Financial reporting choices in family firms and socioemotional wealth

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Abstract

The paper discusses the theory of socioemotional wealth (SEW) and explains how and why this theory complements the principal-agent theory in the understanding of the financial reporting in family firms.

The SEW theory argues that family owners often emphasize other objectives than the traditional economic objective of maximizing their return on invested capital. These other objectives might be referred to as socioemotional objectives and may for example be the need to retain control of the firm or to preserve the family's financial wealth over time.

Findings from the literature on financial reporting in family firms are discussed in light of Berrone et al. (2012)'s FIBER model. Based on this discussion, we also identify gaps in the literature and future research opportunities.

Introduction

This paper discusses financial reporting in family firms through the lens of the socioemotional wealth theory. One of the basic assumptions in conventional economic theory is that the owners' primary objective is to maximize their return on invested capital (Jensen & Meckling, 1976)), but the family firm literature argues that family owners may have other objectives as well (e.g., Berrone et al., 2012; Gómez-Mejía et al., 2007). For instance to maintain control of the firm, maintain a good reputation, secure jobs for family members or preserve the family's financial wealth over time (Molly et al., 2019). Gómez-Mejía et al. (2007) have developed a theory that to a greater extent explains the behavior of family owners. This is known as socioemotional wealth theory, often abbreviated to SEW.

The SEW theory is applicable in many disciplines and contexts. In this paper, we limit the discussion to how the SEW factors can affect earnings management and voluntary disclosures of information in family firms. The literature suggests that family-controlled firms are less inclined to engage in earnings management than other firms are (see, e.g., Cascino et al., 2010; Jiraporn & DaDalt, 2009; Tong, 2007; Wang, 2006). This is especially the case when family owners identify strongly with the firm (Gomez-Mejia et al., 2014; Pazzaglia et al., 2013; Sundkvist & Stenheim, 2020). Studies also find that family owners can have incentives to engage in earnings management if the firm encounters financial problems and the family's honour and/or control of the firm is at stake (Kvaal et al., 2012; Martin et al., 2016; Prencipe et al., 2008; Sundkvist et al., 2020). The willingness to report voluntarily disclosures also turns out to be dependent on the family owners' priorities. For example, a great need for control and influence will often result in a lower willingness to share information with external stakeholders (Gomez-Mejia et al., 2014; Vural, 2018).

On the other hand, family owners who largely identify with the firm will be more willing to report information beyond the minimum requirements of statutory regulations (Ali et al., 2007; Chen et al., 2008; Gomez-Mejia et al., 2014). The paper explains various dimensions that can affect financial reporting in family firms, providing theoretical and practical implications, which are of interest to academics and practitioners.

We contribute to the literature by discussing the complementarities and contrasts of the SEW theory and the traditional principal agent theory, discussing findings from the financial reporting literature in relation to Berrone et al. (2012)'s FIBER model (this model is discussed in more detail in the theory section), and by identifying gaps in the literature and future research opportunities. Even though the SEW theory is a prevalent theory in research on family firm behavior, we suspect the theory to be rather unknown among practitioners. We, therefore, believe that a basic knowledge of the theory and consequences for financial reporting practices can be useful for stakeholders of family firms, such as auditors, external accountants, external minority owners and lenders.

The paper is structured as follows: The theory session describes why the principal agent theory in many cases is insufficient to explain the behavior of family firms and how the SEW theory can be an important supplement for understanding the behavior of these firms. Berrone et al. (2012)'s FIBER model is discussed, which launches five different dimensions that can explain family owners' priorities and behaviors. In the section "SEW and financial reporting", we present some selected studies on financial reporting in family firms in the light of the SEW theory. Finally, we summarize key findings, possible practical implications and provide some suggestions for further research.

