting conservatism (B). Earnings quality is measured as the standard deviation of accrual residuals in years t−5 to t−1 following McNichols (2002). Columns (1) and (2) report regression results for firms with high earnings quality (*High Earnings Quality*) and firms with low earnings quality (*Low Earnings Quality*). Accounting conservatism is defined using the C-Score, measured following Khan and Watts (2009). Columns (3) and (4) report regression results of equation 1 for firms with high accounting conservatism (*High Conservatism*) and firms with low conservatism (*Low Conservatism*). The dependent variable, *FTO*, is an indicator variable equal to one if the CEO is forced out by the board for a performance-related reason, and zero if no turnover occurs. All variables are defined in the Appendix A. t-statistics are in parentheses while standard errors are clustered by firm. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

TABLE 11
Industry-Adjusted Earnings Performance: Relative Performance Evaluation

	FTO	***FTO***	***VTO***	***VTO***	***NonFTO***	***NonFTO***
Variables	**(1)**	**(2)**	**(3)**	**(4)**	**(3)**	**(4)**
*Treat*Post*IAROA*	0.0467	0.0364	-0.0422	-0.0755	-0.0186	-0.0499
	(0.96)	(0.76)	(-0.54)	(-0.98)	(-0.23)	(-0.62)
*Treat*Post*IARET*	-0.0105	-0.0081	0.0057	0.0050	0.0067	0.0004
	(-0.44)	(-0.34)	(0.15)	(0.13)	(0.16)	(0.01)
*Treat*Post*	-0.0267**	-0.0295**	0.0008	-0.0006	-0.0094	-0.0070
	(-2.14)	(-2.32)	(0.04	(-0.03	(-0.44)	(-0.33)
IAROA	-0.1027*	-0.1019*	-0.0696)	-0.0323)	-0.0204	-0.0101
	(-1.82)	(-1.79)	(-0.76)	(-0.33)	(-0.21)	(0.11)
IARET	-0.0615***	-0.0562***	-0.0382*	-0.0366*	-0.0398*	-0.0375*
	(-4.82)	(-4.32)	(-1.83)	(-1.75)	(-1.79)	(-1.70)
IAROAVol		0.0665		-0.0085		-0.0161
		(0.41)		(-0.44)		(-0.80)
IARETVol		-0.1623		-0.0715		0.0337
		(-0.94)		(-0.24)		(0.11)
Decrease		-0.0033		0.0074		0.0062
		(-0.51)		-0.78		(0.62)
DACC		0.0564		0.0789		0.1081
		(0.74)		-0.64		(0.84)
IALMB		-0.0432***		-0.0010		0.0018
		(-3.48)		-0.06		(0.11)
IALMVE		0.0094		-0.0294		-0.0163
		(0.74)		(-1.47)		(-0.77)
CEOChair		-0.0654***		-0.2754***		-0.2874***
		(-3.89)		(-11.32)		(-11.33)
BoardIndep		0.1317**		0.3283***		0.3033***
		(2.07)		-3.17		(2.79)
InstOwn		0.0301		0.0079		-0.0073
		(0.72)		-0.12		(-0.11)
Constant	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
# of Obs.	3,823	3,823	3,974	3,974	4,011	4,011
Adjusted R^2	0.044	0.053	0.035	0.0047	0.038	0.0050

This table examines the effect of ASC 606 adoption on voluntary CEO turnover-performance sensitivity using industry median-adjusted performance measures (*IARAOA* and *IARET*). In columns (1) and (2), the dependent variable is *FTO*, defined as an indicator variable equal to one if the CEO is forced out by the board for a performance-related reason, and zero if no turnover occurs. In columns (3) and (4), the dependent variable is *VTO*, defined as an indicator variable equal to one if the CEO stepped down voluntarily to retire or to work at another company, and zero if no turnover occurs. In columns (5) and (6), the dependent variable is *NonFTO*, defined as an indicator variable equal to one if the CEO stepped down but is not forced out by the board for a performance-related reason, and zero if no turnover occurs. All variables are defined in the Appendix A. t-statistics are in parentheses while standard errors are clustered by firm. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.