

# Earnings Management around Founder CEO Re-appointments and Successions in Family Firms

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# Structure

- Motivation
- Key Results
- Sample Selection and Methodology
- Empirical Analysis
- Endogeneity
- Robustness Tests
- Conclusion

# Motivation

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- Earnings management consists of changes made to reported earnings by insiders to mislead certain stakeholders or to affect contractual outcomes
- There is an extensive literature on earnings management
- This literature suggests that family firms engage in *less* earnings management than other firms
- We argue that the costs and benefits of family firms engaging in earnings management *change* around founder-CEO re-appointments

# Motivation

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- We study earnings management in listed family firms with an *incumbent family CEO* around the re-appointment or replacement of the family CEO
- A natural breaking point where costs and benefits of earnings management to meet benchmarks are significantly different
- Family is at a crossroads facing two choices:
  1. Family can turn its firm into a firm managed by a professional non-family CEO
  2. It can maintain the status of a family firm, i.e. a firm managed and monitored by successive generations of the family

# Motivation

- Founder CEOs up for re-appointment engage in earnings management in the year preceding the re-appointment
  1. Given their socio-emotional attachment to the firm, they aspire to maintain the CEO position
  2. Reporting low earnings increases pressure from minority shareholders for founder CEO to step down
  3. They are likely to have in mind major projects enhancing the firm's future success, which require their continuation in their position as CEO
- Hypothesis: *Founder CEOs who are up for re-appointment are more likely to use upward earnings management to ensure support for their re-appointment*

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# Key Results

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- We confirm that family firms practice less earnings management compared to non-family firms (e.g., Martin *et al.* 2016)
- However, we also find evidence of upward earnings management preceding the re-appointment of founder CEOs
  - In the pre-event year, actual accruals deviate by an additional 2.5 percentage points of total assets from predicted accruals

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# Sample Selection and Methodology

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- We define a family firm as a firm
  - With a family as the largest shareholder and owning at least 25% of voting equity
  - With a family remaining the largest shareholder for at least half of the period of study
  - With an incumbent family CEO
- We start with population of domestic firms listed in France, Germany and the UK from 2001 to 2016
- We exclude financial firms, firms with preference shares listed only and missing total assets in all sample years

# Sample Selection and Methodology

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- We retain only those firms with at least one change in the CEO or re-appointment of the incumbent CEO (“event”)
- Firms without a clear-cut event date are dropped
- Final sample comprises 792 events in 613 firms (240 family firms and 373 non-family firms)
- Only six of the 792 events relate to the death of the incumbent CEO

# Sample Selection and Methodology

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- We distinguish between four types of events in the family firms
  1. Founder re-appointments
  2. Other re-appointments, i.e. re-appointments of non-founder family CEOs
  3. Appointments of new family CEOs
  4. Appointments of non-family CEOs
- We define *year 0* as first full fiscal year after event
  - Year -1 is the last fiscal year when the incumbent CEO is in office throughout the entire year

# Sample Selection and Methodology

- We estimate the following ordinary least squares (OLS) regression model to test our main hypothesis:

$$\begin{aligned} & \text{EARNINGS MANAGEMENT}_{it} \\ &= \pi_0 \\ &+ \pi_1 \text{EVENT TYPE}_i \\ &+ \pi_2 \text{FOUNDER CEO}_{i,-1} \\ &+ \pi_3 \text{FAMILY WEDGE}_{i,-1} \\ &+ \pi_4 \text{BOARD INDEPENDENCE}_{i,-1} \\ &+ \pi_5 \text{DUALITY}_{i,-1} \\ &+ \pi_6 \text{DUALITY DESTROYING EVENT}_i \\ &+ \pi_7 \text{DEPARTING FOUNDER CEO ON BOARD POST-EVENT}_i \\ &+ \pi_8 \ln \text{TA}_{it} \\ &+ \pi_9 \text{ROA}_{it} \\ &+ \pi_{10} \text{LEVERAGE}_{it} \\ &+ \pi_{11} \text{BOOK-TO-MARKET}_{it} \\ &+ \pi_{12} \text{LOSS}_{it} \\ &+ \pi_{13} \text{BIG FOUR}_{it} \\ &+ \text{COUNTRY DUMMIES} + \text{TIME DUMMIES} + \text{INDUSTRY DUMMIES} + \mu_t, \end{aligned}$$