Theoretical background

The principal agent theory has traditionally been used to explain strategic choices of financial reporting (Salvato & Moores, 2010). This theory explains the relationship between a principal and an agent, in which the agent will perform services on the behalf of the principal. Conflicts of interest, information asymmetry and different risk attitudes may exist between principal and agent, which may increase the risk of the agent acting opportunistically, i.e. at the expense of the principal (Jensen & Meckling, 1976).

The classical principal agent relationship is between the owners (principal) and the management (agent) and arises because of the separation of ownership and control. This is often referred to in the literature as type 1 principal agent conflicts (Ali et al., 2007). This conflict is most relevant in large firms with dispersed ownership and low ownership stakes where none of the owners alone have incentives or opportunities to monitor the management (Hope, 2013).

In such situations, the board has an important function as a controlling mechanism preventing the management from acting opportunistically. The financial report also plays an important role here, as it

gives a quantitative status on the firm's achieved performance. However, this is based on the presumption that the board also controls the content and quality of the financial report.

The principal agent theory is also applicable to family firms, but to a lesser extent in its classical form (type 1 principal agent conflicts). In family firms, there will often be a blurred distinction between ownership and control because owners and management will often, but not always, be the same individuals or family members. This will generally result in less conflicts of interest between principal (owners) and agent (management), but at the same time, it may lead to the concentration of power on the hands of the family. This can be problematic for other stakeholders, such as external minority owners and lenders. In the event of any conflicts of interest, the family owners may, through control and participation in the firm's board of directors and management, be able to influence financial reporting in a way that is to their own benefits.

One source of conflicts is different investment horizons of family owners and other external minority owners, which may lead to disagreements concerning risk preferences and dividend policies. Such conflicts are often in the literature referred to as type 2 principal agent conflicts, i.e. conflicts between a large, dominant owner and minority owners (Ali et al., 2007).

The principal agent theory is based on the assumption of economically rational decision makers and the objective of maximizing economic wealth, and by that, utility (Jensen & Meckling, 1976). According to the SEW theory, family owners also emphasize other considerations than the purely financial ones, which complements the principal agent theory. According to the SEW theory, family owners are loss averse for losses in socioemotional wealth. These are non-financial forms of "utility" such as the pleasure it gives them that the family controls the firm, or that they identify so strongly with the firm that a positive mention of the firms is perceived by the family owners as a positive mention for them personally.

The SEW theory, therefore, introduces a broader understanding of utility than the traditional principal agent theory. In this sense, the SEW theory can better explain the family owner's needs, wishes and behavior. The SEW theory acknowledges that family owners may also concern about financial objectives (Martin & Gomez-Mejia, 2016). Nevertheless, in cases where these conflict, they are inclined to favor socioemotional objectives over financial objectives (Berrone et al., 2012).

The SEW theory contrasts the principal agent theory when it comes to risk preferences. According to the SEW theory, family owners are loss averse, while principal agent theory, on the other hand, assumes risk aversion (Gomez-Mejia et al., 2018). There is a key difference here. Risk aversion implies a general reluctance to take risks, here, limited to the risk of losing financial utility according to the principal agent theory. For loss aversion, on the other hand, risk preferences differ depending on whether there is a potential upside or downside risk (Kahneman & Tversky, 1979; Tversky & Kahneman, 1986). This means that family owners will be risk averse to potential increases in

socioemotional utility, but risk-seeking to avoid an expected loss of socioemotional utility (Gómez-Mejía et al., 2007). For example, family owners may be less inclined to engage in earnings management to achieve good results. Although good results can improve the firm's reputation and, thus, the family owners' socioemotional wealth, there will also be a risk of being detected. If, on the other hand, there is a risk of loss of socioemotional wealth, for example because of an economic loss or bankruptcy risk, family owners may be more inclined to engage in earnings management, despite the risk that the manipulation will be detected.

SEW is a comprehensive concept, which consists of different socioemotional objectives that in turn predict different behaviors. Berrone et al. (2012) have developed five dimensions, also known as the FIBER model, that give the SEW concept a more tangible content. These are (1) family control and influence, (2) identification with the family firm, (3) strong social ties, (4) emotional attachment to other family members, and (5) long-term stewardship.

