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Top Executive Background and Financial Reporting Choice

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ABSTRACT:

We study the role of executive functional background in explaining management discretion in financial reporting. Taking goodwill impairment as our reporting setting, we focus on top executives (CEOs and CFOs) whose employment history includes experience in investment banking, private equity, venture capital or management consulting, as we expect these executives to have unique human capital and reputation concerns with respect to acquisitions and valuation modeling related to fair-value reporting. On average, we document that CFOs with prior transaction experience impair goodwill more frequently and in smaller amounts than other executives. Further investigation suggests that CFOs with prior transaction experience report goodwill that is more value relevant. This is consistent with CFO valuation expertise helping impair goodwill in a more informative manner. In contrast, CEOs with prior transaction experience appear to be subject to agency conflicts that affect their propensity to impair goodwill. Overall, our results not only suggest that executive functional background is a significant explanatory factor of financial reporting discretion, but also that a better understanding of its effect relies upon analyses of specific settings and predictions grounded in upper echelons theory and agency theory.

Keywords: goodwill impairment; executive background.

Data Availability: Data are publicly available from sources identified in the article.

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1. INTRODUCTION

How does a top executive's prior professional experience influence his or her reporting choices? A recent strand of empirical literature documents that manager fixed effects explain a significant portion of the cross-sectional variation in corporate outcomes such as investments (Bertrand and Schoar 2003), financial disclosure (Bamber et al. 2010) and financial reporting (Ge et al. 2011). The overarching conclusion from those papers is that individual executives have distinct "styles" which influence their organizations' outputs. Yet, little is known about which managerial characteristics contribute to different management decisions. Our goal is to provide evidence on the impact of managerial background on financial reporting discretion.

We exploit executives' past professional experience as a possible and observable source of variation in financial reporting decision-making. In particular, we focus our attention on top executives who, at some point in their careers, had prior transaction experience in (1) investment banking (hereafter "IB"), (2) management consulting ("hereafter MC"), or (3) private equity or venture capital (hereafter "PE/VC"). We investigate these executives' actions in a financial reporting setting that focuses on goodwill and impairment thereof. Since goodwill is highly subject to managerial discretion (Ramanna and Watts 2011), it is a particularly cogent accounting number to analyze management transaction expertise and reporting choice. Indeed, goodwill—and the impairment thereof—is a function of expected cash flows that depend in part on managers' knowledge and actions. It is also an economically significant financial statement item (KPMG 2011).

We expect two main competing phenomena to affect the goodwill reporting of executives with prior transaction experience. Holding economics and incentives constant, we argue that goodwill is likely to be influenced by the valuation expertise of top executives. Indeed, the measurement of goodwill is a complex process that requires a high degree of judgment and knowledge on the executive's part. We consider executives with prior transaction experience to be comparatively more acquainted with the complexity of the financial reporting and capital market consequences of goodwill, given their prior focus on valuating corporate entities. Accordingly, we expect goodwill to exhibit greater incremental value

relevance[1] when top executives have greater expertise in the domains of valuation and mergers and acquisitions. On the other hand, an executive with prior transaction experience is unlikely to be immune to agency conflicts that affect financial reporting choices involving discretion and may also be subject to personal incentives such as maintaining a reputation related to his or her background. We expect executives with prior transaction experience to be more likely to worry about maintaining their reputations in the marketplace regarding their ability to negotiate and manage acquisitions, which is likely to have a mitigating effect on their propensity to report timely and informative goodwill impairments.

We obtain the employment history of CEOs and CFOs of 2,168 publicly listed U.S. firms over the 2002-2009 period, which corresponds to a single accounting regime for acquisitions and goodwill (SFAS 141 and 142).[2] We first examine the role of functional background in explaining goodwill impairment decisions. Controlling for various economic determinants of goodwill impairment and for managerial ability, we find that CFOs with prior transaction experience are significantly more likely to impair goodwill.[3] With a marginal effect of 6.2% compared to the unconditional probability of impairment of 8% in the full sample, the impact of CFOs with prior transaction experience is economically significant.

We then interact executive functional background with proxies for agency frictions. First, we test whether greater monitoring from other experts affects the impairment decisions of executives with prior transaction experience. Our results indicate that CEOs with prior transaction experience are significantly more likely to impair goodwill when (i) there is at least one director with prior transaction experience on the board or (ii) sell-side analysts are downgrading their recommendations for the stock than they are

[1] For succinctness, we often use the term "value relevance" when referring to the predictive ability of goodwill for future cash flows (measured by absolute forecast errors) and to its explanatory power for stock prices (measured by incremental R^2 in regressions based on the Ohlson [1995] model).

[2] Removing the adoption year of 2002 from our sample because of possible effects due to transition rules (Beatty and Weber 2006) does not affect our results.

[3] Throughout the paper, we primarily compare the executives of interest to the "average manager" rather than to each other; that is, we are less interested in issues such as whether IB executives are more likely than PE/VC executives to impair goodwill. However, as a robustness check, we also compare the impairment choices of the executives of interest to those of former auditors, lawyers and top executives of firms that engage in substantial M&A. We find that CFOs with prior transaction experience are significantly more likely to impair goodwill and to be associated with incrementally informative impairments than those other groups (not tabulated).

without these monitoring agents. This suggests that, when internal or external governance agents are also transaction experts, CEOs are less likely to withhold impairment decisions.

Next, we test whether the propensity to impair goodwill varies depending on whether the impairment is more or less likely to be incrementally costly in terms of reputation or career outcomes for executives with transaction experience. We find that CEOs with prior transaction experience are more likely to impair goodwill when (i) they are in the first year of their appointment or (ii) pre-impairment income is already lower than zero and lower than last year's income, consistent with a "big bath" behavior. Overall, the results suggest that CEOs with prior transaction experience are more sensitive to agency conflicts when it comes to their goodwill impairment decisions. In contrast, CFOs with prior transaction experience are more likely to impair goodwill regardless of the aforementioned proxies for agency conflicts. Insofar as CEOs are held accountable for acquisition performance, this is consistent with reputation affecting CEOs more than CFOs in their reporting choices.

Having looked at determinants of goodwill impairment decisions, we test our valuation expertise hypothesis by looking at the value relevance of goodwill and impairment thereof. Our results indicate that goodwill impairment exhibits greater incremental value relevance in firms where the CFOs have prior M&A expertise than in other firms. Indeed, absolute forecast errors for two-year-ahead cash flow from operations, free cash flow and EBITDA using current assets and net income as predictors decrease to a significantly greater extent when we add a goodwill impairment indicator variable and interact it with net goodwill and net income in firms whose CFOs have transaction experience. In terms of economic significance, the incremental predictive ability of goodwill impairment accuracy for future EBITDA or free cash flow is higher for firms that have a CFO with prior transaction experience by about 0.50% of total assets, compared to firms that do not have any executive with prior transaction experience. Similarly, the incremental R^2 associated with goodwill impairment in a regression of stock price on book value of equity and net income is significantly higher in firms that have CFOs with prior transaction experience. CEOs with prior transaction experience are not significantly associated with any incremental value relevance for goodwill impairment.

We perform robustness checks and additional tests to deepen our understanding of the relationship between functional background and goodwill reporting. We use a propensity-score matching procedure to control for firm characteristics associated with the likelihood that a firm's CEO or CFO has prior transaction experience. Our main results continue to hold when we compare firms with executives with prior transaction experience to firms matched on propensity score. We also restrict our sample to firms that hire an executive with prior transaction experience at some point during our sample period, and continue to find qualitatively similar results. In terms of additional tests, conditioned upon an impairment being taken, we find that CFOs with prior transaction experience report relatively smaller impairments. To the extent that large impairments are untimely (Li and Sloan 2011), this result is consistent with CFOs with prior transaction experience reporting more frequent and timely goodwill impairments. Furthermore, we find that CEOs, but not CFOs, with prior transaction experience are more likely to use goodwill impairments to smooth earnings. We also examine executive turnover and find that CEOs with prior transaction experience are more likely to quit their position within two years of their taking an impairment, which lends additional support to the idea that career concerns affect their impairment behavior.

Our study contributes to the literature by furthering our understanding of how individual CEOs and CFOs matter in shaping organizations' financial reporting choices. Prior studies show that, on average, managers do have an impact on voluntary disclosure (Bamber et al. 2010) and financial reporting (Ge et al. 2011). In addition, Bamber et al. (2010) provide evidence on the association between executives' functional backgrounds and properties of their earnings forecasts. However, while CFOs with financial expertise have been found to be less likely to restate earnings (Aier et al. 2005) or to receive initial adverse SOX 404 opinions (Li et al. 2010), Ge et al. (2011) find little evidence that CFO background explains accounting choice. We extend this strand of literature by linking executives' past professional experience to financial reporting choice in an economically meaningful way. Indeed, while the notion of managerial style can be elusive and difficult to trace to individuals' attributes, the link between managers' transaction expertise and the goodwill reporting choices of the firms they

subsequently work for is traceable. Our results not only suggest that CFO background does matter, but that a better understanding of *how* it matters relies upon analyses of more specific settings in terms of dependent variable (here, goodwill impairment) and independent variable (here, prior transaction experience).

The remainder of the paper proceeds as follows: Section 2 reviews the literature and develops our predictions, Section 3 discusses the sample selection procedure and research design, Section 4 reports our results, and Section 5 concludes.

2. BACKGROUND AND HYPOTHESES

In the management literature, upper echelons theory finds that corporate actions and strategic choices are partially predicted by the functional background of executives (Hambrick and Mason 1984; Thomas et al. 1991; Hambrick 2007). A growing segment of the empirical literature in economics, finance, and accounting shows that individual executives affect corporate outcomes (Bertrand and Schoar 2003; Chava and Purnanandam 2010; Bamber et al. 2010; Ge et al. 2011; Ding 2011). However, our understanding of how executive background influences reporting choices is embryonic.

A natural progression of the existing literature is to explore in greater depth the professional experiences that influence executives' accounting discretion. Compared to prior literature, we choose a more granular (and possibly more distinguishing) set of attributes by focusing on (a) executives who worked in investment banking, private equity/venture capital and management consulting as our explanatory variables of interest and (b) a financial reporting setting—goodwill impairments—that provides a high degree of management discretion in terms of accounting choice.

