The Dual-Edged Role of Family Control in Accounting Misconduct[1]

－Empirical Evidence from Japan－

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1. Introduction

Accounting misconduct remains a critical challenge in corporate governance, manifesting in diverse forms such as data falsification, misappropriation and systemic concealment of losses. Japan's corporate landscape, characterized by its unique blend of traditional familial stewardship and modern governance structures, provides a compelling context to examine the drivers of such unethical practices. High-profile domestic cases, including Toshiba's accounting scandal tied to 150 billion yen in overstated operating profits and Olympus's corporate corruption scandal being one of Japan's biggest accounting scandals, highlight the complex interplay between organizational control and accounting misconduct. These cases underscore broader societal concerns, as regulatory penalties and reputational damage erode investor confidence and destabilize public markets (Fang et al., 2017).

A defining characteristic of many Japanese firms is their founding-family control, which is prevalent among a sizable segment of the country's stock market. Such companies often emphasize long-term legacy and social reputation, aligning with Japan's collectivist cultural values. The emphasis on intergenerational continuity and familial honor may incentivize ethical restraint, as misconduct risks irreparable harm to a dynasty's standing (Dyer & Whetten, 2006). At the same time, concentrated family control can foster insulated decision-making to protect short-term stability. Large, undiversified equity stakes may prompt families to manipulate financial disclosures in order to preserve dynastic wealth, and overconfidence among family owners may lead to risky or unethical behavior (Anderson et al., 2012). Thus, family firms may face strong incentives both to prevent financial misconduct and, paradoxically, to conceal or delay the disclosure when it occurs.

Building on these insights, this paper examines whether family-owned firms exhibit a different propensity to commit accounting misconduct, as well as a divergent likelihood of detection, compared to non-family-owned firms among listed Japanese companies. Drawing on agency theory and the socioemotional wealth (SEW) framework, I aim to clarify how family ownership and board involvement influences the risk of financial misconduct, and how such family control may also shield wrongdoing from timely exposure. Using a comprehensive hand-collected dataset spanning 2015 to 2022 and applying a partially observable bivariate Probit model, the study contributes to the literature by disentangling the intertwined processes of misconduct commission and detection. The analysis thus provides new evidence on the paradoxical role of family control in corporate governance.

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2. Literature Review and Hypotheses

(1) Accounting Misconduct Occurrence and Detection in Family-Owned Firms

From a conventional economic standpoint, firms often weigh the cost of compliance and prevention against the potential benefits of misconduct. If the expected financial gains from illicit actions outweigh the probability-adjusted costs of being caught and penalized, some firms may rationally choose to engage in misconduct (Harris & Bromiley, 2007). Given this cost-benefit calculus, the incentive to invest in internal control mechanisms or ethical safeguards may be relatively weak, particularly when the risks of detection or reputational fallout are perceived to be low. However, family-owned firms diverge from this logic due to non-economic considerations grounded in socioemotional wealth (SEW) theory. SEW refers to the non-financial aspects of the business that meet the affective needs of family owners, such as identity, legacy, and family control (Gomez-Mejia et al., 2007). Unlike non-family firms that may be driven primarily by short-term financial objectives and dispersed ownership, family-owned firms are uniquely concerned with preserving the continuity of family control and protecting the family's reputation. Misconduct within a family-owned firm can trigger leadership displacement, threaten the survival of the firm, and ultimately diminish the strategic value derived from family control. (Gomez-Mejia et al., 2018; Gangloff et al., 2016). These outcomes represent losses not only in financial terms but also in terms of identity and status, which are highly valued by family owners. Furthermore, misconduct in family firms is closely tied to the family name itself. Any reputational damage therefore affects not just the business, but also the social standing and emotional well-being of the family members involved (Miller et al., 2011). Consequently, family firms may adopt more cautious and ethically conservative strategies, even at the expense of potential short-term gains, because the long-term costs, both tangible and intangible, are perceived to be far greater. This heightened sensitivity to reputational harm and governance disruption provides strong motivation for family firms to avoid misconduct.

