

DOI: [10.55643/fcaptop.5.64.2025.4847](https://doi.org/10.55643/fcaptop.5.64.2025.4847)

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Received: 29/05/2025

Accepted: 13/10/2025

Published: 31/10/2025

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# FAMILY OWNERSHIP, BOARD INDEPENDENCE, AND FINANCIAL REPORTING QUALITY IN VIETNAMESE FAMILY ENTERPRISES

## ABSTRACT

This study examines the impact of family ownership on financial reporting quality and analyzes the moderating role of board independence within the context of family-owned enterprises in Vietnam. While existing research has yielded mixed results regarding the relationship between ownership structure and financial reporting quality - particularly in developed economies - empirical studies in emerging markets, where institutional frameworks and cultural norms differ significantly, remain limited. Drawing on agency theory, stewardship theory, and social capital theory, this study develops a conceptual framework that reflects both the potential benefits and inherent risks associated with family control. A quantitative research design was adopted, employing cross-sectional survey data collected from 387 family businesses operating in three key sectors: manufacturing, services, and agriculture. Core constructs - namely, family ownership, board independence, and financial reporting quality - were measured using validated multi-item Likert scales. The study applied hierarchical regression analysis to test both direct and moderating effects. The results indicate that family ownership positively influences financial reporting quality, suggesting that elements such as family legacy, long-term orientation, and reputation contribute to greater transparency and integrity in financial disclosures. Furthermore, the study finds that board independence plays a significant moderating role, substantially reinforcing the positive effect of family ownership on financial reporting quality. These findings underscore the critical importance of governance mechanisms in enhancing financial transparency in family firms, particularly within institutional environments that are still evolving, such as that of Vietnam. This research contributes to the extension of corporate governance theory and agency theory, particularly in the context of developing economies. By clarifying the role of family ownership and board independence, the study offers new insights into the operation of internal control mechanisms. It also provides practical implications for policymakers, regulatory bodies, and family business leaders. In particular, it highlights the value of empowering independent directors and strengthening internal governance structures to improve financial reporting quality and bolster stakeholder confidence in the private sector.

**Keywords:** board independence, corporate governance, family business, family ownership, financial reporting quality, internal monitoring mechanisms, Vietnam

**JEL Classification:** G32, G34, M41

## INTRODUCTION

Financial reporting quality (FRQ) refers to the extent to which financial statements provide information that is relevant, accurate, complete, and unbiased (Dechow et al., 2010). High-quality financial reporting is foundational to the integrity of capital markets and the effectiveness of corporate governance. It enhances transparency, reduces information asymmetry, and enables stakeholders - including investors, creditors, regulators, and shareholders - to make informed economic decisions (Dechow & Dichev, 2002; Bushman & Smith, 2001). In family businesses, which often strive to balance personal interests with shareholder value, ethical dilemmas in reporting practices may arise (Anderson & Reeb, 2003; Nugroho et al., 2023). Moreover, in developing countries where the legal frameworks for accounting, auditing, and financial disclosure are still evolving, financial reporting quality becomes even more critical to improving market efficiency

(La Porta et al., 1998). Numerous studies have documented a positive correlation between robust legal frameworks and financial transparency (Metalia et al., 2021).

In Vietnam, family-owned businesses (FOBs) form the backbone of the economy, comprising a significant portion of the private sector. According to the Vietnam Association of Small and Medium Enterprises (VINASME, 2021), approximately 70% of private companies in Vietnam are family-owned, contributing over 50% of GDP and accounting for 80% of private-sector employment. These businesses are especially prevalent in traditional sectors such as manufacturing, agriculture, and retail. Many of them now face unique governance challenges, as most were established in the 1990s and early 2000s and are entering their third decade of operation. This transitional phase often involves succession planning, management professionalization, and resolving governance issues that may impact financial reporting quality.

Family businesses are characterized by concentrated ownership, overlapping family interests, and a desire to preserve socioemotional wealth (Gómez-Mejía et al., 2007). These characteristics significantly influence how firms approach financial reporting. On one hand, family owners may prioritize reputation and long-term legacy, which can encourage adherence to accounting regulations and more transparent reporting (Calabrò et al., 2021). On the other hand, the lack of external oversight and a desire to maintain control may create incentives for earnings management or selective disclosure (Ali et al., 2007).

Despite the growing economic importance of family businesses in Vietnam, concerns remain about the inconsistency and reliability of their financial reporting. Recent assessments by the Vietnam Chamber of Commerce and Industry (VCCI, 2023) indicate widespread issues in compliance with Vietnamese Accounting Standards, particularly among family-owned small and medium enterprises. Common problems include delayed reporting, incomplete disclosures, and ineffective internal control systems.

While several international studies have examined the impact of ownership structure on financial reporting quality (e.g., Fan & Wong, 2002; Ali et al., 2007; Wang, 2006; Yasser et al., 2017), there is still a notable lack of empirical evidence from developing economies like Vietnam, where institutional weaknesses and informal business practices may alter the dynamics observed in more developed countries. Existing research in Vietnam has mostly focused on broader aspects of corporate governance and financial reporting. For instance, some studies have explored the impact of corporate transparency on firm performance (e.g., Pham et al., 2025), while others have investigated compliance with accounting standards in small and medium enterprises (e.g., Do et al., 2025). A few studies have examined the role of independent auditing in enhancing financial reporting quality (e.g., Hung, 2023; Ha & Hung, 2024). However, very few studies have specifically explored the impact of family ownership on financial reporting quality, particularly when moderated by internal governance mechanisms such as board independence.

