

2019-2020 AFAANZ Research Grant Report

1. Name, Position, Contact Details for each applicant

Name	Position	Email
Zhuoan Feng	Lecturer	terrence.feng@waikato.ac.nz

2. Project Title

Product market competition and non-GAAP reporting

3. Updated Project Summary

The primary purpose of this project is to investigate whether and how product market competition influences the disclosure decision and quality of alternative performance measures voluntarily disclosed by firms, namely the non-GAAP earnings disclosure. This project employs large tariff reductions as an exogenous increase in competitions, and conduct difference-in-differences tests of changes in the managerial disclosure decision and the quality of non-GAAP earnings surrounding this exogenous shock.

The data for firm characteristics and financial information is from Compustat and Audit Analytics. Non-GAAP data for 2003-2015 are readily available from Bentley et al. (2018), with hand-collected non-GAAP data for 2016 supported by this funding. Based on the available data, we examine several different perspectives of non-GAAP disclosures in relation to product market competition, including (1) the likelihood of voluntary non-GAAP disclosure; (2) the opportunistic nature of non-GAAP disclosure as reflected in the level of non-GAAP exclusions; (3) the average quality of non-GAAP earnings; and (4) the value relevance of non-GAAP earnings. We find that firms in a highly competitive environment are more likely to report non-GAAP earnings, and their non-GAAP disclosures are relatively higher quality and more value relevant, compared with firms in industries with a less competitive environment.

This project makes three significant contributions to the literature and practice. First, by examining non-GAAP disclosure, this project adds to the existing literature on competition and corporate statutory and voluntary disclosure. The findings can reconcile the mixed evidence on competition and disclosure quality (e.g., Marciukaityte and Park, 2009 and Shi et al. 2018), and also offers a better understanding of the conflicting results of the relation between competition and disclosure (Beyer et al. 2010; Berger 2011).

Second, the examination of competition in the context of non-GAAP disclosure adds to the growing literature on non-GAAP reporting that examines the determinants and attributes of non-GAAP earnings numbers disclosed voluntarily (Black 2016; Marques 2017; Black et al. 2018). The results provide important insights into how market factors (e.g., tariff rates) could affect the voluntary disclosure decisions and behaviours of the management.

Finally, our project has significant practical impacts. Non-GAAP reporting is increasing prevalence in Australia and New Zealand, while Australia and New Zealand's economy heavily relies on import-export trade. Our project (using the U.S. setting, which is the world's largest economy) can provide cutting-edge evidence on how the tariff rates affect the voluntary disclosure decisions of the management. This evidence provides more in-depth insight for regulators and accounting professionals about how the external facts influence the managerial decision on disclosures.

4. Funds Granted

AUD \$6,000 (approximately NZD \$6,177.86)

5. Detailed Report on Expenditure of Funds against Budget Items, with variations explained

University of Waikato

Hourly rate: NZD \$28+8% on-cost= NZD \$30.24

Total expenditure= NZD \$30.24*204=\$NZD 6168.96

6. Outcomes

We have completed the first draft of the paper 30 June 2020. Below is the abstract of the working paper:

Abstract

Prior literature documents conflicting evidence of the effect of product market competition on the frequency and the quality of statutory earnings disclosure. We continue this line of inquiry to investigate whether and how product market competition influences the disclosure decision and quality of the non-GAAP earnings disclosure. This study employs large tariff reductions as an exogenous increase in competitions, and conduct difference-in-differences tests of changes in the managerial disclosure decision and the quality of non-GAAP earnings surrounding this exogenous shock. We find that firms in highly competitive industries are more likely to disclose non-GAAP earnings numbers voluntarily, and their non-GAAP exclusions are less aggressive than those firms in less competitive industries.

7. Future Intentions for this Project

a. Conference submissions

We plan to submit the paper to the 2021 AFAANZ annual conference

b. Journal submissions

We plan to submit the paper to Contemporary Accounting Research (ABDC rank A*) in 2021.

8. Summary of Outcomes and Benefits

We completed the first draft of the paper on 30 June 2020, and plan to present it on 2021 AFAANZ annual conference. After obtaining feedback from the conference, we will review our paper and prepare for the submission to Contemporary Accounting Research in 2021. The research grant plays a critical role in our project. It supports us to collect a substantial amount of data of non-GAAP reporting. Beyond this project, the manual collection of non-GAAP data will facilitate future research projects in non-GAAP disclosures and grant applications.