Nevertheless, the unique priorities of family-controlled firms also have the possibility to influence how any wrongdoing is handled when it does occur. Concentrated family ownership often weakens governance checks and reduces board independence, so the usual channels for uncovering wrongdoing (e.g., independent audit committees, internal auditors, or non-family executives) may function less effectively (Ebaid, 2023). Non-family employees also risk retaliation or career setbacks if they report fraudulent behavior involving powerful family members, especially if uncovering the misconduct could have an adverse impact on the family's image (Kim & Marler, 2022). Research on whistleblowing indicates that while employees in widely held firms might feel compelled to expose misconduct, family influence and connections in family firms can override these professional obligations (Lafleur et al., 2025). As a result, one of the primary mechanisms for identifying misconduct, namely internal reporting, is weakened. Furthermore, since preserving their socioemotional wealth is paramount, families may respond to potential financial misconduct in ways that protect their image and control over the firm. Therefore, rather than reporting issues to authorities or confessing errors, family owners might attempt to quietly resolve or hide misconduct cases in order to avoid public scandal and protect the family name. The control motivation inherent in SEW also means family owners strive to maintain tight control over information (Gomez-Mejia et al., 2014). Prior empirical observations support this tendency. Kidwell et al. (2024) found that families are sometimes reluctant to pursue legal action or public sanctions against errant kin, preferring to resolve issues quietly to avoid public scandal. Other evidence also indicates that family firms tend to be opaquer in their disclosures, often issuing fewer warnings about negative

developments and thus delaying the revelation of potential accounting misconduct (Ali et al., 2007). Consequently, even if misconduct does occur in a family-controlled firm, the probability of its detection remains lower because family owners typically strive to safeguard both the business and their legacy. Based on the discussion above, I propose:

H1a: Family-owned firms are less likely to engage in accounting misconduct than non-family firms.

H1b: Accounting misconduct in family-owned firms is less likely to be detected or disclosed in a timely manner, compared to accounting misconduct in non-family-owned firms.

(2) Influence of Family Involvement on Board

The presence of family members on the board plays a crucial role in shaping the governance and ethical behavior of family-owned firms. Drawing on socioemotional wealth (SEW) theory, family firms are particularly sensitive to the preservation of their non-financial goals, including long-term control, identity, and reputation (Gómez-Mejía et al., 2007). One key mechanism through which SEW preservation occurs is family control and oversight. When family members occupy board positions, they are more likely to exert direct influence over internal decision-making processes and to actively monitor financial reporting practices (Berrone et al., 2010). This oversight function reduces the agency gap between owners and managers and serves as an internal check against accounting manipulation. Furthermore, family directors are often motivated to preserve long-term control of the firm, which discourages engagement in short-term opportunistic behavior such as accounting misconduct (Gómez-Mejía et al., 2014). Misconduct that threatens the firm's survival or invites public scrutiny would jeopardize the family's enduring influence, making such behavior particularly costly for firms with strong family governance. In addition to control, family identity and reputation are integral components of SEW that shape ethical conduct. A board dominated by family members reinforces the family's symbolic association with the firm, making reputational damage from misconduct not only a financial loss but also a personal and social threat (Zellweger et al., 2012). The presence of family members thus amplifies the salience of reputation concerns and increases the perceived costs of unethical behavior. Taken together, both the monitoring capacity and identity-reinforcing function of family board members suggest that greater family board presence deters misconduct.

Board composition in family firms also influences the probability of detecting once it occurs. When family executives hold a high ratio of board seats and management positions, the internal oversight mechanisms that typically catch misconduct can be compromised (Berrone et al., 2012; Beasley, 1996). In addition, independent directors on a family-dominated board can be too marginalized to insist on thorough investigations or robust controls (Cuadrado-Ballesteros, 2015). As a result, financial irregularities in such firms can persist longer without detection. The SEW perspective suggests that a family-dominated board will be strongly motivated to avoid public exposure of any internal failings. Such directors often prefer to handle potential infractions secretly rather than subject the family and the firm to external examination. Family leaders might, for example, quietly repay misappropriated funds or adjust accounting entries once issues are known internally, rather than reporting the financial misconduct upward to auditors or authorities. Such actions stem from the desire to protect the family's image (Gomez-Mejia, 2011), and to avoid the loss of esteem that would come with an official scandal by controlling information. Consistent with this reasoning, a recent review of dysfunctional behaviors in family businesses highlights that nepotism and the absence of outside accountability can enable unethical practices to persist

unchallenged (Kidwell et al., 2024). Taken together, increasing family control over the board will correspond to a lower likelihood of misconduct detection because the family's influence can be used to conceal or promptly remediate issues in-house. Based on the discussion above, I propose:

H2a: Within family-owned firms, the proportion of family members on board is negatively related to the likelihood of financial misconduct.

H2b: Within family-owned firms, the proportion of family members on board is negatively related to the likelihood of accounting misconduct detection.

