

**Accounting Integration and Comparability:
Evidence from Relative Performance Evaluation around IFRS Adoption^{*}**

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Abstract

We study a sample of Continental European firms for changes in the sensitivity of their CEO turnover to their *foreign* peers' accounting performance around the mandatory adoption of International Financial Reporting Standards (IFRS). We find a post-adoption increase in the use of Relative Performance Evaluation (RPE) based on foreign peers' accounting information, consistent with greater financial reporting comparability associated with mandatory IFRS adoption. The results also point to stewardship roles played by IFRS earnings. Our findings cannot be explained by changes in foreign ownership or changes in foreign operations around mandatory IFRS adoption. Furthermore, we find stronger results for firms in more competitive industries and when peers are from highly correlated economies, consistent with the economic theory of RPE.

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1. Introduction

We investigate the effect of mandatory IFRS adoption on financial reporting comparability and the resulting implications for corporate governance. Specifically, for a sample of Continental European firms we study their use of foreign peers' accounting performance for CEO performance evaluation around mandatory IFRS adoption. When accounting earnings reflect similar economic shocks in a similar fashion, i.e., when they are more comparable, they can more effectively filter out common shocks in CEO performance and serve as a more useful tool for relative performance evaluation (RPE). Therefore, evidence of greater use of RPE based on IFRS earnings post-IFRS adoption is consistent with improvements in accounting comparability as well as the stewardship role of IFRS earnings in CEO performance evaluation.

Standard setters define comparability as “the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena” (IASB, 2008; FASB, 2008). Comparability has long been recognized as an important qualitative characteristic of financial reporting that enhances the usefulness of accounting information. Issues related to comparability are of increasing interest to accounting researchers, practitioners, and regulators in recent years because of the widespread adoption of IFRS around the world. One of the often-stated goals of adopting IFRS is to improve comparability of accounting information across countries, thereby allowing financial statement users to better analyze and understand accounting information and make better decisions. As an example of such expectations, credit ratings agency Standard and Poor's predicts that “(g)lobal accounting and disclosure standards will be of great value to our analysts, by improving data consistency and enabling enhanced global peer

comparisons.”² At the same time, many recognize that financial reporting attributes, including comparability, are not solely a function of accounting standards. Institutional factors, such as capital market characteristics, government involvement, the litigation environment, and the development of the accounting profession affect how standards are applied and enforced and ultimately the accounting outcome (e.g., Ball et al., 2003, Ball, 2006). Consistent with this, there is evidence of large variations in the application and enforcement of IFRS (e.g., Ernst & Young, 2006; KPMG, 2006).

The literature has not reached a consensus on whether mandatory IFRS adoption enhances financial reporting comparability.³ For example, DeFond et al. (2010) analyze mandatory IFRS adoption in the European Union (EU) and find that foreign mutual fund ownership increases post-adoption for firms that experience large increases in accounting comparability with other firms in the same industry. They conclude that mandatory IFRS adoption improves accounting comparability for these firms from foreign investors’ perspective. On the other hand, Lang et al. (2010) study 21 countries that mandate IFRS and conclude that while cross-country earnings comovement has increased, earnings comparability (derived from earnings and stock returns relations) does not improve for IFRS adopters relative to a control group of non-IFRS adopters.

In this paper we infer changes in financial reporting comparability through changes in the behavior of financial statement users related to RPE. Agency theory predicts the use of RPE in incentive contracts when agents face common uncertainties because peer performance can be

² In Standard and Poor’s comment letter on the SEC’s “*Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in accordance with International Financial Reporting Standards*” (August 7, 2007).

³ Our main focus is on mandatory IFRS adoption, which has more direct implications for cross-country accounting comparability and is less affected by the self-selection inherent in voluntary adoption decisions. We analyze voluntary IFRS adoption in a supplemental test later in the paper.

used to filter out common shocks and extract information about agents' effort (Holmstrom, 1982). Albuquerque (2009) shows that the use of RPE increases among firms that share commonalities in their exposure to and in their ability to respond to economic shocks. We focus on the use of accounting measures in RPE and argue that greater accounting comparability facilitates accounting-based RPE. This is because when accounting earnings reflect similar economic shocks in a similar fashion, they are more effective at filtering out common shocks. Thus, *ceteris paribus*, as accounting information becomes more comparable, we expect an increase in the use of RPE based on accounting performance measures.

We focus on Continental European countries instead of all countries that mandate IFRS because of the greater political and economic integration within the Continental European region (e.g. Adjaouté and Danthine, 2004). Continental European firms are more likely to face common economic shocks, making RPE a more attractive incentive tool. Furthermore, Continental Europe likely represents a powerful setting for testing our predictions as prior research typically finds stronger mandatory IFRS adoption effects for European firms.⁴ We use CEO turnover as a proxy for the outcome of CEO performance evaluation and examine changes in its relation to foreign peer performance from pre- to post-mandatory IFRS adoption in 2005, after controlling for a firm's own performance.⁵ We predict increased use of accounting-based RPE relative to foreign peers post-2005, where foreign peers are those from the same industry but different Continental European countries. In order to control for potential changes in the underlying

⁴ For example, researchers have documented greater improvements in stock liquidity (Daske et al, 2008) and larger increases in foreign institutional ownership (Florou and Pope, 2009). Better enforcement in the region due to the recent corporate governance and financial reporting reforms is often credited for such findings. (Enriques and Volpin, 2007; Daske et al., 2008; and Florou and Pope, 2009).

⁵ The lack of comprehensive CEO compensation data for Continental Europe necessitates the use of CEO turnover as a proxy. However, CEO turnover, as an important outcome of CEO performance evaluation, is significant in its own right. Prior research has studied CEO turnover in the context of managerial performance evaluation (e.g., Warner et al., 1988 and Murphy and Zimmerman, 1993) and in the setting of RPE (e.g., DeFond and Park, 1999).

economics and to better isolate the effects of IFRS adoption we include stock performance along with accounting performance in the analysis.

We find that, as expected, CEO turnover is negatively related to a firm's *own* accounting and stock performance. In order to assess the effect of IFRS adoption on accounting-based RPE, we compare the pre-2005 sensitivity of CEO turnover to *foreign peers'* accounting performance based on *domestic accounting standards (DAS)* to the post-2005 sensitivity of CEO turnover to *foreign peers'* accounting performance based on *IFRS*.⁶ We find no accounting-based RPE pre-2005 when foreign peers' accounting earnings were reported under DAS but significant evidence of accounting-based RPE relative to foreign peers post-2005. This result is consistent with greater financial reporting comparability with foreign peers post-IFRS adoption. This finding may also have resulted from higher financial reporting quality in general and thus less noisy peer performance measures under IFRS. However, we find a *decrease* in accounting based-RPE relative to *local peers* post-IFRS adoption, suggesting improvements in cross-country accounting comparability is more likely to be responsible for the earlier finding than a general increase in financial reporting quality under IFRS. We conduct a number of sensitivity tests and find no evidence that our results are due to the effect of a time trend or changing sample compositions or caused by changes in our sample firms' foreign ownership or foreign operations around mandatory IFRS adoption.

We next investigate if variations in our results are consistent with the economic theory of RPE. We consider factors affecting the use of RPE relative to foreign peers, such as industry competition, the relatedness of different countries' economies, and the size of a firm's local peer group relative to its pool of foreign peers (a measure of potential post-adoption improvement in

⁶ Appendix A summarizes the different potential peer groups for our sample firms.

accounting comparability developed in DeFond et al., 2010). RPE can be more useful in a more competitive industry because firms likely face common uncertainties and individual firms' actions are unlikely to affect other firms' performance, an important condition underlying the theory of RPE (Holmstrom, 1982; DeFond and Park 1999). Consistent with expectations, we find that firms from highly competitive industries make use of accounting-based RPE post-2005 and there is little evidence of RPE in industries with relatively low competitiveness. Furthermore, RPE is a meaningful incentive tool only when firms face common economic shocks. This condition is especially relevant in our setting as we consider peers from different countries. We find that firms make use of accounting-based RPE post-2005 relative to foreign peers from highly correlated economies and there is little evidence of RPE relative to peers from low correlation countries. Another factor that can affect the attractiveness of foreign peers for RPE is the size of the local peer group. The existence of a large number of local peers that face similar economic shocks and use the same accounting standards reduces the need for benchmarking against foreign peers. We find that firms with a large pool of local peers use their local peers' accounting performance for RPE both before and after 2005, while there is no evidence of these firms benchmarking against foreign peers in either period. For firms with a small pool of local peers, however, we find no evidence of accounting-based RPE pre-2005 relative to either local or foreign peers. After 2005, these firms turn to foreign peers for accounting-based RPE under IFRS, suggesting that IFRS adoption likely reduced the barrier to using foreign peers' accounting performance as benchmarks for RPE.

We make several contributions to the literature. First, we inform the debate on whether mandatory IFRS adoption is associated with enhanced financial reporting comparability. Prior research makes inferences based on earnings properties/earnings-returns relations (Lang et al.,

2010) and foreign investors' asset allocation decisions (DeFond et al., 2010) and sometimes reaches contradicting conclusions. We adopt a different methodology, one that relies on the role of comparability in accounting-based RPE, and provide fresh evidence on this important issue.

We also expand the understanding of the economic consequences of mandatory IFRS adoption. Existing studies document significant capital market effects from the mandatory adoption. However, so far little evidence exists on the role of IFRS earnings in contracting, especially management contracting. It is important to fill this void in the literature. By documenting the contracting demands on IFRS earnings we hope to foster better understanding of the properties of IFRS information and to inform the standard setting process by bringing attention to potential users of IFRS information beyond the capital market participants.

Finally, although agency theory predicts the use of RPE in CEO compensation (e.g., Holmstrom, 1982), the empirical evidence on RPE has been inconsistent and that on accounting-based RPE is especially weak (see Albuquerque, 2009, Table 1 for a summary). We provide supporting evidence for the role of RPE in CEO performance evaluation. Our findings also highlight the importance of accounting earnings in RPE and in management compensation in general. Finally, we add to this literature by providing evidence on RPE with foreign peers as benchmarks, an increasingly important phenomenon with global economic integration and accounting convergence.

The rest of the paper is organized as follows. Section 2 discusses related studies. Hypothesis development is in Section 3. We describe our methodology in Section 4 and present the results in Section 5. Section 6 concludes.

