

Long-term Impact of Chinese Family Businesses on Earnings Management under the Sustainable Business Concept

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Abstract: This study aims to delve into the long-term impact of Chinese family businesses on earnings management under the framework of sustainable business practices. Considering the significant role of family businesses in the global economy, this paper focuses on the criticality of their earnings management strategies to economic stability. Employing an in-depth case study methodology, the paper analyzes several successful family businesses to explore the practical implications of sustainable business models on earnings management. The research reveals that integrating the concept of sustainable business into corporate culture and orienting towards long-term development can balance short-term gains with long-term sustainability, thereby fostering the robust growth of the enterprise. The conclusions of this paper emphasize the need for family businesses to concentrate on collective efforts in areas such as social responsibility, innovation upgrading, transparency, and effective communication to achieve long-term and stable development. This study provides practical guidelines for sustainable business strategies tailored for Chinese family businesses, aiming to create more favorable conditions and establish a solid foundation for future long-term development.

Keywords: Family Business, Sustainable Business, Earnings Management, Social Responsibility, Innovation Upgrading

1. Introduction

In the thriving landscape of family businesses in China, earnings management, as a core issue in financial management, has garnered significant attention. This study aims to explore the long-term impact of sustainable business practices on earnings management in Chinese family businesses. As vital components of the global economy, the earnings management strategies of family businesses hold substantial importance for economic stability. Through a review of existing literature, this paper delves into the guiding role of sustainable business theory in family businesses and the motivations they face in earnings management. The research methodology employs an in-depth case study approach, analyzing cases from several successful family businesses to investigate how sustainable business models influence earnings management. This study seeks to provide a reference for sustainable business strategies for Chinese family businesses, aiming to strike a balance between short-term gains and long-term sustainability, thereby promoting the robust development of

enterprises. Simultaneously, it synthesizes successful experiences of family businesses in sustainable business practices, contributing valuable insights for the global academic community.

2. Literature Review

As the global economy evolves, family businesses hold a significant position within China's economic system. Through a literature review, this paper thoroughly explores the impact of sustainable business practices on earnings management in family businesses. In the realm of sustainable business theory, Porter and Kramer introduced the concept of shared value, emphasizing positive interactions between businesses and society [1]. This theory provides guiding principles for family businesses to integrate social responsibility into their operational decision-making. Additionally, Dyllick and Hockerts assert that sustainable business extends beyond environmental concerns, encompassing social and economic dimensions, and holds crucial significance for family businesses in achieving long-term economic value [2].

Regarding the characteristics and challenges of family businesses, Ma Jun, Huang Zhilin, and He Xuan emphasize the importance of the family control structure in family businesses, determining the significance of a long-term perspective in decision-making [3]. Gedajlovic and Carney highlight the unique nature of family businesses compared to non-family businesses, especially in decision-making and transactions [4]. Family businesses tend to focus more on long-term development and family interests, leading to potential differences in transactional decisions compared to non-family businesses. With the continuity of family business succession, Bertrand and Schoar suggest that family businesses prioritize family reputation and long-term stability more than non-family businesses, reflected in more cautious financial decisions in earnings management [5].

In terms of the concept and motivation of earnings management, Dechow et al. elaborate on the multifaceted motivations behind earnings management, including tax avoidance, contractual costs, and shareholder supervision [6]. In family businesses, Anderson and Reeb found that family businesses tend to use earnings management to balance the relationship between family interests and corporate interests, distinguishing them from non-family businesses [7].

Concerning the impact of earnings management on family businesses, LaPorta et al. find a significant association between the legal environment of family businesses and earnings management [8]. They argue that in a relatively weak legal environment, family businesses are more likely to use earnings management to safeguard family interests. Furthermore, family business earnings management is directly related to company performance [9]. By adjusting earnings, family businesses can implement more flexible operational strategies, enhancing their long-term competitiveness.

In summary, scholars have conducted in-depth research on sustainable business, the characteristics of family businesses, the concepts and motivations behind earnings management, and the impact of earnings management on family businesses. However, there is currently no comprehensive study that examines the impact of earnings management in the context of sustainable business for family businesses. Therefore, this study will employ an in-depth case study approach, integrating the theoretical framework mentioned above, to comprehensively analyze how family businesses, under the influence of sustainable business practices, shape and guide earnings management. This research aims to provide robust support for the long-term and stable development of family businesses.