3. Methods

(1) Sample and data

This study adopts the definition of accounting misconduct set out in the 2024 Edition of *Trends in Accounting Misconduct in Listed Companies* (上場会社等における会計不正の動向（2024 年版）) published by the Japanese Institute of Certified Public Accountants (2024). In this context, accounting misconduct encompasses the deliberate creation and disclosure of false financial information intended to mislead users of financial statements.

To construct the financial misconduct dataset, I gathered information disclosed between 2015 and 2022 on the occurrence of misconduct, its duration and the year of detection. First, I employed the "Document Search" function on the eol database for publicly listed companies, searching under "Other Timely Disclosure Documents" by each disclosure year. I then used relevant Japanese keywords, including "inappropriate OR misconduct OR fraud OR intent OR false OR investigation report OR fictitious" (不適切 OR 不正行為 OR 不正 OR 意図 OR 虚偽 OR 調査報告書 OR 架空). All documents whose titles suggested a potential connection to financial misconduct were reviewed in detail. From this set, I retained only cases in which misconduct began and ended within the 2015–2022 window. I excluded firms lacking data on the specific perpetrators or the misconduct duration. Next, to establish a comparison group, I collected a random sample of firms not implicated in financial misconduct from the eol database, excluding those in the "Financial and Insurance" sector (as classified by the 33 industry categories of the Japan Exchange Group). Firms included in the detected misconduct sample or found to have engaged in other types of misconduct excluded from this comparison set. The final dataset consists of both groups merged into a single sample for further analysis.

To identify family-owned firms, I reviewed corporate disclosures and historical company records, assembling data on ownership structures, the presence of founding members, generational involvement, and family roles within the organization. For the purposes of this research, a family-owned firm is defined as one in which the founding family holds at least 5% of the total shares. However, corporate filings often do not explicitly disclose the extent of familial ownership or managerial/directorial roles. Consequently, I manually collected data from sources including *A Bibliography of Company History* (日本会社総覧), firm official websites, *Securities Report*（有価証券報告書), Study of Family Connections (閨閥学) to identify the founding family members. Then the founding family share is calculated by summing up the equity shares of founding family members.

(2) Estimation Methods

In prior literature investigating the determinants of corporate misconduct, the most commonly used approach is to construct a Probit model in which the dependent variable is a binary indicator of whether a firm engaged in misconduct. A critical underlying assumption of this model is that the binary outcome variable fully captures all instances of corporate misconduct. However, this

assumption does not hold in practice. Due to both objective and subjective limitations, some violations are not detected in a timely manner, implying that regulatory enforcement actions do not comprehensively reflect all actual misconduct cases.

To address this issue, scholars adopted the partially observable Bivariate Probit model developed by Poirier (1980) to study corporate misconduct (e.g., Chen et al., 2006; Wang et al., 2010). The Bivariate Probit approach jointly models the probability of corporate misconduct and the probability of regulatory detection, thereby addressing the observational bias present in traditional Probit models, which only capture misconduct that is observed and sanctioned by regulators.

Specifically, two latent variables are introduced, $Misconduct_i^*$ and $Detect_i^*$, where $Misconduct_i^*$ denotes the probability that firm i engages in misconduct, and $Detect_i^*$ denotes the potential for getting caught. These latent variables are determined by the following equations:

$$Misconduct_i^* = \beta_M X_{M,i} + \mu_i \quad (1)$$

$$Detect_i^* = \beta_D X_{D,i} + \nu_i \quad (2)$$

Here, $X_{M,i}$ is a row vector of variables that influence the likelihood of firm misconduct, while $X_{D,i}$ includes factors affecting the probability that such misconduct is detected. The coefficient vectors are β_M and β_D, respectively. The error terms μ_i and ν_i are jointly normally distributed with correlation coefficient ρ.

Two indicator variables, $Misconduct_i$ and $Detect_i$, are defined such that $Misconduct_i$=1 if $Misconduct_i^*$>0, and 0 otherwise; $Detect_i$=1 if $Detect_i^*$>0, and 0 otherwise. Although the latent variables themselves are unobservable, I can observe their product $Y_i = Fraud_i * Detect_i$. A value of Y_i= 1 indicates that firm i in year t engaged in misconduct and was also detected by regulators, whereas Y_i= 0 implies either no misconduct occurred, or it occurred but was not detected. The probability distribution of Y_i can be expressed as follows:

