Spotlight
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How does auditing differ in family firms compared to nonfamily firms?

Auditing in family firms: past trends and future research directions

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Published on January 5, 2024 *https://doi.org/10.68623/spotlight.2024.7w3*

Family firms are distinct from nonfamily firms in many ways, from their governance structures to their goals and decision-making processes. These differences naturally extend into the realm of auditing. This article reviews 71 studies on auditing in family firms to map past trends and identify future research directions. By analyzing factors such as audit quality, audit fees, and auditor selection, the review sheds light on the unique aspects of auditing in family businesses.

WHAT WE STUDIED

This systematic literature review focuses on research related to auditing in family firms, covering studies published up to 2023. The research examined issues such as audit effort, audit risk, and audit fees, comparing family firms with nonfamily firms. The review also explored topics like auditor selection and the effectiveness of audit committees, with the aim of identifying gaps in the existing literature and suggesting future research opportunities.

KEY INSIGHTS

1. Audit Fees and Risk:

Family firms tend to pay lower audit fees than nonfamily firms due to their lower audit risk. This reduced risk arises from the close involvement of family members in business operations, which leads to better oversight and less need for external monitoring. However, in some cases, particularly during economic crises, family firms may pay higher audit fees due to perceived risks such as shareholder expropriation.

2. Audit Quality and Auditor Choice:

Many family firms choose lower-quality auditors compared to nonfamily firms, often opting for non-Big 4 auditors. This trend is driven by lower external demand for high-quality audits in family businesses. However, family firms with high debt levels or involved in export industries tend to hire higher-quality auditors to reduce agency costs and enhance credibility.

3. Audit Committees:

The presence and effectiveness of audit committees in family firms are generally weaker compared to nonfamily firms. Family ownership often reduces the demand for strong audit committees, as family members already provide direct oversight. However, effective audit committees, when present, can lower the cost of debt for family firms.

TAKEAWAYS

1. For Family Business Owners:

Family firms should carefully consider the implications of their audit choices. Opting for lower-quality audits may save costs in the short term but can lead to long-term risks, particularly in industries with high external scrutiny.

2. For Auditors:

Auditors working with family firms must recognize the unique risks and dynamics of family businesses, particularly in managing agency conflicts between controlling and noncontrolling shareholders.

3. For Researchers:

There is a need for further research on auditing practices in family firms, particularly in emerging markets and small businesses. Exploring the role of technology and artificial intelligence in family firm audits is also a promising area for future study.

IMPACT

Auditing in family firms is an under-researched area with significant implications for the governance and sustainability of these businesses. This review highlights the need for more targeted research to better understand how family ownership shapes auditing practices. As family firms continue to play a crucial role in the global economy, improving auditing standards in these firms will be vital for enhancing transparency and accountability.

RECOMMENDATIONS

Future research should explore the use of advanced auditing technologies, such as artificial intelligence and big data, in family firms. Additionally, family businesses should be encouraged to strengthen their audit committees and consider the long-term benefits of hiring high-quality auditors.

Spotlight by CeFEO, How does auditing differ in family firms compared to nonfamily firms? Auditing in family firms: past trends and future research directions. Downloaded on 19 November 2026 from https://doi.org/10.68623/spotlight.2024.7w3

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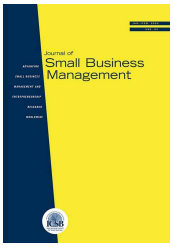
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PUBLISHED IN



Gil, M., Uman, T., Hiebl, M. R. W., & Seifner, S. (2024). Auditing in family firms: Past trends and future research directions. Journal of Small Business Management.

https://doi.org/10.1080/00472778.2023.2293908

Spotlight is an online magazine that translates research from the Centre for Family Entrepreneurship and Ownership (CeFEO) at Jönköping International Business School, Jönköping University, into accessible insights for family business owners, practitioners, and policymakers.

Spotlight is supported by the WIFU Foundation. This partnership advances dialogue and education in responsible family entrepreneurship and ownership.

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