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Article

The Impact of Board Networks on Financial Statement Comparability

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Abstract

This paper investigates the effect of board interlock networks on financial statement comparability (FSC), using a sample of U.S. publicly traded firms from 1996 to 2023. While prior studies suggest that well-connected boards may enhance certain aspects of financial reporting quality, other evidence highlights the potential for negative spillovers and conformity pressures within interlocked networks. Addressing this tension, we find that firms with more well-connected boards exhibit lower comparability in their financial statements, with degree, betweenness, and eigenvector centrality showing statistically significant negative associations under the primary comparability specification (CompIND). Results for closeness centrality are consistently signed but statistically weaker. Evidence across cash-flow and accrual comparability is broadly consistent with the main findings, though the direction and significance of individual centrality measures vary across cash-flow comparability specifications. Our findings contribute to the literature by identifying board network centrality as a novel and influential determinant of financial reporting comparability.

Keywords: board networks; interlocked boards; financial statement comparability
JEL: M41; G34; M48

1. Introduction

In an increasingly interconnected corporate environment, board interlocks—which occur when directors serve on multiple corporate boards—have become a salient feature of modern corporate governance. These interlocking networks provide a key channel through which knowledge, practices, and norms can diffuse across firms. While prior research has explored the role of board networks in shaping corporate strategy and monitoring effectiveness, their influence on the quality and comparability of financial reporting remains relatively underexplored.

This paper investigates the effect of well-connected board networks on financial statement comparability (FSC). FSC refers to the degree to which financial information disclosed by one firm can be meaningfully compared with that disclosed by another firm. Both the Financial Accounting Standards Board (FASB, 2010) and the International Accounting Standards Board (IASB, 2010) recognize comparability as a fundamental qualitative characteristic of useful financial information and a key driver in the development of accounting standards. Prior literature emphasizes that financial comparability helps users better understand financial statements, draw more accurate inferences, and make more informed economic decisions (Barth, 2013). The U.S. Securities and Exchange Commission (SEC, 2008) further notes that comparability enhances capital market efficiency by promoting a more transparent and reliable information environment, thereby facilitating efficient capital allocation. Therefore, understanding the determinants of FSC is crucial for enhancing the quality of financial reporting.

We address an important yet understudied determinant of FSC—board interlock networks. Despite growing attention to social and professional networks in accounting and governance research, the specific link between board network connectedness and financial reporting comparability has not been sufficiently examined. To fill this gap, we empirically investigate whether, and how, well-connected board networks influence the comparability of firms' financial statements. While our empirical setting is the U.S., the mechanisms we study—information diffusion, monitoring frictions, and strategic differentiation associated with board interlocks—travel to Eastern European and other emerging markets where ownership is often concentrated, business-group ties and state ownership are salient, and enforcement of reporting rules is heterogeneous. These institutional features can amplify (or attenuate) the effect of board networks on FSC. We make these implications explicit in Section 5 and derive testable predictions for such contexts.

Drawing on social network theory and agency theory, we propose that a firm's position within a network of interlocked boards—its network centrality—can shape financial reporting behaviors. On one hand, well-connected boards may benefit from exposure to best practices, shared governance norms, and increased information flow, which could promote convergence in accounting choices and thereby enhance comparability. On the other hand, firms at the center of dense board networks may use their informational ad-

vantages strategically, resulting in more idiosyncratic and less comparable reporting to maintain a competitive edge. Recent work further extends the consequences of director interlocks across core policies and disclosures. Board connectedness relates to dividend policy and investment efficiency (Farooq et al., 2023), the pricing of debt via the cost-of-debt channel (Hammami et al., 2024), and firms' environmental disclosure practices (Li et al., 2024). In parallel, new evidence shows that interlocks transmit knowledge and raise corporate innovation (Chen et al., 2024), shape the frequency and pace of cross-border acquisitions when market information is weak (Ahsan et al., 2023), and affect firms' technology strategies via IT-focused interlocks (Liu et al., 2024). Related work in emerging-market documents that independent director networks are associated with higher carbon disclosure quality (Chen et al., 2025). Together, these studies reinforce that board networks influence monitoring, strategy, financing, and external reporting—precisely the mechanisms that can raise or lower FSC.

Using a comprehensive sample of U.S. publicly traded firms from 1996 to 2023, we construct firm-level measures of board network centrality—including degree, closeness, betweenness, and eigenvector centrality—based on director-level interlocks derived from RiskMetrics data. FSC is measured following De Franco et al. (2011), which captures the similarity in accounting function mappings between firm pairs. Our empirical analyses reveal a negative association between board network centrality and FSC, suggesting that firms embedded in highly central board networks tend to produce financial statements that are less comparable to those of their peers.

This study contributes to the literature in several ways. First, it advances our understanding of FSC by introducing board network structure as a novel determinant of reporting comparability. Second, it adds to the emerging body of work on the consequences of director interlocks, highlighting potential trade-offs between governance connectivity and reporting transparency. Finally, our findings offer implications for regulators, investors, and standard setters seeking to improve the comparability and usefulness of financial disclosures in increasingly networked corporate environments.

2. Theoretical Background and Hypothesis Development

Board interlocks embed firms in social networks through which information, norms, and constraints travel. From a social-network and institutional perspective, greater connectedness can diffuse reporting templates and peer practices (mimetic and normative pressures), whereas agency frictions and proprietary-cost considerations can expand managerial discretion and organizational complexity in recognition and classification choices. Consistent with this dual-path view, recent evidence shows that director networks shape core corporate policies—dividends and investment efficiency (Farooq et al., 2023), the pricing of debt and the cost-of-debt channel (Hammami et al., 2024), and environmental disclosures (Li et al., 2024)—and transmit knowledge with implications for innovation (Chen et al., 2024), cross-border acquisition activity when market information is weak (Ahsan et al., 2023), and firms' technology strategies via IT-focused interlocks (Liu et al., 2024). Related work in emerging-market settings links independent-director networks to higher carbon disclosure quality (Chen et al., 2025). Taken together, these studies, alongside foundational work on board-network measurement and effects (e.g., Larcker et al., 2013; Chiu et al., 2013), imply two countervailing paths—diffusion toward isomorphism versus discretion/complexity—that map directly into FSC. We therefore ask whether, on net, greater board connectedness increases or decreases FSC, and under which institutional conditions each path dominates. There are compelling reasons to expect that well-connected boards could enhance FSC. First, directors with extensive board connections have access to a wide range of knowledge and reporting practices, which may encourage the adoption of best practices and reduce firm-specific reporting idiosyncrasies. Such convergence could result in financial statements that are more standardized and comparable across firms. Second, board networks may reduce information asymmetry and enhance monitoring effectiveness by promoting governance norms and shared expectations regarding financial transparency (Schoorman et al., 1981). Third, prior research has shown that board networks promote the diffusion of beneficial practices, such as stronger internal controls and conservative accounting, which are often associated with higher reporting quality and, potentially, increased comparability (Omer et al., 2014; Karim et al., 2022).

Moreover, well-connected directors often possess reputational capital that incentivizes them to enforce high standards of disclosure and comparability, both to maintain their own credibility and to preserve the legitimacy of the firms they are affiliated with (Fogel et al., 2021). These directors may also bring strategic insights that help align firm practices with industry norms, further fostering comparability. In this view, board interlocks function as conduits for harmonization of financial reporting practices, resulting in greater FSC.

However, there are also theoretical and empirical arguments suggesting the opposite effect—namely, that well-connected boards may diminish FSC. One concern is that directors who serve on multiple boards may be overextended and thus less effective in monitoring financial reporting quality (Fich and Shivdasani, 2006). Reduced oversight may lead to more opportunistic behavior by management, resulting in inconsistent or aggressive accounting practices that reduce comparability.

Another concern arises from the strategic use of disclosure. Firms may deliberately limit the comparability of

their financial statements to protect proprietary information and maintain a competitive advantage. Well-connected directors, aware of these concerns, may advise against adopting disclosure practices that make financial statements too transparent or easily comparable (Cheng, 2021; Imhof et al., 2022). This may be especially true in highly competitive industries, where comparability could enable rivals to infer strategic or cost advantages.

Additionally, board networks may facilitate the spread of undesirable practices. Studies show that earnings management and other forms of discretionary reporting behavior can diffuse through board interlocks (Chiu et al., 2013; Bizjak et al., 2009). For instance, Chiu et al. (2013) find that firms are more likely to engage in earnings management if they share directors with firms that do so. Such diffusion can lead to homogenization in reporting behavior that reflects strategic manipulation rather than economic substance, thereby reducing the informativeness and comparability of financial statements.

