

Do terrorist attacks and mass shootings make big companies more 'honest'?

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Terrorist attacks and mass shootings are devastating for the people and communities they affect. These events impact our society in many ways, including perhaps unexpectedly, by changing how big companies

calculate and report their earnings.

A recent study by Professor Seda Oz from the School of Accounting and Finance at the University of Waterloo explains why.

"My research found that after major events like terrorist attacks, company managers often become more cautious. They start to think that [negative events](#) are more likely to happen, even if that's not the case. As a result, they are less likely to use creative accounting practices to make their company's financial performance look better than it is," said Dr. Oz.

The study, which is the first of its kind, looked at over 47,000 yearly reports from more than 5,600 companies and 716 major attacks in the U.S. between 2000 and 2020. It used data from well-known sources like the Global Terrorism Database and Mother Jones, along with corporate data from databases like Compustat and EDGAR.

The research showed that companies close to where these events happened were less likely to 'massage' their financial figures. This means they were more straightforward in their [financial reporting](#). This change is particularly noticeable in companies that usually don't share much information with the public and those with more cautious annual reports.

Understanding these changes is vital for everyone—from the everyday investor to policymakers. People evaluating companies with an eye toward investing in places where terror events have occurred should consider this shift in financial reporting behavior. Dr. Oz noted that the reporting changes could represent a critical factor in assessing the firm's future performance and investment risk. Policymakers could consider introducing mandatory stress tests or enhanced disclosure requirements for firms in regions experiencing a [terrorist attack](#) to help maintain market stability and investor confidence.

This paper is the first of its kind to study the role of availability heuristics—a type of cognitive bias that helps individuals make fast, but sometimes incorrect, assessments—within the realm of earnings management. Emotionally impactful events, including recent [terrorist attacks](#) and [mass shootings](#), influence managers when they are making financial decisions by increasing their perceived probability of risk and negative future events.

This insight is key for understanding company behaviors, especially during times of crisis. It also suggests that companies might need to reconsider their internal policies to account for these [psychological effects](#), which could lead to more ethical business practices and better regulations in the future.

The study, titled "[The impact of terrorist attacks and mass shootings on earnings management](#)," is published in the journal *British Accounting Review*.

More information: Seda Oz, The impact of terrorist attacks and mass shootings on earnings management, *The British Accounting Review* (2023). [DOI: 10.1016/j.bar.2023.101232](https://doi.org/10.1016/j.bar.2023.101232)

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