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 & + \pi_1 \text{EVENT TYPE}_i \\
 & + \pi_2 \text{FOUNDER CEO}_{i,-1} \\
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 & + \pi_4 \text{BOARD INDEPENDENCE}_{i,-1} \\
 & + \pi_5 \text{DUALITY}_{i,-1} \\
 & + \pi_6 \text{DUALITY DESTROYING EVENT}_i \\
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 & + \pi_9 ROA_{it} \\
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Private benefits of control:  $\text{EVENT TYPE}_i, \text{FOUNDER CEO}_{i,-1}, \text{FAMILY WEDGE}_{i,-1}, \text{BOARD INDEPENDENCE}_{i,-1}, \text{DUALITY}_{i,-1}, \text{DUALITY DESTROYING EVENT}_i, \text{DEPARTING FOUNDER CEO ON BOARD POST-EVENT}_i$   
 Control variables:  $\ln \text{TA}_{it}, \text{ROA}_{it}, \text{LEVERAGE}_{it}, \text{BOOK-TO-MARKET}_{it}, \text{LOSS}_{it}, \text{BIG FOUR}_{it}$

# Sample Selection and Methodology

- Accruals-based earnings management is based on modified Dechow and Dichev (2002) model (Ball and Shivakumar 2005; Wang 2006)
- Accruals are determined as follows:

$$ACC_t = \alpha_0 + \alpha_1 CF_t + \alpha_2 CF_{t-1} + \alpha_3 CF_{t+1} + \alpha_4 DCF_t + \alpha_5 DCF_t * CF_t + \varepsilon_t \quad (1)$$

- $ACC_t$ : total accruals at time  $t$ , scaled by total assets at  $t-1$
- $CF_t$ : operating cash flows at  $t$  scaled by total assets at  $t-1$
- $DCF_t$ : equals one if change in cash flows at  $t$  is negative, zero otherwise
- $DCF_t * CF_t$ : proxy for economic losses; and
- $\varepsilon_t$ : error term

- Equation (1) is estimated by industry, year and country
- Abnormal accruals are the residuals from equation (1)



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**Table 4. Accrual-based earnings management: family firms compared to non-family firms**

	Year -2	Year -1	Year 0	Year 1	Year 2
<i>Constant</i>	0.034 (1.26)	0.013 (0.46)	0.093*** (3.22)	0.057** (2.27)	0.087*** (2.85)
<i>Family firm dummy</i>	-0.018* (-1.68)	-0.005 (-0.55)	-0.021** (-2.08)	-0.017* (-1.83)	-0.018* (-1.72)
Private benefits of control					
<i>Founder CEO</i>	0.002 (0.21)	0.017* (1.86)	0.014 (1.23)	0.003 (0.26)	0.011 (1.04)
<i>Family wedge dummy</i>	0.010 (0.99)	-0.006 (-0.55)	0.006 (0.66)	-0.008 (-0.90)	0.006 (0.67)
<i>Board independence</i>	-0.005 (-0.24)	0.003 (0.13)	0.003 (0.13)	-0.003 (-0.18)	0.008 (0.36)
<i>Duality</i>	0.004 (0.43)	0.008 (0.79)	-0.009 (-0.95)	0.013 (1.54)	-0.003 (-0.30)
<i>Duality destroying event</i>	0.008 (0.70)	0.002 (0.17)	0.004 (0.38)	-0.004 (-0.43)	0.009 (0.86)
<i>Departing founder CEO remains on board post-event</i>			-0.012 (-0.79)	0.007 (0.43)	-0.024 (-1.61)
Control variables					
<i>Ln(total assets)</i>	-0.002 (-1.03)	0.004* (1.83)	-0.003 (-1.63)	-0.003* (-1.83)	-0.003* (-1.76)
<i>Return on assets</i>	0.007 (0.20)	0.003 (0.11)	0.027 (0.81)	0.059** (2.07)	-0.019 (-0.45)
<i>Total debt/total assets</i>	-0.005 (-0.20)	-0.074*** (-3.30)	-0.023 (-0.94)	-0.002 (-0.12)	-0.043 (-1.45)
<i>Book-to-market</i>	-0.002 (-0.44)	-0.010** (-2.46)	-0.007 (-1.31)	0.001 (0.17)	-0.004 (-0.87)
<i>Loss</i>	-0.069*** (-7.02)	-0.069*** (-7.08)	-0.042*** (-4.28)	-0.054*** (-5.54)	-0.052*** (-5.27)
<i>Big Four</i>	-0.001 (-0.17)	-0.011 (-1.46)	-0.005 (-0.61)	-0.010 (-1.40)	-0.017** (-2.18)
<i>France</i>	-0.002 (-0.28)	-0.006 (-0.82)	0.008 (0.99)	0.009 (1.00)	0.006 (0.62)
<i>Germany</i>	0.020* (1.92)	0.001 (0.15)	-0.004 (-0.38)	0.007 (0.75)	-0.003 (-0.31)
<i>Year and industry dummies</i>	Yes	Yes	Yes	Yes	Yes
No. of observations	641	675	682	688	677
Adj. R-Square	0.153	0.175	0.059	0.143	0.066