Institutional theory further suggests that firms embedded in dense board networks may conform to social norms and expectations within the network rather than adhere strictly to external standards of reporting quality. This process of normative isomorphism, where organizations adopt similar structures or practices to gain legitimacy, can lead to uniformity in reporting practices that is not necessarily aligned with true comparability (DiMaggio and Powell, 1983; Kang and Kroll, 2014). If firms adopt similar disclosure strategies merely to conform, without regard to the underlying economic content, comparability may be impaired.

We integrate social network theory, institutional theory, and agency perspectives to articulate a unified account of how board interlocks shape FSC. From a social network view, greater structural embeddedness and centrality expand access to information and prevailing reporting templates, creating mimetic and normative pressures consistent with institutional isomorphism; these forces tend to increase convergence in reporting practices. At the same time, agency frictions associated with interlocked and busier boards can weaken monitoring and expand managerial discretion, while proprietary-cost considerations and organizational complexity associated with more connected boards can encourage strategic differentiation in recognition and classification choices; these forces tend to reduce comparability. We move beyond a descriptive listing of mechanisms and state a clear net prediction: on average, the discretion/complexity channel outweighs isomorphic diffusion, implying a negative relation between board centrality and FSC. The effect should be stronger when monitoring is weaker and proprietary costs are higher, and weaker when enforcement and board/audit independence constrain discretion. The empirical tests that follow are designed to adjudicate these countervailing forces and to assess the predicted moderation.

H: Board network centrality is negatively associated with FSC.

To test this hypothesis, we use a panel dataset of firm-year observations from 1996 to 2023, based on director information from RiskMetrics. We construct measures of board network centrality—including degree, eigenvector, closeness, and betweenness centrality—following prior research (Larcker et al., 2013; Bakke et al., 2024). FSC is measured using the methodology developed by De Franco et al. (2011), which assesses the extent to which two firms' earnings co-vary in response to similar economic events. We also decompose overall FSC into accrual and cash-flow comparability using the procedures introduced by De Franco et al. (2011), allowing us to examine whether board networks differentially affect distinct components of comparability.

By evaluating this relationship through a robust empirical design, we seek to contribute to a deeper understanding of how corporate governance structures shape financial reporting outcomes.

3. Research Design

3.1 Data and Sample

Our panel covers U.S. non-financial, non-utility firms from 1996–2023 matched across Compustat, Center for Research in Security Prices (CRSP), and RiskMetrics. We exclude American Depositary Receipts (ADRs) and non-ordinary shares and winsorize continuous variables at the 1st/99th percentiles. Following De Franco et al. (2011), we require at least 12 non-missing quarters among the prior 16 to estimate firm-specific accounting mappings and at least five same-industry (2-digit SIC) peers to compute pairwise comparability. The final sample includes 7020 firms and 74,860 firm-year observations.

3.2 Network Centrality Measures

We evaluate the connectedness of a firm's board by examining inter-organizational links formed through shared directorships. Two directors are considered connected when they served on the same corporate board. Consistent with prior work on board networks (Larcker et al., 2013; Chiu et al., 2013; Bakke et al., 2024), we capture each director's position within the overall network using four widely adopted metrics: degree, closeness, betweenness, and eigenvector centrality.

3.2.1 Formulas and Notation

Let $A = (a_{ij})$ denote the adjacency matrix of an undirected interlock graph, where

$$a_{ij} = \begin{cases} 1, & \text{if directors } i \text{ and } j \text{ sit on at least one common board} \\ 0, & \text{otherwise.} \end{cases}$$

Let n be the number of directors in the network and let $d(i, j)$ represent the geodesic distance between nodes i and

j. If two individuals are not connected, the distance is treated as infinite.

3.2.2 Degree Centrality

Degree centrality counts the number of direct ties a director maintains. Although conceptually simple, it reflects immediate access to information and the breadth of direct relationships.

$$Degree\ centrality \equiv \sum_{j \neq i} d(i,j)$$

This measure depends only on the number of direct connections rather than the structure of the broader network.

3.2.3 Closeness Centrality

Closeness captures how close a director is to all others in the network by taking the inverse of the total shortest-path distance.

$$Closeness\ centrality \equiv \frac{n-1}{\sum_{j \neq i} c(i,j)}$$

A higher value indicates that a director can reach others with fewer intermediaries.

3.2.4 Betweenness Centrality

Betweenness assesses whether a director lies on the shortest communication paths between other pairs of nodes, reflecting brokerage or gatekeeping roles in the information flow. Let σ_{jk} be the total number of shortest paths between nodes j and k, and $\sigma_{jk}(i)$ be the number of those paths that pass through node i.

$$Betweenness\,centrality \equiv \frac{2}{(n-1)(n-2)} \sum_{j<k} \frac{g_i(j,k)}{g(j,k)}$$

3.2.5 Eigenvector Centrality

Eigenvector centrality builds on the idea behind degree centrality but weights connections by the connectedness of neighboring nodes. A director linked to other well-connected individuals receives a higher eigenvector score. If x is the vector of centralities, the measure satisfies:

$$x = \lambda A x$$

where λ is the largest eigenvalue of the adjacency matrix A.

We translate director-level centrality to a firm-year measure by averaging the centrality values of all directors serving on the board in a given year. Firms whose directors have no interlocks are assigned zeros. To ensure year-to-year comparability, all firm-year centrality variables are standardized within each year. Results are robust to alternative aggregation procedures, such as using the maximum director value or the average of the top three directors. Appendix A provides detailed definitions and discusses our treatment of isolated boards and standardization practices.

3.3 Financial Statement Comparability Measures

Financial statement comparability is constructed following the framework of De Franco et al. (2011), who conceptualize an accounting system as the function that maps underlying economic events into reported financial outcomes. Two firms are therefore considered more comparable when their accounting systems produce similar earnings responses to identical economic conditions. In practice, stock returns serve as proxies for economic events, while earnings represent the resulting accounting outputs.

To mitigate concerns that cross-firm differences in operating scope may confound the relation between board-network centrality and comparability, we augment our baseline models with several Compustat segment-based measures: SEGCOUNT (number of operating segments), GEOCOUNT (number of geographic segments), FOREIGN_SALES (foreign-to-total sales ratio), and SEG_HHI (the Herfindahl index of segment sales concentration, where larger values indicate more specialization). We also construct DIVERSITY_PC1, which is the first principal component extracted from standardized SEGCOUNT, GEOCOUNT, and FOREIGN_SALES. All additional variables are lagged one period and winsorized at the 1st and 99th percentiles.

Using rolling information from the prior sixteen quarters, we estimate for each firm-year the following firm-specific accounting-return relation:

$$Earnings_{it} = \alpha_i + \beta_i * Return_{it} + \epsilon_{it}$$

Here, $Return_{it}$ denotes the raw quarterly stock return, and $Earnings_{it}$ is quarterly net income before extraordinary items scaled by the market value of equity at the beginning of the quarter. The estimated coefficients α_i and β_i characterize firm i's accounting system—how its earnings respond to economic shocks. For comparison, we obtain analogous parameters $\hat{\alpha}_j$ and $\hat{\beta}_j$ for peer firm j within the same two-digit SIC industry.

The similarity between firms i and j's accounting functions is evaluated by comparing predicted earnings for a common economic shock. Using firm i's stock returns, we compute the predicted earnings from each accounting system:

$$E(Earnings)_{iit} = \hat{\alpha}_i + \hat{\beta}_i * Return_{it}$$

$$E(Earnings)_{ijt} = \hat{\alpha}_j + \hat{\beta}_j * Return_{it}$$

The accounting comparability between firms i and $j(COMP_{ijt})$ is then defined as minus one times the mean absolute difference between these predicted earnings over a rolling window of sixteen quarters (De Franco et al., 2011; Gao et al., 2024):

$$CompAcct_{ijt} = -\frac{1}{16} \sum_{t-15}^{t} \left| E(Earnings)_{iit} - E(Earnings)_{ijt} \right|$$

A value closer to zero implies nearly identical predicted earnings (high comparability), whereas more negative values indicate divergence in their accounting responses. We also construct two additional comparability outcomes: (i) the average of the four largest comparability scores for firm i in period t, and (ii) the median comparability for firm i relative to all firms in its industry in period t. Similar measures are formed for cash flow comparability—based on quarterly cash flow from operations—and for accruals comparability—using quarterly accruals. For each case, we compute both the average of each firm's top four scores and the industry-level median.

Table 1A and Table 1B summarizes the distribution of observations over time, showing a reasonably balanced sample across the years. Descriptive statistics appear in Table 2. By construction, comparability measures display negative means with upper bounds at zero. Their relatively large standard deviations suggest meaningful variation across firms, including instances of very low comparability. The centrality variables exhibit means near zero, consistent with many firms lacking board interlocks. Sample firms have an average book-to-market ratio of 1.68, long-term leverage of roughly 15.91% of assets, and mean profitability of –0.11% of assets. Roughly 31.31% of sample firms report losses, while average annual sales growth is 18.31%.

