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The influence of family involvement on tax aggressiveness of family firms

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Abstract

Purpose – The purpose of this paper is to analyze the tax aggressiveness among family firms considering their different levels of family involvement. Based on the family influence on power, experience, and culture approach proposed by Astrachan *et al.* (2002), this study examines to what extent the heterogeneity among family firms generates distinctive (and unique resource) combinations of family involvement that explain different levels of tax aggressiveness.

Design/methodology/approach – A sample of 282 small and medium-sized family enterprises and a structural equation modeling approach have been used to study simultaneously the effects of family influence through the power, experience, and culture dimensions of tax aggressiveness in family firms.

Findings – The family influences the business' tax aggressiveness in different ways. As such, the greater the family experience, by the incorporation of second and subsequent generations, the greater the tax aggressiveness; in contrast, greater family power in terms of firm ownership and management negatively affects tax aggressiveness. Additionally, greater alignment of the family and business culture does not exert a significant effect on tax behaviors of family firms.

Practical implications – Tax aggressiveness is a complex activity that should be managed from a global point of view in family firms. Managers should compensate for the negative influence of family governance on tax aggressiveness with the positive effect of the family generations in order to obtain proper and balanced tax management that contributes to the sustainability of family firms.

Originality/value – This study contributes to the understanding of tax behavior heterogeneities among family firms by going further than most research (usually based mainly on comparative ownership aspects between large, publicly quoted family and non-family firms), considering some other more representative factors of family small and medium-sized enterprises, where the influence of characteristics of family management, family generation, and family values can be the main determinants of the firm taxation policies.

Keywords F-PEC scale, Family influence, SEM approach, Spanish firms, Tax aggressiveness

Paper type Research paper

1. Introduction

Firm taxation and proper tax compliance pose many questions that, in a global environment, are currently at the center of the political and economic debate (Scholes *et al.*, 2009). Companies need to plan taxes to obtain the expected performance while, at the same time, minimizing the risks and costs associated with tax avoidance (Shackelford and Shevlin, 2001; Stiglitz, 1985). In that vein, numerous studies highlight

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the importance of taxes as a factor that conditions the long-term growth, investment, and sustainability of the firm (Graham, 2003; Minnick and Noga, 2010). Although taxation planning may be essential in the survival of the firm, it has not traditionally been considered as a key factor in business decisions in the context of family firms, with the exception of the specific matter of succession (Cagetti and De Nardi, 2009; Molly *et al.*, 2010).

The scant research regarding how family firms plan their taxation (Bauweraerts and Vandernoot, 2013; Chen *et al.*, 2010; Desai and Dharmapala, 2006; Monterrey and Sánchez, 2010), mostly based on agency theory, reveals that family firms are less tax aggressive – defined as downward management of taxable income through tax planning activities[1] (Chen *et al.*, 2010) – than non-family firms, mainly because they are more concerned about the cost repercussions that risky taxation may have on the family's wealth and reputation. In general, these "family vs non-family" comparative studies, analyzing large, publicly quoted family firms, show the family firms' tax aggressiveness only taking into account risk taking on the basis of family ownership. In that vein, Chen *et al.* (2010, p. 42), analyzing US firms, state that "due to their much larger equity ownership and their much longer investment horizons, family owners are more concerned with the potential penalty imposed […] and the damage from being involved in a tax related law suit."

However, tax aggressiveness differences among family firms, especially when small and medium-sized enterprises (SMEs) are considered, demand further investigation from some other perspectives apart from the economic agency view based on family owners' risk perception: first, because family SMEs have some characteristics that deviate from large, publicly quoted family firms – higher degrees of ownership concentration, lower levels of family managers' experience and knowledge, and higher levels of concern about family values and reputation (Cabrera-Suárez *et al.*, 2014; Huybrechts *et al.*, 2011; Michiels *et al.*, 2013) – that may be reflected in a different design of their taxation policies (Bjuggren and Sund, 2005); and second, and in accordance with Chua *et al.* (2012), because family firms' heterogeneity may lead to the consideration of significant variations in tax behaviors from family firm to family firm. In that regard, a resource-based view (RBV) (Barney, 1991) of family business (Habbershon and Williams, 1999; Habbershon *et al.*, 2003) can provide a more proper framework to study the influence of family involvement on tax aggressiveness among family SMEs. Defining family influence as a specific bundle of resources and capabilities unique to a business resulting from the involvement of a family (Habbershon and Williams, 1999), the RBV allows us to shift the explanation of tax behaviors of family firms beyond the owners' risk consideration (outcomes) to other organizational factors regarding a more global and heterogeneous view of family involvement (antecedents of firms' outcomes) (Chrisman *et al.*, 2003; Habbershon and Williams, 1999). These additional factors that may significantly impact the family firm's taxation behavior include unique combinations of resources and capabilities – very well comprised in the family influence on power, experience, and culture (F-PEC) approach of family influence (Astrachan *et al.*, 2002; Klein *et al.*, 2005) – drawing on the family unit power (family influence on governance and management of the firm), the individual family members' experience (information knowledge of successive family generations), and the business organization culture (alignment of family values with the business culture). Different combinations of these dimensions (e.g. high family power with low family experience and culture, vs low family power with high family experience and culture) are particularly important for the development of

distinctive resources and capabilities (Cliff and Jennings, 2005; Habbershon *et al.*, 2003) that may affect the tax aggressiveness of family SMEs.

Therefore, taking into account the important gaps that have not been addressed in the literature to date, this study tries to fill them by considering the assumptions of RBV about the family influence on the "uniqueness" of family firms and analyzing the overall effect of family involvement in tax aggressiveness among a set of heterogeneous family SMEs. The F-PEC approach to family influence (Astrachan *et al.*, 2002; Rutherford *et al.*, 2008) allows us to examine how family involvement based on power (family ownership and management), experience (generation at the head of the business), and culture (family values in the business) dimensions determines some of the unique idiosyncrasies of the family firm's tax aggressiveness in a sample of 282 Spanish family SMEs.

By doing that, this paper seeks to contribute to a greater knowledge of family firms' tax aggressiveness and its relationship with family involvement in several ways. First, the tax aggressiveness is more comprehensively analyzed from the perspective of the family influence in the business as a source of heterogeneous and unique resources (Chua *et al.*, 2012), going beyond comparative traditional perspectives that have basically focussed on tax behaviors of large, publicly quoted family firms in comparison with non-family firms from the viewpoint of agency and risk taking (Chrisman *et al.*, 2003; Bjuggren and Sund, 2005). Second, studying family SMEs provides a more representative picture of the taxation behavior of family firms, as they represent the more usual form of family business (Lane *et al.*, 2006; Michiels *et al.*, 2013). Third, the structural equation modeling (SEM) methodology applied through the F-PEC instrument entails an integral and simultaneous analysis of the family influence on the business (Cliff and Jennings, 2005; Rutherford *et al.*, 2008), allowing a more global examination of the family involvement effects on tax aggressiveness among family firms. Fourth, a very precise and rigorous methodological approach to tax aggressiveness is used – based on both the effective tax rate and the book tax gap measures – which suitably represent the effort made by the family firm in this sense (Manzon and Plesko, 2002), providing an adequate source for international standard comparisons.

The rest of the paper is organized as follows. First, the main evidence on tax aggressiveness in the particular area of family firms is examined, developing the interrelations with family involvement in order to establish the hypotheses. The methodology of the paper is then explained, including the sample representativeness, the variables measurement and the modeling details. Following this, the results obtained are presented and, finally, the main conclusions described and discussed.

