What is the effect of family cohesion on earnings management in private family firms?

UHASSELT — KNOWLEDGE IN ACTION

Research Objectives

- What is **earnings management**?

- What influence could **family cohesion** have on earnings management?

- How could **the board of directors** influence the association between family cohesion and earnings management?

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Literature Review

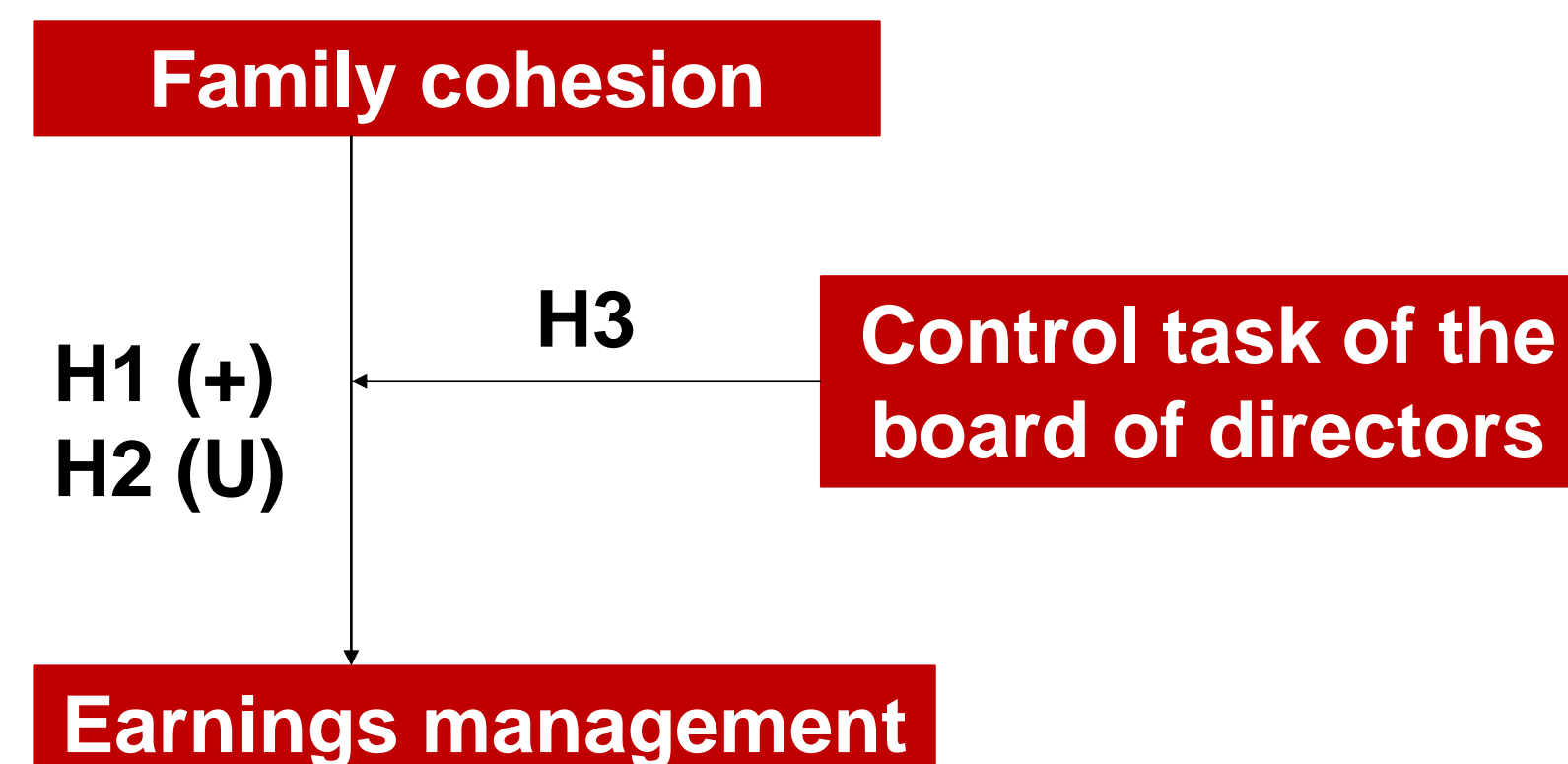Two important **theoretical frameworks** to explain earnings management behavior:
  1) Agency theory
  2) Socioemotional wealth preservation