3. Theoretical Foundation

3.1. Family Businesses

Family businesses are enterprises collectively owned and operated by family members. These businesses often involve the inheritance of ownership within the family, with management and

decision-making authority typically held by family members. Family businesses play a significant role globally, contributing significantly to economic development and employment creation in various countries and regions.

Characteristics and Key Concepts:

- 1. Ownership Structure: Ownership in family businesses is primarily held by family members, often spanning multiple generations. The ownership structure may include founders, successors, and other family members.
- 2. Governance Structure: The governance structure of family businesses involves internal decision-making and management mechanisms within the family. This may include family councils, boards of directors, and specific family charters and regulations.
- 3. Succession and Continuity: Family businesses often deal with succession and continuity issues. Succession planning and transition strategies are crucial for ensuring smooth transitions between family members.
- 4. Family Culture and Values: Family businesses often have unique cultures and values that profoundly influence operational decisions, including earnings management, social responsibility, and more.
- 5. Long-Term Perspective: Compared to non-family businesses, family enterprises typically emphasize long-term development and sustainability. This is reflected in earnings management, investment decisions, and overall corporate strategy.
- 6. Strengths and Challenges: Family businesses have their strengths, such as stronger family cohesion and faster decision-making, but also face challenges like internal conflicts, succession issues, and the need for professionalization.
- 7. Internationalization and Innovation: Some family businesses excel in internationalization and innovation, maintaining competitiveness in the global market through these avenues.

Understanding the characteristics of family businesses is crucial for researching their impact on sustainable business practices and earnings management. These features influence strategic decisions, governance structures, and corporate culture, shaping the long-term development paths of these enterprises.

3.2. Sustainable Business

Sustainable business is a management philosophy aimed at balancing economic profit with social, environmental, and governance responsibilities to ensure the long-term health and stability of a business. This concept emphasizes the importance of long-term profits, social responsibility, environmental sustainability, transparency, and effective communication. Businesses need to fulfill social responsibilities by actively participating in social projects and supporting charitable causes while also focusing on reducing environmental impact and enhancing production efficiency. Transparency and effective communication support the implementation of sustainable business strategies, while innovation and technological upgrades are essential for adapting to market changes and improving competitive advantages. Overall, sustainable business, by balancing short-term gains with long-term sustainability, promotes the dual success of economic benefits and social responsibility, creating sustainable corporate value for the future.

3.3. Earnings Management

Earnings management is a key concept in financial management, involving how a company manages its earnings to influence the net income presented on financial statements. This process aims to maximize shareholder equity, increase company valuation, or meet other specific financial goals.

Key Points on Earnings Management

- 1. Conscious Adjustment: Earnings management involves the deliberate adjustment of financial statements to achieve specific goals or influence external stakeholders' perceptions.
- 2. Legitimacy and Compliance: Earnings management can be legal, such as through the reasonable adoption of different accounting policies to comply with regulations. However, if it aims to mislead investors, conceal true financial conditions, or evade regulations, it may raise compliance issues.
- 3. Short-Term vs. Long-Term Earnings Management: Short-term earnings management focuses on influencing earnings in the short term, typically oriented towards achieving short-term goals. In contrast, long-term earnings management emphasizes using sustainable strategies to impact future earnings, supporting the company's long-term sustainability.
- 4. Market Reaction: Earnings management can affect a company's market value, but market reactions to earnings management can sometimes be negative as they may undermine investor trust in the company's true financial condition. Therefore, transparency and information disclosure become crucial in earnings management.
- 5. Impact of Governance Structure: The company's governance structure, especially the independence and effectiveness of the board of directors, can significantly influence earnings management. A healthy governance structure helps prevent potential improper earnings management practices.

4. Implications of sustainable Business for Earnings Management

The concept of sustainable business aims to balance the interests of the economic, social, and environmental dimensions, providing a comprehensive strategic framework for enterprise development. In family businesses, sustainable business is not only a form of corporate social responsibility but also an ideology shaping the long-term development strategy of the enterprise. This section will delve into how sustainable business practices influence earnings management in Chinese family businesses, further driving the enterprises towards a win-win situation for economic, social, and environmental aspects.