2. Theoretical framework and hypotheses

2.1 Taxation and family firms

Tax aggressiveness, understood in its broadest sense, can be defined as the set of firms' activities aimed to structure and rationalize the tax burden by evaluating all the potential benefits in relation to the explicit and implicit costs involved (Dyreng *et al.*, 2008). Among these costs, there are three of special relevance for tax aggressiveness, which can be summarized as economic, reputational, and transactional (Shackelford and Shevlin, 2001; Hanlon and Slemrod, 2009). Concerning the economic and reputational costs, Hanlon and Heitzman (2010) state that the political costs in terms of reputation that a company must bear as a result of improper tax activities – for example, tax evasion, tax irregularities, or operations held in tax havens (Dechow *et al.*, 1996) – may lead firms toward more

conservative tax behaviors (i.e. less tax aggressiveness), even at the expense of an increase in the cost of tax payments (Sandmo, 2005). Regarding the transactional cost, the degree of complexity of the tax laws to which a company is bound may lead top managers to intensify or diminish tax aggressiveness according to their knowledge and experience in this field, taking into account simultaneously the transaction costs related to the outsourcing of these activities (Scholes *et al.*, 2009).

Given that tax aggressiveness depends on those elements intervening in the transaction process and on the set of explicit and implicit costs involved, it is reasonable to expect that family firms, due to their family nature, are significantly and globally affected by all these matters (Astrachan and Tutterow, 1996). Compared to non-family firms, the presence of the family leads to a different ownership structure as well as to a distinct management profile, providing a unique setting in which to examine the impact of family involvement on tax aggressiveness. Several authors, using agency theory as a reference framework, show that the ownership structure of a family firm is a determining factor in its tax aggressiveness, affecting its interest in taxation and the possible consequences of a reduction in tax burden (Chen *et al.*, 2010; Desai and Dharmapala, 2006; Monterrey and Sánchez, 2010). They assert that family firms have more to lose by being tax aggressive than non-family firms because the former are more risk averse than the latter. The higher concentration of ownership in the hands of the family and the lower investment diversification by family owners together lead the family firms to be less tax aggressive than non-family firms.

Adding more complexity to the relationship between tax aggressiveness and family firms, Morris *et al.* (1997) suggest that reputation is a more important factor than ownership when considering tax aggressiveness in family firms in comparison with non-family firms. In an economic environment where social responsibility receives increasing attention, the systematic use of tax irregularities can therefore generate a significant negative impact on the firm's image (Deslandes and Landry, 2011). Since family firms are more risk and loss averse than non-family firms (Gomez-Mejia *et al.*, 2007), and more worried about loss of reputation or harm to the "family name" than non-family firms (Deephouse and Jaskiewicz, 2013), concerns related to internal and external reputation may lead family firms to downgrade tax aggressiveness despite the possible rise in tax payments. Additionally, some studies include further factors influencing family firms' tax aggressiveness by considering the skills and attitudes of family managers in comparison to non-family ones (Ahmed and Braithwaite, 2005; Bjuggren and Sund, 2005). They find, for example, that family managers of second and subsequent generations have been able to acquire enough knowledge and experience to deal with more complicated tax issues, being able to carry out more tax aggressive behaviors (Bjuggren and Sund, 2005). Moreover, in that vein, Casson (1999) finds that managers of family firms, in their desire to transmit them to the next generations, tend to protect their firm image and family values, therefore being less tax aggressive than managers of non-family firms in order to avoid potential tax irregularities which damage the reputation of their company.

Thus, although previous studies comparing family and non-family firms suggest that other dimensions of family firms apart from ownership may have different and interactive effects in terms of tax aggressiveness, they have not considered to date the differences among family firms, taking into account their potential heterogeneity in terms of the influence of family management, generation, and culture. In addition, researches about the interactive effects of all these factors may have special interest for family SMEs, where the high concentration of family governance, the low level of

management professionalization, and the great concern about family values and reputation highlight the need for further investigation of tax aggressive behavior. Considering these voids, the next section develops a theoretical framework, in line with the RBV thinking (Habbershon and Williams, 1999), to explore the set of relationships between tax aggressiveness and family SMEs.

2.2 Influence of the family on tax aggressiveness

Drawing on the RBV philosophy (e.g. Barney, 1991; Makadok, 2001; Wernerfelt, 1984), Habbershon *et al.* (2003, p. 451) refer to family involvement as "the idiosyncratic firm level bundle of resources and capabilities resulting from the systems interactions," highlighting the positive effect of family influence on the business in the generation of firm wealth and value (Chrisman *et al.*, 2003; Pearson *et al.*, 2008). To be qualified as a source of competitive advantage, Habbershon and Williams (1999) propose that resources and capabilities in family businesses must be unique and synergistic. Incorporating systems theory into this notion, Habbershon *et al.* (2003) point out that the combination of two types of rules, values and expectations – those of the family and those of the business (Gersick *et al.*, 1997) – generates distinctive and idiosyncratic family firm attributes, also called "familiness," in terms of patterns of ownership, management, generation, and culture (Chua *et al.*, 1999; Steier, 2003), that produce competitive advantage. The path-dependent phenomena associated with a family firm's unique social and historical conditions, deeply embedded in informal and formal decision-making processes, thus create complex, imperfectly imitable resources that may enhance business performance (Sirmon and Hitt, 2003; Sirmon *et al.*, 2008).

In line with this notion, Astrachan *et al.* (2002, p. 47) state that the real issue pertaining to family firm distinctiveness – or familiness – "is not whether a firm is family or non-family, but the extent and manner of family involvement in and influence on the enterprise." Astrachan *et al.* (2002) and Klein *et al.* (2005) then propose an approach to measure this familiness by means of three dimensions that fit the F-PEC – the so-called F-PEC approach. This index of family involvement in the business allows comparisons among family firms through different levels of power (family ownership and management), experience (family generation in charge of the business), and culture (alignment of the family and business culture), providing an adequate framework to analyze how the heterogeneity of family firms (Chua *et al.*, 2012) can explain differences in family firms' strategic orientations, business performance and, in turn, levels of competitiveness. In that regard, the F-PEC approach has been reviewed and applied by a number of researchers (e.g. Björnberg and Nicholson, 2007; Corbetta and Salvato, 2004; Jaskiewicz *et al.*, 2005; Rutherford *et al.*, 2008; Merino *et al.*, 2015), most of whom note a valid and reliable approach to the concept of familiness regarding the idiosyncratic and distinctive family firm's resources and capabilities.

In this vein, if tax aggressiveness in a family firm can be considered as a capability that can generate a competitive edge associated with lower expenses, optimum resource management and higher reputation (Bjuggren and Sund, 2005; Huybrechts *et al.*, 2011), it is reasonable to assume that this capability – the tax aggressiveness – will be strongly conditioned by the proportion of family owner/s and manager/s in the business, by the generational moment of the firm, and by the culture and values of the family regarding the business (Astrachan and Tutterow, 1996). As such, depending on the variations of family influence on the business, two family firms with equal family involvement in governance (e.g. with a similar proportion of family ownership) may not show the same level of tax aggressiveness if there are differences in family

management (the proportion of family members in the management of the firm) and/or in family generation (presence of the first, second, or subsequent generations in the company), and/or in family culture (level of alignment of family values and business culture). Considering the heterogeneity among family firms in terms of different intentions, values, and behaviors which are the essence of the family business attributes (Chua *et al.*, 2012; Rutherford *et al.*, 2008), then some differences are also expected in tax aggressive behaviors explained on the basis of family influence. These relationships are detailed below.

2.2.1 Power dimension and tax aggressiveness. Power refers to the control that the family exercises by means of business financing (e.g. shares in the hands of the family) and its presence in the firm's management and governance. A family can influence a business through the extent and the quality of its ownership, governance, and involvement in management (Astrachan *et al.*, 2002; Klein *et al.*, 2005). The power dimension takes in the degree of control in terms of family ownership and management. The level of influence through power is additive, so the higher the percentage of family members involved in these functions, the greater the power of the family over the firm.