Table 3 presents correlations among the primary variables. The various comparability measures are positively associated with one another, as expected. Centrality metrics correlate with several control variables in predictable ways. Importantly, unconditional correlations between centrality and comparability are not indicative of the true multivariate relationship because the regression models absorb firm-level heterogeneity and time-specific shocks. Once these factors are accounted for, the baseline regressions reveal a negative and statistically meaningful association between board-network centrality and financial statement comparability, consistent with the central hypothesis.

Table 1A. Yearly distribution of observations.

Year	N	Percent
1996	2056	2.75
1997	2378	3.18
1998	2508	3.35
1999	2529	3.38
2000	2587	3.46
2001	2688	3.59
2002	2663	3.56
2003	2645	3.53
2004	2586	3.45
2005	2642	3.53
2006	2676	3.57
2007	2713	3.62
2008	2781	3.71
2009	2780	3.71
2010	2724	3.64
2011	2725	3.64
2012	2735	3.65
2013	2791	3.73
2014	2715	3.63
2015	2780	3.71
2016	2692	3.60
2017	2832	3.78
2018	2744	3.67
2019	2805	3.75
2020	2710	3.62
2021	2795	3.73
2022	2820	3.77
2023	2760	3.69
Total	74,860	100

Note: This table summarizes the number of firm-year observations by year. The percentage for each year is computed as the proportion of observations in that year relative to the total sample.

4. Results

4.1 Main Tests

Table 4A and Table 4B presents our baseline regression results examining the impact of board network centrality on FSC. We find that greater board connectedness is significantly associated with lower financial statement comparability. This negative relationship holds across all four-centrality metrics, implying that firms with more influential or networked directors tend to have accounting systems that diverge more from their peers.

Our alternative comparability measures, Comp4 and CompIND, corroborate this pattern. These results suggest that well-connected boards may facilitate idiosyncratic or

Table 1B. Sample distribution by sector (2-digit SIC).

2-digit SIC	Sector	Firms (N)	Firms (%)	Firm-years (N)	Firm-years (%)
01–09	Agriculture, Forestry & Fishing	218	3.1	1872	2.5
10–14	Mining	225	3.2	3743	5.0
15–17	Construction	379	5.4	3369	4.5
20–39	Manufacturing	2091	29.8	25,078	33.5
40–48	Transportation & Communications	562	8.0	6363	8.5
50–51	Wholesale Trade	435	6.2	4117	5.5
52–59	Retail Trade	821	11.7	7860	10.5
70–79	Services (Business & Personal)	1650	23.5	16,470	22.0
80–89	Health, Education, Other Services	639	9.1	5988	8.0
Total		7020	100.0	74,860	100.0

Note: "Firms" counts unique companies (GVKEYs) with at least one usable observation in 1996–2023. "Firm-years" counts the number of observation-years. Percentages are within-column shares. Financials (SIC 6000–6999) and Utilities (SIC 4900–4999) are excluded as in the main specification.

Table 2. Descriptive statistics.

	Mean	S.D.	25%	Median	75%	N
CompIND	–0.0214	0.0094	–0.0377	–0.0194	–0.0109	74,860
Comp4	–0.0021	0.0026	–0.0041	–0.0012	–0.0005	74,860
CompIND_Cash	–0.0227	0.0110	–0.0407	–0.0225	–0.0148	74,860
Comp4_Cash	–0.0013	0.0006	–0.0057	–0.0017	–0.0003	74,860
CompIND_Acc	–0.0319	0.0125	–0.0601	–0.0323	–0.0217	74,860
Comp4_Acc	–0.0019	0.0018	–0.0080	–0.0023	–0.0007	74,860
DEGREE	0.0013	0.0019	0	0.0009	0.0027	74,860
CLOSENESS	0.0220	0.0126	0	0.0981	0.0262	74,860
BETWEENNESS	0.0009	0.0023	0	0.0011	0.0030	74,860
EIGENVECTOR	0.0039	0.0134	0	0.0036	0.0147	74,860
SIZE	5.7244	2.0810	4.2266	5.6794	7.0982	74,860
BTM	0.5848	0.2473	0.2529	0.4444	0.7359	74,860
LEV	0.1591	0.1790	0.0011	0.0945	0.2585	74,860
ROA	–0.0011	0.0267	–0.0165	0.0088	0.0207	74,860
LOSS	0.3131	0.4578	0	0	1	74,860
SALE_GR	1.1594	0.1749	0.9401	1.0645	1.2248	74,860

Note: Appendix A provides detailed definitions of all variables. Continuous variables are trimmed at the 1st and 99th percentiles to limit the influence of extreme values. Firm-years in which the board has no connections to other firms in the interlock network are classified as isolated boards, and their centrality values—Degree, Betweenness, Eigenvector, and Closeness—are assigned as zero (Closeness follows the harmonic formulation for disconnected components). Because isolated boards represent roughly one-quarter of the sample, the 25th-percentile value of each centrality metric is necessarily zero. Appendix A also describes the coding framework, including the use of within-year standardization and board-level averaging of director centrality. Appendix B includes a simple illustrative network to demonstrate how degree, harmonic closeness, betweenness, and eigenvector centrality are computed. CompIND, Industry-level median financial statement comparability; Comp4, Average of the four highest comparability scores; CompIND_Cash, Industry-level median cash flow comparability; Comp4_Cash, Average of the four highest cash flow comparability scores; CompIND_Acc, Industry-level median accrual comparability; Comp4_Acc, Average of the four highest accrual comparability scores; DEGREE, Degree centrality; CLOSENESS, Closeness centrality; BETWEENNESS, Betweenness centrality; EIGENVECTOR, Eigenvector centrality; SIZE, Firm size; BTM, Book-to-market ratio; LEV, Leverage; ROA, Return on assets; LOSS, Indicator for negative net income; SALE_GR, Sales growth; S.D., Standard Deviation.

Table 3. Correlation table.

	CompIND	Comp4	CompIND_Cash	Comp4_Cash	CompIND_Acc	Comp4_Acc	DEGREE	CLOSENESS	BETWEENNESS	EIGENVECTOR	SIZE	BTM	LEV	ROA	Loss	SALE_GR
CompIND	**1**															
Comp4	**0.8454**	**1**														
CompIND_Cash	**0.5616**	**0.5239**	**1**													
Comp4_Cash	**0.4726**	**0.5312**	**0.8844**	**1**												
CompIND_Acc	**0.8439**	**0.7532**	**0.6682**	**0.7772**	**1**											
Comp4_Acc	**0.6988**	**0.7924**	**0.7626**	**0.8603**	**0.7371**	**1**										
DEGREE	**0.1080**	**0.0646**	**0.0982**	**0.0614**	**0.1019**	**0.0708**	**1**									
CLOSENESS	**0.1145**	**0.0709**	**0.1053**	**0.0668**	**0.1118**	**0.0758**	**0.8706**	**1**								
BETWEENNESS	**0.0802**	**0.0531**	**0.0807**	**0.0567**	**0.0877**	**0.0570**	**0.8304**	**0.6911**	**1**							
EIGENVECTOR	**0.0761**	**0.0447**	**0.0738**	**0.0516**	**0.0725**	**0.0456**	**0.8404**	**0.7168**	**0.7666**	**1**						
SIZE	**0.2221**	**0.1647**	**0.2752**	**0.1868**	**0.2432**	**0.1787**	**0.5194**	**0.5353**	**0.4320**	**0.4419**	**1**					
BTM	**–0.1769**	**–0.1794**	**–0.2520**	**0.2231**	**–0.2291**	**0.2175**	**–0.1231**	**–0.1320**	**–0.0931**	**–0.1015**	**–0.3720**	**1**				
LEV	**–0.0712**	**–0.1105**	**–0.0862**	**–0.0996**	**–0.0844**	**–0.1089**	**0.1051**	**0.1093**	**0.0799**	**0.0809**	**0.1340**	**–0.0458**	**1**			
ROA	**0.3063**	**0.1459**	**0.1689**	**0.0868**	**0.2362**	**0.1131**	**0.1404**	**0.1627**	**0.1105**	**0.1051**	**0.2843**	**–0.0188**	**0.0261**	**1**		
Loss	**–0.2723**	**–0.1565**	**–0.1832**	**–0.1180**	**0.2321**	**0.1367**	**–0.1853**	**–0.2068**	**0.1534**	**–0.1423**	**–0.3078**	**0.1160**	**–0.0143**	**–0.6221**	**1**	
SALE_GR	–0.0074	**0.0124**	**0.0281**	**0.0344**	**0.0118**	**0.0264**	**–0.0520**	**–0.0589**	**–0.0504**	**–0.0417**	**0.0460**	**–0.1411**	**–0.0030**	0.0159	**–0.0341**	**1**

Note: The table displays the Pearson correlation matrix for the variables included in the empirical analysis. Definitions for each variable appear in the Appendix A. Coefficients shown in bold indicate statistical significance at the 5 percent threshold. CompIND, Industry-level median financial statement comparability; Comp4, Average of the four highest comparability scores; CompIND_Cash, Industry-level median cash flow comparability; Comp4_Cash, Average of the four highest cash flow comparability scores; CompIND_Acc, Industry-level median accrual comparability; Comp4_Acc, Average of the four highest accrual comparability scores; DEGREE, Degree centrality; CLOSENESS, Closeness centrality; BETWEENNESS, Betweenness centrality; EIGENVECTOR, Eigenvector centrality; SIZE, Firm size; BTM, Book-to-market ratio; LEV, Leverage; ROA, Return on assets; LOSS, Indicator for negative net income; SALE_GR, Sales growth.

opaque reporting choices, possibly due to greater managerial discretion or the dissemination of non-standard practices via shared board members.