**Table 4. Accrual-based earnings management: family firms compared to non-family firms**

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<i>Total debt/total assets</i>	-0.005 (-0.20)	-0.074*** (-3.30)	-0.023 (-0.94)	-0.002 (-0.12)	-0.043 (-1.45)
<i>Book-to-market</i>	-0.002 (-0.44)	-0.010** (-2.46)	-0.007 (-1.31)	0.001 (0.17)	-0.004 (-0.87)
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No. of observations	641	675	682	688	677
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**Table 5. Accrual-based earnings management: founder re-appointments and other events in family firms compared to non-family firms**

	Year -2	Year -1	Year 0	Year 1	Year 2
<i>Constant</i>	0.014 (0.42)	0.005 (0.18)	0.093*** (3.19)	0.062** (2.51)	0.082** (2.57)
<i>Founder re-appointments</i>	-0.010 (-0.74)	0.025** (2.28)	-0.011 (-0.89)	-0.015 (-1.33)	-0.008 (-0.68)
<i>Other events in family firms</i>	-0.017* (-1.71)	-0.004 (-0.48)	-0.016* (-1.66)	-0.017* (-1.74)	-0.015 (-1.28)
Private benefits of control					
<i>Family wedge dummy</i>	0.009 (0.94)	-0.005 (-0.46)	0.005 (0.58)	-0.008 (-0.92)	0.005 (0.58)
<i>Board independence</i>	-0.004 (-0.21)	-0.000 (-0.00)	0.005 (0.21)	-0.002 (-0.14)	0.008 (0.38)
<i>Duality</i>	0.002 (0.22)	0.002 (0.21)	-0.007 (-0.74)	0.014 (1.57)	-0.002 (-0.19)
<i>Duality destroying event</i>	0.010 (0.83)	0.010 (0.93)	0.002 (0.17)	-0.004 (-0.43)	0.008 (0.75)
<i>Departing founder CEO remains on board post-event</i>			-0.003 (-0.19)	0.009 (0.60)	-0.015 (-1.07)
Control variables					
<i>Ln(total assets)</i>	-0.002 (-0.96)	0.004** (2.03)	-0.003* (-1.67)	-0.003* (-1.83)	-0.003* (-1.74)
<i>Return on assets</i>	0.006 (0.17)	0.003 (0.11)	0.027 (0.81)	0.058** (2.06)	-0.017 (-0.42)
<i>Total debt/total assets</i>	-0.005 (-0.19)	-0.072*** (-3.23)	-0.023 (-0.96)	-0.001 (-0.04)	-0.043 (-1.44)
<i>Book-to-market</i>	-0.002 (-0.35)	-0.010** (-2.39)	-0.007 (-1.32)	0.001 (0.18)	-0.004 (-0.84)
<i>Loss</i>	-0.069*** (-6.90)	-0.068*** (-7.01)	-0.042*** (-4.22)	-0.055*** (-5.69)	-0.052*** (-5.22)
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<i>Year and industry dummies</i>	Yes	Yes	Yes	Yes	Yes
No. of observations	645	678	682	688	677
Adj. R-Square	0.150	0.184	0.057	0.143	0.065