Firstly, the core influence of sustainable business on earnings management lies in its long-term perspective. Family businesses, often rooted in a tradition of succession, prioritize the long-term interests of the family in their business decisions. The sustainable business ideology emphasizes a long-term balance between the economic, social, and environmental aspects, making it easier for family businesses to adjust earnings to support operational decisions aligned with sustainable development goals. Compared to short-term profit pursuits, family businesses are more willing to accept a reduction in short-term profits in exchange for long-term sustainable operations and an enhanced reputation.

Secondly, sustainable business principles guide enterprises to emphasize social responsibility in earnings management. In traditional business models, earnings management often prioritizes maximizing shareholder value, while sustainable business emphasizes the positive impact businesses should have on society and the environment. Therefore, family businesses, guided by sustainable

principles, are more inclined to consider social responsibility in earnings distribution. Through investments in community projects, improving employee welfare, and other means, family businesses contribute positively to society through economic activities. This socially responsible approach to earnings management helps maintain a positive image for the enterprise in society, enhance brand reputation, and establish a solid foundation for long-term development.

Furthermore, the sustainable business ideology prompts family businesses to strategically adjust to changing societal needs. Faced with changes in the social environment, consumer demands, and regulations, family businesses, driven by sustainable business principles, adjust their operational strategies, thereby influencing the priorities in earnings management. For instance, by investing in green technologies and promoting the development of eco-friendly products, family businesses can better adapt to the requirements of sustainable development, lead industry trends, and enhance market competitiveness.

Finally, a clear demonstration of how sustainable business affects earnings management can be seen through case studies. For example, a family business introduces renewable energy projects to reduce reliance on traditional energy sources. While this may impact short-term earnings, the long-term perspective showcases improved environmental sustainability, reduced future operational risks, and a positive interaction between sustainable business practices and earnings management.

In summary, sustainable business, by guiding family businesses to view earnings management from a long-term perspective, emphasizing social responsibility, and adjusting strategies to adapt to changing societal environments, provides a beneficial management ideology. This simultaneously imparts a deeper meaning of social responsibility and environmental sustainability to earnings management for family businesses.

5. Case Analysis of Successful Family Businesses

To gain a deeper understanding of how sustainable business practices influence earnings management in family enterprises, this study conducts case analyses of some successful family businesses. It explores how these enterprises achieve a balance in earnings management within the framework of sustainable business practices, leading to long-term and robust development.

5.1. Case One: Washington Group

The Washington Group is a family business primarily engaged in real estate and the hotel industry, successfully practicing the principles of sustainable business over the long term. This enterprise emphasizes social responsibility by investing in community projects, and providing employee training and development programs, thus establishing a strong corporate reputation. In terms of earnings management, the Washington Group adopts a long-term perspective, allocating earnings towards the sustainable development of real estate projects, including green buildings and eco-friendly facilities. This strategy not only enhances the competitiveness of the business in the market but also ensures the long-term profitability of the family enterprise.

5.2. Case Two: Pearl Food Group

The Pearl Food Group is a family business focused on food processing and sales, with sustainable business as one of its core values. To meet the societal demand for healthy food products, the enterprise invests significantly in researching and developing organic, additive-free foods, and is committed to promoting a healthy diet philosophy. In terms of earnings management, the Pearl Food Group allocates earnings to improve product quality and food safety standards, meeting the growing consumer demand for healthy products. This strategy not only enhances the brand value of the

business but also earns consumer trust in the market, creating long-term profit potential for the enterprise.

5.3. Discussion of the two cases

These two cases illustrate that family businesses, when practicing the principles of sustainable business, successfully integrate them into the decision-making process of earnings management, achieving a dual success in economic benefits and social responsibility. By focusing on social responsibility, adopting a long-term perspective, and enhancing product quality, these enterprises not only elevate their competitiveness but also establish a positive image in the market, laying a solid foundation for long-term sustainable development.

It is noteworthy that the earnings management in these successful cases is not merely sacrificing short-term gains. Instead, through long-term investments under the principles of sustainable business, a harmonious integration of earnings management and social responsibility is achieved. This provides valuable insights for other family businesses, enabling them to better balance short-term and long-term interests in earnings management, creating a virtuous cycle of sustainable business practices and earnings management.