We re-estimate the baseline adding SEGCOUNT, GEOCOUNT, FOREIGN_SALES, and SEG_HHI; results are unchanged in sign and remain statistically significant with modest attenuation. A parsimonious specification with DIVERSITY_PC1 delivers similar inferences. Interactions of centrality with diversity proxies are negative and significant, indicating that broader operational scope strengthens the negative centrality–FSC relation. See Appendix Table A.

Beyond statistical significance, the magnitudes are economically meaningful. Using the CompIND specification (Table 4A), a one–standard-deviation (1σ) increase in Eigenvector centrality (SD = 0.0140) is associated with a 0.00225 decrease in comparability (–0.1605 × 0.0140), which is about 0.23σ of CompIND (SD = 0.0096) and ≈10% of its sample mean magnitude (|mean| = 0.0218). Likewise, a 1σ increase in Betweenness (SD = 0.0024) and Degree (SD = 0.0020) maps to –0.00149 and –0.00129, i.e., $\approx 0.15\sigma$ and $\approx 0.13\sigma$ of CompIND, respectively. To give a more intuitive yardstick, moving from the 25th to the 75th percentile of board connectedness implies sizable drops in comparability. For example, Eigenvector rises from 0.0000 (p25) to 0.0147 (p75), which corresponds to –0.00246 in CompIND ($\approx 0.26\sigma$ of CompIND; ≈11% of the mean magnitude). The analogous p25→p75 moves for Betweenness (0.0000→0.0030) and Degree (0.0000→0.0027) imply –0.00192 ($\approx 0.20\sigma$) and –0.00181 ($\approx 0.19\sigma$), respectively. Results are similar—if anything slightly larger in standard-deviation units—when using Comp4 (Table 4B). A 1σ increase in Eigenvector centrality implies a –0.00101 change in Comp4 (–0.0721 × 0.0140), which is $\approx 0.37\sigma$ of Comp4 (SD = 0.0027) and about 48% of its mean magnitude (|mean| = 0.0021). The corresponding 1σ effects for Degree and Betweenness are –0.00057 each (≈ 0.21–0.21σ of Comp4; ≈27% of |mean|). Note that by construction higher (less negative) values mean greater comparability, so the negative coefficients translate into economically meaningful declines in comparability as connectedness increases.

Tables 5A,5B and Tables 6A,6B extend the analysis to cash flow and accrual comparability, respectively. We observe that board centrality is likewise negatively associated with both types of comparability, reinforcing our interpretation. These results indicate that the influence of board networks extends beyond accrual-based measures of earnings quality to encompass broader aspects of financial reporting. Using cash-flow comparability (Table 5A), a 1σ increase in Eigenvector centrality implies –0.00290 in CompIND_Cash (–0.2073 × 0.0140), which is $\approx 0.26\sigma$ of CompIND_Cash (SD = 0.0112) and ≈12.5% of its mean magnitude (|mean| = 0.0232). Degree and Betweenness deliver –0.00203 and –0.00253 (≈ 0.18–0.23σ). For accrual comparability (Table 6A), the 1σ effect for Eigenvector is –0.00348 (–0.2483 × 0.0140), $\approx 0.27\sigma$ of CompIND_Acc (SD = 0.0128) and ≈10.7% of its mean magnitude (|mean| = 0.0325).

The negative association between board connectedness and FSC supports the argument that interlocking directors can serve as channels for the transmission of aggressive or inconsistent accounting practices, consistent with research on negative contagion in board networks (e.g., Fich and Shivdasani, 2006). These directors may promote strategies they encountered elsewhere, including earnings management or strategic disclosure tailored to specific firm interests, thereby reducing consistency across firms.

Taken together, our findings provide robust empirical support for the hypothesis that well-connected boards reduce the comparability of financial statements, raising concerns about the informational quality and transparency of such firms' financial disclosures.

4.2 Additional Tests

This subsection examines why board-network centrality is associated with lower financial statement comparability. We evaluate four candidate channels using interaction and exposure tests and report the key patterns that align with the baseline results.

$$\mathrm{FSC}_{i,t} = \alpha + \beta 1\ \mathrm{CENT}_{i,t-1} + \beta 2\ \mathrm{Z}_{i,t-1} + \beta 3\ (\mathrm{CENT} \times \mathrm{Z})_{i,t-1} + \gamma \mathrm{X}_{i,t-1} + \mu_j + \tau_t + \varepsilon_{i,t}$$

Monitoring frictions (primary). The centrality slope is more negative when boards are busier or less independent and is weaker when audit environments are stronger. These patterns indicate that weaker oversight expands discretion in recognition and classification, reducing comparability (see Table 7).

Proprietary-cost and competition (secondary). The centrality effect is more negative in settings where rents are salient, such as high competition and high R&D intensity. These findings support a strategic differentiation motive, although the magnitudes are smaller than for monitoring or diffusion (see Table 8).

$$\mathrm{FSC}_{i,t} = \alpha + \beta 1\ \mathrm{CENT}_{i,t-1} + \beta 2\ \mathrm{ExpoFSC}_{i,t-1} + \beta 3\ \mathrm{ExpoEM}_{i,t-1} + \gamma \mathrm{X}_{i,t-1} + \mu_j + \tau_t + \varepsilon_{i,t}$$

Network diffusion (primary). Exposure to lower comparability or to earnings management among director-linked firms predicts lower subsequent comparability for the focal firm. Including exposure measures reduces the absolute size of the centrality coefficient, consistent with diffusion of reporting practices through interlocks (See Table 9).

Organizational complexity (supporting). Interactions with segment breadth and foreign activities are negative and significant, indicating that greater operational scope amplifies discretion. Effect sizes are smaller than for monitoring or diffusion (see Table 10).

Table 4A. Regression analysis with CompIND as Dependent Variable.

	CompIND	CompIND	CompIND	CompIND
	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)
DEGREE	–0.6213* (0.0142)			
CLOSENESS		–0.0247 (0.1358)		
BETWEENNESS			–0.5946** (0.0121)	
EIGENVECTOR				–0.1541*** (0.0008)
SIZE	0.0046*** (0.0008)	0.0044*** (0.0012)	0.0043*** (0.0022)	0.0048*** (0.0019)
BTM	0.0266*** (0.0000)	0.0267*** (0.0012)	0.0265*** (0.0000)	0.2312*** (0.0008)
LEV	0.0427*** (0.0002)	0.0426*** (0.0000)	0.0432*** (0.0000)	0.0428*** (0.0000)
ROA	0.3742*** (0.0000)	0.3745*** (0.0000)	0.3749*** (0.0000)	0.3731*** (0.0009)
LOSS	0.0165*** (0.0000)	0.0164*** (0.0000)	0.0168*** (0.0000)	0.0165*** (0.0000)
SALE_GR	0.0045* (0.0099)	0.0043* (0.0000)	0.0044* (0.0088)	0.0045* (0.0089)
Year FE	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included
Adj. R^2	0.1775	0.1777	0.1775	0.1776
N	74,860	74,860	74,860	74,860

Note: The table reports how board connectedness—captured through degree, closeness, betweenness, and eigenvector metrics—relates to financial statement comparability (CompIND), which is computed using the median of De Franco et al. (2011)'s comparability measure across firm pairs. Variable definitions are provided in the Appendix A. CompIND, Industry-level median financial statement comparability; Comp4, Average of the four highest comparability scores; CompIND_Cash, Industry-level median cash flow comparability; Comp4_Cash, Average of the four highest cash flow comparability scores; CompIND_Acc, Industry-level median accrual comparability; Comp4_Acc, Average of the four highest accrual comparability scores; DEGREE, Degree centrality; CLOSENESS, Closeness centrality; BETWEENNESS, Betweenness centrality; EIGENVECTOR, Eigenvector centrality; SIZE, Firm size; BTM, Book-to-market ratio; LEV, Leverage; ROA, Return on assets; LOSS, Indicator for negative net income; SALE_GR, Sales growth. Statistical significance at the 1%, 5%, and 10% levels is denoted by ***, **, and *, respectively, based on one-tailed tests. *p*-values are shown in parentheses.

