Earnings Quality and the Timing of Audit Committee Director Departures

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Abstract

In this paper, we examine whether directors who serve on the audit committee rely on the information in earnings quality and time their departure before the onset of poor performance. We find that audit committee members, especially those who serve on multiple boards, leave when the level of accruals is expected to significantly increase in the future. The stock performance subsequent to their departures is also poor. In contrast, we find no such relationship between the departures of the other directors and measures of earnings quality. Our results call into question the efficacy of recent regulatory initiatives (e.g., the Sarbanes-Oxley Act of 2002) that emphasize the role of the audit committee in improving the quality of financial reporting. The services of reputed audit committee members, who are thought to be of most importance to a firm when accounting problems arise, may not be available when they are needed the most.

Corporate governance reforms adopted after the well-publicized accounting scandals in the 1990s have emphasized the role of audit committees in improving the quality of financial reporting. The Sarbanes-Oxley Act of 2002 (SOX) substantially empowers the audit committee to bypass management regarding matters related to the firm's financial reporting, and gives them the authority to hire and fire the firm's auditors. The Securities and Exchange Commission (SEC) also promulgated rules that significantly enhanced the audit committee's role in providing oversight over a company's financial reporting system.[1] The motivation behind these reforms is that an audit committee made up of qualified, independent directors will ensure that firms release high quality financial reports that are minimally distorted by the preferences of management.

The effectiveness of the regulatory changes is predicated on the assumption that audit committee members empowered with the responsibility to oversee the earnings process will monitor questionable practices and resolve differences that may arise between auditors and management.[2] But, a recent strand of governance literature suggests that board members may leave the firm before the revelation of adverse information rather than focusing their efforts on resolving problems within the firm. Adams, Hermalin and Weisbach (2010) note that a director concerned about her reputation in the labor market for directors may attempt to develop a reputation as someone unlikely to rock the boat, because such directors are favored by powerful CEOs who can influence director appointments. Since directors associated with poor monitoring lose a significant number of their directorships[3], directors who are in demand in the labor market may quietly leave the firm before problems are revealed publicly to investors, while still

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[1] U.S. Securities and Exchange Commission, Standards relating to listed company audit committees. Available at http://www.sec.gov/rules/final/33-8220.htm
[2] See, e.g., http://www.nysscpa.org/cpajournal/2004/1104/images/ex1p23.pdf.
[3] See, for example, Gilson (1990) and Fich and Shivdasani (2007).

maintaining a reputation as someone who may not openly dissent with management.[4] Consistent with such reputational concerns, Fahlenbrach, Low, and Stulz (2013) document that outside directors leave firms in advance of poor performance.[5]

In this paper, we examine whether audit committee members time their departures to lower the personal reputational penalty associated with poor earnings performance. Since audit committee members (a) have overall responsibility over the firm's external auditors and are more likely to have early access to earnings quality-related information than other directors, (b) have, on average, more accounting and financial expertise to better understand the earnings process, and (c) may suffer a bigger reputational penalty when earnings quality related problems are disclosed, we posit and examine whether their departure is related to a deterioration in earnings quality. Since directors who are more in demand in the directorial labor market are more likely to be concerned about their reputation loss than other directors[6], we expect multiple directors who are also members of the audit committee (audit multiple directors, hereafter) may be more likely to leave the firm before the onset of poor performance.

We conduct our analysis using a large sample of over 4,500 director departures involving 3488 unique firms during 2002-2009, identified from the Corporate Library. Directors are more likely to depart from larger firms with a marginally lower return on assets and sales growth than the non-departing firms. These patterns are similar for both departures of audit committee members and departures of other non-audit directors. Consistent with this poorer performance, departing directors are associated with higher firm book-to-market ratios and leverage. The

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[4] Along similar lines, Dyck, Morse, and Zingales (2010) find that employees face significant costs when they are whistleblowers, and suggest that "... the best way to avoid the reputation loss is to change jobs as soon as possible, without whistleblowing."

[5] In addition to reputational losses, directors may also face direct financial losses from being associated with fraud firms. Adams, Hermalin, and Weisbach (2010) give the example of WorldCom, where the directors had to pay $18 million out of pocket (i.e., not covered by insurance).

[6] Similar arguments are made in Masulis and Mobbs (2011), who consider inside directors with outside directorships as directors with large reputational capital.

departing directors are older than the non-departing directors by about four years, and have a longer tenure on the board. The departing audit directors hold, on average, 2.3 directorships, which is larger than the average number of directorships held by the non-departing directors (2.16).

Most directors appear to leave "quietly". Unlike the negative market reaction documented in Agarwal and Chen (2010) for resignations of directors who openly dispute with management, we find that the market reaction around the departure date of audit committee members, including those holding multiple directorships, is close to zero. So, it appears that these directors leave without any adverse revelations to the market. But, the subsequent stock performance of the firm over the long term is negative. The departure of outside directors is followed by a negative market-model adjusted abnormal return of -5.6% over months (1, 12). We find similar underperformance following both audit and non-audit director departures. The mean market model adjusted abnormal return over months (1, 12) after the departure of audit (non-audit) directors is a statistically significant -6.3% (-5.0%). Both multiple and non-multiple director departures are followed by significantly poor stock performance. The poor performance extends to three years after the departure, suggesting a prolonged period of below-par performance. Our results for audit directors, both multiple and non-multiple, are similar to the results documented in Fahlenbrach et al. (2013) and suggest that like other directors, audit directors also leave prior to poor performance.

The departures of audit multiple directors are associated with an increase in the level of accruals and a decline in the cash flow component of earnings. Such a pattern suggests that the current level of performance may not be sustainable, since prior research has shown high levels of accruals to be a leading indicator of poor subsequent stock performance (e.g., Sloan (1996)).

Consistently, the departures of audit multiple directors are coincident with an increase in various measures of accruals and a decline in the cash flow component of earnings. In contrast, the departures of the other directors are not associated with such a pattern in accruals or cash flows. The results indicate that audit multiple directors are better able to interpret the information in accruals, either because of their superior financial expertise or because of their superior access to earnings quality-related information via their position on the audit committee and from their directorships in other firms. These results hold for several alternative measures of accruals. When we decompose the accruals as in Richardson, Sloan, Soliman, and Tuna (2005), we find that the less reliable components of accruals increase more around audit-multiple director departures than other departures.

Overall, our analysis suggests that reputed audit committee members actively process the accounting information available to them and leave when the potential for adverse revelations increase. Audit committee members with a lower reputation in the director labor market are more likely to stay, since they do not have the same opportunities in the director market, and may be the ones facing the adverse consequences of ex-post settling up, as in Srinivasan (2005). This suggests that imposing requirements on audit committee member quality may have only a limited influence in constraining earnings management.

The literature on managerial and director turnover focuses on whether they are penalized for restating their financial statements (e.g., Desai, Hogan, and Wilkins (2006), Srinivasan (2005)). In this paper, we examine whether audit committee members depart when the risk of poor performance increases. This is closest in spirit to Fahlenbrach, Low, and Stulz (2013), except that (a) we focus specifically on the quality and responsibilities of the audit committee rather than all outside directors, and (b) we examine whether their departure is associated with

the informational advantage that they gain from serving on the audit committee. With information on actual departure dates, we are also able to assess whether these directors time their departure and leave quietly without adversely attracting attention to the firm.

Our research has significant implications for regulators, auditors, and investors. If audit committee members are likely to leave in advance of the revelation of potential financial reporting problems, then regulations (e.g., SOX/SEC/Stock exchange guidelines on audit committees) that expect audit committee members to be stewards of the firm's accounting process who act to mitigate, uncover, and rectify improper accounting may be ineffective in achieving their objective. If reputed audit committee members leave "quietly" when they suspect potential problems, they would be unlikely to provide an effective forum where "... auditors and other interested parties can candidly discuss concerns",[7] at a time when such discussions may be particularly valuable. However, our results suggest that auditors could infer that the departure of audit multiple directors is an indicator of potentially incorrect financials and exercise caution during subsequent audits. Along similar lines, information about departures of audit multiple directors may be useful to investors, as a leading indicator of potentially erroneous financial statement information and poor future performance. This may be particularly useful if information about such departures is used in conjunction with the information in accruals as an indicator of poor earnings quality.

The remainder of the paper is organized as follows: In section 2, we discuss the related literature and develop our testable hypotheses. Section 3 discusses the sample and methodology and Section 4 presents our main results. We conclude in Section 5.

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[7] U.S. Securities and Exchange Commission, Standards relating to listed company audit committees. Available at http://www.sec.gov/rules/final/33-8220.htm

2. Theory and related research

2.1 The timing of audit director departures

Well prior to the accounting scandals of Enron and WorldCom, the literature has expressed doubts about whether directors effectively perform their monitoring functions. Many reasons are provided for their limited effectiveness. For example, since the CEO often decides on the agenda for board meetings and controls information flow, even qualified directors may be hindered from being effective directors (Jensen 1993). Or, the CEO, who has considerable influence on who sits on the board, may choose directors that are not effective monitors (Shivdasani and Yermack 1999). Directors may also spend too little time to monitor effectively (Vafeas 1999), and auditors providing non-audit services may conceal bad news from the board in order to be retained for receiving lucrative non-audit services (Simunic 1984).

The failures stemming from the lack of effectiveness of the board of directors to monitor managers provided the impetus for the Sarbanes Oxley Act (SOX) to legislate changes that addressed concerns about board and auditor independence. SOX requires that the audit committee sets the agenda relating to accounting issues and requires these directors to be independent of the influence of management. Further, it requires that the audit committee be responsible for the appointment and compensation of the external auditor; that the auditor reports directly to the audit committee; that the non-audit services that audit firms could provide be restricted and the fees for each type of services be disclosed.[8] The stock exchanges added provisions that require at least one financial expert in the audit committees for listed firms.

Despite these major changes in the board-level monitoring of financial accounting activities, it is not clear whether audit committees play an important role in successfully

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[8] See Coates (2007) for a summary of the changes instituted by the Sarbanes Oxley Act.

detecting and reporting financial misconduct.[9] While there is some evidence of a negative association between earnings management and measures of audit committee quality (e.g., Klein (2002), Farber (2005), Vafeas (2005), etc.) others (e.g., Beasley (1996)) do not find that audit committee presence or composition have an impact on the likelihood of financial fraud.[10] Consistent with the latter line of research, Larcker, Richardson, and Tuna (2007) conclude that a broad range of governance variables have mixed or little impact on the level of accruals and restatements. Relatedly, surveys of audit committees (e.g., Beasley, Carcello, Hermanson, and Neal (2009)) indicate that while they may serve as vigilant monitors of management, they do not consider detecting financial fraud to be a major objective for them.