We choose to look at IB, MC and PE/VC as our backgrounds of interest because these industries routinely advise firms or are directly involved with M&A transactions. More specifically, a key aspect of their value proposition is to identify synergies and intangible value that can be created through acquisitions. Therefore, determining the fair-value of intangible assets, including goodwill, is likely to be a task which maps directly into the managerial style of executives with prior transaction experience.

In addition, IB, MC and PE/VC industries provide a potent environment for shaping beliefs. For instance, Oyer's (2008) research on IB career paths and employment suggests that "Investment bankers are largely 'made' by circumstance rather than 'born' to work on Wall Street." To the extent that careers in those industries influence the perspectives of those who subsequently join "Main Street" firms in terms of financial reporting, it would seem valuable to better understand how they differ from other top executives.[4]

In this section, we develop two sets of hypotheses with respect to the association between executive background and (1) the incidence of goodwill impairment and (2) the value relevance of goodwill and impairment thereof.

2.1. Executive Background and Goodwill Impairment Reporting

Although Hambrick and Mason (1984) argue that an executive's functional career track affects his/her strategic choices, the upper echelon theory offers limited insight into the specifics of transaction expertise. Hambrick and Mason (1984) posit that managers from a finance background favor more budget detail and thoroughness. In the context of goodwill impairment, this would suggest that executives with prior transaction experience exert greater effort/oversight to ensure that goodwill is properly tested against possible impairment in each reporting unit of their firm.

Ethnographic studies look more specifically at individuals and organizations in investment banking. Ho (2009) documents that investment bankers tend to attribute their dismissals to stock market conditions. This would suggest that former investment bankers could be more inclined to attribute goodwill impairments to external forces. Anecdotal evidence also suggests that failure to admit mistakes is pervasive in private equity (The Economist 2008). However, Michel (2007) suggests that organizational idiosyncrasies within IB can lead to different individual styles when dealing with uncertainty, which is a central component of fair value and goodwill reporting.

[4] In addition, these industries offer the most sought-after jobs by university graduates from the most prestigious MBAs and colleges in the U.S. Indeed, MC and IB represent from one third to half of the graduating students of each of the top 5 US News ranked MBA programs from 2005-2010.

While sociological paradigms do not offer unambiguous predictions between executive functional background and financial reporting choice, we posit that executives with prior transaction experience are subject to their own agency conflicts with respect to goodwill impairment. Prior research has shown the existence of a reputation component to the goodwill impairment decision, using CEO tenure as a proxy for reputation (Beatty and Weber 2006; Ramanna and Watts 2011). We expect an executive with strong concerns about his or her reputation as an M&A expert to be less likely to impair goodwill. Indeed, reporting goodwill impairment would be a concession that he or she had overpaid for an acquisition or mismanaged a transaction. Executives with prior transaction experience are likely to face higher reputation costs than others with respect to M&A performance because of their background.

First, executive tenure is a significant determinant of goodwill impairment decisions. For one, a goodwill impairment made during the "honeymoon" period of employment is less likely to be goodwill associated with transactions the executive was involved with. Hence, we consider the first year of an executive's appointment as a situation where goodwill impairment is less costly reputation-wise and possibly beneficial if an executive would like to avoid a potential impairment in the future and/or boost return on assets by reducing the denominator. We expect that executives with prior transaction experience are relatively more likely to impair goodwill during their first year as CEO or CFO. In contrast, when executives are faced with deteriorating performance (e.g., failure to report above common benchmarks such as positive earnings or change thereof), the reputation effect of impairing goodwill could be mitigated by incentives to take 'big bath' charges (Healy 1985). Accordingly, we expect executives with prior transaction experience to be more likely to impair goodwill when pre-impairment earnings surprises are negative.

Given its unverifiable nature, few governance mechanisms, if any, will compel managers to reveal privately known bad news about goodwill. However, in the specific case of executives with prior transaction experience, we posit that monitoring agents with similar qualifications can be more effective in inducing them to recognize goodwill impairment. In particular, we expect that the presence of directors with prior transaction experience will increase the propensity of executives with prior transaction

experience to impair goodwill. In addition to governance mechanisms that are internal to the firm, external governance can play a role in disciplining reluctant managers to reveal bad news. In particular, pressure from sell-side analysts can lead executives with prior transaction experience to recognize that the book value of goodwill is overstated. Accordingly, we expect that executives with prior transaction experience are more likely to impair goodwill when analysts are downgrading the stock.

Overall, while we leave as an empirical question whether executives with prior transaction experience are more or less likely to impair goodwill on average, we condition our predictions based on executives' reputation concerns interacted with prior transaction experience as follows:[5]

H1a: Executives with prior transaction experience are more likely to impair goodwill (i) under monitoring from directors with similar background or (ii) when analysts are downgrading the firm's stock.

H1b: Executives with prior transaction experience are more likely to impair goodwill (i) during the first year of their appointment or (ii) when pre-impairment earnings are negative and below the previous year's earnings.[6]

2.2. Executive Background and the Value Relevance of Goodwill

The hypothesis development thus far has exploited the asymmetric and opaque nature of goodwill impairment to explore agency theory concerns around managing goodwill impairments. However, we expect that the extensive exposure to M&A and valuation models from prior experience enables executives to better understand the complexity around goodwill. We focus on the link between experience and knowledge following the expertise paradigm from Libby and Luft (1993), where experience and

[5] We see the tension in this hypothesis coming from at least two sources: (i) the incentives of executives with prior transaction experience may not differ from those of the average executive, e.g., because their compensation may take into account their background, in which case we would fail to reject the null or (ii) because executives with prior transaction experience follow the Wall Street mantra that "Cash is King" and do not consider a non-cash charge like goodwill impairment to be damaging to their reputation.

[6] Note that our hypothesis development predicts the signs of the interaction terms between executive background and the costliness of impairment or the effectiveness of monitoring. However, we also test whether executives with prior transaction experience behave differently from other executives when all are subject to the same constraint/regime (e.g., the first year of their appointment or the presence of a director with prior transaction experience). For example, we might observe that executives with prior transaction experience are more likely to impair goodwill in their first year compared to other newly appointed executives, and/or less likely to impair goodwill in later stages of their appointment compared to executives with similar seniority.

ability affect a decision maker's knowledge, which in turn affects their performance.[7] Assuming that managers want to report truthfully, determining the value and impairment of goodwill under applicable GAAP rules is a complex decision. Under SFAS 142 the main judgment points entail (i) recognizing adverse events that would warrant impairment testing between annual routine tests (paragraph 28) and (ii) choosing appropriate fair value measurement techniques (paragraphs 23-25).

We expect executives with prior transaction experience to be familiar with the nature of valuing goodwill, due to their involvement in the valuation of targets for the transactions they advised in their previous roles. In particular, we hypothesize that those executives have greater expertise with respect to point (ii) above. Paragraphs 23-25 of SFAS 142 prescribe common valuation techniques such as market prices, present value of future cash flows and multiples of revenues of earnings, all of which are used extensively by investment bankers, management consultants, private equity professionals and venture capitalists. For instance, prior literature finds that financial statement information is value-relevant in PE/VC valuation (Hand 2005; Armstrong, Davila and Foster 2006), while Cochrane (2005) finds that valuation techniques used in PE/VC transactions are similar to those used in other investments.

It is not as clear whether executives with prior transaction experience have an advantage with respect to point (i). On the one hand, we expect them to have more general knowledge about capital markets, such as an understanding of which market and firm-level signals are informative about possible goodwill impairment and of investors' expectations regarding impairment charges. On the other hand, paragraph 28 of SFAS 142 provides examples of internal (e.g., loss of key personnel) and external (e.g., unforeseen changes in competition, regulation or legal forces) adverse events, which other executives such as industry veterans or those with legal background may be equally competent to detect.

While the high degree of judgment involved and the lack of ex-post settling make it difficult to fully assess the adequacy of goodwill impairment decisions, we consider that more appropriate goodwill impairments should be more informative. In particular, as specified in the FASB's Conceptual

[7] That said, given the standardized recruiting procedures in those industries, which are designed to select individuals with superior analytical skills (Armbrüster 2006), raw ability may also contribute to the valuation skills of executives with prior transaction experience.

Framework, one of the desired properties of current accounting data is to predict future cash flows. As a recorded asset, goodwill should be associated with future economic benefits, and goodwill impairment should contribute to enhancing that association, if taken properly. Hence, since we expect executives with prior transaction experience to take more informed impairment decisions, we formulate our expertise hypothesis as follows:

H2: Goodwill impairment exhibits greater incremental value relevance in firms that employ executives with prior transaction experience.

Our hypothesis development applies to CEOs and CFOs. While managing the financial reporting process makes CFOs the senior managers most connected to accounting decisions (Mian 2001; Geiger and North 2006; Gore et al. 2008), the responsibility of CEOs vis-à-vis financial reporting has also received a great deal of attention (Jiang, Petroni and Wang 2010; Feng et al. 2011). To the extent that CEOs are held accountable for acquisition performance, reputation concerns may be more pronounced for CEOs than CFOs in terms of goodwill reporting. In addition, Jensen and Zajac (2004) find that CEOs and non-CEO executives with functional background in finance are associated with different impacts on firms' acquisition strategies, suggesting that CEOs and CFOs with prior transaction experience may behave differently with respect to acquisition-related financial reporting.

3. SAMPLE AND RESEARCH DESIGN

3.1. Sample Selection

We obtain our main sample from the intersection of SDC and BoardEx. We first select all U.S. firms that are identified in SDC as having announced at least one acquisition between 1990 and 2009. For those firms, we collect CEO and CFO biographical details from BoardEx, if available. BoardEx compiles employment history, educational background, and other information on the professional and social activities of corporate directors and senior executives in major publicly listed companies, starting in 1999 (with more complete coverage starting in 2000). This procedure yields a sample of 2,168 companies. We

obtain data on acquisitions and divestitures from SDC, accounting data from Compustat, stock data from CRSP, analyst data from I/B/E/S and internal control data from Audit Analytics.

