

## Female CFOs and Financial Misreporting

Research published in the *Academy of Management Journal* studied how the gender of chief financial officers (CFOs) impacts whether their companies misreport financial earnings. The study's authors note that irregularities in financial reporting have slowly eroded investor and public confidence in corporate reporting over time and, given that, it is important to understand how CFOs influence whether their company will misreport. The researchers specifically focus on CFO gender in light of evidence that females are generally more averse to rule-breaking and risk-taking.

### Key Takeaways:

- Firms with female CFOs are less likely to misreport their financial earnings than those with male CFOs.
- Male CFOs misreport more frequently when external oversight from analysts, investors, or auditors is weak.
- Female CFOs are generally consistent regardless of oversight, suggesting they are less opportunistic in their reporting than male CFOs.

The researchers examined the financial reporting of over 2,000 companies from 1996 to 2016, during which females held a CFO position around 8% of the time. The researchers found that firms with female CFOs were 3% less likely to misreport their financial earnings. They also found evidence that whereas female CFOs were unaffected by changes in external oversight, male CFOs were more likely to

opportunistically misreport when oversight from analysts and institutional investors was weak. Male CFOs also curtailed misreporting in the years following the passage of Sarbanes-Oxley given the intense monitoring during that period, but misreporting from female CFOs was again unaffected by these changes in external monitoring.

The authors argue their findings reveal important differences between male and female executives that have considerable implications for firms as females become increasingly represented in top executive positions. They further suggest that boards and shareholders should consider these differences when developing and implementing governance practices to ensure oversight is properly tailored to the personal characteristics, and specifically the gender makeup, of the executive leadership team.

Gupta, V. K., Mortal, S., Chakrabarty, B., Guo, X., & Turban, D. B. (In press). CFO Gender and Financial Statement Irregularities. *Academy of Management Journal*, DOI: 10.5465/amj.2017.0713.