

THE VALUE OF NON-FINANCIAL INFORMATION IN SME RISK MANAGEMENT

Edward I. Altman^a Gabriele Sabato^b Nicholas Wilson^{c1}

^a NYU Salomon Center, Leonard N. Stern School of Business, New York University,
44 West 4th Street, New York, NY 10012, USA

^b Group Credit Risk, Royal Bank of Scotland, Gustav Mahlerlaan 10,
1000EA Amsterdam, The Netherlands

^c Credit Management Research Centre, Leeds University Business School,
Leeds, LS2 9JT, UK

¹ Corresponding author. E-mail address: nw@lubs.leeds.ac.uk,
Address: CMRC, Leeds University Business School, LEEDS, UK

Abstract

Few studies that have focused on developing credit risk models specifically for SMEs have included non-financial information as predictors of the company credit worthiness. In this study we have available non-financial, regulatory compliance and 'event' data to supplement the limited accounting data which are often available for non-listed firms. We employ a sample consisting of over 5.8 million sets of accounts of unlisted firms of which over 66,000 failed during the period 2000-2007. We find that data relating to legal action by creditors to recover unpaid debts, company filing histories, comprehensive audit report/opinion data and firm specific characteristics make a significant contribution to increasing the default prediction power of risk models built specifically for SMEs.

JEL classification: G33, G32, M13

Key words: SME lending; Credit Risk Modeling; Bankruptcy; Small Business failure