To identify IB executives, we start by compiling a list of the 100 most active advising firms in worldwide M&A. We use 2009 data from Bloomberg and then augment that list by looking at historical league tables from SDC, so as to include defunct but previously prominent investment banks. We then search for those firms in the employment history of our sample executives. Within that sample, we only consider as "IB executives" those who are identified as having worked in "investment banking," "M&A," or "corporate finance." If this information is not available in BoardEx, we search the Internet.[8]

We use a similar procedure to first identify major private equity, venture capital and management consulting firms and then search for them in the employment history of our sample executives.

3.2. Research Design

3.2.1. Goodwill Impairment Tests

We first analyze the decision to take a goodwill impairment charge using the following logistic model:

$$\log\left(\frac{\Pr(Impairment=1)}{1-[\Pr(Impairment)=1]}\right) = \alpha_0 + \alpha X + \rho Y \quad (1)$$

Where units of observation are firm-years. *Impairment* is an indicator variable equal to one if a firm records a goodwill impairment during the year, and zero otherwise. α and ρ are vectors of coefficients, X a vector of executive characteristics and Y a vector of firm- and industry characteristics. We also include fiscal year fixed effects. All variables are defined in Appendix A.

CEOExpert (*CFOExpert*) is equal to the number of fiscal quarters divided by four in a firm-year during which a CEO (CFO) with prior transaction experience was in place.[9]

[8] We exclude from our primary analysis non-IB Wall Street CEOs and CFOs. This group includes former investment managers, research analysts, executives, and directors of Wall Street firms or large banks with investment banking divisions, as well as others whom we could not verify as former investment bankers. Also, we exclude a number of executives who are only contemporaneously or subsequently in investment banking or private equity (often as board members), because our primary focus is on past experience as a measure of functional background.

[9] The panel data approach initiated by Bertrand and Schoar (2003) and subsequently used by Bamber et al. (2010), Dyreng et al. (2010), and Ge et al. (2011) is econometrically appealing because it disentangles the manager from the firm using distinct fixed effects. Although we do not have manager-level fixed effects in our research design, it is not of primary concern in our setting. Indeed, goodwill impairment is a financial reporting consequence of economic

We also collect background information on members of the board of directors from BoardEx and create *DirectorExpert*, an indicator variable equal to one if at least one non-executive director with prior transaction experience sits on the board, and zero otherwise. Using a scale from 1 to 5 for 'Strong Buy' to 'Strong Sell', we compute the average analyst recommendation during the year and compare individual analysts' recommendations to their own recommendations issued during the prior year for the same firm. The indicator variable *Downgrade* is equal to one if (i) the consensus is strictly below 'Buy' and (ii) at least one analyst downgraded the stock to 'Hold' or below from last year, and zero otherwise. Following H1a, we expect the coefficient on *CEOExpert* and *CFOExpert* to be significantly higher when interacted with *DirectorExpert* and *Downgrade*, respectively.

CEO and CFO tenure proxy for executives' reputation concerns associated with the recognition of a goodwill impairment. Executives with a longer tenure in the firm are expected to be more reluctant to impair goodwill as an admission of their failure to deliver on previously forecast (and paid for) cash flows. In contrast, a newer executive may be more prone to take a write-off by impairing goodwill recognized by his or her predecessor. Accordingly, one of our proxies for low reputation concerns is the year of a CEO's or CFO's appointment. *CEOExpert_FY* (*CFOExpert_FY*) is equal to one if the CEO (CFO) has transaction expertise and joined the firm during the year, and zero otherwise. Our other proxy for reputation concerns is based on whether pre-impairment earnings fall short of common earnings surprise benchmarks (Burgstahler and Dichev 1997; Degeorge, Patel and Zeckhauser 1999). We create *BigBath*, an indicator variable equal to one if pre-impairment earnings are negative and lower than last year's earnings, and zero otherwise, to isolate firm-years where managers have greater incentives to take an impairment.[10] Following our reputation hypothesis H1b, we expect a positive coefficient on *CEOExpert_FY* (*CFOExpert*_FY) and on the interaction between *CEOExpert* (*CFOExpert*) and *BigBath*.

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macro- and/or micro-level shocks to a firm's goodwill. Therefore, unlike corporate choices such as acquisitions, capital structure, and disclosure, goodwill impairment is unlikely to be a function of a firm "policy." Hence, not surprisingly, adding firm fixed effects to our models does not affect our results (not tabulated).

[10] We do not consider analysts' expectations because in that case, the benchmark may already exclude goodwill impairment (Gu and Zhen 2004). However, in untabulated tests, we also require actual earnings (as reported in

We control for executives' educational background by creating indicator variables for CEOs and CFOs who hold an MBA (*CEOMBA* and *CFOMBA*, respectively). Not only is an MBA education likely to be correlated with professional expertise in finance, but it may also be incrementally significant in predicting goodwill impairment, insofar as an MBA education includes relevant valuation training. We also control for managerial ability (*MgrAbility*) as measured by the data envelopment analysis (DEA) method used by Demerjian et al. (2010, 2011). Demerjian et al. (2011) show that managerial ability is associated with firm performance, which suggests a negative association between goodwill impairment and *MgrAbility*. However, Demerjian et al. (2010) show that *MgrAbility* is positively associated with accrual quality, which suggests that more able managers are more likely to impair goodwill when appropriate.

We include a number of firm- and industry-level control variables based on prior research that examines goodwill impairment. Our purpose is primarily to control for factors that are potentially correlated with the presence of an executive with finance expertise. Our private information proxy is *ExecNetBuy*, an indicator variable equal to one if the CEO or CFO buys more shares than he or she sells in the firm's stock during year *t* and zero otherwise. Executives can buy shares to signal their private information about good news in order to justify not impairing goodwill or to mitigate negative reactions associated with goodwill impairment. We use *Delist*, an indicator variable equal to one if the firm is listed on Nasdaq or AMEX and zero otherwise, as our contracting proxy, since Nasdaq and AMEX firms are subject to accounting-based listing requirements. We also control for leverage, which should—to some extent—capture the likelihood of debt covenant violation.[11] We use *LogSegments*, the natural logarithm of the number of reporting segments, as a proxy for goodwill reporting flexibility. Since prior research shows that market reactions to acquisition announcements predict future impairments (Lys, Vincent and Yehuda 2011; Gu and Lev 2011), we also include *AcqRet*, which is the weighted average of the five-day

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I/B/E/S) to fall short of consensus analyst forecasts. The results are qualitatively similar to those reported in our main tests.

[11] We omit from our main analysis compensation-based contracting variables. Requiring data availability for CEO and CFO bonuses results in a loss of 40% of our sample. However, untabulated results are robust to the inclusion of indicator variables for firm-years where the CEO and CFO receive bonuses.

size-adjusted returns around the announcements of all acquisitions made by the firm over the previous year. We control for *LitigRisk*, the estimated ex-ante litigation risk (based on the Rogers and Stocken [2005] model), as firms subject to greater litigation risk are more likely to impair goodwill to avoid securities lawsuits (Muller et al. 2010). We also control for the concurrent incidence of other asset write-offs and restructuring charges with the indicator variables *WriteOff* and *Restructuring*. Indeed, goodwill impairment is more likely to occur at the same time as write-offs and restructuring charges if firms are underperforming, disposing of assets and/or undergoing major strategic changes. We include the variable *ICWeakness*, which is equal to the number of internal control weaknesses reported by the firm for the year under Sections 302 and 404 of the Sarbanes-Oxley Act. Following Feng, Li and McVay (2009), who find that firms reporting internal control weaknesses issue less accurate management forecasts, we posit that internal control deficiencies are likely to be associated with inadequate systems to help management track goodwill across reporting units. Hence, as firms identify those issues, we expect a greater likelihood of goodwill impairment. We also include total goodwill on the balance sheet (scaled by total assets), Tobin's Q, ROA, firm size, book-to-market ratio and the Fama-French risk-adjusted stock return over the fiscal year. To control for industry-wide shocks to goodwill, we include *ImpairPeer*, the average goodwill impairment per industry-year (where industry is based on two-digit SIC group) excluding the firm of interest.

3.2.2. Value Relevance Tests

We test our second hypothesis by analyzing the association between goodwill impairment and future operating performance. First, we regress measures of operating performance on a firm's assets and net income as follows:

$$OPRET_{i,t+2} = \beta_0 + \beta_1 TAN_{it} + \beta_2 INT_{it} + \beta_3 GW_{it} + \beta_4 NI_{it} + \varepsilon_{it} \quad (2a)$$

$$OPRET_{i,t+2} = \delta_0 + \delta_1 TAN_{it} + \delta_2 INT_{it} + \delta_3 GW_{it} + \delta_4 NI_{it} \quad (2b)$$
$$+\delta_5 Impairment_{it} + \delta_6 GW * Impairment_{it} + \delta_6 NI * Impairment_{it} + \varepsilon_{it}$$

Where the dependent variable is cash flow from operations, free cash flow or EBITDA summed over years *t+1* and *t+2*. *TAN* is the book value of tangible assets, *INT* is the book value of non-goodwill intangible assets, *GW* the book value of goodwill, and *NI* is net income, all measured at the end of fiscal year *t*. Furthermore, all variables except for *Impairment*, which is as defined in Model (1), are deflated by total assets as of *t-1*. We estimate the coefficients from (2a) and (2b) separately for each two-digit SIC group with at least 20 observations. Once we obtain the coefficients, we compute absolute forecast errors for future operating performance at the firm-year level by comparing the predicted values from each model to the actual values. We label *ABSE_OPRET_NOGW* and *ABSE_OPRET_GW* the absolute forecast errors from (2a) and (2b), respectively. Finally, we analyze the incremental predictive ability of goodwill impairment by running the following OLS regression:

$$GWImprov = \beta_0 + \beta_1 CEOExpert + \beta_2 CFOExpert + \sum_j \beta_j \, Controls_j + Industry \; f.e. \qquad (3)$$

Where *GWImprov* is the difference between *ABSE_OPRET_NOGW* and *ABSE_OPRET_GW*. The larger *GWImprov*, the greater the improvement in forecast accuracy for future operating performance when goodwill is added as an explanatory variable. Following H2, we expect β_1 and β_2 to be positive. We control for CEOs and CFOs who hold MBA degrees. We also control for CEO and CFO tenure, as executives with longer tenures may have better knowledge of a firm's value generating process and be able to impair goodwill in a more informative manner. Prior research shows that CEO ability is positively associated with management forecast accuracy and informativeness (Baik, Farber and Lee 2011). Accordingly, we control for *MgrAbility*, since goodwill reporting accuracy relies upon managerial knowledge of future cash flows. We also include firm size, book-to-market, log number of segments, beginning of the year goodwill, year and industry fixed effects as control variables.

