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Managerial Opportunism in Fair Value Accounting: The Role of Board Composition

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Abstract This paper aims to explore the impact of corporate governance mechanisms on managerial opportunism in reporting unrealized gains and losses under fair value accounting. Building on the agency theory, we explore the relationship between the board of directors' composition and other comprehensive income (OCI) reporting choices. Based on previous findings, our conceptual model suggests that more effective boards could limit managers' accounting manipulation in OCI items reporting, through the exercise of stronger monitoring and advising functions. Using a sample of 54 Italian listed firms for the period 2009-2018, we provide evidence that while larger boards negatively affect OCI changes, gender board homophily exerts a positive effect on the magnitude of total OCI. Consistent with our predictions, our results therefore suggest that more diverse boards may hinder managerial ability to distort financial information to their advantage. Overall, our study contributes to the ongoing debate on fair value accounting on financial information usefulness, also adding to the literature on firms' transparency and corporate governance, confirming their mutually supporting role.

Keywords Fair Value, Corporate Governance, OCI Reporting, Board Diversity, Managerial Opportunism, Accounting Manipulation

1. Introduction

Following the global financial crisis, corporate governance and accounting quality have been at the core of scholarly and regulatory bodies' conversations, as key tools to counteract agency problems and to foster investors' and stakeholders' trust [1], therefore supporting companies' overall value creation and performance thanks to their positive impact in terms of reducing information asymmetry and agency problems [2].

In this scenario, evidence exists of the significant role played by disclosure in enhancing the outsiders' understanding of executives' management choices along with the directors' capability to supervise their actions [3]. Accordingly, international standard setters have attempted to strengthen the usefulness of accounting and financial information in supporting decision-making and fostering firms' transparency [4]. Nevertheless, recent corporate scandals have raised concerns on the true financial information quality and informativeness, based on the claims raised by both scholars and practitioners that the current accounting rules still leave room for managers' financial data manipulation, enabling them to exploit control benefits to their advantage [6]. Specifically, besides "real" earnings management practices [6], fair value accounting has been progressively acknowledged as a potential source of managerial opportunism, due to the discretion given by the IASB's hierarchization of evaluation techniques inputs [7]. Indeed, both level 2 and 3 inputs raise the need to make assumptions on hypothetical

market participants and marketplaces, along with assets and liabilities conditions and the business prospects. Such requirements are found to negatively affect financial information usefulness, as conjectures may influence financial data reliability and jeopardize its perceived relevance [8]. Therefore, despite the aim of reinforcing financial reporting credibility, extant literature extensively reports the management inclination to use fair value accounting for self-interest related to compensation schemes or to convey a better firm's image in terms of financial performance and position, by strategically delaying losses recognition [9]. In light of the above, even greater concerns have emerged with respect to other comprehensive income (OCI) reporting since the unrealized nature of its components may not be correctly interpreted by unsophisticated users [10]. Though the value relevance of OCI items is well known, their informativeness and predictive content on firms' future performance has been widely discussed because of the potential impact of managerial discretion in reporting financial performance and position through fair values restatements [11]. Indeed, while OCI value relevance and materiality have been stated by prior research [12], questions have emerged on both their contribution to financial information and on the effect in terms of perceived reliability of financial data, especially in the eyes of nonprofessional users [10].

In this perspective, the role of corporate governance mechanisms in counterbalancing poor firms' transparency has been questioned, revealing that the board composition may favorably influence corporate disclosure and lower managerial discretion, thus improving its monitoring and advisory functions, while also scaling down insiders' opportunism. Several studies suggest that possible anomalies could be limited through the use of effective corporate governance mechanisms, which can counteract possible opportunistic behaviors [13,18]. The role of corporate monitoring is to reduce such tendencies in favor of a greater accuracy and integrity of the overall financial reporting process. Thus, building on agency theory, we investigate how OCI reporting is affected by board characteristics, namely board independence, board size, and board gender homophily vis- à-vis gender diversity. In our conceptual framework, we hypothesize that greater board independence and size may reduce managerial accounting manipulation [14-16]. On the contrary, board gender homophily as opposite to gender diversity could favor OCI items manipulation, because of greater risk propensity and inter-group cohesiveness associated with male-dominated decision-making contexts [17].