2. Related Studies

Accounting comparability has long been recognized as a key ingredient of informative financial reporting. Recent work by De Franco et al. (2009) documents important benefits of financial statement comparability through improvements in information quantity and quality and lower information acquisition costs. Greater accounting comparability likely contributes to more efficient capital market resource allocation and more effective performance evaluation for managers. The mandatory adoption of IFRS in the EU and other parts of the world brings added importance to the issue of cross-country accounting comparability. Measuring comparability, however, is inherently challenging. As the standard setters point out, “(f)or information to be comparable, like things must look alike and different things must look different. An overemphasis on uniformity may reduce comparability by making unlike things look alike” (IASB, 2008; FASB, 2008). Therefore, an assessment of accounting comparability should take into consideration the nature of the underlying economic phenomena. This suggests that comparability measures based exclusively on earnings properties (e.g., earnings comovement) have limitations. Recognizing this, prior research incorporates stock returns and their relations with accounting earnings to capture the underlying economic phenomena (De Franco et al. 2009; Lang et al., 2010). Such a procedure can still be noisy though because it relies on the strong assumption that the same stock return reflects the same underlying economic events (De Franco et al., 2009, page 6).

The effect of mandatory IFRS adoption on financial reporting comparability is the focus of several recent studies. Lang et al. (2010), following the methodology in De Franco et al. (2009), document increases in earnings comovement but not in accounting comparability (derived from earnings-returns relations) subsequent to IFRS adoption. They further argue that

greater uniformity from IFRS adoption may have in fact reduced the usefulness of accounting information. On the other hand, DeFond et al. (2010) study changes in foreign mutual fund ownership in the EU following mandatory IFRS adoption and document significant increases in mutual fund ownership for firms experiencing large increases in accounting comparability subsequent to the adoption. A recent study by Barth et al. (2010) also suggests that foreign firms' accounting information is more comparable to that of U.S. companies after mandatory IFRS adoption.

Other studies of the economic consequences of mandatory IFRS adoption offer evidence related to accounting comparability although comparability is not their central research question. Daske et al. (2008) document positive externalities for voluntary IFRS adopters in stock liquidity, cost of capital, and firm valuation after mandatory IFRS adoption. However, they are not able to attribute these findings to a comparability effect. Beneish et al. (2009) investigate changes in debt and equity market home bias after mandatory IFRS adoption and find a decrease in investor home bias only for the debt markets. They further document that non-adopting countries' investors increase their debt investment in the adopting countries to a similar degree as investors from adopting countries and argue that accounting comparability, which is likely greater when both the investor and investee are from IFRS adopting countries, cannot explain their findings. On the other hand, Li (2009) documents lower cost of equity for EU firms after mandatory IFRS adoption and argues that both increased disclosure (the number of additional disclosures required by IFRS relative to DAS) and improvements in comparability (based on the number of inconsistencies between IFRS and DAS) contribute to her findings. Yu (2010) analyzes changes in international portfolio holdings after mandatory IFRS adoption and concludes that accounting harmonization is associated with increased foreign holdings.

Armstrong et al. (2010) study market reactions to key events leading to EU's decision to adopt IFRS and find positive market reactions for firms with high quality *pre-adoption* financial reporting, suggesting these firms benefit from greater expected accounting convergence and comparability. We contribute to the literature by offering fresh evidence related accounting comparability associated with IFRS adoptions from the perspective of relative performance evaluation.

Our analysis also highlights the stewardship role of IFRS earnings. The research on the economic consequences of mandatory IFRS adoption has focused almost exclusively on the capital market effects, for example, Daske et al. (2008) on stock liquidity, cost of capital, and firm value, Horton et al. (2008) on analyst forecast properties, and Florou and Pope (2009), DeFond et al. (2010), and Yu (2010) on investor asset allocation decisions. Christensen et al. (2009) is the only other study we are aware of that investigates the contracting role of IFRS earnings after mandatory IFRS adoption, although their focus is on debt contracts.

3. Hypothesis Development

Agency theory predicts the use of RPE in CEO performance evaluation (Holmstrom, 1982). An important condition underlying such a prediction is that CEOs' performance is affected by common economic shocks. For accounting earnings to serve a meaningful role in RPE, peer firms' earnings should reflect similar economic shocks in a similar fashion, i.e., they should be comparable. We expect that, *ceteris paribus*, higher financial reporting comparability is associated with greater use of accounting-based RPE.

Prior studies have voiced concerns about the effectiveness of mandated accounting standard changes that do not alter financial statement preparers' incentives (e.g., Ball et al., 2003; Ball, 2006). Spotty and uneven enforcement of IFRS has also been noted for mandatory

IFRS adopters, including those from the EU (e.g., Ernst & Young, 2006). On the other hand, there are reasons to believe that mandatory IFRS adoption in Continental Europe is not merely “window dressing.” A growing body of empirical evidence suggests mandatory IFRS adoption, especially in the EU, has produced positive economic consequences (e.g., Daske et al., 2008; Horton et al., 2008; Li, 2009; DeFond et al., 2010; and Yu, 2010). Tightened enforcement around the time of the adoption is often credited for the real economic changes experienced by European firms. We expect financial reporting comparability to improve in Continental Europe subsequent to mandatory IFRS adoption and predict greater use of accounting-based RPE post-adoption.⁷ Specifically, we compare changes in accounting-based RPE relative to foreign peers (firms from the same industry but different countries) from pre- to post-adoption. Foreign peers use their individual countries’ domestic accounting standards (DAS) pre-adoption and switch to IFRS subsequently. We use CEO turnover to proxy for the outcome of CEO performance evaluation. Since turnover is generally associated with poor performance, the standard RPE prediction of a *negative* relation between CEO compensation and peer performance translates into a *positive* relation between CEO turnover and peer performance (e.g., Blackwell et al., 1994). We have the following predictions:

Hypothesis 1a: *CEO turnover is positively associated with foreign peers’ accounting performance post-2005.*

Hypothesis 1b: *CEO turnover is more positively associated with foreign peers’ accounting performance post-2005 than pre-2005.*

⁷ We find that some Continental European firms start referencing peers from other Continental European countries for executive compensation post-IFRS adoption. For example, Royal DSM N.V., a chemical company headquartered in the Netherlands, has ten firms in its labor market peer group in 2004, all from the Netherlands. In 2008, there are 12 firms in its peer group, eight from the Netherlands and four foreign Continental European firms from France, Belgium, and Switzerland. While most Continental European firms do not disclose peer information before 2005, preventing us from conducting a large sample analysis, there is anecdotal evidence consistent with our prediction.

DeFond and Park (1999) posit that RPE is more likely to occur in highly competitive industries because these firms tend to face common uncertainties and individual firms' actions are unlikely to affect other firms' performance, an important condition underlying the theory of RPE (Holmstrom, 1982). Therefore, we expect greater accounting-based RPE in highly competitive industries post-2005.

Hypothesis 2: *Post-2005, firms in highly competitive industries make greater use of accounting-based RPE relative to foreign peers than firms from less competitive industries.*

An important condition underlying RPE is that firms face common economic shocks. Even though our sample consists exclusively of Continental European countries, cross-country correlation in economic activities can still vary a great deal and affect how effectively firms in one country can serve as RPE benchmarks for those in another country. We expect firms from countries that experience similar economic shocks to be more relevant peers for the purpose of RPE. We measure the extent of economic similarity with the correlation of daily stock market returns for each country-pair and year and expect greater accounting-based RPE relative to foreign peers from highly correlated countries post-2005.

Hypothesis 3: *Post-2005, firms make greater use of accounting-based RPE relative to foreign peers from highly correlated countries than foreign peers from low correlation countries.*

The size of the local peer group can potentially affect the desirability of foreign peers for RPE. Because peers from the same country likely share greater commonality in their exposure to shocks than peers from different countries, the existence of a large number of local peers reduces the need to benchmark against foreign peers. The size of the local peer group matters because when the pool of peers is larger, it is more likely to find comparable firms. Also, when there are few firms competing in the market, RPE may discourage collaboration and become costly. Therefore, the firms potentially benefiting the most from mandatory IFRS adoption and

increased cross-country accounting comparability are those with a relatively small group of local peers. DeFond et al. (2010) make a similar argument in their analysis of foreign mutual fund ownership in EU firms around mandatory IFRS adoption.

***Hypothesis 4:** The post-2005 increase in accounting-based RPE relative to foreign peers is concentrated in the sample of firms that have small pools of local peers.*

4. Methodology

4.1. Sample Selection

We obtain financial data of Continental European firms from Worldscope and their stock price data from Datastream. Company officer names are collected from the January edition of Worldscope CD-ROMs for 1993-2006 and from Bureau Van Dijk's ORBIS database for 2007-2009 after the Worldscope data were discontinued in 2006. Companies from Worldscope and Bureau Van Dijk's ORBIS database are matched on name and SEDOL number. As discussed in DeFond and Hung (2004), top executive titles vary by country. We follow their procedure and collect the names of the officers under the titles of Chief Executive Officer, Chief Executive, CEO, or a country-specific title, and collectively refer to these top officers as CEOs.⁸ When there are multiple individuals with CEO-like titles in a firm-year, we retain the name of the first individual reported by Worldscope or Bureau Van Dijk. After identifying the CEO for each company in each year, we compare the CEO names between successive years to determine if there is a CEO turnover in a particular firm-year.

We classify firms into those following IFRS/U.S.GAAP accounting standards and those following domestic accounting standards based on the information provided by Worldscope prior

⁸ DeFond and Hung (2004) provide country specific top executive titles in their Table 1, for example, "managing director" in Belgium, Denmark, Finland, and Italy; "president" in Sweden; and "chairman, board of management" in Austria, Germany, and Netherlands. We exclude all titles involving the term "supervisory board" because it is distinct from the "management board" under the two-tier board structure observed in countries such as Austria, Germany, and Netherlands.

to 2005.⁹ All firms are considered reporting under IFRS post-2005. Firms that did not adopt IFRS/U.S. GAAP until the mandatory IFRS adoption year are classified as mandatory adopters. All firm years before and after the mandatory adoption are included in the mandatory adoption sample. The adoption year itself is excluded to avoid contamination.¹⁰

Following prior literature (e.g., Antle and Smith, 1986), peer firms are defined as those from the same 2-digit SIC industry.¹¹ The potential pool of peers is thus the entire population of Continental European firms from the same industry. We construct different peer groups based on location and the accounting standards followed by the peers (Appendix A provides a summary). A firm is considered a local peer if it is in the same country and same industry as the sample firm (*LclPeer*). Foreign peers are identified as those from a country different than the sample firm but in the same 2-digit SIC industry (*FrgnPeer*). We further partition local and foreign peers based on accounting standards followed---either domestic accounting standards (DAS) or IFRS.¹² Before the mandatory IFRS adoption in 2005, each observation in the sample potentially has four peer groups: local DAS peers (*LclPeers_DAS*), foreign DAS peers (*FrgnPeers_DAS*), local IFRS peers (*LclPeers_IFRS*), and foreign IFRS peers

⁹ The coding is based on information in Worldscope field 07536, *Accounting standards followed*. Following the procedure in Daske et al. (2007), if the Worldscope description is 'IFRS', 'International standards', 'International standards and some EEC guidelines', 'Local standards with EEC and IASC guidelines', 'Local standards with OECD and IASC guidelines', 'Local standards with some IASC guidelines', we classify the observation as using IFRS; if the Worldscope description is 'US standards (GAAP)' or 'US GAAP reclassified from local standards', we classify the observation as using U.S. GAAP. Finally, all other cases, except when the applicable accounting standards are not disclosed, are classified as using local accounting standards.