The incremental predictive ability of goodwill impairment may not be apparent over a two-year horizon. We use an alternative set of tests using stock prices as a surrogate for the present value of future cash flows. Following Ohlson (1995), the value of a firm's equity can be expressed as a function of its

earnings and book value. We further test the value relevance of goodwill impairment using the explanatory power from regressions of stock price on book value of equity and net income as follows:

$$P_{it} = \beta_0 + \beta_1(BV_{it} - GW_{it} - INT_{it}) + \beta_2 INT_{it} + \beta_3 GW_{it} + \beta_4 NI_{it} + \varepsilon_{it} \quad (4a)$$

$$P_{it} = \delta_0 + \delta_1(BV_{it} - GW_{it} - INT_{it}) + \delta_2 INT_{it} + \delta_3 GW_{it} + \delta_4 NI_{it} \quad (4b)$$
$$+\delta_5 Impairment_{it} + \delta_6 GW_{it} * Impairment_{it} + \delta_6 NI_{it} * Impairment_{it} + \varepsilon_{it}$$

In Model (4a), we regress stock price on book value of equity (*BV*) minus intangible assets, non-goodwill intangible assets (*INT*), goodwill (*GW*) and net income (*NI*). In Model (4b), we add an impairment indicator (*Impairment*) and interaction terms *GW*Impairment* and *NI*Impairment* as explanatory variables. In both models, accounting variables are scaled by shares outstanding. We then use the difference in adjusted R^2 between Model (4b) and Model (4a) as a measure of incremental value relevance associated with goodwill impairment. To test whether executives with financial expertise are associated with greater incremental value relevance of goodwill impairment, we run Models (4a) and (4b) separately for (i) each year from 2002 to 2009 and (ii) for firms with and without executives with financial expertise. We then compare mean and median incremental R^2 between firms with and without executives with financial expertise.

4. EMPIRICAL EVIDENCE

4.1. Descriptive statistics

Table 1 presents univariate statistics for our sample. Panel A includes all firm-years for which the data necessary to run our goodwill impairment tests are available. We require that goodwill be strictly positive for a firm-year to be included in our main tests. CEOs and CFOs with prior transaction experience account for 6% and 5% of our sample observations, respectively.[12] The presence of directors

[12] Those numbers may seem low; however, it is important to emphasize that executives' bios need not include an exhaustive list of their prior positions. For instance, most of the executives with prior transaction experience in our sample held at least the title of vice president in their former industries. Hence, we do not capture those who worked, for example, at the analyst or associate level, e.g. before or right after an MBA. If a significant portion of the valuation expertise and cultural specificity of the fields of IB, MC, PE and VC accrue to their employees at the junior level, this may bias against us findings significant differences in our executive-level tests.

with prior transaction experience is three times higher (31%), which is consistent with the requirement that audit committees include financial experts after SOX. A large proportion of our executives hold MBAs (33% of CEOs, 39% of CFOs). Goodwill impairments occur in 13% of our sample observations, while goodwill accounts for 18% of total assets on average. Conditioned upon an impairment charge being taken, goodwill impairment accounts for 6.4% of total assets on average.

Table 2 presents Pearson correlations among our main variables. We note that executive functional background of transaction experience is (i) positively associated with holding an MBA and (ii) negatively associated with executive tenure, both for CEOs and CFOs. Executives with prior transaction experience tend to work in larger firms with greater market-to-book ratios, more goodwill on their balance sheet, lower leverage and return on asset.

4.2. Executive Background and Goodwill Impairment

Table 3 presents results for our analysis of goodwill impairment reporting frequency as a function of executive background and techno-economic factors, based on Model (1). The first (second) set of columns report marginal effects and *z* statistics from a logistic regression where all firm-years with positive goodwill (only firms that employ executives with prior transaction experience at some point in our sample period) are included. In both samples, the coefficient on *CFOExpert* is significantly positive (two-tailed p-value<0.001), indicating that CFOs with prior transaction experience are, on average, more likely than other executives to impair goodwill. The marginal effect of CFO transaction expertise on the likelihood of goodwill impairment is 6.2% in the full sample and 9.7% in the restricted sample, which is economically significant when compared to the model's unconditional probability of goodwill impairment (8% in the full sample, 9% in the restricted sample, not tabulated). In contrast, the coefficient on *CEOExpert* is positive but not significant. The coefficient on *CFOMBA* is also positive but not significant. Also, the coefficient on *DirectorExpert* is positive but not significant. The coefficients on CEO and CFO tenure are negative as expected, but not statistically significant (except for CEO tenure in the restricted sample). Also, managerial ability does not appear to be significantly associated with goodwill impairment. In terms of techno-economic control variables, the full sample results indicate that

goodwill impairment is significantly more likely to occur when the market reacts more negatively to past acquisitions. The positive coefficient on *ExecNetBuy* suggests that executives are more likely to be net buyers of their own stock in goodwill impairment years, thereby attempting to signal good news beyond what current accounting implies. Goodwill impairment likelihood is positively associated with book-to-market ratio and percentage of goodwill on balance sheet, and negatively associated with contemporaneous stock returns and Tobin's Q. The significantly positive coefficient on *LogSegments* suggests that goodwill impairment incidence increases with the number of reporting business segments, which is inconsistent with managers, on average, using the reporting flexibility associated with the allocation of goodwill across reporting units as a way to justify not impairing goodwill. There is a marginally significant and positive association between firms' listing on NASDAQ/AMEX and the incidence of goodwill impairment. Goodwill impairment is also positively associated with litigation risk, coincidental reports of other asset write-offs, restructuring charges and internal control weaknesses by the firm, and industry peers' goodwill impairments. The results are qualitatively similar when the sample is restricted to firms that hire executives with prior transaction experience. Overall, the results in Table 3 suggest that CFOs with prior transaction experience are more likely to impair goodwill, controlling for a variety of executive-, firm- and industry-level factors. Next, we test our set of hypotheses related to agency frictions.

4.3. Executive Background, Goodwill Impairment and Agency Frictions

Table 4 presents results of our tests related to H1a, i.e. that executives with prior transaction experience are more likely to impair goodwill under stricter monitoring. The first and second sets of columns report marginal effects and *z* statistics from Model (1) run only for firm-years without and with at least one board member with prior transaction experience, respectively. The results indicate that in the presence of a director with prior transaction experience, CEOs with prior transaction experience are more likely than other executives to impair goodwill, although the effect is marginally significant (p-value<0.10). In the absence of a director with prior transaction experience, *CEOExpert* is not significant. Furthermore, the difference between the coefficients on *CEOExpert* across the samples with and without

expert directors is significant (Chi-square=4.91, p-value<0.05). In contrast, CFOs with prior transaction experience are significantly more likely than other executives to impair goodwill in both subsamples.

The third and fourth sets of columns report marginal effects and *z* statistics for firm-years without and with analyst downgrade recommendations, respectively. Firms with no analyst recommendations are excluded from these two columns. In the analyst downgrade sample, the coefficient on *CEOExpert* is significantly positive (p-value<0.01), whereas it is not in the other sample. In addition, the difference between the two coefficients is significant (Chi-square=9.13, p-value<0.01). This suggests that CEOs with prior transaction experience are more likely to take action and impair goodwill when informed outsiders are signaling bad news about their firm. In contrast, the association between CFOs with prior transaction experience and goodwill impairment remains significantly positive in both subsamples. Overall, the results in Table 4 are consistent with CEOs—but not CFOs—with prior transaction experience being more likely to impair goodwill when subject to greater monitoring from other experts such as board members and analysts.

Table 5 presents results for our tests related to H1b, i.e. that executives with prior transaction experience are more likely to impair goodwill when it is less costly to do so. The first column reports marginal effects and *z* statistics from Model (1) where we interact *CEOExpert* and *CFOExpert* with an indicator for the first year of the executive's appointment. The coefficient on *CEOExpert_FY* is significantly positive (p-value<0.05), which indicates that newly appointed CEOs with prior transaction experience are significantly more likely to impair goodwill. In contrast, CFOs with prior transaction experience appear to be significantly less likely to impair goodwill in their first year. While the coefficient on *CEOExpert* is greater than the coefficient on *CEO_FY*, the difference is not statistically significant. However, when we restrict the sample to firm-years with CEOs in their first year, the coefficient on *CEOExpert* is significantly negative (not tabulated). Hence, it appears that CEOs with prior transaction experience are more likely to impair goodwill when it is least costly career-wise. The second and third sets of columns report marginal effects and *z* statistics for Model (1) run separately for firm-years where (i) either pre-impairment earnings or change thereof are positive and (ii) neither pre-

impairment earnings nor change thereof are positive. In both subsamples, the coefficient on *CFOExpert* is significantly positive, which suggests that the higher propensity of CFOs with prior transaction experience to impair goodwill is not driven by big bath incentives. In contrast, the coefficient on *CEOExpert* is significantly positive in the sample where pre-impairment reported earnings and change thereof are already negative (p-value<0.05), while it is not significant in the other sample. The coefficient on *CEOExpert* is marginally greater in the "big bath" sample compared to the rest of the sample (Chi-square=3.02, p-value<0.10). Overall, the results support H1b for CEOs, indicating that their propensity to impair goodwill varies with earnings management incentives.

