

Family involvement, family generation and accounting conservatism practices

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Abstract

Objective: Consiste em avaliar a relação entre o envolvimento da família e a geração familiar da empresa nas práticas de conservadorismo contábil. A população para este estudo compreende contadores de empresas familiares e não familiares do Brasil.

Method: The questionnaire, which was the main instrument for data collection, was applied to 183 respondents to obtain information about the variables analyzed in the study. The survey was carried out between March and July 2019. For data analysis, Principal Component Analysis (PCA), correlation and multiple linear regression (Ordinary Least Squares - OLS) were performed.

Result: The results point to a greater practice of accounting conservatism in family businesses than in non-family businesses. The findings also reveal that the lesser the family's involvement in the company's management, the lesser the accounting conservatism. Furthermore, the results show that the first generation of family businesses is more prone to more conservative accounting practices. In general, it is clear that the company's ownership, being family owned, can be a factor for the quality of accounting information.

Contribution: The study contributes by demonstrating that the involvement of the family and the respective generation in power are crucial for more conservative accounting practices. Still, such results contribute to investors being able to make investment decisions in family businesses, as the family generation can result in better quality reports.

Keywords: Accounting conservatism. Family businesses. Family involvement. Family generation.

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Introdução

Control of family property has attracted considerable scholarly attention. Family businesses are composed of long-term investors, who are concerned with survival, inheritance and a lasting relationship with creditors (Anderson et al., 2003; Bertrand & Schoar, 2006; Gao et al., 2020). To mitigate agency conflicts, family businesses will adopt more conservative policies (Chen & Zhu, 2013).

Still, research supports that family control exacerbates agency conflicts between shareholders and creditors, through excessive family control rights, family representation in management and corporate boards (Pan & Tian, 2016; Boubakri & Ghouma, 2010). To prevent outsiders from taking control, family businesses are reluctant to hire professional managers (Cao et al., 2015; Xu et al., 2015) and choose to keep family members on the board of directors.

In this scenario, family members, longtime family accountants and even close friends often make up a majority of the board, known as C-suite members. In this case, the greater number of C-suite members determines the family's involvement in the company's management.

In addition, family business characteristics may interfere with the quality of accounting information. Commonly, founders are the forerunners of management and idealize the perpetuation of the company for more than one generation, which would lead them to adopt more conservative management practices (Chen, 2019). His values and beliefs tend to spread to other generations and individuals who surround him. However, different organizational and managerial profiles can be perceived among the different family generations. Thus, companies in different generations can present different levels of accounting conservatism.

Previous research on the intersection between family business and accounting conservatism has not taken into account the roles played by the characteristics of C-suite members and the family generation in the firm. Previous studies have focused mainly on objective characteristics of accounting conservatism and family ownership of firms (Chen, 2019; Ferramosca & Ghio, 2018; Santana & Klann, 2016; Paulo et al., 2015; Moura et al., 2015; Lafond & Roychowdhury, 2008).

Therefore, some authors argue that there is still much to explore about financial reporting in family businesses

(Gao et al., 2020, Ferramosca & Alegrine, 2018; Songini et al., 2013; Prencipe & Bar-Yosef, 2011). Considering the gaps mentioned above, the study aims to evaluate the relationship between family involvement and the company's family generation in accounting conservatism practices.

Family businesses are the form of business most fundamental part of the organizational structure in countries developed and under development. Represent a particular category of companies in which the owner controller is a family, whose members, mostly sometimes they are descendants of the founder of the company. According to Sebrae (2020), about 90% of Brazilian companies have most of their businesses based on family businesses. In this way, such companies contribute significantly to the country's economy.

This research contributes by showing that family control, exercised through a diversified level of involvement of family members in management positions, plays a fundamental role in identifying the antecedents of practices of accounting conservatism.

For Ferramosca and Allegrini (2018), the involvement of family generates the alignment of interests, which makes that managers behave in accordance with determinants family taxes. Family businesses can withstand higher pressures to maintain good reputation and reduce the risk of litigation when there is greater family involvement in leadership positions, generating greater accounting conservatism.

With regard to the family generation and accounting conservatism, the study contributes by demonstrating that the family generation is a determining factor for accounting conservatism practices. Such information provides subsidies for investors in their investment decisions in family businesses, as the family generation may imply better quality reports.

Another contribution of this research is to analyze accounting conservatism directly, questioning the accountants themselves, responsible for preparing financial statements. Furthermore, this procedure allows the inclusion of privately held companies in the study, which are generally not part of research on accounting conservatism, due to the difficulty in accessing data.