¹⁰ Voluntary IFRS/U.S. GAAP adopters are excluded from the mandatory adoption sample but are included in the construction of peer groups (see discussion below). We analyze voluntary IFRS adoption in a supplemental test later in the paper.

¹¹ We do not form industry-size peer groups as in Albuquerque (2009) because imposing the additional peer size requirement significantly reduces the sample. The average firm sizes also vary substantially cross countries, complicating peer size matches. However, we obtain qualitatively similar results, albeit with a smaller sample, if peer firms are matched with the sample firms based on both industry classification and size, where peer size is required to be within - 50% and +100% of the sample firm's size.

¹² We also include firms reporting under U.S. GAAP before 2005 in the IFRS peer group since both IFRS (and earlier, IAS) and U.S. GAAP are considered internationally recognized standards. For the entire population of Continental European firms, 725 observations, or 1.98%, report under U.S. GAAP.

(*FrgnPeers_IFRS*). Among them we focus on local and foreign DAS peers.¹³ Post-2005 there are only IFRS peers due to the mandatory adoption (*LclPeers_IFRS* and *FrgnPeers_IFRS*). Some firms in our sample do not have all possible peer groups. To fully utilize the data, each of our subsequent regressions uses all observations with data available for that regression. Thus the sample size varies across regressions. Conducting the tests using a constant sample does not change the tenor of our results.

Table 1 reports our sample distribution and CEO turnover rates.¹⁴ Panel A presents the time-series distribution of the mandatory adoption sample by year. The number of observations increases during our sample period of 1993 to 2008. Panel B reports the distribution by country. France (27.52%) and Germany (15.59%) have the largest representation. Panel B also shows that CEO turnover rate varies across countries with Norway exhibiting the highest turnover (20.78%). Although our sample period is different from that of DeFond and Hung (2004), the turnover rates are roughly comparable to those reported in their Table 2 with the exception of Portugal and Spain.¹⁵ In order to control for potential country, year, and industry effects, all regressions include country, year, and industry dummies as control variables.

[Insert Table 1 here]

4.2. *Research design*

We use CEO turnover as a proxy for the outcome of CEO performance evaluation and relate it to a firm's own and its peers' accounting as well as stock performance. Prior studies

¹³ The pre-2005 local and foreign IFRS peers are voluntary adopters and are likely different from the mandatory adopters along many dimensions as reflected by their voluntary adoption decision. These peer groups are not included in the main analysis. Including them does not affect the main inferences as discussed later in the paper.

¹⁴ As discussed before, the sample size varies across regressions. We report the sample distribution and descriptive statistics based on the largest sample.

¹⁵ DeFond and Hung (2004) find a 4% CEO turnover for 27 observations from Portugal and a 15% turnover for 179 observations from Spain; while we find a 9.29% turnover rate for 269 Portuguese observations and a 9.56% rate for 544 Spanish observations.

show that both accounting earnings and stock returns affect management turnover (see, for example, Kaplan, 1994; Franks and Mayer, 2001; and Volpin, 2002, for international evidence). Including stock performance along with accounting performance also helps disentangle the effect of mandatory IFRS adoption from other potential forces (e.g., changing underlying economics) on RPE usage. We analyze RPE using CEO turnover data around mandatory IFRS adoption with model (1) below (firm subscripts are suppressed).

$$\begin{aligned}
 \text{Prob} [CEO_Turnover_t = 1] = & \text{Logit} (a_0 + a_1 Size_{t-1} + a_2 Leverage_{t-1} + a_3 BTM_{t-1} + a_4 Pre_ROA_{t-1} \\
 & + a_5 Pre_RET_{t-1} + a_6 Post_ROA_{t-1} + a_7 Post_RET_{t-1} + a_8 Pre_DROA_Peers_{t-1} + a_9 \\
 & Pre_DRET_Peers_{t-1} + a_{10} Post_DROA_Peers_{t-1} + a_{11} Post_DRET_Peers_{t-1} + \sum b_i Country_i + \\
 & \sum c_j Year_j + \sum d_k Industry_k) \quad (1)
 \end{aligned}$$

The dependent variable, $CEO_Turnover_t$, is an indicator equal to one if there is a CEO turnover in year t , and zero otherwise. Firm $Size$, defined as the logarithm of lagged market capitalization in Euros, $Leverage$, defined as long-term debt over total assets, and BTM , book value of equity over market capitalization, are included as firm characteristics that potentially affect CEO evaluation (Albuquerque, 2009).

We use lagged ROA as the accounting performance measure and lagged RET , raw stock return over the prior fiscal year, as the stock performance measure. Firms' own accounting and stock performance is represented by Pre_ROA_{t-1} , Pre_RET_{t-1} , $Post_ROA_{t-1}$, and $Post_RET_{t-1}$. Variables with prefix 'Pre' are equal to the performance variable ROA or RET for *pre-adoption* observations, and zero for *post-adoption* observations. Variables with prefix 'Post' are equal to the performance variable ROA or RET for *post-adoption* observations, and zero for *pre-adoption* observations.

Peer performance measures are defined by comparing the median performance of a relevant peer group with a firm's own performance (in ROA or RET), following Blackwell et al.

(1994). Specifically, the performance of a particular peer group is measured as an indicator that is equal to one if the median performance of that peer group exceeds a firm's own performance, and zero otherwise.¹⁶ The *pre-adoption* peer performance variables in model (1) $Pre_DROA_Peers_{t-1}$ and $Pre_DRET_Peers_{t-1}$, are defined separately for peer groups $FrgnPeers_DAS$ and $LclPeers_DAS$. The *post-adoption* peer performance variables in model (1) $Post_DROA_Peers_{t-1}$ and $Post_DRET_Peers_{t-1}$ are defined separately for peer groups $FrgnPeers_IFRS$ and $LclPeers_IFRS$. Variables with prefix 'Pre' are equal to the peer performance variables for *pre-adoption* observations, and zero for *post-adoption* observations and variables with prefix 'Post' are equal to the peer performance variables for *post-adoption* observations, and zero for *pre-adoption* observations. If there is evidence of RPE, the coefficients on peer performance measures (a_8 and a_9 pre-adoption and a_{10} and a_{11} post-adoption) should be positive and significant. We also include country, year, and industry fixed effects in the regression. Statistical tests are conducted using robust standard errors clustered by country, year, and industry.¹⁷ All *p-values* discussed in the paper are from *two-tailed* Chi-square tests or F-tests.

4.3. Descriptive statistics

Table 2 presents summary statistics for the mandatory adoption sample. All continuous variables are trimmed at the top and bottom 1%. The average CEO turnover rate prior to mandatory IFRS adoption is 14.16%. It declines to 12.63% post-adoption. Firm *Size* and

¹⁶ We include own and peer performance separately instead of peer-adjusted performance because the former is the standard model setup in the RPE literature (see discussion in Bushman and Smith, 2001, page 278). We use dummy variables to capture peer performance following Blackwell et al.'s (1994) argument that firms often employ ordinal measures in RPE-related incentive schemes. In an alternative specification, we include continuous peer performance variables instead. Similar to Blackwell et al. (1994), we find consistent but weaker results under this alternative specification.

¹⁷ Our inferences are intact if the standard errors are clustered by firm.

Leverage both increase significantly post-adoption, while *BTM* declines significantly. Average *ROA* and *RET* are both higher post-adoption.

Table 2 also reports size and other statistics for the median firm in the peer groups. As discussed in Section 4.1, we focus on DAS peers before the mandatory adoption and IFRS peers post-adoption. The mean and median size of the foreign peers is close to that of our sample firms. The mean (median) logarithm of market capitalization of our sample amounts to 11.6929 (11.5252) prior to adoption and the mean (median) size of the median foreign peer is 11.5658 (11.5080).¹⁸ Our sample firms increase in size post-adoption, so do their foreign peers. Consistent with Table 1 where the number of sample observations increases over time, the size of the peer groups also expands in the more recent post-adoption period. The median number of foreign peers increases from 49 before 2005 to 70 after. The means of the dummy variables capturing peer performance are close to 50%. This is not surprising as our mandatory adoption sample makes up a large portion of all listed firms in Continental Europe. We also report the summary statistics for the local peer groups. They are similar to those of the foreign peer groups, except that the average number of peers (N_Peers) is much smaller for local peers.

[Insert Table 2 here]

Spearman correlations between CEO turnover, firms' own performance, and peer performance are reported in Table 3. CEO turnover is negatively correlated with a firm's own performance and positively correlated with peer performance both pre- and post-adoption. The correlation between CEO turnover and the post-adoption foreign peers' accounting performance under IFRS ($DROA_FrqnPeers_IFRS$) is 0.0612, a 42% increase over the 0.043 correlation between CEO turnover and pre-adoption foreign peers' accounting performance under DAS

¹⁸ The median of the pair-wise difference in size between sample firms and their foreign peers does not differ significantly from zero. However, the mean of the pair-wise difference is significantly different from zero.

(*DROA_FrgnPeers_DAS*), consistent with H1b. On the other hand, the correlation between CEO turnover and accounting performance of local peers decreases from 0.0415 pre-adoption (*DROA_LclPeers_DAS*) to 0.0357 post-adoption (*DROA_LclPeers_IFRS*).

