# Contributing to private firms' accounting research

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## 1. The state of the art

Private firms represent a substantial share of the global economic activity. The overwhelming majority of firms maintain their private status throughout their life, even if they grow and operate on an international basis. Within the European Union (EU), for example, the preponderant majority (99.87%) of firms are private, account for 42.8% of aggregated corporate assets, and 61.8% of the total workforce (Beuselinck et al., 2023). The European case does not constitute an exception, as according to statistics from the U.S. Small Business Administration (2018), 99.9% of all firms in the United States qualify as small business entities.

Given private firms' relevance, scholarly interest in research concerning private firms' accounting has intensified markedly in recent years, alongside the increased availability of data. This heightened interest stems not solely from aspirations to extend beyond the substantial corpus examining publicly listed entities, but equally from the aim to comprehend the distinctive features characterising such organisations – encompassing ownership structures and influences, governance architectures, debt arrangements, family involvement, creditor dynamics, and integration within domestic and international supply networks – alongside their implications for financial reporting practices (Hope & Vyas, 2017; Minnis & Shroff, 2017), divergences from the

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disclosure behaviors of public companies, and tax behavior. The specific principal-agent tensions, commercial contexts, and regulatory environments that define private firms render their examination intellectually compelling and empirically fertile.

Interest in this field of research is also confirmed by the number of literature reviews published in recent years. For example, Bar-Yosef et al. (2019) provide a topical overview by classifying and synthesising the main contributions from 95 research papers. A similar undertaking has been pursued by Habib et al. (2018), who surveyed 34 studies commencing from 1999. Vanstraelen and Schelleman (2017) consolidate the literature on the potential costs and benefits of auditing private firms' accounts. Minnis and Shroff (2017) provide theoretical arguments regarding why both private firm public financial reporting and audit regulation may prove warranted, corroborating these perspectives with survey results from standard setters and corporate representatives. Furthermore, Hope and Vyas (2017) discuss how private firms' debt, equity, and trade credit decisions relate to their financial reporting practices. These literature reviews highlight that, beyond the multitude of questions about private firms' peculiarities and their comparability to public companies, investigating private firms can yield insights into questions of general interest, given their distinctive characteristics in agency dynamics, business contexts, and regulatory environments.

What arises from the papers included in this thematic issue is that one of the main problems in conducting private firm accounting research is that private firms are characterized by heterogeneous financial reporting requirements. This kind of research should thus require a preliminary understanding of their regulatory financial reporting framework. This determines the availability and nature of accounting data across firms, time, and countries. For example, in specific jurisdictions, unlimited liability entities face no obligation to disclose financial statements, except when dimensional thresholds are exceeded (as in Germany) or contingent upon shareholder composition (as in Spain). Whilst disclosure obligations are calibrated according to organisational scale (distinguishing micro, small, medium-sized, and larger entities), limited liability companies typically face explicit mandatory requirements. Furthermore, national regulations may permit or preclude the adoption of accounting standards different from the local ones, as in the European Union, where certain jurisdictions restrict voluntary adoption of the International Financial Reporting Standards (IFRSs) to consolidated statements, whereas others (including, for example, Denmark, Italy, the Netherlands, and the United Kingdom) extend this option to separate statements as well. Rigorous research design should thus acknowledge these distinctions to construct meaningful and homogeneous samples. Research on private firms that fails to account for divergent local accounting requirements risks yielding unreliable findings. On the other hand, heterogeneity across jurisdictions and temporal dimensions presents fruitful settings for various research questions (Incollingo & Lionzo, 2023).

A second issue highlighted by the papers here is data availability, which is usually possible through national registers or, more commonly, databases. However, some important points of attention emerge: coverage varies substantially across databases, and providers aggregate data from diverse local sources (e.g., central banks, credit agencies), which engenders sample selection issues. Other complications include time-invariant data (listing status, ownership, auditors) and substantial variations in temporal coverage. This may raise questions regarding the representativeness of earlier studies (Beuselinck et al., 2023).

Conversely, this heterogeneity in disclosure mandates and data availability presents opportunities for comparative investigation into various incentives enhancing financial disclosure quality, as well as the economic consequences of differing accounting requirements. The considerable discretion afforded to firms regarding line-item aggregation or the publication of income and cash flow statements creates a promising context for analysing the diverse incentives shaping firm behavior (Burgstahler et al., 2006), including strategic size management to circumvent or minimise disclosure obligations (Bernard et al., 2018). Similarly, varying provisions for abbreviated financial statements offer research opportunities, as understanding which incentives motivate voluntary disclosure proves illuminating. Such analyses may also advance our comprehension of external stakeholders' information requirements – including those of creditors, competitors, tax authorities, customers, and suppliers – and the capacity of different regulatory regimes to satisfy these varied needs (Incollingo & Lionzo, 2023).