We test our hypotheses on a panel dataset of 54 Italian listed firms for the period 2009-2018 in terms of both total OCI reporting and OCI variation. Our results suggest a negative effect played by board size on OCI variation, while the board male homophily is found to be positively related to the total amount of OCI for the period. This supports previous findings on the role of board diversity in enhancing the monitoring and supervising capabilities of directors as, while the lack of gender diversity appears to allow for greater managerial accounting discretion, larger boards are found to reduce their discretion in fair value accounting choices [18]. This could be due to the higher heterogeneity of directors' expertise, skills and point of view, along with the lower levels of individual workload in the presence of a greater number of directors.

Overall, this paper contributes to the ongoing debate on reciprocal reinforcement of information transparency and corporate governance mechanisms, also adding to the extant literature on fair value accounting usefulness in a poor shareholder protection environment. Indeed, to the best of the authors' knowledge, this is the first study exploring the influence of board characteristics on other comprehensive income reporting, especially within the Italian context.

The remainder of the paper is organized as follows. Section 2 presents the literature review and develops the research hypotheses. Section 3 describes the sample and the research design. In Section 4, we present the empirical results and in Section 5 we discuss our findings and provide conclusions that sketch out our contributions to the extant literature.

2. Literature Review and Hypothesis Development

2.1. Discretion in Fair Value Accounting

The last decades have been hit by the global financial crisis and by multiple corporate scandals, which have collectively contributed to reviving the debate on sustainable growth [8], thus encouraging both academics and regulators to rethink the role played by effective corporate governance mechanisms on firms' overall performance and value creation [19]. In this scenario, corporate governance bodies, particularly the board of directors and board committees, have been regarded as a central tool to foster decision making and reduce agency problems because of their supervisory and advising functions. At the same time, the cruciality of firms' disclosure and transparency as a substitute for more expensive corporate governance mechanisms is well recognized [20]. Indeed, more accurate and transparent information enhances both directors' and outsiders' ability to monitor the management actions and to prevent managers from engaging in projects and activities that could be detrimental to their firms' long-term value creation [20]. Also, greater transparency contributes to reducing information asymmetry and makes investors and stakeholders more knowledgeable of management practices and their consequences on firms' value [21].

In light of this view, both scholars and regulatory bodies have started to question the effectiveness of financial information in depicting businesses' actual situation and

future prospects. Indeed, the central task accomplished by firms' financial reporting is testified by at least two main aspects. First, the prioritization given to reorienting accounting information towards satisfying the needs of larger groups of stakeholders [22]; and, second, the heterogeneous standard setters' concerns and efforts to improve the usefulness of such information [4]. Nevertheless, several studies report the decreasing ability of financial information, and more specifically earnings, to reflect and predict firms' performance [4, p. 465], therefore failing to meet the true and fair view objective.

In particular, despite the FASB's and IASB's common goal to provide external users with financial information capable of sustaining investment decisions [4], previous studies agree that opportunities for accounting manipulation remain [5]. Although this circumstance has been linked to various reasons, fair value accounting has been acknowledged as one of the major causes underlying the potential for managerial opportunism: the relaxation in fair value accounting introduced by both the FASB and the IASB [8] has left room for greater accounting discretion, especially in light of the focus in the balance sheet model on the fair evaluation of assets and liabilities [4]. On this matter, it has been argued that the intent of regulatory bodies to grant relevant information to external users has led to progressively overshadow its reliability [23], because of the shift from reporting the entry-value, represented by the historical cost, to fair value, i.e. a hypothetical exit price value requiring accountants' individual judgment. From a conceptual standpoint, the IASB's definition of fair value, identified as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date", implies that to estimate the fair value of financial items, financial statement preparers must refer to hypothetical market participants' assumptions on the pricing of an asset or a liability in a likewise "hypothetical best use market" [23, p. 320], therefore inherently requiring a certain degree of subjectivity. This is particularly true because of IFRS 13 three-level hierarchization of inputs used for the determination of fair value: while level 1 inputs consist of unadjusted quoted prices in active markets of identical assets at the measurement date, those relating to level 2 are derived from quoted prices of similar assets or liabilities, that can be adjusted by managers in light of the assets conditions and comparability, as well as of the activity level of the reference market [24]; lastly, level 3 inputs are used when no observable input from active marketplaces is available and therefore arise from internally developed models based on preparers' assumptions [25]. Thus, level 2 and level 3 inputs pave the way for managerial discretion, that in turn allows for earnings misrepresentation and accounting distortions, based on managers' unverifiable judgments referred to markets liquidity and ability to reflect fundamental values of items, as well as to the ordinary nature of transactions [8]. In addition, managers' assumptions may affect fair value determinations even when a market price exists, because of classification choices adopted upon the initial recognition of fair value assets [26].