Family control and influence

Many family owners have a strong desire and objective to preserve family control and influence. This entails a need to influence strategic decisions, either through representation on the board or management or both. This will potentially increase their socioemotional wealth, and any loss of control and influence will lead to a loss of socioemotional wealth (Berrone et al., 2012).

Identification with the family firm

Family owners and other involved family members may have a strong emotional connection to the family firm and, thus, identify strongly with the firm's success and defeat. In other words, they feel joy and pride when the family firm does well. Conversely, they can experience grief, despair and even shame, when the family firm does badly. They may also feel that negative publicity of the firm affects them personally.

Such a close connection may form a personal identification with the firm. The reputation of the family firm will, therefore, be of major concern for the family owners. A good reputation of the family firm will also give the family owners the feeling that they themselves have a good reputation (Berrone et al., 2012; Gomez-Mejia et al., 2014).

Social ties

Family owners often have close social ties to other parties involved, such as employees, customers, and suppliers, as well as the local community in which they operate. These ties are often of a long-lasting nature and can affect their behavior. A positive aspect of this is that it can increase trust between those involved, thereby reducing the need for more formalized control mechanisms. However, a potential threat is that excessive trust can facilitate manipulation and fraud, for example because of a lack of internal control.

Emotional attachment to other family members

Family firms are often characterized by strong emotional connections between the firm and the family members involved, where the distinctions between family and the firm can be blurred. Discussions and decisions can be more emotionally driven. These emotions can be positive, such as care and reconciliation, and negative such as anger, disappointment, and envy. Some families are also characterized by professional and private conflicts, which can potentially influence decisions and strategic choices in the firm (Berrone et al., 2012).

Long-term stewardship

Family owners often have a very long-term time horizon. Ownership is often considered a life's work, where transmission to the next generation is essential. The time horizon can therefore extend over several generations as opposed to external minority owners who typically have a shorter time horizon. This may suggest that family owners largely favor long-term profitability and financial strength more than external minority owners do.

SEW and financial reporting

This section explains the research literature's understanding of the concepts of earnings management and voluntary disclosure, as well as important research studies where the SEW theory may explain the family owners' financial reporting behavior. The research findings are discussed in light of Berrone et al. (2012)'s FIBER model with emphasis on the following dimensions of the model, structured according to the number of studies, from most to fewest: family control and influence, identification with the family firm, and long-term stewardship

Earnings management – conceptual meaning

Earnings management is a widely used concept in the research literature and is often considered as the act of intentionally influencing the process of financial reporting to obtain some private gains (Healy & Wahlen, 1999). It involves the alteration of financial reports to mislead stakeholders about the firm's underlying economic performance, or to influence contractual outcomes that depend on reported accounting numbers. The alteration of the financial reports is done by making reporting decisions (both within and outside applicable legal requirements) or financial decisions that affect the financial reports (real earnings management) (Healy & Wahlen, 1999).

Examples of the former can be earnings management through discretionary items, such as provisions, depreciation plans and write-downs. Financial decisions, on the other hand, can be a postponement of research and development activities, maintenance or marketing and personal training efforts. This can improve the reported results in the short term but will tend to be negative in the long term. Table 1 below summarizes.

<table>
<tr><th colspan="2">Earnings Management</th></tr>
<tr><th>Reporting decisions</th><th>Financial decisions</th></tr>
<tr><td>Earnings management through reporting decisions, either by exploiting the flexibility of the legislation or by violating the legislation.

<u>Examples:</u>
• Too large/too small provisions
• Too long/too short useful life on depreciable assets
• Too large/too small write-downs</td><td>Earnings management through financial decisions, which generally have negative financial consequences for the firm in the long term.