$$\begin{aligned}
\Pr(Y_i = 1) &= \Pr(Detect_i = 1 \;\&\; Misconduct_i = 1) \\
&= \Pr(Detect_i = 1 \mid Misconduct_i = 1)\ \Pr(Misconduct_i = 1) \\
&= \Phi(\beta_D X_{D,i}, \beta_M X_{M,i}, \rho) \\
\Pr(Y_i = 0) &= \Pr(Detect_i = 0 \; or \; Misconduct_i = 1) \\
&= \Pr(Misconduct_i = 1)\ \Pr(Detect_i = 0 \mid Misconduct_i \\
&\qquad = 1) + \Pr(Misconduct_i = 0) \\
&= 1 - \Phi(\beta_D X_{D,i}, \beta_M X_{M,i}, \rho)
\end{aligned}$$

Following the theoretical framework of Poirier (1980), the Bivariate Probit model allows the decomposition of corporate misconduct into two latent processes: the propensity to commit misconduct and the likelihood of detection. This requires that the covariates $X_{M,i}$ and $X_{D,i}$ respectively contain factors influencing detection and the tendency to commit misconduct, and that these two sets of variables are not completely overlapping. It should be noted that, to ensure model convergence given the large number of variables, this analysis did not include fixed effects at the firm, year, or industry levels.

(3) Dependent Variable

I employ a dummy variable *Y* to represent the dependent variable of corporate misconduct. If a company is caught to have engaged in misconduct during a given year, *Y* is set to 1; otherwise, it is set to 0.

(4) Explanatory Variables

The first independent variable is *FOB* as a dummy variable. If firm's founding family owns at

least five percent of its stocks, the variable is equal to 1, and 0 otherwise. Another independent variable, *Family on Board* measures the family involvement on the board, calculated by the number of family executives divided by the board size.

(5) Control Variables

This study adopts the Bivariate Probit estimation method and categorizes control variables according to whether they relate to the detection or engagement of misconduct. Following the framework proposed by Wang (2013), factors influencing the likelihood of detection are divided into two types: those that can be foreseen when a firm decides to engage in financial misconduct (ex ante), and those that only become relevant or observable after the misconduct has taken place (ex post). Specifically, ex ante factors include *Size* (measured as the natural logarithm of total assets), *Age* (years since firm being listed), and *Main Bank* (number of transactions with the firm's primary bank), reflecting the notion that that firms subject to more predictable scrutiny face a higher risk of exposure. In contrast, ex post detection factors capture the influence of unforeseen shocks that may prompt external investigation. These include *Abnormal ROA* (deviation of firm ROA from its industry-year average), *Disastrous Stock Return* (an indicator for whether the firm is among bottom 10% of all the firm-year return observations), and *Abnormal Return Volatility* (measured as the standard deviation of monthly stock returns within the year), capture the impact of unforeseen shocks that may trigger investigation. For the analysis of misconduct engagement, the model also includes two groups of explanatory variables (Wang, 2013): (1) the ex ante detection factors described above (*Size*, *Age*, *Main Bank*), which shape firms' expectations of being caught and thus the perceived cost of wrongdoing; and (2) incentive variables that capture potential gains from engaging in misconduct, including ROA (return on assets), *Growth* (annual sales growth), *Lev* (total debt divided by total assets), *Board Ownership* (proportion of shares held by board members), *External Financing* (ROA/(1–ROA), following Demirgüç-Kunt & Maksimovic, 1998), and *Dependence on Borrowing* (measured as short-term debt over total assets). This comprehensive specification allows the model to simultaneously estimate the determinants of both the likelihood of engaging in misconduct and the likelihood of that misconduct being detected.

Table 1 Summary Statistics

VarName	Obs	Mean	SD	Min	Median	Max
Y	15965	0.0150	0.122	0.00	0.00	1.00
FOB	15965	0.3103	0.463	0.00	0.00	1.00
Negative_PRA	15965	1.3426	3.731	0.00	0.00	121.33
ROA	15965	5.5756	8.006	-113.56	5.30	80.65
Lev	15965	2.2685	14.477	-1857.49	1.88	367.09
Board Ownership	15965	0.0723	0.126	0.00	0.02	2.77
External Financing	15965	-1.2227	3.895	-101.00	-1.18	99.00
Growth	15965	4.6579	28.434	-97.30	2.61	2012.50
Dependence on Borrowing	15965	18.6169	17.462	0.00	14.38	106.62
Size	15965	10.7795	1.752	5.18	10.64	18.03
Age	15965	3.2581	0.770	0.69	3.26	4.30
Main Bank	15965	2.8860	2.393	0.00	3.00	16.00
Abnormal Return Volatility	15965	-0.0031	0.420	-13.02	-0.03	20.29
Abnormal ROA	15965	-0.0056	4.201	-99.48	0.06	64.82
Disastrous Stock Return	15965	0.1021	0.303	0.00	0.00	1.00

