Doctor of Business Economics

Contextual Dynamics in Private Firm Assessment

The Interplay of Reporting Quality, Timeliness, and Social Network.

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This dissertation explores the intricate dynamics of financial reporting within private firms, emphasizing the contextual variations that influence the interpretation and utility of financial information. Despite the prevalent focus on public companies within academic research, this study delves into the less explored arena of private firms, which significantly contribute to employment and economic activity across the European Economic Area. The primary objective is to enhance the understanding of financial reporting's role and efficacy in private firms, differing significantly in their access to capital and stakeholder engagement compared to public companies.

The research is structured into three distinct empirical chapters, each addressing a different aspect of financial reporting: quality, timeliness, and the influence of directors' networks. The first chapter investigates the relationship between financial reporting quality (FRQ) and access to bank debt across firms of varying sizes, revealing that FRQ may hold varying degrees of importance based on a firm's size and perceived credit risk. The second chapter shifts focus to the timeliness of financial reporting, examining how the consistency of late financial filings correlates with firms' financial health, suggesting that systematic late filing could be a strategic choice rather than merely a sign of distress. The third chapter introduces a novel approach by applying network science to financial reporting, exploring how directors' networks can influence firm behavior and propensity towards fraud. This segment of the study uses a unique dataset linking directors to firms and instances of fraud, uncovering patterns of homophily and risk-sharing among firms connected through their directors.

Methodologically, the dissertation leverages a comprehensive dataset of Belgian private firms, enriched by direct access to financial statements and director affiliations. This approach not only allows for a nuanced analysis of financial reporting practices but also contributes to the literature by highlighting the importance of considering non-financial information and the broader network effects in understanding firm behavior.

In conclusion, this dissertation contributes to the broader discourse on financial reporting by highlighting its complexity and multifaceted nature in the private firm context. It challenges the traditional focus on financial metrics alone, advocating for a more holistic approach that considers the interplay of financial quality, reporting timeliness, and the underlying social structures within firms. The findings underscore the need for stakeholders, including regulators and financial institutions, to consider these dimensions when engaging with private firms.