<u>Examples:</u>
• Postpone research and development activities
• Postpone training or marketing efforts
• Postpone maintenance</td></tr>
</table>

Table 1: Earnings management

Most of the research on earnings management in family firms is related to reporting decisions. In this paper, we are referring to earnings management through reporting decisions, unless it is explicitly stated that we are talking about earnings management through financial decisions. See Dechow and Skinner (2000) and Fields et al. (2001) for a more thorough review of the earnings management concept.

Family firm identification and earnings management

Many family owners identify strongly with the firm. For these owners, poor publicity and other negative attention will reduce their socioemotional wealth. This is because their own personal identity is strongly connected to the firm, and, thus, will be harmed if the firm is exposed to criticism. Family owners who identify strongly with the firm are probably less inclined to engage in earnings management, as this may have negative consequences for the firm's reputation, and consequently the reputation of the family, if detected (Martin et al., 2016). Consistent with this, many studies report less earnings management in family firms compared to non-family firms (see, e.g., Cascino et al., 2010; Jiraporn & DaDalt, 2009; Tong, 2007; Wang, 2006). However, these studies have been carried out on public firms, and it is not evident that these results also apply to private firms.

In a study of private firms, Kvaal et al. (2012) compare the extent of earnings management in family firms and non-family firms. Their results show that family firms to a greater extent manipulate the results downwards compared to non-family firms. In a setting where family firms are generally less exposed (i.e., firms that are not listed on a stock exchange), they are also less exposed to reputation losses. In such a setting, other considerations, such as withholding capital in the firm, may become more important (this may provide incentives to manage earnings downwards to limit dividend payments, see further discussion under the section «Long-term stewardship and earnings management»).

The studies discussed so far compare family firms with non-family firms, but there are also studies that examine variation among family firms. For example, some family owners will identify with the firm more strongly than others will. Pazzaglia et al. (2013) compare family-founded firms with firms acquired by the family. They find less earnings management in family-founded family firms. This may suggest that family members identify more strongly with firms they have founded, which in turn have a preventive effect on earnings management.

Sundkvist and Stenheim (2020) compare family firms that have the family name included in the firm name with family firms that are non-family named. They find less earnings management in the family firms that have the family name included in the firm name. Family owners who have the family name included in the firm name probably identify more strongly with the family firm and will, therefore, to a lesser extent engage in earnings management through reporting decisions. On the other hand, they may be more inclined to manage reported earnings using financial decisions (i.e., real earnings management), because this form of earnings management is less likely to be detected (Gomez-Mejia et al., 2014). In line with this, Sundkvist and Stenheim (2020) find that earnings management is more likely to take place through financial decisions than through reporting decisions when the family name is included in the firm name. In a similar vein, Calabrò et al. (2020) examine voluntary IFRS adopters and find that SEW endowment is positively associated with real earnings management, and negatively associated with accrual-based earnings management after adopting IFRS. Their measure of SEW endowment combines the two dimensions of family control and identification.

The findings so far suggest that strong identification with the family firm may prevent earnings management through reporting decisions. However, there may nevertheless be situations where these firms are inclined to make reporting decisions to alter the reported result. Large write-downs will, for example, have a negative effect on reported results, which can be perceived as burdensome for family members who identify strongly with the firm. This can provide incentives to try to avoid or minimize write-downs in the hope that profitability will pick up in the future. This is in line with SEW theory's loss aversion assumption, suggesting a general willingness to accept risks to avoid a sure loss (here: reputational damage resulting from reporting large losses).

Although, it may later be revealed that the family firm has postponed write-downs (given that profitability does not pick up) and this may have a negative impact on the family's reputation and thus lead to the loss of SEW, they may still be willing to take this risk to avoid a certain SEW loss. In a study of Norwegian non-listed firms, Sundkvist and Stenheim (2022) find that family-controlled firms are less inclined to report write-downs and report smaller write-downs than non-family-controlled firms are.