4. Results and Discussions

Table 2 presents the regression results analyzing the probability of misconduct and its detection in family-owned firms. Model (1) uses a standard Probit model, where the dependent variable is an indicator for whether a firm is involved in misconduct. The results show that family-owned businesses (FOB) are significantly less likely to engage in misconduct ($\beta = -0.148$, $p < 0.05$), seemingly consistent with the argument that family firms' long-term orientation and concern for socioemotional wealth discourage unethical behavior. By contrast, Model (2) applies a Bivariate Probit framework, which disentangles the likelihood of committing misconduct from the likelihood of being detected conditional on misconduct. In this specification, the coefficient for FOB is positive and highly significant in the misconduct equation ($\beta = 2.184$, $p < 0.01$), suggesting that family-owned firms may actually have a higher underlying propensity to engage in misconduct when controlling for detection. However, the coefficient on FOB in the detection equation is strongly negative ($\beta = -1.870$, $p < 0.01$), indicating that misconduct in family firms is significantly less likely to be detected. This supports H1b and may reflect greater information opacity, tighter control over internal oversight, or stronger influence over external monitors. Taken together, these findings show that while family firms may appear compliant in simple Probit models, once detection bias is accounted for, their misconduct propensity could be higher but effectively concealed.

Table 2 Probability of misconduct and misconduct detection in family-owned firms

	Probit	Bivariate Probit	
	Y	P (Misconduct)	P (Misconduct | Detect)
FOB	-0.148**	2.184***	-1.870***
	(-2.192)	(4.715)	(-3.558)
Negative PRA	0.003	0.002	
	(0.270)	(0.223)	
ROA	0.006	0.006	
	(1.182)	(0.768)	
Lev	0.003	0.002	
	(0.338)	(0.257)	
Board Ownership	0.412*	0.408	
	(1.688)	(0.989)	
External Financing	0.002	0.002	
	(0.186)	(0.211)	
Growth	-0.000	-0.000	
	(-0.276)	(-0.275)	
Dependence on Borrowing	-0.000	-0.003	
	(-0.205)	(-0.931)	
Size	0.010	-0.258***	0.230**
	(0.511)	(-2.943)	(2.255)
Age	0.087*	0.406***	-0.357***
	(1.712)	(2.855)	(-2.764)
Main Bank	0.065***	-0.141***	0.171***
	(5.474)	(-2.716)	(5.406)
Abnormal Return Volatility	0.194**		0.079
	(2.141)		(0.816)
Abnormal ROA	-0.015*		-0.010
	(-1.914)		(-0.993)
Disastrous Stock Return	0.151*		0.126
	(1.785)		(0.958)
_cons	-3.026***	1.461	-1.966**
	(-10.567)	(1.195)	(-2.063)
N	15965	15965	
Industry FE	Yes	No	
Year FE	Yes	No	
Wald Chi2	176.32	177.29	
Log Likelihood	-1073.1377	-1132.7809	

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Turning to Table 3, the analysis focuses on how family involvement on the board (*Family on Board)* influences both the likelihood of misconduct and its detection within family-owned firms. Model (1), estimated using a Probit specification, shows that family board participation is associated with a significantly lower likelihood of observed misconduct ($\beta = -1.388$, $p < 0.1$). This negative relationship may initially appear to support the notion that board-level family oversight discourages unethical behavior, perhaps due to reputational concerns or long-term stewardship motives. However, Model (2), which employs a Bivariate Probit approach to jointly estimate the likelihood of misconduct and the conditional probability of detection, reveals a more complex dynamic. Specifically, the coefficient for Family on Board in the misconduct equation is positive but not statistically significant ($\beta = 4.882$), while the coefficient in the detection equation is negative and statistically significant ($\beta = -2.391$, $p < 0.05$). This suggests that while family representation on the board does not significantly affect the underlying propensity to commit misconduct once unobserved detection bias is controlled for, it substantially reduces the likelihood of that misconduct being detected. These findings partially support H2b but not H2a, especially in emphasizing the role of detection bias in interpreting misconduct outcomes in family firms.

