

# The Impact of Family Firm Accounting Conservatism on Mergers and Acquisitions: A Literature Review

Yuqing Zhu, Jieru Pan

School of Finance & Economics, Jiangsu University, Suzhou 212013, China.

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**Abstract:** As an important pillar of private enterprises, family businesses tend to be more risk-averse when making merger and acquisition decisions. Accounting conservatism, as an important criterion for the quality of accounting information, pays more attention to the timely confirmation of ‘bad news’. This paper systematically sorts out the relevant literature from the two aspects of the mergers and acquisitions of family businesses and business accounting conservatism, and analyzes the impact of accounting conservatism on the mergers and acquisitions of family businesses.

**Keywords:** Accounting Conservatism; Corporate Mergers and Acquisitions

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## 1. Introduction

2021 is the first year of the 14th Five-Year Plan, and it is also a critical period for the construction of the new development paradigm with the domestic cycle as the main body and the domestic and international dual cycles promoting each other. Faced with the new macro environment, family businesses also have more diverse and stereoscopic demand. How to promote the high-quality development is a difficult problem faced by family businesses. With the participation of the younger generation, the scale and industrial territory of the family business have been expanded. Relying on policy support and its own advantages, corporate mergers and acquisitions have become an important way for the scale expansion and the strategic reorganization of corporates, and also an important means for Chinese family businesses to integrate resources.

Accounting conservatism, also known as accounting earnings conservatism, is often used as a significant principle of accounting recognition. By prudently confirming ‘good news’ and timely confirming ‘bad news’, it reflects the prudent attitude of enterprises to deal with uncertainty. This paper uses ‘family business mergers and acquisitions’ and ‘family business earnings stability’ as key words to sort out the core journals of CNKI. The research significance of this paper is to help standard setters discover and adjust issues related to accounting conservatism timely; to help third-party regulators to capture regulatory priorities promptly and seize future research opportunities.

## 2. Theoretical basis and literature review

### 2.1 Overview of family business mergers and acquisitions

#### 2.1.1 The family business that pursues "everlasting business"

With the growing growth of family business, scholars at home and abroad have also carried out a lot of abundant and in-depth research on it. Family businesses not only pursue the maximization of shareholder value, but also pursue goals such as business succession, family control, and family reputation maintenance. The characteristic of dual goals makes family enterprises different from non-family enterprises in terms of ownership structure and management structure, and makes them hold a longer-term investment vision and business philosophy to ensure that the value orientation of long-term operation does not deviate. From the perspective of R&D investment, Wu (2017)<sup>[1]</sup> found that the long-term R&D investment of family enterprises with a long-term investment horizon is significantly higher than that of non-family enterprises.

## **2.1.2 Research on merger and acquisition behavior of family enterprises**

In the process of the leapfrog development of family enterprises, mergers and acquisitions is an important means for Chinese enterprises to quickly realize the structural adjustment of products and industries and the optimization and upgrade of corporate resources. Domestic and foreign scholars' research on family business M&A mainly focuses on M&A decision-making, M&A performance influencing factors and so on. Liu (2018)<sup>[2]</sup> believe that compared with non-family enterprises, the M&A motivation of family enterprises is long-term value-oriented, and they hope to achieve the goal of long-term operation. They have stronger M&A willingness and better M&A performance. Under the effect of the convergence of shareholders' interests, managers will reject projects with negative net present value and continuously improve the company's governance level, which is conducive to the integration of resources between companies after mergers and acquisitions, and promotes the improvement of long-term merger performance; Bjursell (2011)<sup>[3]</sup> conducted research on cultural differences in family business mergers and acquisitions: he considers ownership, family and management as three separate value systems, and finds that the interaction between these aspects is related to people's understanding of organizational culture and values in a given context, and put forward effective suggestions for the integration of the two companies after the merger. Katrien (2015)<sup>[4]</sup> conducted a study on the M&A behavior of 342 companies listed in Europe and found that family businesses can create greater value through acquisitions. Family businesses can pursue corporate strategic diversification through mergers and acquisitions to diversify family wealth.

## **2.2 Summary of accounting conservatism**

### **2.2.1. Accounting Conservatism**

Accounting conservatism was first defined by FASB, and it is an important basis for measuring the quality of corporate accounting information. When making judgments on accounting information, the accountant should make a more accurate assessment of the revenues and expenses, and should not overestimate the income of assets or underestimate the loss of expenses. Scholars believe that accounting conservatism is not only an important quality attribute of financial reporting, but also an effective corporate governance mechanism. Accounting conservatism requires sufficient prudence in recognizing and measuring transaction activities, making accounting records after taking various risks and losses into full consideration, not overestimating assets and income, and not underestimating liabilities and losses.<sup>[5]</sup>

### **2.2.2 Existence research on accounting conservatism**

Khan and Watts (2009)<sup>[6]</sup> proposed the C-Score model. In the empirical model, the three variables of company size, asset-liability ratio and market-to-book ratio are used to replace the overall characteristics of the company, which makes the measurement of accounting conservatism more personalized. Xiao (2010)<sup>[7]</sup> used the analysis of quarterly earnings to replace the earnings analysis based on the fiscal year, so as to effectively separate and control the impact of profit manipulation on accounting conservatism. The study found that the accounting earnings of listed companies in China showed steady characteristic. Therefore, it is meaningful to study the conservatism of accounting earnings.

### **2.2.3 A study on the impact of accounting conservatism**

In terms of investment efficiency, Lara (2016) [8] found that accounting conservatism can improve investment efficiency, resolve the conflict between debt and equity, and facilitate companies to obtain debt financing. Based on the data of A-share non-financial listed companies from 2013 to 2015 in China, Deng (2017) [9] tested accounting conservatism and studied the impact of accounting conservatism on company profitability and debt financing cost. Li (2018) [10] used the data of A-share listed companies in Shanghai stock market from 2010 to 2016 as a research sample to analyze the impact of institutional investors' shareholding on accounting conservatism and enterprise value. The study found that institutional investors can significantly improve the market value of enterprises by improving the level of corporate accounting conservatism.

### **2.2.4 Research on the relevant role of accounting conservatism**

Accounting conservatism has always attracted the attention of researchers. The existing literature mainly focuses on exploring the impact of accounting conservatism on corporate investment efficiency. Zhao (2017) <sup>[11]</sup> tried to explore the relationship between accounting conservatism and corporate investment efficiency through research on corporate M&A activities. The study showed that accounting conservatism can help companies improve M&A investment efficiency and effectively improve profitability through M&A. The corporate governance of the acquirer can effectively alleviate the agency problem in corporate mergers and acquisitions, and then reduce the negative effect of director connection on corporate value.

### 3. Summary and Outlook

At present, there are abundant studies on accounting conservatism and corporate mergers and acquisitions, but few studies linking the two and targeting family businesses. With the development and growth of family businesses, mergers and acquisitions have become an important means of strategic expansion of family businesses. However, it is not difficult to find that mergers and acquisitions do not necessarily lead to improved performance. In the capital market, there are still some bad behaviors of malicious mergers and fictitious financial statements. It is very important to check the professional ethics of employees and the quality of accounting information.

Therefore, it is of great significance to study the soundness of accounting information of family enterprises in the process of mergers and acquisitions. The sound development of my country's economy. China's family businesses are also ushering in an era of renewal, and the impact of different sources of successors and different modes of power transfer of founders on accounting conservatism is also a proposition worthy of further study.

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