It has also to be considered that financial statements in private firms fulfil an essential 'statutory function' throughout the corporate lifecycle. Think about their utilisation in safeguarding capital maintenance, their role in informing shareholder dividend decisions, and their significance for taxation purposes. Each of these variables may represent a specific incentive for adopting certain financial reporting behaviors.

Notwithstanding the extensive number of private firms' accounting studies in recent years, gaps persist in understanding their accounting behaviors. In some cases, their simpler organizational architectures – featuring more straightforward ownership patterns and stakeholder configurations – allow scholars to examine distinct reporting mechanisms whilst minimizing interference from extraneous factors, such as the equity market pressures. Research in this domain may leverage private firms' data to investigate phenomena relevant across both private and publicly traded companies, fulfilling complementary scholarly objectives. Private firms provide fertile ground for analysing how unofficial communication and local networks affect investment decisions and resource allocation. Moreover, they demonstrate suitability for empirical approaches – encompassing extensive randomized interventions, questionnaire-based inquiries, and in-depth qualitative investigations – made feasible through their considerable population, which renders their cooperation more achievable. Promising avenues include examining non-shareholders' roles (commercial partners, minority equity holders, lending institutions, tax authorities) or specific strategy effects (going public, mergers and acquisitions, selling the ownership to a private equity fund) and their information requirements, encompassing non-financial disclosure (corporate social responsibility, environmental matters). Furthermore, given that private firms cannot employ market-based metrics, this can potentially exacerbate earnings management incentives with respect to listed companies, representing another interesting research avenue.

This issue of *Financial Reporting* aims to complement these works by providing an overview of how accounting in private firms is influenced by differences in regulation, taxation, ownership, and stakeholder relationships. The papers collected here examine private firms across various institutional settings and show how these differences affect reporting and auditing choices, financing decisions, and corporate events such as bankruptcies and mergers. Taken together, the selected studies suggest that private firms are not simply smaller or less regulated versions of public companies. The papers' findings highlight how local rules, enforcement, and governance structures interact to determine how accounting information is produced and used. By studying different contexts, the papers also show that private-firm data can shed light on broader questions in accounting, such as how reporting affects financing, taxation, and corporate control when capital market pressures are absent.

Taken collectively, the papers included in this thematic issue will contribute further to the rich and expanding field of private firm accounting research.

## 2. Contributions in this thematic issue

Though they approach private-firm accounting from different theoretical and methodological perspectives, the eight papers included in this topical collection all contribute to understanding how institutional, regulatory, and governance factors shape the reporting behavior of privately held companies.

The first paper, by Alexander and Menicacci, examines how tax regulation influences financing decisions. The authors take advantage of Italy's 2008 reform that capped financing cost deductions at 30% of adjusted EBITDA. They use a difference-in-differences design applied to more than 140,000 firm-year observations. They find that the reform reduced leverage mainly among medium-sized and large firms, while smaller firms were unable to reduce debt and instead relied more on short-term borrowing. The results indicate that the transmission of tax policy depends on firm size: larger firms can offset the loss of the interest tax shield by employing alternative tax planning strategies, resulting in no significant change in their effective tax rates. In contrast, smaller firms faced higher effective tax rates and reduced financial flexibility. The study highlights that tax reforms can have different effects across firms and offers relevant implications for tax regulators.

The second contribution, by Bianchi Fedrigoni and Pecchiari, investigates how organized crime can influence the accounting behavior of private firms. Using data from the Italian Internal Intelligence and Security Agency, the authors analyze more than 13,000 private firms operating in Lombardy between 2006 and 2013 and examine the presence of individuals under investigation for mafia-related crimes. Their analysis shows that in areas with greater mafia infiltration, unconnected firms report lower effective tax rates, more frequent tax restatements, and more substantial income-decreasing accruals. These patterns are driven by geographical proximity, and they become weaker following the introduction of stricter anti-money laundering regulations in 2011. The evidence provides large-sample support for the notion that weak institutional enforcement can allow criminal influence to distort financial reporting and taxation, and it highlights the importance of credible mechanisms in maintaining financial reporting quality.

