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The Relationship between the Extent of Family Participation in Corporate Governance and Audit Fees in China

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Abstract

The previous studies focusing on audit fees of family firms have been well developed, but they fall short of looking into the reasons and factors behind the relationship between family firms and external audit fees. Thus, the main purpose of this dissertation is to explain how family participation in corporate governance affects audit fees in family firms in China. This dissertation firstly finds that a higher extent of family participation in corporate governance can mitigate both Type I and Type II agency problems. Secondly, the results support the notion that both Type I and Type II agency costs are positively correlated with audit fees. Thirdly, a negative association between the extent of family participation in corporate governance and audit fees is found. The contribution of this dissertation is to find that though family firms tend to face more serious Type II agency problems as claimed by previous papers, among Chinese family firms, family participation in corporate governance can mitigate both Type I and Type II agency problems, and thus reduce the audit fees. That is because, under kinship culture background, Chinese family members tend to protect family interests instead of benefiting themselves, when more family members are aligning their non-pecuniary benefits with the interests of the firms.

Keywords: Family governance, Agency costs, Audit fees, China