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<i>Book-to-market</i>	-0.002 (-0.35)	-0.010** (-2.39)	-0.007 (-1.32)	0.001 (0.18)	-0.004 (-0.84)
<i>Loss</i>	-0.069*** (-6.90)	-0.068*** (-7.01)	-0.042*** (-4.22)	-0.055*** (-5.69)	-0.052*** (-5.22)
<i>Big Four</i>	-0.001 (-0.07)	-0.012 (-1.63)	-0.005 (-0.62)	-0.010 (-1.44)	-0.017** (-2.20)
<i>France</i>	-0.002 (-0.27)	-0.006 (-0.77)	0.007 (0.80)	0.009 (1.01)	0.005 (0.51)
<i>Germany</i>	0.017* (1.70)	-0.001 (-0.07)	-0.004 (-0.37)	0.006 (0.69)	-0.004 (-0.38)
<i>Year and industry dummies</i>	Yes	Yes	Yes	Yes	Yes
No. of observations	645	678	682	688	677
Adj. R-Square	0.150	0.184	0.057	0.143	0.065

**Table 6. Accrual-based earnings management: comparing types of events in family firms only  
(founder re-appointments, other re-appointments, new family CEO and non-family CEO)**

	Year -2	Year -1	Year 0	Year 1	Year 2
<i>Constant</i>	-0.003 (-0.07)	-0.062 (-1.40)	0.042 (0.89)	0.058 (1.12)	0.044 (0.85)
<i>Founder re-appointments</i>	0.037*** (2.81)	0.045*** (3.11)	-0.004 (-0.23)	-0.015 (-0.99)	0.018 (0.98)
<i>Other re-appointments</i>	0.018 (1.41)	0.014 (1.06)	-0.019 (-1.26)	-0.042** (-2.55)	-0.008 (-0.52)
<i>New family CEO</i>	0.026 (1.62)	0.030* (1.88)	-0.008 (-0.61)	-0.024* (-1.70)	0.002 (0.19)
Private benefits of control					
<i>Family wedge dummy</i>	0.008 (0.67)	-0.005 (-0.36)	0.000 (0.03)	-0.007 (-0.65)	0.004 (0.39)
<i>Board independence</i>	-0.024 (-0.97)	-0.004 (-0.17)	-0.016 (-0.53)	-0.031 (-1.10)	-0.018 (-0.64)
<i>Duality</i>	-0.011 (-0.88)	-0.001 (-0.12)	-0.001 (-0.10)	0.006 (0.53)	-0.019 (-1.53)
<i>Duality destroying event</i>	0.040** (2.22)	0.035** (2.27)	0.011 (0.68)	-0.022 (-1.18)	0.013 (0.77)
<i>Departing founder CEO remains on board post-event</i>			-0.007 (-0.42)	0.008 (0.47)	-0.008 (-0.46)
Control variables					
<i>Ln(total assets)</i>	0.002 (0.45)	0.005 (1.47)	-0.003 (-0.91)	-0.002 (-0.59)	0.001 (0.19)
<i>Return on assets</i>	0.129*** (2.77)	-0.009 (-0.11)	0.156** (2.59)	0.152*** (3.00)	0.108 (1.51)
<i>Total debt/total assets</i>	-0.001 (-0.04)	-0.065* (-1.81)	0.008 (0.21)	0.077** (2.35)	-0.079** (-2.00)
<i>Book-to-market</i>	-0.000 (-0.03)	-0.013* (-1.71)	-0.016* (-1.75)	-0.002 (-0.29)	0.002 (0.20)
<i>Loss</i>	-0.070*** (-4.96)	-0.078*** (-4.78)	-0.060*** (-3.65)	-0.054*** (-2.82)	-0.044*** (-2.91)
<i>Big Four</i>	-0.016 (-1.54)	-0.015 (-1.49)	-0.008 (-0.72)	-0.002 (-0.20)	-0.009 (-0.89)
<i>France</i>	-0.016 (-1.09)	-0.008 (-0.55)	0.014 (0.95)	0.003 (0.18)	0.007 (0.46)
<i>Germany</i>	-0.011 (-0.73)	0.006 (0.43)	0.015 (0.90)	-0.008 (-0.60)	-0.010 (-0.74)
<i>Year and industry dummies</i>	Yes	Yes	Yes	Yes	Yes
No. of observations	233	254	258	259	257
Adj. R-Square	0.312	0.225	0.237	0.175	0.155