Therefore, this study was conducted to achieve the following specific objectives:

1. To assess the impact of family ownership on financial reporting quality.
2. To evaluate the moderating role of board independence in this relationship using empirical data from Vietnamese family businesses.
3. To propose recommendations for improving corporate governance and financial reporting quality in Vietnamese family firms.

The uniqueness of this study lies in both its contextual focus and methodological approach. While previous research has primarily addressed ownership and governance issues in publicly listed or foreign-invested firms, this study is among the first in Vietnam to apply a quantitative, survey-based method targeting family-owned businesses across diverse sectors such as manufacturing, agriculture, and services. This approach enables the collection of company-level insights and governance practices that are often not captured in secondary financial data. In doing so, the study contributes to the ongoing debate on the dual role of family ownership, which can both support and hinder financial reporting practices. It offers valuable insights for policymakers and regulators aiming to strengthen governance frameworks and promote board independence in the private sector. For family business owners, the findings may inform decisions related to succession planning, governance reform, and enhancing transparency in Vietnam's evolving corporate financial landscape.

The paper is organized as follows: The next section outlines the theoretical framework and development of research hypotheses. Section 3 presents the research methodology. Section 4 discusses the results and empirical findings. Finally, Section 5 provides the conclusion and contributions of the study.

## LITERATURE REVIEW

### *Theoretical foundations*

#### *Agency theory*

Agency theory explores the conflicts that arise from the separation of ownership and control in business organizations (Jensen & Meckling, 1976). In family firms, traditional principal-agent conflicts between shareholders and managers may be mitigated due to the overlapping roles of ownership and management. However, conflicts often emerge between majority family shareholders and minority stakeholders, particularly when family owners prioritize personal interests over collective welfare (Mansouri et al., 2024). Such conflicts can exacerbate information asymmetry, leading to financial disclosures that do not accurately reflect the firm's economic reality (Baralexis, 2004). For example, concentrated family ownership may encourage earnings manipulation to divert resources or conceal poor performance, as evidenced in Jordanian firms where family ownership was associated with accrual-based earnings management (Šodan et al., 2023). These findings illustrate the dual role of family ownership: while the alignment of interests can reduce agency costs, entrenched control may undermine financial reporting quality by limiting external oversight.

#### *Stewardship theory*

Stewardship theory posits that family owners often act as stewards rather than agents driven by self-interest, emphasizing long-term sustainability over short-term gains (Davis et al., 1997). This perspective highlights non-financial goals, such as the preservation of socioemotional wealth - an embodiment of family reputation, legacy, and emotional attachment to the business (García-Sánchez et al., 2019). In Vietnam, where family firms dominate the private sector, stewardship-oriented behavior may enhance financial reporting quality by promoting transparency and ethical reporting practices. For instance, family-owned firms with strong stewardship values are less likely to engage in earnings management, as their focus on intergenerational continuity aligns with accurate financial disclosures (Khuong et al., 2022). However, the effectiveness of stewardship depends heavily on the governance structure. Without independent oversight, familial loyalty may rationalize opaque reporting to protect socioemotional assets (Sorenson & Milbrandt, 2023). Thus, this theory complements agency theory by emphasizing ethical behavior and family cohesion as potential counterbalances to traditional agency risks.

#### *Social capital theory*

Social capital theory emphasizes the role of relationships and trust in shaping organizational behavior (Mansouri et al., 2024). In family firms, strong social ties among family members can reduce transaction costs and foster cooperative decision-making, potentially enhancing financial reporting quality through consistent internal control practices (Bergstresser & Philippon, 2006). For example, intra-family trust may lessen the need for costly monitoring mechanisms, as seen in French family firms where close-knit networks were positively associated with earnings relevance (Feng et al., 2011). Conversely, excessive reliance on internal social capital may isolate family firms from external scrutiny, creating governance blind spots. In Croatia and Slovenia, family-controlled firms exhibited lower earnings quality when social capital overshadowed formal governance checks (Erickson et al., 2006). This duality underscores the need to balance relational capital with independent governance structures to mitigate financial reporting risks and prevent collusive behavior.

### *Hypothesis development*

#### *Family ownership and financial reporting quality*

A firm is considered family-owned when a single family or founding family holds a significant equity stake (typically at least 20–30%) and is actively involved in managing or governing the business (Anderson & Reeb, 2003). This definition emphasizes both concentrated ownership and the direct involvement of family members in decision-making, either through executive roles or representation on the board of directors. Expanding on this, Miller et al. (2007) argue that family ownership extends beyond mere shareholding to encompass intergenerational intentions, family values, and socioemotional wealth, suggesting that a family exerts control when it influences company strategy or decisions through ownership, board membership, or management participation, and views the firm as a legacy to be passed on to future generations.

