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CORPORATE GOVERNANCE MECHANISMS AND AUDIT PRICING: EVIDENCE ON CEO ACCOUNTING EXPERTISE AND AUDIT COMMITTEE INDEPENDENCE IN AN EMERGING MARKET

MECANISMOS DE GOBIERNO CORPORATIVO Y PRECIOS DE AUDITORÍA: EVIDENCIA SOBRE LA EXPERIENCIA CONTABLE DE LOS DIRECTORES GENERALES Y LA INDEPENDENCIA DE LOS COMITÉS DE AUDITORÍA EN UN MERCADO EMERGENTE.

KHALED SALMEN ALJAAIDI¹

ABSTRACT

This study examines the influence of CEO accounting expertise and audit committee independence on audit fees, with a focus on listed firms in the Sultanate of Oman. Drawing on audit risk and corporate governance theories, the research investigates both the individual and interactive effects of these governance mechanisms on audit pricing. While previous studies have explored these relationships in developed economies, limited empirical evidence exists for emerging markets, particularly in the Gulf Cooperation Council (GCC) region. This study addresses this gap by analyzing a sample of 1,313 firm-year observations from companies listed on the Muscat Stock Exchange. Using multiple linear regression models, the analysis tests the direct effects of CEO accounting expertise and audit committee independence, as well as their interaction, on audit fees. The results reveal that CEO accounting expertise is negatively associated with audit fees, suggesting that CEOs with financial knowledge reduce auditors' perceived engagement risk. In contrast, audit committee independence shows a marginally positive relationship with audit fees, indicating a demand for higher audit assurance. Importantly, the interaction between CEO expertise and audit committee independence is positively and significantly related to audit fees, implying that auditors respond to dual-layered governance strength with increased audit effort and cost. This study contributes to the literature by offering new insights into how governance dynamics influence audit pricing in an emerging market context. The findings have implications for auditors, boards, and policymakers seeking to enhance audit quality and governance effectiveness within Oman and similar institutional settings.

KEYWORDS:

Audit fees, CEO accounting expertise, Audit committee independence, Oman.

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RESUMEN

Este estudio examina la influencia de la experiencia contable del director ejecutivo y la independencia del comité de auditoría en los honorarios de auditoría, centrándose en las empresas que cotizan en bolsa en la Sultanía de Omán. Basándose en las teorías del riesgo de auditoría y el gobierno corporativo, la investigación analiza los efectos individuales e interactivos de estos mecanismos de gobierno en la fijación de precios de auditoría. Si bien estudios anteriores han explorado estas relaciones en economías desarrolladas, existen pocas pruebas empíricas para los mercados emergentes, en particular en la región del Consejo de Cooperación del Golfo (CCG). Este estudio aborda esta laguna mediante el análisis de una muestra de 1,313 observaciones de empresas cotizadas en la Bolsa de Mascate. Utilizando modelos de regresión lineal múltiple, el análisis evalúa los efectos directos de la experiencia contable del director ejecutivo y la independencia del comité de auditoría, así como su interacción, sobre los honorarios de auditoría. Los resultados revelan que la experiencia contable del director ejecutivo está negativamente relacionada con los honorarios de auditoría, lo que sugiere que los directores ejecutivos con conocimientos financieros reducen el riesgo percibido por los auditores. Por el contrario, la independencia del comité de auditoría muestra una relación marginalmente positiva con los honorarios de auditoría, lo que indica una demanda de mayor garantía de auditoría. Es importante destacar que la interacción entre la experiencia del director ejecutivo y la independencia del comité de auditoría está relacionada de manera positiva y significativa con los honorarios de auditoría, lo que implica que los auditores responden a la fortaleza de la gobernanza de doble capa con un mayor esfuerzo y coste de auditoría. Este estudio contribuye a la literatura al ofrecer nuevas perspectivas sobre cómo la dinámica de la gobernanza influye en la fijación de precios de auditoría en el contexto de los mercados emergentes. Los resultados tienen implicaciones para los auditores, los consejos de administración y los responsables políticos que buscan mejorar la calidad de la auditoría y la eficacia de la gobernanza en Omán y entornos institucionales similares.

PALABRAS CLAVE:

Honorarios de auditoría, experiencia contable del director ejecutivo, independencia del comité de auditoría, Omán.