**Table 6. Accrual-based earnings management: comparing types of events in family firms only  
(founder re-appointments, other re-appointments, new family CEO and non-family CEO)**

	Year -2	Year -1	Year 0	Year 1	Year 2
<i>Constant</i>	-0.003 (-0.07)	-0.062 (-1.40)	0.042 (0.89)	0.058 (1.12)	0.044 (0.85)
<i>Founder re-appointments</i>	0.037*** (2.81)	0.045*** (3.11)	-0.004 (-0.23)	-0.015 (-0.99)	0.018 (0.98)
<i>Other re-appointments</i>	0.018 (1.41)	0.014 (1.06)	-0.019 (-1.26)	-0.042** (-2.55)	-0.008 (-0.52)
<i>New family CEO</i>	0.026 (1.62)	0.030* (1.88)	-0.008 (-0.61)	-0.024* (-1.70)	0.002 (0.19)
<i>Private benefits of control</i>					
<i>Family wedge dummy</i>	0.008 (0.67)	-0.005 (-0.36)	0.000 (0.03)	-0.007 (-0.65)	0.004 (0.39)
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<i>Duality</i>	-0.011 (-0.88)	-0.001 (-0.12)	-0.001 (-0.10)	0.006 (0.53)	-0.019 (-1.53)
<i>Duality destroying event</i>	0.040** (2.22)	0.035** (2.27)	0.011 (0.68)	-0.022 (-1.18)	0.013 (0.77)
<i>Departing founder CEO remains on board post-event</i>			-0.007 (-0.42)	0.008 (0.47)	-0.008 (-0.46)
<i>Control variables</i>					
<i>Ln(total assets)</i>	0.002 (0.45)	0.005 (1.47)	-0.003 (-0.91)	-0.002 (-0.59)	0.001 (0.19)
<i>Return on assets</i>	0.129*** (2.77)	-0.009 (-0.11)	0.156** (2.59)	0.152*** (3.00)	0.108 (1.51)
<i>Total debt/total assets</i>	-0.001 (-0.04)	-0.065* (-1.81)	0.008 (0.21)	0.077** (2.35)	-0.079** (-2.00)
<i>Book-to-market</i>	-0.000 (-0.03)	-0.013* (-1.71)	-0.016* (-1.75)	-0.002 (-0.29)	0.002 (0.20)
<i>Loss</i>	-0.070*** (-4.96)	-0.078*** (-4.78)	-0.060*** (-3.65)	-0.054*** (-2.82)	-0.044*** (-2.91)
<i>Big Four</i>	-0.016 (-1.54)	-0.015 (-1.49)	-0.008 (-0.72)	-0.002 (-0.20)	-0.009 (-0.89)
<i>France</i>	-0.016 (-1.09)	-0.008 (-0.55)	0.014 (0.95)	0.003 (0.18)	0.007 (0.46)
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<i>Year and industry dummies</i>	Yes	Yes	Yes	Yes	Yes
No. of observations	233	254	258	259	257
Adj. R-Square	0.312	0.225	0.237	0.175	0.155



# Structure

- Motivation
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- **Endogeneity**
- Robustness Tests
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# Endogeneity I

- We implicitly assume that CEO changes happen whether there is earnings management or not
- However, it might be the case that CEO changes are not exogenous
- Hazarika et al. (2012) suggest that
  - Forced CEO changes are more likely following earnings management and that it is the amount rather than the direction of the earnings management that increases the likelihood of a forced CEO change
  - This pattern holds even after adjusting for financial performance
- They interpret this as evidence that boards of directors punish CEOs engaging in aggressive earnings management given its costs (i.e. reduced earnings quality)