From an ownership viewpoint, the question as to whether a family firm is more or less tax aggressive is not immediately clear, as there are arguments in both respects regarding tax cost vs benefits (Desai and Dharmapala, 2006). Based on agency arguments, since family owners usually have a higher level of personal investment in the firm, they may benefit from tax aggressiveness in terms of tax savings, although, at the same time, the potential legal punishment they can receive as a consequence of being aggressive is also very important. In this sense, Chen *et al.* (2010), using multiple measurements to capture firms' tax aggressiveness, find that listed family-owned firms show a negative relationship between family ownership and tax aggressiveness. They suggest that majority family shareholders of family firms are willing to waive tax benefits in order to avoid the knock-on effect on the cost that might arise from not paying taxes in the eyes of other minority family shareholders, who could interpret these measures as a way of covering tax evasions and possible embezzlement of incomes by the larger shareholders (Desai and Dharmapala, 2006). Additional evidences from Monterrey and Sánchez (2010) for a sample of non-listed Spanish firms are consistent with those of Chen *et al.* (2010), supporting the idea that family firms are more concerned about the possible legal and reputational damage of a tax audit than their non-family firm counterparts. As they increase their ownership concentration in the hands of the family, they are therefore less tax aggressive in order to avoid risks by seeking further tax deductions. However, Bauweraerts and Vandernoot (2013), using a sample of non-listed Belgian firms, find that family firms can be as aggressive as possible, explaining that in unquoted markets there is no sanction imposed through the stock value. Thus they indicate that the origins of family firms' tax aggressiveness might be based more on the family management dimension than on family ownership.

Regarding the management viewpoint, RBV arguments in family firms have addressed the family firms' knowledge and reputation (Deephouse and Jaskiewicz, 2013; Huybrechts *et al.*, 2011) as determinants of taxation and competitiveness. Bjuggren and Sund (2005) state that the family's idiosyncratic knowledge and skills acquired through the management of the company may positively influence the tax aggressiveness of the firm. However, the low levels of tax knowledge of family managers, especially in the early stages of a firm's growth (like most family firms), supposes enhancing the risks related to tax aggressiveness (Ahmed and Braithwaite, 2005). Family firms and

their family managers therefore steer away from intensive tax aggressive positions in order to maintain the family wealth in the firm (Gomez-Mejia *et al.*, 2007). In that vein, Ahmed and Braithwaite (2005) confirm a negative relationship between the proportion of family managers and tax aggressiveness. Furthermore, the high transaction cost of employing tax specialists discourages tax aggressiveness in family firms, taking into account the traditional resource limitations as well as the resistance of family owners to hire external tax manager specialists (Scholes *et al.*, 2009). Additionally, some authors (Deslandes and Landry, 2011; Morris *et al.*, 1997) point out that family owners and managers are more worried about loss of reputation or harm to the "family name" than about taxation. They state that the maintenance of good relationships within and without the sphere of the family firm are a more important success factor than taxation (Huybrechts *et al.*, 2011; Morris *et al.*, 1997), relegating tax aggressiveness to a secondary level of importance. As Chen *et al.* (2010) affirm, since family firms are more worried about loss of reputation, it can be explained that family firms are less tax aggressive. Therefore, the above arguments lead to the suggestion that the greater the family control through ownership and management, the less aggressiveness there is in the tax planning activities. We hypothesize that:

H1. The power dimension – the family ownership and management – has a negative influence on the family firm's tax aggressiveness.

2.2.2 Experience dimension and tax aggressiveness. Experience refers to the overall background that the family brings to the business during the generation or generations in which it actively participates (Klein *et al.*, 2005). According to Astrachan *et al.* (2002), the maximum level of experience produced by a change in generation occurs between the first and second generations. Thereon, proportionally less value is added in terms of family firm competitiveness. The relationship between the generation of owners and the family character is therefore non-linear. The empirical evidence, nevertheless, has been somewhat different when considering the effects of tax aggressiveness and the consequences.

Several studies (Cagetti and De Nardi, 2009; Molly *et al.*, 2010) affirm that the absence of taxation planning may bring about serious consequences for the survival of a family firm, so families are usually better "tax prepared" with the passing of generations. In this sense, given the huge effort required to ensure the firm remains in the family hands, the passing of generations makes the family better able to put up the necessary liquid money to pay taxes, satisfy the interests of shareholders, and guarantee their well-being. Other scholars (Carlock and Ward, 2001; Kuratko *et al.*, 1994) report that the magnitude of the consequences arising from the ownership transfer mechanisms – taxes and possible loss of control – leads the founder (when he or she is about to pass the baton to the second generation) to perceive the succession process as less dangerous for the continuity of his or her family wealth than if the transfer occurs from the second generation to the following. Thus, it suggests that the second and subsequent generations are more prone than the founder to carry out more tax aggressive activities, considered the importance of taxation magnitude for the family firm and for the members of the family involved in the transfer of generations.

Furthermore, because of the higher explicit costs that the current complicated tax systems can impose on the family firm, the second and subsequent generations usually devote more resources and knowledge to tax planning activities (Carlock and Ward, 2001). The business and family situation is much simpler for the founder. It is only in later generations that there is a real need for taxation planning to face the increasing

taxation duty environment and to ensure that tax errors are not costly or threatening to the competitiveness and survival of the firm. In any case, family firms that survive the first generation usually have better trained, more experienced managers, capable of handling complicated tax issues, and therefore more tax aggressive. Chen *et al.* (2010) point out that this can also be interpreted as a sign that descendant family owners and managers may be more concerned than past generations about the monetary consequences of taxation. Consequently, based on the above arguments, it is expected that the arrival of new generations will stimulate tax aggressiveness in family firms. We therefore hypothesize:

H2. The experience dimension – the family generation in charge of the firm – has a positive influence on the family firm's tax aggressiveness.

2.2.3 Culture dimension and tax aggressiveness. Culture refers to the set of values, attitudes, and motivations that hold sway in the business and the extent to which they are perceived as a conjunction of the business and the family in terms of commitment to the firm. In a family firm, culture is made up of those values that are most deeply rooted in the organization. The culture dimension constitutes that area of intersection between the family and the business that determines that families that are highly committed to the business will have a positive effect on its evolution (Astrachan *et al.*, 2002; Zahra *et al.*, 2008).

According to RBV, successful family firms tend to incorporate family values into their business strategies, policies, and practices (Habbershon and Williams, 1999; Habbershon *et al.*, 2003). Essentially, the building of shared values within the heart of the family increases commitment and consensus in decision making about the business (Astrachan and Jaskiewicz, 2008; Zahra *et al.*, 2008). A strong family-oriented organizational culture has a positive effect on the levels of commitment and loyalty to the family firm (Ward, 2004). Indeed, some empirical evidences (Zahra *et al.*, 2004, 2008) show that this strong, family-oriented organizational culture has a positive influence on the intensity and flexibility of strategic planning in the family firm, facilitating therefore the implementation of tax aggressiveness policies (Sandmo, 2005).

Moreover, family firms showing more commitment to the values of the family entrepreneur/owner exhibit a greater determination concerning taxes (Slemrod, 2004). The tax culture of the family firm is related to the set of attitudes and values of the family owner and the management team, so their attitudes strongly influence the family firm's tax aggressiveness. As the main goal of the family owner – to pass the firm on to later generations – influences the long-term focus, the long-term investment horizon of most family firms decreases the chance of liquidation and makes it easier to pursue risky strategies (Huybrechts *et al.*, 2011), including those related to tax aggressiveness. In that vein, Chen and Chu (2005) show an increasing tax aggressiveness with increasing transfer of personal tax attitudes of the family owner to the business, concluding that the greater the family values in the business, the greater the harmony regarding tax planning activities, and the greater the tax aggressiveness of the family firm (Chen and Chu, 2005; Wenzel, 2005). Thus, empirical evidence suggests that family firms whose family values coincide with those of the business are more tax concerned and it is therefore expected that culture will be positively related to the tax aggressiveness of the family firm. We hypothesize that:

H3. The culture dimension – the alignment of family and business values – has a positive influence on the family firm's tax aggressiveness.

