

Investigating How the Lack of Standardized Definitions for Metrics Like EBITDA Affects Comparability and Transparency

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ABSTRACT

One of the main financial metrics that measure the income Before Interest, Taxes, Depreciation, and Amortization (EBITDA) is the basis for its widespread use in corporate financial analysis.

This is due to the fact that, as a result of its method of calculation, it is seen as a reflection of the company's actual business performance if the effects of financing and accounting policy decisions and other associated losses are excluded. However, EBITDA is a non, GAAP (or non, IFRS) measure, which implies that there is no uniform accounting principle or strict regulatory supervision in its calculation. Due to the lack of standardization, companies have great freedom to decide which items to exclude or include, especially in the case of non, recurring, non, operating, or subjective “adjustments.”

Because of this, the effort to get EBITDA values that are consistent, comparable, and transparent across firms as well as in different time periods is very difficult.

Numerous empirical researches have come to the conclusion that the ways in which companies define EBITDA greatly differ, and most of the time these companies use different kinds of adjustments (for instance: restructuring charges, litigation costs, or stock, based compensation) without predefining the way they are going to do that (Pinto et al., 2019; Botha & Stainbank, 2020).

These discrepancies become obstacles for investors, analysts, and regulators challenging them to make right judgments or measures of genuine operational performance. Additionally, by the means of adjusted EBITDA, there is a danger that it will hide behind that mask the poor quality of earnings or trick the stakeholders if for example executive compensations are connected with performance indicators (Young, 2014).

Even though regulatory bodies like the U.S. Securities and Exchange Commission (SEC) and the International Accounting Standards Board (IASB) are making big efforts to require reconciliation and raise disclosure quality, the lack of an unambiguous single EBITDA definition still causes suspicions about earnings management and transparency. After that, the current work will delve deep into the consequences related to non, standardized reporting of EBITDA, pinpoint the risks of the market that are based on the crisis of trust, and offer practical suggestions to facilitate the comparability and disclosure of non, GAAP performance measures.

Keywords: EBITDA, non-GAAP measures, earnings quality, financial disclosure, comparability, transparency.

INTRODUCTION

One of the major elements of corporate financial disclosure that have an impact on what investors think are performance metrics. These metrics also play a beneficial role in shaping valuation models and guiding strategic decisions. Among the performance metrics, EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) has become one of the most widely used financial indicators, as it shows a company's operating performance by removing some accounting and financing effects. Moreover, the idea of EBITDA only excluding non, operating elements like non, operating expenses, taxes, and non, cash depreciation or amortization, and thereby offering a more straightforward view of the company's core operating profit, figures in the argumentation particularly for capital, intensive or leveraged companies (Pinto et al., 2019; Koller et al., 2020).

Nevertheless, even though the concept of EBITDA is well known among analysts, investors, and corporate managers, EBITDA is not a measure that can be found in the standards of Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). As a result, corporations have a lot of freedom in how they define and present EBITDA. The majority of firms calculate it according to the strict formula, whereas others might depict it as "Adjusted EBITDA", "Normalized EBITDA" or "Pro Forma EBITDA" that potentially imply an extended list of exclusions or add, backs. Typically, such modifications include non, recurring expenses, restructuring costs, stock, based compensation, and even odd revenue items. The absence of a standard framework for these criteria results in doubts about the accuracy of EBITDA as a comparable performance measure (Young, 2014; Botha & Stainbank, 2020).

Such deviations in standard EBITDA definitions inevitably bring about concerns as to whether or not comparability, a major issue raised, is achievable, not only between different firms, but even for the same firm over time, in terms of transparency in financial disclosures. Suppose there are two firms in the same line of business; they can have substantially different EBITDA numbers without necessarily having actually very different operating results, simply because they have different exclusion and inclusion policies in their computations. Even worse is the situation where a company has changed its EBITDA calculation method over certain periods without providing clear disclosure or restatement, thereby obscuring longitudinal performance comparison. Additionally, without a mandatory reconciliation to standard GAAP or IFRS measures, investors can be deceived into seeing false EBITDA numbers, which can result at best in securities mispricing and at worst in capital market inefficiency that, in turn, can weaken market integrity (Bradshaw et al., 2018).

Regulators have taken these concerns on board. In the U.S., for example, the Securities and Exchange Commission (SEC) requires that if a company reports a non, GAAP number such as EBITDA then a reconciliation to the closest GAAP number should be given and the overall impression should not be misleading. However, the level of compliance with these demands still varies, and a lot of firms persist in releasing EBITDA reports that are either not clear or not comparable, or both (SEC, 2020). Corresponding inconsistencies exist in other regions where regulators predominantly rely on the view of management regarding what adjustments are relevant.