[Insert Table 3 here]

5. Results

5.1. Baseline Results

Table 4 reports the estimation results of different variations of model (1). The regression is estimated with firms' own performance, performance of foreign DAS peers before adoption and foreign IFRS peers post-adoption, along with controls for firm characteristics, *Size*, *Leverage*, and *BTM*. Column (1) Table 4 shows that the coefficient on accounting performance of foreign DAS peers pre-adoption (*Pre_DROA_FrgnPeers_DAS*) is positive (0.1059) but insignificant at conventional levels. In contrast, the coefficient on accounting performance of foreign IFRS peers post-adoption (*Post_DROA_FrgnPeers_IFRS*) is more than twice as large (0.2402) and statistically significant (p-value of 2.74%), supporting the prediction in H1a of accounting-based RPE relative to foreign peers post-IFRS adoption. The coefficients on peer stock performance pre- and post-adoption (*Pre_DRET_FrgnPeers_DAS* and *Post_DRET_FrgnPeers_IFRS*) are comparable in magnitude, although that on *Post_DRET_FrgnPeers_IFRS* is not statistically significant, suggesting that accounting-based RPE post-2005 is unlikely driven by a general trend of increasing RPE over time. Variables capturing firms' own accounting and stock performance are significant with the predicted signs, except that on

Post_RET. While the coefficient on *Post_ROA* is larger in magnitude than that on *Pre_ROA*, their difference is not statistically significant.¹⁹

[Insert Table 4 here]

Column (2) estimates the same model while restricting the sample to firms with at least three foreign peers. The inferences are similar to those from column (1). There is strong evidence of accounting-based RPE relative to foreign peers post-adoption but not pre-adoption. The coefficient on *Post_DROA_FrgnPeers_IFRS* is positive and significant at better than the 1% level; and that on *Pre_DROA_FrgnPeers_DAS* remains insignificant. The findings in Table 4 so far are consistent with accounting integration in Continental Europe contributing to an increase in the comparability of accounting information across countries, thereby facilitating accounting-based RPE relative to foreign peers.

The results in the first two columns of Table 4 potentially suffer from a correlated omitted variables problem as performance of foreign peers is correlated with that of local peers and CEO turnover could be affected by local peer performance. To mitigate this concern, in column (3) we control for local peer performance by including accounting and stock performance of local DAS peers pre-adoption and local IFRS peers post-adoption. Adding these variables does not change our inferences. While the coefficient on the accounting performance of foreign IFRS peers post-adoption (*Post_DROA_FrgnPeers_IFRS*) is positive and significant at better than the 1% level, that on the accounting performance of foreign DAS peers pre-adoption (*Pre_DROA_FrgnPeers_DAS*) remains insignificant. Thus, there is no reliable evidence of accounting-based RPE relative to foreign peers prior to the mandatory adoption but

¹⁹ We also run the regression with firms' own performance and control variables, excluding peer performance variables. Still, the coefficient on *Post_ROA* does not differ significantly from that on *Pre_ROA*. Neither are the two coefficients significantly different from each other in columns (2) and (3) of Table 4.

strong support for RPE post-adoption, consistent with H1a. The coefficient on the accounting performance of foreign peers increases significantly from pre- to post-adoption after controlling for local peer performance. This provides support for H1b, which predicts an increase in accounting-based RPE relative to foreign peers post-adoption. The coefficients on the accounting performance of local DAS peers pre-adoption (*Pre_DROA_LclPeers_DAS*) and local IFRS peers post-adoption (*Post_DROA_LclPeers_IFRS*) are insignificant, providing no support for accounting-based RPE relative to *local* peers.²⁰ While our earlier results on accounting-based RPE relative to *foreign* peers post-2005 can potentially be explained by an accounting quality improvement post-IFRS adoption, the evidence regarding *local* peers is inconsistent with this alternative explanation.

We also evaluate the economic significance of accounting-based RPE relative to foreign peers by calculating the marginal effects of explanatory variables in the column (3) regression. For the post-adoption period, if foreign IFRS peers perform better, the likelihood of a firm having a CEO turnover increases by 3.94%. In contrast, prior to the mandatory adoption in 2005, the likelihood of CEO turnover increases by 0.75% if foreign DAS peers outperform a firm. This analysis shows that accounting-based RPE relative to foreign peers plays an economically important role in CEO performance assessment only post-2005.²¹

²⁰ The coefficient on *Post_DROA_LclPeers_IFRS* is significantly smaller than that on *Pre_DROA_LclPeers_DAS*, suggesting *less* RPE relative to *local peers* post-2005. Comparing the difference between these two coefficients with the difference between the coefficients on *Post_DROA_FrgnPeers_IFRS* and *Pre_DROA_FrgnPeers_DAS*, the difference in differences is significant with a 2% p-value. Thus, increase in RPE against foreign peers post-2005 is significantly larger than the change in RPE relative to local peers, which shows a decrease.

²¹ A caveat of our analysis is that we omit an important determinant of CEO turnover, CEO age, due to data availability. However, we do not expect CEO age to be systematically correlated with our key variables of interest, i.e., a correlated omitted variable. Thus, our inferences are likely unaffected by this omission.

5.2. Industry Competition

To test Hypothesis 2 regarding the role of industry competition, we calculate the Herfindahl index using sales in Euros within each 2-digit SIC industry and year. A firm is classified as operating in a highly competitive industry if the Herfindahl index of its industry falls into the bottom quartile of the distribution (corresponding to a cutoff point of 0.06 in Herfindahl index). Variables with prefix '*HCP*' are equal to the peer performance of firms in highly competitive industries, and zero for the rest of sample (less competitive industries). Variables with prefix '*LCP*' are equal to the peer performance of firms in less competitive industries, and zero for firms in highly competitive industries.

We estimate model (1) while allowing the coefficients on peer performance variables to be different for firms from highly competitive industries and less competitive industries and report the results in column (1) of Table 5. For firms in less competitive industries, the coefficient on post-adoption foreign peers' accounting performance (*LCP_Post_DROA_FrgnPeers_IFRS*) is positive but insignificant (0.1348). In contrast, for firms in highly competitive industries, the coefficient on post-adoption foreign peers' accounting performance (*HCP_Post_DROA_FrgnPeers_IFRS*) is four times as large (0.5831) and significant at the 5% level. F-test shows that the two coefficients are different with a p-value of 5.44%. The evidence supports H2 that accounting-based RPE clusters in highly competitive industries post-adoption. In addition, among firms in highly competitive industries, the coefficients on foreign peers' accounting performance increases from pre- to post-adoption with a p-value of 9.11%. No such increase is observed for firms in less competitive industries.

[Insert Table 5 here]

5.3. *Stock Return Correlation across Countries*

To test Hypothesis 3, we gauge the similarities between different economies using cross-country correlations in daily stock market returns each year. Country-pair and year observations in the top quartile of the correlations (with correlation coefficients above 0.72) are classified as having “high correlations.” For each sample firm, we construct two sets of foreign peers. One set consists of foreign peers from highly correlated countries and the other is made up of foreign peers from the rest of the countries (i.e., less correlated countries). Variables with prefix ‘*HCR*’ are equal to the peer performance of foreign peers from highly correlated countries, and zero otherwise. Variables with prefix ‘*LCR*’ are equal to the peer performance of foreign peers from less correlated countries, and zero otherwise.

We estimate model (1) while allowing the coefficients on peer performance variables to be different for peers from highly correlated countries and less correlated countries and report the findings in column (2) of Table 5. For peers from highly correlated countries, the coefficient on the post-adoption accounting performance of foreign IFRS peers (*HCR_Post_DROA_FrgnPeers_IFRS*) is positive and significant and that on pre-adoption accounting performance of foreign DAS peers (*HCR_Pre_DROA_FrgnPeers_DAS*) is not. The pre- to post-adoption increase is significant with a p-value of 9.57%. Meanwhile, there is no evidence of RPE relative to foreign peers from less correlated countries either pre- or post-adoption. The difference in the coefficients on post-adoption foreign peers’ accounting performance between highly correlated and less correlated countries (*HCR_Post_DROA_FrgnPeers_IFRS* versus *LCR_Post_DROA_FrgnPeers_IFRS*) differs from zero with a p-value of 11.48%, giving modest support for H3 that peers from highly correlated

countries constitute more relevant benchmarks in CEO evaluation. The evidence suggests that economic commonality is important for accounting integration to have real consequences.

5.4. *The Size of the Local Peer Group Relative to the Size of the Foreign Peer Group*

To test Hypothesis 4, we calculate the relative size of a firm's local peer group versus its foreign peer group by dividing the number of its local *DAS* peers in 2004 with the number of its foreign *IFRS* peers in 2006. Firms in the top tercile of this relative peer group size measure (with the ratio above 0.25) are considered as having large local peer groups relative to foreign peer groups. We estimate model (1) separately for firms with large local peer groups and the rest of the sample and report the results in Table 6.

[Insert Table 6 here]

Column (1) of Table 6 shows the estimation results for firms with relatively large local peer groups. RPE relative to local peers is more evident than RPE relative to foreign peers for these firms. There is no significant evidence of RPE relative to foreign peers either before or after IFRS adoption. In contrast, the coefficient on the pre-adoption accounting performance of *local* peers (*Pre_DROA_LclPeers_DAS*) and that on post-adoption accounting performance of *local* peers (*Post_DROA_LclPeers_IFRS*) are both significant and with the predicted sign. The two coefficients are comparable in magnitude and are not statistically different from each other, indicating no increase in accounting-based RPE relative to *local* peers, whose comparability with the sample firm is less affected by IFRS adoption because they use the same accounting standards both before and after 2005.

The results for firms with relatively small local peer groups (the rest of the sample) are presented in column (2) of Table 6. RPE relative to foreign peers is more evident than RPE relative to local peers in this sample. While there is no evidence of RPE relative to foreign peers

before mandatory IFRS adoption, probably due to differences in accounting standards, there is strong evidence of RPE relative to foreign peers post-mandatory IFRS adoption. The difference in the coefficients is significant with a p-value of 6.62%, supporting H4. Therefore, these firms likely have benefited from greater cross-country accounting comparability post-IFRS adoption.²²

5.5. Robustness Checks

5.5.1. The Effects of Changes in Foreign Ownership and Changes in Foreign Operations

Prior research indicates that some firms experience increases in foreign ownership after mandatory IFRS adoption (for example, DeFond et al, 2010 and Yu, 2010). Changes in ownership composition can influence corporate governance practices at our sample firms, including the usage of RPE. Another potential confounding factor is our sample firms' foreign operations in other Continental European countries. If mandatory IFRS adoption is associated with larger scale foreign operations (although we are not aware of systematic empirical evidence supporting this), RPE related to foreign firms may increase as a result.²³

To investigate changes in foreign ownership as an alternative explanation for our findings we modify model (1) by allowing firms with and without increases in foreign ownership (from other Continental European countries in our sample) to have different levels of RPE relative to foreign peers. The results are reported in column (1) of Table 7. If our main result regarding the

²² We find a significantly negative coefficient on *local* peers' accounting performance post-adoption for these firms (*Post_DROA_LclPeers_IFRS*), suggesting CEOs are rewarded, not penalized, for better peer performance. Prior research has pointed to strategic interactions among firms (e.g., collusion) as a possible explanation for such findings (Aggarwal and Samwick, 1999; and Joh, 1999).