2. Literature review

Conservatism is an important attribute of high quality accounting reports and is often used to assess the quality of accounting information. In the context of accounting conservatism, the existence of conditional and unconditional conservatism is pointed out. In conditional conservatism, outcomes are more positively associated with current stock returns when they are negative (losses) than when they are positive (gains). Therefore, losses are recognized more quickly than gains (Basu, 1997; Ball & Shivakumar, 2005; Beaver & Ryan, 2005; Lafond & Roychowdhury, 2008; Santana & Klann, 2016). In unconditional conservatism, the lowest value is adopted for assets and income and the highest value for liabilities and expenses between two or more recording possibilities (Ball & Shivakumar, 2005).

Still, other practices of conservatism are adopted by companies, it should be noted that the adoption of cost history by value basis. For Coelho and Lima (2007) the normative structure of accounting legislation (Legal Standard, IBRACON, CFC, CVM) tends to be conservative, due to adoption of Historical Cost as the Base of Value. Paulo et al. (2008) highlights that the recognition of assets with based on historical cost is highlighted as an example of practice of conservatism, since it privileges methods accounting results that result in a lower value for the asset/income or higher value for liabilities/expenses.

Also constitute practices of conservatism, the use of the weighted average for inventories, when compared to the FIFO (first in, first out) leaves). In an inflation scenario, the FIFO understates the cost of products when they are in stock, inflating the profit. In weighted average, inventory is valued with based on older and more recent costs, which may present a lower profit than the FIFO method. O which indicates that the weighted-average method is more conservative than the FIFO.

With regard to the practices of accounting conservatism in family businesses, Cascino et al. (2010) found that the high concentration of ownership and family ownership produce a positive effect on the quality of accounting information, in relation to the persistence of profits, quality of accruals, smoothness and relevance. The results showed that family businesses had superior accounting information quality compared to non-family businesses, providing evidence of the positive influence of family ownership on the quality of financial reports.

For Chen et al. (2014), family business owners have the power to influence financial reports. The authors point out

that their significant shareholding and the fact that many are involved in the daily operation of companies, either as administrators or as board members, increase the ability to implement more conservative financial reports. Furthermore, family owners' wealth is tied to the firm and they cannot easily diversify their holdings. This unique position gives them stronger incentives to implement mechanisms to mitigate agency costs and legal liability, such as conservative financial reporting.

Still, research proposes two main drivers of accounting conservatism: agency and litigation costs (Basu, 1997; Watts, 2003; Ball & Shivakumar, 2005; Armstrong et al., 2010). The unique characteristics of family ownership lead to greater incentives for family business owners to demand conservative financial reporting because they have more to lose from agency and litigation costs (Chen et al., 2014; Anderson et al., 2003).

In addition, for Ferramosca and Allegrini (2018) and Dawson et al. (2020), family businesses are concerned about their reputation and have a desire to protect their names from accounting scandals. Thus, such indications can lead family businesses to present higher quality accounting reports, using accounting conservatism.

In this way, the first research hypothesis was elaborated:

H1: Family businesses are more prone to accounting conservatism practices than non-family businesses.

Regarding managers at the highest levels of organizations, the literature has evaluated C-suite members, consisting of the executive director (CEO), financial director (CFO), director of operations (COO) or chief information officer (CIO). Menz (2012) suggested that, even if the members of the upper management team are diverse, they all share characteristics, which allows defining them as senior executives or C-suites. In addition, all C-suite managers in organizational structures report directly to the CEO (Guadalupe et al., 2014), interfering with the suggestions, analyzes and recommendations of other top-level members (Groysberg et al., 2011).

For Ferramosca and Alegrini (2018), the greater number of family C-suite members in the company's management can determine their greater involvement in organizational decisions. In general, theoretical and empirical evidence suggests that managers influence the organization's strategic choices, and accounting decisions are among the tools used to shape the company's strategic rationales (Skærbæk & Tryggestad, 2010).

Family businesses with a greater presence of family members on the management team are considered more socially responsible (López-Gonzalez et al., 2019). Thus, family managers will want to signal to stakeholders positive attributes (Connelly et al., 2011) related to the legality of their operations, through more conservative accounting practices.

Chrisman et al. (2015) highlight that family involvement in management increases the probability that the family business operates within the limits of legality, as it reinforces the ability of family members to engage in consistent behavior with legal requirements because they are the dominant members of the senior management team. In addition, with the greater number of family members managing the company, the greater the power of monitoring and incentives. Thus, family managers will have less information asymmetry in the company and greater power to control the legal allocation and use of company resources (Jensen & Meckling, 1976), which may imply more conservative accounting practices. Thus, the second research hypothesis was elaborated:

H2: There is a positive relationship between the number of C-suite members and accounting conservatism practices.

The family generation in which the business is should also increase the likelihood that the family business will behave within the bounds of legality. The first generation tends to be concerned with the company's greater reputation, as it is in a growth phase (Sciascia et al., 2014). For García-Meca and Palacio (2018), companies concerned with their reputation tend to adopt conservative accounting practices.