1. INTRODUCTION

The issue of audit fees has become a prominent area of focus in auditing research due to its implications for audit quality, auditor independence, and client risk assessments. Furthermore, the audit fee functions as an indicator of the auditor's assessment of audit and business risks, the complexity of the client company, the effectiveness of internal controls, and the quality of corporate governance (Simunic, 1980; Hay et al., 2006). Empirical studies indicate that the determinants of audit fees extend beyond firm size or audit complexity, incorporating governance-related factors such as the capabilities of senior management and the independence of oversight bodies, including the audit committee (Abbott et al., 2003; Bryan & Mason, 2016). Examining the factors that influence audit pricing is essential, as it enables auditors and other stakeholders to assess equity and fairness in the audit process.

While numerous studies have investigated the determinants of audit fees globally, a notable research gap persists concerning emerging markets, particularly within the Gulf Cooperation

Council (GCC) countries. Oman represents a unique case within the audit landscape, characterized by evolving corporate governance regulations, increased demands for financial information, and ongoing oversight by the Capital Market Authority. Despite these developments, there is a paucity of research on the impact of governance factors—such as the financial expertise of CEOs and the independence of audit committees—on audit fees in Oman. This lack of specific evidence complicates the understanding of how established determinants of audit fees operate in contexts characterized by concentrated ownership, a scarcity of institutional investors, and evolving regulations (Alajmi et al., 2009; Alqatamin et al., 2020).

This research contributes to the audit pricing literature by investigating the individual and combined effects of CEO accounting expertise and audit committee independence on audit fees in publicly traded companies in Oman. Previous studies have indicated that a CEO with financial literacy can mitigate audit risk (Kalelkar & Khan, 2016) and that increased audit committee independence may sometimes result in a higher demand for quality audits (Ali et al., 2018). However, there is a limited understanding of the interaction between these two governance mechanisms, particularly in emerging markets. By focusing on the Omani capital market, this study provides new insights into how these governance mechanisms collectively influence the pricing strategies of external auditors.

The significance of this research lies in its dual contribution to both theoretical and practical domains. Theoretically, it enhances the understanding of how corporate governance mechanisms, specifically the interplay between executive competence and board independence, jointly influence audit pricing decisions, especially in developing economies. Practically, the findings offer valuable insights for regulators, corporate governance bodies, and audit firms in Oman by highlighting how differences in governance structures affect audit cost considerations. Consequently, the research provides empirical observations that aid in formulating governance policies aligned with international standards, thereby fostering improved financial transparency and institutional accountability in the region (Al-Busaidi & Khan, 2019; Rezaee et al., 2021).

The study is structured into five main sections. The introduction outlines the research background, objectives, and significance. The literature review and hypotheses development present relevant theoretical perspectives and prior empirical findings. The research methodology section explains the research design, variable definitions, and regression models. The results and discussion section reports and interprets the empirical findings. Finally, the conclusion summarizes the key results, contributions, limitations, and directions for future research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 CEO accounting expertise and audit pricing

Research on audit pricing has established that auditors consider both audit and business risks when setting audit fees. Among the various factors influencing these risk assessments, the professional background and financial expertise of the Chief Executive Officer (CEO) are particularly significant. CEOs with experience in accounting or finance are associated with higher-quality financial reporting, enhanced internal controls, and more effective corporate governance. These attributes collectively lead to a reduction in perceived audit risk, potentially resulting in lower

audit fees. Kalelkar and Khan (2016) provide empirical evidence of this relationship in a panel study of U.S. companies from 2004 to 2013. They assess CEO financial experience based on previous roles in accounting or finance, such as auditor, Chief Financial Officer (CFO), or controller, and demonstrate that companies with CEOs possessing such experience consistently incur lower audit fees. This is because auditors generally perceive these executives as less likely to engage in earnings manipulation or financial misreporting, thereby reducing engagement risk. The authors emphasize that their findings remain robust across various model specifications that account for firm-specific characteristics, CFO traits, and audit committee membership. Their research indicates that CEO financial experience plays a crucial role in achieving cost efficiencies by alleviating the perceived burden on auditors and streamlining the audit process.

Rezaee, Asiaei, and Safdel (2021) provide further empirical evidence by examining the relationship between CEO characteristics and financial restatements, utilizing data from firms listed on the Iranian stock exchange. Consistent with prior research, the study defines CEO financial expertise as possessing formal accounting qualifications or previous positions involving accounting responsibilities. The authors identify a significant negative correlation between CEO financial expertise and the incidence of financial restatements, indicating that such expertise contributes to the production of more accurate and reliable financial reports. Notably, this effect is more pronounced when the CEO is internally promoted and possesses substantial decision-making authority. Given that auditors often view financial restatements as indicators of increased audit risk, a reduced frequency of these restatements could influence auditors' risk assessments, potentially resulting in lower audit fees. These findings are consistent with the upper echelons theory by Hambrick and Mason (1984), which suggests that the experiences, values, and cognitive frameworks of senior managers impact organizational outcomes. Consequently, CEOs with accounting or financial expertise are regarded as a crucial source of strategic human capital, enhancing both internal governance and the quality of financial decision-making, while also strengthening external perceptions of reporting credibility. From an auditor's perspective, such expertise serves as a favorable signal, often justifying a narrower audit scope and leading to cost savings through reduced audit fees.