From a stewardship theory perspective, family owners are seen as responsible stewards who prioritize long-term sustainability and reputational capital over short-term profits (Miller & Le Breton-Miller, 2006). Family-controlled firms, particularly those with succession intentions, often exhibit stronger commitments to accurate financial reporting to maintain stakeholder trust and protect the family's legacy (Anderson & Reeb, 2003; DeTienne & Chirico, 2013; Huang et al., 2020). These firms may view financial transparency as a strategic tool for ensuring continuity and legitimacy, thereby reducing earnings manipulation and enhancing the reliability of financial disclosures (Wang, 2006).

In contrast, agency theory highlights risks associated with concentrated ownership, where information asymmetry may compromise reporting integrity, particularly disadvantaging minority shareholders (Villalonga & Amit, 2006; Sharif & Lai, 2015). In many family firms, dominant family control can lead to weaker oversight and a tendency to withhold unfavorable financial information (Ali et al., 2007). This issue is especially prevalent in environments with weak legal protection and limited investor rights. Empirical evidence from developing countries shows that family firms may engage in earnings management or limit voluntary disclosure to protect private interests (Fan & Wong, 2002; Han & Wang, 1998), thereby weakening the quality and credibility of financial reporting.

Empirical findings on the relationship between family ownership and financial reporting quality remain inconclusive. For instance, studies by Ali et al. (2007) and Calabrò et al. (2021) suggest that family firms in the U.S. and Taiwan are less likely to manipulate earnings and more likely to provide high-quality financial information. However, contrasting results have been observed in East Asian countries such as China and Indonesia, where family firms are often associated with lower transparency and higher earnings manipulation (Fan & Wong, 2002; Claessens et al., 2000). Additionally, Gavana et al. (2017) emphasize that varying definitions of "family ownership" and different ownership thresholds yield differing implications for earnings quality, highlighting the complexity of this research area.

Thus, while family ownership may be associated with higher-quality reporting in some contexts, it can also pose challenges to transparency and accountability - particularly when agency problems are pronounced. These divergent findings suggest that the effect of family ownership on financial reporting quality is context-dependent, influenced by institutional factors, cultural norms, and the effectiveness of internal governance mechanisms.

In the specific context of Vietnam, where family firms account for a significant share of the private sector, the role of family ownership in shaping financial reporting practices remains underexplored. The Vietnamese business environment is characterized by a fragmented legal framework, concentrated ownership structures, and limited corporate governance mechanisms. These conditions present both opportunities and risks tied to family control. On one hand, close family involvement may enhance accountability and long-term orientation; on the other, it may facilitate the concealment of related-party transactions or earnings manipulation.

Given the theoretical ambiguities and empirical inconsistencies, this study aims to contribute to the literature by empirically examining the effect of family ownership on financial reporting quality in the Vietnamese context. Based on the above arguments and prior findings, we propose the following hypothesis:

- **H1:** Family ownership has a significant effect on financial reporting quality.

#### *The moderating role of board independence in family firms*

Board independence refers to the presence and active participation of directors who are not affiliated with the firm's management or controlling shareholders (Liu et al., 2015). In family firms, independent directors are typically characterized by the absence of familial ties to controlling family members, no significant business relationships with the firm, and the professional capacity to make objective decisions (Yildirim-Öktem & Üsdiken, 2010). The roles of independent directors in such firms are multifaceted: they are expected to monitor management, contribute to strategic decision-making, and mediate conflicts between family and non-family stakeholders (Ponomareva & Ahlberg, 2024).

Board independence comprises both structural and functional dimensions, including the proportion of independent directors, their active involvement in monitoring roles, transparent appointment processes, and limited tenure. Together, these factors enhance objectivity and oversight. Conversely, long-term appointments or family-dominated nomination processes can undermine board independence (D'Augusta & DeAngelis, 2020).

Theoretically, board independence plays a critical role in mitigating agency problems, especially in family-controlled firms where the dual roles of ownership and management may result in principal-principal conflicts - conflicts between controlling (i.e., family) and minority shareholders (Villalonga & Amit, 2006). Independent board members are expected to act as an objective counterbalance by scrutinizing financial activities, monitoring related-party transactions, and ensuring the integrity of financial reporting. Dimitropoulos & Asteriou (2010) found that a higher proportion of independent directors improved earnings informativeness and reporting quality in Greek firms, supporting the argument that board independence strengthens monitoring functions. From this perspective, independent directors enhance transparency and accountability, thereby contributing to higher financial reporting quality (Osma & Guillamón-Saorín, 2007).

However, the moderating role of board independence is not unidirectional. On one hand, in family firms that value transparent stewardship and are genuinely committed to long-term performance and reputation, independent directors may reinforce trustworthy reporting practices. In these cases, high board independence amplifies the positive impact of family

ownership on financial reporting quality, as independent oversight complements the family's intrinsic motivation to report accurately and maintain stakeholder trust (Anderson & Reeb, 2004).

On the other hand, in family firms with a tendency to conceal related-party transactions or manipulate earnings, independent directors may act as a countervailing force, helping to curb such practices and improve reporting quality. Tang et al. (2024) suggest that when board independence is substantive, the negative effects of family control on financial reporting quality may be significantly mitigated. In such instances, board independence weakens the detrimental impact of family ownership, serving as a safeguard against managerial opportunism (Fan & Wong, 2002). Therefore, the presence of independent directors may either amplify or attenuate the influence of family ownership on reporting quality, depending on the specific firm context.