3. Methodology

3.1 Sample and data collection

3.1.1 Sample. The initial population, selected from the OSIRIS database (Van Dyck Bureau of Electronic Publishing), consists of 5,113 private Spanish SMEs – with a number of employees ranging between 25 and 249 – operating in the manufacturing and services sectors. A telephone survey was carried out through a specialized market research firm, *Instituto de Marketing y Estudios*, which conducted the fieldwork within the period from February to March 2011. The questionnaire was directed to the CEO of the firm because his/her position guarantees a thorough knowledge of firm strategies and policies, including those relating to tax policies, as well as the type and intensity of family involvement on the business. The criterion for identifying a firm as a family business was made on the basis of the CEO's self-classification, who was asked to categorize his/her company as family or non-family based, according to whether the family holds enough ownership to control the company, following a procedure similar to previous studies (Sonfield and Lussier, 2004; Westhead and Cowling, 1998). A final sample of 282 family companies that completed the questionnaire was obtained, which supposes a relative response rate of 7.88 percent, taking into account that family firms represent approximately 70 percent of the total population (Collins *et al.*, 2012), and discarding non-family firms in order to guarantee homogeneity in the measurement of family involvement through the F-PEC scale. Although this response rate is not ideal – it can be considered as a slightly lower ratio to other family firm studies with Spanish samples (e.g. Carrasco-Hernández and Sánchez-Marín, 2007; Cruz *et al.*, 2010; Gallo and Villaseca, 1996; Merino *et al.*, 2015) – it is reasonably representative of typical family firms, with a concentrated shareholder base and a high proportion of family members active in management (Lane *et al.*, 2006), which can be a particularly appropriate context for studying the influence of family on the functioning of the firm (Cabrera-Suárez *et al.*, 2014), including taxation policies.

In addition, it is important to point out that our selection of 282 SMEs assures the exclusion of potential tax behavior effects induced by the possibility of the use of a tax consolidation regime. Our condition to select family SMEs has been that they were explicitly subject to the special tax regime of reduced dimensions (i.e. firms with fewer than 250 employees and less than 10 million euros in sales). According to Spanish tax legislation, since firms that are voluntarily subject to the special tax regime of reduced dimensions cannot be subject simultaneously to the special tax consolidation regime (this applies only for a holding in which all companies belonging to a group voluntarily agreeing to tax under a consolidation regime), we are a priori controlling potential tax effects associated with the fact that family firms belong to a group or holding of firms (for a deep review of these issues, see the MHAP, 2011 government report).

3.1.2 Data collection. Two different sources of information have been used to collect the necessary data for this research, combining self-reported measures with archival data for each firm in the sample and then minimizing the risk of common method variance biases (Podsakoff *et al.*, 2003). First, a telephone survey was used to obtain information related to family firm identification and family involvement in the business. Second, information data concerning the financial statements of the companies, including those related to the effective tax rate and book tax gap representing tax aggressiveness measures, were obtained from the OSIRIS database. Likewise, only firms with individual financial statements and balance sheets were

extracted from the OSIRIS database in order to avoid (and control for) peculiarities resulting from consolidated financial statements of firms belonging to a group of companies, which can influence the book tax gap and the effective tax rate (Desai and Dharmapala, 2006; Dyreng *et al.*, 2008).

3.2 Measurement of variables

Tax aggressiveness was measured using the effective tax rate and the book tax gap, while the family involvement was operationalized with the F-PEC instrument for measuring family influence in the business. These variables and the control variables are described below.

3.2.1 Tax aggressiveness. Although there are at least four indicators of tax aggressiveness (Chen *et al.*, 2010), we captured tax aggressiveness by a factor that combines two main measures: effective tax rate and book tax gap. Additional measures of tax aggressiveness are usually slight modifications of these two indicators that partially adjust some potential distortions related to earnings management, an activity usually carried out by the large quoted family firms but to a lesser extent by family SMEs (Chen *et al.*, 2010). Thus, the first measure is the effective tax rate, defined as the ratio between the total tax expenses and the profits before tax, representing the rate of taxation taken by firms (Lin, 2006; Scholes *et al.*, 2009). The tax rate affects the profits of the firm in such a way that the greater the tax rate, the lower the post-tax profits, and vice versa. Several authors (Graham, 1996, 2003; Plesko, 2003; Zimmerman, 1983) have seen this ratio as a robust measure of firms' tax pressure, showing a high correlation with their tax aggressiveness to the extent that firms with a lower effective tax rate are more tax aggressive. We operationalized this measure as follows:

$$ETR_i = \left(TTE_i/PBT_i\right) \times 100$$

where ETR_i is the effective tax rate in period i, TTE_i the total tax expenses in period i; and PBT_i the profit before tax in period i. To avoid biases arising from particular tax circumstances that can affect firms, we used the average effective tax rate for the period 2009-2011 (Dyreng *et al.*, 2008).

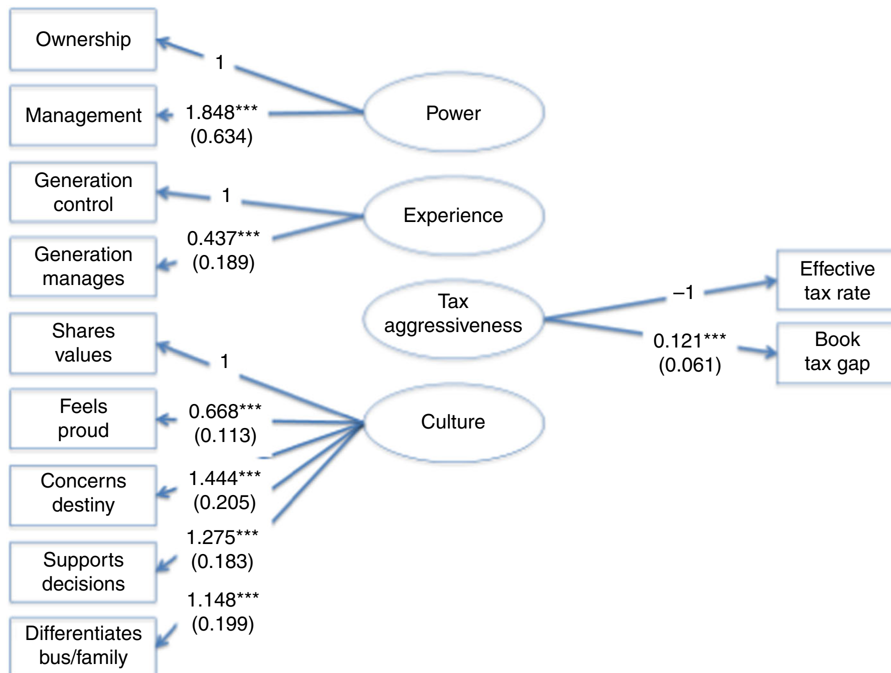
The second measure of tax aggressiveness is the book tax gap, calculated as the difference between the accounting profits before taxes and the taxable base (Desai and Dharmapala, 2006). This is a proper measure of a family firm's tax aggressiveness, since the closer the two variables, the higher the tax payments for the firm, and vice versa. Accordingly, a higher book tax gap can be attributable to more tax aggressive behavior. Specifically, the book tax gap has been operationalized following the recommendations of Manzon and Plesko (2002) and Chen *et al.* (2010), calculating the relationship between the difference in the accounting profits before tax and the taxable base in the current year, and the total assets of the firm in the previous year:

$$BTG_i = (PBT_i - TB_i)/TA_{i-1}$$

where BTG_i is the book tax gap in the period i; PBT_i the profits before tax in the period i; TB_i the taxable base in the period i; and TA_{i-1} is the total assets in the previous period. In this case, the taxable base has been previously estimated as the ratio between the total tax expenses and the national nominal tax rate corresponding to the firm. As in the previous case, biases caused by particular tax circumstances have been avoided by using the average book tax gap for the period 2009-2011.