# Endogeneity I

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- We run logit regressions using a forced succession dummy variable as the dependent variable and absolute value of earnings management in year -1 or year -2 on the right-hand side
- Absolute value of earnings management in year -1 and year -2 is insignificant, suggesting that our results are not driven by reverse causality

# Endogeneity II

- Also, motives of controlling family to retain control are idiosyncratic, unobservable, and may be correlated with decision to manage earnings
- We utilize propensity score matching (PSM) to match events in family firms with those in non-family firms (Rosenbaum and Rubin 1983)
  1. We run a logit using family firm dummy variable as the dependent variable, including the control variables used in regressions in Table 5 on right-hand side
  2. A propensity score is generated to match events in family firms with those in non-family firms in same industry

**Table 10. Propensity score matching: Pre- and post-matching logits matching events in family and non-family firms**

	Pre-matching logit	Post-matching logit			
		Accrual-based earnings management	Abnormal cash flow from operation	Abnormal production costs	Abnormal discretionary expenses
<i>Constant</i>	4.707*** (6.50)	-1.207 (-1.22)	-1.130 (-1.15)	-1.198 (-1.25)	0.161 (0.15)
Private benefits of control					
<i>Board independence</i>	-0.361 (-0.53)	0.119 (0.15)	-0.077 (-0.10)	0.225 (0.29)	-1.277 (-1.23)
Control variables					
<i>Ln (total assets)</i>	-0.380*** (-6.52)	0.116 (1.39)	0.117 (1.42)	0.104 (1.28)	0.077 (0.81)
<i>Return on assets</i>	2.942*** (4.03)	-0.896 (-0.87)	-0.783 (-0.81)	-0.877 (-0.91)	-1.669 (-1.40)
<i>Total debt/total assets</i>	0.397 (0.61)	0.190 (0.24)	-0.021 (-0.03)	0.209 (0.28)	-0.654 (-0.78)
<i>Book-to-market</i>	0.200 (1.57)	-0.177 (-1.10)	-0.133 (-0.85)	-0.116 (-0.74)	-0.095 (-0.50)
<i>Loss</i>	-0.894*** (-3.41)	0.359 (1.03)	0.340 (1.01)	0.324 (0.97)	-0.089 (-0.20)
<i>Big Four</i>	-0.770*** (-3.30)	-0.220 (-0.80)	-0.205 (-0.76)	-0.164 (-0.61)	-0.029 (-0.08)
Observations	746	302	324	326	216
Pseudo $R^2$	0.188	0.013	0.011	0.011	0.018
Chi <sup>2</sup>	106.597	5.014	4.279	4.469	4.641
P-value for Chi <sup>2</sup>	0.000	0.658	0.747	0.724	0.704
Number of matched firms	-	151	162	163	108

**Table 10. Propensity score matching: Pre- and post-matching logits matching events in family and non-family firms**

	Pre-matching logit	Post-matching logit			
		Accrual-based earnings management	Abnormal cash flow from operation	Abnormal production costs	Abnormal discretionary expenses
<i>Constant</i>	4.707*** (6.50)	-1.207 (-1.22)	-1.130 (-1.15)	-1.198 (-1.25)	0.161 (0.15)
Private benefits of control					
<i>Board independence</i>	-0.361 (-0.53)	0.119 (0.15)	-0.077 (-0.10)	0.225 (0.29)	-1.277 (-1.23)
Control variables					
<i>Ln (total assets)</i>	-0.380*** (-6.52)	0.116 (1.39)	0.117 (1.42)	0.104 (1.28)	0.077 (0.81)
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<i>Total debt/total assets</i>	0.397 (0.61)	0.190 (0.24)	-0.021 (-0.03)	0.209 (0.28)	-0.654 (-0.78)
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Number of matched firms	-	151	162	163	108