This paper aims to unravel the effects that the non, standardized EBITDA definitions have on the comparability and openness of financial statements. To be precise, it examines (1) the types of issues that cause variation in how EBITDA is computed in different firms and industries; (2) how these discrepancies affect the decision, making of investors and the financial analysis; (3) regulatory difficulties in controlling the release of non, GAAP information; and (4) likely scenarios for better standardization and disclosure that lead to enhanced quality of financial reporting.

LITERATURE REVIEW

Both academic and professional literature have disclosed that alongside the broad popularity of EBITDA, inconsistencies have been a major feature of the way the metric is defined and reported. Though the concept of EBITDA is supposed to depict a company's working profit with the exclusion of financing and non, cash accounting expenses (Pinto et al., 2019), the lack of a strict definition for both GAAP and IFRS has led to

many variants of the metric. Such variations have spread in different aspects, and as a result, the reliability of the comparison of firms both cross, sectional and longitudinal is weakened (Bradshaw et al., 2018).

Use of Non, Standard Adjustments

The practice of employing additional “adjustments” or “add, backs” over and above the fundamental components of interest, taxes, depreciation, and amortization is one of the leading reasons for the inconsistency of EBITDA figures. The reason for that in many cases is that non, recurring, extraordinary, or irregular items are excluded from EBITDA and, in turn, the company presents only the “clean” core operations. The items may vary from the costs of the breaking, up of the company, the expenses of a lawsuit, the decrease in the value of an asset, or even the costs that have occurred constantly such as the stock, based compensation (Young, 2014). The problem is that the management tends to have sole discretion in deciding what is suitable for add, back and thus reported numbers will greatly vary (Botha & Stainbank, 2020).

Ambiguity in Labeling and Terminology

A further difficulty with the use of labels for EBITDA, related metrics resulting from the literature is inconsistency. Enterprises often publish the data such as “Adjusted EBITDA, ” “Normalized EBITDA, ” or “Pro Forma EBITDA” without clear concise definitions or without explaining the method of their calculation. Even when the definitions are provided, they still differ tremendously from one company to another (CFA Institute, 2016). Such vagueness makes it quite a challenge for external users to interpret and compare the facts reliably.

Differences in Accounting Policies and Capital Structures

There are even differences in the results of the same company using standard EBITDA formula due to the differences of underlying accounting policies, such as depreciation methods, amortization schedules, and asset useful lives, can that cause the company to have different results (Koller et al., 2020). A case of firms taking accelerated depreciation ought to make their EBITDA less than the counterparts using straight, line depreciation even though the operational performance is the same. Moreover, distinctions in capital intensity and financing structure have influence on the applicability and comparability of EBITDA across different industries or firms with disparate business models.

Temporal Inconsistencies Within Firms

Literature also refers to concerns that lack of consistency in EBITDA reporting can be found over time within the same firm. The management might be altering the mode of calculation of EBITDA for every different period, most of the time the previous periods are not restated and the nature of changes is not fully disclosed. This practice disorients time, series analysis and deceives users who are trying to trace the operational trend (Bradshaw et al., 2018).

Implications for Valuation and Decision, Making

Many authors of academic papers admit that EBITDA is frequently chosen as the basis for valuation multiples, covenant agreements, and executive compensation. If the metric is inconsistently defined the use of it as a proxy for earnings quality or cash flow potential becomes very limited, thus the risk of misvaluation and poor capital allocation decisions (Young, 2014). This is indeed the case in mergers and acquisitions where small differences in EBITDA definitions are capable of causing significant variations in valuation outcomes.

Regulatory and Standard, Setting Challenges

Rethinkors have from the start raised their voices against the use of non, GAAP metrics like EBITDA. For instance, the U.S. SEC mandates public companies to convert any non, GAAP measure to the closest GAAP equivalent and confirm that the presentation is not deceptive. Nevertheless, the latitude allowed in enforcement and interpreting instructions provides space for inconsistent implementation (SEC, 2020). IASB is also not defining EBITDA under IFRS but instead, leaving it up to firms to justify and clarify their figures. According

to scholars, although the present degree of discretion is essential to accommodate the divergences in business models, it is still very far from being transparent and comparable (CFA Institute, 2016; Botha & Stainbank, 2020).