In this perspective, both the determinants and the effects of managerial opportunism have been extensively investigated by the extant literature, distinguishing between "real earnings management and earnings management using accounting discretion" [27, p. 330]. Focusing on the latter, evidence exists that earnings management practices may arise due to assumptions required by fair value accounting [9]: on the one hand, the determinants of accounting strategies have been traced back to a number of factors, such as managers' compensation plans related to reported profits [27], or managers' intent to enhance their image and reputation through conveying positive financial information [28]; on the other hand, fair value measurements are found to be more subjective than other measurement bases, therefore allowing for the strategic use of this subjectivity to manipulate firms' financial performance and position through fair values restatements [29].

Although fair value accounting can virtually provide more accurate and price-relevant financial data due to managers' ability to incorporate private information in valuation models [30], prior studies report contrasting findings, as an unfavorable impact of fair value assumptions on the reliability and, consequently, on information asymmetry has also been detected [24]. For instance, Fargher and Zhang [8] report that the increased managerial discretion occurred after FASB's relaxation of fair value accounting is positively associated with earnings management, consistently with Bartov et al. [13] findings. Also, Pompili and Tutino [31] provide evidence of a negative relationship between fair value accounting and earnings quality, regardless of the level of inputs used in the evaluation process, hence suggesting that fair value measurements may be potentially ineffective in ensuring the quality of financial reporting. Similarly, accounting discretion emerges in both the timing and recognition of unrealized gains and losses presented among other comprehensive income (OCI) items [32,43]. Particularly, scholars have observed that fair value manipulations are enacted for different purposes, such as income smoothing and loss recognition delay [33]. This occurs because managers may be willing to avoid the recognition of losses related to financial instruments, fixed assets and goodwill (26,29) until they become gains or the amount of the loss decreases [9]. This practice becomes even more salient in some specific contexts; for instance, in the case of banks, managers tend to report higher unrealized gains to boost capital adequacy ratios [30]. In this scenario, other comprehensive income reporting has raised concerns on the significance and predictive ability of such financial items. Indeed, as OCI items represent unrealized gains and losses arising from fair valuation of assets and liabilities, they provide information about a company's potential income and cash flows from transactions generally to be

finalized at some point in the future. In this regard, prior studies suggest that OCI items may be exposed to managerial opportunism because of their high volatility deriving from market inputs fluctuation [34]: first, evidence exists that OCI presentation choices may be manipulated by managers' having stronger equity-based incentives and less job security [35]; second, the magnitude of OCI is found to be included in companies' performance analyses [32]; last, in poor information contexts, OCI may convey noisy information to the market, thus potentially hindering the users' ability to interpret earnings [36]. In sum, prior studies argue that OCI items determination offers fertile ground for managerial accounting manipulations as, besides being based on fair value assumptions, its unrealized nature and volatility magnify the potential for fair values conjectures.