What could explain the weak evidence on the role of audit committees in successfully detecting and reporting financial misconduct? Studies on monitoring by institutional investors (Parrino, Sias and Starks (2003)) and by blockholders (Edmans 2009) suggest that monitors use the "Wall Street rule" of selling off their ownership when they become dissatisfied with the firms' management, rather than staying on and attempting to force changes. Emerging studies on board of directors also suggest that directors may value their reputational capital and walk away from problem firms in order to avoid facing reputational penalties in the director labor market.[11] Focusing on annual director changes (but not specifically on audit committee departures), Fahlenbrach, Low, and Stulz (2013) document that surprise departures of directors are more often followed by extreme negative events. They conclude that their evidence is consistent with directors leaving a firm ahead of troubled times, with a view to protecting their reputation in the

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[9] We use the terms financial misconduct, financial wrongdoing, corporate fraud, financial fraud, or simply fraud interchangeably, to represent instances where the firm's reported financials are not an accurate indicator of its true economic performance.

[10] See Dechow, Ge, and Schrand (2010) for a recent survey.

[11] This finding is also consistent with Chen and Moers (2012), who show that after the year 2000, multiple directors started reducing the number of directorships in firms with high monitoring costs.

labor market.[12] Following this argument, we conjecture that audit committee directors desiring to maintain their reputation in the director market may leave when they perceive that the firm's current performance is upwardly biased and is not sustainable in the future.

H1: The departure of directors who serve on the audit committee is followed by poor stock performance.

2.2 Earnings quality and the timing of audit committee departures

The discussion in Section 2.1 above suggests that directors who serve on the audit committee have an incentive to leave in advance of poor performance. But, what informational advantages do audit committee members have that may have contributed to this decision?

We hypothesize that since the audit committee acts as the primary liaison between the auditors and the firm's management they are likely to have access to information about the earnings process via their board positions and through their interactions with internal and external auditors. Since they are likely to be knowledgeable or have prior experience in evaluating financial information, they would be able to accurately assess the firm's performance. In particular, they may perceive that the current earnings performance may not be sustainable in the future if they observe that firm is using income increasing accruals to boost reported current performance. Other directors, i.e., those who do not serve on the audit committee, would be less likely to be privy to such information and/or would have less expertise in evaluating earnings quality. Hence, we focus on whether audit directors rely on the information in earnings quality in deciding when to leave, because (i) they are more likely to have access to such information than

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[12] They also consider and reject the reverse causality explanation, i.e., the departure of a valuable director causes the subsequent poor performance rather than directors anticipating and leaving before the onset of poor performance.

the other directors, and (ii) prior research (e.g., Sloan (1996)) has shown that earnings quality is a reliable leading predictor of poor performance.

A further consideration is the departure decisions of audit committee members holding multiple directorships.[13] . While the literature is conflicted about their value to firms, it is likely that only these directors have the opportunity to quit certain boards and join others. The evidence in Masulis and Mobbs (2011) suggests that directors holding multiple directorships exert more effort in firms that are important to preserve their reputation in the labor market and quickly leave those firms that may suffer a drop in performance. Another reason to consider the departure decisions of multiple directors is because some of the literature considers them to be higher quality (Fama and Jensen (1983), Ferris, Jagannathan, and Pritchard (2003), Field, Lowry and Mkrtchyan (2012)). Multiple directors may benefit from information spillovers from their other directorships (e.g., about industry trends) that may help them identify whether or not the current level of performance is sustainable in the future. If such factors enable them to more accurately recognize the extent to which the reported earnings diverge from the true underlying economic performance, they may elect to resign rather than blow the whistle or act to correct the reported earnings. Actions to correct such issues may often require co-ordination with other directors and such actions may be viewed negatively in the labor market (Warther (1998)). The finding in Larker, Richardson, Tuna (2007) that multiple directors are not associated with more restatements is also consistent with these directors leaving prior to the onset of poor performance. Hence, we classify reputed audit committee directors as those who hold three or more directorships, and examine whether they are more likely to depart when earnings quality declines.

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[13] Engel, Hayes, and Wang (2010) note that the compensation paid to audit committee members is higher than that of the members in the compensation committee, but these differences are not a focus of their paper.

Alternatively, as Edmans (2009) suggests, the threat that high quality directors may quit may help in constraining earnings management. If so, we should not observe any significant relationship between departures of audit multiple directors and measures of earnings quality.

H2: The departure of audit directors, and especially audit multiple directors, is more likely to be associated with a decrease in earnings quality, compared to the other directors.

3. Sample and Descriptive Statistics

3.1 Data

We obtain information on the board of directors from the Corporate Library (CL) database from 2003 to 2008.[14] Table 1 reports how our sample is formed. We merge each annual CL datafile at the company and director level and classify a director as active if the variable *DIRSTATUS* lists them as active.[15] In 2004, the director status variable is missing so we classify active directors for that year by imputation. If the director was active in both 2003 and 2005, then we classify them as an active director in 2004. There are 16,636 unique firm years from the CL sample and 192,222 unique firm-director years. We only retain those firm years where the proxy date from CL falls between the CRSP begin date and CRSP end date and if the CRSP share code is 10 or 11. This leaves us with 13,623 unique firm years and 117,442 unique firm-director years.

We consider a director-firm-year to be a departure year if the director was listed as active in a year followed by years in the database where (s)he is listed as inactive. The departure date is determined in one of two ways. First, if the variable *DATERETIRING* is available, we use that date as the director departure date. If *DATERETIRING* is missing, then we use the first

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[14] This database has been used in prior research (e.g., DeFond, Hann, and Hu (2005).
[15] We verified the accuracy of the director status variable by manually checking the status of a randomly selected subsample of fifty directors.

subsequent proxy date from when a director is no longer listed as active.[16] This creates a departure sample with 4,820 unique firm years and 7,379 unique firm-director years. We delete financial firms (those firms with an SIC code between 6000 and 6999) and any inside directors (directors where *DIROUTSIDE* = "Inside"). This leaves us with a final director departure sample of 3,313 firm years and 4,740 firm-director years.

We classify an active director as an audit committee member if the variable *COMMITTEEAUDIT* is equal to "X," "N," "C," or "VC." If *COMMITTEEAUDIT* is equal to "E," "A," "R," or "RC," we do not classify that observation (director-firm-year) as an audit committee member. We classify an active director as a multiple director (one serving on three or more board of directors) if *DIRMULTIPLE* is greater than or equal to three. Departing directors are classified in these categories based on the last year they were active.

3.2 Summary statistics

Panel A of Table 2 presents the characteristics of firms with at least one outside director departure.[17] Firms with director departures are significantly larger than firms that do not have any director departure. The mean total assets for firms with departures is $7.6 billion, compared to $3.8 billion for firms with no departures. The medians are considerably smaller, even though we find a similar pattern ($1.6 billion vs. $0.9 billion). The same pattern is also apparent when we examine total sales. The firms where multiple directors (both audit and non-audit) depart are especially large, with mean assets of over $10 billion. This evidence is consistent with prior studies that multiple directorships is a large firm phenomenon (Ferris et al (2003), Field et al.

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[16] The proxy statement often mentions that a certain director does not plan to stand for election in the next annual meeting. In such cases, no retirement dates are found in CL. We also found planned retirements where the news item states that the director plans to retire at the shareholder meeting.

[17] We define all variables used in the paper in Appendix A.

(2012)). The average financial performance (operating return on assets) is marginally lower than the performance of firms with no departures (7.0% vs. 7.4%), but the difference in medians is larger (7.8% vs. 8.7%). The prior sales growth is also significantly lower for firms with departures (8.4% vs. 13.4%). Consistent with this poorer performance, they also have higher leverage (0.55 vs. 0.49) and higher book-to-market ratios (0.68 vs. 0.61). A similar trend is observed across the different subgroups of director departures - audit and non-audit, for both multiple and non-multiple directors.

Panel B of Table 2 presents characteristics of the departing directors. Compared to the population of active directors, the departing directors are older by three years (63 years vs. 59.8 years), hold more directorships (2.3 vs. 2.2) and have a longer tenure on the board (9.3 years vs. 7 years). These patterns are similar for the different director subgroups, except for a shorter tenure for audit-multiple departures (7.9 years).

4. Director Departures and Firm Performance

The hypotheses in the paper are based on the notion that audit committee members in general and audit committee members who hold multiple directorships, in particular, time their departure before a decline in the firm's performance, at least partially by being able to infer whether the reported earnings accurately capture the underlying performance and are sustainable.

We use raw stock returns, market model adjusted returns, and mean adjusted returns to evaluate whether director departures are followed by poor performance (H1). We compute various accrual measures to test whether the directors in general, and reputed audit multiple directors in particular, leave when accruals are low and are expected to increase in the near future (H2).

4.1 Abnormal stock returns subsequent to director departures

Table 3 presents the stock returns following director departures, estimated over several different holding periods. The raw stock return over the 12 months following a director departure (months +1 to +12) is about 7%. Over the same period, the mean market model-adjusted buy and hold return is a significantly negative -5.6% and the mean-adjusted return is a significantly negative -12.0%. The significant negative abnormal continues in year 2 (months +13 to +24) and in year 3 (months +25 to +36), even though both the market model-adjusted and the mean-adjusted abnormal returns are smaller in magnitude (-3.9% and -10.6% in year 2 and -4.2% and -0.8%, respectively). All these estimates of abnormal return are significant at the one-percent level, except for the average mean-adjusted abnormal return in year 3. The median abnormal returns are all negative and significant at the one-percent level, indicating that our results are not driven by a few large negative outlier returns. The results are similar to the findings in Fahlenbrach et al. (2013) and suggest that outside directors time their departure when they expect the future performance will be poor.