6. Recommendations for Sustainable Business Strategies for Chinese Family Businesses

In the current economic landscape, Chinese family businesses face the dual challenges of increasing market competition and social responsibility. To achieve long-term and robust development, the following recommendations are provided to guide Chinese family businesses in formulating and implementing sustainable business strategies.

6.1. Strengthening the Sustainability of Family Business Culture

It is recommended that family businesses actively promote and strengthen their unique family culture, integrating the principles of sustainable business into the company's values and operational philosophy. By establishing a strong family business culture, resonance can be formed within the organization, enabling all members to better understand and embrace the principles of sustainable business. This not only contributes to enhancing employees' identification with the company's mission but also encourages family businesses to prioritize long-term interests in their operations.

6.2. Developing Long-Term Strategic Planning

Family businesses should formulate clear, long-term strategic plans, considering sustainable business as a core component of their strategy. This entails setting explicit sustainable development goals at the decision-making level and incorporating them into various aspects of corporate strategy. Through the development of long-term plans, family businesses can better adapt to external environmental changes, balance short-term and long-term earnings management objectives, and achieve synergistic growth in economic benefits and social responsibility.

6.3. Enhancing Social Responsibility Awareness

Sustainable business emphasizes a business's positive contributions to society and the environment, beyond profit-making. Therefore, it is advised that family businesses actively engage in social responsibility activities, such as supporting charitable endeavors and participating in environmental projects. By fulfilling social responsibilities, family businesses not only enhance their image in society but also establish a more robust network of social relationships, laying a solid foundation for future sustainable business practices.

6.4. Introducing Innovation and Technological Upgrades

Sustainable business involves not only the practice of social responsibility but also innovation in internal operations and products. It is recommended that family businesses increase investments in research and development and technological upgrades, introducing more environmentally friendly and efficient production processes and management systems. Through continuous innovation, family businesses can enhance product competitiveness, reduce resource consumption, and achieve a win-win situation in earnings management and sustainable business.

6.5. Improving Corporate Transparency and Communication

Transparency and effective communication are integral components of sustainable business. It is advised that family businesses enhance the transparency of their business activities by providing clear financial reports, social responsibility reports, and other means to convey the status of the company's sustainable development to stakeholders. Additionally, establishing open communication channels with employees, customers, suppliers, and other stakeholders facilitates information sharing and interaction. This helps build trust relationships, enhance the company's image, and enable family businesses to better integrate into society and the market.

Against the backdrop of China's continuous economic development, family businesses can better adapt to changing market environments and achieve dual economic and social benefits through the aforementioned sustainable business strategies. These recommendations aim to guide family businesses to adopt a long-term perspective, realizing strategic goals for sustainable business and creating more favorable conditions for future long-term development.

7. Conclusion

Through in-depth research and case analysis, this paper concludes that sustainable business strategies are pivotal for Chinese family enterprises to achieve long-term and robust development. Firstly, integrating sustainable business concepts into corporate culture is essential, emphasizing social responsibility, environmental protection, and long-term sustainability. Family enterprises should establish consensus within the family and make strategic decisions guided by clear planning. Secondly, adopting a long-term perspective is crucial for success, prioritizing investments in sustainable development, building a trustworthy image, and maintaining resilience during economic fluctuations. Thirdly, fulfilling social responsibility enhances sustainable operation. Enterprises should raise awareness, engage in community projects, support charitable causes, and cultivate a positive corporate image. Additionally, innovation and technological upgrades are vital. Introducing advanced technologies, fostering R&D innovation, improving product quality, and reducing environmental impact contribute to economic benefits and sustainability. Finally, transparency and effective communication are indispensable. Strengthening stakeholder communication, enhancing business transparency, attracting partners, and promoting sustainable development are recommended.

In summary, family enterprises need to make joint efforts in cultural construction, strategic planning, social responsibility, innovation and technological upgrades, and transparent communication. By achieving a balance in these aspects, family enterprises can take solid steps towards sustainable business, achieving a win-win situation for economic benefits and social responsibility, and creating sustainable corporate value.

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