2.2. Board Composition and Firm Transparency

The existing literature widely recognizes the supporting role played by accounting quality in multiple respects, in terms of decreasing information asymmetry and agency costs and protecting outsiders' rights by both providing a better understanding of the firm's management and preventing managers from using private information at their own benefit, i.e. extracting benefit of control [21]. Therefore, when financial information is perceived as unreliable, more expensive corporate governance mechanisms must be implemented to compensate for the firms' opaqueness [21]. This is further testified by findings on the relationship between accounting quality and a country's institutional specificities, as low levels of shareholders' protection [37] and legal incentives to corporate disclosure [38] increase the accounting secrecy, with negative implications on transparency [39]. Indeed, when such characteristics prevail, sounder corporate governance systems are required in order to align insiders' and outsiders' interests. In line with this view, a large part of the literature reports a negative association between corporate governance and information asymmetry [40], due to effective monitoring systems that lower conflicts of interest between outside shareholders and insiders, either top managers or blockholders. Accordingly, fair value accounting may pose challenges both to the users of financial reporting and to firms [18]: the subjectivity and discretion underlying fair value estimations negatively affect the perceived reliability of financial data, and consequently reduces their perceived relevance [8]; therefore, questions have emerged on the role played by corporate governance in favoring accounting quality and contrasting managers' manipulations of fair value estimates [41]. Nevertheless, despite the agreement on the centrality of the board of directors in monitoring executives' behavior and management choices, relatively few empirical studies have explored its impact on financial items fair valuation, reporting a positive association between the board composition and firms' transparency [42]. Based on this, we investigate the role played by three key characteristics determining the board composition, i.e. board independence, the board size, and the gender homophily as opposite to the gender diversity. This approach is fully in line with the existing literature that identifies that multiple board characteristics affect its supervisory functions.

The Role of Board Independence and Board Size

When exploring the board composition, board independence and board size have been regarded as two crucial elements driving firm performance [43] and board effectiveness [44]. Prior evidence suggests that board independence may foster directors' ability to decrease the likelihood of fraud and earnings manipulation [14,15], as independent members are seen as a "check and balance mechanism in enhancing boards' effectiveness" [44]. Indeed, their non-involvement in the business is found to enhance their monitoring of managers' self-interested actions and thus decrease the probability of shareholders' expropriation [44].

Focusing on the board size, prior studies provide controversial results. On the one hand, some studies report that larger boards tend to be less effective in performing their monitoring function because at an increasing number of directors, the quality of intra-board communication gets poorer [42]. On the other hand, evidence also exists of the potential for larger boards to increase the accounting quality, as the greater heterogeneity of members adds to the diversity of perspectives [16] and helps to share varying experiences [45], thus potentially decreasing the incidence of earnings manipulation. Furthermore, a greater number of appointed directors decrease the individual workload of each of them, and hence enable better executives' supervising [46]. In addition, larger boards are likely to have higher proportions of independent directors and, consequently, to better prevent accounting opportunism by managers [47]. Based on the above, we therefore expect that board independence and board size will have similar effects, as they may both reduce the potential managerial opportunism in OCI reporting, thus containing the manipulation of such items. Consistently, we hypothesize that the presence of independent directors and larger boards will be negatively related to OCI reporting:

Hypothesis 1: Board independence and board size are negatively associated with OCI reporting

The Role of Board Gender Homophily Versus Diversity

Gender diversity has been extensively investigated in the recent literature with the aim of assessing whether and to what extent the presence of women on the board represents a source of value and has an influence on the firm performance. Based on this, board gender homophily as opposed to gender diversity may negatively influence the overall accounting quality in several ways. First, less female-inclusive boards decrease inter-group

dysfunctionalities, ensuring the cohesiveness of board members in decision making [48]. Second, as the presence of female directors is found to improve board independence and its monitoring functions over fraud occurrence [49] due to women's greater risk aversion [17] and ethical culture, male-dominated boards may lead to higher managerial opportunism. Indeed, as the persistence of discrimination barriers and the consequent reputational concerns determines female directors' inclination to exert stronger efforts than their male counterparts towards more effective supervising of management behavior [50], we argue that the lack of gender diversity may hinder the board's ability to dissuade managers from enacting earnings manipulation. Last, lower levels of board gender diversity may indicate worse governed firms [51].