To examine whether the results are similar after audit committee members departures, we divide the sample into audit committee departures and other director departures. We find that the average market model-adjusted abnormal return over the first 12 months (months 13-24 , months 25-36) subsequent to an audit director departure is significantly negative -6.3% (-4.1%, -4.1%). The abnormal returns are similar in magnitude for both audit multiple director departures and for audit non-multiple director departures. We find similar results using mean-adjusted abnormal returns and for abnormal returns subsequent to the other (non-audit) director departures. The results support hypothesis H1 and confirm that similar to the other directors, audit directors also time their departures and leave before poor performance.

4.2. Earnings quality and director departures

In the prior section, we document that directors leave prior to poor firm performance. In this section, we document the results of analyses that address the main focus of the paper: Do audit committee directors use their informational advantage about earnings quality to make their departure decisions? We posit that the directors will time their decisions when they suspect a decrease in earnings quality. We describe the measures we use to measure earnings quality and the results from our tests below.

4.2.1. Computing measures of Earnings Quality

Following Richardson, Sloan, Soliman, and Tuna (RSST, 2005), we decompose total accruals into three main components $\Delta WC, \Delta NCO,$ and ΔFIN as:

$RSST\_TA = (\Delta WC + \Delta NCO + \Delta FIN) / ATA$, where ΔWC is the change in non-cash working capital, ΔNCO is the change in non-current operating accruals, ΔFIN is the change in net financial assets. They then further decompose each of these three components into the asset and liability sub-components (detailed variable definitions are in the Appendix Table A):

$\Delta WC = \Delta COA - \Delta COL, \Delta NCO = \Delta NCOA - \Delta NCOL,$ and $\Delta FIN = \Delta STI + \Delta LTI - \Delta FINL.$

RSST then document that two components of accruals, ΔCOA and $\Delta NCOA$, are less reliable and lead to lower earnings persistence than other accruals. We decompose all the accruals similarly and check whether the less reliable accrual measures are related to the departure decisions of audit committee directors.

As an additional test, we also use the Jones model (Jones 1991) to estimate discretionary accruals and verify whether the audit directors are more likely to leave when the levels of discretionary accruals increase. Firm-specific discretionary accruals *(DA)* are computed as the

residual and non-discretionary accruals are computed as the predicted value from the estimating regression model (details are in Appendix Table A).

4.2.2 Univariate Statistics

Table 4 summarizes several measures of financial performance. Panel A presents the statistics for the last fiscal year ending prior to the director departure date (year -1) and Panel B presents statistics for the change in performance from year -1 to year 0 (fiscal year end of the departure year). If audit-multiple directors utilize information about the financial reporting process in their departure decisions, we would expect to find a declining pattern in the firm's financial performance. Specifically, the firms will have low levels of accruals prior to the departure and an increase in the level of accruals (signaling that the future performance would not be good) would lead them to depart.

Panel A of Table 4 documents the levels of operating income (return on assets), cash flow, and accrual components in the year prior to a director's departure, classified by whether the director served on the audit committee and whether the director holds three or more directorships. For the entire sample of director departures, the average return on assets is 7% in the year prior to their departure. The performance prior to audit committee departures is roughly similar to the performance prior to other director departures (6.6% vs. 7.4%). The performance is also similar for audit multiple director departures and audit non-multiple director departures (7.1% and 6.3%). However, the differences are more apparent when we examine the pattern in the accrual component of income. While the mean accrual component ranges between 1.4% and 2.1% for all other subgroups of director departures, it is an insignificant -0.1% prior to audit-multiple director departures. Consistently, the cash flow component of earnings averages 7.4%

prior to audit multiple departures, whereas it ranges between 4.1% and 5.5% for the other types of director departures. When we use the extended decomposition of accruals as in RSST, all components of accruals are smaller for the audit multiple director departure group than for the other groups. The average discretionary accruals from the Jones model is also not significantly different from zero for the audit multiple director departures.

Panel B of Table 4 reports the changes in performance from year -1 to the year of the departure (year 0). For the overall director departure sample, accruals decline by -0.8%, on average. All sub groups of director departures experience a decline in accruals averaging between -0.4% and -1.4%. The only exception is for audit multiple departures, where the mean accruals increase by 1.5%. An analogous difference is apparent in the pattern of cash flows. The only instance where the cash flow decreases is around departures of audit-multiple directors. This pattern in accruals and cash flows is not temporary as the changes persist for the next couple of years after the departure year (Figures 1 and 2, respectively).

When we categorize accruals into its principal components, we find that the working capital accruals increase significantly for the audit-multiple departure sample. The increase is either smaller or insignificant for the other groups. Non-current operating accruals also increases significantly only for the audit multiple group (1.9%), all the other groups experience either a significant decline or no significant change. Further decomposing the accruals as in RSST, we find that current asset accruals (COA) and non-current operating asset accruals (NCOA) significantly increase only around audit-multiple departures. Discretionary accruals (modified Jones (1991) model) also significantly increase only for the audit-multiple sample. Overall, these statistics are consistent with our Hypothesis (H2), but we test them more formally and report the results in the next section.

4.3 Multivariate results

In this section, we report results from formal tests of hypothesis H2, that audit directors, especially audit multiple directors, depart (i) when the prior level of accruals is low, and (ii) when the level of accruals increases. Since we are interested in the departure decisions of the various groups, and these groups do not have a natural ordering, we use multinomial logit models to explain the departure decisions of each group of directors. In Tables 5, 7, 8, and 9, we use the firm-years with no-turnover as the base case and report the relative coefficients modeling the turnover decisions of the other groups - audit multiple, audit non-multiple, non-multiple non-audit, and multiple non-audit directors. In Table 6, we use an ordinary logistic specification and compare audit multiple departures with the departure of other director types.

We use two control variables that we expect may explain director turnover, their age and tenure on the board. We expect older directors to be more likely to depart since they may be closer to the retirement age. In order for a director to invest in acquiring firm specific monitoring skills, they should expect to serve for an extended period of time so that they can amortize the fixed costs of information acquisition over a longer time period. So, we expect new members of the board to commit themselves to serve for a many years and hence will be less likely to leave the firm. Our main independent variable of interest attempts to measure whether the departure decisions are made by directors when earnings quality is high but are expected to fall in the near future.[18] As mentioned earlier, we measure this using various performance / accrual measures in year -1 and by the changes in these measures from year -1 to 0. We expect that, relative to the no

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[18] For Canadian firms, Park and Shin (2004) examine whether longer tenure for outside directors reduces earnings management, but find no evidence to support the proposition.

turnover group, the audit committee director departure group will be associated with low levels of accruals in year -1 and that the accruals increase significantly from year -1 to year 0.

The main explanatory variables of interest in Panel A of Table 5 are the level of operating income in year (-1) (for models 1-4) and the change in income from year (-1) to year (0) (for models 5-8). All regressions include year fixed effects. As expected, the co-efficient of director age is positive, suggesting that *ceteris paribus*, older directors are more likely to leave the firm. The audit multiple directors depart after fewer years of service, whereas the other types of directors depart after longer term in service, relative to the tenure of non-departing directors. In models 1-4, we find that the coefficient on prior operating income is negative and significant at the five-percent level for all groups of departures, suggesting that the relative level of income is lower for all groups of departures relative to the non-departure group. When we examine the changes in income (year (-1) to year (0)) in models 5-8, we find that the change in income is statistically significantly positive for departures of multiple directors (both audit and non-audit), whereas it is significantly negative for departures of non-audit, non-multiple, directors.

In Panel B, we replicate these models except that we include the level and changes in accruals as the main explanatory variable of interest, instead of operating income. Consistent with hypothesis H2, we find that audit multiple directors depart when the relative level of accruals in the prior year is low (significantly negative coefficient on accruals in year (-1)) and when the level of accruals increase (significantly positive coefficient on change in accruals). While the coefficient on prior accruals is also negative for the other three types of director departures - audit non-multiple, non-audit non-multiple, and multiple non-audit directors – the coefficient on change in accruals is not significant in models 6-8.

In Panel C, the main variable of interest is cash flow instead of accruals. We expect, and find, the opposite pattern relative to the results in Panel B. Audit multiple directors time their departure when the level of cash flows in the prior year is high but significantly declines in the next year. The coefficient on prior year's cash flow is significantly positive (model 1) and that on change in cash flows is significantly negative (model 5). The coefficient on change in cash flow is not significant for departures of the other three director types.

Overall, results in both Panels B and C suggest that audit multiple directors time their departure when the prior level of accruals (cash flows) is low (high) and it increases (decreases) in the future. That this phenomenon is restricted to audit-multiple directors and no other multiple directors suggests that audit-multiple directors utilize the information in earnings to make decisions about their departure. Other types of directors do not show a consistent pattern in both accruals and cash flows in timing their departure.

As an additional test, we use logistic regressions to compare the departure of audit multiple directors with the departure of each of the other three types of directors and the departure of audit non-multiple directors with non-audit directors (Table 6). For these tests, we restrict the sample to include only the audit multiple departure group and the comparison group. The analysis follows the same pattern as in Table 5, where Panels A, B, and C include levels (year (-1)) and changes (year (-1) to year (0)) in operating income, accruals, and cash flows as the main explanatory variables of interest, respectively.

The results presented in Panel A comparing the levels and changes of operating income prior to audit-multiple departures and other types of departures show little consistency. Both the level and changes in operating income have little explanatory power to distinguish between departures of audit multiple directors and departures of other multiple directors (models 1 and 2).

But, when compared to non-audit non-multiple directors (models 3 and 4), audit multiple departures are followed by an increase in operating earnings. When compared to audit non-multiple directors (models 5 and 6), there is an increase in operating earnings subsequent to audit-multiple departures. The differences in the levels and changes in accruals are more apparent. In all instances (models 1-6), we find that the coefficient on prior year's accruals is negative and significant and that on the change in accruals is positive and significant. However, there is little difference in accruals between the departure of audit non-multiple directors and non-audit directors (models 7-10). This result confirms those documented in Table 5 and offers support for hypothesis H2. Audit multiple directors are more likely to depart when there is a contemporaneous decline in earnings quality. The results in Panel C for cash flows confirm this result. Relative to the departure of the other directors, the departure of audit multiple directors is preceded by higher levels of cash flows that subsequently decline.

Since a director's reputation in the directors' labor market depends on the performance of the firms they serve in, it would be in their interest to depart as directors at the peak of the firm performance, before a performance decline. Our results offer support for the notion that audit multiple directors quit from one firm at the peak of its performance and before a performance decline. This may be partly due to the information they are able to garner from their other directorships or due their service in the audit committee. Even in the absence of relative advantage over other directors, they may be more willing to quit because they are more in demand in the labor market. They may also be quicker to come to the decision than other non-audit directors, because reputational concerns associated with disclosures of poor earnings quality may be more severe for audit committee members.

