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OUTSIDE THE FAMILY: THE IMPACT OF NON-FAMILY CEOs ON ACCOUNTING IRREGULARITIES IN FAMILY BUSSINNESSES

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Abstract.

Introduction. *Family businesses are increasingly appointing non-family CEOs to navigate corporate governance complexities and ensure legacy continuity. New dynamics are being introduced that affect the ethical landscape of the firm and the propensity for corporate misconduct. Despite growing literature on non-family CEOs in family firm's, their influence on corporate misconduct, particularly in relation to financial health and market competition, remains underexplored.*

Purpose. *The study should reveal the effect of non-family CEOs on accounting irregularities in family businesses, focusing on the moderating effects of financial health and competitive market environment.*

Methods. *The research employs a combination of descriptive statistics, correlation analysis, t-tests, and multivariate regression analysis to examine the relationship between non-family CEOs and corporate misconduct. Robustness tests, including alternative dependent variable specifications, propensity score matching (PSM), and redefining the family firm, ensure the reliability of the findings.*

Results. *The study finds that non-family CEOs are more likely to engage in corporate misconduct, particularly in financially healthy firms and less competitive markets. On average, 17.1 % of listed family firms in China exhibited misconduct behavior between 2008 and 2022, with a frequency of 0.234. The correlation coefficients between the likelihood of misconduct and the key independent variable and between the frequency of misconduct and PCEO are significantly positive at the 1% level. T-tests show a statistically significant difference between family firms with family CEOs and those with non-family CEOs for both the likelihood of violation and the frequency of violations. Multivariate regression analysis confirms that non-family CEOs are positively and significantly associated with both the likelihood and frequency of corporate violations at the 1 % significance level.*

Prospects. *Future research could explore the role of non-family CEOs in different economic and cultural contexts, investigate the long-term effects of non-family CEO leadership on family firm performance and sustainability.*

Keywords: *non-family CEOs; accounting irregularities; family businesses; financial condition; competitive market environment.*

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Introduction. Family businesses, pivotal to the global economy, are increasingly appointing non-family CEOs to navigate modern corporate governance complexities and ensure legacy continuity [1]. This strategic shift, aimed at professionalizing management and fostering innovation, introduces new dynamics that significantly impact the firm's ethical landscape and propensity for corporate misconduct [2]. Despite growing literature on non-family CEOs in family firms, their influence on corporate misconduct, especially in relation to financial health and market competition, remains underexplored [3].

Family businesses blend family values and business objectives, sometimes leading to conflicts between socioemotional wealth and economic performance [4]. Non-family CEOs, seen as catalysts for change, bring fresh perspectives and expertise [2]. However, this transition can introduce agency problems, where non-family CEOs' incentives may misalign with family owners' long-term interests, leading to ethical lapses [5].

Literature suggests that a family firm's financial health and market competition intensity are critical factors moderating the relationship between non-family CEO leadership and corporate misconduct [6]. Financially robust firms may face less external pressure to engage in misconduct, potentially emboldening non-family CEOs to take risks [7]. Conversely, firms in highly competitive markets may face increased scrutiny and reputational risks, deterring misconduct [8].

This study addresses a significant research gap by examining the relationship between non-family CEOs and corporate misconduct, focusing on the moderating effects of financial health and competitive market environment. The ethical behavior of non-family CEOs is crucial for the integrity and reputation of family businesses, rooted in family values and traditions. While existing literature focuses on the benefits of non-family CEOs for performance and innovation [9-11], there is a notable absence of research examining their role in corporate misconduct.

By investigating this relationship, this study aims to provide a nuanced understanding of the governance and ethical challenges faced by family firms. Utilizing a comprehensive dataset of Chinese A-share listed family firms from 2008 to 2022, the analysis focuses on financial health and product market competition as moderating factors. Our findings will contribute to the discourse on corporate governance in family firms and offer insights for stakeholders.

Literature Review and Hypotheses. The strategic shift towards non-family CEOs in family firms is a significant development in corporate governance, aimed at professionalizing management and fostering innovation. However, this shift introduces new dynamics that can significantly impact the firm's ethical landscape and propensity for corporate misconduct. This section reviews the literature on the role of non-family CEOs in family firms, focusing on the impact of their leadership on accounting irregularities, particularly in the context of the firm's financial health and competitive market environment.