4.4. Executive Background and Value Relevance of Intangibles

Table 6 reports the results of our examination of the value relevance of goodwill impairment and its association with executive background, based on Models (3), (4a) and (4b). Panel A presents univariate results. Except for cash flow from operations at the mean level, there is no evidence of significant improvement in prediction accuracy for future operating performance due to the addition of a goodwill impairment indicator and interaction effects for firm-years with a CEO with prior transaction experience compared to firm-years with no executive with prior transaction experience. Likewise, the mean (median) annual incremental R^2 of 3.34% (1.75%) associated with goodwill impairment in a regression of stock price on book value of equity and net income is not significantly higher in firms that have CEOs with transaction experience than in the control population. In contrast, mean and median improvement in value relevance due to goodwill impairment is higher in firms that have CFOs with prior transaction experience than in the control sample. For example, the mean (median) improvement in prediction accuracy for cash flow from operations due to the addition of a goodwill impairment indicator and interaction effects for firms with a CFO with prior transaction experience is 0.47% (0.25%) of total assets, which is significantly higher than for firm-years with no executive with prior transaction experience (p-value<0.05 for means and medians comparisons). Incremental value relevance of goodwill impairment is also significantly higher for CFOs with prior transaction experience. Indeed, mean (median) annual incremental value relevance is 5.80% (3.89%) for firm-years with a CFO with prior

transaction experience, versus 1.34% (0.73%) for firm-years without executives with prior transaction experience, the difference being significant at the 0.05 (0.10) two-tailed level.

Panel B presents regression results, where the dependent variable is *GWImprov_CFO* in the first set of columns, *GWImprov_FCF* in the second set of columns and *GWImprov_EBITDA* in the third set of columns. The coefficient on *CFOExpert* is significantly positive when the dependent variable is incremental predictive ability for cash flow from operations, free cash flow and EBITDA (p-value<0.05 in all three cases). In contrast, the coefficient on *CEOExpert* is positive but insignificant in all three regressions. Hence, our second hypothesis only holds for CFOs. Combined with the results in Tables 3 to 5, this suggests that the impact of agency frictions on the goodwill impairment choices made by CEOs with prior transaction experience may limit the informativeness of those impairments.

4.5. Additional tests

4.5.1. Goodwill Impairment Magnitude and Smoothing

Our hypotheses and main empirical tests focus on the incidence of goodwill impairment rather than impairment amounts because—given the two-step nature of goodwill impairment testing—the decision to impair goodwill versus not is more consequential than what amount to impair. However, impairment amounts are also potentially informative about the effect of executive background on reporting discretion. We use a Heckman (1979) selection model, consistent with Beatty and Weber (2006) and Lys, Vincent and Yehuda (2011), to examine the magnitude of goodwill impairment charges, conditioned upon an impairment being taken, as follows:

$$Impairment_{i,t} = \alpha_0 + \alpha X + \rho Y + \varepsilon_{it} \quad (5a)$$

$$Impair\_Value_{i,t} = \alpha_0 + \alpha X + \rho Y + \theta Divest + \varepsilon_{it} \quad (5b)$$

We use a probit regression to examine the decision to take an impairment, and a censored regression to estimate the impairment's magnitude. Units of observation are firm-years. *Impair_Value* is the pretax impairment charge scaled by total assets. α, ρ, X and Y are the same as in our logistic tests. We add *Divest*, an indicator equal to one if the firm divests assets during the year, and zero otherwise, as our selection variable in the probit model. While the results in Table 5 suggest that CEOs are more likely to

use goodwill impairment as a "big bath" reporting choice, impairments could also be used for opportunistic smoothing. To shed light on that issue, we create *Smoothing*, an indicator variable equal to one if goodwill impairment appears to "smooth" earnings patterns around the impairment year, and zero otherwise. More specifically, we argue that goodwill impairment is more likely to be motivated by smoothing incentives if post-impairment earnings at *t-1*, *t* and *t+1* are such that the change from *t* to *t+1* is greater than the change from *t-1* to *t*, whereas in the absence of goodwill impairment, the change from *t-1* to *t* would have been higher than the change from *t* to *t+1*. Furthermore, we require that the change from *t-1* to *t* be strictly positive.

Table 7 reports the results for our analysis of goodwill impairment amounts and income smoothing. The first column presents results for the first-stage probit model, which are consistent with those from the logit model in Table 3. The second column presents results for the second-stage censored regression where goodwill impairment amount scaled by total assets is the dependent variable. The significantly negative coefficient on *CFOExpert* indicates that, conditioned upon an impairment being taken, CFOs with prior transaction experience impair smaller amounts than other executives. Following Li and Sloan's (2011) argument that large impairments are likely to be untimely, the combination of higher frequency and smaller amounts of impairments taken by CFOs with prior transaction experience suggests that their impairments are more timely than those of other executives.

The results of our smoothing tests are reported in the third column. The significantly positive coefficient on *CEOExpert* (p-value<0.01) suggests that CEOs with prior transaction experience are more likely than other executives to use goodwill impairment as a smoothing mechanism. In contrast, CFOs with prior transaction experience are not significantly associated with goodwill impairment's smoothing effect. Hence, these results are, again, consistent with CEOs with prior transaction experience being more likely to use goodwill impairment to manage earnings.

4.5.2. Executive Turnover

We interpret our results in Tables 3 to 5 as evidence that the goodwill impairment decisions of CEOs with prior transaction experience are influenced by career concerns. We further investigate this

issue by looking at executive turnover following impairments. We find that CEOs—but not CFOs—with prior transaction experience are significantly more likely than other executives to leave their position within two years of taking a goodwill impairment (not tabulated). This suggests that acquisition mismanagement can be costlier for those CEOs, which would explain why their impairment behavior varies with agency frictions.

4.5.3. Disclosure choices

Financial statement recognition is only one element of the reporting choices that firms/executives can make related to goodwill impairment. Their discretion also applies to footnote disclosure and supplementary disclosures outside of regulatory filings. We test whether executives with prior transaction experience are more likely to report pro forma earnings that exclude goodwill impairment. We retrieve from Factiva quarterly earnings announcements transcripts for firms that report goodwill impairment in our sample and code the extent to which the press releases emphasize pro forma exclusions of goodwill impairments, similar to Bowen, Davis and Matsumoto (2005). We find that IB CFOs are significantly more likely than other executives to emphasize pro forma earnings excluding goodwill impairment (not tabulated). Given that the positive association between CFOs with prior transaction experience and incremental value relevance of goodwill impairment is primarily driven by IB CFOs (not tabulated), this suggests that IB CFOs make joint GAAP and non-GAAP reporting choices regarding goodwill impairment that are more informative than other managers.

4.5.4. Other robustness tests

To address concerns regarding the impact on our inferences related to differences between other firms and firms hiring executives with transaction experience, we replicate our analysis using (i) only firms that hire those executives at some point during the sample period and (ii) using a propensity-score matching procedure to identify firm-years that are similar to the ones with those executives along various economic dimensions. Untabulated results are qualitatively similar to those based on the full sample.

We also examine whether the positive association between CFOs with prior transaction experience and goodwill impairment is driven by possible overpayment for acquisitions. Using market

reactions to acquisition announcements as a proxy for relative overpayment, we find no evidence that CFOs (or CEOs) with past transaction experience are associated with acquisition overpayment.

Finally, we replicate our analyses by looking at other executives whose background may also be associated with goodwill impairment. In particular, we look at former auditors, lawyers and executives from firms that engage in high levels of M&A. While former auditors are expected to be skilled with financial reporting in general, existing research shows that auditors have great difficulty assessing the propriety of fair value estimates concerning future events (e.g., Martin, Rich and Wilks 2006). Regarding former lawyers, their competitive advantage may lie with their prior involvement in advising the legal aspects of transactions. Although there is limited evidence on the reporting behavior of executives with legal background, Krishan et al. (2011) find that the presence of directors with legal backgrounds on the audit committee is associated with higher quality financial reporting. As for executives with prior M&A experience as buyers or sellers rather than advisers, they may have developed expertise in valuation during their "Main Street" experience. The results (not tabulated) indicate that the aforementioned groups of executives are (i) not significantly more likely to impair goodwill than the average executive and (ii) not associated with significantly greater incremental value relevance of goodwill impairment. In addition, the incidence and value relevance of goodwill impairment associated with CFOs that have prior transaction experience are significantly higher than those of former auditors, lawyers and general managers with transaction experience. These results lend additional support to our hypothesis that executives with prior transaction experience have greater valuation expertise. In terms of agency frictions, we find that former auditors are significantly more likely to impair goodwill during the first year of their appointment as CEO or CFO, suggesting that reputation concerns also affects that group.

5. CONCLUSION

In this paper, we shed light on the role of executive background vis-à-vis corporate financial reporting choices by looking specifically at the goodwill impairment decisions of top executives (CEOs and CFOs) with past professional experience in investment banking, management consulting, private equity, and venture capital.

We expect those executives to have greater expertise with respect to the technical aspects of goodwill impairment related to valuation. Notwithstanding, we also expect agency conflicts to affect those executives' impairment decisions. In particular, we predict that reputation concerns will mitigate their willingness to impair goodwill. For instance, former investment bankers are more likely to worry about maintaining their reputation as savvy acquirers.

On average, we find that CFOs—but not CEOs—with prior transaction experience are significantly more likely to impair goodwill and in smaller amounts. We also document that CFOs with prior transaction experience are associated with greater incremental predictive ability of goodwill impairment for future operating performance and value relevance for stock prices. This suggests that their valuation expertise helps them impair goodwill in a more informative manner.

When we partition our sample based on proxies for agency frictions, we find that CEOs with prior transaction experience are more likely to impair goodwill when (i) they are subject to monitoring from other experienced agents (board directors with similar background or analysts) and (ii) the marginal cost of goodwill impairment is likely to be low. This is consistent with reputation concerns mitigating the role of expertise in explaining those CEOs' goodwill impairment choices. Additional tests suggest that CEOs with prior transaction experience are more likely to quit their position within two years of taking a goodwill impairment, which lends additional support to the argument that their impairment decisions are influenced by career concerns.