4.4 Robustness tests

In this section, we describe the results of several additional tests that we conducted to assess the reliability of our results. Specifically, we replicate the analysis in Table 5 and Table 6 using several alternative measures of earnings quality. Our results documented in Section 4.3 continue to hold in virtually all the additional robustness tests that we conduct and we discuss them below.

(i) Initial decomposition of accruals

We use the balance sheet decomposition of total accruals into working capital accruals (WC), net non-current operating asset accruals (NCO), and financial accruals (FIN). RSST document that the first two components are indicators of poor earnings quality and are expected to lead to lower earnings persistence and poorer stock performance. So, we expect that the departure of audit multiple directors would be related to these less reliable accrual components. Table 7 presents the results from the multinomial logit regressions with these accrual measures. Consistent with our expectations, we find that relative to non-departing directors, the departure of audit multiple directors is associated with a low level of both WC and NCO accruals prior to the departure, followed by an increase in both these accrual components. However, financial accruals (presented to ensure completeness) do not have any explanatory power. In untabulated results, we find that the departures of the other three director types do not show such a pattern. We also find a qualitatively similar result when we replicate the Table 6 analysis and compare audit multiple departures to the other three types of departures (not tabulated). The departure of audit multiple directors, but not the departure of other directors, is correlated with the information in the less reliable components of accruals.

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<u>(ii) Extended decomposition of accruals</u>

Following RSST, we use the extended decomposition of the accrual components, where each of the three components - WC, NCO, and FIN - are further divided into their asset and liability accruals. The current asset accruals (COA) and non-current operating assets (NCOA) are considered to have low reliability. Hence, we expect these components of accruals to be linked with audit multiple departures. The results in Table 8 indicate that the level of COA is lower prior to the departure of audit multiple directors (Panel A), and their departure is associated with an increase in COA. In results reported in Panel B, we find that the departure of audit multiple directors is preceded by a low level of NCOA, followed by an increase in NCOA over year (-1) to year 0). We report the results for financial accruals in Panel C for completeness. We find that the departures of other directors do not indicate such a systematic pattern (not tabulated). We find qualitatively similar results when we replicate the Table 6 analysis using the extended decomposition (not tabulated).

<u>(iii) Including all components of accruals together</u>

In (i) and (ii) above, we have tested for the link between director departures and each of the individual components of accruals. In untabulated results, we find that our original results continue to hold when we (a) include WC, NCO, and FIN together, or (b) we include COA, COL, NCOA, NCOL, FINA, and FINL together in one estimation. Our conclusion remains unaltered, the departures of audit multiple directors is associated with a lower prior level of the less reliable accrual components followed by a subsequent increase. The link is not apparent for departures of other directors or for the more reliable accrual components.

(iv) Discretionary accruals

Prior research (e.g., Jones (1991)) has used regression models to separate total accruals into discretionary accruals that could be manipulated by management (i.e., low earnings quality) and non-discretionary accruals. We follow Jones (1991) and estimate non-discretionary accruals as the fitted value of a regression of total accruals on change in sales and the level of property, plant and equipment. Discretionary accruals are estimated as the residuals from the regression model (details of the estimation process are in Appendix Table A). We re-estimate the Table 5 models but use discretionary and non-discretionary accruals and expect that relative to non-departing directors, the departure of audit multiple directors would be associated with a lower level of discretionary accruals and a subsequent increase. The results in Table 9 confirm this expectation - the coefficient on discretionary accruals prior to the departure is significantly negative and that the change in discretionary accruals is significantly positive. The pattern is opposite for non-discretionary accruals. But, this result only holds for audit multiple departures, the departures of the other directors do not exhibit a similar pattern in discretionary accruals (not tabulated). The results are weaker when we replicate the Table 6 analysis using only director departures (not tabulated). The results are similar when we use the modified Jones model (not tabulated). Overall, the evidence suggests that audit committee directors who hold several directorships leave the firm when they observe a decrease in earnings quality, which prior research has shown to be a leading indicator of poor subsequent performance.

(v) Impact of sales growth

We have used accruals as indicative of temporary accounting distortions that mask true underlying performance, and hence are a precursor to poor subsequent performance. However,

some researchers (e.g., Fairfield, Whisenant, and Yohn (2003)) argue that the level of accruals may be related to future performance for reasons unrelated to accounting distortions. In essence, a growing firm would make investments with diminishing marginal returns (resulting in lower estimates of subsequent performance) and also be associated with higher accruals (due to increased production and sales). Richardson, Sloan, Soliman, and Tuna (2006) conclude that their evidence supports the former evidence. We replicate the analysis in Tables 5-9 by including prior sales growth, and find that our results are unaltered (not tabulated).

(vi) Director departures and performance – reverse causality

One potential explanation of our results is that the causality may run from director departures to subsequent performance – highly qualified directors leaving the firm may lead to subsequent poor performance. However, our finding that the departure of other multiple directors is not associated with such a decline in earnings quality suggests that lack of monitoring by reputed multiple directors is unlikely to be an explanation for the drop in earnings quality. We also note that Fahlenbrach et al. (2013) consider and discard the reverse causality explanation (see also footnote 11).[19]

(vii) Announcement period returns

To examine the market reaction around director departures, we calculate the cumulative abnormal returns around each director departure group. For each of the groups the CAR is economically insignificant, and if statistically significant, is positive. Over days (-1, +1) the CAR

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[19] One possible way this problem could be addressed is by examining retirements of audit multiple directors around mandatory retirement age. If these retirements are exogenous, and if our hypothesis is correct, they should have no relation to subsequent performance. Instead, if the loss of such members causes firm value to drop, we should observe a decrease in subsequent performance. Initial evidence indicates no support for the reverse causality explanation.

for audit committee as a whole is an insignificant 0.14% and for the audit multiple departure sample an insignificant 0.29%. This is consistent with most of the directors leaving quietly and inconsistent with the notion that the departure is a sufficient expression of disagreement with the management.

5. Conclusion

Since the accounting scandals at firms such as Enron and Worldcom, there has been an increased reliance on audit committees to provide oversight over the company's financial reporting system. The intent of the Sarbanes Oxley Act of 2002 and the subsequent rules and guidelines promulgated by the SEC and major stock exchange is that an effective audit committee would ensure that firms release high quality financial reports that are useful to investors. We examine one potential reason why such benefits may not occur. An audit committee member may be able to gauge a firm's true performance through discussions in board meetings, in their conversations with external auditors, or through information spillovers from their primary business and other directorships. When an audit committee member is able to discern discrepancies between the reported financials and his/her assessment of the firm's performance, they could either make their concerns known privately to the board and/or the firm's executives, or raise their concerns publicly (e.g., via the media), or leave quietly. We examine whether board members, and especially reputed audit committee directors, prefer to leave the firm quietly and preserve their reputation as directors who do not "rock the board" rather than raise their concerns publicly.

Our results suggest that multiple directors who are in demand in the directorships market time their departures and leave quietly when reported performance is high and the potential for

financial reporting problems increase. Specifically, we find that in the year prior to the departure the quality of earnings is higher, but stock performance and earnings quality decline after the departure of a multiple director who served on the audit committee . Our results should be informative to regulators, since the departure of reputed audit committee members in advance of reported decrease in earnings quality suggests that relying on audit committee to ensure high quality financial reporting may not be very effective. Our results should also be useful to external auditors and investors, since such departures seem to be a leading indicator of future poor performance.

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Variable Name	Definition (Compustat variable name in parentheses)
Sales	Sales (**SALE**)
Total Assets	Total Assets (**AT**)
ATA	Average Total Assets ($AT_t + AT_{t-1}$)/2
PREFSTOCK	If Preferred Stock - Liquidating Value (**PSTKL**) is non-missing, then PREFSTOCK = PSTKL. If PSTKL is missing and Preferred Stock - Redemption Value (**PSTKRV**) is non-missing, then PREFSTOCK = PSTKRV. If PSTKL and PSTKRV are missing, then PREFSTOCK = Preferred/Preference Stock (Capital) - Total (**PSTK**).
B/M	Total assets / Market Value of Equity (**AT**/**LT** - **TXDITC** + PREFSTOCK + **PRCC_F*CSHO**)
ROA	Operating Income after Depreciation/ Average Total Assets (**OIADP** / ATA)
Leverage	Total Liabilities (**LT**)/ Average Total Assets (*ATA*)
Sales Growth	Change in sales scaled by lagged total assets ($Sale_t$ – $Sale_{t-1}$)/AT_{t-1})
IBC	Income Before Extraordinary Items (Cash Flow) (**IBC**)
CFO	Operating cash flows (**OANCF**) + Extraordinary items and discontinued operations (**XIDOC**).
PPE	Property Plant and Equipment - Total (Net) (**PPEGT**)
Δrec	Change in accounts receivable (**RECT**)

Accruals Variables

RSST_Income	Operating Income after Depreciation/ Average Total Assets (**OIADP** / ATA)
RSST_TA	Change in working capital accruals plus change in non-current operating accruals plus change in net financial assets, all scaled by average total assets ($\Delta WC + \Delta NCO + \Delta FIN$) / ATA
RSST_CF	*RSST_Income - RSST_TA*

Accruals Decomposition (Compustat variable name in bold parenthesis)
Change in working capital accruals (ΔWC) = ΔCOA – ΔCOL
    COA = Current Assets (**ACT**) – Cash and Short Term Investments (**CHE**)
    COL = Current Liabilities (**LCT**) – Debt in Current Liabilities (**DLC**)

Change in non-current operating accruals (ΔNCO) = $\Delta NCOA$ - $\Delta NCOL$
    NCOA = Total Assets (**AT**) – Current Assets (**ACT**) – Investments and Advances (**IVAO**)
    NCOL = Total Liabilities (**LT**) – Current Liabilities (**LCT**) – Long-term debt (**DLTT**)

Change in net financial assets (ΔFIN) = ΔFIN A- $\Delta FINL$
    FINA = Short Term Investments (**IVST**) + Long Term Investments (**IVAO**)
    FINL = Long term debt (**DLTT**) + Debt in Current Liabilities (**DLC**) + Preferred Stock (**PSTK**)

Jones Model (1991)
For each 2-digit SIC industry group, we estimate the following equation (1) annually. We require at least 8 observations for each industry-year combination and winsorize all of the regression variables at the 1% level.

$$\frac{(ibc-cfo)_{i,t}}{at_{i,t-1}} = \beta_1 \frac{1}{at_{i,t-1}} + \beta_2 \frac{\Delta sales_{i,t}}{at_{i,t-1}} + \beta_3 \frac{ppe_{i,t}}{at_{i,t-1}} + \varepsilon_{i,t} \qquad (1)$$

Firm-specific discretionary accruals *(DA)* are computed as the residual from equation (1). Non-discretionary accruals are computed as the predicted value from equation (1).