Effects on Comparability

The inconsistencies in EBITDA calculation and reporting have significant implications for the comparability of companies' financial performance across the board and over different time periods. Comparability is a key characteristic of quality financial reporting, as it allows investors, analysts, and other users to assess companies on a like, for, like basis. Nevertheless, this notion is compromised when organizations employ entirely different definitions of EBITDA or even alter their definitions with time.

Cross, Company Comparability Issues

It is hard to overlook one of the main issues here, namely how difficult it is to compare the EBITDA metrics of different companies (even those that belong to the same industry). To what extent they do or do not include certain items or exclude them from EBITDA is something companies decide for themselves; hence, two firms that run similar businesses might present significantly different EBITDA numbers not because they have managed differently in reality but due to dissimilar adjustments made or because of different classification of items. An illustration may be a company that removes lawsuit expenses together with stock, based compensation from EBITDA, whereas another one adds them. Consequently, those who look at financial statements might be benchmarking what is quite different sources, thus they may arrive at wrong or misleading conclusions (Bradshaw et al., 2018).

These discrepancies become more pronounced when we talk about the sectors that have a large number of the company's fixed assets or the frequent restructuring activities where differences in depreciation policies and non, recurring expenses are common. Investors who use EBITDA multiples, e.g., EV/EBITDA, for valuation purposes might inadvertently be feeding their decisions with skewed data which, in turn, may lead them to making the wrong choices of where to put their money (Koller et al., 2020).

Within, Firm Comparability Over Time

Having no standard definition for EBITDA also influences intra, firm comparability, that is a company's ability to present consistent performance metrics across different periods. A company may decide to calculate EBITDA in a different way every year by e.g. redefining "non, operating" or "non, recurring" costs and not properly disclosing these changes or not restating the numbers for the previous year. It is then a trend analysis that becomes flawed, as the variations in EBITDA may be the result of changes in the methods used to calculate it and not due to real performance shifts of the business (Young, 2014).

The even minor changes, say the reclassification of an expense as an adjustment in one period but not in another, can create a false impression of a company's better or worse profit situation. For analysts and investors who want to be informed about the company's stable or volatile path of its operations, this inconsistency further complicates the process and increases the risk.

Sectoral Differences and Industry Misalignment

Comparability issues become even more significant when one tries to compare EBITDA across sectors that have fundamentally different business models, capital requirements, or revenue recognition practices. For example, in a capital, intensive industry like manufacturing or utilities, depreciation is a major expense in the income statement. As EBITDA removes this cost the metric may overstate the company's profitability compared to that of service, oriented firms with lower fixed asset bases. Without standardised, industry, specific guidance relating to adjustments for EBITDA, cross, sector comparisons become less and less reliable (Pinto et al., 2019).

Furthermore, despite being in the same sector, the differences in regional or jurisdictional accounting may also cause the discrepancies in EBITDA. For example, IFRS and US GAAP differ in the treatment of certain lease

expenses and impairment losses, which may explain the variations in what companies choose to adjust in their calculations of EBITDA.

Impact on Financial Ratios and Benchmarking

Since EBITDA is widely used as the denominator in valuation ratios (e.g., EV/EBITDA) or in performance benchmarking (e.g., EBITDA margin), the inconsistencies in its calculation may result in skewed or non-comparable ratios. Investors using these figures to assess profitability, efficiency, or investment potential may, even unknowingly, base their decisions on non-comparable data across entities.

Moreover, rating agencies, lenders, and covenant, setting parties who incorporate EBITDA as a measure of debt coverage or financial strength may find themselves tricked by inflated or selectively adjusted EBITDA figures. The outcome here is the presence of breach risk and the possibility of misreading the firm's real leverage position (Botha & Stainbank, 2020).

Effects on Transparency

Transparency in financial reporting means that the stakeholders have a clear view of a company's financial position, as well as its performance. It depends on the accuracy, completeness, and the clarity of the disclosed information. With regard to non-GAAP measures such as EBITDA, a lack of a standard definition has a serious negative impact on transparency, and this results in issues being raised in terms of earnings quality, stakeholder trust, and market efficiency.

Inadequate Disclosure Practices

One of the significant issues that hinder transparency is inconsistent and insufficient disclosure details about the way EBITDA is arrived at. Typically, the companies disclose EBITDA or adjusted EBITDA without giving the background of what is included or excluded in the calculation of the numbers. Even when companies specify particular adjustments, e.g., they indicate that the numbers are net of restructuring costs, asset impairments, and stock-based compensation, the explanation that is given for these deductions is often too general or is not there at all. Therefore, stakeholders find themselves in a position where they have to guess whether the adjustments are made properly and if so, they are legitimate (CFA Institute, 2016; Bradshaw et al., 2018).