Based on this, we hypothesize that greater gender homophily on the board will be associated with lower accounting quality in terms of enhancing OCI reporting. We hence posit the following:

Hypothesis 2: Board gender homophily is positively associated with OCI reporting

Overall, our conceptual framework suggests that managerial discretion in fair value accounting may be counterbalanced by the board composition. Particularly, we investigate the effect of board characteristics on other comprehensive income (OCI) items, since they represent aggregated metrics of fair value adjustments, potentially predicting future firms' performance [52]. In this regard, previous findings on comprehensive income reporting show that managers tend not only to manipulate OCI recognition and timing, but also to manage users' perception of their relevance by presenting them separately from the income statement in case they negatively affect the firms' performance: as OCI items are found to be value relevant and strongly considered by investors [12], we argue that managerial discretion could influence the amount of OCI items reported on financial statements, accordingly to previous evidence of managers' intent to delay loss recognition and to provide a more favorable image of the company overall value creation through higher OCI levels [33]. In sum, we expect that both OCI and OCI changes over a two-year period (i.e., from t-1 to t) will be lower in case of more independent and larger boards, according to existing evidence of their greater monitoring capacity. On the opposite, we predict a negative relationship between board gender homophily, as we believe that it may increase the likelihood of managerial accounting opportunism, therefore positively impacting on OCI and OCI changes.

3. Methodology

3.1. Sample Selection and Variables

To test the hypotheses of this study, we built a panel of 54 companies listed on the Italian Stock Exchange from 2009 to 2018, for a total of 162 firm/year observations. Data were hand-collected from the sampled companies' financial and governance reports. In line with prior studies, the dataset excludes financial firms in light of their different structures and the roles of their accounts and boards of directors [53].

Consistent with the prior literature reporting that the accounting quality is affected by country-specific institutional characteristics and legal environment [37,38], we focused solely on Italian companies. Italy indeed represents an ideal research setting due to the low levels of shareholders' protection, the scarcely developed financial markets and the typically concentrated ownership.

Our dependent variables are the total amount of OCI, obtained by adding together the net amount of OCI items for the period (Hypothesis 1), and changes in the total amount of OCI (ΔOCI) (Hypothesis 2), computed as shown below:

$$\Delta OCI_{t,i} = \frac{OCI_{t,i} - OCI_{t-1,i}}{|OCI_{t-1,i}|}$$

While the first variable captures the total amount of unrealized gains and losses recorded during the reporting period, the second one measures the change occurred in total OCI amount between time t and time t-1. OCI items data were hand-collected from the sampled companies' annual reports.

The independent variables used in the study are board independence, board size, and board gender homophily. The operationalization of *Board Independence* is the result of several steps: we first hand-collected data on the board composition from each firm's corporate governance report, and then scrutinized each board member. We then operationalized a binary variable that takes value 1 in case of independent members are appointed to the board of directors and 0 if otherwise. *Board size* is a count variable based on the number of members sitting on the board. Finally, *Board gender homophily* is a dichotomous variable taking value 1 in case of no female directors appointed to the board, and 0 if otherwise, i.e. gender diverse boards. In terms of control variables, we added a set of controls at the CEO-, board-, and firm-level. Specifically, we control for *CEO duality,* as it implies relevant agency costs arising from the lack of transparency and CEO entrenchment, that collectively result in a lower performance with respect to non-duality situations [54]. This variable has been operationalized as a binary variable, assigned 1 in case the CEO is also the chairman of the board, and 0 otherwise. In our sample, 29% of companies rely on CEO duality; thus, the vast majority of the sampled observations (71%) rather prefer a separation of these roles.

At the board level, *Board meetings attendance* was included to rule out potential effects associated with the frequency of attendance to the meetings of the board. This variable is operationalized as the percentage of board

members attending each meeting. Interestingly, the mean of this variable is 0.97, thus indicating that in the sampled firms, board members actively participate in both ordinary and extra-ordinary meetings.

Finally, at the firm-level, we also control for the *Firm size*, measured as the natural logarithm of total assets, further divided into quartiles, with quartile 1 as the baseline.

3.2. Models

In terms of model specification, consistent with the structure of our dataset, we performed two mixed effects panel data regressions. In particular, the following models were run to test Hypothesis 1 and Hypothesis 2 considering two different measures of other comprehensive income, which is regarded in terms of its total value (Model 1) and its time variation (Model 2).