Furthermore, Chief Executive Officers (CEOs) with expertise in accounting are more inclined to facilitate effective collaboration with audit committees by actively participating in technical and financial discussions. Their understanding of accounting principles enhances the board's capacity to oversee operations, thereby fortifying internal governance structures and reducing the likelihood of earnings manipulation or other aggressive financial reporting practices. This improvement in governance is reflected in the auditor's risk assessment model, leading to a diminished perception of control risk. As a result, auditors are expected to perform less extensive testing and adopt a narrower audit scope, ultimately resulting in a decrease in audit fees (Kalelkar & Khan, 2016; Rezaee et al., 2021).

Based on the above discussion, evidence suggests that CEO accounting expertise contributes to enhanced reporting quality, reduced audit risk, and ultimately, lower audit fees. This relationship is tested by the following hypothesis:

H1. There is a negative association between CEO accounting expertise and audit pricing.

2.2 Audit committee independence and audit pricing

Audit committees are integral to corporate governance, primarily by ensuring the precision of financial reporting and the independence and efficacy of external auditors. Numerous empirical studies have established a positive correlation between the independence of audit committees and the associated audit fees. This correlation suggests that more independent committees tend to demand higher quality audits and broader audit scopes. Research conducted by Harjoto et al. (2015), Johl et al. (2012), Carcello et al. (2002), Abbott et al. (2003), Goodwin-Stewart and Kent (2006), and Gul et al. (2008) all indicate that greater audit committee independence is linked to increased audit fees. This connection is largely interpreted as evidence that independent committee members are more thorough in their oversight responsibilities and are more inclined to advocate for comprehensive audit procedures to verify the accuracy of financial disclosures. Consequently, the expanded scope and thoroughness of audit work encouraged by such committees result in higher costs for audit engagements.

Abbott, Parker, Peters, and Raghunandan (2003) present empirical evidence indicating a significant positive correlation between the independence of audit committees and the associated audit fees. Their study, which examined a sample of 492 non-regulated companies audited by the Big Five accounting firms, revealed that organizations with audit committees comprised entirely of independent directors incurred higher audit fees. This relationship is attributed to the enhanced ability of independent audit committees to fulfill their oversight responsibilities, necessitating more thorough and comprehensive audit procedures. The increased demands placed on auditors to meet these heightened assurance requirements result in elevated audit costs. The study's findings underscore the critical role of audit committee independence in enhancing the quality of financial reporting through improved oversight and a strong commitment to rigorous external audits.

Ali, Singh, and Al-Akra (2018) present further evidence of the positive correlation between the attributes of audit committees and the audit fees levied on publicly traded companies in Australia. Their study utilizes a composite index to evaluate the effectiveness of audit committees, incorporating elements such as the committee's independence, financial expertise, diligence, and the chair's proficiency. The results demonstrate that more effective audit committees are associated with higher fees for both audit and non-audit services. Among the components of their composite index, the independence of the audit committee is identified as the most critical factor influencing audit fee levels. The authors argue that independent and skilled audit committees are more likely to demand comprehensive audit procedures and greater assurance, resulting in increased auditor involvement and, consequently, higher audit costs. They further assert that independent members are more inclined to prioritize financial disclosure and risk management, thereby enhancing the committee's monitoring effectiveness and increasing the demand for high-quality audits.

Krishnan and Lee (2008) contend that audit committees comprising individuals with expertise in accounting and finance, particularly those who maintain independence, function as more effective internal control mechanisms, especially in environments characterized by elevated litigation risk. Their research suggests that independent audit committees with financial expertise tend to adopt conservative, risk-averse strategies, such as endorsing more comprehensive audit procedures. While these strategies enhance audit quality and control, they also necessitate increased audit efforts, thereby elevating audit fees. Although the primary focus is on the recruitment and roles of

accounting and finance professionals, their findings implicitly highlight the critical role of independence in shaping audit-related decisions and augmenting the effectiveness of audit committees.