Given these theoretical perspectives and empirical findings, our research proposes that board independence moderates the relationship between family ownership and financial reporting quality. Specifically, we hypothesize that the nature and strength of this relationship vary depending on the degree of board independence in the firm. This leads to the following hypothesis:

- **H2:** Board independence moderates the relationship between family ownership and financial reporting quality, such that the relationship is stronger or weaker depending on the level of board independence.

Based on the theoretical foundations and literature review, we propose the following research model:

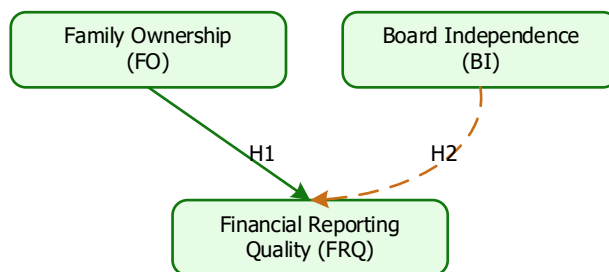


Figure 1. Research Model.

## AIMS AND OBJECTIVES

The primary aim of this study is to investigate the impact of family ownership on financial reporting quality, specifically focusing on the moderating role of board independence in the context of Vietnamese family firms. As family firms are considered to constitute a significant proportion of the private sector in developing countries like Vietnam, understanding how their governance structures affect financial transparency is crucial. This study aims to contribute to the theoretical framework of corporate governance in the context of developing economies by exploring how internal governance mechanisms operate under different institutional and cultural conditions.

To achieve this aim, the study sets forth the following specific objectives:

1. To assess the direct relationship between family ownership and financial reporting quality, examining whether and how family involvement in ownership, management, and governance affects the reliability and transparency of disclosed financial information.
2. To evaluate the moderating effect of board independence on the relationship between family ownership and financial reporting quality, thereby determining whether independent directors enhance or mitigate the influence of family control on financial reporting practices.
3. To provide empirical evidence from the Vietnamese context, contributing to the understanding of corporate governance in emerging markets, where legal environments and cultural values may significantly shape governance effectiveness.
4. To offer practical insights and policy recommendations for family business owners, regulators, and policymakers seeking to strengthen governance mechanisms and promote transparency in financial reporting.

## METHODS

This study employs a quantitative research design utilizing a cross-sectional survey to investigate the relationship between family ownership and financial reporting quality, as well as the moderating role of board independence. The survey method is appropriate for collecting standardized data from a large sample, enabling the application of statistical techniques such as multiple regression and moderation analysis.

To ensure an adequate sample size for linear regression analysis, this study follows the recommendations of Memon et al. (2020), who suggest a ratio of 10 to 20 responses per survey item. Additionally, Tabachnick and Fidell (2019) propose a general rule for regression analysis:  $N \geq 50 + 8m$  (where  $m$  is the number of predictors). Accordingly, the minimum sample size required for this study is  $n = 10 \times i$ , where  $i$  is the number of observed variables in the model. Given 18 variables, the minimum sample size is 180. To enhance the reliability of the data, the largest feasible sample size within the recommended range was selected.

The target population of this study is family businesses in Vietnam, defined as enterprises in which one or more family members own a significant share (typically  $\geq 20\%$ ) and are actively involved in management, governance, or both (Anderson & Reeb, 2003). These firms operate across various sectors and regions, including manufacturing, agriculture, and services, reflecting the diversity of Vietnam's business environment.

To ensure representativeness, the study employed stratified random sampling based on the firm's sector. Given the structure of the Vietnamese economy - comprised mainly of industry (especially manufacturing), services, and agriculture, which together contribute the majority of GDP and national employment - these sectors were chosen to capture the economic and contextual diversity of family enterprises in Vietnam. According to the Vietnam Association of Small and Medium Enterprises (VINASME, 2021), manufacturing and industry account for approximately 37–39% of GDP, services for 38–40%, and agriculture, forestry, and fisheries for 12–15%, while employing a significant portion of the rural workforce.

The final sample included 387 family firms across three main sectors: Manufacturing: 152 firms (39.3%); Services: 134 firms (34.6%); Agriculture and agribusiness: 101 firms (26.1%).

Each sector was proportionally sampled based on industry statistics and business registry data. Firms were selected randomly, and one key representative from each was invited to complete the survey. Respondents were individuals in executive or financial oversight roles, with direct knowledge of the firm's financial reporting and governance practices. Specifically, the respondents included: (1) Chief Financial Officers (CFOs): 154 respondents (39.8%); (2) Chief Accountants or Senior Accountants: 149 respondents (38.5%); and (3) Board members or Family Business CEOs: 84 respondents (21.7%).

These participants were selected for their access to internal financial processes and involvement in governance decisions, making their perspectives highly relevant to the study's objectives.

The primary data were collected using a structured questionnaire designed to measure the constructs of family ownership, board independence, and financial reporting quality. The questionnaire included demographic information and observed variables structured around the theoretical framework and literature review. Variables in the quantitative model were measured using a 5-point Likert scale (Likert, 1932), ranging from: 1 = "Strongly Disagree", 2 = "Disagree", 3 = "Neutral", 4 = "Agree", 5 = "Strongly Agree".

The number of items per construct was determined based on the theoretical grounding and prior studies.