Dyer (1988) found that 80% of companies managed by the first generation had a paternalistic management style and culture. Already in the second generation, more than 2/3 of these companies adopted a more professional style. The author explains that the paternalistic style is characterized by a hierarchical relationship, control (strong supervision) and centralized power in the hands of the founder, while professional management involves the inclusion and predominance of administrators who do not belong to the family. The paternalistic view tends to be more conservative and careful with bolder decision-making, due to the concern with the continuity of the business and the family's power of control. Therefore, it is reasonable to assume that, in this case, accounting practices are more conservative.

As the family business moves from the first generation,

centered on the founder, to the second generation, it has to find new ways to renew and grow the business, while dealing with the influence and legacy of the founder (Kelly et al., 2000). This usually means that the second generation needs to be more aware of the external environment and present better results (Cruz & Nordqvist, 2012), which can lead to less conservative accounting practices.

In addition, from the second generation onwards, there is generally more non-family management and reduced family influence (Cruz & Nordqvist, 2012). As a result, the family's previous emotional bond and identification with the company are reduced, that is, there is less focus on preserving socio-emotional wealth and reputation (Gomez-Mejia et al., 2011; Sciascia et al., 2014), implying lower practices of accounting conservatism.

Studies suggest that generations of family businesses can have different impacts on the quality of accounting information (Ferramosca & Allegrini, 2018; Ferramosca & Ghio, 2018). In this way, the intergenerational impact of family businesses on the quality of accounting information is investigated, through practices of accounting conservatism.

This way, first-generation family businesses are expected to have more conservative accounting practices. This is consistent with the argument that first generation family members are more concerned about their reputation and socio-emotional relationships (Muttakin et al., 2014). That is, because they are usually the founders of organizations, they have to be involved in each initial process and are concerned with leaving a legacy for their successors, motivating them to be more prone to conservatism and not exposure to risk. Thus, the third research hypothesis was elaborated.

H3: Family businesses in the first generation show greater accounting conservatism.

3 Methodological Procedures

The definition of the population of this research was established from the identification of companies that have accountants performing accounting activities internally. The survey was conducted between March and July 2019. The analyzed sample is characterized as non-probabilistic, intentional and obtained by accessibility. It had the participation of accountants from different family and non-family companies headquartered in Brazil. The professional accountant was chosen due to the fact that

he assumes different postures in different companies, which makes him a strategic piece within organizations. He is a professional who has excellence in accounting information.

For the definition of the sample to be investigated, the help of groups on LinkedIn was used. After identifying the professionals who work as accountants in the companies, an invitation was initially sent to them through the LinkedIn business network. After the professional accepted the invitation, the link to the questionnaire was sent, prepared on Google Docs. 1,968 invitations were sent. Of these, 612 agreed to respond to the research instrument. Finally, 183 valid questionnaires were obtained, 102 from family businesses and 81 from non-family businesses.

To measure the accounting conservatism variable (AC), we chose to use a questionnaire, sent to accountants through LinkedIn, according to the procedure explained above. As the sample includes publicly traded, privately held and limited liability companies, it would not be possible to obtain data from the latter to calculate the conditional AC according to traditional econometric models, such as that of Basu (1997), for example.

The conservatism instrument was adapted and updated based on the model by Chanchani and Willett (2004). As proposed by the authors, items one and four were considered referring to measurement, while items two and three referred to disclosure. Thus, the construct presents aspects of measurement and dissemination. As an example, the idea that historical costs are more relevant than market values for decision-making, or should be used for decision-making, can be interpreted as a preference for conservatism, but they are disclosure preferences and not measurement. Measurement issues concern what the numbers represent and what their statistical properties are.

Item one required respondents to indicate the extent of their agreement on whether earnings and assets should be undervalued in case of doubt. Item four asked respondents to indicate the extent of their agreement that in times of rising prices, the Average Cost method of inventory control should be used instead of FIFO (First In, First Out). The stronger the agreement with these statements, the greater the judgment in which respondents adopt conservative measurement approaches.

Items two and three questioned whether market values are more relevant than historical costs and whether they should be used in preference to historical costs,

respectively. When respondents indicated a preference for historical costs, they would be considered conservative. Such procedures were adapted from the construct by Chanchani and Willett (2004).

Initially, the original questionnaire was translated into Portuguese, and then back-translated into English. The pre-test in this study was carried out by applying the research instrument sent via e-mail to three PhD researchers with experience in accounting. The purpose of the pre-test was explained and their participation and collaboration were requested, so that they could evaluate each item of the proposed data collection instrument.

The research instrument adopted for data collection was developed with objective questions, contemplating the variables analyzed in the study. Table 1 shows the variables used and their operational definition.

