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Tax aggressiveness in private family firms: An agency perspective

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ABSTRACT

This article investigates, from an agency perspective, whether private family firms, compared to private nonfamily firms, are more tax aggressive. Moreover, for private family firms, the effect of the extent of separation between ownership and management on tax aggressiveness is studied. Additionally, we verify whether effective board monitoring moderates this relationship. Using Finnish survey data, results show that private family firms are less tax aggressive than nonfamily firms. For the subsample of private family firms, firms with a lower CEO ownership share are more tax aggressive whereas the presence of an outside director in their board mitigates this direct effect.

Introduction

Accounting practices in (private) family firms are rarely studied (Salvato & Moores, 2010), even though "accounting research is one of the eldest business disciplines and family business represents the prevalent form of economic organization in the world" (Songini, Gnan, & Malmi, 2013, p. 71). With respect to the accounting topic of our study, tax aggressiveness, current scant literature mainly focuses on public family firms and how their use of tax aggressiveness differs from public nonfamily firms (for example Chen, Chen, Cheng, & Shevlin, 2010). Whether tax aggressiveness also prevails within private family firms and how this tax aggressive behaviour can differ within the heterogeneous group of private family firms remains unstudied.

However, private family firms are characterized by an entanglement of the family throughout the organization which affects the nature and extent of agency conflicts within the family firm and is expected to affect the management's tax aggressive behaviour. Tax aggressiveness is defined as downward management of taxable income through tax planning activities which can be legal or illegal or may lie in between (Frank, Lynch, & Rego, 2009). Recent evidence shows that management engaging in tax aggressive activities to minimize tax payment is becoming an increasingly common feature of the corporate landscape around the world (Lanis & Richardson, 2011). Desai and Dharmapala (2006) indicate that the analysis of a tax aggressiveness decision is embedded in an agency framework in which managers can enjoy private benefits of control at the expense of other shareholders. As the CEO plays an economically significant role in determining the level of tax avoidance that firms undertake, the CEO is the key driver of corporate behaviour (Dyreng, Hanlon, & Maydew, 2010; Hambrick & Mason, 1984; Zona, Minoja, & Coda, 2013). To determine the level of tax aggressiveness a family firm decides to engage in, the CEO will trade off the marginal benefits against the marginal costs of managing taxes (Molero & Pujol, 2012).

For private family firms, the benefits do not only include the tax savings. Critical characteristics of tax aggressive activities are complexity and obfuscation. Such a complexity can allow the CEO to mask any kind of rent extraction vis-à-vis the other shareholders (for example perquisite consumption and excessive salaries). This rent extraction can be considered as agency costs for the firm. On the cost side, the CEO has to take into account the time that has to be invested to implement the tax evasion measures, not only the possible penalty from tax authorities harming his own reputation, but also the possible damage to the firm's reputation and family's socioemotional wealth (SEW) which is a key noneconomic reference point for decision making (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010). SEW represents noneconomic goals (Chrisman, Chua, Pearson, & Barnett, 2010) such as preservation of the family dynasty and perpetuation of family values through the business that meet the family's affective needs (Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007). Private family firms have a much longer investment horizon and greater reputation concerns (Gedajlovic & Carney, 2010) indicating that they do not only have financial goals. If the family firm engages in

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tax aggressive behaviour, reputational damage cannot only occur due to tax-penalties, reported upon in the press, but also due to the aggressive usage of legal measures that corporations take to avoid taxes. Tax returns of all companies and individuals are public information in Finland, the context of our study. When this information is released by the tax authorities, the press can publish the information as well as investigate any deviations from the norm. However, given the large amount of private Finnish firms, this will not occur systematically.

Chen et al. (2010) indicate that our understanding of the determinants of tax reporting aggressiveness is limited. This literature is relatively young and therefore, most studies have only examined firm specific determinants using a number of proxies such as firm size, leverage, scale of operations... without much examination of executives and their incentives (Hanlon & Heitzman, 2010). Shackelford and Shevlin (2001), Scholes, Wolfson, Erickson, Maydew, and Shevlin (2005) and Desai and Dharmapala (2006) call for more research of tax management in the presence of agency conflicts. Based on Chen et al. (2010) who study the impact of public family ownership on tax aggressiveness, we investigate from an agency perspective whether private family firms, compared to private nonfamily firms, are more or less eager to engage in tax aggressive behaviour. Moreover, we will study whether the extent of separation between ownership and management, affecting the extent of agency problems, will also affect tax aggressive behaviour. Additionally, we extend prior knowledge by studying how effective monitoring by a board of directors may mitigate the agency problems arising from separation between ownership and control, resulting in tax aggressive behaviour.

In our study, we use Finnish data as Finland belongs to the group of high tax alignment countries like for example France and Spain (Van Tendeloo & Vanstraelen, 2008). High tax alignment means that there is a high alignment between financial reporting and tax accounting. While the general rule is that all the revenues and expenses have to be reported identically in the tax returns and the official financial statements, there are some exceptions. These can be applied in family as well as nonfamily firms. According to Atwood, Drake, Myers, and Myers (2012) tax aggressive strategies can be defined as those that create permanent or temporary book-tax differences as well as those that create no differences. As for permanent tax avoiding strategies on the revenue side, the most important exceptions are that revenues received from the sale of shares listed in the firms permanent assets and dividends received from other companies are tax exempt. This has led to a situation, where setting up group structures has become a popular tax planning mechanism. When it comes to permanent tax avoiding strategies on the expense side, a few types of expenses are not tax deductable. These expenses include fines, penalties, and bribes. As for temporary tax-avoiding strategies, Finnish firms can also make use of a depreciation reserve and depreciation adjustment (see for example Niskanen & Keloharju, 2000). When companies make investments, they decide on a planned schedule for depreciations. Every year, they can then decide (within the limits allowed in the tax laws) to depreciate more or less than planned. If they depreciate less, they accumulate tax reserves, which are reported in the balance sheet. This can then be used in later years to reduce the amount of profits and the amount of taxes paid. An additional way to avoid tax payments in open European economies such as Finland is to set up subsidiaries in countries with lower tax rates or to channel some of the operations through countries with lower tax rates.[1]

[1] Recent evidence suggests that for example a Finnish-Swedish Pulp- and Paper company StoraEnso has avoided approximately 50 million EUR in taxes by channeling its pulp-sales through the Netherlands (Finér, Laine, & Ylönen, 2012).

So, contrary to low tax alignment countries such as the US, tax aggressive behaviour becomes visible in the financial statements of firms in high tax alignment countries. Consequently, tax aggressive behaviour has a real impact for firms in high alignment countries: the firm's real economic performance may not become visible in their financial reports due to tax aggressive behaviour. This may make it very difficult for shareholders and other stakeholders to understand and value the true economic performance of the firm. Therefore, studying the determinants of tax aggressiveness in the context of high tax alignment countries is very important.