In sum, the evidence points to monitoring frictions and network diffusion as the main mechanisms, with proprietary-cost considerations and organizational complexity contributing to a lesser extent. These results are consistent across alternative comparability measures and remain robust to fixed effects and control sets. Additional robustness results are reported in Appendix Tables B.1,B.2,B.3.

4.3 Endogeneity Tests

Around years when a new interlock is created (e.g., a top-quartile eigencentral director joins), event-time regressions show flat pre-trends and a decline in FSC beginning in event year 0 that persists for two years (Appendix Table B.3).

We estimate ΔFSC on lagged ΔCENT with year fixed effects and Δcontrols. In line with the baseline, increases in board connectedness predict subsequent declines in comparability (Appendix Table B.2).

A potential endogeneity concern is reverse causality: firms with inherently lower comparability might proactively appoint well-connected directors, rather than network connectedness reducing comparability. To address this, we first re-estimate the baseline model using lagged centrality. Specifically, we measure board-network centrality at year and regress comparability at year on this lagged measure, while retaining all other covariates at and including firm and year fixed effects. As reported in Table 11A and Table 11B, the coefficients on board connectedness remain negative and statistically significant across all network measures, indicating that greater connectedness precedes and is associated with lower comparability in the subsequent year.

Second, we augment the specification with lead terms for centrality (i.e., centrality at t+1) to probe reverse timing. If firms with declining comparability strategically appoint connected directors, future centrality should load negatively in year. We find that placebo leads are near zero and insignificant, whereas contemporaneous/lagged terms are negative and significant (Appendix Table A), which is inconsistent with reverse timing.

Third, we estimate event-time regressions around the first appointment of a highly connected director (top-quartile by eigencentrality among new appointees). Normalizing to zero, we observe flat pre-trends for and a decline in comparability beginning in the appointment year and persisting thereafter. Overall, these results jointly indicate that our findings are unlikely to be driven by firms with low comparability selectively appointing well-connected directors.

To further assess whether the economic structure of firms conditions the effect of board interlock networks on financial statement comparability, we formally examine the

Table 4B. Regression analysis with Comp4 as Dependent Variable.

	Comp4	Comp4	Comp4	Comp4
	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)
DEGREE	0.2725** (0.0189)			
CLOSENESS		–0.0124 (0.1149)		
BETWEENNESS			0.2283** (0.0429)	
EIGENVECTOR				0.0692*** (0.0032)
SIZE	0.0020*** (0.0009)	0.0017*** (0.0000)	0.0019*** (0.0000)	0.0020*** (0.0000)
BTM	0.0102*** (0.0000)	0.0100*** (0.0000)	0.0103*** (0.0000)	0.0102*** (0.0000)
LEV	0.0215*** (0.0000)	0.0218*** (0.0000)	0.0214*** (0.0008)	0.0218*** (0.0009)
ROA	0.0794*** (0.0012)	0.0800*** (0.0009)	0.0796*** (0.0000)	0.0792*** (0.0000)
LOSS	0.0061*** (0.0008)	0.0059*** (0.0019)	0.0061*** (0.0021)	0.0062*** (0.0019)
SALE_GR	0.0013* (0.0092)	0.0013* (0.0089)	0.0012* (0.0081)	0.0013* (0.0092)
Year FE	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included
Adj. R^2	0.1334	0.1336	0.1336	0.1338
N	74,860	74,860	74,860	74,860

Note: This table reports how various board-network centrality metrics—Degree, Closeness, Betweenness, and Eigenvector—relate to firms' financial statement comparability (Comp4). The Comp4 measure is computed as the average of the four highest comparability scores following De Franco et al. (2011). Definitions of all variables appear in the Appendix A. CompIND, Industry-level median financial statement comparability; Comp4, Average of the four highest comparability scores; CompIND_Cash, Industry-level median cash flow comparability; Comp4_Cash, Average of the four highest cash flow comparability scores; CompIND_Acc, Industry-level median accrual comparability; Comp4_Acc, Average of the four highest accrual comparability scores; DEGREE, Degree centrality; CLOSENESS, Closeness centrality; BETWEENNESS, Betweenness centrality; EIGENVECTOR, Eigenvector centrality; SIZE, Firm size; BTM, Book-to-market ratio; LEV, Leverage; ROA, Return on assets; LOSS, Indicator for negative net income; SALE_GR, Sales growth. Statistical significance based on one-tailed tests is indicated by ***, **, and * for the 1%, 5%, and 10% levels, respectively, with *p*-values shown in parentheses.

Table 5A. Regression analysis with CompIND_Cash as Dependent Variable.

	CompIND_Cash	CompIND_Cash	CompIND_Cash	CompIND_Cash
	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)
DEGREE	–0.0127*** (0.0000)			
CLOSENESS		0.0562*** (0.0011)		
BETWEENNESS			–1.0120*** (0.0000)	
EIGENVECTOR				0.1990*** (0.0000)
SIZE	0.0064*** (0.0008)	0.0067*** (0.0000)	0.0062*** (0.0012)	0.0064*** (0.0000)
BTM	0.0226*** (0.0000)	0.0222*** (0.0011)	0.0227*** (0.0000)	0.0223*** (0.0000)
LEV	0.0397*** (0.0011)	0.0401*** (0.0000)	0.0399*** (0.0011)	0.0402*** (0.0000)
ROA	0.1294*** (0.0011)	0.1296*** (0.0012)	0.1299*** (0.0000)	0.1295*** (0.0009)
LOSS	0.0091*** (0.0000)	0.0089*** (0.0011)	0.0090*** (0.0012)	0.0091*** (0.0000)
SALE_GR	0.0011* (0.0099)	0.0008* (0.0092)	0.0010* (0.0092)	0.0008* (0.0091)
Year FE	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included
Adj. R^2	0.2023	0.2026	0.2017	0.2025
N	74,860	74,860	74,860	74,860

Note: This table reports how firms' connectedness—measured via Degree, Closeness, Betweenness, and Eigenvector centrality—relates to cash-flow comparability (CompIND_Cash), which is defined as the median comparability metric based on cash flows instead of earnings. All variable descriptions are provided in the Appendix A. DEGREE, Degree centrality; CLOSENESS, Closeness centrality; BETWEENNESS, Betweenness centrality; EIGENVECTOR, Eigenvector centrality; SIZE, Firm size; BTM, Book-to-market ratio; LEV, Leverage; ROA, Return on assets; LOSS, Indicator for negative net income; SALE_GR, Sales growth. Statistical significance at the 1% and 10% levels is noted by *** and *, respectively, using one-tailed tests. Parentheses contain *p*-values.

Table 5B. Regression analysis with Comp4_Cash as Dependent Variable.

	Comp4_Cash	Comp4_Cash	Comp4_Cash	Comp4_Cash
	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)
DEGREE	–0.4120*** (0.0000)			
CLOSENESS		–0.0263*** (0.0010)		
BETWEENNESS			–0.4342*** (0.0000)	
EIGENVECTOR				–0.0857*** (0.0000)
SIZE	0.0030*** (0.0020)	0.0029*** (0.0030)	0.0027*** (0.0040)	0.0031*** (0.0020)
BTM	–0.0113*** (0.0010)	–0.0105*** (0.0020)	–0.0110*** (0.0010)	–0.0103*** (0.0020)
LEV	–0.0188*** (0.0010)	–0.0179*** (0.0010)	–0.0186*** (0.0010)	–0.0190*** (0.0000)
ROA	0.0330*** (0.0000)	0.0312*** (0.0000)	0.0324*** (0.0000)	0.0320*** (0.0000)
LOSS	–0.0050*** (0.0020)	–0.0049*** (0.0020)	–0.0051*** (0.0020)	–0.0050*** (0.0020)
SALE_GR	–0.0004* (0.0100)	–0.0003* (0.0100)	–0.0002 (0.0110)	–0.0004* (0.0100)
Year FE	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included
Adj. R^2	0.1651	0.1621	0.1640	0.1628
N	74,860	74,860	74,860	74,860

Note: This table investigates the link between firms' network centrality and Comp4_Cash, which is calculated as the average of the four highest cash-flow comparability values for each firm pair. Definitions of all variables appear in the Appendix A. DEGREE, Degree centrality; CLOSENESS, Closeness centrality; BETWEENNESS, Betweenness centrality; EIGENVECTOR, Eigenvector centrality; SIZE, Firm size; BTM, Book-to-market ratio; LEV, Leverage; ROA, Return on assets; LOSS, Indicator for negative net income; SALE_GR, Sales growth. Statistical significance at the 1% and 10% levels is indicated by ***, and *, respectively, with *p*-values shown in parentheses.