Besides that, the companies sometimes put different types of adjustments under a small number of categories such as "non-recurring" or "extraordinary" and do not explain whether the described things are really unusual or may happen again in the future. By selectively disclosing only certain facts, the companies gain the opportunity to depict a performance that looks better than it actually is, and this makes it more difficult to verify the truthfulness and dependability of the presented information (Young, 2014).

Regulatory Gaps and Enforcement Challenges

The U.S. Securities and Exchange Commission (SEC), the International Accounting Standards Board (IASB), and similar regulatory agencies demand that companies provide reconciliations between non-GAAP measures and the nearest GAAP or IFRS equivalent and avoid the portrayal of non-GAAP measures in a misleading manner. However, these rules do not require that EBITDA be the same in every company, nor do they give a final list of the only possible adjustments. Because of this, the companies can still select the way they define and present EBITDA with great freedom and most of such choices tend to make less rather than more transparency about their financial performance (SEC, 2020).

Although the regulatory systems are in favor of transparency, the effectiveness of the jurisdictions where the rules are put into practice is not the same, and this is reflected in the level of detail of disclosures by different companies. There are some companies that only do the bare minimum, giving reconciliations without real explanations, and there are others that use the uncertainty caused by the regulations to narrate their performance in an overly positive manner.

Managerial Incentives and Information Asymmetry

One more factor undermining transparency is that managerial discretion is part of the setup, which can lead to biased or even opportunistic reporting. EBITDA is a metric that is often taken into account when setting executive compensation goals, as well as in the testing of loan covenants and in presentations to investors. Thus, managers may get the motivation to remove the items that are not in their favor so that EBITDA is made to look as if it is going to increase (Young, 2014; Bradshaw et al., 2018). Such conduct results in the widening of the information gap between the managers and the external stakeholders who, in most cases, do not have the required data or the needed expertise to make a critical evaluation of the changes.

The absence of a universally accepted method of calculation also gives managers the opportunity to change the criteria, that is, they might refer to normal operating expenses as “non, operational” and claim that they are of a kind that can occur once only although they happen repeatedly. By doing this, the company reduces the reliability of EBITDA as a clear and honest representation of actual operating performance and misleads investors who may be under the impression that the number is a more objective measure than it really is.

Erosion of Investor Confidence

Firstly, the contradictory and obscure reports of EBITDA over time might bring about a historical decline in investors' confidence. When stakeholders do not find the key performance indicators either fairly presented or fully disclosed, they may begin to doubt the company's whole reporting framework thereby feeling the risk of investing in it becoming higher, this in turn can drive up the cost of capital and harm its reputation in the market (CFA Institute, 2016).

Additionally, as analysts who use the financial statements have to spend more time and resources adjusting or correcting EBITDA figures before they become comparable and accurate, the effectiveness of financial analysis is greatly diminished. If investors are not provided with transparent and standardized disclosures, they might ignore non, GAAP metrics altogether, which will reduce their relevance and the intended usefulness.

Empirical Evidence

Empirical research has explored extensively the application and effect of non, GAAP metrics, among which EBITDA is a typical example with a lot of the issues of inconsistencies and potential falsification that arise from DJ's lack of unified standard comprise the main concerns. These results show that the discrepancies that occur in the way EBITDA is calculated not only affect the disclosure but also investor behaviour, earnings quality, and market efficiency.

Variability in EBITDA Calculation

Research has repeatedly depicted that there is a lack of consistency in the approaches firms use to compute EBITDA. Botha and Stainbank (2020) carried out research on the Johannesburg Stock Exchange, listed companies and saw that the majority of those companies significantly deviated from the standard EBITDA definition by mixing together non, operating and non, recurring changes without an apparent reason. The changes could come from impairment losses and revaluation surpluses to losses and gains on disposals of assets. Due to the disparate usage of the application, the amount of variation between companies was so great that both investors and analysts could not be able to compare reported performance.

In addition, the research Bradshaw et al. (2018) found that even similar firms within the same industry had different EBITDA figures since they selectively adjusted their numbers to show a stronger financial position. The paper found that managers would be more inclined to switch to adjusted EBITDA if GAAP earnings are not robust, and hence, non, GAAP metrics are commonly used for impression management.