In terms of global interpretation of tax aggressiveness measures, the confirmatory factor analysis (CFA) (see Figure 1 and Table III in the results section) of the measurement model confirms – by means of proper levels of composite reliability and average variance extracted (AVE) – that tax aggressiveness is accurately represented by the combination of effective tax rate and book tax gap. Considering the estimation (with level of effective tax rate anchored to value −1), the higher the resulting composite factor, the more tax aggressive is the family firm.

3.2.2 Family involvement. To measure the family influence on the business, the F-PEC instrument developed by Astrachan *et al.* (2002) and validated by Klein *et al.* (2005) is adopted. This scale comprises a set of three items to measure the three dimensions (power, experience, and culture) of family involvement. Power has been operationalized through two variables. The first measures the presence of the family in the business according to the proportion of family ownership (ownership) which has been coded in four categories: less than 50 percent; between 50 and 74 percent; between 75 and 99 percent; and 100 percent ownership in the hands of the family. The second variable measures the percentage of family members in the management of the company (management) and has also been coded in four categories: less than 10 percent; between 10 and 49 percent; between 50 and 79 percent; and 80 percent or more family members in the top management team of the firm. Experience has been measured using two variables representing the family generation that controls or



Notes: Factor loadings estimations for the measurement model. Standard errors are in parentheses. Root mean square error of approximation (RMSEA) = 0.083; non-normed fit index (NNFI) = 0.810; standardized root mean square residual (SRMR) = 0.091. ***$p < 0.01$

Figure 1. Conceptual diagram of measurement model

manages the firm (generation control and generation manages, respectively), each with three categories coded as: the founder or first generation; the second generation; and the third or subsequent generations. Finally, culture has been measured using five items on a five-point Likert scale (from 1 being "totally disagree" to 5 being "totally agree") regarding the following propositions: the family owner shares similar values to those of the business (shares values); feels proud of the business (feels proud); is concerned about the business's destiny (concerns destiny); understands and supports the decisions regarding the future of the business (supports decisions); and differentiates the business aspects from those of the family (differentiates bus/family).

3.2.3 Control variables. The most significant accounting and finance literature regarding potential variables affecting tax aggressiveness (Chen *et al.*, 2010; Desai and Dharmapala, 2006; Dyreng *et al.*, 2008; Manzon and Plesko, 2002; Monterrey and Sánchez, 2010; Sánchez-Marín *et al.*, 2011) allows for the identification and inclusion in the empirical estimations several control variables. Tax aggressiveness is systematically associated mainly with three sets of firm attributes, capturing: firm profitability and leverage[2]; capital intensity and intangible assets; and firm size and type of industry. We measure firm profitability as return on assets (ROA); firm leverage as long-term debt scaled by total assets; intangible assets as intangible assets scaled by total assets; firm size as the average number of employees (in logarithm); and industry as a firm's sector by a CNAE three-digit code (similar to the corresponding SIC code in the USA) and then reclassified as a dummy variable that takes the value 1 if the firm belongs to the manufacturing industry and the value 0 otherwise.

The final list of the variables involved in the analysis and their measures is presented in Table I.

Variable label	Description	Construct
Ownership	Percentage of family ownership of the company	Power
Management	Percentage of family members in the management of the company	
Generation control	Family generation that control the company	Experience
Generation manages	Family generation that manages the company	
Shares values	Family shares company's values	Culture
Feels proud	Family feels proud of the business	
Concerns destiny	Family is concern about business destiny	
Supports decisions	Family supports decisions about the future	
Differentiates bus/family	Family differentiates family and business	
Effective tax rate	Ratio between the total tax expenses and the profits before tax	Tax aggressiveness
Book tax gap	Difference between the accounting profits before taxes and the taxable base	
ROA	Firm's profitability based on return on assets (ROA)	Control
Leverage	Firm's long-term debt scaled by total assets	
Intangible	Firm's intangible assets scaled by total assets	
Firm size	Log of the average number of employees in the firm	
Industry	Dummy variable taking value 1 if industry belongs to manufacturing sector and value 0 otherwise	

Table I. Measurement of variables

4. Results

4.1 Descriptive statistics of observed indicators

In total, 11 observed indicators were initially proposed for the model. The descriptive statistics of all these indicators – and those corresponding to the control variables – are contained in Table II. As indicators of tax aggressiveness, effective tax rate returns an average of 23.8 percent (with a standard deviation of 0.066) tax paid by family firms of the sample, whereas the book tax gap is 0.0025 (with a standard deviation of 0.023). The correlations among variables are between a minimum of 0.007 and a maximum of 0.714 and, in general, show low magnitude. Nevertheless, we calculated the variance inflation factor to quantify the severity of multicollinearity, confirming that correlations are within acceptable limits.

As indicators of power, in 82.1 percent of the family firms, the whole company belongs to the family, indicating a highly concentrated power of families in our sample of firms. However, the proportion of family managers is more balanced, with just 35.8 percent of the firms having 80 percent or more managers belonging to the family. As indicators of experience, 50.9 percent of family firms are controlled by the first generation, 35.0 percent by the second and 14.1 percent by the third and subsequent generations. Regarding the generation that manages family firms, 44.3 percent correspond to the first generation, 34.1 percent to the second and 15.2 percent to the third and subsequent generations. Finally, the indicators proposed for the latent culture dimension, regarding the influence of the family in several aspects related to the values and culture of the family in the business (measured on a five-point Likert scale) show, with average scores of over four, high cultural involvement of the family in the business, as well as great overlap between family and business values.

4.2 Structural equation model estimations

The relationship between family involvement and tax aggressiveness is analyzed through SEM estimations. Although it is possible to arrive at a solution in just one step through a full information estimation method like the one provided by EQS software, Anderson and Gerbing's (1988) two-step approach is preferred here. First, a confirmatory measurement model specifies the free correlations of the indicators with their constructs; second, a confirmatory structural model specifies, and estimates, the relationships between the constructs.

The most common method for estimating and testing SEM is the maximum likelihood, assuming a multivariate normal distribution of the data. Thus it is important to know the distributional properties of the variables used and, where needed, to provide the necessary corrections. In our case, although the continuous variables (i.e. effective tax rate and book tax gap) had a distribution close to normal, the presence of discrete variables, such as those derived from Likert scales, causes a lack of the desired multivariate normality distribution in the data, as the Mardia test reveals. After studying several alternatives, the ML Robust estimations provided by EQS 6.1 were used, including the corrections proposed by Satorra and Bentler (1994), among others interesting outputs. (See Yuan *et al.*, 2005 for an in-depth explanation of the consequences of negligent use of SEM and alternatives in making inappropriate inferences.)