Table 1. Research Variables and Operational Definition

VARIABLES	MENSURATION	SCALE
Dependent		
Accounting Conservatism (AC)	AC_01 - Profits and assets must be undervalued in case of doubt.	Likert scale 5 points Totally Disagree to Totally Agree
	AC_02 - Market values are generally less relevant than historical costs.	
	AC_03 - Market values should generally be used instead of historical costs.*	
	AC_04 - In times of rising prices, the Average Cost inventory control method should be used instead of First In, First Out (FIFO).*	
Independent		
Family Business (FB)	The company is classified: FB_01 - Family Business FB_02 - Non-family business.	Dichotomous
C-Suites (CS)	The expression "C-suite" derives from the titles of senior executives, which are often preceded by the letter C, for director, such as chief executive officer (CEO), chief financial officer (CFO), chief operating officer (COO) or chief information officer (CIO).	Number of family members in the C-Suites role.
Family Generation (GE)	Generation of the family that runs the business. FG_01 - First generation SG_02 - Second generation TG_03 - Third generation	First to third generation.
Control		
SIZ	Company size (Ln of number of employees)	Identified by the respondente
AGE	Company's age	Identified by the respondente
TE	Accountant's experience in the company	Identified by the respondente

Note: *Inverse scale. Source: prepared by the authors.

In the descriptive analysis, the Mann-Whitney U Test was performed, since the AC, SIZ, AGE and TE variables did not present a normal distribution for the two groups (family and non-family businesses), to see if they were significantly different. According to Bussab and Morettin (2003), the test is used to compare means of different and independent populations, as is the case of this study. As the construct of conservatism is composed of multiple questions, it was decided to reduce their dimensionality through Principal Component Analysis (PCA). Thus, the use of PCA allows the reduction of variables for later use

in regression models.

Table 2. Correlation test and principal components of the AC construct

Panel A - Correlation Tests between construct questions				
Construct	p-valor do teste de Bartlett	p-valor do teste Kaiser - Mayer - Olkin		
Accounting Conservatism	0,002***	0,514		
Panel B - Key Components of the Construct				
Construct	Components	Eigenvalue	Proportion	Accumulated
Accounting Conservatism	Comp 1	1,3359	0,3340	0,3340
	Comp 2	1,1161	0,2790	0,6130
	Comp 3	0,8245	0,2061	0,8192
	Comp 4	0,7233	0,1808	1,0000

Notes: Significance levels: *** p<0.01. Source: Prepared by the authors

For a good PCA fit, it is necessary to test whether the variables are highly correlated. For this, the Bartlett test and the Kaiser-Meyer-Olkin test were used. The results are shown in Table 2 (Panel A). For the selection of the amount of principal component per construct, the Kaiser criterion was used, which consists of retaining the component that presents an eigenvalue greater than 1. Table 2 (Panel B) shows the eigenvalues, the proportion of explained variance of each component and the cumulative proportion.

The results shown in Table 2 (Panel A) demonstrate the correlation tests between the construct questions, whose Bartlett test proved to be significant. In this way, the probabilities of the tests imply the non-rejection of the hypothesis of high correlation between the variables of each construct, resulting in the adequacy of the data for the use of PCA.

For the selection of the number of main components per construct, Panel B of Table 2 shows the eigenvalues, the proportion of variance explained by component and the accumulated proportion. It can be seen that component 1 (Comp 1) and 2 (Comp 2) had an eigenvalue greater than one, explaining 61.30% of the variance of all questions. This indicates, from Kaiser's rule, that the construct obtained two main components.

The identification of family and non-family businesses was carried out when applying the questionnaire. For this, a question was inserted for the survey respondent accountant, who identified the company as family or non-family.

This same procedure was adopted to identify the number of C-suite members and the generation of the family business. For the identification of C-suite members, the respondent was asked to indicate the existence of

positions in the board and whether or not they were held by a family member (CEO, CFO, COO and CIO). With regard to generation, the question was asked about which generation of the family managed the business (first, second or third generation).