Overall, our paper contributes to the literature on the relationship between managerial background and corporate reporting choices. While recent papers have used executive-level fixed effects in panel data to establish that managerial style matters in explaining accounting and voluntary disclosure

choices, we provide novel evidence on how style matters by choosing specific managerial characteristics (functional background in M&A transactions) and reporting choices (goodwill impairment) which are related to each other in a way that allows us to test economically meaningful hypotheses. Our results can help researchers explore the role of the individual manager in explaining financial reporting choices and also help them to control for executive-level characteristics when investigating determinants of goodwill impairments. In addition, since executive background is an actionable variable for corporate boards, a better understanding of its role in executives' financial reporting choices can be informative to those who monitor executive reporting. For instance, while anecdotal evidence suggests that former investment bankers are perceived as imperfect CFO candidates with inadequate skills in dealing with reporting and compliance issues (Ryan 2008), our results suggest that their reporting skills can be valuable.

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APPENDIX A: VARIABLE DEFINITIONS

Variable	Definition
Impairment	An indicator variable equal to one if there is a goodwill impairment taken during the year and zero otherwise.
Impair Value	Pretax goodwill impairment scaled by total assets.
CEOExpert (CFOExpert)	Equal to the number of fiscal quarters divided by four in a firm-year during which a CEO (CFO) executive with prior transaction experience was in place.
DirectorExpert	Indicator variable equal to one if at least one non-executive director with prior transaction experience sits on the board, and zero otherwise.
CEOMBA (CFOMBA)	Indicator variable equal to one if the CEO (CFO) received an MBA and zero otherwise.
CEOTenure (CFOTenure)	Variable indicating the number of years the firm's CEO (CFO) has been in that position.
MgrAbility	Firm's quintile rank based on managerial ability as measured by the data envelopment analysis (DEA) method used by Demerjian et al. (2010, 2011).
CEO_FY (CFO_FY)	Indicator variable equal to one for the executive's first year of working in the organization as CEO (CFO) and zero otherwise.
CEOExpert_FY (CFOExpert_FY)	Interaction between *CEOExpert* (*CFOExpert*) and *CEO_FY* (*CFO_FY*)
ExecNetBuy	Indicator variable equal to one if the CEO or CFO buys more shares of the firm's stock than he or she sells during the fiscal year and zero otherwise.
ROA	Lagged earnings before interest and taxes (EBIT) divided by average assets.
FY Return	Buy-and-hold return over the fiscal year adjusted for Fama-French three factors and momentum.
Tobin's Q	Lagged book value of assets plus market value of equity minus book value of equity, divided by average assets.
Size	Lagged natural logarithm of the firm's market capitalization.
LogSegments	Lagged natural logarithm of one plus the number of reporting segments.
Book to Market	Lagged book value of common stockholder equity divided by market value of equity.
Delist	Indicator variable equal to one if the firm is listed on Nasdaq or AMEX and zero otherwise.
Leverage	Lagged long-term debt plus debt in current liabilities, divided by average assets.
Restructuring	An indicator variable equal to one if there is a restructuring charge taken during the year and zero otherwise.
WriteOff	An indicator variable equal to one if there is a non-goodwill impairment charge taken during the year and zero otherwise.
ICWeakness	The number of internal control weaknesses reported by the firm for the year under Sections 302 and 404 of the Sarbanes-Oxley Act.
LitigRisk	Firm's quartile rank based on estimated ex-ante litigation risk, using the Rogers and Stocken [2005] model. Firms are assigned to quartiles based on yearly distribution of estimated ex-ante litigation risk.

APPENDIX A: VARIABLE DEFINITIONS (Continued)

Variable	Definition
Goodwill	Lagged goodwill scaled by total assets.
AcqRet	Average of the five-day size-adjusted returns around the announcements of all acquisitions made by the firm over the previous fiscal year, weighted by the target size.
ImpairPeer	The average goodwill impairment scaled by total assets for industry peers (where industry is based on two-digit SIC group) excluding the firm of interest.
BigBath	Indicator variable equal to one if pre-impairment earnings are negative and lower than last year's earnings, and zero otherwise.
Downgrade	An indicator variable equal to one if (i) the analyst consensus recommendation during the fiscal year is strictly below 'Buy' and (ii) at least one analyst downgraded the stock to 'Hold' or below from last year, and zero otherwise.
Divest	Indicator variable equal to one if the firm divests any assets during the fiscal year, and zero otherwise.
Smoothing	Indicator variable equal to one for year *t* if (i) post-impairment earnings at *t-1*, *t* and *t+1* are such that the change from *t* to *t+1* is greater than the change from *t-1* to *t*, whereas in the absence of goodwill impairment, the change from *t-1* to *t* would have been higher than the change from *t* to *t+1*, and (ii) if the change from *t-1* to *t* be strictly positive, and zero otherwise.

Table 1: Descriptive Statistics

This table provides descriptive statistics for our sample, which includes 6,236 firm-year observations from 2002 to 2009, based on the intersection of SDC (firms having completed at least one acquisitions between 1990 and 2009), BoardEx (for executive background information), and Compustat/CRSP. We exclude observations with no goodwill on the balance sheet as of the beginning of the year. Variables are defined in Appendix A.

	Mean	Std Dev.	<25%	Median	>75%
Impairment	0.13	0.34	0.00	0.00	0.00
Impair Value‡	0.06	0.07	0.01	0.04	0.10
CEOExpert	0.06	0.24	0.00	0.00	0.00
CFOExpert	0.05	0.22	0.00	0.00	0.00
DirectorExpert	0.31	0.46	0.00	0.00	1.00
CEOMBA	0.33	0.47	0.00	0.00	1.00
CFOMBA	0.39	0.49	0.00	0.00	1.00
CEOTenure	5.69	5.79	2.00	4.00	8.00
CFOTenure	3.79	3.75	1.00	3.00	6.00
MgrAbility	3.41	1.33	2.00	4.00	5.00
CEOExpert_FY	0.01	0.10	0.00	0.00	0.00
CFOExpert_FY	0.01	0.12	0.00	0.00	0.00
ExecNetBuy	0.14	0.40	0.00	0.00	0.00
ROA	0.07	0.11	0.03	0.08	0.12
FY Return	0.11	0.56	-0.20	0.04	0.30
Tobin's Q	3.03	1.61	2.00	2.68	3.58
Size	6.92	1.72	5.85	6.87	7.93
LogSegments	0.78	0.68	0.00	1.10	1.39
Book to Market	0.64	0.56	0.33	0.51	0.77
Delist	0.51	0.50	0.00	1.00	1.00
Leverage	0.21	0.18	0.04	0.19	0.32
Restructuring	0.35	0.48	0.00	0.00	1.00
WriteOff	0.20	0.40	0.00	0.00	0.00
ICWeakness	0.13	0.74	0.00	0.00	0.00
LitigRisk	2.52	1.09	2.00	3.00	3.00
Goodwill	0.18	0.16	0.04	0.12	0.26
AcqRet	0.00	0.04	0.00	0.00	0.00
ImpairPeer	0.01	0.01	0.00	0.00	0.01
BigBath	0.16	0.37	0.00	0.00	0.00
Downgrade†	0.13	0.33	0.00	0.00	0.00
Divest	0.25	0.43	0.00	0.00	0.00
Smoothing‡	0.04	0.20	0.00	0.00	0.00

‡ This variable is only available for firm-years with goodwill impairment.
† This variable is only available for firm-years with analyst recommendations data.

Table 2: Correlations

This table reports Pearson correlations between executive background, director background and determinants of goodwill impairment. The significance level of pairwise coefficients is in italics next to the correlations. The sample includes 6,236 firm-year observations from 2002 to 2009.

	CEOExpert	*CFOExpert*	*CEOMBA*	*CFOMBA*	*DirectorExpert*
Impairment	0.02 *(0.09)*	0.05 *(0.00)*	0.02 *(0.20)*	0.01 *(0.27)*	0.02 *(0.05)*
Impair Value‡	0.03 *(0.46)*	-0.05 *(0.14)*	0.02 *(0.51)*	-0.01 *(0.72)*	0.02 *(0.59)*
DirectorExpert	0.10 *(0.00)*	0.06 *(0.00)*	0.01 *(0.46)*	0.05 *(0.00)*	1.00
CEOMBA	0.14 *(0.00)*	0.02 *(0.14)*	1.00	0.08 *(0.00)*	0.01 *(0.46)*
CFOMBA	0.08 *(0.00)*	0.13 *(0.00)*	0.08 *(0.00)*	1.00	0.05 *(0.00)*
CEOTenure	-0.10 *(0.00)*	-0.04 *(0.00)*	-0.09 *(0.00)*	-0.05 *(0.00)*	-0.07 *(0.00)*
CFOTenure	-0.06 *(0.00)*	-0.09 *(0.00)*	-0.02 *(0.11)*	-0.12 *(0.00)*	-0.06 *(0.00)*
MgrAbility	-0.02 *(0.08)*	-0.05 *(0.00)*	0.04 *(0.00)*	0.01 *(0.41)*	-0.01 *(0.46)*
CEO Expert FY	0.41 *(0.00)*	0.05 *(0.00)*	0.08 *(0.00)*	0.03 *(0.01)*	0.05 *(0.00)*
CFO Expert FY	0.04 *(0.00)*	0.49 *(0.00)*	0.01 *(0.65)*	0.07 *(0.00)*	0.06 *(0.00)*
ExecNetBuy	0.01 *(0.42)*	-0.01 *(0.27)*	0.00 *(0.76)*	0.00 *(0.78)*	-0.01 *(0.51)*
ROA	0.00 *(0.80)*	-0.03 *(0.02)*	0.03 *(0.04)*	-0.01 *(0.38)*	0.03 *(0.01)*
FY Return	0.00 *(0.76)*	-0.02 *(0.20)*	-0.01 *(0.29)*	0.01 *(0.33)*	-0.01 *(0.25)*
Tobin's Q	0.03 *(0.05)*	0.04 *(0.00)*	-0.01 *(0.27)*	0.10 *(0.00)*	0.06 *(0.00)*
Book to Market	-0.04 *(0.00)*	-0.05 *(0.00)*	-0.02 *(0.05)*	-0.04 *(0.00)*	-0.04 *(0.00)*
Size	0.03 *(0.01)*	0.11 *(0.00)*	0.09 *(0.00)*	0.12 *(0.00)*	0.08 *(0.00)*
LogSegments	0.03 *(0.04)*	-0.01 *(0.55)*	0.07 *(0.00)*	0.08 *(0.00)*	0.00 *(0.83)*
Delist	-0.03 *(0.02)*	-0.04 *(0.00)*	-0.07 *(0.00)*	-0.02 *(0.07)*	-0.05 *(0.00)*
Leverage	-0.04 *(0.00)*	0.00 *(0.91)*	0.00 *(0.83)*	-0.02 *(0.10)*	0.03 *(0.03)*
Restructuring	0.06 *(0.00)*	0.04 *(0.00)*	0.06 *(0.00)*	0.07 *(0.00)*	0.09 *(0.00)*
WriteOff	0.02 *(0.22)*	0.00 *(0.72)*	0.01 *(0.48)*	0.02 *(0.11)*	0.05 *(0.00)*
ICWeakness	0.00 *(0.71)*	0.00 *(0.79)*	-0.02 *(0.13)*	0.01 *(0.65)*	-0.01 *(0.31)*
LitigRisk	0.05 *(0.00)*	0.10 *(0.00)*	0.05 *(0.00)*	0.13 *(0.00)*	0.07 *(0.00)*
Goodwill	0.06 *(0.00)*	0.06 *(0.00)*	0.00 *(0.77)*	0.06 *(0.00)*	0.07 *(0.00)*
AcqRet	0.01 *(0.55)*	0.02 *(0.23)*	-0.01 *(0.69)*	-0.01 *(0.31)*	0.00 *(0.71)*
ImpairPeer	0.04 *(0.00)*	0.02 *(0.20)*	-0.02 *(0.15)*	0.01 *(0.53)*	0.05 *(0.00)*
BigBath	0.00 *(0.94)*	0.01 *(0.26)*	-0.01 *(0.56)*	0.00 *(0.78)*	0.02 *(0.15)*
Downgrade†	-0.02 *(0.22)*	-0.02 *(0.09)*	0.01 *(0.33)*	-0.02 *(0.11)*	-0.02 *(0.13)*
Divest	0.08 *(0.00)*	0.08 *(0.00)*	0.05 *(0.00)*	0.05 *(0.00)*	0.05 *(0.00)*
Smoothing‡	0.11 *(0.00)*	0.01 *(0.83)*	-0.01 *(0.85)*	0.08 *(0.01)*	0.05 *(0.16)*