Non-family CEOs and Accounting Irregularities. The engagement of non-family CEOs in family firms represents a significant shift in governance structure, potentially altering the firm's ethical stance and propensity for accounting irregularities. This hypothesis is deeply rooted in the principal-agent theory, which suggests that the divergence of interests between the principal (family owners) and the agent (non-family CEO) can escalate, particularly in the absence of familial bonds that might otherwise align incentives [5]. The concept of socioemotional wealth (SEW) further nuances this relationship, encapsulating non-financial aspirations such as family legacy and emotional attachment to the enterprise, which may not be as salient for non-family CEOs [4].

Given their outsider status, non-family CEOs might not internalize the long-term vision and values of the family firm to the same extent as family CEOs. This misalignment could precipitate a preference for short-term strategies that may come at the expense of the family's long-term interests, especially in contexts where the family's influence is less pervasive [12]. Chen and Dai (2007) posit that non-family CEOs, driven by the need to assert their competence and secure their positions, might be inclined towards riskier financial reporting practices, which could manifest as accounting irregularities [13].

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Binacci et al. (2016) extend this argument by suggesting that non-family CEOs, despite their professional expertise, might be more susceptible to external pressures like market expectations, which could diverge from the family's strategic goals [14]. This susceptibility, in the absence of strong familial governance, might lead non-family CEOs to engage in accounting irregularities to meet market demands.

Conversely, family CEOs, who share a mutual and trusting relationship with the family firm, are likely to internalize the costs associated with agency problems and self-interested behaviors [15]. According to the SEW theory, family firms are characterized by a balance between economic and social wealth, where family members may prioritize emotional wealth and family control over immediate economic gains [9; 16]. This inherent alignment towards long-term stability and legacy preservation suggests a natural aversion to risky accounting practices among family CEOs.

Hypothesis 1 (H1): Non-family CEOs are more likely to increase the incidence of accounting irregularities in family firms compared to family CEOs.

Financial Health and Accounting Irregularities. Building upon the foundational understanding that non-family CEOs may have a negative impact on accounting irregularities within family firms, as suggested by the agency theory, this study delves deeper into the nuanced dynamics that shape the relationship between non-family leadership and financial reporting practices. The baseline hypothesis posits that non-family CEOs, due to their lack of familial ties, may be more susceptible to engaging in aggressive accounting strategies to achieve short-term performance targets, particularly in the absence of robust internal controls and oversight mechanisms [17].

However, the complexity of family firm environments necessitates a more nuanced examination of this relationship. Family firms operate within a diverse array of internal and external contexts, including varying financial health and market competition levels, which can significantly influence the decision-making autonomy and ethical considerations of non-family CEOs. In firms with robust financial health, non-family CEOs may enjoy greater decision-making freedom, potentially leading to more flexibility in financial reporting practices. This autonomy, as Abebe and Acharya (2022) suggest, could be a double-edged sword, allowing for both strategic innovation and the pursuit of personal interests at the expense of long-term firm stability [18].

Hypothesis 2 (H2): Non-family CEOs in family firms with strong financial health are more likely to engage in accounting irregularities.

Market Competition and CEO Identity. Research suggests that family firms, with their unique governance structures, may respond differently to market pressures compared to non-family firms [19]. This study posits that the relationship between non-family and family CEOs and their response to market competition is nuanced and requires a differentiated analysis.

In highly competitive markets, non-family CEOs leading family firms may feel intense pressure to meet market expectations and deliver continuous growth [20]. This pressure could drive non-family CEOs to engage in aggressive accounting practices to satisfy shareholder demands and maintain a competitive edge [5]. However, heightened market scrutiny in such environments can also deter non-family CEOs from engaging in practices that could harm the firm's reputation or lead to regulatory penalties [8]. Family CEOs, deeply embedded in the family's values and long-term goals, may be less inclined to resort to accounting irregularities. Their actions are often guided by the preservation of socioemotional wealth (SEW) and the family's legacy [4].

In contrast, in environments with low market competition, non-family CEOs may face reduced external pressures, potentially leading to a relaxation of internal controls and oversight [21]. With fewer market-driven incentives to innovate or improve efficiency, non-family CEOs might be more susceptible to engaging in accounting irregularities to maintain market position or to align with the family's interests, which may not always adhere to ethical standards[4]. Family CEOs, however, are likely to continue prioritizing the family's long-term interests and SEW, even in low-competition settings [22].