²³ Bureau Van Dijk's Ownership Database serves as the data source for the foreign ownership and foreign operations analyses in this section. To mitigate the effect of a long pre-adoption time series, the pre-adoption period is restricted to 2002 to 2004. The post-adoption period is from 2006 to 2008. The mean (median) foreign ownership held by investors from other sample Continental European countries increases significantly from 7.09% (0%) to 11.04% (3.09%) for our sample firms from pre- to post-adoption. The mean (median) percentage of foreign subsidiaries out of all subsidiaries does not change significantly (18.22% (11.11%) pre-adoption to 18.00% (12.90%) post-adoption, with the mean (median) number of foreign subsidiaries being 5.75 (1) pre-adoption and 6.02 (1.5) post-adoption).

increase in accounting-based RPE relative to foreign peers is explained by an increase in foreign ownership post-2005, we expect the increase in RPE relative to foreign peers to be more evident for firms experiencing an increase in foreign ownership, and possibly weak or no evidence of increasing RPE relative to foreign peers for firms not experiencing any increases in foreign ownership. We find that for both groups of firms there is accounting-based RPE relative to foreign peers post-2005. Also, for both groups, there is an increase in RPE relative to foreign peers around 2005. The coefficient on the accounting performance of foreign peers post-2005 is greater for firms experiencing an increase in foreign ownership (0.4076); however, it is not significantly higher than that for firms without an increase in foreign ownership (0.3228). These results are not consistent with increasing foreign ownership and the resulting corporate governance changes driving our main findings.

[Insert Table 7 here]

We next allow firms with and without increases in foreign operations in other Continental European countries in our sample to have different levels of RPE relative to foreign peers and report the results in Table 7 column (2). We measure foreign operations with the percentage of a firm's subsidiaries located in other Continental European countries.²⁴ If the increase in accounting-based RPE relative to foreign peers in other Continental European countries is driven by an increase in business in these countries post-2005, we expect the increase in RPE relative to foreign peers to be more evident for firms experiencing an increase in foreign operations, and weak or no evidence of increasing RPE relative to foreign peers for firms not experiencing any increases in foreign operations. We find that for both groups of firms there is RPE relative to

²⁴ It is defined as the number of subsidiaries in other Continental European countries in our sample divided by the total number of subsidiaries (it is set to zero when a firm has no subsidiaries). We do not rely on foreign sales information from WorldScope because WorldScope does not identify the source countries of foreign sales.

foreign peers post-2005 and the coefficients are not significantly different between firms with increases in foreign operations and those without (0.3625 versus 0.3953). Thus, this analysis provides no support for increasing foreign business as the driver of the increase in RPE relative to foreign peers.

5.5.2. Other Sensitivity Tests

We conduct further sensitivity tests using alternative model specifications. First, we run regressions *separately* for the pre- and post-adoption periods using DAS peers pre-adoption and IFRS peers post-adoption. Untabulated results show that, consistent with our findings in Table 4, the coefficient on foreign peers' accounting performance is only significant in the post-adoption period, supporting H1a. We further conduct a Wald Chi-square test for the pre- and post-adoption difference in the coefficients on foreign peers' accounting performance. After controlling for local peer performance, the two coefficients are significantly different (with an 8.17% p-value), supporting H1b.

We also include the pre-adoption performance of two other potential peer groups, local and foreign IFRS peers (i.e., voluntary adopters) in the regression. Our sample is reduced by almost a third after imposing this data requirement. Our main inferences, however, are intact. Furthermore, we find no evidence of RPE relative to IFRS peers pre-adoption.

We next investigate whether our results are due to a general time trend of greater RPE usage among our sample firms. Such a time trend may exist because of the increasing economic and political integration within Europe during the sample period. In addition, Table 2 shows that the size of the foreign peer group (N_Peers) increases over time. A larger number of peers may provide less noisy benchmarks for RPE. Although our results on stock performance-based RPE are inconsistent with the time trend explanation, we conduct additional tests to further examine

this. First, we use pre-2005 data and alternately set 2000, 2001, 2002, and 2003 as the pseudo IFRS adoption year. If our results are driven by a time trend, we expect to see changes in RPE usage before and after these pseudo adoption years as well. However, none of the pseudo adoption years produce evidence of accounting-based RPE relative to foreign IFRS peers post-pseudo adoption or any significant increase in RPE usage subsequent to the pseudo adoption years. Second, to mitigate the effect of a long pre-adoption time series, we drop observations prior to 2003 and re-estimate model (1). We continue to find significant evidence of accounting-based RPE relative to foreign peers post-2005 (no such evidence is found pre-adoption) and a significant increase in accounting-based RPE from pre- to post-adoption. The above findings do not suggest that a time trend in RPE drives our results.

To mitigate the effect of changing sample compositions, we conduct tests with a constant sample of mandatory adopters. In order to maintain a reasonable sample size, the test period is restricted to 2003 to 2008. Foreign and local peers are also selected from the constant sample so that the composition of the peer groups remains the same over time with the only difference between the pre- and post-adoption peer groups being the accounting standards followed by the peers. We estimate model (1) for this constant sample, including both foreign and local peer performance. Although the sample size is reduced by over 40% compared to Table 4 column (3), the results are similar to those reported. The coefficient on pre-adoption foreign peers' accounting performance (0.1377) is positive but insignificant and that on post-adoption foreign peers' accounting performance (0.4892) is positive and significant with a p-value of 1.18%, consistent with H1a. The two coefficients are different with a p-value of 13.7%, providing modest support for H1b.

5.6. Voluntary IFRS Adoption

For completeness, we also investigate RPE usage around the *voluntary* adoption of internationally recognized standards. A firm is classified as a voluntary adopter if it adopts IFRS/U.S. GAAP prior to 2005.²⁵ All firm years before and after the voluntary adoption but before the mandatory adoption year of 2005 are included in the voluntary adoption sample.²⁶ The adoption year itself is excluded. Similar to the mandatory adoption sample, the number of observations in the voluntary adoption sample increases over time. Germany (32.23%), Italy (29.48%), and Switzerland (18.89%) are the three most heavily represented countries.

We construct peer groups for voluntary adopters following the same procedure as for the mandatory adoption sample. A voluntary adopter has four possible peer groups both before and after adoption: local DAS peers (*LclPeers_DAS*), foreign DAS peers (*FrgnPeers_DAS*), local IFRS peers (*LclPeers_IFRS*), and foreign IFRS peers (*FrgnPeers_IFRS*). As the decision to voluntarily adopt IFRS/U.S. GAAP is endogenous, we control for concurrent corporate financing and investment activities and changes in institutional ownership and analyst following that potentially correlates with the voluntary adoption decision as well as CEO turnover (Wu and Zhang, 2009). We obtain information on debt and equity issuance, mergers and acquisitions, and divestitures (including sales of divisions, spin-offs, split-offs, and carve-outs) from the SDC database, U.S. institutional holdings data from Spectrum, and analyst following data from I/B/E/S. Inclusion or exclusion of these controls does not affect our inferences.

²⁵ We exclude German firms listed on the New Market (1997-2003) from our analysis of voluntary adopters, as IFRS or U.S. GAAP adoption is part of the listing requirement of the German New Market. We also exclude firms that are cross-listed on major U.S. exchanges during our sample period. U.S. cross-listing automatically entails the reconciliation of net income and shareholders' equity with U.S. GAAP; however, these firms may not adopt internationally recognized accounting standards.

²⁶ Our results are robust if we include only IFRS voluntary adopters and exclude U.S. GAAP voluntary adopters.

We estimate model (1) for the voluntary adoption sample with the additional controls mentioned above. Similar to our findings for the mandatory adoption sample, we find no evidence of accounting-based RPE relative to foreign DAS peers before adoption but strong support for accounting-based RPE relative to foreign IFRS peers post-adoption. Furthermore, the coefficient on accounting performance of foreign IFRS peers post-adoption and that on foreign DAS peers before adoption are significantly different. We also find evidence of accounting-based RPE relative to local IFRS peers post-adoption. There is no evidence of RPE relative to other peer groups. We also examine the impact of industry competition and correlation between countries on accounting-based RPE relative to foreign peers in the voluntary adoption sample. While the inferences are very similar regarding the impact of cross-country correlations, we do not find competition to be an important factor in affecting RPE usage for the voluntary adopters.

Daske et al. (2008) argue that firms adopting IFRS after the 2002 EU announcement mandating IFRS may have different incentives than those adopting IFRS earlier. We thus explore whether the extent of RPE usage post-adoption differs across early and late adopters. Following Daske et al. (2008), we classify firms that switch to IFRS between 2002 and 2004 as late adopters. Untabulated results show that the accounting performance of foreign peers (*Post_DROA_FrgnPeers_IFRS*) is only significantly correlated with CEO turnover for early adopters, although the difference between the coefficient for early adopters and that for late adopters is not statistically significant.

6. Conclusions

We study the effect of mandatory IFRS adoption on financial reporting comparability for a sample of Continental European firms in the setting of accounting-based RPE. Our evidence of

a post-adoption increase in the use of accounting-based RPE relative to foreign peers is consistent with improved cross-country accounting comparability subsequent to mandatory IFRS adoption. Our findings cannot be explained by changes in foreign ownership or changes in foreign operations around mandatory IFRS adoption. And consistent with the economic theory of RPE, we find stronger results for firms in more competitive industries and when peers are from highly correlated economies.

We inform the debate regarding the effect of mandatory IFRS adoption on cross-country financial reporting comparability. We also add to the literature on the economic consequences of the adoption by highlighting the role of IFRS earnings in corporate governance. Our results suggest that with greater globalization and accounting convergence firms likely increasingly turn to foreign peers as benchmarks for evaluating managers.

We emphasize that our results are specific to Continental Europe and may not be generalizable to other settings. Countries from Continental Europe are relatively homogeneous in terms of political systems and economic environment. Achieving greater within-region accounting comparability may be a more important goal for regulators and corporations and the enforcement of IFRS is likely stronger and more uniform within this region (e.g., Enriques and Volpin, 2007; Daske et al., 2008). These factors may have led to a more pronounced improvement in accounting comparability after mandatory IFRS adoption.