Dechow, Sloan, and Sweeney (1995) (Modified Jones Model)

For each 2-digit SIC industry group, we estimate equation (1) annually, requiring at least 8 observations for each industry-year combination and winsorize all of the regression variables at the 1% level.

$$\frac{(ibc-cfo)_{i,t}}{at_{i,t-1}} = \beta_1 \frac{1}{at_{i,t-1}} + \beta_2 \frac{(\Delta sales_{i,t}-\Delta rec_{i,t})}{at_{i,t-1}} + \beta_3 \frac{ppe_{i,t}}{at_{i,t-1}} + \varepsilon_{i,t} \qquad (2)$$

Firm-specific discretionary accruals *(DA)* are computed as the residual from equation (2). Non-discretionary accruals are computed as the predicted value from equation (2).

Computation of Long-run Returns
1. Buy and hold raw return from month T_1 and ending on month T_2 for firm j,
$$BHAR\_RAW_{j,T_1,T_2} = \left[\prod_{t=T_1}^{T_2}(1 + R_{jt}) - 1\right].$$

2. Buy and hold market model adjusted returns,
$$BHAR_{MM\,j,T_1,T_2} = \left[\prod_{t=T_1}^{T_2}(1 + R_{jt}) - 1\right] - \left[(1 + \hat{\alpha}_j)^{(T_2-T_1+1)} - 1\right]$$
$$- \hat{\beta}_j\left[\prod_{t=T_1}^{T_2}(1 + R_{mt}) - 1\right]$$

where $\hat{\alpha}_j$ and $\hat{\beta}_j$ are estimated from the market model in the pre-period. We use a pre-period of sixty months and have a minimum requirement of twenty-four months of return data.

3. The average compounded abnormal return for each of the three measures:

$$\frac{1}{N}\sum_{j=1}^{N} BHAR_{j,T_1,T_2}.$$

Figure 1. Pattern of accruals around director departures

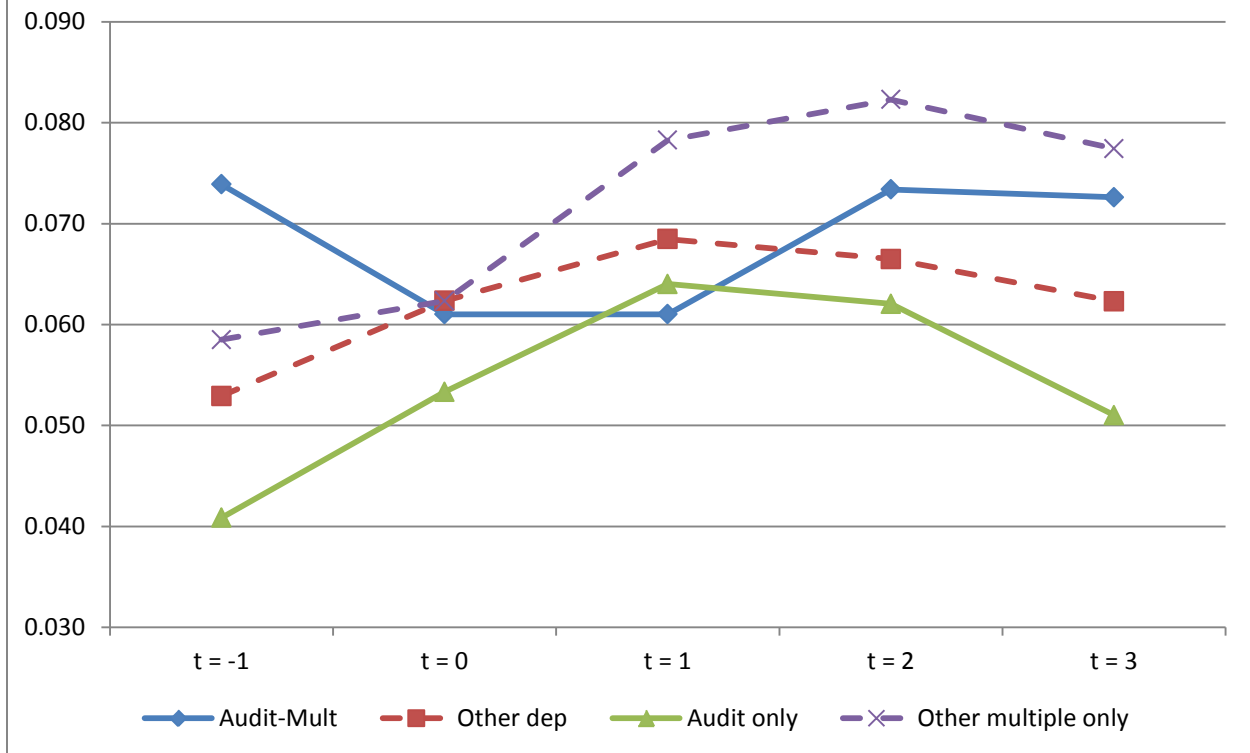**Figure 2. Pattern of cash flows around director departures**

Table 1
Sample Formation

This table reports our sample selection process. We begin with the entire Corporate Library population from 2003-2008 and then restrict the sample to firms that merge with CRSP, where the proxy date from Corporate Library falls between the CRSP begin date and CRSP end date. This leaves us with a sample of 13,623 firm years and 117,442 firm-director years and 4,820 firm years with a director departure and 7,379 unique firm-director departures. We then exclude financial firms (SIC code between 6000 and 6999) and insider directors (*DIROUTSIDE* = "Inside") which leaves us with a final sample of 4,740 director departures (3,313 firm years).

	# of Firm-Years	# of Firm-Director-Years
Total from CRSP (2003-2008)	31,106	N/A
Total from Corporate Library (2003-2008)	15,636	192,222
Intersection of CRSP and Corporate Library	13,642	117,597
Exclude if: CRSP share code is not 10 or 11	19	155
	13,623	117,442
Number of Departures	4,820	7,379
Exclude if:		
Financials	904	1540
Insider	603	1099
Final Sample of Departures	3313	4740

Table 2
Descriptive Statistics

This table reports means and medians (in parentheses) of firm and director level characteristics of our sample. The sample consists of director firm years from the Corporate Library database during the period 2003-2008. We delete financial firms and do not include insider directors. Panel A is firm-level data. Column (1) reports the characteristics for the entire CRSP/Compustat (CCM) population. Column (2) reports the characteristics for the CRSP/Compustat and Corporate Library intersection. Column (3) reports firm years with no director departure. Columns (4)-(10) are classified by whether or not the departing director serves on the audit committee and whether or not they hold multiple (three or more) directorships. *, **, and *** represent statistical significance at the 10%, 5%, and 1%, respectively, from t-tests and rank sum tests of the means and medians comparing Columns (4)-(10) with Column (3). Panel B reports director-specific information. Column (1) classifies all active directors in the corporate library database. Columns (2)-(8) are the same as above. *, **, and *** represent statistical significance at the 10%, 5%, and 1%, respectively, from t-tests and rank sum tests of the means and medians comparing Columns (2)-(8) with Column (1). The variable definitions can be found in Appendix Table A.

Panel A: Firm Characteristics

	CCM Population	CCM/ Corp. Library Population	All Non-Departures	All Departures	All Audit Departures	Audit, Multiple Departures	Audit, Non-Multiple Departures	All Non-Audit Departures	Non-Audit, Multiple Departures	Non-Audit, Non-Multiple Departures
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
N	21603	11884	6646	4517	1950	643	1307	2567	832	1735
Sales	2110.1 [243.0]	4048.1 [1042.3]	3323.9 [839.7]	6083.9*** [1513.2]*	5470.9*** [1269.6]*	8681.7*** [1747.1]*	3891.3** [1121.7]*	6549.6*** [1692.6]*	8965.7*** [2830.4]*	5391.0*** [1401.3]*
Total Assets	4040.8 [475.2]	4628.8 [1087.0]	3795.7 [861.8]	7627.3*** [1623.4]*	6711.8*** [1405.3]*	10085.7** [2047.8]*	5052.0*** [1150.5]*	8322.8*** [1778.1]*	11384.1** [2869.2]*	6854.8*** [1430.5]*
B/M	0.677 [0.656]	0.632 [0.622]	0.607 [0.595]	0.679*** [0.681]***	0.679*** [0.682]***	0.671*** [0.676]***	0.684*** [0.686]***	0.679*** [0.680]***	0.674*** [0.663]***	0.681*** [0.682]***
ROA	1.02 [4.84]	7.87 [8.80]	7.42 [8.71]	7.01 [7.80]***	6.56** [7.35]***	7.08 [7.74]**	6.31*** [7.21]***	7.35 [8.02]***	7.30 [7.92]**	7.38 [8.08]***
Leverage (%)	61.73 [57.56]	50.79 [51.19]	49.20 [49.02]	54.99*** [54.75]***	53.99*** [54.14]***	56.41*** [56.96]***	52.80*** [52.90]***	55.74*** [55.18]***	59.47*** [59.30]***	53.95*** [52.94]***
Sales Growth	10.27 [4.55]	11.83 [7.89]	13.36 [9.13]	8.42*** [5.46]***	8.24*** [5.49]***	6.68*** [4.67]***	9.00*** [5.99]***	8.56*** [5.45]***	9.10*** [5.54]***	8.30*** [5.37]***

Panel B: Director Characteristics

	Corp. Library Population (Active Director)	All Departures	All Audit Departures	Audit, Multiple Departures	Audit, Non-Multiple Departures	All Non-Audit Departures	Non-Audit, Multiple Departures	Non-Audit, Non-Multiple Departures
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
N	60224	4740	2047	671	1376	2693	870	1823
Director Age	59.77	63.09***	63.58***	63.63***	63.56***	62.71***	62.81***	62.66***
	[60.00]	[64.00]***	[65.00]***	[64.00]***	[65.00]***	[64.00]***	[63.50]***	[64.00]***
No. of Directorships	2.16	2.31***	2.30**	4.43***	1.32***	2.31***	4.22***	1.36***
	[2.00]	[2.00]**	[2.00]	[4.00]***	[1.00]***	[2.00]**	[4.00]***	[1.00]***
Tenure	6.98	9.27***	8.94***	7.89***	9.45***	9.53***	8.73***	9.91***
	[5.00]	[7.00]***	[7.00]***	[6.00]***	[7.00]***	[7.00]***	[7.00]***	[7.00]***

Table 3
Director Departures and Stock Performance

This table reports means and medians (in brackets) of buy and hold returns around departing directors in the Corporate Library database during the period 2003-2008. We delete financial firms and do not include insider directors. We report the raw return, excess returns calculated using the market model, and excess returns calculated using a mean-adjustment at the firm-level. The time period, in months, is defined in parenthesis. We require no more than 6 missing observations in each respective window. Columns (1)-(7) are classified by whether or not the departing director serves on the audit committee and whether or not they hold multiple (three or more) directorships. *, **, and *** represent statistical significance at the 10%, 5%, and 1%, respectively.