4.2.1 Measurement model and CFA. As proposed by Anderson and Gerbing (1988), the SEM begins with an investigation of the measurement structure underlying the set of observed variables by means of a CFA. Once the estimated values of the parameters were studied, some of the initially proposed indicators had to be rejected, as their standard errors were too high. In these cases, as the parameter is not significantly

Table II.
Descriptive statistics and correlations

	Mean	SD	Ownership	Management	Generation control	Generation manages	Shares values	Feels proud	Concern destiny	Supports decisions	Differentiates buss/family	Effective tax rate	Book tax gap	ROA	Leverage	Intangible	Firm size	Industry
Ownership	3.669	0.769	1															
Management	2.698	1.185	0.139	1														
Generation control	1.655	0.802	−0.085	−0.005	1													
Generation manages	1.740	0.787	−0.048	−0.013	0.383	1												
Shares values	4.455	0.838	0.130	0.063	0.068	0.008	1											
Feels proud	4.810	0.480	0.060	0.014	−0.059	−0.030	0.407	1										
Concerns destiny	4.772	0.679	0.082	−0.040	−0.083	0.013	0.441	0.509	1									
Supports decisions	4.666	0.673	0.181	−0.035	−0.020	0.024	0.326	0.414	0.714	1								
Differentiates bus/family	4.169	1.068	0.097	−0.058	0.013	0.007	0.284	0.319	0.340	0.391	1							
Effective tax rate	0.238	0.066	0.234	0.221	−0.318	−0.178	0.044	0.139	0.071	0.009	0.060	1						
Book tax gap	0.002	0.023	−0.092	−0.212	0.054	−0.060	−0.116	−0.049	−0.011	−0.012	−0.011	−0.103	1					
ROA	2.612	12.04	−0.003	−0.050	−0.091	−0.053	0.087	0.092	0.005	−0.067	−0.011	0.052	−0.183	1				
Leverage	0.175	0.172	−0.020	−0.256	−0.104	0.005	0.004	0.048	0.010	−0.002	0.021	−0.176	0.169	−0.367	1			
Intangible	0.017	0.017	0.056	0.048	−0.003	−0.079	−0.019	0.070	−0.205	−0.123	0.078	−0.133	−0.064	0.013	0.160	1		
Firm size	4.068	0.648	0.005	0.188	−0.097	0.006	0.033	−0.074	0.012	0.045	−0.051	0.040	−0.006	0.088	−0.107	0.110	1	
Industry	0.609	0.488	0.024	−0.031	0.009	0.058	−0.096	−0.092	0.019	0.068	−0.021	0.188	−0.164	−0.108	−0.036	−0.017	−0.144	1

Note: Correlations greater than 0.135 are significant at $p < 0.05$ and correlations exceeding 0.180 are significant at $p < 0.01$ (two-tailed)

different from 0, the correspondent indicator should be considered as not relevant for the construct, and removing it from the model will not make the fit of the model significantly worse (Bentler, 1998). The results of the final measurement model are presented in Figure 1. The value 1 is used as the starting value in every construct except in tax aggressiveness (with a value of −1), given that positive values of effective tax rate are inversely related to the level of tax aggressiveness of the family firm.

We investigated the psychometric properties of these measures (reliability and validity) through the composite reliability index (Bagozzi and Yi, 1988) and the AVE index (Fornell and Larcker, 1981). The results are presented in Table III. In all cases, both indexes exceed the recommended benchmark of 0.60 and 0.50, respectively. Other evidence of discriminant validity among the dimensions was provided by two different procedures recommended in the literature: the 95 percent confidence interval constructed around the correlation estimate (ϕ matrix in LISREL notation) between two latent variables never includes a value of 1 (Anderson and Gerbing, 1988); and the comparison of the square root of the AVE with the correlations among constructs reveals that the square root of the AVE for each component is greater than the correlation between components, supporting discriminant validity (Fornell and Larcker, 1981). This situation appears in our case. Multiple criteria were used to measure the overall fit of the model ($\chi^2_{41} = 97.418$, CFI = 0.853, GFI = 0.926, RMSEA = 0.081), all of them good enough to accept the proposed measurement model.

4.2.2 Structural equation model. Once the measurement model is established through the CFA, one of the constructs, tax aggressiveness, is considered an endogenous latent variable ($\boldsymbol{\eta}$) in order to form a full structural equation model with the following structure:

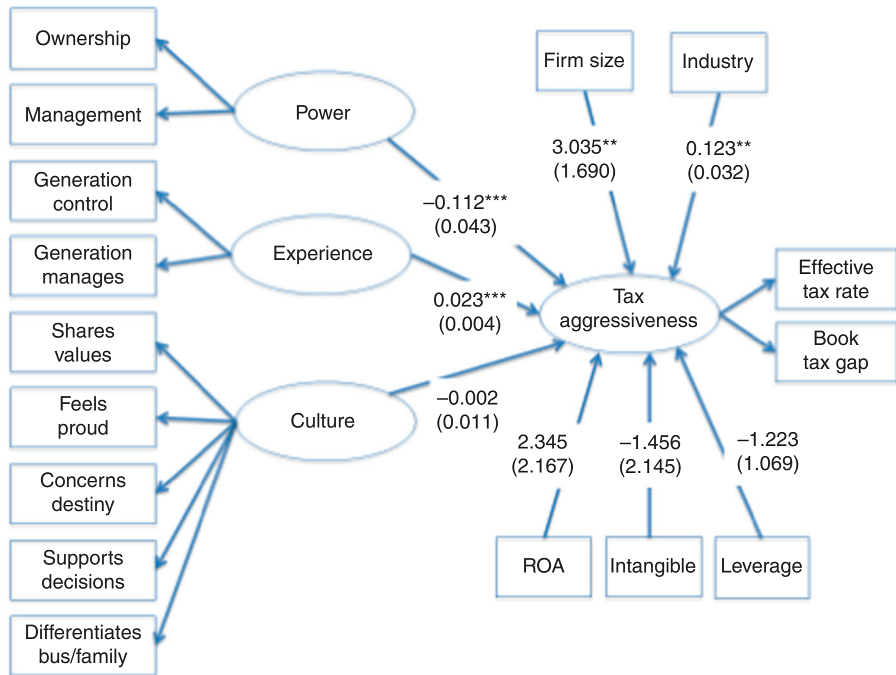
$$\boldsymbol{\eta} = \Gamma \xi + \zeta$$

where the matrix Γ is formed by the loadings y_{ij} that link the endogenous construct (tax aggressiveness) to the exogenous ones (power, experience, and culture). The plot in Figure 2 shows the relationships initially proposed within the latent variables. Because of space constraints, not all the output is presented here, but there were no improper solutions.

Regarding the fitting of the model, the recommendation of Hu and Bentler (1998) is followed, providing one index for each one of the three possible types of index: absolute fit indexes, relative fit indexes, and average of standardized residual indexes. An SEM program may print up to twenty indexes; EQS 6.1 prints out ten – of course some of them closely related. As the absolute fit index, the most popular measure is Steiger's root mean square error approximation, typically denoted as RMSEA. Values close to 0 are desired. In this case, the value is exactly 0.056. In order to obtain the relative fit index, EQS automatically adjusts an independent model as the baseline model and several indexes compare the alternative models. As an index to summarize this group of indexes, the non-normed fit index is selected, which has a value of 0.932. In this

	Tax aggressiveness	Power	Experience	Culture
Number of items	2	2	2	5
Composite reliability	0.696	0.725	0.899	0.845
Average variance extracted	0.535	0.571	0.690	0.527

Table III. Construct reliability and validity



Notes: Standard errors are in parentheses. $\chi^2 = 53.235$ based on 42 degrees of freedom. p-value = 0.02037; root mean square of approximation (RMSEA) = 0.056; adjusted goodness-of-fit index (AGFI) = 0.905; standardized root mean square residual (SRMR) = 0.059. $^{**}p < 0.05$; $^{***}p < 0.01$

Figure 2.
Conceptual diagram of structural model

index, as in NFI, higher values indicate better fit, but have the advantage that they do not depend on the sample size as NFI does. Finally, the standardized root mean squared residual is selected as a measure to summarize the residuals. It yields a value of 0.059, which is again a very good result.