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Appendix A: Classification of potential peers

The following table classifies the potential peers of a Continental European firm based on location (local peers, those from the same industry and the same country, versus foreign peers, those from the same industry but different countries) and accounting standards (DAS or IFRS) before and after 2005. As indicated below, there is no DAS peer post-2005 due to mandatory IFRS adoption.

Pre-Mandatory IFRS Adoption (pre-2005)	Post- Mandatory IFRS Adoption (post-2005)
(A1) <i>FrgnPeers_DAS</i>	
(B1) <i>FrgnPeers_IFRS</i> (voluntary adopters before 2005)	(B2) <i>FrgnPeers_IFRS</i>
(C1) <i>LclPeers_DAS</i>	
(D1) <i>LclPeers_IFRS</i> (voluntary adopters before 2005)	(D2) <i>LclPeers_IFRS</i>

Main tests:

There is accounting-based RPE relative to group **B2 (FrgnPeers IFRS, post-2005)**.

Accounting-based RPE relative to group **B2 (FrgnPeers IFRS, post-2005)** is greater than accounting-based RPE relative to group **A1 (FrgnPeers DAS, pre-2005)**.

Control variables: performance of C1 (LclPeers DAS, pre-2005) and D2 (LclPeers IFRS, post-2005). Since most local peers use the same accounting standards as the test firm both before and after 2005, they are not used to study the effect of IFRS adoption but rather included as controls.

Other potential peer groups: voluntary IFRS adopters---B1 (FrgnPeers IFRS, pre-2005) and D1 (LclPeers IFRS, pre-2005). These peer groups are not included in the main analysis. Including them does not affect the main inferences as discussed in the text.

Appendix B: Variable definitions

Local peers are firms from the same industry and the same country as the sample firm. Foreign peers are those from the same industry but different countries. DAS refers to individual countries' domestic accounting standards.

Variables	Definition
<i>Turnover</i>	Dummy variable equal to one if there is a CEO turnover in year t; zero otherwise.
<i>RET</i>	Annual raw stock return.
<i>ROA</i>	Return on assets, accounting earnings is defined as net income before extraordinary items.
<i>DROA_LclPeers_DAS</i>	Dummy variable equal to one if the median ROA of local peers following DAS exceeds sample firm's ROA; zero otherwise.
<i>DRET_LclPeers_DAS</i>	Dummy variable equal to one if the median raw annual stock return of local peers following DAS exceeds sample firm's stock return; zero otherwise.
<i>DROA_LclPeers_IFRS</i>	Dummy variable equal to one if the median ROA of local peers following IFRS exceeds sample firm's ROA; zero otherwise.
<i>DRET_LclPeers_IFRS</i>	Dummy variable equal to one if the median raw annual stock return of local peers following IFRS exceeds sample firm's stock return; zero otherwise.
<i>DROA_FrgnPeers_DAS</i>	Dummy variable equal to one if the median ROA of foreign peers following DAS exceeds sample firm's ROA; zero otherwise.
<i>DRET_FrgnPeers_DAS</i>	Dummy variable equal to one if the median raw annual stock return of foreign peers following DAS exceeds sample firm's stock return; zero otherwise.
<i>DROA_FrgnPeers_IFRS</i>	Dummy variable equal to one if the median ROA of foreign peers following IFRS exceeds sample firm's ROA; zero otherwise.
<i>DRET_FrgnPeers_IFRS</i>	Dummy variable equal to one if the median raw annual stock return of foreign peers following IFRS exceeds sample firm's stock return; zero otherwise.
<i>Size</i>	Logarithm of market capitalization.
<i>Lev</i>	Leverage, defined as long term debt divided by total assets.
<i>BTM</i>	Book value of equity divided by market value of equity.

Table 1: Sample distribution and CEO turnover statistics

This table reports the distribution of the mandatory adoption sample by home country and year and reports management turnover statistics by country. All firms that did not adopt IFRS until the mandatory IFRS adoption year 2005 are classified as mandatory adopters. All firm years before and after the mandatory adoption are included in the mandatory adoption sample except for the adoption year.

Panel A: Distribution by year

Year	Number of observations	As a percentage of entire sample
1993	1	0.01%
1994	205	1.70%
1995	261	2.17%
1996	304	2.52%
1997	379	3.15%
1998	525	4.36%
1999	599	4.97%
2000	657	5.45%
2001	712	5.91%
2002	1031	8.56%
2003	1190	9.88%
2004	1815	15.06%
2006	1323	10.98%
2007	1540	12.78%
2008	1507	12.51%
Total	12049	100.00%

Panel B: Distribution by country

Country	Number of observations	As a percentage of entire sample	Number of turnovers	Turnover%
Austria	142	1.18%	17	11.97%
Belgium	596	4.95%	76	12.75%
Denmark	579	4.81%	83	14.34%
Finland	243	2.02%	37	15.23%
France	3316	27.52%	342	10.31%
Germany	1879	15.59%	321	17.08%
Greece	1064	8.83%	118	11.09%
Italy	207	1.72%	38	18.36%
Luxembourg	82	0.68%	3	3.66%
Netherlands	759	6.30%	118	15.55%
Norway	688	5.71%	143	20.78%
Portugal	269	2.23%	25	9.29%
Spain	544	4.51%	52	9.56%
Sweden	1121	9.30%	203	18.11%
Switzerland	560	4.65%	63	11.25%
	12049	100.00%	1639	13.60%

Table 2: Descriptive statistics

This table reports descriptive statistics of the mandatory adoption sample and their peers (the median firm in a peer group) around the adoption year. N_Peers is the number of peers in the relevant peer group. Other variable definitions are in Appendix B. ***, **, * indicate that the pre- and post-adoption difference is significantly different from zero at the 1%, 5%, 10% level, two-tailed tests (t-test for differences in means and Wilcoxon test for differences in medians).

	Pre-adoption			Post-adoption		
	N	Mean	Median	N	Mean	Median
<i>Turnover</i>	7679	0.1416	0	4370	0.1263**	0**
<i>Size</i>	7679	11.6929	11.5252	4370	12.0293***	11.9049***
<i>Leverage</i>	7679	0.1308	0.0884	4370	0.1419***	0.1011***
<i>BTM</i>	7679	1.7885	0.8274	4370	1.5783***	0.7512***
<i>ROA</i>	7679	0.0547	0.0600	4370	0.0658***	0.0670***
<i>RET</i>	7679	0.1415	0.0576	4370	0.2330***	0.1469***
<i>Foreign peers</i>		<i>FrnPeers_DAS</i>			<i>FrnPeers_IFRS</i>	
<i>Size</i>	7679	11.5658	11.5080	4370	12.2649***	12.1813***
<i>ROA</i>	7679	0.0569	0.0619	4370	0.0679***	0.0686***
<i>RET</i>	7679	0.0618	0.0619	4370	0.1484***	0.1435***
<i>N_Peers</i>	7679	59.75	49	4370	88.54***	70***
<i>DROA_FrnPeers_DAS</i>	7679	0.4834	0			
<i>DRET_FrnPeers_DAS</i>	7679	0.4924	0			
<i>DROA_FrnPeers_IFRS</i>				4370	0.4920	0
<i>DRET_FrnPeers_IFRS</i>				4370	0.4899	0
<i>Local peers</i>		<i>LclPeers_DAS</i>			<i>LclPeers_IFRS</i>	
<i>Size</i>	7080	11.6581	11.5080	4070	12.2667***	12.0180***
<i>ROA</i>	7080	0.0512	0.0581	4070	0.0669***	0.0679***
<i>RET</i>	7080	0.1012	0.0603	4070	0.1653***	0.1411***
<i>N_Peers</i>	7080	12.19	7	4070	14.28***	9***
<i>DROA_LclPeers_DAS</i>	7080	0.4758	0			
<i>DRET_LclPeers_DAS</i>	7080	0.4913	0			
<i>DROA_LclPeers_IFRS</i>				4070	0.5017	1
<i>DRET_LclPeers_IFRS</i>				4070	0.4961	0

Table 3: Spearman correlations

This table reports the Spearman correlation coefficients for management turnover and the performance variables for the mandatory adoption sample. The correlations for the pre- and post-adoption periods are presented separately. All correlation coefficients are significant at less than the 10% level (two-tailed tests). Variable definitions are in Appendix B.

	<i>Turnover</i>	<i>ROA</i>	<i>RET</i>	<i>DROA_LclPeers_DAS</i>	<i>DRET_LclPeers_DAS</i>	<i>DROA_FrgnPeers_DAS</i>
<i>Pre-Adoption</i>						
<i>Turnover</i>						
<i>ROA</i>	-0.0759					
<i>RET</i>	-0.0903	0.2488				
<i>DROA_LclPeers_DAS</i>	0.0415	-0.6131	-0.1504			
<i>DRET_LclPeers_DAS</i>	0.0344	-0.1873	-0.5527	0.2034		
<i>DROA_FrgnPeers_DAS</i>	0.0430	-0.7192	-0.1992	0.5998	0.1631	
<i>DRET_FrgnPeers_DAS</i>	0.0574	-0.2077	-0.6915	0.1329	0.5615	0.2066
<i>Post-Adoption</i>						
<i>Turnover</i>						
<i>ROA</i>	-0.0766					
<i>RET</i>	-0.0316	0.0271				
<i>DROA_LclPeers_IFRS</i>	0.0357	-0.6715	-0.1964			
<i>DRET_LclPeers_IFRS</i>	0.0341	-0.2247	-0.6658	0.2212		
<i>DROA_FrgnPeers_IFRS</i>	0.0612	-0.7719	-0.2142	0.6527	0.1931	
<i>DRET_FrgnPeers_IFRS</i>	0.0394	-0.2371	-0.7624	0.1863	0.6565	0.2020

Table 4: RPE around mandatory IFRS adoption

This table reports variations of the following logit model of CEO turnover.

$$Prob [CEO_Turnover_t = 1] = \text{Logit} (a_0 + a_1 Size_{t-1} + a_2 Leverage_{t-1} + a_3 BTM_{t-1} + a_4 Pre_ROA_{t-1} + a_5 Pre_RET_{t-1} + a_6 Post_ROA_{t-1} + a_7 Post_RET_{t-1} + a_8 Pre_DROA_Peers_{t-1} + a_9 Pre_DRET_Peers_{t-1} + a_{10} Post_DROA_Peers_{t-1} + a_{11} Post_DRET_Peers_{t-1} + \sum b_i Country_i + \sum c_j Year_j + \sum d_k Industry_k)$$

Variable definitions are in Appendix B. Variables with prefix ‘Pre’ are equal to the performance variables in the pre-adoption period, and zero post-adoption. Variables with prefix ‘Post’ are equal to the performance variables in the post-adoption period, and zero pre-adoption. Column (1) reports the regression with performance of foreign DAS peers before adoption and foreign IFRS peers post adoption. Column (2) estimates the same regression as column (1), except that the sample is restricted to firms with at least three foreign peers. Variables capturing performance of local DAS peers pre-adoption and local IFRS peers post-adoption are included in column (3). Marginal effects measure the changes in the predicted probability from a one standard deviation increase from the mean for a continuous variable and from zero to one for an indicator variable with the other variables measured at the mean. ***, **, * indicate that a coefficient is significantly different from zero at the 1%, 5%, 10% level, two-tailed tests. Standard errors are clustered by country, year, and industry.