Our article contributes to the literature in several ways. First, our study is the only study focusing on tax aggressiveness in a private family firm context. Prior research generally focuses on differences in firms' tax reporting between private and public firms (e.g. Beatty & Harris, 1999; Mills & Newberry, 2001) or between public family firms versus nonfamily firms (for example Chen et al., 2010). We focus only on private (family) firms because specific agency problems in private family firms make us eager to believe that there are different agency problems within the heterogeneous group of private family firms leading to differences in tax aggressiveness. Additionally, we take into account the socio-emotional wealth perspective which complements the agency view. Moreover, previous studies only investigate the direct effect of board monitoring on tax aggressive behaviour (e.g. Lanis & Richardson, 2011; Minnick & Noga, 2010). In this article, we study the moderating effect of board monitoring, which can shed a new light on this stream of literature. Additionally, the existing literature on tax aggressiveness is dominantly US based (which is a low tax alignment country) and does not necessarily translate to other high tax alignment countries such as Finland.

This article proceeds as follows. In the next section, the theoretical underpinnings are discussed and hypotheses are derived. In section 'Data and variables', the dataset and variables are discussed. Section 'Results' presents our results and section 'Discussion and conclusion' highlights the major conclusions and implications.

Literature review and hypotheses development

According to traditional agency theory, the privately, family owned and managed firms are often considered as a low agency cost case (Fama & Jensen, 1983; Jensen & Meckling, 1976). Family members would be more likely to behave altruistically. Parental altruism is a utility function in which the welfare of parents is positively linked to the welfare of their children. Altruism may have several beneficial effects such as the creation of a self-reinforcing system of incentives encouraging family members to be considerate of one another (Schulze, Lubatkin, & Dino, 2003a) and the enforcement of incentives to communicate and cooperate with each other (Van den Berghe & Carchon, 2003). When a firm is owned solely by a single owner-manager, it can even be considered as a zero agency cost case (Ang, Cole, & Lin, 2000).

However, by (partially) separating ownership from management in private family firms, agency costs may arise due to information asymmetries and strains on the limits of bounded rationality among family owners. The interests of owner(s) and manager(s) may not be completely aligned: the ability of the CEO to act in his own interests at the expense of (other) family firm owners will increase (Chua, Chrisman, & Sharma, 2003). Engaging in tax aggressive behaviour by the CEO may be a reflection of this shareholder-manager agency problem (Hanlon & Heitzman, 2010).

Engaging in tax aggressive activities is accompanied by costs and benefits within the context of private family firms. As Dyreng et al. (2010) indicate that the CEO plays an economically significant role in determining the level of tax avoidance that firms undertake, we take the perspective of the CEO in studying the costs and benefits of tax aggressive behaviour that determine the actual extent of tax aggressiveness. CEOs are generally not tax experts but they set the tone at the top, which may explain their role in a firm's level of tax aggressiveness (Huseynov & Klamm, 2012).

Chen et al. (2010) provide an overview of these costs and benefits in public firms. On the benefit side, the direct tax savings are included which benefit all shareholders. Moreover, the complexity and obscure nature of tax aggressiveness may allow the CEO to mask or hide any kind of rent extraction activities (for example perk consumptions and excessive compensation). On the cost side, the firm risks a potential penalty by the tax authorities. Moreover, if other shareholders perceive tax aggressive behaviour as a way to mask rent extraction, a price discount will be imposed on the firm's shares.

However, with respect to private family firms, we argue that the costs may differ from those of public firms. First, contrary to public firms (Chen et al., 2010), this rent extraction and other perquisite consumption behaviour by the CEO (Anderson & Reeb, 2003; Schulze et al., 2003a), will not be punished by the shareholders by a price discount of the shares because private ownership lacks disciplining of the market for corporate control. Moreover, the lack of external discipline increases the likelihood that information asymmetries will develop vis-à-vis, for example, outside shareholders (Lubatkin, Schulze, Ling, & Dino, 2005). Additionally, previous studies indicate that CEO turnover is significantly lower in family firms, indicating that possible rent extraction is less likely to be punished by the shareholders (Tsai, Hung, Kuo, & Kuo, 2006). Secondly, since private family firm owners are underdiversified and have their wealth tied disproportionately to their firms (Anderson, Mansi, & Reeb, 2003), any penalty from the tax authorities is more likely to be substantial to them. Thirdly, there is the possible damage caused to the CEO's reputation but especially the firm's reputation (Dyer & Whetten, 2006). Due to the large equity ownership by the family, private family firms have a much longer investment horizon and greater reputation concerns compared to public firms or private nonfamily firms (Gedajlovic & Carney, 2010). They want to pass the firm onto the heirs and want to preserve the reputation of the family name (Berrone, Cruz, & Gomez-Mejia, 2012).

Therefore, by taking a socioemotional wealth perspective, we argue, based on Berrone et al. (2012) that family owners will frame problems and their decision making in terms of how the resulting actions will affect socioemotional wealth. Socioemotional wealth (hereafter SEW) refers to "the non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of family dynasty" (Gomez-Mejia et al., 2007, p. 106). This SEW model is in line with the proposition by Maciejovsky, Schwarzenberger, and Kirchler (2012) stating that the specific decision to engage in tax aggressive behaviour cannot be purely explained by economic variables. Family firms have been represented as a combination of two systems that overlap and interact: an emotion-oriented family system focussing on noneconomic goals and the results-oriented business system focussing on economic goals (Classen, Van Gils, Bammens, & Carree, 2012; Gersick, Davis, Hampton, & Lansberg, 1997). Therefore, family firms do not only have financial goals (for example reducing taxes) but also noneconomic goals (Chrisman et al., 2010), which help explain why family firms behave distinctively. Or as Berrone et al. (2012, p. 2) state: "gains or losses in SEW represent the pivotal frame of reference that family-controlled firms use to make ... policy decisions".

So, preserving the socioemotional wealth is itself a key goal in many private family firms (Stockmans, Lybaert, & Voordeckers, 2010). For example, Berrone et al. (2010) found that family controlled firms in polluting industries tend to contaminate less in order to enhance the family's image and protect SEW. Moreover, empirical evidence is available that suggests that because of strong identification with the firm's name and because public condemnation could be emotionally devastating for the family, family firms exhibit higher levels of community citizenship (Berrone et al., 2010) and take care to perpetuate the positive family image and reputation (Sharma & Manikuti, 2005).

Therefore, we argue that the CEO's behaviour in a family firm with respect to tax aggressiveness cannot be understood without taking into account noneconomic emotional aspects captured by the SEW perspective. Thus, we argue that, in general, private family and nonfamily firms can cope with agency problems where the CEO can react by engaging in tax aggressive behaviour. However, we hypothesize, based on the SEW perspective, that the component of commitment to the preservation of SEW, specific for (private) family firms, will outweigh the (agency) benefits of tax aggressive behaviour in private family firms. We therefore propose the following hypothesis:

Hypothesis 1. Private family firms exhibit a lower level of tax aggressive behaviour compared to private nonfamily firms.

