СЕКЦІЯ 3.
ПЕРСПЕКТИВИ РОЗВИТКУ ФІНАНСОВО-ЕКОНОМІЧНОГО КОНТРОЛЮ, АУДИТУ ТА ЕКОНОМІЧНОГО АНАЛІЗУ В УПРАВЛІННІ БІЗНЕСОМ

UDC 657

Li Xiaoqing,
PhD student of Department of Accounting and Taxation
Nataliia Pochynok,
PhD, Associate Professor,
Department of Accounting and Taxation,
West Ukrainian National University

NON-FAMILY CEOs AND ACCOUNTING IRREGULARITIES IN FAMILY BUSSINES

Family-owned businesses, which form a key part of the global economy, are increasingly appointing non-family CEOs to manage the complex challenges of modern corporate governance and ensure long-term sustainability. This shift aims to professionalize management and foster innovation, but it also brings new dynamics that can influence a firm's ethical practices and susceptibility to corporate misconduct. Despite a growing body of research on non-family CEOs in family businesses, their impact on corporate misconduct, especially in relation to the firm's financial stability and competitive environment, remains underexplored.

Family firms are distinctive due to the combination of family values and business goals, which sometimes causes a conflict between the family's socioemotional wealth and the company's economic success. Appointing a non-family CEO is often seen as a transformative move, injecting fresh perspectives and professional skills. However, this change can also lead to agency problems, where the non-family CEO's goals may not align with the long-term interests of the family, potentially leading to ethical issues and misconduct. Research indicates that the financial well-being of a family business and the level of market competition are key factors that influence the relationship between non-family leadership and misconduct. Financially stable companies might feel less pressure to engage in unethical behavior, allowing non-family CEOs more leeway to take risks. On the other hand, companies in highly competitive markets may face more scrutiny and reputational risks, which can deter misconduct.

The research is aimed to address a gap by examining how non-family CEOs influence corporate misconduct, particularly in relation to the firm's financial health and market competition. Ethical behavior and compliance by non-family CEOs are critical for maintaining the integrity of family firms, which are often deeply connected to family traditions. While existing research has focused primarily on the benefits of non-family CEOs, such as improved performance and innovation, little attention has been given to their role in either contributing to or preventing corporate misconduct.

By exploring this relationship, the study aims to provide deeper insights into the governance challenges family businesses face. This research uses data from family-owned firms listed on China's Shenzhen and Shanghai Stock Exchanges (A-shares) between 2008 and 2022, focusing on financial health and market competition as moderating factors. The findings will contribute to discussions on corporate governance in family firms and offer practical advice for family business owners, regulators, and policymakers.

In family firms, appointing non-family CEOs introduces a new dynamic that can heighten the risk of accounting irregularities. According to the principal-agent theory, conflicts of interest between the principal (family owners) and the agent (non-family CEO) may intensify. Socioemotional wealth (SEW) further complicates this relationship, as it emphasizes the emotional ties and legacy values linked to the business.

Non-family CEOs, being external to the family, may not have the same long-term commitment to the family's vision. This misalignment can lead to a focus on short-term results, particularly when the family's influence is weakened. Suggested that non-family CEOs might take riskier actions, including aggressive accounting practices, to demonstrate their competence. Non-family CEOs, despite their professional expertise, may be more susceptible to external market pressures, which might not align with family objectives, potentially leading to accounting irregularities.

In contrast, family CEOs often have a closer, more trusting relationship with the family firm, reducing the risk of agency costs linked to self-interest. The SEW theory posits that family firms prioritize legacy and emotional wealth over immediate profits, often resulting in risk-averse, compliance-driven management. The study delves into the complex dynamics between non-family CEOs and financial reporting practices. It posits that non-family CEOs, lacking family ties, may resort to aggressive strategies to meet short-term goals, especially when internal controls are weak.

However, family business operate in diverse contexts, and the financial health of the firm and market competition can significantly affect non-family CEOs' decision-making. Non-family CEOs in financially strong firms may have more freedom in decision-making, potentially leading to both innovative strategies and self-serving behaviors. High competition, meanwhile, might push non-family CEOs to adopt aggressive accounting tactics to meet shareholder expectations. In contrast, low-competition environments could encourage them to take risks to maintain market position.

References

1. Abebe M. A., Acharya K. Founder CEOs and corporate environmental violations: Evidence from S&P 1500 firms. *Business Strategy and the Environment*, 31(3), 2021. P. 1204–1219. https://doi.org/10.1002/bse.2950

2. Deng D., Wu Y., Qin L. CSR preference, market competition, and corporate financial performance. *Managerial and Decision Economics*, 44(3), 2023. P. 1396–1409. https://doi.org/10.1002/mde.3754

3. Iturralde T., Maseda A., Sanchez-Famoso V. Family involvement in top management team: Impact on relationships between internal social capital and innovation. *Journal of Management & Organization*, 23, 2017. P. 136-162. https://doi.org/10.1017/jmo.2016.33

4. Liao L., Chen G., Zheng D. Corporate social responsibility and financial fraud: evidence from China. *Accounting & Finance*, 59(5), 2019. P. 3133-3169. https://doi.org/https://doi.org/10.1111/acfi.12572.