Before the main survey, a pilot test was conducted with 20 family business owners/managers in Ho Chi Minh City, Binh Duong, Bac Ninh, and Hanoi. Participants evaluated the clarity, relevance, and comprehensiveness of the questionnaire on a 5-point scale, with an average rating of 4.2. Based on feedback, the questionnaire was refined to simplify language (e.g., replacing "accrual quality" with "accuracy of profit figures") and to include examples for ambiguous terms such as "independent directors". The Cronbach's alpha for the financial reporting quality scale exceeded 0.78, indicating acceptable internal consistency.

The study applied a snowball sampling approach, and the questionnaires were distributed via online platforms. The survey was administered using Google Forms, in both Vietnamese and English, to ensure clarity across respondents. A total of 816 personalized email invitations were sent to CFOs, chief accountants, and board members or CEOs of family firms.

Contact information was sourced from several business directories, including: (1) Vietnam Business Directory, VCCI; (2) Vietnam Association of Small and Medium Enterprises (VINASME); and (3) Public contact details on official company websites.

Data collection occurred from February to May 2025. The final analysis was based on 387 valid responses, ensuring sufficient data for statistical analysis. The dataset was cleaned and entered into Excel, then analyzed using SPSS Version 22 to ensure accuracy and reliability of the findings.

Throughout the data collection process, the study strictly adhered to ethical research standards, ensuring voluntary participation, informed consent, and confidentiality. Participants were fully informed about the study's purpose, and responses remained anonymous. Data were securely stored, and no personally identifiable information was disclosed or used for any purpose beyond this research.

## RESULTS

### The Scale Assessment

To assess the reliability, convergent validity, and discriminant validity of the measurement scales, we conducted Cronbach's alpha testing and Exploratory Factor Analysis. The detailed results are presented in Table 1 below.

**Table 1. Scale evaluation results.** (Source: Report extracted from SPSS 22 software)

Factors and observed variables in the scales	Corrected Item - Total Correlation	Factor loadings	Source
<b>Family Ownership</b>			
<i>Ownership Concentration (Cronbach's Alpha=0.861); (KMO=0.797; Sig.=0.000; Cumulative %=74.502%; Eigenvalues=1.186)</i>			
The founding family holds a majority of the company's shares.	0.713	0.783	Anderson & Reeb (2003)
The family has controlling voting rights that exceed their cash flow rights.	0.698	0.767	Villalonga & Amit (2006)
The family is the largest single shareholder in the enterprise.	0.702	0.769	Claessens et al. (2000)
<i>Family Involvement in Management (Cronbach's Alpha=0.854); (KMO=0.797; Sig.=0.000; Cumulative %=74.502%; Eigenvalues=1.186)</i>			
One or more family members hold top executive positions	0.726	0.792	Ali et al. (2007)
Family members are involved in making key financial decisions.	0.684	0.751	Wang (2006)
There is a strong presence of family members on the management team.	0.701	0.775	Miller & Le Breton-Miller (2006)
<i>Family Involvement in Governance (Cronbach's Alpha=0.792); (KMO=0.797; Sig.=0.000; Cumulative %=74.502%; Eigenvalues=1.186)</i>			
A significant number of board members are part of the controlling family.	0.663	0.738	Anderson & Reeb (2004)
Family members play an active role in strategic board decisions.	0.648	0.719	Calabrò et al. (2021)
The board is chaired by a family member.	0.657	0.726	García-Ramos & García-Olalla (2011)
<i>Board Independence (Cronbach's Alpha=0.834); (KMO=0.797; Sig.=0.000; Cumulative %=74.502%; Eigenvalues=1.186)</i>			
A majority of board members are independent of the family.	0.709	0.789	Klein (2002)
Independent directors do not have business or personal ties with the family.	0.687	0.765	Fama & Jensen (1983)
Independent directors are selected through a transparent and objective process.	0.674	0.758	Osma & Guillamón-Saorín (2011)
Independent directors contribute significantly to financial oversight.	0.693	0.774	Osma & Guillamón-Saorín (2011)
The board's independent members play a key role in ensuring transparency.	0.702	0.781	Anderson & Reeb (2004)
<i>Financial Reporting Quality (Cronbach's Alpha=0.788); (KMO=0.769; Sig.=0.000; Cumulative %=68.724%; Eigenvalues=2.016)</i>			
Our company's financial statements are prepared in accordance with accounting standards and present a true and fair view of the financial position.	0.672	0.752	Alkurdi et al. (2019)
Our financial reporting is transparent and easily understood by external users such as investors and regulators.	0.685	0.768	Bozorgasl et al. (2021)
Our financial reports are free from earnings manipulation and reflect the actual financial performance of the company.	0.659	0.742	Salehi et al. (2022)
Our company ensures that financial reports are disclosed in a timely manner and meet statutory deadlines.	0.641	0.721	Haji & Anifowose (2016)

All scales demonstrate high internal consistency, with Cronbach's Alpha values ranging from 0.788 to 0.861, indicating strong reliability. The Kaiser-Meyer-Olkin (KMO) values for all constructs exceed the acceptable threshold of 0.7, confirming

sampling adequacy, while Bartlett’s test of sphericity is statistically significant (Sig. = 0.000), supporting factorability of the data. The cumulative variance explained by the extracted factors is above 68% for all constructs, indicating satisfactory construct validity. Each observed variable shows corrected item-total correlation values above 0.64 and factor loadings above 0.72, confirming their contribution to the underlying constructs. Therefore, the scales in this study are reliable, convergent, and discriminant, providing a reliable and valid foundation for subsequent analyses.