Then, to test the research hypotheses, multiple linear regressions (OLS) were run, with the AC (index obtained by PCA) as the dependent variable; family businesses, number of C-suite members and family generation as independents; and company size and age and respondent experience as control variables. In Equation 1, the modeling used to evaluate the relationship between family businesses and AC is presented. In Equation 2, the C-suite members were used as an independent variable. In Equation 3, the relationship between family generation and AC was analyzed.

$$AC_{it} = \beta_0 + \beta_1 FB_{it} + i.sector + \varepsilon \tag{Equação 1}$$

$$AC = \beta_0 + \beta_2 CS1 + \beta_2 CS2 + \beta_2 CS3 + \beta_2 CS4 + \beta_4 SIZ + \beta_5 AGE + \beta_6 TE + i.sector + \varepsilon \tag{Equação 2}$$

$$AC = \beta_0 + \beta_3 FG + \beta_3 SG + \beta_3 TG + \beta_4 SIZ + \beta_5 AGE + \beta_6 TE + i.sector + \varepsilon \tag{Equação 3}$$

Where:

AC = Accounting Conservatism (index calculated from the ACP)

FB = Dummy equal to 1 for Family Businesses and 0 for Non-Family Businesses

CS1 = One C-suite member

CS2 = Two C-suite members

CS3 = Three C-suite members

CS4 = Four C-suite members

FG = First generation in the company's management

SG = Second generation in company's management

TG = Third generation in company's management

SIZ = Company size

AGE = Age of respondent

TE = Respondent experience time

ε = Regression error

Regressions were performed with robust standard errors. The performance of robust regression is justified because the Breuch-Pagan test was significant (P= 452.12; p<0.000), which indicates the presence of heteroscedasticity. Despite the non-normality of the data, through the Central Limit Theorem, this assumption of the OLS linear regression was relaxed. In addition, the

multicollinearity between the variables was tested using the Variance Inflation Factor (VIF) test, and the autocorrelation of the residues was tested using the Durbin Watson test, the results of which are shown in Table 5.

4 Analysis and discussion of the results

4.1 Descriptive analysis

The survey comprised 183 accountants from family and non-family businesses from different organizations headquartered in Brazil. Of these, 102 were classified as family businesses and 81 as non-family businesses. Also,

147 are national companies and 36 are multinational companies, 48 of which are publicly traded, 49 are privately held and 86 are limited liability companies. There was also a predominance (40.17%) of companies that had annual revenues greater than seventy million reais.

Considering the operating time of these companies, it was found that 53.5% have been in existence for 10 to 50 years, 30% have been in business for over 50 years and around 16.4% have been in the market for up to ten years. Regarding the number of employees, 90 companies have up to 100 employees, 39 have up to 1,000 and there are still 54 companies with more than 1,000 employees.

Table 3. Descriptive statistics of the AC construct, continuous variables, dichotomous variables and sample composition by sector

Panel A - AC Construct Descriptive Statistics										
Variable	Ind.	Family Businesses		Non-Family Businesses		Teste de Mann-Whitney				
		AV	SD	AV	SD	t	p-value			
Accounting conservatism	AC01	3,72	1,25	3,91	1,05	0,664	0,506			
	AC02	2,56	1,18	2,68	1,06	0,953	0,340			
	AC03	2,67	1,18	2,77	1,06	0,638	0,523			
	AC04	2,36	1,32	2,36	1,23	-0,208	0,835			
Panel B - Descriptive statistics of continuous variables										
Var.	Family Businesses				Non-Family Businesses				Teste de Mann-Whitney	
	AV	SD	Pctl 25%	Pctl 75%	AV	SD	Pctl 25%	Pctl 75%	t	p-value
AC	0,011	0,114	-0,067	0,064	-0,015	0,096	-0,083	0,034	-1,389	0,164
SIZ	4,087	2,456	2,302	5,416	6,596	3,3248	4,382	9,234	5,282	0,000
AGE	40,716	9,526	32,5	48,5	30,5	9,687	30	43	3,571	0,000
TE	9,627	6,310	5	10	9,278	6,896	5	15	-0,551	0,582
Panel C - Descriptive statistics of dichotomous variables										
Variables	Category		Observation		Frequency					
	FB	NFB	FB	NFB	FB	NFB				
FB	FB	NFB	102	81	55,74	44,26				
	FG	FG	43	43	42,16	42,16				
	SG	SG	46	46	45,10	45,10				
CG	TG	TG	13	13	12,75	12,75				
	CS1	CS1	20	20	19,61	19,61				
CS	CS2	CS2	18	18	17,65	17,65				
	CS3	CS3	16	16	15,69	15,69				
	CS4	CS4	48	48	47,06	47,06				
Panel D: Composition of the sample by sector										
Sector	Family Businesses				Non-Family Businesses					
	FB	NFB	FB	NFB	FB	NFB	FB	NFB		
Basic Consumption	4	3	4	3	4	3	4	3		
Discretionary Consumption	53	31	53	31	53	31	53	31		
Health care	6	2	6	2	6	2	6	2		
Energy	11	7	11	7	11	7	11	7		
Real Estate and Leasing	1	4	1	4	1	4	1	4		
Industrial	11	13	11	13	11	13	11	13		
Materials	2	5	2	5	2	5	2	5		
Communication Services	4	7	4	7	4	7	4	7		
Public Utility Services	8	4	8	4	8	4	8	4		
Information Technology	2	5	2	5	2	5	2	5		
(=) Total	102	81	102	81	102	81	102	81		

Legenda: AC. Accounting Conservatism; SIZ. Size. AGE. Age of respondents; TE. Time experience; SM. Membros C-Suites; CG: Company Generation; FB. Dummy para empresas familiares; ENF. Dummy para empresas não familiares; FG. First generation; SG. Second generation; TG. Third generation. CS1. One member C-suites; CS2. Two member C-suites; CS3. Three member C-suites; CS4. Four member C-suites; PCTL = Percentile. Notes: Significance levels: * p<0,1, ** p<0,05, *** p<0,01. Source: Prepared by the authors.