Family control/family influence and earnings management

The different dimensions of SEW are likely to lead to different reporting strategies. Although strong identification with the family firm can prevent earnings management in some cases, not all family firms have family owners where the identification with the family firm is strong. Other considerations may dominate such as a strong need for family control and influence, which in turn may affect the financial reporting. Family owners who emphasize control may have a stronger tendency to make reporting decisions that improve reported performance, if they feel that their control of the firm is threatened (Gomez-Mejia et al., 2014). This can be done, for example, by avoiding/postponing or minimizing write-downs or provisions (for example obsolete goods or losses on receivables) or reversing previously made write-downs or provisions.

Martin et al. (2016) find that although family firms in general have less earnings management than non-family firms, this difference is smaller when the family owners hold equity shares with more voting rights than the other shareholders do. The choice of such ownership structure suggests that control is important for these family owners, and in cases where strong control is important, any reputational loss becomes less so. In a similar vein, Duréndez and Madrid-Guijarro (2018) find, in a sample of Spanish manufacturing firms, that financial reporting quality decreases with family power and influence.

Other studies report similar results. For example, Prencipe et al. (2008) and Kvaal et al. (2012) find indications of more earnings management that improves reported performance for family firms with high debt ratios. If a highly leveraged family firm gets into financial trouble, the only option might be to bring in new external owners to avoid debt covenants violations. These new owners will probably demand influence, preferably through representation on the board, which can conflict with the family's need for control and influence, and thus provide incentives to tone down the financial problems.

Ferramosca and Allegrini (2018) find less earnings management in firms where family involvement was low or high, but more earnings management when the family involvement was at a medium level, suggesting a non-linear relationship between family involvement and earnings management. As family involvement increases, so does their opportunity to behave opportunistically, but beyond a certain point, an alignment effect will prevail. There may also be less threat to family control when family involvement is high.

In many non-listed family firms, the family will own the entire firm. In such a situation, there are no external minority owners and, thus, no threat from other owners to the family's ultimate control and influence. Then there are probably also fewer incentives to manage earnings to ensure the family's control. In line with this, Sundkvist et al. (2020) find less earnings management in firms that are wholly owned by the family compared to family firms that have minority owners.

Long-term stewardship and earnings management

Family owners often have a long-term time horizon that can have several consequences for financial decisions and reporting decisions. It may lead to family members favoring long-term profitability over short-term profitability. In line with such a long-term perspective, Achleitner et al. (2014) find evidence suggesting that German listed family firms to a lesser extent engage in earnings management through financial decisions, compared to non-family firms. This is probably because this form of earnings management has a negative effect on profitability in a long-term perspective, which is not compatible with the family owner's time perspective.

The long-term perspective of family owners, which often spans several generations, can also lead to conflicts with non-family minority owners. An example could be the firm's dividend strategy, where family owners may want to save for future generations by retaining capital inside the firm (Achleitner et al., 2014; Kvaal et al., 2012). By making reporting decisions that reduce reported results, for example through excessive provisions, this can lead to less dividends, at least in the short term.

Voluntary disclosures – conceptual meaning

In public firms, it is quite common to report some voluntary information in addition to the statutory reporting. This is often referred to in the literature as voluntary disclosures. Reporting of voluntary disclosures signals openness and can strengthen the firm's reputation. At the same time, it can be costly. The preparation of the reporting leads to direct costs, but voluntary disclosures may also impose some indirect costs associated with sharing internal information to outside stakeholders.

Voluntary disclosures - Family control and influence versus identification

Voluntary disclosure builds trust and confidence in the family firm, but at the same time it may also compromise the family's extensive control (Engel et al., 2019). Consequently, family firms' disclosure practices may depend on whether they favor family control or identification with the family firm. Based on the SEW theory, it is reasonable to believe that family members, who identify strongly with the firm, will report more additional information, because it will improve the reputation of the firm and give an impression to the outside world that they are open and honest (Gomez-Mejia et al., 2014). Family members who, on the other hand, emphasize family control and influence are more inclined to "keep the cards close to their chest" and are therefore less inclined to report voluntary information to their stakeholders (Gomez-Mejia et al., 2014).

