

## Hey! What's New? 2025-110

### Good Accounting Can Make Companies More Resilient

An article in the *Chicago Booth Review*, written by Katia Savchuk, notes that “supply-chain disruptions – whether caused by natural disasters, pandemics, or global recessions – may seem unambiguously negative. But they can also force businesses to streamline operations in order to stay competitive.”

Savchuk points out that research from Chicago Booth’s Philip G. Berger and Rimmy E. Tomy suggests that “how well companies respond to these events depends in part on the quality of their accounting. Examining outcomes following an earthquake in Taiwan, they find that affected companies with higher-quality financial and managerial reporting systems became significantly more productive afterward, outperforming peers that had less robust practices.”

The researchers used regulatory filings and the corporate database FactSet to identify 103 US manufacturers – of computers, cell phones, medical devices and other electronics – that bought components from Taiwan at the time of the earthquake. (In 1998, about 13 percent of semiconductors imported to the United States came from Taiwan.) “Because most US manufacturers had short-term contracts with Taiwanese suppliers, they were vulnerable to price swings. After the earthquake led to a chip shortage, their production costs soared.”

Most affected companies responded by “spending more on restructuring than industry peers while cutting investments in long-term assets, research and development, and overhead expenses,” the study finds. “As a result, total factor productivity for these companies—a measure of their efficiency – rose by 10–11 percent compared with competitors that sourced materials elsewhere.”

Some companies bounced back, Savchuk says. “When Taiwan was rocked by an earthquake in 1999, US tech companies that sourced electronic parts from there were better able to respond and become more productive if they had stronger accounting-reporting practices.”

But, she notes, “which manufacturers experienced these gains depended on their accounting. Supply-chain shocks can upend a company’s books, affecting everything from inventory valuations to payment cycles. High-quality accounting systems, which often track costs in real time and employ predictive analytics, can keep up better.”

To measure affected companies’ reporting quality before the earthquake, Berger and Tomy looked at several indicators: the number of class-action lawsuits the companies faced related to financial reporting, whether they had weak disclosure controls as defined by federal law, whether they’d faced a recent investigation by the Securities and Exchange Commission related to reporting or disclosure, whether they had intentionally misstated information, and the extent to which they disclosed details about supply chains in regulatory filings.

Savchuk writes that “among companies that relied on Taiwanese suppliers, those with high-quality reporting saw total factor productivity increase roughly 11–13 percent relative to peers that sourced parts elsewhere. Meanwhile, companies with weaker reporting saw either no change in their productivity or an increase of less than 5 percent compared with companies unaffected by the earthquake.”

In competitive industries such as consumer electronics, companies can't simply pass cost increases on to customers, especially when many rivals aren't facing similar increases. Instead, disruptions often force them to become more productive by eliminating inefficiencies, cutting employees, reducing certain investments, or taking other measures. "The shock leads to changes the firm was unwilling to make under less severe circumstances," Berger and Tomy write.

They add that "robust reporting practices provide companies more timely and accurate information with which to undertake these adjustments. High-quality accounting systems also enable shareholders, creditors, and other stakeholders to hold managers accountable. The result: bigger jumps in productivity."

Savchuk concludes that "business leaders often hesitate to improve reporting systems because their focus is elsewhere, they're reluctant to abandon the status quo, or they're unsure whether the payoff is worth the cost. Berger and Tomy argue that their findings should give managers a compelling reason to reconsider."

Learn more at [Good Accounting Can Make Companies More Resilient | Chicago Booth Review](#).