	All Departures	All Audit	Audit, Multiple	Audit, Non-Multiple	All Non-Audit	Non-Audit, Multiple	Non-Audit, Non-Multiple
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
N	4562	1975	651	1324	2587	838	1749
Raw Return	7.13***	7.33***	8.88***	6.57***	6.97***	9.74***	5.65***
(+1,+12)	[4.13]***	[4.18]***	[4.93]***	[3.87]***	[3.99]***	[7.62]***	[2.29]
Market Model	-5.57***	-6.26***	-7.26***	-5.77***	-5.04***	-6.59***	-4.30***
(+1,+12)	[-7.14]***	[-7.77]***	[-7.80]***	[-7.76]***	[-6.54]***	[-5.91]***	[-7.16]***
Mean-Adjusted	-12.03***	-12.68***	-9.17***	-14.40***	-11.53***	-6.59***	-13.90***
(+1,+12)	[-13.16]***	[-13.66]***	[-11.45]***	[-14.66]***	[-12.46]***	[-5.22]***	[-15.16]***
Raw Return	9.06***	8.70***	6.95**	9.57***	9.33***	3.76*	11.97***
(+13,+24)	[4.35]***	[3.63]***	[1.56]	[4.44]***	[5.23]***	[1.51]	[7.04]***
Market Model	-3.89***	-4.05**	-3.01	-4.57**	-3.77***	-3.91*	-3.70**
(+13,+24)	[-7.81]***	[-7.99]***	[-7.10]***	[-8.70]***	[-7.65]***	[-6.36]***	[-7.95]***
Mean-Adjusted	-10.56***	-11.68***	-11.42***	-11.81***	-9.71***	-12.99***	-8.15***
(+13,+24)	[-11.83]***	[-13.35]***	[-15.15]***	[-11.51]***	[-11.17]***	[-14.60]***	[-10.10]***
Raw Return	18.88***	20.59***	13.66***	24.11***	17.59***	19.60***	16.64***
(+25,+36)	[10.33]***	[10.96]***	[7.04]***	[13.65]***	[9.82]***	[9.66]***	[9.94]***
Market Model	-4.16***	-4.15**	-7.49***	-2.45	-4.17***	0.93	-6.57***
(+25,+36)	[-8.78]***	[-9.49]***	[-10.90]***	[-8.49]***	[-8.27]***	[-4.90]***	[-10.43]***
Mean-Adjusted	-0.80	0.41	-5.19*	3.26	-1.70	2.25	-3.56**
(+25,+36)	[-5.91]***	[-4.52]***	[-8.22]***	[-3.03]*	[-6.47]***	[-4.09]***	[-7.15]***

Table 4
Director Departures and Financial Performance

This table reports means and medians (in brackets) of measures of financial performance around director departures identified from the Corporate Library database for the period 2003-2008. Financial firms and insider directors are excluded from the sample. Measures of financial performance are defined in Appendix Table A. Columns (1)-(7) are classified by whether or not the departing director serves on the audit committee and whether or not they hold multiple (three or more) directorships. Panel A reports the levels of the measure in the year prior to the director turnover and Panel B reports the change in the measure from the year prior to the departure to the year after the departure. *, **, and *** represent statistical significance at the 10%, 5%, and 1%, respectively.

Panel A: Financial Performance at t=-1

	All Departures	All Audit	Audit, Multiple	Audit, Non-Multiple	All Non-Audit	Non-Audit, Multiple	Non-Audit, Non-Multiple
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
N	4517	1950	643	1307	2567	832	1735
RSST_Income	0.0701***	0.0656***	0.0708***	0.0631***	0.0735***	0.0730***	0.0738***
	[0.0780]***	[0.0735]***	[0.0774]***	[0.0721]***	[0.0802]***	[0.0792]***	[0.0808]***
Decomposition of Operating Income							
RSST_Accruals	0.0141***	0.0136***	-0.0009	0.0208***	0.0145***	0.0148***	0.0143***
	[0.0215]***	[0.0216]***	[0.0161]***	[0.0252]***	[0.0215]***	[0.0169]***	[0.0237]***
RSST_CF	0.0559***	0.0517***	0.0739***	0.0409***	0.0591***	0.0585***	0.0593***
	[0.0573]***	[0.0543]***	[0.0681]***	[0.0472]***	[0.0591]***	[0.0583]***	[0.0596]***
Decomposition of Accruals							
WC	0.0015**	0.0013	-0.0026	0.0033**	0.0017*	0.0042**	0.0005
	[0.0017]**	[0.0026]*	[0.0007]	[0.0032]**	[0.0009]	[0.0022]**	[0.0005]
NCO	0.0260***	0.0265***	0.0112**	0.0340***	0.0255***	0.0189***	0.0287***
	[0.0101]***	[0.0109]***	[0.0072]**	[0.0129]***	[0.0094]***	[0.0073]***	[0.0116]***
FIN	-0.0120***	-0.0134***	-0.0082*	-0.0160***	-0.0109***	-0.0060	-0.0133***
	[0.0005]*	[0.0000]**	[0.0005]	[0.0000]***	[0.0015]	[0.0044]	[0.0008]

Table 4 (continued)
Director Departures and Financial Performance

Panel A: Financial Performance at t=-1

Extended decomposition of Accruals

COA	0.0180***	0.0173***	0.0122***	0.0198***	0.0185***	0.0203***	0.0176***
	[0.0128]***	[0.0134]***	[0.0128]***	[0.0136]***	[0.0125]***	[0.0132]***	[0.0118]***
COL	0.0163***	0.0156***	0.0133***	0.0168***	0.0169***	0.0161***	0.0172***
	[0.0117]***	[0.0117]***	[0.0116]***	[0.0119]***	[0.0118]***	[0.0122]***	[0.0115]***
NCOA	0.0351***	0.0352***	0.0178***	0.0438***	0.0350***	0.0286***	0.0380***
	[0.0157]***	[0.0162]***	[0.0125]***	[0.0178]***	[0.0157]***	[0.0118]***	[0.0172]***
NCOL	0.0091***	0.0088***	0.0081***	0.0091***	0.0093***	0.0097***	0.0091***
	[0.0046]***	[0.0042]***	[0.0041]***	[0.0042]***	[0.0049]***	[0.0051]***	[0.0047]***
FINA	-0.0019*	-0.0031*	-0.0042	-0.0026	-0.0010	0.0006	-0.0017
	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
FINL	0.0104***	0.0105***	0.0043	0.0136***	0.0103***	0.0074**	0.0117***
	[0.0000]	[0.0000]	[0.0000]	[0.0000]*	[-0.0000]	[-0.0006]	[0.0000]
DA	0.0026	0.0040	0.0013	0.0053	0.0015	0.0126***	-0.0037
	[0.0035]***	[0.0042]***	[0.0057]*	[0.0035]**	[0.0032]**	[0.0093]***	[0.0009]
Non-DA	-0.0711***	-0.0706***	-0.0678***	-0.0720***	-0.0715***	-0.0755***	-0.0697***
	[-0.0597]***	[-0.0593]***	[-0.0590]***	[-0.0593]***	[-0.0599]***	[-0.0621]***	[-0.0589]***

Table 4 (continued)
Director Departures and Financial Performance

Panel B: Changes in Financial Performance from t = -1 to t = 0

	All Departures	All Audit	Audit, Multiple	Audit, Non-Multiple	All Non-Audit	Non-Audit, Multiple	Non-Audit, Non-Multiple
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
N	4517	1950	643	1307	2567	832	1735
RSST_Income	-0.0028***	-0.0012	0.0023	-0.0030	-0.0040***	0.0008	-0.0063***
	[0.0007]	[0.0020]	[0.0034]**	[0.0009]	[0.0002]	[0.0023]*	[-0.0010]***

Decomposition of Operating Income into Accruals and Cash Flows

RSST_Accruals	-0.0080**	-0.0043	0.0155*	-0.0140**	-0.0108***	-0.0040	-0.0140***
	[-0.0066]***	[-0.0038]	[0.0042]	[-0.0067]**	[-0.0090]***	[-0.0049]	[-0.0113]***
RSST_CF	0.0048	0.0027	-0.0138*	0.0109*	0.0064	0.0048	0.0072
	[0.0078]***	[0.0064]	[0.0044]	[0.0079]**	[0.0090]***	[0.0078]	[0.0095]***

First level decomposition of Accruals

WC	0.0034***	0.0041**	0.0078***	0.0023	0.0028*	0.0006	0.0010
	[0.0031]***	[0.0032]**	[0.0063]***	[0.0016]	[0.0029]***	[0.0007]	[0.0024]
NCO	-0.0011	0.0014	0.0189**	-0.0072	-0.0030	0.0078	-0.0228***
	[0.0024]	[0.0028]	[0.0060]**	[0.0014]	[0.0021]	[0.0063]**	[-0.0101]***
FIN	-0.0086***	-0.0085**	-0.0092	-0.0081	-0.0087**	-0.0095	0.0062
	[-0.0026]***	[-0.0018]**	[-0.0026]*	[-0.0013]	[-0.0028]**	[-0.0090]**	[0.0034]