Hypothesis 3 (H3): In family firms operating in low market competition environments, non-family CEOs are more likely to engage in accounting irregularities compared to family CEOs.

Purpose. The primary objective of this study is to investigate the impact of non-family CEOs on accounting irregularities in family businesses, focusing on the moderating effects of the firm's financial health and competitive market environment. This research aims to provide a nuanced understanding of the governance and ethical challenges faced by family firms, particularly in the context of non-family leadership.

Results. The study examines the impact of non-family CEOs on accounting irregularities in family businesses, focusing on the moderating effects of financial health and market competition. The analysis is based on a comprehensive dataset of A-share listed family firms from China's Shenzhen and Shanghai Stock Exchanges from 2008 to 2022.

Key Findings. The study reveals that non-family CEOs are more likely to engage in corporate misconduct, particularly in financially healthy firms and in less competitive markets. This finding is consistent across various robustness tests, including alternative dependent variable specifications, propensity score matching (PSM), and redefining the family firm.

Descriptive Statistics. On average, 17.1 % of listed family firms in China exhibited misconduct behavior between 2008 and 2022, with a frequency of 0.234. Notably, 50.9 % of family firms employed non-family CEOs, indicating the growing prevalence of professional managers in family companies. This suggests that the transition to non-family leadership is a common trend, but it may also introduce new governance challenges.

Correlation Analysis. The correlation coefficients between the likelihood of misconduct (Vio) and the key independent variable (PCEO) and between the frequency of misconduct (Vio_N) and PCEO are both significantly positive at the 1% level. This preliminary evidence supports the hypothesis that non-family CEOs may be associated with an increased likelihood of corporate misconduct. The positive correlation suggests that family firms with non-family CEOs are more likely to engage in fraudulent activities, which is an important finding in the context of corporate governance and family business research.

T-Test Results. The t-test results show a statistically significant difference between family firms with family CEOs and those with non-family CEOs for both the likelihood of violation (Vio) and the frequency of violations (Vio_N). Firms with non-family CEOs are more likely to engage in violations and have a higher frequency of violations. This finding provides further support for the hypothesis that the appointment of non-family CEOs may be associated with an increased propensity for misconduct in family firms.

Regression Analysis. The multivariate regression analysis confirms that non-family CEOs (PCEO) are positively and significantly associated with both the likelihood (Vio) and frequency (Vio_N) of corporate violations at the 1% significance level. This association remains robust even after controlling for corporate governance and operational factors. The results underscore the importance of considering the CEO's background when assessing the risk of financial irregularities in family firms. The inclusion of control variables ensures that the findings are not confounded by other factors, providing a more accurate assessment of the impact of non-family CEOs on corporate misconduct.

Robustness Tests. Various robustness tests are conducted to ensure the reliability of the primary research findings. These tests include replacing the dependent variable with the severity of misconduct, propensity score matching (PSM), and redefining the family firm. The results of these tests consistently support the main findings, providing empirical evidence that non-family CEOs pose a higher risk of corporate misconduct compared to family CEOs. The robustness of the findings is further strengthened by the consistency across different specifications and methods, ensuring that the conclusions are not driven by model specification or sample selection biases.

Moderating Effects. The analysis also shows that the impact of non-family CEOs on corporate misconduct is more pronounced in financially healthy firms and in less competitive markets. This suggests that the firm's financial condition and market competition are important factors to consider when assessing the risk of misconduct associated with non-family leadership. In financially healthy firms, non-family CEOs may have more discretion and fewer external pressures, which could lead to riskier behavior. In less competitive markets, the lack of market scrutiny may reduce the costs of engaging in misconduct, making it more likely for non-family CEOs to engage in such activities.

Implications. The findings have important implications for family business governance. They suggest that family firms should be cautious when transitioning to non-family leadership, particularly in environments where the firm is financially healthy and faces low market competition. Robust governance structures, including strong internal controls and oversight mechanisms, are necessary to mitigate the risks associated with non-family CEOs. Additionally, family firms may need to consider the alignment of incentives between non-family CEOs and family owners to ensure that the long-term interests of the firm are not compromised.