In a nutshell, as the factor loading in Figure 2 reveals, culture is not a significant determinant of tax aggressiveness, although power and experience are. To begin with, the power dimension has a negative and significant direct effect on tax aggressiveness equal to −0.112 with a standard deviation of 0.043 (t-value = −2.604). Thus, *H1* is confirmed: the greater the family control of the company through ownership and family management, the less incentive there is to carry out tax aggressiveness. The effect of experience on tax aggressiveness is positive at 0.023, with a standard deviation of 0.004. The t-value is equal to 5.75 and the parameter is again significant. Thus, *H2*, which proposes that the arrival of new generations (experience dimension) is seen as a positive element to encourage tax aggressiveness, is also confirmed.

Results obtained for the culture dimension lead us to reject *H3*. The γ obtained, −0.002, has the expected sign but its standard deviation is equal to 0.011, which gives a t-value of −0.1819. Thus, we cannot allow that this γ coefficient is equal to 0 and, consequently, we cannot affirm that family firms, whose family values coincide with those of the company, develop higher tax aggressiveness activities and, therefore, the cultural dimension does not have significant influence on tax aggressiveness of the family firm.

Finally, we can obtain some additional interpretations of the tax aggressiveness behavior of our firms in the sample by means of the control variables considered. As can be seen in Figure 2, only firm size and industry have a significant influence on a firm's tax aggressiveness. Specifically, on the one hand, the greater the firm size, the more tax aggressive it is, which is consistent with most tax literature. On the other hand, manufacturing firms have a more aggressive behavior concerning taxes than firms in services sector, characterized by a lower level of management professionalism, affecting tax management. Concerning ROA, intangible assets, and leverage, our model does not exhibit any significant relationships, likely because their effects are already gathered in the firm sized and industry.

In short, the approach taken shows that the tax behavior of family firms is conditioned not only by questions of family control, but also by aspects relating to the global family influence on the business: tax aggressiveness of family firms is negatively influenced by factors relating to the power of governance (ownership and management) of the family, and positively influenced by elements relating to the experience and knowledge of the family generation at the head of the firm.

4.3 Robustness analysis

Bootstrapping of samples was used to check the robustness of the results achieved. The idea of this method is simple but useful: assuming that the sample is representative of the population, and the sample size is large enough, it can be expected that the empirical distribution of the bootstrapped samples will approach the population distribution. It is precisely the ability of bootstrapping to estimate sampling distributions without severe conditions in parametric models such as multivariate normality that makes this method appealing here (see Efron and Tibshirani, 1993 for an excellent review and Yung and Bentler, 1996 for a deeper explanation of the technical implications of the use of bootstrapping methods in SEM). The EQS 6.1 program presents three methods for resampling: jacknife, naïve bootstrap, and model-based bootstrap. The latter is the one legitimated for SEM evaluation (Bollen and Stine, 1993).

The selected sample size was equal to 209 cases and 3,000 replications. These were sampled independently and repeatedly from the existing data file (the draws done with replacement) until the desired number of cases had been selected. For each of the samples, EQS ran the specified model, saving all the statistics and estimated parameters. A normal output file was produced, including a summary of each replication. Furthermore, a specific file, with the ETS extension, provided data in free format to be analyzed in any statistics package. In this study, up to 168 items (including all the fitting indexes, co-variances, parameter estimations, standard errors, etc.) are available for each of the 3,000 replications. Table IV summarizes the same global indexes as are discussed in the previous section.

Regarding the factor loadings and γ coefficients, only the values of the parameters that are more relevant to our purpose are presented, related to the influence of the family involvement – through the dimensions of power, experience, or culture – on the tax aggressiveness of the family firm. The boxplot presented in Figure 3 gives a clear view of the bootstrap results for the 3,000 replications. The findings confirm the effect of the interaction of the family with tax aggressiveness. The power is clearly negative, although some estimations are positive, including some outliers. The same circumstance appears in the experience dimension: it is positive but, given the relatively high standard deviation, some negative estimation also occurs. Theoretically,

it might happen that in a case out of 3,000 the parameters are found to have the opposite sign. The culture, with its smaller variability, cannot be said to differ significantly from 0. Thus, given the non-parametric nature of the resampling methods, we consider that these results make the findings valid and robust.

5. Conclusions and discussion

While most of the literature holds that large, publicly quoted family firms are less tax aggressive than their non-family firm counterparts, using theoretical arguments based mostly on the higher risk taking of the family firms (Chen *et al.*, 2010; Desai and Dharmapala, 2006; Monterrey and Sánchez, 2010), few studies are concerned with how other aspects related to the family involvement influence the taxation behavior differences among private, small, and medium-sized family firms. Based on the potential heterogeneity of family firms (Chua *et al.*, 2012), this paper examines to what extent the degree of family involvement in the business, by means of unique combinations of family influence (Chrisman *et al.*, 2003; Habbershon and Williams, 1999), explains differences in the tax aggressiveness of a sample of 282 Spanish family SMEs. Our findings offer empirical evidence for the consistency of the relationships between F-PEC dimensions of family influence on business (Astrachan *et al.*, 2002; Klein *et al.*, 2005) – regarding power (family ownership and management), experience (generational situation and level of accumulated experience), and culture (family values that determine the business culture) – and the tax aggressiveness of family firms.

Table IV. Resampling with model-based bootstrap (3,000 replications)

	RMSEA	NNFI	SRMR	AGFI
Mean	0.063	0.912	0.051	0.877
SD	0.017	0.096	0.031	0.034
Skewness	2.124	−4.632	0.24	−3.550
Lower 25%	0.046	0.816	0.022	0.844
Upper 25%	0.079	0.9	0.073	0.911

Notes: The values of the indexes in the structural model estimated above are: root mean square of approximation (RMSEA) = 0.056; adjusted goodness-of-fit index (AGFI) = 0.905; standardized root mean square residual (SRMR) = 0.059; non-normed fit index (NNFI) = 0.932

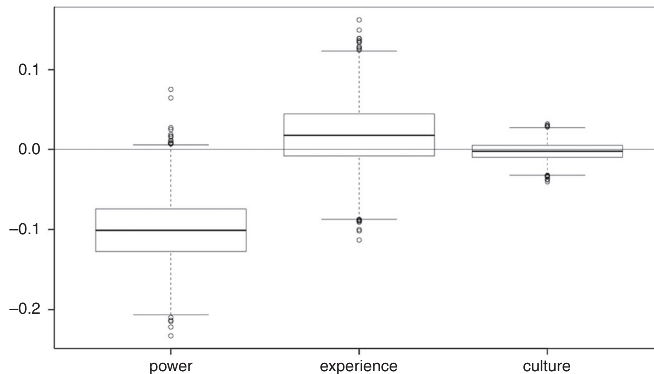


Figure 3. Boxplot of the γ parameters reestimated by bootstrapping

Using an SEM approach to analyze simultaneously the interactions among the three dimensions of family involvement and tax aggressiveness, our results show that while the power dimension is negatively related to tax aggressiveness, the experience dimension is positively related to it. No significant results are found, however, for the culture dimension. We provide more details of the findings hereafter. First, consistent with most of the literature (Chen *et al.*, 2010; Desai and Dharmapala, 2006; Monterrey and Sánchez, 2010), we find that family firms with a greater power dimension are less tax aggressive. However, unlike past studies, our explanation relies less on risk aspects associated with the family ownership than on factors related to the family's resources and capabilities, considering our sample of non-quoted family SMEs. In that regard, we believe that family owners might prefer to waive possible tax benefits if this helps to avoid a bad reputation and legal problems (Desai and Dharmapala, 2006), choosing to preserve the family wealth in the firm (Deephouse and Jaskiewicz, 2013; Gomez-Mejia *et al.*, 2007). Higher family ownership concentration leads to a greater concern for issues related to reputation and the harm that a tax audit might produce (Deslandes and Landry, 2011; Morris *et al.*, 1997). These concerns outweigh the possible benefits of tax aggressive behavior and lead the firm to avoid assuming additional risk (Chen *et al.*, 2010). Moreover, the higher the percentage of family members occupying managerial positions, the lower the tax aggressiveness (Ahmed and Braithwaite, 2005; Bjuggren and Sund, 2005). Since family managers are not usually tax experts, especially in the early stages of the family business, they forego tax aggressiveness. Additionally, employing specialists is costly for family firms, which are usually small-sized business with few resources, and once again they are dissuaded from carrying out tax planning activities (Scholes *et al.*, 2009).