Table 4 (continued)
Director Departures and Financial Performance

Panel B: Changes in Financial Performance from t = -1 to t = 0

	All Departures	All Audit	Audit, Multiple	Audit, Non-Multiple	All Non-Audit	Non-Audit, Multiple	Non-Audit, Non-Multiple
<u>Extended decomposition of Accruals</u>							
COA	-0.0018 [0.0018]**	-0.0003 [0.0027]**	0.0065* [0.0064]***	-0.0036 [0.0005]	-0.0030* [0.0015]	-0.0030 [0.0014]	-0.0030 [0.0015]
COL	-0.0049*** [0.0001]**	-0.0042*** [-0.0000]	-0.0008 [-0.0000]	-0.0059*** [-0.0001]	-0.0055*** [0.0002]*	-0.0032 [0.0019]	-0.0066*** [-0.0006]**
NCOA	-0.0004 [0.0012]	0.0020 [0.0025]	0.0211*** [0.0047]**	-0.0074 [0.0002]	-0.0022 [0.0008]	0.0069 [0.0049]*	-0.0066 [-0.0009]
NCOL	0.0010 [0.0007]***	0.0009 [0.0010]**	0.0015 [0.0013]	0.0006 [0.0010]	0.0011 [0.0005]*	0.0003 [-0.0005]	0.0015 [0.0013]**
FINA	-0.0029* [0.0000]	-0.0012 [0.0000]	0.0011 [0.0000]	-0.0023 [0.0000]	-0.0041** [0.0000]	-0.0051 [0.0000]	-0.0036 [0.0000]
FINL	0.0064*** [0.0001]***	0.0082** [0.0000]***	0.0122** [0.0013]***	0.0062 [0.0000]**	0.0050* [0.0004]***	0.0037 [0.0022]**	0.0057 [0.0000]***
DA	0.0005 [0.0024]	0.0001 [0.0028]	0.0096* [0.0078]**	-0.0045 [-0.0013]	0.0008 [0.0020]	-0.0057 [-0.0016]	0.0038 [0.0035]
Non-DA	-0.0014 [-0.0019]*	-0.0003 [-0.0014]	-0.0016 [-0.0009]	0.0003 [-0.0014]	-0.0022 [-0.0027]*	-0.0002 [0.0000]	-0.0032 [-0.0043]**

Table 5
Multinomial logistic regressions of director departures

This table reports results from multinomial logistic regressions modeling director departures. The left-hand side variable is a categorical variable with five categories. The base group is no director departure and the other groups are reported in each column. The coefficient represents the relative log odds of the specific categorical group relative to the no departure group. The sample consists of director departures identified from the Corporate Library database for the period 2003-2008. Financial firms and insider directors are excluded from the sample. All earnings performance variables are defined in Appendix Table A. Robust standard errors are reported in parenthesis. *, **, and *** represent statistical significance at the 10%, 5%, and 1%, respectively.

Panel A: RSST_Income

	Audit, Multiple Departure	Audit, Non-Multiple Departure	Non-Audit, Multiple Departure	Non-Audit, Non-Multiple Departure	Audit, Multiple Departure	Audit, Non-Multiple Departure	Non-Audit, Multiple Departure	Non-Audit, Non-Multiple Departure
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Director Age	0.057***	0.044***	0.035***	0.026***	0.057***	0.045***	0.035***	0.026***
	(0.005)	(0.004)	(0.006)	(0.004)	(0.005)	(0.004)	(0.006)	(0.004)
Director Tenure	-0.011**	0.021***	0.013***	0.036***	-0.012**	0.019***	0.012***	0.035***
	(0.005)	(0.003)	(0.005)	(0.003)	(0.005)	(0.003)	(0.005)	(0.003)
RSST_Income (-1)	-0.639**	-1.043***	-0.560**	-0.492**				
	(0.317)	(0.206)	(0.277)	(0.230)				
Δ RSST_Income (-1,0)					1.409*	0.109	1.020*	-0.864*
					(0.754)	(0.599)	(0.545)	(0.509)
Constant	-7.424***	-6.062***	-5.961***	-4.735***	-7.484***	-6.138***	-6.006***	-4.770***
	(0.344)	(0.284)	(0.350)	(0.269)	(0.343)	(0.285)	(0.350)	(0.269)
Observations	62,362	62,362	62,362	62,362	62,355	62,355	62,355	62,355
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Psuedo R^2	0.0305	0.0305	0.0305	0.0305	0.0300	0.0300	0.0300	0.0300

Panel B: RSST_Acrruals

	Audit, Multiple Departure	Audit, Non-Multiple Departure	Non-Audit, Multiple Departure	Non-Audit, Non-Multiple Departure	Audit, Multiple Departure	Audit, Non-Multiple Departure	Non-Audit, Multiple Departure	Non-Audit, Non-Multiple Departure
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Director Age	0.057***	0.044***	0.034***	0.027***	0.057***	0.044***	0.034***	0.027***
	(0.005)	(0.005)	(0.006)	(0.004)	(0.005)	(0.005)	(0.006)	(0.004)
Director Tenure	-0.010**	0.020***	0.013***	0.035***	-0.011**	0.020***	0.013***	0.034***
	(0.005)	(0.003)	(0.005)	(0.003)	(0.005)	(0.003)	(0.005)	(0.003)
RSST_Accruals (-1)	-2.110***	-0.864***	-1.253***	-1.182***				
	(0.312)	(0.239)	(0.286)	(0.219)				
Δ RSST_Accruals (-1,0)					0.753***	0.093	0.196	0.060
					(0.247)	(0.179)	(0.198)	(0.161)
Constant	-7.538***	-6.108***	-5.910***	-4.859***	-7.507***	-6.105***	-5.891***	-4.849***
	(0.348)	(0.289)	(0.354)	(0.274)	(0.349)	(0.290)	(0.355)	(0.275)
Observations	60,318	60,318	60,318	60,318	60,262	60,262	60,262	60,262
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Psuedo R^2	0.0328	0.0328	0.0328	0.0328	0.0301	0.0301	0.0301	0.0301

Panel C: RSST_CF

	Audit, Multiple Departure	Audit, Non-Multiple Departure	Non-Audit, Multiple Departure	Non-Audit, Non-Multiple Departure	Audit, Multiple Departure	Audit, Non-Multiple Departure	Non-Audit, Multiple Departure	Non-Audit, Non-Multiple Departure
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Director Age	0.057***	0.044***	0.034***	0.027***	0.057***	0.044***	0.034***	0.027***
	(0.005)	(0.005)	(0.006)	(0.004)	(0.005)	(0.005)	(0.006)	(0.004)
Director Tenure	-0.012**	0.020***	0.012**	0.034***	-0.011**	0.020***	0.013***	0.034***
	(0.005)	(0.003)	(0.005)	(0.003)	(0.005)	(0.003)	(0.005)	(0.003)
RSST_CF (-1)	1.481***	-0.070	0.675**	0.624***				
	(0.315)	(0.195)	(0.264)	(0.180)				
Δ RSST_CF (-1,0)					-0.680***	-0.102	-0.123	-0.175
					(0.240)	(0.184)	(0.201)	(0.158)
Constant	-7.640***	-6.089***	-5.949***	-4.893***	-7.506***	-6.108***	-5.892***	-4.854***
	(0.351)	(0.290)	(0.357)	(0.277)	(0.349)	(0.290)	(0.355)	(0.275)
Observations	60,315	60,315	60,315	60,315	60,252	60,252	60,252	60,252
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Psuedo R^2	0.0310	0.0310	0.0310	0.0310	0.0301	0.0301	0.0301	0.0301

Table 6
Logistic regressions of director departures

This table reports simple logistic regressions explaining the decision to depart. In columns (1)-(6), the dependent variable is a dummy variable equal to one if an audit, multiple director departs and equal to zero if either a non-audit, multiple director departs (1)-(2), a non-audit, non-multiple director departs (3)-(4), or an audit, non-multiple director departs (5)-(6). In columns (7)-(10), the dependent variable is a dummy variable equal to one if an audit, non-multiple director departs and equal to zero if either a non-audit, multiple director departs (7)-(8) or a non-audit, non-multiple director departs (9)-(10). In each regression below, we restrict the Corporate Library sample to only include the no-departure sample and the departure category described in the corresponding column. Robust standard errors clustered by firm are shown in parentheses. We denote statistical significance at levels of 10%, 5%, and 1% by *, **, and *** respectively. All variables are as defined in Appendix Table A.

Panel A: RSST_Income

	Audit, Multiple Departure to:						Audit, Non-Multiple Departure to:			
	Non-Audit, Multiple Departure		Non-Audit, Non-Multiple Departure		Audit, Non-Multiple Departure		Non-Audit, Multiple Departure		Non-Audit, Non-Multiple Departure	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Director Age	0.021***	0.021***	0.026***	0.026***	0.015***	0.015***	0.004	0.003	0.014***	0.014***
	(0.006)	(0.006)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.004)	(0.004)
Director Tenure	-0.034***	-0.034***	-0.052***	-0.052***	-0.042***	-0.042***	0.010	0.009	-0.016***	-0.016***
	(0.009)	(0.009)	(0.007)	(0.007)	(0.008)	(0.008)	(0.007)	(0.007)	(0.005)	(0.005)
RSST_Income (-1)	-0.136		-0.021		0.441		-0.614		-0.662**	
	(0.509)		(0.376)		(0.417)		(0.427)		(0.337)	
Δ RSST_Income (-1,0)		0.393		2.152***		1.311*		-1.197		0.766
		(0.988)		(0.743)		(0.765)		(0.764)		(0.603)
Constant	-1.368***	-1.370***	-2.349***	-2.354***	-1.415***	-1.408***	0.236	0.221	-1.012***	-1.033***
	(0.411)	(0.411)	(0.306)	(0.305)	(0.334)	(0.332)	(0.320)	(0.320)	(0.242)	(0.242)
Observations	1,475	1,475	2,369	2,369	1,945	1,945	2,134	2,134	3,028	3,028
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Psuedo R^2	0.0130	0.0130	0.0397	0.0426	0.0278	0.0285	0.0223	0.0223	0.00559	0.00482