**Table 10. Propensity score matching: Pre- and post-matching logits matching events in family and non-family firms**

	Pre-matching logit	Post-matching logit			
		Accrual-based earnings management	Abnormal cash flow from operation	Abnormal production costs	Abnormal discretionary expenses
<i>Constant</i>	4.707*** (6.50)	-1.207 (-1.22)	-1.130 (-1.15)	-1.198 (-1.25)	0.161 (0.15)
Private benefits of control					
<i>Board independence</i>	-0.361 (-0.53)	0.119 (0.15)	-0.077 (-0.10)	0.225 (0.29)	-1.277 (-1.23)
Control variables					
<i>Ln (total assets)</i>	-0.380*** (-6.52)	0.116 (1.39)	0.117 (1.42)	0.104 (1.28)	0.077 (0.81)
<i>Return on assets</i>	2.942*** (4.03)	-0.896 (-0.87)	-0.783 (-0.81)	-0.877 (-0.91)	-1.669 (-1.40)
<i>Total debt/total assets</i>	0.397 (0.61)	0.190 (0.24)	-0.021 (-0.03)	0.209 (0.28)	-0.654 (-0.78)
<i>Book-to-market</i>	0.200 (1.57)	-0.177 (-1.10)	-0.133 (-0.85)	-0.116 (-0.74)	-0.095 (-0.50)
<i>Loss</i>	-0.894*** (-3.41)	0.359 (1.03)	0.340 (1.01)	0.324 (0.97)	-0.089 (-0.20)
<i>Big Four</i>	-0.770*** (-3.30)	-0.220 (-0.80)	-0.205 (-0.76)	-0.164 (-0.61)	-0.029 (-0.08)
Observations	746	302	324	326	216
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Chi <sup>2</sup>	106.597	5.014	4.279	4.469	4.641
P-value for Chi <sup>2</sup>	0.000	0.658	0.747	0.724	0.704
Number of matched firms	-	151	162	163	108

**Table 11. Propensity score matching family and non-family firms: Accrual-based earnings management for the founder re-appointments and other events in family firms compared to non-family firms**

	Year -2	Year -1	Year 0	Year 1	Year 2
<i>Constant</i>	-0.088*	-0.069	-0.034	-0.082	0.040
	(-1.92)	(-1.33)	(-0.74)	(-1.42)	(0.81)
<i>Founder re-appointments</i>	-0.007	0.030**	-0.010	-0.015	-0.012
	(-0.36)	(2.04)	(-0.64)	(-0.89)	(-0.63)
<i>Other events in family firms</i>	-0.014	-0.000	0.003	0.002	-0.004
	(-1.04)	(-0.01)	(0.28)	(0.17)	(-0.22)
Private benefits of control					
<i>Family wedge dummy</i>	0.011	-0.012	-0.001	-0.021*	0.006
	(0.83)	(-0.79)	(-0.07)	(-1.73)	(0.59)
<i>Board independence</i>	0.011	-0.015	0.002	-0.022	-0.040
	(0.35)	(-0.60)	(0.07)	(-0.87)	(-1.17)
<i>Duality</i>	-0.001	-0.013	0.007	0.031**	-0.003
	(-0.10)	(-1.14)	(0.60)	(2.14)	(-0.21)
<i>Duality destroying event</i>	0.032*	0.036**	0.011	-0.010	-0.007
	(1.97)	(2.56)	(0.82)	(-0.58)	(-0.45)
<i>Departing founder CEO remains on board post-event</i>			-0.004	-0.023	-0.018
			(-0.20)	(-1.41)	(-0.94)
Control variables					
<i>Ln(total assets)</i>	-0.001	0.003	0.001	0.004	-0.003
	(-0.41)	(0.96)	(0.31)	(1.38)	(-0.76)
<i>Return on assets</i>	0.127***	0.019	0.056	0.034	0.120**
	(4.14)	(0.25)	(1.16)	(0.72)	(2.34)
<i>Total debt/total assets</i>	-0.034	-0.035	-0.029	-0.023	-0.084**
	(-1.12)	(-1.06)	(-0.96)	(-0.75)	(-2.38)
<i>Book-to-market</i>	0.015**	-0.003	-0.011	0.003	0.006
	(2.29)	(-0.41)	(-1.35)	(0.37)	(0.71)
<i>Loss</i>	-0.050***	-0.081***	-0.069***	-0.071***	-0.040**
	(-3.67)	(-4.89)	(-5.63)	(-4.85)	(-2.53)
<i>Big Four</i>	-0.007	-0.005	-0.005	-0.013	-0.015
	(-0.77)	(-0.45)	(-0.55)	(-1.49)	(-1.43)
<i>France</i>	0.011	0.009	-0.003	0.007	0.021
	(0.84)	(0.66)	(-0.22)	(0.41)	(1.52)
<i>Germany</i>	0.023	-0.004	0.003	0.014	0.012
	(1.59)	(-0.30)	(0.28)	(1.03)	(0.72)
<i>Year and industry dummies</i>	Yes	Yes	Yes	Yes	Yes
No. of observations	278	300	288	287	273
Adj. R-Square	0.239	0.225	0.212	0.196	0.144