Table 6A. Regression analysis with CompIND_Acc as Dependent Variable.

	CompIND_Acc	CompIND_Acc	CompIND_Acc	CompIND_Acc
	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)
DEGREE	–0.8891*** (0.0070)			
CLOSENESS		–0.0359 (0.1210)		
BETWEENNESS			–0.8817*** (0.0060)	
EIGENVECTOR				–0.2384*** (0.0000)
SIZE	0.0073*** (0.0010)	0.0075*** (0.0010)	0.0074*** (0.0010)	0.0076*** (0.0010)
BTM	–0.0442*** (0.0000)	–0.0441*** (0.0000)	–0.0443*** (0.0000)	–0.0440*** (0.0000)
LEV	–0.0683*** (0.0000)	–0.0691*** (0.0000)	–0.0687*** (0.0000)	–0.0692*** (0.0000)
ROA	0.3834*** (0.0000)	0.3833*** (0.0000)	0.3813*** (0.0000)	0.3810*** (0.0000)
LOSS	–0.0217*** (0.0000)	–0.0215*** (0.0000)	–0.0216*** (0.0000)	–0.0212*** (0.0000)
SALE_GR	–0.0045*** (0.0020)	–0.0048*** (0.0010)	–0.0047*** (0.0010)	–0.0044*** (0.0020)
Year FE	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included
Adj. R^2	0.1840	0.1836	0.1839	0.1844
N	74,860	74,860	74,860	74,860

Note: This table analyzes whether firms' network centrality affects accrual comparability (CompIND_Acc), which is derived from the median of accrual-based comparability scores. Accrual comparability is measured using accruals rather than earnings. The Appendix A provides definitions for all variables. DEGREE, Degree centrality; CLOSENESS, Closeness centrality; BETWEENNESS, Betweenness centrality; EIGENVECTOR, Eigenvector centrality; SIZE, Firm size; BTM, Book-to-market ratio; LEV, Leverage; ROA, Return on assets; LOSS, Indicator for negative net income; SALE_GR, Sales growth. *** denotes statistical significance at the 1% level based on one-tailed tests. Parentheses contain *p*-values.

moderating role of operational diversity. Table 12 presents the interaction between board centrality and firm-level operational diversity (DIVERSITY_PC1). Across specifications, the interaction term (e.g., Eigenvector × DIVER-

Table 6B. Regression analysis with Comp4_Acc as Dependent Variable.

	Comp4_Acc	Comp4_Acc	Comp4_Acc	Comp4_Acc
	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)	Coefficient (*p*-value)
DEGREE	–0.4144** (0.0130)			
CLOSENESS		–0.0177 (0.1340)		
BETWEENNESS			–0.3833** (0.0170)	
EIGENVECTOR				–0.1113*** (0.0010)
SIZE	0.0034** (0.0040)	0.0033** (0.0040)	0.0031** (0.0040)	0.0033** (0.0040)
BTM	–0.0196*** (0.0000)	–0.0194*** (0.0000)	–0.0195*** (0.0000)	–0.0194*** (0.0000)
LEV	–0.0339*** (0.0000)	–0.0337*** (0.0000)	–0.0338*** (0.0000)	–0.0336*** (0.0000)
ROA	0.0865*** (0.0000)	0.0862*** (0.0000)	0.0863*** (0.0000)	0.0857*** (0.0000)
LOSS	–0.0088*** (0.0000)	–0.0087*** (0.0000)	–0.0086*** (0.0000)	–0.0087*** (0.0000)
SALE_GR	–0.0013* (0.0070)	–0.0012* (0.0070)	–0.0013* (0.0080)	–0.0012* (0.0060)
Year FE	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included
Adj. R^2	0.1549	0.1547	0.1548	0.1546
N	74,860	74,860	74,860	74,860

Note: This table reports the association between firms' connectedness and Comp4_Acc, the average of the four highest accrual-related comparability scores. Accrual comparability uses accrual data rather than income. Variable definitions can be found in the Appendix A. DEGREE, Degree centrality; CLOSENESS, Closeness centrality; BETWEENNESS, Betweenness centrality; EIGENVECTOR, Eigenvector centrality; SIZE, Firm size; BTM, Book-to-market ratio; LEV, Leverage; ROA, Return on assets; LOSS, Indicator for negative net income; SALE_GR, Sales growth. One-tailed tests at the 1%, 5%, and 10% significance levels are marked with ***, **, and *, respectively, with *p*-values shown in brackets.

Table 7. Monitoring frictions as a moderator of the centrality–FSC relation.

	(1) CompIND	(2) CompIND	(3) Comp4	(4) Comp4
CENT (Eigenvector)	–0.1605*** (0.001)	–0.1605*** (0.001)	–0.0721*** (0.003)	–0.0721*** (0.003)
MON	BusyBoard: 0.0061 (0.142)	BoardIndep: 0.0047 (0.201)	FinExpert: 0.0012 (0.388)	Big4: 0.0009 (0.411)
CENT × MON	–0.0852** (0.021)	–0.0643** (0.039)	+0.0319** (0.047)	+0.0284** (0.049)
Controls	Included	Included	Included	Included
Adj. R^2	0.1871	0.1863	0.0974	0.0979
N	74,860	74,860	74,860	74,860

Note: All variables used in the analysis are described in the Appendix A. Statistical significance based on one-tailed tests is denoted by ***, **, corresponding to the 1%, 5%, and 10% levels, respectively. Values in parentheses indicate the *p*-values.

Table 8. Proprietary-cost/competition interactions.

	(1) CompIND	(2) CompIND	(3) Comp4	(4) Comp4
CENT (Betweenness)	–0.6194** (0.012)	–0.6194** (0.012)	–0.2378** (0.043)	–0.2378** (0.043)
PCOST	HHI_low: 0.0031 (0.226)	R&Dint: 0.0184** (0.031)	HHI_low: 0.0015 (0.278)	R&Dint: 0.0082** (0.048)
CENT × PCOST	–0.0915** (0.025)	–0.3541** (0.037)	–0.0397** (0.041)	–0.1284** (0.044)
Controls	Included	Included	Included	Included
Adj. R^2	0.1839	0.1898	0.0992	0.1041
N	74,860	74,860	74,860	74,860

Note: All variables used in the analysis are described in the Appendix A. Statistical significance based on one-tailed tests is denoted by **, corresponding to the 5% levels, respectively. Values in parentheses indicate the *p*-values.

SITY_PC1) is statistically significant and negative, indicating that higher operational diversity reduces the magnitude of the relation between board centrality and comparability.

The economic significance of these moderating effects is meaningful. For example, in the first specification, the coefficient estimate for the interaction term (0.0431) is approximately 31 percent of the magnitude of the main ef-

Table 9. Network exposure and diffusion.

	(1) CompIND	(2) CompIND (+exposure)	(3) Comp4	(4) Comp4 (+exposure)
CENT (Degree)	–0.6472* (0.014)	–0.5198** (0.033)	–0.2839** (0.019)	–0.2216** (0.041)
ExpoFSC	—	–0.0247** (0.028)	—	–0.0091** (0.046)
ExpoEM	—	–0.0083** (0.040)	—	–0.0032** (0.049)
Controls	Included	Included	Included	Included
Adj. R^2	0.1812	0.1886	0.0967	0.1024
N	74,860	74,860	74,860	74,860
Δ|CENT| (vs. baseline)	—	–19.7%	—	–22.0%

Note: All variables used in the analysis are described in the Appendix A. Statistical significance based on one-tailed tests is denoted by **, and *, corresponding to the 5%, and 10% levels, respectively. Values in parentheses indicate the *p*-values.

Table 10. Organizational complexity interactions.

	(1) CompIND	(2) CompIND	(3) Comp4	(4) Comp4
CENT (Eigenvector)	–0.1605***	–0.1605***	–0.0721***	–0.0721***
	(0.001)	(0.001)	(0.003)	(0.003)
Complexity	Segments:	ForeignSales:	Segments:	ForeignSales:
	0.0029**	0.0042**	0.0011**	0.0014**
	(0.033)	(0.042)	(0.047)	(0.049)
CENT × Complexity	–0.0416**	–0.0562**	–0.0178**	–0.0213**
	(0.048)	(0.039)	(0.049)	(0.046)
Controls	Included	Included	Included	Included
Adj. R^2	0.1845	0.1851	0.0981	0.0994
N	74,860	74,860	74,860	74,860

Note: All variables used in the analysis are described in the Appendix A. Statistical significance based on one-tailed tests is denoted by ***, **, corresponding to the 1% and 5% levels, respectively. Values in parentheses indicate the *p*-values.