Panel B: RSST_Accruals

| | Audit, Multiple Departure to: | | | | | | Audit, Non-Multiple Departure to: | | | |
| | Non-Audit, Multiple Departure | | Non-Audit, Non-Multiple Departure | | Audit, Non-Multiple Departure | | Non-Audit, Multiple Departure | | Non-Audit, Non-Multiple Departure | |
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Director Age	0.022***	0.022***	0.025***	0.025***	0.016***	0.016***	0.003	0.004	0.013***	0.013***
	(0.007)	(0.007)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.004)	(0.004)
Director Tenure	-0.031***	-0.033***	-0.048***	-0.050***	-0.041***	-0.042***	0.010	0.011	-0.015***	-0.015***
	(0.009)	(0.009)	(0.007)	(0.007)	(0.008)	(0.008)	(0.007)	(0.007)	(0.005)	(0.005)
RSST_Accruals (-1)	-0.757**		-0.752**		-1.248***		0.535		0.305	
	(0.380)		(0.322)		(0.352)		(0.332)		(0.267)	
Δ RSST_Accruals (-1,0)		0.458*		0.569**		0.554**		-0.121		0.018
		(0.273)		(0.222)		(0.246)		(0.216)		(0.183)
Constant	-1.542***	-1.525***	-2.320***	-2.333***	-1.552***	-1.491***	0.217	0.182	-0.958***	-0.964***
	(0.423)	(0.422)	(0.310)	(0.310)	(0.338)	(0.338)	(0.324)	(0.323)	(0.245)	(0.245)
Observations	1,428	1,427	2,287	2,285	1,882	1,880	2,068	2,067	2,927	2,925
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Psuedo R^2	0.0153	0.0151	0.0409	0.0413	0.0338	0.0304	0.0212	0.0201	0.00407	0.00374

Panel C: RSST_CF

	Non-Audit, Multiple Departure		Audit, Multiple Departure to: Non-Audit, Non-Multiple Departure		Audit, Non-Multiple Departure		Audit, Non-Multiple Departure to: Non-Audit, Multiple Departure		Non-Audit, Non-Multiple Departure	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Director Age	0.022***	0.022***	0.025***	0.026***	0.016***	0.016***	0.004	0.004	0.013***	0.013***
	(0.007)	(0.007)	(0.005)	(0.005)	(0.006)	(0.006)	(0.005)	(0.005)	(0.004)	(0.004)
Director Tenure	-0.032***	-0.033***	-0.049***	-0.050***	-0.043***	-0.042***	0.012	0.011	-0.014***	-0.015***
	(0.009)	(0.009)	(0.007)	(0.007)	(0.008)	(0.008)	(0.007)	(0.007)	(0.005)	(0.005)
RSST_CF (-1)	0.659*		0.843**		1.595***		-0.921***		-0.728***	
	(0.365)		(0.331)		(0.373)		(0.328)		(0.245)	
Δ RSST_CF (-1,+1)		-0.475*		-0.404*		-0.467*		0.020		0.070
		(0.280)		(0.230)		(0.251)		(0.221)		(0.190)
Constant	-1.547***	-1.531***	-2.370***	-2.329***	-1.617***	-1.486***	0.251	0.179	-0.922***	-0.961***
	(0.425)	(0.423)	(0.312)	(0.310)	(0.343)	(0.338)	(0.325)	(0.323)	(0.244)	(0.245)
Observations	1,428	1,427	2,287	2,285	1,882	1,880	2,068	2,067	2,927	2,925
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Psuedo R^2	0.0149	0.0151	0.0415	0.0401	0.0382	0.0297	0.0237	0.0200	0.00603	0.00377

Table 7
Director Departures and Initial Decomposition of Accruals

Table below reports results from multinomial logistic regression predicting director departures. The left-hand side variable is a categorical variable with five categories. The base group is no director departure and the other groups are (1) audit, multiple departure, (2) audit, non-multiple departure, (3) non-audit, multiple departure, and (4) non-audit, non-multiple departure. For brevity, we only report the audit, multiple departure relative to the base group. The coefficient represents the relative log odds of the audit, multiple departure relative to the no departure group. The sample consists of director departures identified from the Corporate Library database for the period 2003-2008. Financial firms and insider directors are excluded from the sample. Variables are as defined in Appendix Table A. Robust standard errors are reported in parenthesis. *, **, and *** represent statistical significance at the 10%, 5%, and 1%, respectively.

	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure
	(1)	(5)	(1)	(5)	(1)	(5)
Director Age	0.057***	0.057***	0.057***	0.057***	0.057***	0.057***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Director Tenure	-0.011**	-0.011**	-0.011**	-0.012**	-0.012**	-0.012**
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
WC (-1)	-3.796***					
	(0.980)					
Δ WC (-1,0)		1.464**				
		(0.654)				
NCO (-1)			-2.004***			
			(0.400)			
Δ NCO (-1,0)				0.624***		
				(0.236)		
FIN (-1)					0.021	
					(0.334)	
Δ FIN (-1,0)						0.037
						(0.205)
Constant	-7.522***	-7.486***	-7.523***	-7.506***	-7.474***	-7.473***
	(0.347)	(0.348)	(0.352)	(0.350)	(0.342)	(0.342)
Observations	60,562	60,557	60,340	60,289	62,365	62,365
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Psuedo R^2	0.0306	0.0298	0.0315	0.0300	0.0298	0.0297

Table 8
Director Departures and Extended Decomposition of Accruals

In tables below we model the director departure decision based on the extended decomposition of accruals (as in Richardson et al. (2005)). We report results from each of the extended decomposition measures independently in different panels (Panels A, B, C). The panels report the relative log odds of each type of departure relative to the base group of non-departing group using a multinomial logistic regression. The five departure groups are (1) audit, multiple departure, (2) audit, non-multiple departure, (3) non-audit, multiple departure, and (4) non-audit, non-multiple departure. The sample consists of director departures identified from the Corporate Library database for the period 2003-2008. Financial firms and insider directors are excluded from the sample. Variables are as defined in Appendix Table A. Robust standard errors are reported in parenthesis. *, **, and *** represent statistical significance at the 10%, 5%, and 1%, respectively.

Panel A: COA and COL

	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure
	(1)	(5)	(1)	(5)
Director Age	0.057***	0.057***	0.057***	0.057***
	(0.005)	(0.005)	(0.005)	(0.005)
Director Tenure	-0.011**	-0.011**	-0.011**	-0.011**
	(0.005)	(0.005)	(0.005)	(0.005)
COA (-1)	-4.169***			
	(0.870)			
Δ COA (-1,0)		1.258**		
		(0.634)		
COL (-1)			-3.445***	
			(1.172)	
Δ COL (-1,0)				0.321
				(0.779)
Constant	-7.488***	-7.492***	-7.436***	-7.469***
	(0.349)	(0.348)	(0.349)	(0.347)
Observations	60,562	60,557	60,701	60,685
Year Fixed Effects	Yes	Yes	Yes	Yes
Psuedo R^2	0.0312	0.0298	0.0303	0.0299

Panel B: NCOA and NCOL

	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure
	(1)	(5)	(1)	(5)
Director Age	0.057***	0.057***	0.057***	0.057***
	(0.005)	(0.005)	(0.005)	(0.005)
Director Tenure	-0.012**	-0.011**	-0.011**	-0.011**
	(0.005)	(0.005)	(0.005)	(0.005)
NCOA (-1)	-2.122***			
	(0.386)			
Δ NCOA (-1,0)		0.641***		
		(0.224)		
NCOL (-1)			-3.582**	
			(1.492)	
Δ NCOL (-1,0)				0.963
				(0.974)
Constant	-7.486***	-7.496***	-7.429***	-7.478***
	(0.351)	(0.349)	(0.347)	(0.348)
Observations	60,584	60,584	60,457	60,390
Year Fixed Effects	Yes	Yes	Yes	Yes
Psuedo R^2	0.0316	0.0299	0.0306	0.0300

Panel C: FINA and FINL

	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure
	(1)	(5)	(1)	(5)
Director Age	0.057***	0.057***	0.057***	0.057***
	(0.005)	(0.005)	(0.005)	(0.005)
Director Tenure	-0.012**	-0.012**	-0.012**	-0.012**
	(0.005)	(0.005)	(0.005)	(0.005)
FINA (-1)	-1.848***			
	(0.566)			
Δ FINA (-1,0)		0.702*		
		(0.401)		
FINL (-1)			-1.139**	
			(0.516)	
Δ FINL (-1,0)				0.403
				(0.269)
Constant	-7.473***	-7.474***	-7.488***	-7.482***
	(0.342)	(0.342)	(0.344)	(0.342)
Observations	62,365	62,365	62,365	62,365
Year Fixed Effects	Yes	Yes	Yes	Yes
Psuedo R^2	0.0305	0.0298	0.0300	0.0298

Table 9
Director Departures and Discretionary Accruals

This table reports a multinomial logistic regression. The left-hand side variable is a categorical variable with five categories. The base group is no director departure and the other groups are (1) audit, multiple departure, (2) audit, non-multiple departure, (3) non-audit, multiple departure, and (4) non-audit, non-multiple departure. For brevity, we only report the audit, multiple departure relative to the base group. The coefficient represents the relative log odds of the audit, multiple departure relative to the no departure group. Our sample is from the Corporate Library database during the period 2003-2008. We delete financial firms and do not include insider directors. Variables are defined in Appendix Table A. Robust standard errors are reported in parenthesis. *, **, and *** represent statistical significance at the 10%, 5%, and 1%, respectively.

	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure	Audit, Multiple Departure
	(1)	(5)	(1)	(5)
Director Age	0.055***	0.055***	0.055***	0.054***
	(0.006)	(0.006)	(0.006)	(0.006)
Director Tenure	-0.010*	-0.010*	-0.010*	-0.010*
	(0.005)	(0.005)	(0.005)	(0.005)
DA (-1)	-1.035**			
	(0.442)			
Δ DA (-1,0)		0.744*		
		(0.380)		
Non-DA (-1)			1.191**	
			(0.578)	
Δ Non-DA (-1,0)				-0.378
				(0.568)
Constant	-7.383***	-7.343***	-7.258***	-7.307***
	(0.363)	(0.365)	(0.365)	(0.364)
Observations	53,600	53,422	53,617	53,452
Year Fixed Effects	Yes	Yes	Yes	Yes
Psuedo R^2	0.0295	0.0286	0.0288	0.0284