‡ This variable is only available for firm-years with goodwill impairment.
† This variable is only available for firm-years with analyst recommendations data.

Table 3: Executive Background and Goodwill Impairment Choice

This table reports marginal effects and *z*-statisics from a logistic regression estimation where the dependent variable is an indicator for goodwill impairments. The first (second) regression sample includes 6,236 (1,136) firm-year observations with data available from 2002 to 2009. The second regression only includes firms that employ executives with transaction expertise at some point in our sample period. Year fixed effects and an intercept are included in the regressions but untabulated. See Appendix A for variable definitions.

	Predicted Sign	Full Sample Marginal Effect	*z-Stat*	Employs Experts Marginal Effect	*z-Stat*
CEOExpert	+/-	0.008	*0.47*	0.019	*0.79*
CFOExpert	+/-	0.062 ***	*3.57*	0.097 ***	*4.53*
DirectorExpert	*?*	0.008	*0.89*	0.031	*1.46*
CEOMBA	*?*	0.007	*0.75*	0.003	*0.14*
CFOMBA	*?*	0.003	*0.34*	-0.035 *	*-1.75*
CEOTenure	-	-0.001	*-0.76*	-0.007 **	*-2.02*
CFOTenure	-	-0.001	*-0.95*	0.004	*0.80*
MgrAbility	*?*	-0.001	*-0.38*	0.001	*0.07*
ExecNetBuy	*?*	0.014 *	*1.77*	0.024	*1.08*
ROA	-	-0.049	*-0.96*	-0.073	*-0.68*
FY Return	-	-0.122 ***	*-9.24*	-0.123 ***	*-4.09*
Tobin's Q	-	-0.018 ***	*-3.40*	-0.012	*-0.91*
Book to Market	+	0.066 ***	*6.43*	0.085 *	*1.77*
Size	-	-0.011 ***	*-2.76*	-0.020 *	*-1.84*
LogSegments	-	0.028 ***	*3.40*	0.007	*0.37*
Delist	-	0.021 *	*1.77*	0.004	*0.12*
Leverage	*?*	-0.019	*-0.71*	0.013	*0.18*
Restructuring	+	0.025 ***	*2.87*	0.026	*1.20*
WriteOff	+	0.080 ***	*8.97*	0.081 ***	*3.41*
ICWeakness	+	0.014 ***	*3.29*	0.029 ***	*2.81*
LitigRisk	+	0.025 ***	*5.15*	0.044 ***	*3.75*
Goodwill	+	0.104 ***	*3.76*	0.174 **	*2.53*
AcqRet	-	-0.235 **	*-2.42*	-0.098	*-0.46*
ImpairPeer	+	0.863 ***	*2.71*	0.879	*1.11*
Pseudo R^2		0.219		0.232	

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively. Standard errors are clustered by firm.

Table 4: Executive Background, Goodwill Impairment and Monitoring

This table reports marginal effects (ME) and *z*-statistics from a logistic regression estimation where the dependent variable is an indicator for goodwill impairments. The first (second) set of columns excludes (includes) firm-year observations when there is a board member with transaction expertise. The third (forth) set of columns excludes (includes) firm-year observations when there is an analyst recommendation downgrade. Year fixed effects and intercept are included in the regressions but untabulated. See Appendix A for variable definitions.[2]

	No Expert Director		Expert Director		No Downgrade		Downgrade	
	ME	*z-Stat*	ME	*z-Stat*	ME	*z-Stat*	ME	*z-Stat*
CEOExpert	-0.028	*-1.15*	0.043 *	*1.81*	-0.011	*-0.53*	0.126 ***	*3.07*
CFOExpert	0.060 ***	*2.65*	0.076 ***	*3.09*	0.053 ***	*2.71*	0.103 **	*2.41*
DirectorExpert					0.005	*0.45*	0.029	*1.15*
CEOMBA	0.009	*0.86*	-0.001	*-0.07*	0.000	*-0.01*	0.018	*0.70*
CFOMBA	0.003	*0.29*	0.007	*0.42*	0.013	*1.37*	-0.031	*-1.16*
CEOTenure	0.000	*0.03*	-0.003 *	*-1.76*	-0.001	*-0.92*	-0.001	*-0.55*
CFOTenure	-0.002	*-1.35*	0.001	*0.38*	0.000	*-0.27*	-0.005	*-1.43*
MgrAbility	-0.002	*-0.54*	0.000	*0.05*	0.000	*-0.13*	-0.007	*-0.64*
ExecNetBuy	0.007	*0.73*	0.028 *	*1.72*	0.009	*0.95*	0.031	*1.08*
ROA	-0.087	*-1.44*	0.062	*0.76*	0.014	*0.25*	-0.268	*-1.52*
FY Return	-0.106 ***	*-7.48*	-0.157 ***	*-6.49*	-0.115 ***	*-7.62*	-0.198 ***	*-4.83*
Tobin's Q	-0.011 *	*-1.90*	-0.035 ***	*-3.62*	-0.021 ***	*-3.37*	-0.018 *	*-1.89*
Book to Market	0.078 ***	*7.03*	0.043 ***	*2.70*	0.079 ***	*6.71*	0.032 *	*1.73*
Size	-0.005	*-1.13*	-0.020 ***	*-2.65*	-0.010 **	*-2.08*	-0.002	*-0.15*
LogSegments	0.026 **	*2.52*	0.029 **	*2.23*	0.024 ***	*2.59*	0.027	*1.30*
Delist	0.034 **	*2.48*	0.000	*0.02*	0.025 *	*1.93*	0.004	*0.12*
Leverage	-0.007	*-0.24*	-0.064	*-1.32*	-0.020	*-0.69*	0.034	*0.42*
Restructuring	0.025 **	*2.46*	0.024	*1.59*	0.024 **	*2.53*	0.016	*0.57*
WriteOff	0.090 ***	*8.78*	0.058 ***	*3.63*	0.078 ***	*7.76*	0.070 ***	*2.64*
ICWeakness	0.014 ***	*3.20*	0.014	*1.24*	0.014 ***	*2.77*	0.017 **	*2.10*
LitigRisk	0.020 ***	*3.62*	0.033 ***	*3.58*	0.021 ***	*3.80*	0.023	*1.58*
Goodwill	0.111 ***	*3.24*	0.084 *	*1.80*	0.088 ***	*2.99*	0.135	*1.57*
AcqRet	-0.193	*-1.58*	-0.316 **	*-1.97*	-0.174	*-1.61*	-0.374	*-1.27*
ImpairPeer	0.464	*1.33*	1.713 ***	*2.72*	0.924 ***	*2.77*	0.744	*0.73*
N	4,281		1,955		4,828		688	
Pseudo R^2	0.238		0.211		0.216		0.302	

Chi-Square	[No Expert Director]*Variable* – [Expert Director] *Variable*= 0	[No Downgrade] *Variable* – [Downgrade] *Variable*= 0
CEOExpert	4.91 **	9.13 ***
CFOExpert	0.04	0.74

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively. Standard errors are clustered by firm.

Table 5: Executive Background, Goodwill Impairment and Career Concerns

This table reports marginal effects (ME) and *z*-statistics from a logistic regression estimation where the dependent variable is an indicator for goodwill impairment. The sample includes 6,236 firm-year observations with data available from 2002 to 2009. The second and third sets of columns report marginal effects for Model (1) run separately for firm-years where (i) either pre-impairment earnings or change thereof are positive and (ii) neither pre-impairment earnings nor change thereof are positive. For succinctness, year fixed effects and intercept are included in the regressions but untabulated. See Appendix A for variable definitions.