As private family firms cannot be viewed as a homogeneous entity (Chrisman, Chua, & Sharma, 2005; Westhead & Howorth, 2007), specific family firm characteristics may influence their agency problems as well as their tendency to preserve SEW and resulting tax aggressive behaviour. Given the importance of the CEO as a key driver of corporate behaviour in this context (Dyreng et al., 2010) and the effect of the extent of separation between ownership and control on agency costs and the resulting tax aggressive behaviour, we take into account the CEO's ownership share.

If the CEO has a *high* ownership share, agency costs are expected to be low. Agency theory expects the agency costs to decrease when the CEO's ownership share increases. More specifically, it is assumed that the more shares he has, the less he will be inclined towards consuming perquisites to maximize their own utility as the fraction of the costs the CEO has to bear for consuming these perquisites is positively related with the percentage of ownership (Jensen & Meckling, 1976). So, in that case, the CEO bears many of the costs and receives nearly all of the benefits of any of his actions including tax aggressiveness (Fama & Jensen, 1983).

Moreover, referring to the SEW perspective, a CEO with a high ownership share is mainly worried by passing the firm to his children (Blanco-Mazagatos, de Quevedo-Puente, & Castrillo, 2007). According to Gomez-Mejia et al. (2007), a strong family CEO increases the focus on family goals and the persistence to protect SEW. They may be less eager to engage in rent extraction because this may harm the firm. Parental altruism gives the controlling owner/CEO incentive to take actions that they believe would benefit the nuclear family (Lubatkin et al., 2005; Blanco-Mazagatos et al., 2007). They tend to focus on family goals at the expense of other financial goals (Westhead, 2003). In addition, the emotional attachment to the firm and the self identification with the firm are strong leading them to do "the right thing" for the firm and the family (Gomez-Mejia et al., 2007; Schulze et al., 2003a). Therefore, we argue that the CEO will be less inclined to engage in tax aggressive activities because not only the avoidance of any penalty from the tax authorities is important, but also the negative publicity or loss of SEW are essential.

A CEO with a *lower* ownership share, usually arising due to succession of the firm over several generations, may be more inclined to engage in tax aggressive activities. First, agency costs are expected to increase. Family ties and altruistic feelings weaken and the family CEO with a low ownership share will often put the welfare of the own nuclear family before the wealth of the extended family (Karra, Tracey, & Phillips, 2006; Lubatkin et al., 2005). This low ownership share may reduce the motivation of

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descendant CEOs, which increases the incentive to act opportunistically because they bear only part of the cost of such an action. It may enhance rent extraction by the CEO leading to, for example, increased perquisite consumption and additional remuneration (Fama & Jensen, 1983). The shareholder-manager agency conflict becomes more prominent.

Moreover, the low CEO ownership share weakens the attachment of the family to the firm. The utility generated by the preservation of SEW decreases as the firm moves into later generational stages (Gomez-Mejia et al., 2007). Throughout generations, the focus shifts from family goals to a combination of family and business goals (Schulze, Lubatkin, & Dino, 2003b). Therefore, the firm reputation effect of tax aggressive behaviour and the incentive to preserve SEW turn to be of minor importance since the family ties have weakened and the intra family conflict may intensify (Miller & Le Breton-Miller, 2006).

If the CEO has *no* ownership share and is thus a professional nonfamily CEO, ownership and management are completely separated which may lead to significant shareholder-manager agency costs due to misalignment of incentives. Goals of manager (agent) and owner(s) (principal) can diverge because the nonfamily manager is not always familiar with the family goals or may choose other goals than those strived for by the family shareholders (Jensen & Meckling, 1976). He will have a more short term view compared to a family CEO (Miller & Le Breton-Miller, 2006). He will be more inclined to improve the financial results for the family shareholders and engage in tax aggressive activities, such as setting up group structures abroad. Since family firms are not eager to provide nonfamily managers with equity shares, they will be more likely to receive a salary or bonus based on their performance (Banghoj, Gabrielsen, Petersen, & Plenborg, 2010). Additionally, he may increase the free cash flow by engaging in tax aggressive behaviour by making use of depreciation reserves and adjustments, in order to invest in pet projects or pursue personal objectives (Jensen, 1986).

As nonfamily CEOs shift a firm's orientation towards short term financial goals (Classen et al., 2012), we expect them to be less concerned with penalties from the tax authorities or other long term implications with regard to firm reputation or SEW. In line with this reasoning, Gomez-Mejia et al. (2007) and Gersick, Lansberg, Desjardins, and Dunn (1999) state that nonfamily CEOs will pursue the SEW objectives less than family CEOs because personal attachment and self-identification with the firm is less strong in nonfamily managed firms. Nonfamily CEOs are brought in to provide objectivity and more rationality (Blumentritt, Keyt, & Astrachan, 2007). Their relationship with the firm is more distant, transitory and individualistic (Block, 2011). Therefore, only the potential personal reputation damage may withhold the nonfamily CEO from engaging in excessive tax aggressive behaviour. Contrary to a family CEO who holds a rather secure position in the firm, nonfamily CEOs can be laid off more easily, making them more concerned about their personal reputation on the market for corporate executives (Allen & Panian, 1982; Block, 2010). Based on all these arguments, we posit:

Hypothesis 2. Private family firms with a high CEO ownership stake exhibit a lower level of tax aggressive behaviour.

However, the board of directors may in several ways be an instrument to reduce shareholder-manager agency problems and restrict tax aggressive behaviour by the CEO. The link between the board of directors and tax aggressive behaviour is grounded in the agency view of corporate governance. According to this view, firm decision-makers may behave opportunistically by pursuing their own interest (Fama & Jensen, 1983; Jensen & Meckling, 1976). Therefore, agency theorists point at the instalment of a board of directors as an instrument to control the firm's decision-makers. A board of directors provides advice, counselling and networking, but also serves to align the interests of managers with shareholders interests so as to safeguard shareholders' interests (Johannisson & Huse, 2000). The board of directors is legally responsible for monitoring and evaluating senior management for the benefit of the firm (Forbes & Milliken, 1999).

So, within an effective corporate governance structure, the board of directors must verify whether the firm's management acts in the best interest of the family and/or nonfamily shareholders. In case of sound corporate governance, the directors should detect any kind of rent extraction behaviour and report it to the shareholders. In order to perform this task effectively, the directors should have the necessary expertise and objectivity that ostensibly mitigates the expropriation of firm resources, for example, by rent extraction (Bammens, Voordeckers, & Van Gils, 2011). Therefore, we argue that as rent extraction possibilities are reduced, the incentive for a CEO to engage in tax aggressive behaviour to mask rent extraction would be reduced. As argued above, private family firms with a lower CEO ownership share would be more eager to engage in tax aggressive behaviour. In those firms, the advantages of tax aggressiveness become dominant since the preservation of the firms' reputation and SEW are less important due to weaker family ties. However, the control role performed by an effective board of directors will reduce the CEO's incentive to engage in tax aggressive behaviour. The board has to avoid rent extraction such as excessive CEO compensation and thereby reduces the motivation of the CEO to engage in tax aggressive activities. Moreover, in case of tax related law suits, the board may be legally liable and their reputation capital may also be threatened (Carcello, Hermanson, Neal, & Riley, 2002). It may subject the directors to heavy criticism. Therefore, we expect that they will monitor the firm's management to avoid that CEOs with low ownership share engage in tax aggressive behaviour.