In Table 3, initially, there is the distribution of companies according to family and non-family classification. Then, the descriptive analysis of the results is demonstrated, such as the evaluation of the average and standard deviation, followed by the Mann-Whitney test for the difference between the means of each construct. Panel A demonstrates the descriptive statistics for the measurement indicators of accounting conservatism. It is noticed, by the Mann-Whitney Test, that there are no significant differences between the conservative practices between the two groups of companies.

With regard to Panel B (Table 3), it appears that there is no significant difference between the factors generated by the PCA of accounting conservatism for family and non-family businesses. However, the existence of differences in average for the age and size of the companies is noted. In general, family businesses are smaller and older than

non-family businesses.

In Panel C (Table 3) it appears that the highest concentration of the sample corresponds to family businesses (55.74% of the sample). Of these, 42% correspond to the first generation and 45% to the second generation. Still, in terms of C-suite members, 47% of companies have four members on the board.

The data presented in Panel D (Table 3) demonstrate that the sector with the highest concentration of respondents corresponds to discretionary consumption for family and non-family businesses, followed by the industrial sector. The sector with the lowest participation in the analyzed sample is real estate and leasing, both for family businesses and for non-family businesses. Next, Table 4 shows the correlation matrix between the variables analyzed in the study.

Table 4. Spearman correlation matrix

Var.	AC	FB	FG	SG	TG	CS1	CS2	CS3	CS4	SIZ	AGE	TE
AC	1,00											
FB	0,12	1,00										
FG	0,01	0,24*	1,00									
SG	-0,03	0,13	-0,10	1,00								
TG	0,15*	-0,14	-0,31*	-0,06	1,00							
CS1	-0,30*	0,19*	0,00	0,15*	0,02	1,00						
CS2	0,06	0,01	-0,05	-0,04	0,09	-0,12	1,00					
CS3	0,65*	0,17*	0,02	-0,03	0,06	-0,10	-0,08	1,00				
CS4	0,11	0,46*	0,37*	-0,01	-0,13	-0,25*	-0,20*	-0,16*	1,00			
SIZ	0,47*	-0,39*	-0,36*	-0,00	0,26*	-0,03	-0,11	0,00	-0,39*	1,00		
AGE	0,07	-0,25*	-0,41*	-0,08	0,32*	-0,07	-0,00	-0,05	-0,17*	0,53*	1,00	
TE	0,08	0,04	-0,11	0,14*	0,06	0,15*	0,01	0,05	-0,06	0,08	0,16*	1,00

Legenda: AC. Accounting Conservatism; FB. Dummy para empresas familiares; ENF. Dummy para empresas não familiares; FG. First generation; SG. Second generation; TG. Third generation. CS1. One member C-suites; CS2. Two member C-suites; CS3. Three member C-suites; CS4. Four member C-suites. SIZ. Size. AGE. Age of respondents; TE. Time experience. Notes: Significance levels: * p<0,1. Source: Prepared by the authors.

Table 4 shows a positive correlation between AC and TG (0.15), CS3 (0.65) and SIZ (0.47); and negative with CS1 (-0.30). Still, a positive correlation between FB and FG (0.24), CS1 (0.19), CS3 (0.17) and CS4 (0.46); and negative correlation with SIZ (-0.39) and AGE (-0.25). In general, the data in Table 4 demonstrate that there is no high correlation between the analyzed variables. This indicates that it is possible to rule out potential multicollinearity issues in the following regression models.

4.2 Results of the regression model and hypothesis test

Table 5 shows the regressions to test the research hypotheses. In Models 1, 2 and 3, the dependent variable is the accounting conservatism proxy, measured by the PCA. The independent variable of interest in Model 1 is FB, in Model 2 it is the number of C-suite members and in Model 3 the family generation that manages the company.

Table 5. Results of the regression of family involvement, family generation in AC practices.