**Hypothesis testing**

Regression analysis was employed to test the proposed hypotheses. The study proposed two hypotheses, with Hypothesis H2 involving a moderating variable - board independence. According to Nguyen Dinh Tho (2014), such a moderating factor is typically integrated into the theoretical model (i.e., Hypothesis H1) when testing both hypotheses within a unified analytical framework. In this study, board independence is assumed to function solely as a moderator, meaning it influences the strength or direction of the relationship between the independent and dependent variables, without having a direct effect on financial reporting quality.

Following the approach outlined by Nguyen Dinh Tho (2014), Hypothesis H2 was tested using the following steps:

1. A single interaction term was created to capture the moderating effect of board independence on the relationship between family ownership and financial reporting quality. This was calculated as the product of family ownership and board independence.
2. Family ownership was treated as a second-order construct, measured by the average of three dimensions: ownership concentration, family involvement in management, and family involvement in governance. Board independence, on the other hand, was treated as a first-order construct, measured as the average score of its observed indicators.
3. The interaction term - computed as Family Ownership × Board Independence - was then included in the regression model to examine its effect on the dependent variable (financial reporting quality).

Accordingly, the study tested two regression models, corresponding to Hypotheses H1 and H2. The regression results are presented in Table 2.

**Table 2. Results of testing the moderating relationship.** (Source: Report extracted from SPSS 22 software)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	Constant	1.187	0.176		6.742	0.000		
	Ownership Concentration	0.369	0.060	0.354	6.150	0.003	0.743	1.345
	Family Involvement in Management	0.278	0.055	0.296	5.036	0.000	0.752	1.329
	Family Involvement in Governance	0.254	0.061	0.247	4.164	0.001	0.735	1.360
Dependent Variable: Financial Reporting Quality, R-squared 0.621, ANOVA sig 0.000								
2	Constant	1.045	0.172		6.074	0.000		
	Family Ownership * Board Independence	0.318	0.058	0.401	5.483	0.002	0.812	1.231
Dependent Variable: Financial Reporting Quality, R-squared 0.676, ANOVA sig 0.000								

In Model 1, three key dimensions of family ownership were examined: ownership concentration, family involvement in management, and family involvement in governance. The results indicate that all three independent variables are statistically significant at the 1% level ( $p < 0.01$ ), supporting the hypothesis that family ownership characteristics significantly affect financial reporting quality.

The coefficient of determination ( $R^2$ ) for Model 1 is 0.621, indicating that the model explains 62.1% of the variance in financial reporting quality. The standardized Beta coefficients range from 0.247 to 0.354, reflecting moderate to strong positive effects of the family ownership variables. Moreover, multicollinearity diagnostics confirm the robustness of the model, with Variance Inflation Factor (VIF) values below 1.4, well within acceptable thresholds.

In Model 2, an interaction term between family ownership and board independence was added to assess the moderating role of board independence. The interaction term is statistically significant ( $p = 0.002$ ), with a standardized Beta coefficient of 0.401, suggesting a strong and positive moderating effect. This implies that the presence of an independent board enhances the beneficial impact of family ownership on financial reporting quality.

Model 2 also demonstrates improved explanatory power, with  $R^2$  increasing to 0.676, meaning the inclusion of the moderating variable explains an additional 5.5% of the variance in financial reporting quality. These results confirm that board independence strengthens the positive relationship between family ownership and financial reporting quality.

## DISCUSSION

The findings of this study are largely consistent with prior empirical research on the relationship between family ownership, board independence, and the quality of financial statements.

First, the results indicate that family ownership has a positive influence on the quality of financial statements. This aligns with a number of prominent studies in the field. For example, Anderson & Reeb (2003), Ghaleb et al. (2020), and Arthur et al. (2019) found that family firms tend to report financial information more honestly in order to protect the family's long-standing reputation and legacy. Similarly, Calabrò et al. (2021), in their study of Chinese family businesses, emphasized that the desire to maintain family reputation and the implementation of stricter internal governance mechanisms result in higher-quality financial reporting. In another context, Ali et al. (2007) showed that family firms in the United States are less likely to engage in earnings manipulation, further supporting the notion that family involvement positively contributes to financial statement integrity.

Second, the study also confirms the positive moderating role of board independence in enhancing the relationship between family ownership and financial statement quality. This finding is in line with theoretical and empirical contributions from earlier governance literature. Klein (2002), Fama & Jensen (1983), and Anderson & Reeb (2004) argued that independent boards of directors play a crucial role in mitigating agency problems by reducing conflicts of interest between owners and managers, thereby increasing financial transparency. Moreover, García-Ramos & García-Olalla (2011), in a European context, demonstrated that independent boards improve monitoring effectiveness within family firms, leading to more transparent and reliable financial reporting.

However, the findings of this study contrast with recent research on listed companies in Malaysia, where no significant relationship was found between family ownership and financial reporting quality. Specifically, a study by Zaini et al. (2024) examined 64 firms listed on Bursa Malaysia and reported that, while government and foreign ownership had a positive effect on financial reporting quality, family ownership showed no statistically significant impact. This discrepancy may arise from differences in how financial reporting quality is measured: whereas the present study emphasizes the informativeness and transparency of earnings, the Malaysian study focused on sustainability disclosures.