**Table 11. Propensity score matching family and non-family firms: Accrual-based earnings management for the founder re-appointments and other events in family firms compared to non-family firms**

	Year -2	Year -1	Year 0	Year 1	Year 2
<i>Constant</i>	-0.088* (-1.92)	-0.069 (-1.33)	-0.034 (-0.74)	-0.082 (-1.42)	0.040 (0.81)
<i>Founder re-appointments</i>	-0.007 (-0.36)	0.030** (2.04)	-0.010 (-0.64)	-0.015 (-0.89)	-0.012 (-0.63)
<i>Other events in family firms</i>	-0.014 (-1.04)	-0.000 (-0.01)	0.003 (0.28)	0.002 (0.17)	-0.004 (-0.22)
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<i>Family wedge dummy</i>	0.011 (0.83)	-0.012 (-0.79)	-0.001 (-0.07)	-0.021* (-1.73)	0.006 (0.59)
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<i>Duality</i>	-0.001 (-0.10)	-0.013 (-1.14)	0.007 (0.60)	0.031** (2.14)	-0.003 (-0.21)
<i>Duality destroying event</i>	0.032* (1.97)	0.036** (2.56)	0.011 (0.82)	-0.010 (-0.58)	-0.007 (-0.45)
<i>Departing founder CEO remains on board post-event</i>			-0.004 (-0.20)	-0.023 (-1.41)	-0.018 (-0.94)
<i>Control variables</i>					
<i>Ln(total assets)</i>	-0.001 (-0.41)	0.003 (0.96)	0.001 (0.31)	0.004 (1.38)	-0.003 (-0.76)
<i>Return on assets</i>	0.127*** (4.14)	0.019 (0.25)	0.056 (1.16)	0.034 (0.72)	0.120** (2.34)
<i>Total debt/total assets</i>	-0.034 (-1.12)	-0.035 (-1.06)	-0.029 (-0.96)	-0.023 (-0.75)	-0.084** (-2.38)
<i>Book-to-market</i>	0.015** (2.29)	-0.003 (-0.41)	-0.011 (-1.35)	0.003 (0.37)	0.006 (0.71)
<i>Loss</i>	-0.050*** (-3.67)	-0.081*** (-4.89)	-0.069*** (-5.63)	-0.071*** (-4.85)	-0.040** (-2.53)
<i>Big Four</i>	-0.007 (-0.77)	-0.005 (-0.45)	-0.005 (-0.55)	-0.013 (-1.49)	-0.015 (-1.43)
<i>France</i>	0.011 (0.84)	0.009 (0.66)	-0.003 (-0.22)	0.007 (0.41)	0.021 (1.52)
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# Structure

- Motivation
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- Endogeneity
- **Robustness Tests**
- Conclusion

# Robustness Tests

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- Introduction of IFRS in 2005
- *Change* in past firm performance
- Forced departures and deaths
- Incumbent and successor CEO characteristics
- Number of times a founder CEO is re-appointed
- Market reaction and earnings management
- Does it matter whether CFO is part of the family?

# Structure

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# Conclusion

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- This paper studies earnings management around CEO re-appointments and new CEO appointments
- We focused on French, German and UK family firms with an incumbent family CEO
- We find that costs and benefits of family firms of engaging in earnings management change around re-appointment of founder CEOs
- Founder CEOs opting for re-appointment inflate earnings upward to ensure a re-appointment and mitigate opposition from minority shareholders to family's on-going ownership and control of firm