Table 3 Effect of family involvement on board on probability of misconduct and misconduct detection in family-owned firms

	Probit	Bivariate Probit	
	Y	P (Misconduct)	P (Misconduct | Detect)
Family on Board	-1.388*	4.882	-2.391**
	(-1.740)	(0.482)	(-2.492)
Negative PRA	0.004	-0.101	
	(0.251)	(-0.851)	
ROA	-0.005	0.122	
	(-0.453)	(0.964)	
Lev	0.007	0.009	
	(0.382)	(0.179)	
Board Ownership	0.293	7.722	
	(0.696)	(1.218)	
External Financing	0.004	0.021	
	(0.259)	(0.299)	
Growth	-0.002	0.002	
	(-0.555)	(0.123)	
Dependence on Borrowing	0.015***	0.109	
	(4.329)	(1.131)	
Size	0.107***	2.554**	-0.250***
	(2.657)	(2.392)	(-3.114)
Age	-0.160	-2.405	0.292*
	(-1.449)	(-1.642)	(1.819)
Abnormal Return Volatility	0.011		0.047
	(0.033)		(0.127)
Abnormal ROA	-0.007		-0.009
	(-0.525)		(-0.532)
Disastrous Stock Return	0.060		0.105
	(0.356)		(0.570)
_cons	-2.526***	-24.007	0.337
	(-4.610)	(-1.186)	(0.447)
N	4853	4853	
Industry FE	Yes	No	
Year FE	Yes	No	
Wald Chi2	74.65	35.37	
Log Likelihood	-259.55528	-274.47994	

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

5. Conclusion

This study investigates how family ownership and family board involvement influence

accounting misconduct and its detection in Japanese firms. The findings reveal a nuanced picture of family governance. On the one hand, family ownership appears to reduce the observed incidence of accounting misconduct, aligning with the idea that family-controlled firms prioritize long-term reputational capital and socioemotional wealth preservation. However, once the potential for detection bias is accounted for using a bivariate probit model, the results suggest that family-owned firms may actually have a higher latent propensity for misconduct—yet are significantly less likely to have such misconduct detected. This dual finding highlights the importance of separating misconduct occurrence from detection and raises concerns about the potential for concealment in family firms. Further insights emerge when examining family involvement at the board level. While the Probit model suggests that greater family presence on the board reduces observed misconduct, the bivariate model indicates no significant effect on misconduct propensity, but a robust negative effect on the probability of detection. These findings imply that family members in key governance positions may suppress external visibility of wrongdoing, whether through informal control, reduced transparency, or weakened oversight mechanisms. Taken together, the results challenge the simplistic view of family governance as uniformly beneficial and underscore the need to consider detection bias when evaluating ethical outcomes in family firms.

Nonetheless, limitations remain. The measure of detection relies on observed instances, and undetected misconduct—by definition—escapes direct observation. While the modeling strategy accounts for this partially, further research could incorporate alternative indicators such as abnormal accruals, whistleblower events, or forensic accounting flags to better capture hidden misconduct. Future work should also explore heterogeneity within family firms—such as founder vs. heir dynamics or generational transitions—to deepen our understanding of when and how family governance serves as a safeguard or a screen for misconduct.

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The Dual-Edged Role of Family Control in Accounting Misconduct: Empirical Evidence from Japan

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Abstract: Accounting misconduct remains a pervasive challenge in corporate governance. This study investigates how family ownership and board-level family involvement influence both the occurrence and detection of accounting misconduct in listed Japanese firms. Drawing on agency theory and the socioemotional wealth (SEW) perspective, and using data from 2015 to 2022, I apply a partially observable Bivariate Probit model to disentangle the latent processes of misconduct and its detection. Results reveal that while family ownership is associated with a lower observed incidence of misconduct, it also reduces the probability of detection. When controlling for detection bias, the underlying propensity for misconduct in family-owned firms appears higher, suggesting that concentrated control may enable opportunistic behavior while simultaneously concealing it. Moreover, family representation on the board further suppresses the likelihood of detection without significantly altering the underlying misconduct risk. These findings highlight the dual role of family governance as both risk-enhancing and risk-concealing. From a SEW perspective, families may prioritize legacy and internal harmony over transparency, thereby shielding wrongdoing from external scrutiny. This study underscores the importance of separating misconduct occurrence from its observability and cautions against relying solely on detected cases when evaluating ethical outcomes in family firms.

Keywords: Accounting Misconduct; Family Business; Family Ownership; Corporate Governance; Socioemotional Wealth