Family cohesion is the **emotional bonding** that family members have towards one another. The level of cohesion determines whether a family has a more individualistic or a more collectivistic orientation.
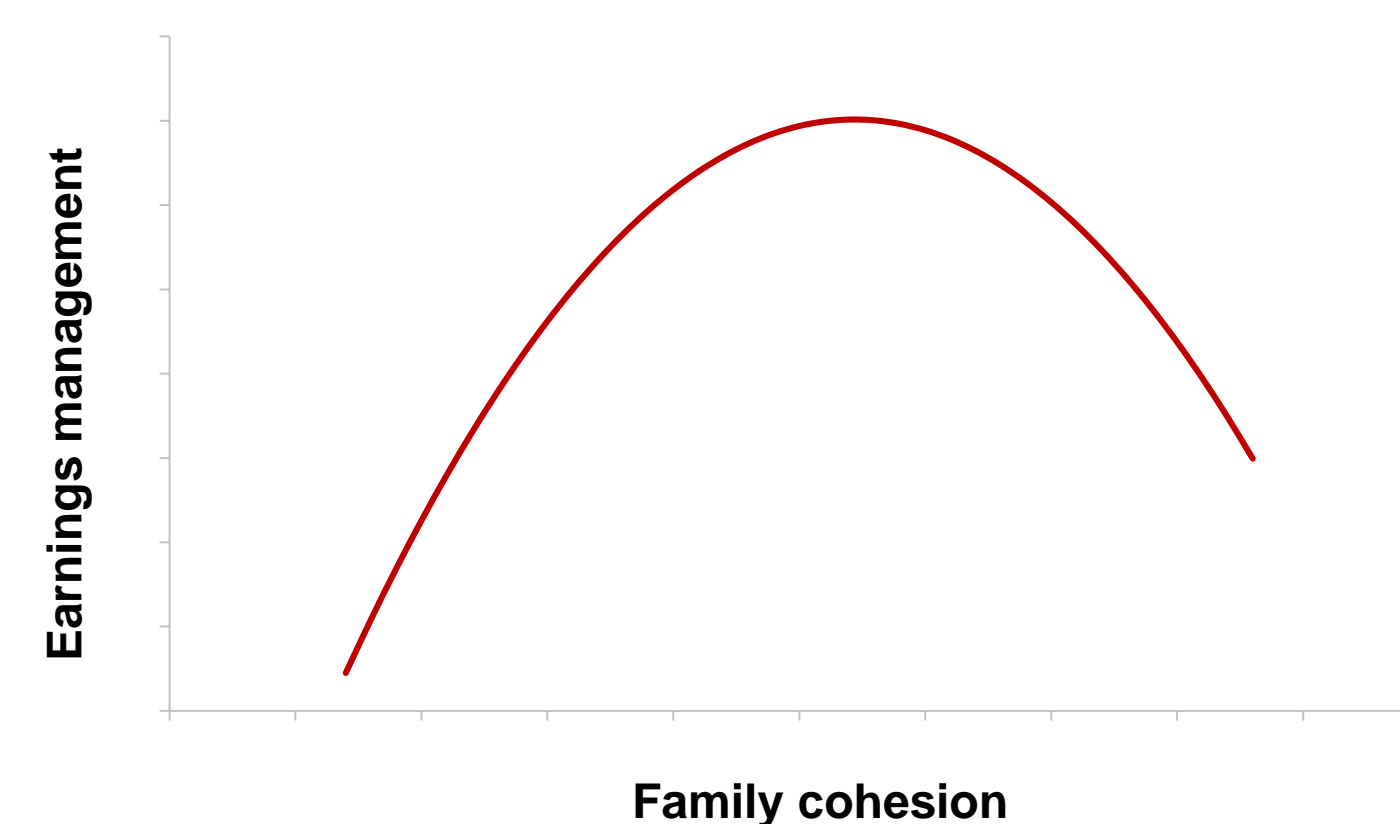
The **control task** of the board refers to its legal obligation to monitor management on behalf of the firm's shareholders and to carry out this duty with sufficient loyalty and care.

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Methodology

A **quantitative research** was conducted:

- Population of Belgian private family firms

- Online questionnaire sent to CEO

- Final sample of 87 firms

- Ordinary least squares regressions

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Model & Results

Most remarkable result:

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Key Findings

There is **no significant association** between the level of family cohesion and earnings management in private family firms.

But, there is a **non-linear association**, in which the level of family cohesion is positively associated with earnings management in the lower range of cohesion, while turning negative in the higher range.

The board of directors has the competence to **prevent** highly cohesive families engaging in earnings management when effectively performing their control task.

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Contributions

New evidence to explain earnings management behavior in private family firms.

Understanding the drivers behind earnings management behavior could help stakeholders to make **more precise decisions**.

The installment of a board of directors can **add value** to the private family firm when effectively performing their control task.

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