Therefore, we consider the moderating effects of an effective board of directors with respect to its monitoring role, on the relationship between the CEOs ownership share and tax aggressive behaviour. In literature, several indicators for effective board monitoring are suggested. First, the presence of outside board members can signal effective monitoring by the board of directors. From a traditional agency perspective, boards should be able to act independent of those parties they are supposed to control. As a result, their monitoring effectiveness increases, thereby decreasing managerial opportunism (Harford, Mansi, & Maxwell, 2008). Secondly, CEO duality, indicating that the CEO is also the chairman of the board, is a mechanism that provides the CEO a considerable concentration of power. Only a separation of both functions ensures that the CEO has no unregulated power (Fama & Jensen, 1983; Jensen, 1993). Therefore, CEO duality reduces the independence of the board. Thirdly, board size can also be considered as a corporate governance mechanism. A director from a large board may find that the costs of speaking out against top management may outweigh the benefits of carrying out his monitoring duty diligently (Bliss, 2011). Larger boards may be more easily controlled/governed by a dominant CEO and preserve the power of the CEO (Jensen, 1993). Moreover, larger boards can also be characterized by free riding and social loafing problems (Dalton, Daily, Johnson, & Ellstrand, 1999). Directors may be eager to exert less effort when they work in a large board than when they work in a small group where their contribution is more visible. So, we hypothesize:

Hypothesis 3a. The negative relationship between CEO ownership and tax aggressive behaviour will be weakened by the presence of outside board members.

Hypothesis 3b. The negative relationship between CEO ownership and tax aggressive behaviour will be reinforced by the presence of CEO duality.

Hypothesis 3c. The negative relationship between CEO ownership and tax aggressive behaviour will be weakened if there is a small board of directors.

Data and variables

Data set and method

The data for this study were collected through a private survey. Of the 3262 questionnaires sent, a total of 621 responses were received, which resulted in an effective response rate of 19 percent. The final sample consists of 600 SMEs operating in Finland, because we drop firms which do not correspond to the EU definition of SMEs. The firms represent all industries, excluding primary production. The sample firms are firms with at least two employees and whose legal form is a limited liability. The firms were asked to provide information on their ownership structure during the years 2000–2005, for each year separately. The firms were also asked to provide information on their board composition during the time period. Non-respondent tests have been performed for the database, and they suggest that the firms that responded to the survey are statistically significantly similar to the ones that did not respond. The financial data were collected from the Voitto+ register. This register includes data on firm age, employment, line of business, and the complete financial statements. A private family firm is defined as a firm where more than 50 percent of the shares are owned by the family. This definition is in line with the majority of family business definitions that require family ownership as one of the main indicators for defining a family firm (Chua, Chrisman, & Sharma, 1999).

After elimination of outliers and missing values, we ended up with a final unbalanced panel dataset of 1650 private family and nonfamily firm-year observations including 898 family firm-year observations. Each of the models will be estimated based on robust OLS estimations. As indicated by Antonakis, Bendahan, Jacquart, and Lalive (2010), standard errors have to be consistent in order to obtain valid results. However, heteroscedasticity of the residuals are a threat to this validity, leading to inconsistent standard errors. If standard errors are not correctly estimated, the *p*-values of the beta-coefficients will be over- or understated. In order to check for heteroskedasticity, we performed the White test, which indicated a problem of heteroskedasticity of the residuals ($\chi^2 = 22.92$; *p*-value = 0.00001). Therefore, we use robust (consistent) standard errors in our OLS estimations.

Measures

The dependent variable we use is the effective tax rate defined as total tax expense divided by earnings before taxes. Firms that are more tax aggressive have lower effective tax rates (ETRs). In a Finnish context, some of the tax aggressiveness strategies (such as increasing depreciation reserves) achieve a lower ETR through increasing accounting expenses, thereby reducing taxable income, taxes and annual net income. Other strategies (such as locating operations in low tax countries) achieve a lower ETR through lower taxes and thereby increased net income. So, what is common for tax aggressive strategies, is that they reduce the effective tax rate. Therefore, we argue that the ETR is a viable measure for our research setting where detailed information on the tax aggressiveness choices made is not easily available.

Moreover, this measure is widely used in previous research (e.g. Chen et al., 2010; Chyz, Leung, Li, & Rui, 2013; Lanis & Richardson, 2011; Minnick & Noga, 2010). Even though previous studies conducted in low tax alignment countries also make use of a variety of other measures for 'tax aggressiveness' derived from the book-tax difference (e.g. Chen et al., 2010; Chyz et al., 2013; Desai & Dharmapala, 2006), they cannot be used in this study because Finland is a high tax alignment country where financial statements are taken as the basis for taxation. Consequently, there is book-tax alignment.

Additionally, evidence from the US suggests that financial accounting income has become increasingly higher than taxable income. Hanlon and Shevlin (2005) argue that this may be a result of earnings management in financial statement income and tax aggressiveness in taxable income. This suggests that when the results of tax planning and earnings management have to be reported simultaneously (which is the case in Finland, as a high tax alignment country), all the relevant information should be captured by the ETR. However, this ETR will mainly capture the tax aggressiveness because, as Burgstahler, Hail, and Leuz (2006) suggest, there is less earnings management in countries with tax alignment. Moreover, Hanlon and Heitzman (2010) report that the potential benefits of book-tax conformity include that management will be more truthful when reporting the income numbers (less upward earnings management) because anything reported will also be taxed.

We incorporate several independent variables in our study. In order to verify whether family firms are more or less tax aggressive than nonfamily firms, we incorporate the ownership percentage in hands of the family ("Familyown"). Moreover, we can also incorporate a dummy variable indicating whether the firm can be considered as a family firm. Therefore, we incorporate a dummy variable "Family50" with a value 1 if more than 50 percent of the shares are owned by the family; 0 otherwise. Alternatively, we included a dummy variable "Family0" with a value 1 if the firm indicates that it is a family firm with some amount of the shares (>0 percent) in hands of the family; 0 otherwise.

Within the group of private family firms, we include "Ceoown" which measures the amount of shares owned by the CEO. We have no information on whether the CEO is a family or a nonfamily member. However, if CEO ownership ("Ceoown") is 0, which is the case in 17% of our sample, it will generally be someone who is not part of the family.[2] CEO duality ("Ceo_dual") has a value 1 if the firm's CEO is also the chair of the board of directors; 0 otherwise. The variable "Ext" has a value 1 if the board contains at least one outside board member who does not belong to the management team; 0 otherwise. The size of the board of directors ("Board size") consists of the number of directors.

