

How do CEO characteristics and family goals shape tax strategies in family businesses?

Balancing wealth and responsibility. How family firms handle taxes under CEO influence

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Family firms often face unique challenges when making strategic decisions, especially regarding financial practices like tax management. With socioemotional wealth (SEW) at the heart of their decision-making, these firms must balance the desire to protect family interests with broader responsibilities to stakeholders and long-term business success. This article examines how CEO characteristics and SEW dimensions influence tax aggressiveness in family firms, shedding light on the complexities of their financial strategies.

WHAT WE STUDIED

The research examined 201 private Belgian family firms, focusing on how their tax strategies are influenced by different forms of SEW. SEW is categorized into restricted (focused on short-term family benefits) and extended (focused on long-term goals and external stakeholders). The study also analyzed the moderating role of the CEO's family status, gender, and tenure on the relationship between SEW and tax aggressiveness.

KEY INSIGHTS

1. Tax Aggressiveness and SEW

Family firms that prioritize restricted SEW tend to engage in more aggressive tax strategies, viewing them as a way to increase immediate financial benefits for the family. In contrast, firms that focus on extended SEW, which emphasizes the long-term well-being of the family and its stakeholders, tend to adopt more conservative tax approaches to avoid reputational damage and legal risks.

2. The Role of the CEO

CEO characteristics significantly influence how SEW priorities translate into tax strategies. Family CEOs are more likely to align with the family's SEW goals, whether short- or long-term. Female CEOs, on the other hand, often push for more conservative tax practices, particularly when the focus is on long-term SEW. Longer-tenured CEOs tend to reinforce tax aggressiveness when short-term SEW is prioritized, using their power to meet immediate family needs.

3. CEO Gender and Tax Strategies

Female CEOs, regardless of family status, tend to resist aggressive tax practices due to their focus on preserving family reputation and ethical business conduct. Their presence often moderates the influence of short-term SEW, leading to more responsible tax strategies.

TAKEAWAYS

1. For Family Business Owners

Understanding the impact of SEW on tax strategies is crucial for family firms aiming to balance immediate financial gains with long-term sustainability. CEO selection plays a vital role in ensuring that family goals align with responsible tax practices.

2. For CEOs

CEOs in family firms must navigate the often competing demands of SEW and financial performance. A clear understanding of family goals and careful balancing of short- and long-term priorities can help CEOs lead effectively in this complex environment.

3. For Policymakers

Tax authorities and policymakers should recognize the unique dynamics of family firms when designing tax regulations. Family firms often operate under different motivations compared to nonfamily businesses, making targeted tax policies necessary.

IMPACT

This study highlights the important role of socioemotional wealth in shaping the financial strategies of family firms, particularly in the context of tax aggressiveness. By exploring how CEO characteristics influence these strategies, the article

provides valuable insights for family business leaders, advisors, and policymakers seeking to promote responsible tax practices in family-owned companies.

RECOMMENDATIONS

Family firms should carefully consider the selection of their CEO, as their characteristics—particularly gender and tenure—can significantly impact the firm's tax strategy. Moreover, businesses that prioritize long-term goals and stakeholder relationships are likely to benefit from more conservative and ethical tax practices.

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