The underlying theory of this relationship is based on the governance role performed by independent directors, who serve as fiduciaries for shareholders. Owing to their lack of managerial affiliations, independent members of the audit committee are expected to demonstrate increased objectivity and skepticism in overseeing financial reporting processes. This independence enhances the likelihood that they will critically assess management disclosures and seek additional rigorous audit confirmations. With heightened oversight expectations, auditors frequently expand the scope and volume of their procedures, leading to increased audit effort and complexity. Consequently, audit fees are likely to escalate in response to the enhanced assurance demands engendered by more independent and vigilant audit committees.

Based on the above discussion, the literature supports a positive association between audit committee independence and audit fees, grounded in the notion that independent audit committees demand higher audit quality, thereby increasing the required audit effort. This relationship is tested by the following hypothesis:

H2. There is a positive association between audit committee independence and audit pricing.

2.3 The interaction of CEO accounting expertise and audit committee independence and audit pricing

The interaction between internal governance components, such as the characteristics of the CEO and the independence of the audit committee, exerts a significant influence on decisions related to audit pricing. When a CEO possesses accounting expertise and the audit committee functions with a high degree of independence, a governance synergy may emerge, prompting auditors to expand their audit activities. This expansion results in increased audit fees, reflecting heightened expectations for audit quality and thoroughness. According to Kalelkar and Khan (2016), a CEO with financial expertise can enhance the quality of financial reports while simultaneously reducing perceived audit risks, often leading to lower audit fees. However, they also acknowledge that such expertise might elevate expectations for the audit process itself. In companies led by financially knowledgeable CEOs, particularly those with robust governance frameworks, auditors may be compelled to adhere to more stringent standards of audit diligence and assurance, thereby increasing the associated engagement costs.

Muniandy (2007) conducts a comprehensive analysis of the moderating role of audit committee independence on the relationship between CEO dominance and audit fees. The empirical findings suggest that when a CEO occupies dual roles, audit fees are generally higher due to increased engagement risk. However, this effect is mitigated when audit committees are composed of independent members. The broader implication of these findings is that the combination of executive financial expertise and independent governance structures creates a dual-layered accountability framework. In such contexts, auditors may perceive a need for enhanced procedural rigor and analytical skills, resulting in higher audit fees to accommodate the additional effort required to satisfy both management and board assurance demands.

Abbott et al. (2003) contend that independent audit committees pursue enhanced audit assurance, resulting in the expansion of audit procedures and, consequently, an increase in audit fees. This governance oversight, particularly when coupled with a CEO possessing accounting expertise, renders the audit environment both technically more complex and subject to regulation by informed and skilled stakeholders. The integration of managerial accounting expertise with effective board-level supervision can augment the professionalism of auditors and the associated engagement risks. Consequently, auditors are warranted in charging higher fees to meet the elevated expectations set by both the board and management. This relationship is examined through the following hypothesis:

H3. There is a positive relationship between the interaction of audit committee independence and CEO accounting expertise and audit fees.

3. RESEARCH METHODOLOGY

3.1 Regression models

The hypotheses are tested using two OLS regression models with natural log of audit fees (ADF) as the dependent variable, and CEO accounting expert (CEOEXP), audit committee independence (ACIND), and interaction between CEO accounting expert and audit committee independence (CEO*ACIND) as independent experimental variables.

The full OLS regression models with control variables are specified as follows:

$$ADF = \beta_0 + \beta_1 \text{CEOEXP} + \beta_2 \text{ACIND} + \beta_3 \text{BOIND} + \beta_4 \text{ADFRM} + \beta_5 \text{SIZE} + \beta_6 \text{CURASR} + \beta_7 \text{MTB} + \beta_8 \text{ROA} + \beta_9 \text{LEV} + \beta_{10} \text{LOSS} + \beta_{11} \text{GSG} + \beta_{12} \text{BSG} + \beta_{13} \text{IND} + \varepsilon \dots\dots\dots(1)$$

$$ADF = \beta_0 + \beta_1 \text{CEOEXP} + \beta_2 \text{ACIND} + \beta_3 \text{CEOEXP*ACIND} + \beta_4 \text{BOIND} + \beta_5 \text{ADFRM} + \beta_6 \text{SIZE} + \beta_7 \text{CURASR} + \beta_8 \text{MTB} + \beta_9 \text{ROA} + \beta_{10} \text{LEV} + \beta_{11} \text{LOSS} + \beta_{12} \text{GSG} + \beta_{13} \text{BSG} + \beta_{14} \text{IND} + \varepsilon \dots\dots\dots(2)$$

3.1.1 Dependent variable

ADF	Natural log of audit fees paid to external auditor for annual financial statement audit.
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3.1.2 Independent variables