In each of the regressions we perform, we control for firm characteristics reported in prior literature (Chen et al., 2010; Frank et al., 2009; Yuan, McIver, & Burrow, 2012) that are correlated with tax aggressive behaviour. Therefore, we can ensure that our results are not driven by fundamental differences between family and nonfamily firms and within the group of family firms. In our study, we control for the firm's profitability by incorporating the return on assets ("Roa"), the firms leverage measured by long term debt ("Lev"), plant, property and equipment ("Ppe") and intangible assets ("Intang"). In line with Chen et al. (2010), these control

[2] If the family firm is inherited by a family member who becomes CEO of the firm, (part of) the shares are transferred. However, when a nonfamily CEO is hired, he generally obtains no ownership share (Michielsen, Voordeckers, Lybaert, & Steijvers, 2013). Family firms are eager to transfer the firm to the next generations and to keep control within the family in order to perpetuate the family dynasty. Therefore, family firms are reluctant to hire nonfamily CEOs because the family wants to avoid the loss of strategic and operational control and goal conflicts (Gómez-Mejia, Cruz, Berrone, & De Castro, 2011). However, even when hiring a nonfamily CEO is necessary for the firm, providing him/her with shares is often considered to be a step further and a step too far in the family losing control of the firm.

Table 1a
Descriptives and Pearson correlation matrix (total sample).

	Mean	Std. dev.	1	2	3	4	5	6	7	8	9
1. ETR	0.23	0.14	1								
2. Family50	0.57	0.49	0.06^{**}	1							
3. Family0	0.58	0.49	0.06^{***}	0.97^{***}	1						
4. Familyown	0.53	0.47	0.05^{**}	0.96^{***}	0.95^{***}	1					
5. Roa	0.20	0.33	0.24^{***}	0.03	0.03	0.02	1				
6. Lev	0.22	0.53	-0.10^{***}	−0.03	−0.03	−0.03	-0.09^{***}	1			
7. Ppe	0.34	0.35	-0.06^{**}	0.10^{***}	0.10^{***}	0.12^{***}	0.03	0.35^{***}	1		
8. Intang	0.03	0.14	-0.09^{***}	-0.10^{***}	-0.10^{***}	-0.10^{***}	0.04^{*}	0.19^{***}	-0.05^{**}	1	
9. Size (in 000)	310	2.90	0.08^{***}	0.01	0.03	0.01	-0.13^{***}	-0.05^{**}	0.01	-0.08^{***}	1

$N = 1650$.
* Significant at the 10 percent level (two-tailed test).
** Significant at the 5 percent level (two-tailed test).
*** Significant at the 1 percent level (two-tailed test).

Table 1b
Descriptives and Pearson correlation matrix (subsample of family firms).

	Mean	Std. dev.	1	2	3	4	5	6	7	8	9	10
1. ETR	0.23	0.14	1									
2. Ceoown	0.50	0.33	0.06^{*}	1								
3. Size (in 000)	315	3.20	0.03	-0.22^{***}	1							
4. Roa	0.21	0.21	0.25^{***}	0.06^{*}	-0.17^{***}	1						
5. Lev	0.22	0.34	-0.16^{***}	−0.03	−0.05	-0.22^{***}	1					
6. Ppe	0.37	0.39	-0.13^{***}	−0.03	−0.03	−0.03	0.60^{***}	1				
7. Intang	0.02	0.04	-0.05^{*}	−0.04	−0.01	0.01	0.06^{*}	−0.02	1			
8. Ceo_dual	0.53	0.50	0.07^{**}	0.35^{***}	-0.15^{***}	0.04	0.03	0.06^{*}	−0.03	1		
9. Ext	0.81	0.39	−0.02	−0.01	0.03	-0.07^{**}	−0.03	-0.10^{***}	-0.08^{**}	−0.05	1	
10. Board size	2.35	0.97	-0.06^{*}	-0.33^{***}	0.37^{***}	-0.10^{***}	−0.01	0.04	0.04	-0.34^{***}	0.27^{***}	1

$N = 898$.
* Significant at the 10 percent level (two-tailed test).
** Significant at the 5 percent level (two-tailed test).
*** Significant at the 1 percent level (two-tailed test).

variables were scaled by lagged total assets.[3] For firms with a higher profitability, it can be expected that they tend to have higher effective tax rates (ETR). Firms with a higher leverage ("Lev") will have more interest costs and thus lower ETR. For plant, property and equipment ("Ppe") and intangible assets ("Intang"), its depreciations are tax deductible. So we can expect a positive relation between the extent of "Ppe" and "Intang" and the resulting depreciation on the one hand and the ETR on the other hand. Lastly, we also control for firm size by including the natural logarithm of total assets of the previous year ("Size"). In addition, for all regressions, we include dummies to control for year and industry fixed effects.

Tables 1a and 1b present the descriptive statistics and Pearson correlation matrix for the main variables of our analyses for the total sample of private family and nonfamily firms and for the subsample of private family firms, respectively. The correlation tables indicate no problem of multicollinearity. Moreover, we computed the variance inflation factor analysis (VIF) among the variables indicating how the variance of an estimator is inflated by the presence of multicollinearity (Gujarati, 1995). The highest VIF value here is 7.55 for the subsample of family firms and 1.73 for total sample of family and nonfamily firms, which is below the threshold of 10, so no multicollinearity is present (Mansfield & Helms, 1982).

Table 1a shows that more than 50% of the total sample consists of family firms. Table 1b reveals that the private family firms in our sample have an average asset size of 315,000 euros and have an average effective tax rate (ETR) of 23.3 percent. The median ETR for the family firms in our sample is 28%. Therefore, we can conclude that the ETR of the firms in our sample is in line with the general corporate tax rate for Finnish firms (29% until 2004; reduced to 26% in 2005). On average, the CEO owns 50 percent of the shares. The firms are characterized by a rather high ROA of 20.9 percent. Moreover, in more than 50 percent of the firms, the CEO is also the chair of the board of directors. In the majority of firms (81.2 percent), an outside director is serving on the board. On average, 2.3 board members serve on the board.

Results

In Tables 2 and 3, the results are presented. All regression models are estimated with Ordinary Least Squares (OLS) and

Table 2
Robust OLS regression on SMEs' tax aggressiveness.

Dep. variable: ETR	(1)	(2)	(3)
Family50	0.01^{**} (0.01)		
Family0		0.01^{**} (0.06)	
Familyown			0.01^{*} (0.01)
Roa	0.11^{***} (0.03)	0.11^{***} (0.03)	0.11^{***} (0.03)
Lev	−0.01 (0.01)	−0.01 (0.01)	−0.01 (0.01)
Ppe	-0.03^{**} (0.01)	-0.03^{**} (0.01)	-0.03^{**} (0.01)
Intang	−0.09 (0.08)	−0.09 (0.08)	−0.09 (0.08)
Size	0.01^{***} (0.01)	0.01^{***} (0.01)	0.01^{***} (0.01)
Constant	0.13^{***} (0.02)	0.12^{***} (0.02)	0.13^{***} (0.02)
R^2	0.11	0.11	0.11
Adjusted R^2	0.10	0.10	0.10
F value	8.69^{***}	8.58^{***}	8.43^{***}
Number of observations	1650	1650	1650

Note: Robust asymptotic standard errors are reported in parentheses.
* Significant at the 10 percent level (two-tailed test).
** Significant at the 5 percent level (two-tailed test).
*** Significant at the 1 percent level (two-tailed test).