Evidence of Managerial Bias

Several pieces of evidence suggest EBITDA is manipulated for the sake of influencing the positive perception of the market or hitting internal targets. For example, Young (2014) examined the link between executive pay

and adjusted performance metrics and concluded that firms typically eliminate recurring expenses like stock, based compensation or marketing costs and thus, create the illusion of EBITDA growth which is tied to bonus targets. In this regard, management is put in the position of a conflict of interest whereby they have a monetary motive to deliver overstated performance metrics.

Besides, firms make sure that the highest possible adjusted EBITDA figure is the highlight of their investor presentations and press releases, and then the corresponding GAAP figures are relegated to the background. According to the CFA Institute (2016), this tactic of playing up the advantages to the detriment of the disadvantages results in a skewed perception of the financial health of the company, most especially among those investors who are not very thorough in their reconciliations or footnotes reading.

Investor Reactions and Market Impact

Furthermore, the research also indicates that investors' decisions are affected by non, GAAP, performance figures, such as EBITDA, even though the adjustments may be questionable. Studies reveal the investors are very likely to react to non, GAAP earnings more than to GAAP ones if the former are more favorable (Frankel et al., 2011). This opens up the possibility whereby securities could be mispriced by the markets if the performance indicators were overly eye, pleasing or even artificially enhanced.

Whenever firms reverse or redo their EBITDA calculations, it is a common occurrence for the stock prices to drop. Then, these investors who took the reported numbers at face value and modified their expectations only after detecting discrepancies are thereby demonstrating their reactionary nature. Thus, such reactive behavior further shows that the market can be temporarily misled due to non, standardized EBITDA reporting.

Impact on Analyst Forecasting

The same research also shows that financial analysts are often swayed by the EBITDA numbers presented by management, particularly if they have to predict future performance or give earnings guidance. Bhattacharya et al. (2003) research result shows that analysts usually follow management's non, GAAP metrics quite closely and don't do enough to counteract the bias by making their own adjustments for exclusions. This dependence may cause a decline in forecast precision, and over, optimistic valuations may result, particularly in sectors vulnerable to high volatility or with frequent non, recurring items.

Regulatory / Standard Setter Responses

To tackle this problem that has escalated, concerning that non, GAAP figures are used inconsistently and may mislead the users, regulators and standard, setting organizations are implementing measures aiming at facilitating transparent and responsible reporting. These initiatives did not prevent altogether the existence of numerous difficulties due to the EBITDA conceptualization that is still far away from reaching a universally accepted definition.

U.S. Securities and Exchange Commission (SEC)

Non, GAAP disclosures have been subjected to strict regulation regimes inspired by the U.S. SEC and among these regulations specifically set out requirements and conditions under which such companies should report their financial results is the Regulation G and Item 10(e) of Regulation S, K. According to these Regimes, reconciliations are necessary between any non, GAAP measures, for instance, EBITDA, and the comparable GAAP results, such as net income or operating income. The SEC also points out that non, GAAP metrics can only be included if their presentation is not deceptive, or they are not given a priority over the standardized ways of measuring (SEC, 2020).

To help companies with their conformances to the Regulation, the SEC has put out clarifications in the form of Compliance and Disclosure Interpretations (C&DIs). The positions delineated in these guidelines are used for recognizing those practices which are permissible from those which may have been done irrespective of the rules, like, for example, excluding recurring expenses while portraying them as one, time items, or changing the definitions of non, GAAP metrics without providing clear explanation or showing any consistency.

However, the enforcement of these issued rules is more of a reaction to incidents rather than a prevention, so firms still have plenty of freedom in the way they create and name EBITDA when

International Accounting Standards Board (IASB)

EBIDTA has not been explained by the SEC, IASB does it in a better way, it doesn't hamper the adoption of IFRS with EBIDTA concept rather it just admits the popularity of EBIDTA in communication and takes steps to improve the quality of the disclosures of non, GAAP

The IASB have likened their decision to that of needing to strike a balance between providing openness and still giving companies the liberty to communicate their performance in a manner that would be most reflective of their business models, however ensuring that such disclosures are communicated in a clearly understood, consistently executed and comparable over time. Unfortunately, the lack of a strict definition of EBITDA still leaves international comparability as the major hurdle.

Other Jurisdictional Approaches

National regulators have also tried to design proper guidelines of their own. There are some examples of what they have done:

The Canadian Securities Administrators (CSA) have published National Instrument 52, 112 which harmonizes non, GAAP disclosure requirements stating that companies have to outline the accounts definitions, reconciliation, and consistency of non, GAAP financial measures.