	Prediction	(1) Foreign peers only		(2) Foreign peers only and number of peers > 2		(3) Foreign and local peers		Marginal Effect
		Estimate	Std Err	Estimate	Std Err	Estimate	Std Err	
<i>Size</i>		0.0478***	0.0162	0.0463***	0.0163	0.0472***	0.0169	1.01%
<i>Leverage</i>		-0.3690*	0.1996	-0.3267	0.2012	-0.3388	0.2085	-0.51%
<i>BTM</i>		0.0147	0.0181	0.0100	0.0183	0.0131	0.0189	0.34%
<i>Pre_ROA</i>	-	-0.9743***	0.3775	-0.9629**	0.3773	-0.7802*	0.4005	-0.77%
<i>Pre_RET</i>	-	-0.1811*	0.1054	-0.1760*	0.1069	-0.1650	0.1107	-0.75%
<i>Post_ROA</i>	-	-1.3678***	0.4511	-1.2179***	0.4554	-1.5397***	0.4796	-1.20%
<i>Post_RET</i>	-	0.0969	0.1249	0.0975	0.1267	0.1122	0.1339	0.42%
<i>Foreign peers</i>								
<i>Pre_DROA_FrgnPeers_DAS</i>		0.1059	0.0806	0.1171	0.0812	0.0682	0.0971	0.75%
<i>Pre_DRET_FrgnPeers_DAS</i>	+	0.1994**	0.0838	0.1893**	0.0856	0.1826*	0.0947	2.03%
<i>Post_DROA_FrgnPeers_IFRS</i>	+(H1a)	0.2402**	0.1089	0.2882***	0.1107	0.3357***	0.1277	3.94%
<i>Post_DRET_FrgnPeers_IFRS</i>	+	0.1970	0.1312	0.2052	0.1320	0.1698	0.1511	1.91%
<i>Local peers</i>								
<i>Pre_DROA_LclPeers_DAS</i>	+					0.1155	0.0892	1.27%

<i>Pre_DRET_LclPeers_DAS</i>	+		-0.0004	0.0915	0.00%
<i>Post_DROA_LclPeers_IFRS</i>	+		-0.2042	0.1293	-2.10%
<i>Post_DRET_LclPeers_IFRS</i>	+		0.0769	0.1299	0.85%
Year, country, industry fixed effects		Yes	Yes	Yes	
N		12049	11865	11150	
Turnover		1639	1620	1508	
Pseudo R ²		0.0449	0.0454	0.0469	
F-test Two-tailed P-values					
<i>Pre_DROA_FrgnPeers_DAS</i> =					
<i>Post_DROA_FrgnPeers_IFRS</i>	(H1b)	0.3145	0.2071	0.0898	

Table 5: The effect of industry competition and correlations across countries

This table reports variations of the following logit model of CEO turnover.

$$Prob [CEO_Turnover_t = 1] = \text{Logit} (a_0 + a_1 Size_{t-1} + a_2 Leverage_{t-1} + a_3 BTM_{t-1} + a_4 Pre_ROA_{t-1} + a_5 Pre_RET_{t-1} + a_6 Post_ROA_{t-1} + a_7 Post_RET_{t-1} + a_8 Pre_DROA_Peers_{t-1} + a_9 Pre_DRET_Peers_{t-1} + a_{10} Post_DROA_Peers_{t-1} + a_{11} Post_DRET_Peers_{t-1} + \sum b_i Country_i + \sum c_j Year_j + \sum d_k Industry_k)$$

Variable definitions are in Appendix B. Variables with prefix ‘Pre’ are equal to the performance variables in the pre-adoption period, and zero post-adoption. Variables with prefix ‘Post’ are equal to the performance variables in the post-adoption period, and zero pre-adoption. Column (1) examines the impact of competition on RPE relative to foreign peers around IFRS adoption. High competition industries are identified as industry-years with Herfindahl index falling into the bottom quartile of the sample distribution (‘HCP’ group); the rest are classified as the ‘LCP’ group. Variables with prefix ‘HCP’ (‘LCP’) are equal to the performance variables for the ‘HCP’ (‘LCP’) group, and zero otherwise. Column (2) examines the impact of correlations across countries on RPE relative to foreign peers around IFRS adoption. A foreign peer is classified as from a highly correlated country if the country-pair/year daily return correlation falls in the top quartile of the sample distribution. Variables with prefix ‘HCR’ are equal to the peer performance of foreign peers from highly correlated countries, and zero otherwise. Variables with prefix ‘LCR’ are equal to the peer performance of foreign peers from less correlated countries, and zero otherwise. ***, **, * indicate that a coefficient is significantly different from zero at the 1%, 5%, 10% level, two-tailed tests. Standard errors are clustered by country, year, and industry.

(1) High vs. Low Competition Industries				(2) High vs. Low Correlation Foreign Peers			
Variables	Pred.	Estimate	Std Err	Variables	Pred.	Estimate	Std Err
<i>Size</i>		0.0487***	0.0183	<i>Size</i>		0.0373*	0.0210
<i>Leverage</i>		-0.2100	0.2194	<i>Leverage</i>		-0.3998	0.2468
<i>BTM</i>		0.0165	0.0198	<i>BTM</i>		-0.0026	0.0232
<i>Pre_ROA</i>	-	-0.8761**	0.4044	<i>Pre_ROA</i>	-	-0.2327	0.4687
<i>Pre_RET</i>	-	-0.1676	0.1125	<i>Pre_RET</i>	-	-0.1501	0.1625
<i>Post_ROA</i>	-	-1.9312***	0.6057	<i>Post_ROA</i>	-	-1.4735***	0.5265
<i>Post_RET</i>	-	-0.1393	0.1686	<i>Post_RET</i>	-	0.0817	0.1644
<i>Foreign peers</i>							
<i>HCP_Pre_DROA_FrgnPeers_DAS</i>		0.1183	0.1560	<i>HCR_Pre_DROA_FrgnPeers_DAS</i>		0.0952	0.1265
<i>HCP_Pre_DRET_FrgnPeers_DAS</i>	+	0.2239	0.1431	<i>HCR_Pre_DRET_FrgnPeers_DAS</i>	+	0.0751	0.1285
<i>HCP_Post_DROA_FrgnPeers_IFRS</i>	+	0.5831**	0.2505	<i>HCR_Post_DROA_FrgnPeers_IFRS</i>	+	0.4530***	0.1737
<i>HCP_Post_DRET_FrgnPeers_IFRS</i>	+	-0.1131	0.2400	<i>HCR_Post_DRET_FrgnPeers_IFRS</i>	+	0.1788	0.1838
<i>LCP_Pre_DROA_FrgnPeers_DAS</i>		0.0545	0.1076	<i>LCR_Pre_DROA_FrgnPeers_DAS</i>		0.0545	0.1076

<i>LCP_Pre_DRET_FrgnPeers_DAS</i>	+	0.1583	0.1075	<i>LCR_Pre_DRET_FrgnPeers_DAS</i>	+	0.1583	0.1075
<i>LCP_Post_DROA_FrgnPeers_IFRS</i>	+	0.1348	0.1665	<i>LCR_Post_DROA_FrgnPeers_IFRS</i>	+	0.1348	0.1665
<i>LCP_Post_DRET_FrgnPeers_IFRS</i>	+	-0.0229	0.1929	<i>LCR_Post_DRET_FrgnPeers_IFRS</i>	+	-0.0229	0.1929
<i>Local peers</i>							
<i>Pre_DROA_LclPeers_DAS</i>	+	0.1007	0.0897	<i>Pre_DROA_LclPeers_DAS</i>	+	0.1451	0.1182
<i>Pre_DRET_LclPeers_DAS</i>	+	-0.0028	0.0912	<i>Pre_DRET_LclPeers_DAS</i>	+	0.0598	0.1314
<i>Post_DROA_LclPeers_IFRS</i>	+	-0.2888	0.1680	<i>Post_DROA_LclPeers_IFRS</i>	+	-0.1960	0.1403
<i>Post_DRET_LclPeers_IFRS</i>	+	0.0440	0.1661	<i>Post_DRET_LclPeers_IFRS</i>	+	0.1657	0.1596
Year, country, industry fixed effects			Yes				Yes
N			9742				7343
Turnover			1331				1027
Pseudo R ²			0.0485				0.0525
F-test Two-tailed P-values							
<i>HCP_Pre_DROA_FrgnPeers_DAS</i> = <i>HCP_Post_DROA_FrgnPeers_DAS</i>			0.0911	<i>HCR_Pre_DROA_FrgnPeers_DAS</i> = <i>HCR_Post_DROA_FrgnPeers_IFRS</i>			0.0957
<i>LCP_Pre_DROA_FrgnPeers_DAS</i> = <i>LCP_Post_DROA_FrgnPeers_IFRS</i>			0.6791	<i>LCR_Pre_DROA_FrgnPeers_DAS</i> = <i>LCR_Post_DROA_FrgnPeers_IFRS</i>			0.8336
<i>LCP_Post_DROA_FrgnPeers_IFRS</i> = <i>HCP_Post_DROA_FrgnPeers_DAS</i>	(H2)		0.0544	<i>HCR_Post_DROA_FrgnPeers_IFRS</i> = <i>LCR_Post_DROA_FrgnPeers_IFRS</i>	(H3)		0.1148

Table 6: The size of the local peer group relative to the size of the foreign peer group

This table reports variations of the following logit model of CEO turnover.

$$Prob [CEO_Turnover_t = 1] = \text{Logit} (a_0 + a_1 Size_{t-1} + a_2 Leverage_{t-1} + a_3 BTM_{t-1} + a_4 Pre_ROA_{t-1} + a_5 Pre_RET_{t-1} + a_6 Post_ROA_{t-1} + a_7 Post_RET_{t-1} + a_8 Pre_DROA_Peers_{t-1} + a_9 Pre_DRET_Peers_{t-1} + a_{10} Post_DROA_Peers_{t-1} + a_{11} Post_DRET_Peers_{t-1} + \sum b_i Country_i + \sum c_j Year_j + \sum d_k Industry_k)$$

Variable definitions are in Appendix B. Variables with prefix ‘Pre’ are equal to the performance variables in the pre-adoption period, and zero post-adoption. Variables with prefix ‘Post’ are equal to the performance variables in the post-adoption period, and zero pre-adoption. Column (1) reports the regression for the sample of firms with large local peer groups relative to foreign peer groups. A local peer group is considered relatively large if the number of peers is greater than one-fourth of the number of peers in the foreign peer group (top tercile of sample distribution). Column (2) estimates the same regression for the rest of the sample. ***, **, * indicate that a coefficient is significantly different from zero at the 1%, 5%, 10% level, two-tailed tests. Standard errors are clustered by country, year, and industry.