[3] Lagged assets have not been affected by current year's decisions. For example, for ROA, the assets of year $t-1$ (also beginning assets of the current year t) are used to create the profits in year t. The lagged assets are also preferred because the current year assets would include the profits. The same reasoning can be applied to the other control variables. We also re-estimated the base regression (Table 3, model (1)) using assets in year t as a denominator but the results remain qualitatively the same.

Table 3
Robust OLS regression on family firms' tax aggressiveness.

Dep. variable: ETR	(1)	(2)	(3)	(4)	(5)
Ceoown	0.02 (0.01)	−0.15** (0.07)	0.13*** (0.03)	0.01 (0.02)	0.05* (0.03)
Ceoown × Size		0.03*** (0.01)			
Ext			0.06*** (0.02)		
Ceoown × Ext			−0.13*** (0.03)		
Ceo_dual				0.01 (0.02)	
Ceoown × Ceo_dual				0.01 (0.03)	
Board size					0.01 (0.01)
Ceoown × Board size					−0.02 (0.01)
Roa	0.17*** (0.03)	0.17*** (0.02)	0.17*** (0.02)	0.17*** (0.02)	0.17*** (0.02)
Lev	−0.01 (0.04)	−0.01 (0.05)	−0.01 (0.04)	−0.01 (0.04)	−0.01 (0.04)
Ppe	−0.04 (0.03)	−0.04 (0.03)	−0.04 (0.03)	−0.04 (0.03)	−0.05 (0.03)
Intang	−0.16 (0.13)	−0.16 (0.13)	−0.17 (0.13)	−0.15 (0.13)	−0.15 (0.13)
Size	0.01*** (0.01)	0.01 (0.01)	0.01*** (0.01)	0.01*** (0.01)	0.01***(0.01)
Constant	0.15*** (0.03)	0.22*** (0.04)	0.11*** (0.04)	0.15*** (0.04)	0.14***(0.04)
R^2	0.12	0.13	0.14	0.13	0.13
Adjusted R^2	0.10	0.11	0.12	0.10	0.10
Change in R^2	0.12***	0.01***	0.02***	0.01	0.01
F value	8.48***	8.77***	8.52***	8.01***	7.58***
Number of obs.	898	898	898	898	898

Note: Robust asymptotic standard errors reported in parentheses.
* Significant at the 10 percent level (two-tailed test).
** Significant at the 5 percent level (two-tailed test).
*** Significant at the 1 percent level (two-tailed test).

robust standard errors are calculated. Table 2 reveals that Hypothesis 1 can be confirmed. Private family firms appear to be less tax aggressive compared to nonfamily firms. The dummy variables "Family50" and "Family0" as well as "Family own" reveal a significant positive effect. The other significant control variables have the expected sign. More profitable ("Roa") and larger firms ("Size") seem to have a larger ETR whereas firms with more plant, property and equipment ("Ppe") have a lower ETR.

However, as argued above, private family firms are a heterogeneous group. Therefore, further analysis within the group of private family firms is provided in Table 3.

Regression (1) in Table 3 does not seem to confirm Hypothesis 2, with respect to the effect of the CEO ownership share on tax aggressive behaviour. Regression (1) shows no significant effect of "Ceoown". However, firm size may be an important moderator in the context of tax aggressive behaviour. Very small, young private family firms may not have the experience to engage in tax aggressive behaviour and are fully occupied with the core business and/or survival of the firm. Therefore, we included in regression (3) the moderating effect of firm size ("Size") on the relationship between "Ceoown" and "ETR". We included the term "Ceoown × Size".

From the results in Table 3, we cannot deduct from regression (2) what the impact is of the ownership share of the CEO on tax aggressive behaviour when firm size changes.[4] In order to capture the total effect, we have to take into account the coefficient of "Ceoown" and of the interaction term and the value of the moderating variable which is "Size" (Brambor et al., 2006; Kam & Franzese, 2007; Steijvers & Niskanen, 2013). Fig. 1 graphically presents the marginal effect of the ownership share of the CEO on "ETR" as firm size changes, indicated by the solid line. The dotted lines represent the 95 percent confidence interval, which allows us to determine the conditions under which the ownership share of the CEO has a significant impact on the firm's "ETR". The effect is only significant if both the upper and lower bounds of the confidence interval are above or below the zero line.

Fig. 1 shows that the ownership share of the CEO has a significant positive effect on ETR, indicating a lower extent of tax aggressiveness if the family firm has more than 400,000 euro of assets (at the point where ln(size) equals 6). The positive effect increases as firm size increases. This confirms our hypothesis 2 indicating that as the ownership share of the CEO increases, the family firm becomes less tax aggressive. For the smaller family firms in our database, we find no significant effect of "Ceoown" on the tax aggressive behaviour. The significant negative effect revealed in Fig. 1, is related to firms with a firm size of less than 12,000 euro of assets, which are not present in our sample. Additionally, we performed a constrained estimation to verify that there is a net effect of "Ceoown" (negative) and "CeoownxSize"

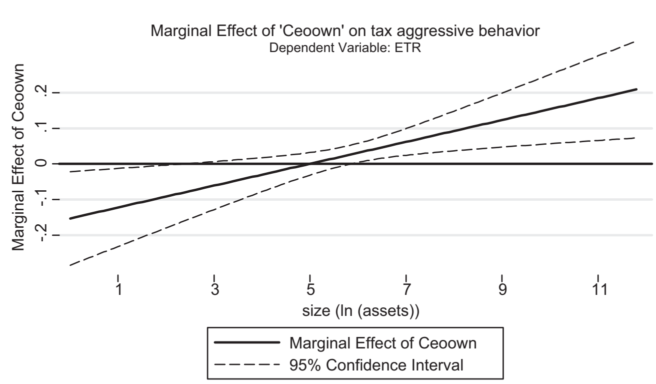

Fig. 1. Marginal effect of CEO ownership share on tax aggressive behaviour: extension of regression (2) in Table 3. This figure graphically presents the marginal effect of CEO ownership share as firm size changes, indicated by the solid line. The dotted lines represent the 95% confidence interval, which allows us to determine the conditions under which CEO ownership share has a significant impact on the firm's tax aggressive behaviour. The effect is only significant if the upper and lower bounds of the confidence interval are both above or below the zero line.

