

Alternative earnings disclosures are high-quality if women are on board

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Firms are likely to be more transparent about their alternative earnings if

there are at least three women on their board, new research published in the *European Accounting Review* shows.

Dr. Dinithi Ranasinghe, of the Department of Accountancy and Finance, led a study which reveals firms with a gender-diverse board produce high-quality non-GAAP disclosures.

Non-GAAP earnings, also known as alternative performance measures, are pieces of financial information firms disclose outside of their regulated [financial statements](#).

"As these are subject to managerial discretion, it is important for [investors](#) to understand whether they reflect the underlying economic performance of the firm," Dr. Ranasinghe says.

Using a sample of 200 firms on the Australian Stock Exchange from 2013 to 2018, researchers measured the quality of their non-GAAP earnings by how consistently firms calculate them over time and how their exclusion compared with other firms' exclusion.

The results showed when firms have gender-diverse boards their non-GAAP disclosures are more consistent and more comparable. Interestingly, the results also hold for the firms when there are three or more women directors on board.

Dr. Ranasinghe says this is because women are more likely to be risk averse and ethical.

"Further, there is research to suggest that when there are more female directors on a board, male members are likely to be more diligent," she says.

"We expect that board monitoring over managerial financial reporting is

more robust."

As a result, managers are less likely to be opportunistic and more likely to try to increase the quality of their non-GAAP disclosures.

"This will lead them to increase the consistency and comparability of their disclosures, which are qualitative and critical characteristics of financial disclosures."

Dr. Ranasinghe says this is important knowledge for both investors and regulators.

"Our insights about non-GAAP reporting corroborate the important role of monitoring associated with the board of directors."

It also highlights to regulators that gender-diversity is one way to improve [disclosure](#) quality.

"These findings are applicable to the New Zealand capital markets as the New Zealand financial reporting regime only provides guidelines for non-GAAP disclosures and has less prescriptive regulatory oversight.

"Due to the prevalent light-handed approach to regulation, it is important that listed [firms](#) in New Zealand do have gender-diverse boards that oversee consistency and comparability of non-GAAP disclosures."

More information: Dinithi Ranasinghe et al, Do women mind the non-GAAP? Board gender diversity and non-GAAP disclosure quality, *European Accounting Review* (2022). [DOI: 10.1080/09638180.2022.2116065](https://doi.org/10.1080/09638180.2022.2116065)

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