

# Improving financial reporting in private firms' interest, new study of emerging markets suggests

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Improved financial reporting at private firms benefits not only potential outside investors but will help the firm make better business decisions for itself too, says a new study.

The study is authored by Ole-Kristian Hope, the Deloitte Professor of [Accounting](#) and an associate professor of accounting at the Rotman School of Management at the University of Toronto, uses World Bank data on small private firms in 21 emerging market countries – Thailand, Brazil and Pakistan having the largest samples. The data includes financing sources and information on tax environments. Private emerging market companies were chosen so researchers could study what happens under conditions with the fewest reporting requirements.

"Within our sample, the firms with higher quality accounting on average seem to make better investment decisions," says Prof. Hope, who co-wrote the paper with Rotman colleague Feng Chen, Qingyuan Li of China's Wuhan University and Xin Wang from The Chinese University of Hong Kong. The paper is forthcoming in *The Accounting Review*.

While Prof. Hope admits it may be a "contentious point" that improved financial accounting can help firms internally as well as externally, "if you don't have quality in the underlying accounting information what will you base your decisions on?" he asks.

The paper also finds that firms with strong incentives to minimize their taxes – for example through high tax rates and strict enforcement – have poorer quality financial reporting and therefore make less efficient investment decisions.

The paper sheds light on an under-researched area of the financial world. Most studies on reporting quality look at publicly-traded companies; despite the fact private firms make up a much bigger piece of the economic pie and dominate emerging markets. There is also very little prior research on firms in emerging markets.

"Private firms employ four times as many employees, have three times as much revenue, and twice as much in global assets. So they're important," points out Prof. Hope.

**More information:** [papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1635425](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1635425)

Provided by University of Toronto

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