	First Year of Employment		Big Bath		No Big Bath	
	ME	*z-Stat*	ME	*z-Stat*	ME	*z-Stat*
CEO FY	0.013	*0.96*				
CFO FY	0.026 **	*2.14*				
CEOExpert FY	0.075 **	*2.07*				
CFOExpert FY	-0.085 **	*-2.34*				
CEOExpert	-0.008	*-0.40*	0.130 *	*1.81*	-0.004	*-0.23*
CFOExpert	0.080 ***	*3.94*	0.059	*1.02*	0.051 ***	*3.18*
DirectorExpert	0.009	*0.91*	0.010	*0.34*	0.006	*0.67*
CEOMBA	0.006	*0.58*	0.040	*1.29*	-0.001	*-0.08*
CFOMBA	0.001	*0.13*	-0.002	*-0.05*	0.003	*0.34*
CEOTenure	0.000	*-0.41*	0.001	*0.38*	0.000	*-0.65*
CFOTenure	0.000	*-0.32*	-0.003	*-0.71*	0.000	*-0.37*
MgrAbility	-0.001	*-0.23*	0.008	*0.73*	0.000	*0.09*
ExecNetBuy	0.014 *	*1.75*	0.009	*0.35*	0.006	*0.74*
ROA	-0.049	*-0.95*	0.079	*0.44*	0.035	*0.65*
FY Return	-0.119 ***	*-9.07*	-0.234 ***	*-5.41*	-0.035 ***	*-4.00*
Tobin's Q	-0.019 ***	*-3.49*	-0.039 **	*-2.08*	-0.014 ***	*-3.19*
Book to Market	0.067 ***	*6.50*	0.053 **	*2.23*	0.034 ***	*4.03*
Size	-0.010 **	*-2.46*	0.003	*0.24*	-0.003	*-0.88*
LogSegments	0.027 ***	*3.32*	0.047 **	*2.11*	0.023 ***	*3.01*
Delist	0.021 *	*1.79*	0.073 **	*2.03*	0.007	*0.70*
Leverage	-0.021	*-0.80*	0.071	*0.88*	-0.027	*-1.13*
Restructuring	0.024 ***	*2.73*	0.008	*0.27*	0.007	*0.90*
WriteOff	0.079 ***	*8.88*	0.084 ***	*3.09*	0.058 ***	*7.38*
ICWeakness	0.014 ***	*3.14*	0.021	*1.52*	0.008 **	*1.99*
LitigRisk	0.024 ***	*4.92*	0.027 *	*1.85*	0.012 **	*2.45*
Goodwill	0.103 ***	*3.75*	0.570 ***	*6.40*	0.029	*1.12*
AcqRet	-0.239 **	*-2.45*	-0.304	*-0.94*	-0.211 **	*-2.26*
ImpairPeer	0.872 ***	*2.74*	3.783 ***	*3.32*	0.349	*1.17*
N	6,236		1,034		5,202	
Pseudo R^2	0.222		0.230		0.122	

Chi-Square	*CEO(CFO)Expert_FY– CEO(CFO)_FY* = 0		[Big Bath]*Variable* – [No Big Bath] *Variable*= 0
CEO	2.16	*CEOExpert*	3.02 *
CFO	7.27 ***	*CFOExpert*	1.54

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively. Standard errors are clustered by firm.

Table 6: Executive Background and Incremental Value Relevance of Goodwill Impairment

This table reports results for the analysis of the incremental predictive ability (value relevance) of goodwill impairment for future operating performance (current stock price). Future operating performance is measured either as aggregate cash flow from operations (CFO), free cash flow (FCF) or EBITDA over the next two years. Industry-specific regressions of future operating performance on current assets and net income are used to measure expected performance and compare it to actual realizations. *GWImprov* is the difference between absolute forecast errors with and without taking goodwill impairment into account as a predictor, and *_CFO*, *_FCF* and *_EBITDA* indicate which operating performance measured is predicted. To measure incremental value relevance, year-specific regressions of stock prices on book value of equity and net income are ran separately for firms with and without executives with prior transaction experience. *GWImprov_ValRev* is the difference between adjusted R^2 with and without taking goodwill impairment into account as a predictor. Panel A reports univariate comparisons of *GWImprov* for firm-years with (i) a CEO with prior transaction experience, (ii) a CFO with prior transaction experience and (iii) no executive with prior transaction experience. Panel B reports regression results where *GWImprov_CFO, GWImprov_FCF* and *GWImprov_EBITDA* are the dependent variables in the first, second and third sets of columns.

Panel A: Univariate Results

	CEO Expert (1)	*T*- or *Z*-Stat (1)–(2)	*No Executive Expert* (2)	*T*- or *Z*-Stat (3)–(2)	*CFO Expert* (3)
Means					
GWImprov_CFO	0.42	*2.13***	0.11	*2.43***	0.47
GWImprov_FCF	0.36	*1.20*	0.12	*1.89**	0.49
GWImprov_EBITDA	0.36	*1.62*	0.07	*2.70****	0.61
GWImprov ValRev	3.34	*1.29*	1.34	*2.56***	5.80
Medians					
GWImprov_CFO	0.02	*-0.05*	0.02	*2.38***	0.25
GWImprov_FCF	-0.00	*0.37*	-0.00	*2.59****	0.12
GWImprov_EBITDA	-0.01	*-0.78*	0.02	*1.56*	0.16
GWImprov ValRev	1.75	*0.97*	0.73	*1.94**	3.89

Panel B: Regression Results

	GWImprov_CFO		*GWImprov_FCF*		*GWImprov_EBITDA*	
	Coefficient	*t-statistic*	Coefficient	*t-statistic*	Coefficient	*t-statistic*
Intercept	0.08	*0.28*	0.24	*0.33*	0.26	*0.47*
CEOExpert	0.16	*0.94*	0.42	*1.42*	0.11	*0.51*
CFOExpert	0.32**	*2.16*	0.55**	*2.53*	0.51**	*2.39*
CEOMBA	-0.01	*-0.08*	-0.51**	*-2.30*	0.04	*0.41*
CFOMBA	-0.15	*-1.63*	-0.15	*-0.68*	-0.16	*-1.50*
CEOTenure	0.00	*0.38*	-0.02	*-1.12*	0.00	*0.35*
CFOTenure	0.01	*0.52*	0.03	*1.17*	0.01	*0.98*
MgrAbility	0.02	*0.55*	0.09	*1.12*	0.00	*0.08*
Director Expert	0.02	*0.30*	-0.26	*-1.15*	0.01	*0.09*
Goodwill	0.32	*1.22*	0.36	*0.38*	0.13	*0.38*
ROA	-0.02**	*-2.44*	0.58	*0.61*	-0.02**	*-2.49*
Size	-0.00	*-0.18*	-0.06	*-0.76*	0.01	*0.36*
Book-to-Market	-0.25*	*-1.97*	0.25	*0.94*	-0.23	*-1.47*
Fixed Effects	Industry & Year		Industry & Year		Industry & Year	
Adj. R^2	2.19%		1.69%		1.63%	

***,**,* indicate significance at the 0.01, 0.05 and 0.10 two-tailed level, respectively. Standard errors are clustered by firm.

Table 7: Goodwill Impairment Amounts and Income Smoothing

This table reports results from the joint estimation of the decision to take a goodwill impairment (first set of columns probit model) and the amount of goodwill actually written off (second set of columns censored regression). The third set of column reports results from the second-stage estimation of the likelihood that goodwill impairment is reported to smooth earnings. For succinctness, year fixed effects and intercept and second-stage inverse Mills ratios are included in the regressions but untabulated. See Appendix A for variable definitions.

	Probit		Censored Regression Impairment Value		Censored Regression Earnings Smoothing	
	Marginal Effect	*z-Stat*	Coefficient	*z-Stat*	Marginal Effect	*z-Stat*
CEOExpert	0.011	*0.71*	0.002	*0.19*	0.086 ***	*3.10*
CFOExpert	0.061 ***	*3.92*	-0.019 *	*-1.90*	-0.020	*-0.60*
DirectorExpert	0.008	*1.01*	0.003	*0.59*	0.007	*0.47*
CEOMBA	0.007	*0.84*	0.007 *	*1.66*	-0.015	*-1.05*
CFOMBA	0.003	*0.39*	-0.003	*-0.80*	0.039 ***	*2.73*
CEOTenure	-0.001	*-0.85*	0.001 *	*1.84*	-0.002	*-1.48*
CFOTenure	-0.001	*-0.97*	-0.001 *	*-1.67*	-0.004 **	*-2.14*
MgrAbility	-0.001	*-0.30*	-0.001	*-0.68*	0.004	*0.64*
ExecNetBuy	0.018 **	*2.14*	0.009 **	*2.00*	-0.023	*-1.62*
ROA	-0.063	*-1.50*	-0.030	*-1.17*	0.031	*0.36*
FY Return	-0.108 ***	*-12.29*	-0.008	*-0.70*	0.012	*0.33*
Tobin's Q	-0.016 ***	*-4.04*	0.006 *	*1.90*	-0.005	*-0.49*
Book to Market	0.067 ***	*8.63*	0.007	*1.34*	-0.001	*-0.09*
Size	-0.013 ***	*-3.55*	-0.010 ***	*-4.40*	-0.008	*-1.12*
LogSegments	0.027 ***	*4.36*	-0.014 ***	*-3.31*	0.003	*0.18*
Delist	0.018 *	*1.81*	0.005	*0.88*	-0.001	*-0.04*
Leverage	-0.012	*-0.52*	-0.008	*-0.69*	0.046	*1.16*
Restructuring	0.027 ***	*3.27*	0.008	*1.53*	0.007	*0.41*
WriteOff	0.083 ***	*9.66*	-0.007	*-0.74*	0.016	*0.53*
ICWeakness	0.015 ***	*3.43*	-0.001	*-0.68*	-0.001	*-0.13*
LitigRisk	0.024 ***	*5.33*	0.010 ***	*2.94*	-0.003	*-0.28*
Goodwill	0.105 ***	*4.20*	0.179 ***	*10.35*	-0.041	*-0.71*
AcqRet	-0.233 **	*-2.46*	0.006	*0.10*	-0.322 *	*-1.68*
ImpairPeer	0.941 ***	*3.02*	0.179	*1.12*	0.312	*0.59*
Divest	0.011	*1.15*				
N / Uncensored N	6,236		826		826	
Pseudo R^2/Wald Chi^2	0.216		344.68		51.87	

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.