AC	SP	Equation 1		Equation 2		Equation 3	
		Coef.	Test t	Coef.	Test t	Coef.	Test t
Const.	+/-	-0,1468***	-3,36	-0,1530***	-0,73	-0,1278***	-4,26
FB	+	0,0870***	5,96	0,00007*	1,29	0,0789***	5,64
CS1	-			-0,0100***	-2,20		
CS2	-			0,1272***	1,29		
CS3	+			0,3409***	5,40		
CS4	+			0,1441***	2,20		
FG	+					0,0297**	1,91
SG	+					-0,0633	-1,43
TG	-					0,0325	1,83
SIZ	+/-	0,0256***	9,59	0,0306***	2,26	0,0261***	10,29
AGE	-	-0,0359***	-0,04	-0,0420***	-1,94	-0,0382***	-3,21
TE	+	0,0041	0,73	0,0039***	0,18	0,0054	1,00
Fixed Effect Sector			Yes		Yes		Yes
R2			0,4303		0,3205		0,3929
VIF			1,12 a 1,76		1,17 a 2,14		1,07 a 1,63
DW			1,79		1,89		1,75
N			183		183		183

Legenda: AC. Accounting Conservatism; FB. Dummy para empresas familiares; ENF. Dummy para empresas não familiares; FG. First generation; SG. Second generation; TG. Third generation. CS1. One member C-suites; CS2. Two member C-suites; CS3. Three member C-suites; CS4. Four member C-suites. SIZ. Size. AGE. Age of respondents; TE. Time experience. Notes: Significance levels: * p<0,1, ** p<0,05, *** p<0,01. Source: Prepared by the authors.

As shown in Table 5, ordinary least squares (OLS) regression was used with robust estimators, controlling sector and year. The Durbin-Watson tests showed statistics close to 2.0 in all regressions, revealing no autocorrelation problems. Furthermore, multicollinearity is not a problem in any of the regressions tested in the research.

Table 5 presents the test results using family ownership as an independent variable, in order to capture the effect of family ownership and control on accounting conservatism. In column 1 (Equation 1) are the results for the regression analyzing only the family businesses and the control variables. The results indicate a positive and significant relationship (0.0870, $p < 0.01$) between family businesses and accounting conservatism practices. This result indicates that the research H1 cannot be rejected. Such findings converge with Chen et al. (2014) and Cascino et al. (2010), who point out that family businesses have more conservative accounting practices.

According to Cascino et al. (2010) the high concentration of ownership and family ownership have a positive effect on the quality of accounting information. For Chen et al. (2014), family business owners are involved in the daily operation of companies, either as administrators or as board members, which enables the implementation of more conservative financial reports.

Column 2 (Equation 2 - Table 5) evaluates the involvement of family members in C-suite functions and its relationship with accounting conservatism. Family involvement was measured by the number of C-suite members occupying management positions (CEO, CFO, COO and CIO). The results point to a negative relationship between accounting conservatism and CS1 (-0.0100, $p < 0.01$) and a positive relationship with members of the C-suites CS2 (0.1272, $p < 0.01$), CS3 (0.3409, $p < 0.01$) and CS4 (0.1441, $p < 0.01$). Thus, hypothesis H2 cannot be rejected.

Thus, such findings indicate that the greater the number of family members involved in the company's management, the greater the level of accounting conservatism and, consequently, the quality of accounting information. The results confirm the literature on family businesses: at a relatively high level of family involvement, more conservative accounting prevails, leading to an alignment of interests and higher quality of accounting information.

In the same sense, López-Gonzalez et al. (2019) highlights that the greater presence of family members in the management team leads to greater socially responsible practices. This fact occurs because family managers want

to signal to the market positive information related to the legality of their operations, through more conservative accounting practices (Connelly et al., 2011).

Also, Chrisman et al. (2015) family involvement influences the probability that the family business operates within legality, as family members are dominant in the top management team. In addition, with the greater number of family members in management at the company, the greater the power of monitoring and incentives, which impacts on greater practices of accounting conservatism.

Finally, Model 3 tested the relationship between the family business generation and accounting conservatism (Hypothesis 3). The results suggest that companies that are in the first generation (0.0297; $p < 0.05$) are more prone to accounting conservatism practices, confirming hypothesis H3. Such evidence is perceived by Ferramosca and Allegrini (2018) and Ferramosca and Ghio (2018), that different generations in the company's management have different effects on the quality of accounting reports.

Regarding the control variables, the results indicate that larger companies are more likely to have conservative accounting practices. For Beck et al. (2005), larger companies are more sensitive to visibility in order to attract capital. Normally, they are subject to higher disclosure requirements by stakeholders, resorting to accounting conservatism practices.

Furthermore, it was identified that more experienced accountants tend to have greater accounting conservatism practices. This finding is in line with the perspective of Ferramosca and Allegrini (2018), in which the experience of professionals plays a key role in accounting practices in family businesses.