Studies conducted on US family firms suggest that these firms report less voluntary information such as profit forecasts and conference calls, and they are less open about corporate governance (Ali et al., 2007; Chen et al., 2008). At the same time, these studies find that family firms will to a greater extent report information that warns against bad news (profit warnings). This may indicate that in many cases family firms choose to withhold information, but report information that may be preventive against bad publicity (i.e., profit warnings). A study from Sweden, where it is more common for family

owners to retain equity shares with more voting rights (suggesting a strong emphasis on family control), shows that family firms to a lesser extent report voluntary disclosures (Vural, 2018).

Discussion

The SEW theory complements traditional principal agent theory in the understanding of financial reporting in family firms. Family owners will often have socioemotional objectives beyond the traditional financial objective of maximizing returns on invested capital. Previous literature shows that the connection between family ownership and financial reporting probably depends on the family owners' priorities, i.e., which SEW dimension is most important for the family owners.

For family owners who identify strongly with the firm, earnings management can be perceived as risky, especially if the firm is strongly exposed (for example public firms). An exception is if the family firm risks a SEW loss anyway, for example by reporting very poor results. In such cases, they will rather become risk-seekers and gamble on earnings management to avoid loss of SEW. In general, research shows that the importance of SEW objectives is more significant for first-generation family owners than for later generations (Stockmans et al., 2010). Family owners who identify strongly with the firm will probably also to a greater extent report voluntary disclosures as this will be positive for their reputation.

Family owners, who are most concerned with preserving the family's control and influence of the firm, are probably less concerned with the firm's reputation. They may therefore be willing to manage earnings if they feel that their control of the firm is threatened. These family owners will probably hold their "cards close to their chests" and to a lesser extent report voluntary disclosures.

For family owners who place great emphasis on long-term stewardship and view the firm and the ownership interests as a legacy for next generations, it can be important to withhold capital inside the firm. This can lead to earnings management incentives to reduce reported earnings if minority owners push for excessive dividends.

Table 2 summarizes some practical implications related to each of the dimensions in the FIBER model. The literature shows that most of the research done in the area is related to the dimensions family control and influence (F), identification with the family firm (I) and long-term stewardship (R). Practical implications related to these dimensions are, therefore, based on the existing literature. The dimensions of social ties (B) and emotional attachment to other family members (E), on the other hand, have been little investigated, so here the practical implications are based on the authors' own reflections and experiences.

SEW dimensions (FIBER)	Potential practical implications
Family control and influence (F)	• When control of the firm is threatened, family owners may have incentives to make reporting decisions that improve the financial situation. • Family owners in need of control may have incentives to withhold information in the financial report.
Identification with the family firm (I)	• Family owners will to a lesser extent engage in earnings management to avoid the risk a reputational loss if earnings management is detected. • If there is a risk of reputation losses anyway, such as bankruptcy or reporting of large losses, family owners may still be willing to manage earnings (i.e., they become risk seeking to avoid a SEW loss). • Family owners will probably to a greater extent choose to manage earnings by means of financial decisions than by means of reporting decisions because the former is more difficult for outsiders to detect. • Family owners will probably be more open and willing to share information to improve their own reputation.
Social ties (B)	• Family owners may have excessive trust in the employees, and this may lead to inadequate internal control, which in turn increases the risk of incorrect reporting.
Emotional attachment to other family members (E)	• Given private conflicts, family owners in key positions (e.g., management or the board) may manipulate the financial reports to continue to retain control at the expense of other family owners. • Strong emotional ties between family owners in key positions (e.g., management or the board) can lead to manipulation of financial reports to protect themselves (e.g., avoid reporting losses).
Long-term stewardship (R)	• Family owners may have incentives for conservative reporting to reduce reported results to avoid pressure on dividends from external owners. • Family owners will to a lesser extent manage earnings through financial decisions as this will have a negative effect on long-term profitability.