Second, family firms with greater influence in the experience dimension are more tax aggressive (Cagetti and De Nardi, 2009; Molly *et al.*, 2010). Our results highlight that the passing of generations means family firms can devote more resources and knowledge to preparing tax strategies that reduce the amount of tax paid, either by training their internal managers or by employing external consultants. In that regard, the generation controlling the company, representing the age of the firm, can be interpreted, following Chen *et al.* (2010), as a proxy for a firm's sophistication: family firms of the second and subsequent generations are less tax sophisticated than those of the first generation, because they are, on average, older and firms learn by experience in managing businesses. Moreover, the passing of generations also means that family relationships are more complex, so it becomes more necessary to reduce the tax burden through more tax aggressive behavior in order to guarantee the future of the business, since non-compliance with taxation may be more costly and have a greater impact on the firm and on the family reputation (Carlock and Ward, 2001; Huybrechts *et al.*, 2011; Kuratko *et al.*, 1994).

Third, concerning the culture dimension, it was expected that family firms that believe the family's destiny is linked to that of the business (greater culture dimension) would be tax aggressive (Casson, 1999; Chen and Chu, 2005; Slemrod, 2004). However, this hypothesis was not confirmed. Several factors may explain this result. On the one hand, it may be related to the possible lack of an ethical vision on the part of the family owners regarding tax accomplishment, which can be influenced by feelings of inequity in the tax system between small and medium-sized family firms (as is the composition of our sample) and those of the larger family firms (Casson, 1999). On the other hand, another factor that may affect this dimension is the lack of alignment between the tax culture of the family owners as individuals and that of the family firm, as a consequence of the strict separation between the corporate legal form of the firm and

the family wealth (Chen and Chu, 2005), something more and more usual in the case of family businesses which can lead to diverse tax planning strategies, depending on the kinds of asset. Additionally, since family owners and managers reach a greater degree of utility depending on security, emotional well-being and family cohesion (Astrachan and Jaskiewicz, 2008), they can reject an oriented tax aggressive policy that imposes an excessive threat to socioemotional wealth preservation (Gomez-Mejia *et al.*, 2007).

Furthermore, in view of the magnitude of the coefficients that SEM exhibits, our results highlight that the more influential dimension (in negative terms) in the tax aggressiveness of the family firms is the power of the family in the business in terms of ownership and management, as expected and as literature has reflected to date (Chen *et al.*, 2010; Monterrey and Sánchez, 2010). In contrast, the experience dimension has a significant (and positive) effect on tax aggressiveness, this influence being in the opposite direction to that of family power. Nevertheless, some reflections must be added regarding the potential interaction between these two dimensions. While the family generation that manages the company (experience dimension) represents the knowledge and experience background that to some extent determines tax aggressiveness, the presence of qualified family members in the management (power dimension) could also reflect the level of knowledge or professionalism of the management team. So, which is more important – the characteristics of the CEO or the family generation that manages the firm? Using the F-PEC scale, it is not possible to answer the question regarding under what circumstances the family generation limits the technical decisions of the CEO.

Therefore, the general findings affirm that tax aggressiveness in family firms is a complex activity that must be explained from a global point of view, considering control and contractual issues, but also taking into account the organizational factors that define the whole character and nature of the relationships between the family and the business (Habbershon *et al.*, 2003; Pearson *et al.*, 2008). With this investigation, we thus contribute both theoretically and empirically to extend this line of research by considering the heterogeneity of family firms (Chua *et al.*, 2012) in explanations of their differences in tax aggressiveness based on different unique combinations of family influence on business, including not only ownership, but also management, and generational and cultural aspects related to the orchestration of family firms' resources and capabilities (Chrisman *et al.*, 2003; Huybrechts *et al.*, 2011). In that regard, the context of family SMEs – representing archetypal family firms with concentrated family shareholders, lower levels of management sophistication, and special concerns about family values and reputation (Lane *et al.*, 2006; Michiels *et al.*, 2013) – contribute to obtaining a broader and more comprehensive picture of the influence of the family on the taxation policies of the firm.

This paper is not exempt from limitations. First, our empirical evidence has been based solely on a contextualized (geographically and temporarily) sample of Spanish family firms, which can limit the generalizability of the results. The period of data collection in 2011, during which the Spanish economy was still immersed in a strong economic crisis, could have a serious influence on our results, exerting a positive effect on the tax aggressiveness of family firms as a consequence of the decline of revenues and profitability, distorting their regular tax behavior. It would be interesting, in further research, to compare with other periods and economic contexts the relationship between family involvement and tax aggressiveness, as well as the differences between family and non-family firms in terms of tax aggressiveness. Second, tax aggressiveness analysis has been based on the accounting information about corporate tax; however, it

would be useful to take into account other taxes, such as value added tax, patrimonial transmissions, or inheritance tax, which could provide valuable information about the overall taxation behavior of the firms, although the lack of data available to the current study prevents the carrying out of this additional analysis. Third, the empirical results may be affected by the existence of related party transactions occurring between family members and the firm, especially when the ownership structure is highly concentrated and generates higher incentives to engage in these practices. Finally, from the methodological point of view, the non-normality of some of the involved variables has implied the use of the SEM may have some technical limitations. Although the resampling estimation with bootstrapping has hopefully somehow reduced the impact of the lack of normality, other methods and databases might be used in the future to double check the findings presented here. Nevertheless, this paper serves as a first step for future developments in this research field, which could analyze other variables besides family involvement and tax aggressiveness, and therefore add new knowledge about the behavior of family firms regarding tax accomplishment.

Finally, in terms of the practical implications of this paper, we can highlight several important aspects. First, tax aggressiveness in family firms compared to non-family firms is an extremely complex activity that should be managed from a global point of view regarding the influence of the family in the management of the firm's taxation policies. Second, managers should compensate for the global negative influence of family governance on tax aggressiveness – considering both family ownership and family management – with the positive effect of the incorporation of new family generations in order to obtain a proper and balanced tax management that contributes to the sustainability of family firms. Third, and closely related to the second aspect, the specific potential risks associated with a higher level of tax aggressiveness can be perceived differently by family owners, who must adjust their tax management approaches, balancing the need to reduce tax payments against the associated socioemotional effects (either positive or negative) in terms of family relationships. Finally, in the context of government and institutions, our results can serve as a guide for the development of family-specific tax and fiscal policies that facilitate and stimulate the tax aggressiveness of family firms in order to contribute to their competitiveness.

Notes

1. According to Chen *et al.* (2010), tax aggressiveness encompasses tax planning activities that are legal as well as activities that are illegal. Thus, tax aggressive activities do not necessarily indicate that the firm has done anything improper.
2. We have omitted "foreign ownership" as a potential control variable belonging to the first group of firm attributes influencing tax aggressiveness as we have checked in the OSIRIS database that none of 282 family SMEs in our sample has had the participation of foreign companies acting as a majority or dominant shareholder.

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