Thomas Niederkofler (Radboud University, Nijmegen)

“Are all private firms the same? Evidence from financial reporting quality”

Abstract

This paper examines earnings management (EM) incentives and behavior on a sample of 105,530 private Italian firms. Despite the absence of capital markets, private firms face strong incentives for managing earnings. Tax-minimization, agency conflicts and high reporting quality demand by stakeholders influence EM decisions depending on firm characteristics. To account for this heterogeneity among private firms, we divided them into four size categories. We find confirming evidence that private Italian firms systematically manage earnings mainly for tax minimization and loss avoidance purposes. In addition, the demand for reporting quality from minority shareholders and short-term lenders is significant, while long-term debt incentivizes firms to engage into more EM. Overall, we provide strong evidence that private firms respond differently to external pressures for earnings quality. These findings are important because private firms, in contrast to the existing EM literature, should be treated as a heterogeneous group of firms with different incentives and characteristics.