Table 2: *FIBER model and potential practical implications*

There are few studies that compare earnings management in private family firms with private non-family firms. Most of the studies have been carried out with data from public firms. Moreover, we are not aware of any studies that examine whether differences in financial reporting between family firms and non-family firms, depend on listing status. Thus, we know little about how listing status comes into play. There is reason to believe that there may be differences between public and private firms for several reasons. Public family firms are more exposed to reputational losses, which means that earnings management can be perceived as riskier for family owners in public firms than in private firms. In another vein, the family gives up some of the control of the firm when going public, which indicates that family control may be less important for family owners in public firms than in private firms.

Taken together, this may indicate that in general, family owners in public family firms are more sensitive to reputational losses (indicating behavior according to the identification dimension of SEW), while family owners in private family firms put more emphasis on family control and influence (indicating behavior according to the family control dimension of SEW). Based on this, one might expect that family owners in public firms, in general, are less inclined to engage in earnings management (to avoid reputational losses), while family owners in private firms may be more inclined to engage in earnings management when incentives are strong, for examples when there are risks of losing control. More research is needed to determine whether there are significant differences regarding earnings management in public and private family firms.

Most accounting-based studies have focused on the SEW dimensions family control, family identification or long-term stewardship, suggesting a need for more research on the dimensions: social ties and emotional attachment. Relevant research problems to be examined could be, for instance, whether binding social ties leads to excessive trust in employees and consequently poor internal control. Bardhan et al. (2014) suggests that family firms suffer from poorer internal control, but this study examines the consequences of family entrenchment (i.e., poor internal control facilitates family entrenchment), and not excessive trust from family members due to strong social ties.

Possible motivations for earnings management may differ depending on whether there exist strong emotional attachments or private family conflicts. Given private conflicts, family members with control and influence over the firm (i.e., family members in key positions) may have incentives to manage earnings to remain in control at the expense of other family members (i.e., to avoid revealing poor performance which may trigger questions and concerns from other family members). On the other hand, if there exist strong emotional attachments among the family members, they may have incentives to manage earnings to protect themselves (i.e., to avoid reporting poor performance). This suggests that both strong emotional attachments and family conflicts may give incentives to manage earnings. The motivation for doing so, however, differs. Given strong emotional attachments among

family members, the unity of these members will be strong, making it more likely that conflicts will arise between family owners (acting together) and other stakeholders, than between family owners. In situations with private family conflicts, on the other hand, the conflicts will primarily exist between family members and not between family owners and other stakeholders. However, such family conflicts may have the potential to hurt other stakeholders' interests as well, for instance through managed earnings.

The same arguments are likely to hold for voluntary disclosures. Both in situations with family conflicts and situations with strong emotional attachments among family members, family owners are less likely to supply additional information. In the case of family conflicts, they are less willing to supply information to withhold information from other family members, while in a situation of strong emotional attachments they are less likely to supply information in an attempt to withhold information from other stakeholders. In both situations, other (non-family) stakeholders are likely to suffer from lack of information.

Concluding remarks

The paper discusses the theory of socioemotional wealth (SEW) and explains how and why this theory complements the principal-agent theory in the understanding of the financial reporting in family firms. Research findings from the financial reporting literature are discussed in the light of the dimensions family control, family firm identification and long-term stewardship from Berrone et al. (2012)'s FIBER model. We identify further research opportunities regarding the dimensions of social ties and emotional attachments. As far as we are aware of, these dimensions have not been examined in the context of financial reporting, even though, they probably play a role when family firms make financial reporting decisions. Little is also known whether the family firms' listing status influence financial reporting. The SEW theory gives us reason to believe that the firms' listing status does count, as public family firms are more exposed to reputational concerns than private firms, and family control may dilute when the firms go public. The SEW theory suggests that family owners' having reputational concerns may use opposite financial reporting strategies than family owners being concerned with remaining control and influence over the firm (Gomez-Mejia et al., 2014).

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