In a similar vein, Bonacchi and Menicacci address a related policy issue by studying how investment tax incentives affect earnings management in private firms. They focus on Italy's "Hyper-Depreciation" provision introduced under the national Industry 4.0 Plan, which allowed a 150 percent depreciation bonus for qualifying assets. Using a matched sample of Italian and Austrian firms and a difference-in-differences approach, the authors find that earnings management activity declined after the policy was introduced, in particular among firms with less concentrated ownership. They interpret this result as evidence that the tax benefit replaced the need for upward discretionary adjustments in reported income. Closely held or owner-managed firms, facing less earnings pressure, did not change their reporting behavior.

The study shows how the design of fiscal incentives can affect accounting quality across different ownership structures.

Also studying tax incentives and earnings quality among private firms, Niederkofler and Courteau examine earnings management across more than 76,000 Italian private firms, from 2010 to 2014, classified by size. They test whether firms manage earnings mainly for tax minimization, stakeholder reporting demands, or managerial opportunism. Results show that tax motives exert limited influence. In contrast, loss avoidance is a prevalent driver of firm behavior across size groups. Larger firms respond more to stakeholder and creditor pressures but also engage in opportunistic reporting linked to long-term debt. Opportunistic behavior is also found among smaller firms, which are less affected by stakeholder influence. The study concludes that private firms are heterogeneous, with financial reporting incentives varying significantly by size and stakeholder environment.

The fifth paper, by Cenciarelli, investigates the relationship between ownership structure and the likelihood of financial default in Italian private firms. Using an extensive panel of more than 28,000 firm-year observations from 2012 to 2019, the study expands on traditional Altman-type bankruptcy prediction models with variables related to ownership structure. It finds that ownership concentration, measured as the percentage of shares held by the top three shareholders, has a significant positive association with default risk. In contrast, institutional ownership exerts the opposite effect and reduces default probability. The findings show that ownership structure is a governance variable that can help predict corporate distress situations, suggesting that incorporating it into early-warning systems can enhance the monitoring of financially distressed private firms.

Cameran, Daniele, and Pettinicchio analyse auditor selection following the 2023 implementation of Italy's Legislative Decree 14/2019, which extended mandatory audit requirements to many small private companies. Drawing on a large sample of firms subject to mandatory audit for the first time, they document a preference for individual auditors rather than audit firms or Big Four networks. Larger, more complex, and group-affiliated firms were more likely to choose organized audit firms, whereas smaller and southern firms tended to prefer individuals. Managerial ownership and regional differences were also found to influence these decisions. These results suggest that governance characteristics and local contexts influence audit choices, and that regulatory objectives may be undermined when firms facing greater agency risks select less-structured auditors. Therefore, ensuring consistent audit quality depends not only on regulation but also on oversight of individual practitioners.

The paper by Magri, Bertacchini, and Gabrielli shifts attention from reporting and auditing to the dynamics of financial distress. Using a sample of 439 Italian small- and medium-sized enterprises that entered formal debt-restructuring proceedings between 2017 and 2019, the authors analyze how proximity to stakeholders affects the success of these processes. Drawing on the resource-based view of the firm, they conceptualize proximity as a form of social capital built through repeated interactions and trust. Their results show that firms located in smaller municipalities, where contacts among creditors, managers, and employees are more frequent, are significantly more likely to survive. The study offers interesting insights into the economic value of social capital in the context of insolvency and shows how relational resources can complement mechanisms of corporate recovery.

Finally, Viarengo explores how macroeconomic uncertainty influences mergers and acquisitions (M&A) involving private firms. Using a dataset of almost 167,000 European transactions from 1991 to 2022, the study measures uncertainty through the Baker-Bloom-Davis index and a dummy variable for the COVID-19 period. The analysis reveals that during periods of high uncertainty, acquisitions of listed companies decline. In contrast, those involving private, standalone entities increase. The substitution effect intensified during the pandemic. Moreover, acquisitions of private targets are more common in financially developed markets, where access to funding and investor protection are stronger. Overall, the study shows how uncertainty reshapes, rather than suppresses, mergers and acquisitions activity.

Together, these eight papers highlight the wide range of current research on private-firm accounting. They demonstrate how factors such as tax policy, governance structures, location, social networks, and economic conditions shape accounting practices. Using varied methods and perspectives, the studies portray private-firm behavior within broader regulatory and social settings, contributing to both the empirical and conceptual understanding of the field.

## 3. Shared themes across the studies

The papers in this thematic issue explore different institutional and empirical contexts but point to similar insights about how private firms produce and use accounting information. Overall, the evidence suggests that their accounting behavior results from the interaction of institutional factors, governance, and stakeholder relationships.