Finally, companies with younger accounting professionals were more prone to accounting conservatism. This result differs from Chong, Huang and Zhang's (2012) notes that older individuals would be more prone to accounting information quality practices, due to their experience and knowledge. However, younger accountants may be pressured to adopt a conservative stance, given their recent entry into the job market.

4.3 Sensitivity Test

Table 6 presents the findings of the regressions estimated in the three models with the dependent variable AC measured by the average of the scale.

Table 6. Conservatism regression result measured by the average of the scales

AC	Predicted Signal	Equation 1		Equation 2		Equation 3	
		Coef.	Test t	Coef.	Test t	Coef.	Test t
Const.	+/-	0,2170	0,36	0,0699	0,11	0,6088***	2,65
FB	+	0,5817***	3,53	0,4215**	2,27	0,2650**	2,21
CS1	-			0,5492	2,56		
CS2	-			0,8114***	3,01		
CS3	+			0,4443***	1,44		
CS4	+			0,2147***	1,08		
FG	+					0,0925*	0,58
SG	+					0,0159	0,07
TG	-					0,3319	1,04
SIZ	+/-	0,0118***	0,35	0,3804***	0,75	0,0148***	1,01
AGE	-	-0,2522***	-1,77	-0,07924***	-1,32	-0,0689***	-1,01
TE	+	0,1125	1,88	0,2481***	1,72	0,1016**	3,03
Sector Fixed Effect		Yes		Yes		Yes	
R ²		15,97		21,32		29,33	
VIF		1,13 a 1,76		1,19 a 2,30		1,04 a 1,04	
DW		2,00		2,05		1,77	
N		183		183		183	

Legenda: AC. Accounting Conservatism; FB. Dummy para empresas familiares; ENF. Dummy para empresas não familiares; FG. First generation; SG. Second generation; TG. Third generation. CS1. One member C-suites; CS2. Two member C-suites; CS3. Three member C-suites; CS4. Four member C-suites. SIZ. Size. AGE. Age of respondents; TE. Time experience. Notes: Significance levels: * p<0,1, ** p<0,05, *** p<0,01. Source: Prepared by the authors.

As shown in Table 6, a positive and significant relationship (0.5817; $p < 0.01$) can be seen between AC practices and family businesses. A positive relationship was also identified between the greater number of C-suite members and accounting conservatism. In addition, there was a positive relationship between the company's first generation and accounting conservatism (0.0925; $p < 0.10$). Such evidence reinforces the results found by the PCA (Table 5).

5. Final Considerations

The study aimed to evaluate the relationship between family involvement and the company's generation in accounting conservatism practices. The results showed that accounting conservatism is positively related to family businesses in the Brazilian scenario.

Also, companies with a larger number of C-suite members are subject to greater accounting conservatism practices. In addition, the results of the study demonstrated that family businesses in the first generation are more prone to more conservative accounting practices.

The results are consistent with considerations of socio-emotional wealth, because greater family involvement increases members' concerns about the possibility of losing their reputation and thus increases their desire to protect their names from accounting scandals. In addition, as previously mentioned, the greater the involvement of family members, the greater the monitoring of behaviors, which implies more conservative accounting practices.

The study contributes by adding to the literature on the practice of accounting conservatism in family businesses, specifically with regard to the AC literature in family businesses, by identifying some key drivers, namely family involvement in management and the generation in which the company is located. Thus, a new question opens up in the academic debate about AC in family businesses, that is, what drives its practice.

This study adds value to the literature by adopting a comparative approach with previous research focused on publicly traded companies (Drago et al., 2018; Ferramosca & Allegrini, 2018). The hypotheses were based on the behavior of public and private family businesses. The latter have a different power and management structure as well as shareholder interests compared to listed family companies. The study fills a gap identified in research on family businesses, such as Paiva et al. (2016) and Duréndez & Madrid-Guijarro (2018), regarding the

scarce evidence on reporting quality and different types of family businesses, specifically unlisted family members.

This research also has practical implications. The results indicate that company ownership can be a determinant of accounting conservatism. It is also demonstrated that the involvement of the family can be beneficial, because a family business can present higher quality accounting reports when there is greater involvement of family members in the direction of the company, which is in line with what was observed by Ferramosca and Allegrini (2018).

Some limitations are inherent to the study. The questionnaire applied in the research is voluntarily completed by the companies' accountants and although we consider this as their desire to signal behavior - it can also introduce a selection bias. Furthermore, no additional data was collected on family members' characteristics (e.g., level of education, social and political ties, professional affiliations), which may influence willingness and engagement with conservative practices.

Still, although much of the cited literature deals with the reputation of companies, in this study this element was not measured, considering only the relationship between accounting conservatism and characteristics of family businesses. Therefore, it is not possible to make any inferences about the relationship between accounting conservatism and the reputation of family businesses.

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