[4] Several econometrical studies (Berry, DeMeritt, & Esarey, 2010; Brambor, Clark, & Golder, 2006; Norton, Wang, & Ai 2004) state that the effect of any independent variable X in an interactive model with a continuous moderator Z, on the dependent variable Y is not any single constant. The effect depends on the betas of X and of the interaction term XZ, as well as on the value of Z, the moderating variable. In order to interpret the results, the calculation of marginal effects is of great importance as it is perfectly possible that these effects are significant for relevant values of the moderating variable, even if the coefficient on the interaction term is insignificant (Berry et al., 2010; Brambor et al., 2006). More specific, we take into account the relevant elements of the variance-covariance matrix and recalculate the standard errors as suggested by Brambor et al. (2006, p. 74).

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(positive) together. We compare model (2) which is the unconstrained model, with a constrained model where we add a constraint that "Ceoown" and the interaction term with size together do not lead to a significant effect. Based on the Wald test, we obtain a significant F value ($F(1, 877) = 4.78$; $p = 0.03$) which means we can reject the hypothesis that there is no net effect. Alternatively, we performed an F test, comparing the constrained with the unconstrained model ($F(1, 877) = 4.81$; $p = 0.03$) which again means we can reject that there is no net effect.

Furthermore, we study in regression (3), (4) and (5) of Table 3 the moderating effect of the board of directors performing adequately their monitoring role. With respect to Hypothesis 3a on the presence of outside board members, the variable "Ext" is included in regression (3) as well as the interaction term "Ceoown × Ext". The interaction term has the predicted negative sign and is significant at 1 percent level. The significant coefficient of "Ceoown" equals 0.13, whereas the interaction term has a coefficient of −0.13. This means that if family firms hire an external board member, the effect of the ownership share of the CEO ("Ceoown") is reduced to 0. This indicates that the CEO ownership share no longer affects the tax aggressive behaviour of the firm if the board includes an independent outside director. The benefit for CEOs to engage in tax aggressive behaviour, at the expense of other shareholders, is nearly absent when the firm hires an external board member due to a higher monitoring effectiveness thereby limiting possible rent extraction behaviour. This confirms Hypothesis 3a.

Regression (4) extends this discussion and takes into account the moderating effect of CEO duality ("CEO_dual"). Therefore, we include in regression (4), "Ceo_dual" and the interaction term "Ceoown × Ceo_dual". Contrary to what we expected, CEO duality appears to have no significant moderating effect. It seems that whether the board is chaired by the CEO or not, it does not influence the effect of CEO ownership share on tax aggressive behaviour. Therefore, we cannot confirm Hypothesis 3b. Finally, in regression (5), we include the variable "Board size" as well as the interaction term "Ceoown × Boardsize". Again, in line with regression (2), in order to capture the effect of the CEO's ownership share when board size changes, we have to take into account the marginal effect of the CEO's ownership share. These marginal effects are drawn in Fig. 2.

However, Fig. 2 reveals no significant moderating effects for any value of board size. Thus, we cannot confirm hypothesis 3c. In conclusion, with respect to the monitoring effectiveness of the board, only the presence of external board members seems to be effective to reduce the incentives for CEOs to engage in tax aggressive behaviour. Separation of the positions of chairman of the board and CEO as well as board size do not play a moderating role. These insignificant results may be explained by the lack of an active board of directors. Smaller boards or a separation of the functions of chairman and CEO can only be effective governance and monitoring tools if the board is not a rubber stamp board. Moreover, the descriptive statistics indicate that the average board size is rather small with 2.3 board members which may suggest that many boards may not be active boards. However, results seem to indicate that the presence of an outside board member may ensure the activeness of the board, performing adequately their monitoring role.

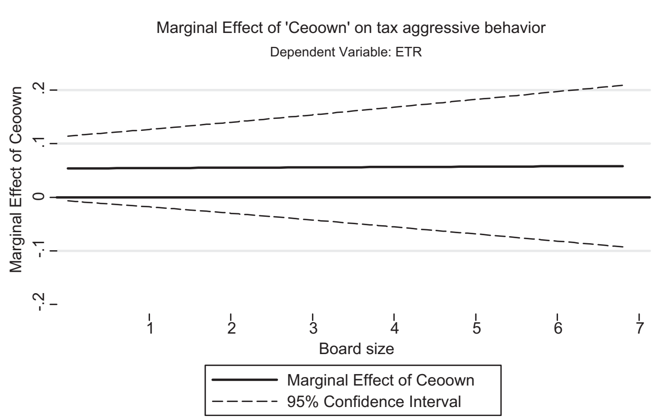

Fig. 2. Marginal effect of CEO ownership share on tax aggressive behaviour: extension of regression (5) in Table 3. This figure graphically presents the marginal effect of CEO ownership share as board size changes, indicated by the solid line. The dotted lines represent the 95% confidence interval, which allow us to determine the conditions under which CEO ownership share has a significant impact on the firm's tax aggressive behaviour. The effect is only significant if the upper and lower bounds of the confidence interval are both above or below the zero line.

In order to verify the robustness of our results, we additionally used the difference between the nominal and reported tax rate as dependent variable (results not reported). Regression results are comparable to the results presented in Tables 2 and 3. We only notice one slight difference with respect to model 1 in Table 3, based on a subsample of family firms. Using the difference between the nominal and reported tax rate as dependent variable, "Ceoown" reveals a positive significant effect (only at 10% significance level) on the dependent variable. This positive significant effect is again in line with Hypothesis 1. When using ETR as dependent variable, this positive significant effect was only found for larger firms, however at a 5% significance level.

Discussion and conclusion

Contributions

Corporate tax aggressiveness is a very young but active research domain. Even though this topic has received some attention in the academic literature, these studies only focus on low tax alignment countries. However, tax aggressive behaviour is also important to study in a high tax alignment country such as Finland. Contrary to low tax alignment countries, tax aggressive behaviour becomes visible in the financial statements of firms in high tax aligned countries which makes it difficult for stakeholders to value the true economic performance of the firm. Therefore, studying the determinants of tax aggressiveness in the context of high tax alignment countries is even more important. With our contribution, we want to advance the knowledge on the determinants of tax aggressiveness by using a principal-agent setting, more specifically in the context of private family firms.

In addition, in this article, we argue that tax aggressive behaviour in private family firms is a concept that is too complex to be explained only by economic drivers. Therefore, we complement the agency view with a socioemotional wealth (SEW) perspective. As indicated by Berrone et al. (2012, p. 5), "the SEW model naturally stems from the reality of family businesses that suggest the existence of multiple salient goals that are driven by the values of the family and that change over time". Therefore, SEW is a key noneconomic reference point in family firms for deciding to engage in a certain extent of tax aggressive behaviour. In this article, we examine the extent of tax aggressiveness of private family firms, relative to their nonfamily counterparts. We find that private family firms appear to be less tax aggressive than private nonfamily firms. This result highlights the importance of the noneconomic costs related to tax aggressive behaviour being the possible firm reputation damage and loss of SEW. Even though tax aggressive behaviour provides tax savings and allows the CEO to mask rent extraction to the detriment of other shareholders, the economic costs seem to outweigh the benefits.