At the institutional level, the studies show that regulation and enforcement regimes affect firms' reporting incentives. For instance, fiscal incentives and the strength of legal oversight are found to influence how private entities prepare and use financial statements. Alexander and Menicacci show that a uniform restriction on interest deductibility led to uneven adjustments in capital structure, with smaller firms being less able to respond than larger ones. Bonacchi and Menicacci show that tax incentives can affect reporting quality by reducing the need for discretionary earnings management. Niederkofler and Courteau demonstrate that even within a single institutional setting, private firms' reporting incentives vary systematically by size and stakeholder environment, so that tax motives alone cannot explain earnings management behavior. Bianchi Fedrigoni and Pecchiari provide a different example in which greater mafia presence leads to lower effective tax rates and reduced transparency. Cenciarelli extends the discussion into the area of financial stability, finding that concentrated ownership increases default risk, whereas institutional ownership mitigates it. The connection between a firm's governance and its economic resilience shows that governance features, together with regulatory and fiscal policies, affect how well firms cope with financial distress.

The papers also emphasize that governance and ownership structures mediate the effects of these institutional settings. In private firms, where capital market monitoring is limited, ownership concentration and managerial involvement are important factors. When ownership and management coincide, as in closely held or family-controlled firms, accounting choices tend to reflect internal trust and tax motives more than external reporting pressures. This pattern is observed in both Bonacchi and Menicacci, where owner-managed firms are less sensitive to the reporting consequences of tax incentives, and in Cameran, Daniele, and Pettinicchio's study of auditor choice, which finds that managerial ownership is associated with a preference for individual auditors. Cenciarelli's evidence reinforces this governance theme by showing that extreme ownership concentration can reduce financial discipline, whereas the presence of institutional investors can play a stabilizing and monitoring role. In larger or group-affiliated firms, characterized by more dispersed ownership and greater stakeholder scrutiny, external auditing and transparent reporting become more important. Governance in private firms thus partly replaces the disciplinary role of public markets, although its strength depends on how ownership and control are organized.

The contributions also underline that information production in private firms has a relational nature. In the absence of capital market scrutiny, transparency relies on alternative mechanisms, such as auditing, creditor monitoring, and local networks. Cameran, Daniele, and Pettinicchio show that audit choices reflect these relationships, while Magri, Bertacchini, and Gabrielli demonstrate that social proximity and long-term community ties increase the likelihood of successful debt restructuring in small firms. Viarengo's evidence from European M&A transactions suggests that periods of heightened macroeconomic uncertainty can affect ownership structures, with acquirers increasingly turning to privately held firms. Cenciarelli's results contribute to this view by highlighting the role of institutional investors, whose monitoring and engagement reduce the asymmetry between firms and creditors, thereby enhancing the credibility of financial information. Taken together, these findings suggest that private-firm transparency arises not only from regulation but also from the repeated interactions among auditors, creditors, regulators, and communities, where trust and proximity have tangible informational value.

Overall, the eight studies show that private-firm accounting cannot be explained through a single dimension. Private-firm reporting emerges as a complex system where institutions and governance characteristics can create different sets of incentives, and relational factors influence the flow of information among stakeholders.

## 4. Implications for practice and policy

The studies included in this dedicated issue offer concrete implications for three central groups: private firms, the accounting profession, and policymakers.

For private firms, the findings provide insights into how accounting and governance choices can either enhance or constrain strategic flexibility. Decisions regarding capital structure, ownership concentration, and audit selection have significant downstream effects on financing access, resilience to economic shocks, and reputational credibility. Cenciarelli's study, for instance, shows that firms with highly concentrated ownership are more vulnerable to financial distress, while institutional ownership reduces default risk. This finding is relevant for managers, who should recognize the potential risks associated with dominant shareholders and consider reinforcing the role of institutional investors as part of their governance strategy. It also suggests that lenders might improve their credit-rating models by including ownership structures and acknowledging the positive effects of institutional investors. Moreover, as demonstrated by Magri, Bertacchini, and Gabrielli, building social capital through proximity to stakeholders can be beneficial – a critical factor in securing support during financial distress.

Alexander and Menicacci's research illustrates that tax reforms reducing the deductibility of interest payments disproportionately affect smaller firms, which may lack alternative financing options. These firms should therefore consider diversifying their financing sources and investing in specialized tax advice to mitigate competitive disadvantages relative to larger firms. Viarengo shows that standalone private firms are more likely to be acquired during economic crises, suggesting that private firms are particularly exposed to uncertainty and distress. Taken together, these studies highlight that private firms face heightened vulnerabilities during economic downturns and may need to proactively strengthen their financial and governance structures.