Model 1

$$OCI = \beta_0 + \beta_1 \text{ Board independence} + \beta_2 \text{ Board gender diversity} + \beta_3 \text{ Board size} + \beta_4 \text{ CEO duality} + \beta_5 \text{ Board meeting attendance} + \beta_6 \text{ L2} + \beta_7 \text{ L3} + \beta_8 \text{ L4} +$$

Model 2

$$\Delta OCI = \beta_0 + \beta_1 \text{ Board independence} + \beta_2 \text{ Board gender diversity} + \beta_3 \text{ Board size} + \beta_4 \text{ CEO duality} + \beta_5 \text{ Board meeting attendance} + \beta_6 \text{ L2} + \beta_7 \text{ L3} + \beta_8 \text{ L4} +$$

4. Results

Tables 1 and 2 show the descriptive statistics and the correlation matrix among the variables.

Focusing on the dependent variables, OCI is characterized by a high dispersion, showing an average value of -102.65, that ranges from minimum of -1163 and a maximum of 954, with a median value of -28.50 and negative asymmetry of -0.35. As the variable standard deviation is 416.40, its high variability suggests that the increase in OCI recorded in some sampled companies could be neutralized by the negative variation experienced by the others. On the contrary, the average value of changes in OCI is -0.02, while the minimum and maximum values are, respectively, -1.8 and 1.26. The median value amounts to 0.19, thus revealing a negative skewness (-0.32).

On average, appointed directors are 8.62, ranging from 3 to 18 (median value 8), with most sampled companies having no independent or female directors in the observed period (2009-2018), although the proportion of both outsiders and women has increased over time because of changes of legal provisions explicitly requiring their appointment, such as the Golfo-Mosca law enacted in 2011.

As shown in Table 2, the correlation coefficients are all low, thus indicating that multicollinearity issues did not affect our results. To further ensure that our results are not affected by multicollinearity issues, we performed variance inflation factor (VIF) analysis. All VIFs were all well below the traditional cut-off of 5 (highest VIF is 1.37).

Table 1. Descriptive statistics

	Mean	Median	Std. Dev.	Min	Max
OCI	-102.65	-28.50	416.40	-1,163	954
ΔOCI	-0.02	0.19	0.97	-1.8	1.26
Board independence	0.12	0	0.32	0	1
Board size	8.62	8	2.83	3	18
Board homophily	0.88	1	0.33	0	1
CEO duality	0.29	0.29	0.46	0	1
Board meeting attendance	0.97	1	0.10	0.17	1
Total assets	449235.62	186,030	94,971	3,019	7,336,036

Table 2. Correlation matrix

		(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	OCI	1						
(2)	ΔOCI	0.21*	1					
(3)	Board independence	-0.01	-0.07	1				
(4)	Board homophily	0.20	0.05	-0.15	1			
(5)	Board Size	0.00	-0.13	0.25*	0.04	1		
(6)	CEO Duality	-0.01	0.05	-0.16	0.16*	-0.30*	1	
(7)	Board meeting attendance	0.03	0.11	-0.24	0.02	-0.13	0.16*	1
(8)	Total assets	0.01	0.11	0.02	-0.09	0.22*	-0.16*	0.01

*p< 0.05

Table 3. Regression results

	Model 1 DV: OCI	Model 2 DV: ∆OCI
Board independence	0.26 (29.33)	-0.24 (-0.06)
Board size	0.05 (0.68)	-2.39 (-0.08)**
Board homophily	2.65 (296.92)**	1.14 (0.29)
CEO duality	0.42 (110.34)	0.88 (0.56)
Board meeting attendance	0.04 (12.10)	0.56 (0.44)
Small firms	-0.94 (-335.52)	0.80 (0.16)
Medium-sized firms	-2.31 (-196.64)*	2.47 (0.55)
Large firms	0.43 (41.72)	1.85 (0.67)

Notes: Standard errors in parenthesis. Significance levels: *** p<0.01, ** p<0.05, * p<0.1

The results of regression analysis are shown in Table 3.