The European Securities and Markets Authority (ESMA) published the Alternative Performance Measures (APMs) guidelines aiming to provide the transparency as one of the main features of the consistent use of such metrics, especially when they were disclosed in the presentation to investors or in earnings releases.

Even though all these measures have been implemented, a lack of synchronization between various jurisdictions results in a fragmented global regulatory environment. Also, multinationals operating under such diversified disclosure standards may find it even more challenging to comply with the standards and thus ensure comparability and enforcement.

Challenges in Enforcement and Oversight

Despite the fact that regulatory frameworks have evolved, the enforcement of the prevailing challenges issue is still problematic. It is often the case, that minimal methods of compliance are applied by a lot of companies, they provide generic reconciliations or vague explanations but do not, at the same time, genuinely increase transparency. Besides that, regulators may also find themselves facing difficulties in contending with the changes that are taking place in corporate reporting practices. One of these changes is the growing utilization of customized non, GAAP measures that can vary from firm to firm and change over time.

Moreover, the disincentives for violations are not strong enough because most of the infractions result in comment letters or warnings only and seldom in the actual imposition of sanctions. This kind of fairly lenient approach to enforcement may well motivate companies to continue using adjusted EBITDA in the manner that is most advantageous to them strategically and along with this, even if it leads to less transparency of financial statements for their users.

Consequences and Risks

The absence of a universally agreed definition for EBITDA results in a plethora of consequences that may affect the basic honesty of financial reports, the quality of investors' decision, making, and the market's overall efficiency. In spite of EBITDA being a handy measure for a company's operating performance, the way it is applied inconsistently leaves the stakeholders exposed to the possibility of running into numerous pitfalls.

Investor Misinterpretation and Market Mispricing

The most prominent danger, perhaps, is that investors will misjudge EBITDA figures and take them quite comparably and objectively, while in fact, it is not so. Since numerous companies tend to selectively adjust EBITDA frequently without giving transparent reasons for the adjustments, investors might fall into the trap of misinterpreting companies' operational incomes. This can create a chain of events that starts with the forecast of wrong valuation models, then proceeds to the making of the wrong investment decisions and ends up mispricing in capital markets.

The adjusted or customized EBITDA, if a company is using it to smooth the earnings or hide poor performance, most probably does not reflect economic reality of the company. Retail investors are vulnerable to such distortions especially if they do not have enough resources to do a detailed reconciliation (Bradshaw et al., 2018; CFA Institute, 2016).

Earnings Management and Opportunistic Behavior

Furthermore, the risk of earnings manipulations via EBITDA adjustments stands out as another potential threat. The use of non, GAAP metrics is a tactic managers employ to show results that are more favorable than the actual ones, executive compensation, loan covenants, and market expectations are three areas where these practices are especially prevalent. Young (2014) gives an instance in which companies might be doing it simultaneously, that is cutting back on stock, based compensation and using restructuring costs as the only 'recurring expense' to be always excluded from EBITDA.

Such conduct is not only a betrayal of corporate report truthfulness but may also be telling of a bigger culture of aggressive financial reporting. Consequently, the professionals' trust will be lessened over time, and a firm's prestige will be weakened thus becoming if at some point revisions or restatements of financial will be detected mistakes occur.

Reduced Quality of Financial Analysis

Unreliable EBITDA reporting stemming from different ways of calculation makes it hard for the analysts, lenders, and institutional investors, whose method of decision relies heavily on standardized metrics, to comprehend fully. If EBITDA is missing a uniform basis of calculation, then it is impossible for one to benchmark it with that of peers or a reliable trend to be detected. The result of this is that financial analysis loses its quality and accuracy, which can impact not only the existing individual investment decisions but also the wider financial models used in valuation, credit assessments, and portfolio construction.

They may also be forced to adjust EBITDA figures for comparability or reconstruct calculations which is often time, consuming and might even lead to unintentional mistakes and biases in their models.

Covenant and Credit Risk Implications

Many agreements on loans and bonds incorporate debt covenants that utilize EBITDA or ratios that are derived from EBITDA (e.g., Debt/EBITDA, EBITDA/Interest) as a base. Allowing companies to decide on EBITDA arbitrarily gives them the chance to manipulate the metric so as to escape covenant violations thereby hiding the signs of financial troubles from lenders or bondholders (Koller et al., 2020).

This creates a systemic risk for creditors as it diminishes the dependability of measures of the company's ability to pay back its debt and can defer any restructuring or risk management actions that might be needed. In worst scenarios, the misuse of EBITDA figures that are overly relied upon may lead to sudden defaults or businesses going bankrupt.