Furthermore, evidence from Malaysia suggests that family-affiliated business groups may have a positive association with real earnings management, indicating that in some contexts, family control can increase incentives for earnings manipulation, particularly in more complex or larger conglomerate structures (Wan Nadiah Wan Abdul Rahman & Noorhayati Mansor, 2019).

On the other hand, while the present study highlights board independence as a positive moderating factor that strengthens the relationship between family ownership and financial reporting quality, earlier research by Habib & Azim (2008) presents a contrasting view. Conducted in the context of Australian firms, their study found that board independence does not necessarily enhance financial transparency in family-controlled firms - especially when independent directors lack sufficient expertise or are ineffective in mitigating entrenched family dominance.

Similarly, a study in Bangladesh by Hasan et al. (2023) suggests that structural board independence may exist in form but not in substance, where independent directors are largely symbolic and have limited influence over actual governance processes. These contrasts underscore the contextual and institutional dependency of corporate governance mechanisms. While independent boards are designed to serve as oversight tools, their effectiveness in moderating the influence of family ownership on financial reporting quality can vary significantly across countries, industries, and corporate governance cultures.

In environments with strong regulatory enforcement, transparent director appointment processes, and a culture of accountability, board independence is more likely to function as intended. Conversely, in contexts where such structures are weak or where family dominance undermines board autonomy, independent directors may be less effective.

In Vietnam, the institutional and regulatory environment has undergone significant transformation in recent years, placing greater emphasis on corporate governance reform, particularly among listed companies and partially privatized state-owned enterprises. Regulatory bodies such as the State Securities Commission of Vietnam and the Ho Chi Minh City Stock Exchange have introduced measures to strengthen board transparency, promote the inclusion of independent directors, and align with international governance standards. These reforms have enhanced the functional role of independent directors, empowering them to more effectively oversee financial reporting processes and mitigate agency conflicts, even within family-controlled firms.

Moreover, Vietnam's collectivist culture, which places high value on family reputation and socioemotional wealth - including the desire to maintain legacy, social status, and stakeholder trust - aligns family interests with transparent governance practices. This cultural factor reinforces the role of independent directors as credible monitors, enhancing the reliability of financial reporting.

In contrast, countries such as Australia and Bangladesh present different contextual realities. In Australia, despite strong institutional frameworks, a more individualistic and market-oriented culture may reduce the socioemotional motivations that support transparency in family firms. In Bangladesh, institutional weaknesses, including poor regulatory enforcement and the prevalence of informal networks, may undermine the independence and authority of board members. As a result, the moderating effect of board independence in these contexts is weakened and often ineffective.

In summary, the findings of this study demonstrate that board independence can serve as an effective governance mechanism to enhance financial reporting quality in family firms; however, its effectiveness is highly context-dependent. Both institutional development and cultural values must be considered to fully understand the conditions under which board independence promotes or fails to influence financial transparency in family-owned enterprises.

## CONCLUSIONS

To address our hypotheses, we first conducted a comprehensive literature review and examined relevant theoretical frameworks, including agency theory, stewardship theory, and the social capital theory, to establish a sound conceptual foundation for the research model. These theories collectively explain the dual nature of family ownership in corporate governance - on one hand, potentially reducing agency costs through alignment of ownership and control, and on the other hand, posing risks of entrenchment and self-serving behavior. The role of board independence was conceptualized as a moderating mechanism that can enhance governance effectiveness by providing external oversight.

Second, we collected primary data through structured questionnaires targeting business leaders, including CEOs, CFOs, and board members of family-owned firms. Respondents were selected to ensure adequate representation of those directly involved in both strategic decision-making and financial reporting processes. This approach allowed us to capture informed perceptions of governance practices and financial reporting quality within family businesses.

Finally, using hierarchical regression analysis, we tested the proposed hypotheses on a sample of 387 Vietnamese family businesses operating in three major sectors: manufacturing, services, and agriculture/agribusiness. This methodological approach enabled us to assess both the direct effects of family ownership on financial reporting quality and the interaction effects involving board independence.

Based on these steps, we draw the following key conclusions:

1. Family ownership has a significant positive effect on financial reporting quality. This suggests that in the Vietnamese context, family involvement may reduce opportunistic behavior and promote transparent reporting, potentially due to the importance of family reputation, long-term orientation, and socioemotional wealth preservation.
2. Board independence positively moderates the relationship between family ownership and financial reporting quality. Independent directors appear to strengthen the positive influence of family ownership on transparency, likely by providing effective oversight and reducing risks of information asymmetry and managerial entrenchment.
3. These findings contrast with some international studies that report either a neutral or negative relationship between family ownership and financial reporting quality, or that question the effectiveness of independent boards in family-dominated firms. Such differences highlight the importance of contextual factors, including institutional development, regulatory enforcement, and cultural values - particularly Vietnam's collectivist culture and evolving corporate governance landscape.

From a theoretical perspective, this study contributes to the extension of agency theory and corporate governance theory, particularly in the context of developing countries and family-owned enterprises. By examining the interaction between family ownership and board independence in influencing financial reporting quality, the study enriches our understanding of how internal governance mechanisms operate under specific institutional and cultural conditions.

