

A Comparison of the Operating Performance of Accounting Firms among the U.S., China, and Taiwan

Abstract

This study employs the newly developed stochastic metafrontier production function by Huang et al. (2012) to compare the technical efficiencies of accounting firms (AFs) among the U.S., China, and Taiwan, operating under different technologies. Although AFs play an important role in a nation's capital market, the accounting industry has not attracted much attention to academic researchers. The main difference between the stochastic metafrontier function and the one proposed by Battese et al. (2004) and O'Donnell et al. (2008) lies in the second step, where the stochastic frontier approach (SFA) is recommended instead of programming techniques. Taiwan's AFs are found to have the highest average overall efficiency and technology gap ratio (TGR), followed by the U.S. and Chinese AFs. The low performance of Chinese AFs may be attributed to government regulations and the lack of market competition. However, the programming technique suggests a reverse order for AFs in Taiwan and the U.S. and larger variances for TGR and overall efficiency. Although the U.S. and China AFs show decreasing returns to scale, the Taiwan's AFs exhibits increasing returns to scale.

Key Words: accounting firms; technical efficiency; TGR; stochastic metafrontier approach;