Loss of Confidence in Corporate Reporting

If users of financial statements, over time, always come across inconsistencies, aggressive adjustments, or negligent disclosure, then they might lose their confidence in non, GAAP metrics as a whole. This implies not

only the downgrading of EBITDA's role as a decision, making tool but also trust in the wider financial reporting process.

The loss of credibility can have long, term effects i.e. such as higher perceived risk, greater market volatility, and higher cost of capital for the firms that are dependent on non, standardized performance measures. It is a long way to regain stakeholder trust, transparency reforms, and cultural shifts within organizations might be required once it is lost.

RECOMMENDATIONS

One of the critical issues that needs to be tackled for the consistent use of EBITDA is the requirement of a joint action plan to be enacted by regulators, standard setters, businesses, and investors. Below are some of the recommendations that could lead to an increase in comparability and transparency in EBITDA reporting besides other non, GAAP metrics.

Develop a Standardized Definition of EBITDA

Accounting standard setters such as IASB and FASB should come up with a clear and globally accepted definition of EBITDA. Formally recognizing EBITDA, as it is not an integral part of IFRS or GAAP, is justified due to its extensive application in financial analysis, valuation, and credit assessment. This standardized definition should define which items can be adjusted or excluded and under what circumstances.

The presence of a common yardstick would increase comparability as it would limit the extent to which adjustments could be made arbitrarily. Besides that, it would also prevent the use of adjusted EBITDA in manipulations since it will be easier for monitors to spot such practices.

Mandate Detailed Disclosure and Reconciliation Requirements

Regulators should demand more stringent disclosure criteria for non, GAAP metrics like EBITDA. Along with non, GAAP figures reconciliation to the most directly comparable GAAP measure, companies should:

Offer a detailed explanation of each adjustment done

Specify whether adjustments are continuing or one, off

Keep the definition of EBITDA consistent between reporting periods

Moreover, the evolution of the definition of EBITDA should also be revealed clearly, with prior, period figures restated if required for comparative purposes.

Enhance Oversight and Enforcement

SEC, ESMA, and CSA are examples of regulatory bodies that should raise the bar for their supervision of non, GAAP reporting standards. They might do so by reviewing the reported earnings and the investors' presentations on a regular basis, providing feedback through comment letters when suitable, and levying sanctions against those who abuse adjusted metrics repeatedly or deliberately.

A more proactive function of supervisors in checking management activities would stop managers from seizing opportunities for misbehavior and at the same time motivate firms to treat disclosures of EBITDA with the same seriousness as they do with GAAP financials.

Encourage Auditor Involvement in Non, GAAP Metrics

Current auditing procedures have their focal point in GAAP financial statements and so the role of auditors in non, GAAP metrics could be described as limited assurance over key metrics such as EBITDA. The involvement of an independent third party in the review, verification, and maintenance of standards of

calculations and consistency of these measures would make them more credible and less vulnerable to manipulations.

By no means, this suggestion constitutes full audit assurance over non, GAAP metrics but rather advocates for more accountability and supervision of performance measures which largely affect investor decisions.

Investor Education and Analyst Due Diligence

Investors and analysts should be provided with the necessary tools they need to critically evaluate non, GAAP disclosures. Among the different training activities that may be implemented by the regulators, professional bodies, or academic institutions, one could highlight those which teach users about EBITDA limitations and the skills to adjust or normalize the numbers to draw fairer comparisons.

Moreover, analysts should not heavily depend on the figures of management, reported EBITDA. They ought to question the correctness of adjustments, check if the same types of exclusions are being used across different companies, and ask for transparency during reconciliation.

Promote Industry, Specific Guidelines

It is quite likely that the changes made to EBITDA may be more significant in particular segments (e.g., mining, telecoms, or biotech). Thus, the regulators or trade associations of various industries might come up with the guidelines specific to each sector. These would assist in setting limits on what is acceptable as an adjustment and thereby decrease the differences in reporting within the industries, which would not only improve the relevance but also the comparability of data.

LIMITATIONS AND AREAS FOR FURTHER RESEARCH

Though this research is focused on the main difficulties of the absence of a universally accepted EBITDA definition and its effect on financial reporting, it is important to consider several limitations.