For the accounting profession, the findings underscore the importance of tailoring audit and advisory approaches to the specific incentives and reporting environments characteristic of private firms. The evidence demonstrates that institutional and governance contexts significantly influence accounting behavior, indicating that audit methodologies designed for publicly listed firms are not always suitable for private entities. For example, the preference for individual auditors over audit firms, as documented by Cameran, Daniele, and Pettinicchio, suggests challenges in ensuring consistent audit quality in settings with less formal governance. This highlights the need for professional guidance and quality control mechanisms that account for such preferences, as well as capacity-building initiatives for individual auditors to enhance oversight in the private sector.

For policymakers, the studies reveal that unintended consequences of tax policies, stemming from incentives or anti-avoidance rules, require closer scrutiny. Uniform tax reforms do not necessarily produce uniform effects across all firms. Findings on tax incentives, such as those presented by Bonacchi and Menicacci, show that their impact on reporting practices varies depending on ownership structure. Niederkofler and Courteau show that within private firms, accounting behavior varies with firm size; smaller firms seem more opportunistic. Similarly, Alexander and Menicacci demonstrate that smaller firms may lack the resources or flexibility to respond to policy changes in the same way as larger firms. Policymakers should therefore consider differential effects across firm segments to ensure that regulatory frameworks do not disproportionately burden firms with fewer resources. Bianchi Fedrigoni and Pecchiari's study further underlines the need for strong enforcement mechanisms to avoid unintended spillover effects, such as enabling criminal influences on the tax behavior of firms that have no direct connection to criminal organizations.

Overall, as implied by findings across the studies of Alexander and Menicacci, Cenciarelli, Magri et al., and Viarengo, private firms appear to have a lower capacity to cope with crises, which may be an important consideration for policymakers designing support measures.

Taken together, the diverse findings presented in this issue highlight that private firms operate within a multilayered incentive structure shaped by size, institutional settings, governance arrangements, and relational environments. Understanding and responding to these complexities can enhance the effectiveness of professional practice, strengthen firms' strategic capacity, and contribute to the design of more supportive public policies.

## 5. Conclusions

Private firms operate in distinct environments shaped by ownership structures, governance mechanisms, financing needs, and relational networks. Their incentives regarding accounting choices and audit decisions, as well as their responses to regulation, policy, and business conditions, differ in several respects from those of public firms. Given the significant economic relevance of private firms in Europe and elsewhere, the need for targeted accounting research is evident, and this dedicated issue makes a timely and positive contribution.

The European context, with its relatively easier access to private firm data, offers a particularly suitable setting for private firm accounting research, with insights that may be informative for other regions. In the current era of increasing data availability for private firms and small businesses, several avenues for future research deserve attention.

For example, improving the availability of high-quality and comparable financial information for private firms is crucial to attract investors for the growth and competitiveness of the EU economy. Nevertheless, reporting and financing practices differ significantly across EU Member States (Incollingo & Lionzo, 2023). In 2020, the group of capital market experts of the CMU High Level Forum outlined that "*easily accessible, reliable, understandable and comparable public information is needed to attract investors*". Similarly, in March 2024, the Eurogroup called on the European Commission "*to further harmonise accounting frameworks in a targeted manner to enhance cross-border comparability of available information on companies … and thus facilitate investment in those companies*". This is a highly relevant area of research in which scholars can make a decisive contribution to defining the characteristics of an accounting framework capable of providing useful information regarding the characteristics and the performance of these companies, allowing better access to finance for private firms, either through equity or other means.

Environmental, social, and governance (ESG) reporting is becoming increasingly relevant for private firms, supported by regulatory initiatives like the Corporate Social Responsibility Directive and pressure from supply-chain partners, lenders, and other stakeholders. Research could further explore what drives ESG disclosures in the absence of public capital market pressures and examine whether such reporting influences firm performance, accounting choices, or auditor selection. Where data is not readily accessible, survey research or field experiments may offer valuable approaches to gaining intra-firm insights and opening the black box of accounting decision-making and auditing in private firms.

What clearly arises from the contributions contained in this issue of *Financial Reporting* is that the investigations and solutions proposed for the issues discussed above must not overlook the specific characteristics of these companies. For too long, private firms have been subject to the same rules as large, listed companies. In light of the findings of the scientific research so far, the time has now come to recognize these differences and incorporate them into the reporting rules for private firms, thus communicating the significant and specific elements of their characteristics and performance.

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