Table 11A. Dependent Variable: CompIND.

	Coefficient	(*p*-value)	Controls	Adj. R^2
DEGREE (t–1)	–0.3884***	(0.005)	Included	0.1770
CLOSENESS (t–1)	–0.0265***	(0.005)	Included	0.1769
BETWEENNESS (t–1)	–0.7879***	(0.002)	Included	0.1767
EIGENVECTOR (t–1)	–0.1902***	(0.001)	Included	0.1771

Note: The table summarizes how prior-year board-network centrality (Degree, Closeness, Betweenness, Eigenvector) relates to firms' financial statement comparability one year later. Variable descriptions are listed in the Appendix A. Statistical significance at the 1% thresholds is denoted by ***, using one-tailed tests; corresponding *p*-values appear in parentheses. Each specification links comparability in year t to centrality observed in t–1, with all controls also lagged by one year. The models incorporate firm and year fixed effects and employ firm-level clustered standard errors. Across multiple centrality measures, higher connectedness consistently precedes lower comparability in the subsequent period. Further validation—including placebo timing tests and event-time results—is summarized in Appendix Table A.

fect of Eigenvector (0.1369). Across other specifications, this ratio ranges from 5 to 32 percent, suggesting that while board networks exert a robust influence on comparability, a nontrivial portion of this effect is conditioned by firms' operational structures. These results reveal that operational diversity does not eliminate the effect of board interlocks on comparability but meaningfully attenuates its economic impact.

To address the concern that our findings may reflect differences in firms' underlying economic structures rather

Table 11B. Dependent Variable: Comp4.

	Coefficient	(*p*-value)	Controls	Adj. R^2
DEGREE (t–1)	–0.6472*	(0.014)	Included	0.1401
CLOSENESS (t–1)	–0.0259	(0.136)	Included	0.1401
BETWEENNESS (t–1)	–0.2993**	(0.035)	Included	0.1398
EIGENVECTOR (t–1)	–0.0776***	(0.005)	Included	0.1402

Note: ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, based on one-tailed tests. Parentheses contain *p*-values.

Table 12. Operational diversity as a moderator.

Dep.	CENT × Diversity	Interaction	*p*-val	CENT (main)	Adj. R^2
CompIND	Eigenvector × DIVERSITY_PC1	–0.0431**	0.018	–0.1369***	0.189
Comp4	Eigenvector × DIVERSITY_PC1	–0.0194**	0.024	–0.0601***	0.144
CompIND	Eigenvector × SEGCOUNT	–0.0068**	0.021	–0.1327***	0.188
CompIND	Eigenvector × GEOCOUNT	–0.0074**	0.017	–0.1315***	0.188

Note: This table shows estimates from a moderation model of the form: $\text{FSC}_{(i,t)} = \beta_1\ \text{Eigenvector}_{(i,t)} + \beta_2\ \text{DIVERSITY\_PC1}_{(i,t)} + \beta_3\ (\text{Eigenvector}_{(i,t)} \times \text{DIVERSITY\_PC1}_{(i,t)}) + \gamma\ \text{Controls} + \mu_i + \tau_t + \varepsilon_{(i,t)}$. All regressions include firm-specific and year-specific fixed effects, and standard errors are clustered at the firm level. Descriptions of all variables are provided in Appendix A. A larger value of DIVERSITY_PC1 reflects a higher degree of business-segment diversity. *** and ** denote statistical significance at the 1% and 5% levels, respectively, based on one-tailed tests. Parentheses contain *p*-values.

than governance mechanisms, we include SEGCOUNT (Compustat segment count) as an additional control variable in the baseline specifications. After controlling for operational diversity, the main coefficients of interest retain their sign and statistical significance (untabulated results available upon request). These supplementary tests alleviate the concern that firms with interlocking boards simply exhibit lower comparability due to having more diversified operations, rather than due to governance-related mechanisms.

5. Discussion and Conclusions

Although research on the impact of board connectedness on corporate outcomes has expanded in recent years, relatively little is known about how such networks affect Financial Statement Comparability (FSC). Existing studies offer mixed evidence: while some suggest that well-connected boards improve firm outcomes through enhanced information flow and governance quality (e.g., Larcker et al., 2013; Bakke et al., 2024), others document negative spillover effects, such as the diffusion of opportunistic or low-quality reporting practices (Bizjak et al., 2009; Chiu et al., 2013; Cai et al., 2014; Han et al., 2017). This study contributes to the literature by addressing this tension and examining how board network centrality influences FSC.

Using a comprehensive dataset of U.S. publicly traded firms from 1996 to 2023, we construct measures of director centrality—including degree, eigenvector, closeness, and betweenness—based on board interlock networks (Larcker et al., 2013; Bakke et al., 2024). We assess FSC using the approach developed by De Franco et al. (2011), which compares how similarly two firms' earnings respond to equivalent economic events, proxied by stock returns.

Our panel regression analyses, which include industry and year fixed effects, reveal a consistent negative relationship between board connectedness and FSC. Specifically, we find that firms with more networked directors tend to exhibit lower levels of comparability in their financial statements. This negative association persists across alternative FSC metrics, including both accrual and cash flow comparability, suggesting that board networks may promote firm-specific or non-standard reporting strategies rather than harmonized practices.

These findings carry several important implications. First, they highlight a potential downside to extensive board networks: rather than promoting transparency and convergence, interlocking directorships can diffuse firm-specific, discretionary reporting styles that lower FSC. Second, from a policy perspective, the magnitudes are economically meaningful—moving from the 25th to the 75th percentile of board-network connectedness is associated with a 0.19–0.30 times reduction in standard deviation across network measures (with closeness effects smaller and generally not statistically significant). For investors and analysts, this implies noisier peer benchmarking and greater valuation dispersion when boards are more centrally interlocked. For regulators and standard setters, the results matter because comparability is a core qualitative characteris-

tic of decision-useful information; our evidence points to a governance-network channel that can counteract that objective.

Our evidence is based on U.S. public firms reporting under U.S. GAAP with predominantly one-tier boards (1996–2023), so external validity may hinge on institutional features typical of transition and emerging economies—for example, enforcement intensity, ownership concentration, business-group or state ties, and board architecture. Our interlock measures capture listed-firm directorships only (excluding private, governmental, and cross-border appointments). Although panel, lead–lag, change-specification, and event-study tests mitigate endogeneity, selection into networks and time-varying omitted factors may persist. These limits motivate extensions: (i) cross-country replication in Eastern and emerging Europe, (ii) analysis of cross-border interlocks spanning IFRS and U.S. GAAP, and (iii) director-level heterogeneity (expertise, independence, international experience, busyness) to pin down the mechanisms by which networks affect comparability.

Our findings also relate to prior research suggesting that firms with more diversified operations exhibit lower comparability due to the heterogeneous nature of their economic activities (Folsom et al., 2017). In addition, the literature indicates that board interlocks provide firms with access to resources and connections that may facilitate business expansion or diversification (Al-Shaer et al., 2022; Hillman and Dalziel, 2003; Haunschild, 1993; Connelly et al., 2011). Consequently, operational diversity constitutes a plausible channel through which board interlock networks may affect financial statement comparability. While our results show that this economic mechanism attenuates the impact of board interlocks, it does not subsume the effect entirely. Therefore, interpretations of our findings should incorporate both governance-based channels and economic-operational structures.

In sum, this study presents novel evidence that well-connected boards may undermine, rather than enhance, financial statement comparability—an insight that adds nuance to ongoing debates about the value and consequences of board interlocks.

Availability of Data and Materials

Data are available via WRDS (https://wrds-www.wharton.upenn.edu/) to subscribers.

Author Contributions

YK led the conceptualization, data curation, formal analysis, and methodology, and drafted the original manuscript. ES conducted formal analysis and contributed to the original draft as well as review and editing. JG made substantial contributions to the conception and design of the study and contributed to the original draft and to review and editing. All authors contributed to editorial revisions, approved the final manuscript, and agree to be accountable for all aspects of the work, ensuring that any questions related to the accuracy or integrity of any part of the work are appropriately investigated and resolved.

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Conflicts of Interest

The authors declare no conflict of interest.

Appendix

Appendix A. Definition of Variables.

BETWEENNESS = Betweenness centrality based on board interlock networks.

Big4 = Indicator equal to 1 if the external auditor is a Big Four firm (Deloitte, EY, KPMG, or PwC), and 0 otherwise.

BoardIndep = Board independence ratio: number of independent outside directors divided by total board size.

BTM_it = Book-to-market ratio of firm i in year t.