	(1)			(2)	
	Prediction	Estimate	Std Err	Estimate	Std Err
<i>Size</i>		0.0845**	0.0399	0.0193	0.0242
<i>Leverage</i>		-0.8619**	0.3992	0.0822	0.3107
<i>BTM</i>		0.1299***	0.0338	-0.0017	0.0266
<i>Pre_ROA</i>	-	0.2580	0.6050	-1.1464	0.7113
<i>Pre_RET</i>	-	-0.1804	0.2269	-0.1125	0.1774
<i>Post_ROA</i>	-	-1.3212*	0.6816	-1.6047**	0.7364
<i>Post_RET</i>	-	0.3772**	0.1820	-0.2117	0.2241
<i>Foreign peers</i>					
<i>Pre_DROA_FrgnPeers_DAS</i>	+	0.1028	0.2106	0.0730	0.1375
<i>Pre_DRET_FrgnPeers_DAS</i>	+	0.2606	0.2047	0.2494*	0.1327
<i>Post_DROA_FrgnPeers_IFRS</i>	+	-0.1007	0.2582	0.4924***	0.1879
<i>Post_DRET_FrgnPeers_IFRS</i>	+	0.3245	0.2725	0.0540	0.2095
<i>Local peers</i>					
<i>Pre_DROA_LclPeers_DAS</i>	+	0.3808**	0.1891	0.0936	0.1294
<i>Pre_DRET_LclPeers_DAS</i>	+	-0.2348	0.2146	-0.0300	0.1184
<i>Post_DROA_LclPeers_IFRS</i>	+	0.3950*	0.2371	-0.4129**	0.1693
<i>Post_DRET_LclPeers_IFRS</i>	+	0.0300	0.2298	0.0272	0.1923
N			2783		5353
Turnover			381		737
Pseudo R ²			0.0777		0.0478
F-test Two-tailed P-values					
<i>Pre_DROA_FrgnPeers_DAS =</i>					
<i>Post_DROA_FrgnPeers_IFRS (H4 -- column 2 only)</i>			0.5446		0.0662

Table 7: RPE around mandatory IFRS adoption and changes in foreign ownership and foreign operations

This table reports variations of the following logit model of CEO turnover.

$$Prob [CEO_Turnover_t = 1] = \text{Logit} (a_0 + a_1 Size_{t-1} + a_2 Leverage_{t-1} + a_3 BTM_{t-1} + a_4 Pre_ROA_{t-1} + a_5 Pre_RET_{t-1} + a_6 Post_ROA_{t-1} + a_7 Post_RET_{t-1} + a_8 Pre_DROA_Peers_{t-1} + a_9 Pre_DRET_Peers_{t-1} + a_{10} Post_DROA_Peers_{t-1} + a_{11} Post_DRET_Peers_{t-1} + \sum b_i Country_i + \sum c_j Year_j + \sum d_k Industry_k)$$

Variable definitions are in Appendix B. Variables with prefix ‘Pre’ are equal to the performance variables in the pre-adoption period, and zero post-adoption. Variables with prefix ‘Post’ are equal to the performance variables in the post-adoption period, and zero pre-adoption. Column (1) examines the impact of changes in foreign ownership from other Continental European countries on RPE relative to foreign peers around IFRS adoption. The pre-adoption foreign ownership percentage is the average from years 2002 to 2004 and the post-adoption foreign ownership percentage is the average from years 2006 to 2008. Firms in the *IncrOwn* group see their ownership held by investors from other Continental European countries in our sample increase post-2005. Firms in the *NIncrOwn* group do not experience increases in ownership held by investors from other Continental European countries post-2005. Variables with prefix ‘IncrOwn’ (*NIncrOwn*) are equal to the performance variables for the ‘IncrOwn’ (*NIncrOwn*) group, and zero otherwise. Column (2) examines the impact of changes in the percentage of subsidiaries in other Continental European countries on RPE relative to foreign peers around IFRS adoption. The pre-adoption foreign subsidiary percentage is the average from years 2002 to 2004 and the post-adoption foreign subsidiary percentage is the average from years 2006 to 2008. The percentage of subsidiaries in other Continental European countries is defined as the number of subsidiaries in other Continental European countries divided by the total number of subsidiaries (it is set to zero when a firm has no subsidiaries). Firms in the *IncrSub* group experience increases in the percentage of subsidiaries in other Continental European countries post-2005. Firms in the *NIncrSub* group do not experience increases in the percentage of subsidiaries in other Continental European countries post-2005. Variables with prefix ‘IncrSub’ (*NIncrSub*) are equal to the performance variables for the ‘IncrSub’ (*NIncrSub*) group, and zero otherwise. ***, **, * indicate that a coefficient is significantly different from zero at the 1%, 5%, 10% level, two-tailed tests. Standard errors are clustered by country, year, and industry.

(1) Increases in foreign ownership from other Continental European countries (<i>IncrOwn</i>) versus No Increase in foreign ownership (<i>NIncrOwn</i>)				(2) Increases in the fraction of subsidiaries in other Continental European countries (<i>IncrSub</i>) versus No Increase in the fraction of foreign subsidiaries (<i>NIncrSub</i>)			
Variables	Pred.	Estimate	Std Err	Variables	Pred.	Estimate	Std Err
<i>Size</i>		0.0705***	0.0259	<i>Size</i>		0.0743***	0.0250
<i>Leverage</i>		-0.0135	0.2754	<i>Leverage</i>		-0.0330	0.2686
<i>BTM</i>		0.0508**	0.0233	<i>BTM</i>		0.0576**	0.0235
<i>Pre_ROA</i>	-	-0.4549	0.5129	<i>Pre_ROA</i>	-	-0.6443	0.5174
<i>Pre_RET</i>	-	-0.0358	0.1762	<i>Pre_RET</i>	-	-0.0658	0.1736
<i>Post_ROA</i>	-	-1.7607***	0.4993	<i>Post_ROA</i>	-	-1.4688***	0.4879
<i>Post_RET</i>	-	0.1431	0.1503	<i>Post_RET</i>	-	0.1057	0.1499
<i>Foreign peers</i>							
<i>IncrOwn_Pre_DROA_FrgnPeers_DAS</i>		0.0814	0.1758	<i>IncrSub_Pre_DROA_FrgnPeers_DAS</i>		0.0170	0.2124
<i>IncrOwn_Pre_DRET_FrgnPeers_DAS</i>	+	0.2712	0.1695	<i>IncrSub_Pre_DRET_FrgnPeers_DAS</i>	+	0.1266	0.2175

<i>IncrOwn_Post_DROA_FrgnPeers_IFRS</i>	+	0.4076***	0.1562	<i>IncrSub_Post_DROA_FrgnPeers_IFRS</i>	+	0.3625**	0.1831
<i>IncrOwn_Post_DRET_FrgnPeers_IFRS</i>	+	0.0634	0.1831	<i>IncrSub_Post_DRET_FrgnPeers_IFRS</i>	+	-0.0200	0.2079
<i>NIncrOwn_Pre_DROA_FrgnPeers_DAS</i>		-0.1569	0.2090	<i>NIncrSub_Pre_DROA_FrgnPeers_DAS</i>	-	-0.0564	0.1521
<i>NIncrOwn_Pre_DRET_FrgnPeers_DAS</i>	+	0.5054**	0.2102	<i>NIncrSub_Pre_DRET_FrgnPeers_DAS</i>	+	0.4021**	0.1628
<i>NIncrOwn_Post_DROA_FrgnPeers_IFRS</i>	+	0.3228*	0.1909	<i>NIncrSub_Post_DROA_FrgnPeers_IFRS</i>	+	0.3953***	0.1522
<i>NIncrOwn_Post_DRET_FrgnPeers_IFRS</i>	+	0.2939	0.2041	<i>NIncrSub_Post_DRET_FrgnPeers_IFRS</i>	+	0.1965	0.1791
<i>Local peers</i>							
<i>Pre_DROA_LclPeers_DAS</i>	+	0.2532*	0.1520	<i>Pre_DROA_LclPeers_DAS</i>	+	0.2569*	0.1430
<i>Pre_DRET_LclPeers_DAS</i>	+	-0.0821	0.1584	<i>Pre_DRET_LclPeers_DAS</i>	+	-0.0874	0.1538
<i>Post_DROA_LclPeers_IFRS</i>	+	-0.2386	0.1453	<i>Post_DROA_LclPeers_IFRS</i>	+	-0.2409*	0.1424
<i>Post_DRET_LclPeers_IFRS</i>	+	0.0405	0.1499	<i>Post_DRET_LclPeers_IFRS</i>	+	0.0578	0.1424
Year, country, industry fixed effects			Yes				Yes
N			5732				6014
Turnover			775				811
Pseudo R ²			0.0580				0.0568
F-test Two-tailed P-values							
<i>IncrOwn_Pre_DROA_FrgnPeers_DAS</i> = <i>IncrOwn_Post_DROA_FrgnPeers_IFRS</i>			0.1671	<i>IncrSub_Pre_DROA_FrgnPeers_DAS</i> = <i>IncrSub_Post_DROA_FrgnPeers_IFRS</i>			0.2151
<i>NIncrOwn_Pre_DROA_FrgnPeers_DAS</i> = <i>NIncrOwn_Post_DROA_FrgnPeers_IFRS</i>			0.0889	<i>NIncrSub_Pre_DROA_FrgnPeers_DAS</i> = <i>NIncrSub_Post_DROA_FrgnPeers_IFRS</i>			0.0366