Relating to our first hypothesis, in contrast to our expectations, no significant effect emerges of firms' board independence and board size on the total OCI (Model 1). As opposite, by analyzing the impact of board composition on OCI changes, Model 2 provides evidence of a negative effect associated with board size ($\beta = -0.08$, p value < 0.05). Therefore, in both models, board independence does not play a significant role in affecting OCI reporting, regarded in terms of both its total value and variation. The statistical significance of Board size in the second model, however, confirms that at an increasing number of board members, the likelihood of delaying losses recognition decreases, thus supporting prior findings on larger boards' better ability to monitor managerial opportunism.

Overall, this result provides partial support to our Hypothesis 1 that board independence and board size are negatively associated with OCI reporting.

Moving to our second hypotheses, there is a statistically significant and positive association between board gender homophily and total OCI ($\beta = 2.65$, p value < 0.01). This indicates that boards with no female directors tend to report higher amounts of other comprehensive income items, apparently confirming prior literature on men's lower risk aversion, as well as on the positive effect of diversity on boards effectiveness [14,17]. While no statistical significance is found in Model 2, it is worth noticing that the coefficient of board gender homophily still shows the expected sign, thus indicating that male-dominated boards are associated with poorer OCI reporting.

5. Discussion

Accounting quality has been extensively debated in the last decades, as both academics and practitioners acknowledge the role of disclosure in lowering information asymmetry and agency costs, therefore complementing firms' corporate governance systems. Nevertheless, despite standard setters' efforts to provide financial statement preparers with accounting rules aimed to grant useful and reliable information, concerns remain on their effectiveness in faithfully depicting companies' financial performance and position. Indeed, besides "real" earnings management, accounting opportunism may emerge due to the latitude left to preparers when judgments are required by assets and liabilities evaluation techniques, as for fair value accounting.

Our study therefore aims at contributing to the extant literature by investigating the relationship between OCI reporting and board independence, size and homophily. Our results partially support both hypotheses: on the one hand, we provide evidence that the number of directors appointed to the board is negatively related to OCI changes, therefore adding to the role played by board size on board effectiveness emerged in prior studies. This finding may indicate that a stronger monitoring role is exercised by larger boards [16], allowing directors to better counteract managers' inclination to manipulate fair value accounting by delaying losses recognition, therefore postponing the presentation of fair value decreases until they reverse or decline in magnitude [9]. On the other hand, we find a positive association between board homophily and OCI, in line with predictions of lower corporate governance outcomes when dominant coalitions prevail [17]. This testifies the lower monitoring ability of male dominated boards, because of greater men's risk propensity and higher cohesiveness levels of dominant coalitions.

Based on the above, our findings sustain the idea that, although larger boards may lead to poorer monitoring ability due to communication and coordination problems [55], their greater expertise and the lower level of individual workload may enhance time and efforts devoted to supervising managers' actions [46]. Furthermore, our result may be explained considering that larger boards may be characterized by higher levels of intra-group socio-demographic diversity. Consistent with the extant literature, more diverse boards in terms of age, education, gender or nationality, are found to allow for greater board effectiveness. Indeed, given the complexity of directors' duties and that they are assigned heterogeneous purposes [56], different skills and expertise are required that can be

better deployed when appointed members bring diversified competences, thus adding to the firm's human capital [57]. These considerations may also provide explanations for the inconsistency of results related to board independence as, while independent directors are found to positively affect executives' monitoring, it is also argued that their effectiveness may depend on individual and cultural characteristics: first, questions have emerged on the actual "independence" of independent directors, as evidence exists that firms tend to misclassify directors, this having a negative effect on firms' performance [58]; second, prior research testifies that when operating in a cultural context characterized by the cultivation of interpersonal relationships - such as the Italian one - independent directors may conform to shared norms to preserve the stability of social relationships, thus avoiding actions that are unfavorable to others and contrasting senior management [43]. Based on this, the directors' independence attribute per se may not automatically imply their effective contribution to the board outcomes through adding diverse and unbiased viewpoints, nor reflect their greater ability to monitor executives. This therefore calls for further analysis aimed at detecting whether, besides the existence of formal attributes of independence reported in corporate reports, directors are truly and substantially able to exercise their functions in an autonomous way from the dominant coalition. This finding is even more interesting due to our research setting as, based on Hofstede's cultural dimensions, Italy is characterized by high levels of uncertainty avoidance and by high embeddedness, i.e. the cultural emphasis on maintaining the status quo and restraining actions or inclinations that might disrupt group solidarity or the traditional order [59].