Conclusions and Prospects for Further Research. This study provides valuable insights into the impact of non-family CEOs on accounting irregularities in family businesses, particularly in the context of financial health and market competition. The findings reveal that non-family CEOs are more likely to engage in corporate misconduct, especially in financially stable firms and in less competitive markets. This suggests a potential misalignment of interests between non-family CEOs and family shareholders, as non-family CEOs may pursue personal career goals at the expense of the family firm's long-term interests. The study highlights the need for robust governance structures and incentive mechanisms to align the actions of non-family CEOs with family values and objectives.

Practical Implications. The results have profound implications for family firm governance. Implementing long-term performance rewards and equity incentives can help curb the short-term behavior tendencies of non-family CEOs. Balancing family control with non-family management is crucial to ensure decisions align with the family firm's long-term goals. Family firms should prioritize values, ethical standards, and cultural fit when recruiting and selecting non-family CEOs.

Prospects for Further Research. The study's limitations, including a focus on listed family firms in China and potential cultural and market-specific biases, suggest several avenues for future research. Cross-cultural studies could explore the role of non-family CEOs in different economic and cultural contexts. Long-term studies could investigate the long-term effects of non-family CEO leadership on family firm performance and sustainability. Additionally, research into the decision-making processes and personal traits of non-family CEOs could provide deeper insights into the factors influencing their behavior. Future studies should also consider the impact of regulatory environments and corporate governance practices on the relationship between non-family CEOs and accounting irregularities.

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ПОЗА СІМ'ЄЮ: ВПЛИВ НЕСІМЕЙНИХ ГЕНЕРАЛЬНИХ КЕРІВНИКІВ НА ПОРУШЕННЯ БУХГАЛТЕРСЬКОГО ОБЛІКУ В СІМЕЙНОМУ БІЗНЕСІ

Анотація.

Вступ. *Сімейні компанії все частіше призначають несімейних керівників для вирішення проблем корпоративного управління та забезпечення спадщини. Запроваджується нова динаміка, яка впливає на етичний ландшафт фірми та схильність до корпоративних неправомірних дій. Незважаючи на зростання кількості літератури про несімейних керівників у сімейних фірмах, їхній вплив на корпоративну неправомірну поведінку все ще недостатньо вивчений.*

Мета. *Дослідження має виявити вплив несімейних генеральних директорів на порушення бухгалтерського обліку в сімейних компаніях, зосереджуючись на пом'якшувальних ефектах фінансового стану та конкурентного ринкового середовища.*

Методи. *У дослідженні використовується комбінація описової статистики, кореляційного аналізу, t-тестів і багатовимірного регресійного аналізу для вивчення зв'язку між несімейними генеральними директорами та корпоративними порушеннями. Тести надійності, зокрема специфікації альтернативних залежних змінних, відповідність оцінки схильності (PSM) і перевизначення сімейної фірми, забезпечують надійність результатів.*

Результати. *Дослідження показує, що несімейні генеральні директори більш схильні до корпоративних зловживань, особливо у фінансово здорових компаніях і на менш конкурентних ринках. У середньому 17,1% зареєстрованих сімейних фірм* *у Китаї демонстрували неправомірну поведінку між 2008 і 2022 роками з частотою 0,234. Коефіцієнти кореляції між імовірністю неправомірної поведінки та головною незалежною змінною, а також між частотою неправомірної поведінки та PCEO є значно позитивними на рівні 1%. T-тести показують статистично значущу різницю між сімейними фірмами з сімейними генеральними директорами та тими, де генеральні директори не є сімейними, як щодо ймовірності порушення, так і щодо частоти порушень. Багатофакторний регресійний аналіз підтверджує, що несімейні керівники позитивно та суттєво пов'язані як із ймовірністю, так і з частотою корпоративних порушень на рівні значущості 1%.*

Перспективи. *Майбутні дослідження можуть бути спрямовані на вивчення ролі несімейних генеральних директорів у різних економічних та культурних контекстах, аналіз довгострокових наслідків лідерства несімейних генеральних директорів для ефективності і стійкості сімейної компанії.*

Ключові слова: *несімейні керівники, порушення бухгалтерського обліку, сімейні підприємства, фінансовий стан, конкурентне ринкове середовище.*

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