Specifically, the findings support the view that while family ownership may mitigate classical agency problems - due to the alignment between ownership and control - it may simultaneously give rise to principal-principal conflicts, particularly in the absence of effective oversight. The moderating role of board independence, as demonstrated in this study, highlights the importance of institutional context and cultural values in shaping governance outcomes in family firms.

From a practical standpoint, the results of this study provide valuable insights for managers and decision-makers in Vietnamese family firms. They underscore the critical role of board independence in enhancing the reliability and transparency of financial reporting. This has direct implications for building investor trust, improving access to capital, and ensuring long-term sustainability.

By demonstrating that independent directors can add value when properly empowered and integrated into the governance structure, the study encourages family firms to invest in the effectiveness and substance of their boards. Moreover, the findings raise awareness among business leaders about the reputational benefits of transparent financial reporting - particularly in a cultural context like Vietnam, where trust, family legacy, and intergenerational continuity are highly valued. As Vietnam continues to integrate into global capital markets and adopt international standards, the insights from this study may inform policy initiatives and capacity-building programs aimed at strengthening corporate governance in family businesses.

Despite its contributions, this study has several limitations. First, due to time and budget constraints, the sample includes only family-owned firms. Future research should consider more diverse samples, including both family and non-family firms, or compare different ownership types (e.g., state-owned enterprises, foreign-invested firms, or publicly listed companies). This would offer a more comprehensive and representative understanding of how ownership structures and governance mechanisms affect financial reporting quality across varied business contexts. Second, the study relied on a quantitative approach, collecting survey data and applying hierarchical regression analysis to derive the results. While this method provides statistical rigor, it may reflect subjective perceptions of managers within family firms.

Future research should adopt mixed-methods approaches, incorporating qualitative techniques such as in-depth interviews or case studies. This would allow for deeper insights into the contextual and behavioral dimensions of governance and financial reporting and enable triangulation of findings across different data sources.

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## ADDITIONAL INFORMATION

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### FUNDING

*The Authors received no funding for this research.*

## CONFLICT OF INTEREST

The Authors declare that there is no conflict of interest.

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## ВПЛИВ СІМЕЙНОЇ ВЛАСНОСТІ НА ЯКІСТЬ ФІНАНСОВОЇ ЗВІТНОСТІ ТА МОДЕРУЮЧА РОЛЬ НЕЗАЛЕЖНОСТІ РАДИ ДИРЕКТОРІВ: ДОСЛІДЖЕННЯ НА ПРИКЛАДІ СІМЕЙНИХ ПІДПРИЄМСТВ У В'ЄТНАМІ

Це дослідження вивчає вплив сімейної власності на якість фінансової звітності та аналізує помірковану роль незалежності ради директорів у контексті сімейних підприємств у В'єтнамі. Хоча існуючі дослідження дали неоднозначні результати щодо взаємозв'язку між структурою власності та якістю фінансової звітності, особливо в розвинених економіках, емпіричні дослідження на ринках, що розвиваються, де інституційні рамки та культурні норми значно відрізняються, залишаються обмеженими. Спираючись на теорію агентства, теорію управління та теорію соціального капіталу, це дослідження розробляє концептуальну основу, яка відображає й потенційні переваги, і ризики, пов'язані із сімейним контролем. Було застосовано кількісний дизайн дослідження з використанням даних перехресного опитування, зібраних у 387 сімейних підприємствах, що працюють у трьох ключових секторах: виробництво, послуги та сільське господарство. Основні конструкти, а саме сімейна власність, незалежність ради директорів і якість фінансової звітності, вимірювали за допомогою валідованих багатопозиційних шкал Лікерта. У дослідженні було застосовано ієрархічний регресійний аналіз для перевірки й прямих, і помірних ефектів. Результати показують, що сімейна власність позитивно впливає на якість фінансової звітності, що свідчить про те, що такі елементи, як сімейна спадщина, довгострокова орієнтація та репутація, сприяють більшій прозорості й цілісності фінансової звітності. Крім того, дослідження показує, що незалежність ради директорів відіграє значну пом'якшувальну роль, істотно підсилюючи позитивний вплив сімейної власності на якість фінансової звітності. Ці висновки підкреслюють критичну важливість механізмів управління для підвищення фінансової прозорості в сімейних підприємствах, особливо в інституційних середовищах, які все ще розвиваються, таких як В'єтнам. Це дослідження сприяє розширенню теорії корпоративного управління та теорії агентських відносин, особливо в контексті країн, що розвиваються. Уточнивши роль сімейної власності та незалежності ради директорів, дослідження пропонує нові уявлення про функціонування механізмів внутрішнього контролю. Воно також дає практичні рекомендації для політиків, регуляторних органів і керівників сімейних підприємств. Зокрема воно підкреслює важливість розширення повноважень незалежних директорів і зміцнення внутрішніх структур управління для підвищення якості фінансової звітності та зміцнення довіри зацікавлених сторін до приватного сектора.

**Ключові слова:** незалежність ради директорів, корпоративне управління, сімейний бізнес, сімейна власність, якість фінансової звітності, механізми внутрішнього контролю, В'єтнам

**JEL Класифікація:** G32, G34, M41