Scope and Generalizability

The study is essentially based on the analysis of published works and regulatory backgrounds that are valid for areas such as the US, Europe, and South Africa. Because of this, the findings may barely cover the activities or issues of less developed countries or emerging markets. How much local reporting culture, market maturity, and enforcement capacity affect the use and misuse of EBITDA may be significant, and, therefore, the conclusions cannot be generalized worldwide without facing limitations.

Lack of Primary Empirical Testing

This research article utilizes the secondary sources of information and previously published empirical studies extensively. The paper grasps the topic of concern widely using this method but original empirical research such as a quantitative comparison of EBITDA disclosures by various companies or industries would be helpful to provide more specific examples of the range and type of inconsistencies. Subsequent research can incorporate statistical tools to estimate the variation of EBITDA calculations and to identify investor behavior or firm valuation influenced by the differences.

Rapidly Evolving Reporting Landscape

The context of reporting, especially for non, GAAP measures, is always changing with new rules for the regulators, expectations of investors, and technology taking place (for instance AI financial analysis). Therefore it may be necessary to reconsider any findings of the day as the rules change. Later studies should follow the actual effects of the changes in regulations such as IASB's Primary Financial Statements project and evaluate their success in providing clarity and uniformity in EBITDA reporting.

Industry, Specific Dynamics Not Fully Explored

Although the article mentions that some sectors could have particular issues while reporting EBITDA, e.g., heavily invested industries and those frequently affected by one, off events, it doesn't proceed with a detailed analysis of the sectors. Later investigations may look into behavioral patterns at the level of the industry and find out if certain branches would be compromised by EBITDA falsification or misrepresentation of disclosures. This could help make the regulations or disclosure guidelines more targeted and thus more effective.

Stakeholder Perspectives

The presented research mainly depicts the perspective of the academics and regulators. Nevertheless, the idea of practitioners, experts in corporate finance, auditors, analysts, and institutional investors is also worth considering. Such points can be obtained by interviewing them or conducting a survey among them to find out whether and to what extent they use EBITDA for their decision, making, what is the nature of the problems they face, and how they view the current regulatory efforts.

Suggestions for Future Research:

Perform comparative studies of different countries concerning the practices of the disclosure of EBITDA

Investigate industry, specific characteristics that impact the adjustments of EBITDA and related issues

Study the impact of regulatory changes on the accuracy of EBITDA reporting

Research how investors and analysts react to various EBITDA disclosures

Delve into how audit assurance contributes to the trustworthiness of non, GAAP metrics

Researchers by tackling these issues and swimming in these future currents will provide richer non, GAAP earnings knowledge and better the policy and practice that shows a more transparent, comparable, and useful financial reporting.

CONCLUSION

This research has looked at how the absence of a universally agreed definition for EBITDA, which is a non, GAAP financial metric most commonly referred to, has resulted in less comparability and transparency in financial reporting. In fact, while EBITDA is a good measure of operational performance, especially when it excludes non, cash and non, operating items, the inconsistent calculation and disclosure of the practices among companies raise a lot of issues.

Since there are no strict regulatory or accounting standards, companies have a lot of room to decide how they are going to define and show EBITDA. Such flexibility can often lead to the practice of making selective adjustments, which lessen the comparability of this metric across firms and, therefore, calls into question its reliability as a performance indicator. Thus, stakeholders including, investors, analysts, and lenders, may fall into the trap of being deceived, especially when these adjustments are aimed at masking lower performance or inflating results.

This study also point out that the issue of transparency is at stake when companies that do not sufficiently disclose the reasons for adjustments or when they market EBITDA more than the figures that accept Generally Accepted Accounting Principles (GAAP). This may, in turn, distort the ability of financial decision, making, lower the quality of the financial analysis, and gradually, erode investor confidence.

Despite the fact that the SEC, IASB, and other regulatory bodies have introduced some guidance and disclosure requirements, the latter still falls short of giving a unified definition of EBITDA. The lack of such

regulations allows inconsistencies to exist, thereby signaling the need for stronger oversight, more standardized definitions, and enhanced disclosure practices.

This research paper suggests the following as solutions to the problem: it recommends the formulation of a universally agreed EBITDA definition, implementation of more stringent reconciliation requirements, Heightened regulatory enforcement, more active involvement of auditors, investor awareness programs as well as industry, specific guidelines. When combined, these interventions will facilitate transparency, comparability, and credibility of non, GAAP financial reporting.

Ultimately, it will be the quality of financial information that becomes available to investors that will be the real benefit from proper EBITDA reporting in a manner that is consistent. This will also be the best way to create more confidence in the sustainability of markets and at the same time, strengthen the corporate reporting ecosystem.

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