Within the group of private family firms, our article contributes to a better understanding of the impact of the ownership structure on private family firms' tax reporting. Results seem to indicate that private family firms with a higher CEO ownership stake are less eager to engage in tax aggressive behaviour, while CEOs with a lower or no ownership share are more eager to engage in tax aggressive behaviour. This result highlights the importance of the unique agency conflict between the CEO (agent and possibly principal) and (other) shareholders (principals) in determining private family firms' tax aggressive behaviour. Additionally, results seem to confirm the role of SEW in explaining the CEOs tax aggressiveness.

Alternatively, one might interpret these results differently. Tax aggressive behaviour by CEOs with low or no ownership share, being professional CEOs, might simply be an indication of good professional cash flow management. However, nonfamily or professional CEOs cannot as such be equated to being managers that engage in good professional management while family CEOs are 'nonprofessional'. Or as Dekker, Lybaert, Steijvers, Depaire, and Mercken (2012) argue: 'Moreover, the sense of equating professional managers with external, nonfamily managers, leads to the outdated assumption that family members are inherently non-professional managers (e.g. Bennedsen, Nielsen, Pérez-González, & Wolfenzon, 2007; Berenbeim, 1990; Bloom & Van Reenen, 2007).' Both family and nonfamily managers can possess specialized technical knowledge (Corbetta, 1995) and formal business training (Dyer, 1988) in order to engage in professional cash flow management. Moreover, Dyreng et al. (2010) study CEO characteristics (such as CEO education level, age, tenure, whether he/she was CFO at a prior firm) as potential determinants of tax aggressiveness. Their results indicate that none of the CEO characteristics have a significant effect on the effective tax rate. So, more financial skills due to experience or education do not seem to increase tax aggressiveness.

Finally, our study intends to broaden our thinking by incorporating the moderating effect of corporate governance. Results show that the presence of an outside director in the board improves the monitoring effectiveness thereby limiting possible rent extraction behaviour by the CEO. Therefore, these boards appear to reduce the tax aggressive behaviour of private family firms where the CEO owns a low amount of shares. Hereby, we reinforce the findings of Stockmans, Lybaert, and Voordeckers (2013) indicating that, in private family firms, governance controls seem to mitigate the presence of significant agency conflicts. Previous research has mainly stressed the board's advice role in family firms. The appointment of independent board members depends on their ability to provide advice to the family firm based on their unique knowledge. However, our findings are in line with Van den Heuvel, Van Gils, and Voordeckers (2006) and Bammens, Voordeckers, and Van Gils (2008), indicating that once these outside board members are appointed, initially for their advice and knowledge, they do fulfil their legal control task. With respect to limiting board size or avoiding CEO duality, our results indicate that these are not effective in mitigating tax aggressive behaviour by the CEO.

Implications

Several implications can arise from our findings. Our results contribute to a better understanding of the determinants of tax aggressive behaviour in private family firms. Therefore, our findings can be of value to shareholders, stakeholders, academics but also to society as a whole. First, results suggest shareholder's monitoring role to avoid a high extent of tax aggressiveness is especially important if the CEO has a low amount of shares, which often occurs in later generation family firms. (Passive) family firm shareholders aiming at keeping up the firm's reputation and SEW may focus on installing an active board of directors consisting of outside board members that perform their monitoring role adequately.

Secondly, corporate taxes are also of public concern because tax aggressive behaviour and the resulting nonpayment of taxes also have society-wide implications. Taxes play an important role in funding the provision of public goods, which makes our findings of value to tax policymakers who seek to identify the circumstances that give rise to an increased risk of tax aggressiveness (Lanis & Richardson, 2013). The findings of our study indicate that efficient corporate governance mechanisms, more specifically the hiring of outside independent board members mitigates potential tax aggressive behaviour and therefore might again give rise to the question whether law should oblige independent board members in the context of private (family) firms. Family firms may consider independent directors "as an unnecessary interference in their decision-making processes and as a potential threat to their power" (Leung, Richardson, & Jaggi, 2014, p. 17). Even though Leung et al. (2014) find that independent directors may not contribute to firm performance, our study does point at the advantages of independent board members with respect to tax aggressive behaviour of the CEO.

Finally, academics are encouraged to include the socioemotional wealth perspective when conducting research in a family firm context. Berrone et al. (2012, p. 1) indicate that SEW "is the most important differentiator of the family firm as a unique entity and, as such, helps explain why family firms behave distinctively". By complementing the agency view with the SEW view, this study reveals interesting results. Future research could benefit from also complementing existing theoretical frames with the SEW perspective.

Limitations

Our research also has some limitations that provide many interesting avenues for future research. Overall, the R-squared values are relatively low; therefore the findings need to be interpreted with care. First, in this study, we only took into account board composition as a moderator to argue that effective boards can mitigate the negative relationship between CEO ownership share and tax aggressiveness. However, other potentially important moderating effects would be interesting to study. Instead of using board composition to measure board effectiveness, board processes may be more suitable. Board processes measure to what extent the board functions as an effective and controlling board by taking to account the extent of cognitive conflict, effort norms and use of director's knowledge and skills (Forbes & Milliken, 1999; Zona & Zattoni, 2007).

Moreover, hiring external board members or avoiding CEO duality, moderators used in our study, can be seen as elements of board professionalization. While we only focused on these elements, it would be interesting to investigate whether other dimensions of firm professionalization (use of more formal control and HRM systems, professionalization of management and board, top level activeness, decentralization of authority) can also contribute to mitigating the negative relation between the CEO ownership share and tax aggressiveness (for a review, see Dekker et al., 2012). Finally, besides the board, outside supervision aspects would also be worth investigating: outside supervision relies on external auditors and government regulatory bodies to improve corporate governance (Jin & Lei, 2011).

Secondly, while we take an agency perspective in this article, the use of other theoretical lenses, such as stewardship theory or upper echelon theory may complement our study and enrich our knowledge on tax aggressiveness. In line with Dyreng et al. (2010), it would be especially interesting to take an upper echelon view and study the effect of several CEO characteristics (e.g. CEO

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reputation, experience within the firm and within the industry) on tax aggressiveness.

Third, in line with other studies on this topic, we use the effective tax rate as a measure for tax aggressiveness. However, as tax aggressiveness can be legal or illegal or lie in between (Frank et al., 2009), it would be interesting if additional measures could be developed in a private firm context to make the distinction between legal and illegal tax aggressiveness.

Finally, we coped with a lack of data on certain other firm characteristics. This lack of data has kept us from extending the focus on one ownership characteristic, the amount of CEO shares, to the exact ownership distribution among shareholders. The distinction between equally distributed ownership and unequal distribution of ownership (several minority shareholders coupled with one majority shareholder) or ownership dispersion among non-active family members versus ownership dispersion among active family shareholders may affect the shareholder-manager agency problem and the resulting tax aggressive behaviour. Also with regard to SEW, we were not able to measure it directly. Therefore, future research could go one step further by sending out surveys to CEOs in order to verify the extent to which these noneconomic elements are drivers of tax aggressive behaviour. The future in this domain lies in the combination of both economic and noneconomic factors in order to gain a deeper understanding of tax aggressiveness in private family firms.

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