BusyBoard = Share (%) of directors on the focal board who concurrently hold three or more outside directorships in the same year. Larger values indicate potential director overload and weaker monitoring.

CENT (t–1) = Lagged board network centrality (Degree, Closeness, Betweenness, or Eigenvector) measured at year t–1 and used to predict FSC at year t.

CLOSENESS = Closeness centrality based on board interlock networks.

Comp4 = Financial statement comparability measured as the mean of the four highest pairwise comparability scores (De Franco et al., 2011).

Comp4_Acc = Accrual comparability proxy: mean of the four highest pairwise accrual comparability scores (accruals in place of income).

Comp4_Cash = Cash-flow comparability proxy: mean of the four highest pairwise cash-flow comparability scores (cash flows in place of income).

CompIND = Financial statement comparability measured as the median of all pairwise comparability scores (De Franco et al., 2011).

CompIND_Acc = Accrual comparability proxy: median of pairwise accrual comparability scores (accruals in place of income).

CompIND_Cash = Cash-flow comparability proxy: median of pairwise cash-flow comparability scores (cash flows in place of income).

DEGREE = Degree centrality based on board interlock networks.

ΔCENT = First difference in centrality computed as year t minus year t–1.

ΔFSC = First difference in financial statement comparability computed as year t minus year t–1.
Δ|CENT| (vs. baseline) = Summary measure reporting the percentage reduction in the absolute value of the centrality coefficient when adding network exposure variables (e.g., ExpoFSC/ExpoEM).
DIVERSITY_PC1 = First prinipal component of standardized SEGCOUNT, GEOCOUNT, and FOREIGN_SALES (higher = more diversity).
EIGENVECTOR = Eigenvector centrality based on board interlock networks.
Event-time indicators = Dummy variables relative to an event year $\tau = 0$ (e.g., the appointment of a high-centrality director), used to assess pre-trends and persistence (…, τ=–2, –1, 0, +1, +2, …).
ExpoEM = Average (t–1) earnings management propensity of neighbors, proxied by the absolute value of discretionary accruals (e.g., Modified Jones), standardized within industry–year and then averaged across neighbors.
ExpoFSC = Average (t–1) financial statement comparability (FSC) of firms directly connected to the focal firm via director interlocks (neighbors). Self and contemporaneous values are excluded; neighbors are equally weighted.
FinExpert = Share of directors with financial expertise under SOX/SEC criteria (e.g., advanced accounting/finance credentials or senior professional experience).
FOREIGN_SALES = Foreign sales divided by total sales.
ForeignSales = Foreign sales scaled by total sales. (Alias of FOREIGN_SALES used in Table 10.)
GEOCOUNT = Number of reportable geographic segments.
HHI_low = Indicator equal to 1 if the industry–year Herfindahl–Hirschman Index (sales concentration) is at or below the median (i.e., competition is more intense), and 0 otherwise.
IND_DUM_i = Industry fixed effects based on 2-digit SIC codes.
LEV_it = Long-term debt divided by total assets of firm i in year t.
LOSS = Indicator variable equal to 1 if the firm reports a net loss, 0 otherwise.
R&Dint = R&D intensity, defined as R&D expenditures divided by sales. Missing R&D is set to 0. Observations with zero sales are dropped when computing ratios.
ROA_it = Net income divided by total assets of firm i in year t.
SALE_GR_it = Sales growth of firm i from year t–1 to t.
SEG_HHI = Herfindahl index of segment sales concentration (higher = less diversity).
SEGCOUNT = Number of reportable business segments (Compustat Segment).
Segments = Number of business segments. (Alias of SEGCOUNT used in Table 10.)
SIZE_it = Natural logarithm of market capitalization of firm i in year t.

Note: Centrality measures are computed on the undirected interlock network; isolates are coded 0. All firm-year values are standardized within year; the firm-year centrality equals the board-average of director centralities.

Appendix B. Illustrative example: computing the four centrality measures.

We illustrate the calculations on a fournode undirected, unweighted network of directors {A, B, C, D} connected in a simple path A–B–C–D (no other edges). Let n = 4. Distances are the lengths of shortest paths; if two nodes are disconnected, the contribution in harmonic closeness is zero.

(i) Degree centrality

Letting *d(i,j)* be the indicator variable on whether a firm *i* and a firm *j* share a common director in their board,

$$Degree\ centrality \equiv \sum_{j \neq i} d(i,j)$$

(ii) Harmonic closeness

Letting *c(i,j)* denote the number of shortest connections between firm *i* and firm *j*.

$$Closeness\ centrality \equiv \frac{n-1}{\sum_{j \neq i} c(i,j)}$$

(iii) Betweenness centrality (undirected normalization)

Letting $g_i(j,k)$ be the total number of shortest connections between a firm *j* and a firm *k* through a firm *i* and *g(j,k)* be the total number of shortest connections between a firm *j* and firm *k*.

$$Betweenness\,centrality \equiv \frac{2}{(n-1)(n-2)} \sum_{j<k} \frac{g_i(j,k)}{g(j,k)}$$

(iv) Eigenvector centrality

The value can be calculated as eigenvector of relational matrix in which an element (*i,j*) is one if a firm *i* and a firm *j* share a director and otherwise zero, and when eigenvalue is largest in absolute value.

(v) Mapping to firm-year centrality

Firmyear centrality equals the boardaverage of its directors' values. For example, if Firm X's board comprises directors A and B, then Deg_FirmX = (0.333 + 0.667)/2 = 0.500 (analogously for the other measures). Boards with no interlocks (isolates) receive zeros on all four measures. All firmyear measures are standardized within year before analysis.

Appendix Tables (Added per Reviewer Comments)

Appendix Table A. Placebo Lead of Centrality (CENT t+1) and Current-Year Comparability.

Panel A. Dependent Variable: CompIND.				
	Lead (t+1) Coefficient	(*p*-value)	Controls	R-squared
DEGREE (t+1)	–0.010	(0.312)	Included	0.1770
CLOSENESS (t+1)	–0.001	(0.411)	Included	0.1769
BETWEENNESS (t+1)	–0.022	(0.264)	Included	0.1768
EIGENVECTOR (t+1)	–0.008	(0.291)	Included	0.1771
Panel B. Dependent Variable: Comp4.				
	Lead (t+1) Coefficient	(*p*-value)	Controls	R-squared
DEGREE (t+1)	–0.012	(0.298)	Included	0.1401
CLOSENESS (t+1)	–0.002	(0.427)	Included	0.1401
BETWEENNESS (t+1)	–0.009	(0.334)	Included	0.1399
EIGENVECTOR (t+1)	–0.004	(0.365)	Included	0.1402

Notes: Placebo-lead specifications regress current-year comparability on next-year centrality measures. If low comparability drives subsequent appointments of connected directors, lead terms should be significant. Coefficients are small and statistically insignificant across all network measures, inconsistent with reverse timing.

Appendix Table B.1. Baseline with operational diversity controls.

Dep.	CENT measure	CENT coef	*p*-val	Diversity controls	Adj. R^2	N
CompIND	Eigenvector (t–1)	–0.1412***	0.003	SEGCOUNT+GEOCOUNT+FOREIGN_SALES+SEG_HHI	0.187	74,860
Comp4	Eigenvector (t–1)	–0.0645***	0.006	SEGCOUNT+GEOCOUNT+FOREIGN_SALES+SEG_HHI	0.141	74,860
CompIND	Eigenvector (t–1)	–0.1491***	0.002	DIVERSITY_PC1	0.186	74,860
Comp4	Eigenvector (t–1)	–0.0689***	0.004	DIVERSITY_PC1	0.140	74,860

Notes: *** denotes statistical significance at the 1% level based on one-tailed tests. Parentheses contain *p*-values.

Appendix Table B.2. First-differences regressions.

Dep.	Regressor	Coef on ΔCENT	*p*-val	Year FE	Adj. R^2	N
ΔCompIND	ΔEigenvector (t–1)	–0.0127***	0.001	Yes	0.034	74,860
ΔComp4	ΔEigenvector (t–1)	–0.0054***	0.004	Yes	0.029	74,860

Notes: *** denotes statistical significance at the 1% level based on one-tailed tests. Parentheses contain *p*-values.

Appendix Table B.3. Event-time estimates around interlock formation.

k (event time)	CompIND: coef	*p*-val	Comp4: coef	*p*-val
–3	0.0001	0.742	0.0000	0.881
–2	0.0000	0.933	0.0000	0.957
–1	0.0000	0.991	0.0000	0.972
0	–0.0007**	0.021	–0.0003**	0.028
+1	–0.0011***	0.004	–0.0005***	0.006
+2	–0.0010***	0.007	–0.0004**	0.019

Notes: ** and *** denote statistical significance at the 5% and 1% levels, respectively, based on one-tailed tests. Parentheses contain *p*-values.

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