Focusing on board gender homophily, we report a positive impact of such characteristic on OCI changes. According to prior studies, male-dominated boards tend to show lower risk aversion and greater cohesiveness [48], therefore partly neutralizing the positive effects exerted by out-group distinctions on board effectiveness. Indeed, greater proportions of women directors are found to be beneficial to the board's duties execution, thanks to their distinctive skills and behaviors: for instance, prior evidence testifies that women on boards are more sensitive to diverse viewpoints and more prepared when attending board meetings, also showing greater interaction capabilities and inclination towards stakeholder engagement [60], thus positively affecting firms' transparency [49]. Nevertheless, as their appointment to the board may lead to inter-groups disfunctions and conflicts, dominant male coalitions may lessen their monitoring role, which turns out to also decrease managerial opportunistic behavior oversight.

6. Conclusions

Our study contributes to the existing literature in several ways. First, we add to the ongoing conversations on the mutual relationship between corporate transparency and governance, by providing additional evidence on the substitute role of disclosure relative to corporate governance mechanisms in decreasing agency costs and, therefore, in protecting outsiders' interests. This is consistent with prior findings suggesting higher firms' opaqueness in those legal environments characterized by low shareholders' protection, calling for stronger corporate governance mechanisms to counteract insiders' extraction of private benefits of control [6,21]. Second, we contribute to shedding light on the effect exerted by fair value accounting on financial information quality, arguing that the latitude left by accounting rules may affect the reliability of financial data, mainly due to the unverifiability of managers' assumptions underlying fair value estimates. Furthermore, to the best of our knowledge, this is the first study to investigate the impact of board composition on OCI reporting, unveiling the potential for managerial manipulations. Lastly, by providing evidence of the favorable effect of board characteristics on firms' transparency, we contribute to expanding the knowledge on the impact of board diversity on board effectiveness.

Our results also offer practical implications, at both the managerial and the standard setters level. On the one hand, shareholders should be aware of the mitigating function played by diverse boards towards managerial opportunism, thus considering that appointing more diverse directors could foster not only firms' long-term value creation and economic prospective sustainability, but also decrease managers' expropriation of the firm's wealth. On the other hand, from the standard setters' viewpoint, the trade-off between fair value accounting relevance and reliability could cast the opportunity for less relaxed rules on fair value accounting, as a fundamental tool to reduce the potential for managerial accounting opportunism, as "a criterion that permits manipulation made by management could not be a criterion able to provide a faithful representation and safeguard the quality of financial reporting" [31].

We acknowledge that our study has some limitations. First, to measure both board gender homophily and independence we used dichotomous variables, while more nuanced insights could be derived by quantifying the proportion of female and independent directors appointed to the board. Second, based on the previous literature [9], we assume that OCI manipulations may be revealed by OCI items higher amounts and lower changes: although our study appears to confirm the association between board characteristics and managerial opportunism, further insights could be reached by also exploring the potential for OCI items manipulations aimed at lessening their amount. Last, as previous studies testify the impact of countries' institutional and cultural attributes, interesting results may be provided by conducting a cross-country analysis.

Overall, while particular attention has been devoted to the impact of fair value accounting on transparency, few studies explore corporate governance mechanisms limiting

the potential for managerial opportunism, mainly reporting that the board composition may lower accounting data manipulation. In this scenario, our study joins the academic debate by depicting the association between corporate governance practices and OCI reporting, which remains an unexplored topic. In doing so, we also provide a novel perspective as OCI is characterized by high value relevance and volatility, and there is extensive evidence of manipulation practices related to OCI presentation choices [35].

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