3.1.2.1 Experimental variables

CEOEXP	1 if CEO is accounting expert and 0 otherwise.
ACIND	Proportion of independent directors on the AC.
CEOEXP*ACIND	Interaction between CEO accounting expert and audit committee independence

3.1.2.2 Control variables

BOIND	Proportion of independent directors on the board.
ADFRM	1 if external auditor is big4 audit firm and 0 otherwise.
SIZE	Natural log of total assets.
CURASR	Current assets scaled by total assets.
MTB	Equity market value scaled by equity book value.
ROA	Net income scaled by total assets.
LEV	Total liabilities scaled by total assets.
LOSS	1 if a firm incurred loss in the current year and 0 otherwise.
GSG	Number of geographic segments.
BSG	Number of business segments.
IND	Indicator variables for industries.

3.2 Sample selection and data

The study is based on Omani firms and covers a period of 18 years from 2005 to 2023. In view of the regulatory nature of financial institutions, banking, finance and investment firms, they were not included in the study. The initial sample, which consists of 1313 firm observations. Data on dependent and independent variables was collected from Datastream, corporate governance reports, the annual reports of the listed companies on the Omani Capital Market.

4. EMPIRICAL RESULTS AND DISCUSSION

4.1 Descriptive results

Table 1 presents the descriptive statistics for the study variables across 1,368 to 1,451 firm-year observations. The mean audit fee (ADF), measured as the natural log, is 8.91, with moderate dispersion (SD = 0.81).

Variable	N	Mean	SD	p25	Median	p75
ADF	1368	8.91	0.81	8.37	8.82	9.23
CEOEXP	1428	0.11	0.31	0.00	0.00	0.00
ACIND	1432	0.84	0.23	0.67	1.00	1.00
BOIND	1432	0.79	0.34	0.57	0.86	1.00
ADFRM	1435	0.56	0.50	0.00	1.00	1.00
SIZE	1434	16.88	1.65	15.69	16.68	18.03
CURASR	1434	0.42	0.26	0.20	0.40	0.62
MTB	1372	2.96	92.33	0.38	1.07	1.86

ROA	1434	0.06	0.23	0.00	0.04	0.09
LEV	1434	0.55	0.52	0.26	0.48	0.71
LOSS	1451	0.23	0.42	0.00	0.00	0.00
GSG	1376	2.04	1.61	1.00	2.00	3.00
BSG	1376	1.59	1.13	1.00	1.00	2.00

Descriptive statistics reveal that, on average, 11% of the CEOs in the sample have accounting experience (CEOEXP = 0.11). In contrast, the indicators of governance strength are notably robust, with the audit committee independence score averaging 0.84 (ACIND) and the board independence score at 0.79 (BOIND). Furthermore, 56% of the companies engage the services of Big 4 audit firms (ADFRM = 0.56), reflecting a moderate concentration among major audit service providers. The average organizational size (SIZE), derived from the natural logarithm of total assets, is 16.88. Additionally, current assets constitute 42% of total assets (CURASR = 0.42), suggesting a healthy liquidity position. The mean market-to-book ratio (MTB) is 2.96; however, the high standard deviation (SD = 92.33) indicates significant outliers in the sample estimation. Profitability, as indicated by the return on assets (ROA), is relatively low, with an average of 0.06, while financial leverage (LEV) averages 0.55, indicating a moderate level of debt financing. Approximately 23% of the firms in the sample reported a net loss during the specified period (LOSS = 0.23). Regarding operational diversification, the firms have an average of 2.04 geographic segments (GSG) and 1.59 business segments (BSG), reflecting a moderate degree of diversification across markets and industries.

4.2 Univariate results

Table 2 presents the correlation matrix, offering preliminary insights into the majority of variables associated with audit pricing and highlighting potential multicollinearity issues among the independent variables.

The correlation analysis reveals that the dependent variable, audit fees (ADF), exhibits a significant positive correlation with several explanatory variables. Notably, ADF demonstrates a strong positive correlation with company size (SIZE) ($r = 0.80$, $p < 0.01$), suggesting that larger companies incur higher audit fees, likely due to the increased complexity and scale of auditing them. Furthermore, ADF is significantly and positively correlated with the employment of Big 4 auditors (ADFRM; $r = 0.40$, $p < 0.01$), supporting the notion that prominent audit firms can command higher fees. Additionally, other variables, such as return on assets (ROA), number of geographic segments (GSG), and number of business segments (BSG), also exhibit positive associations with audit fees, although these relationships are relatively weaker.

In contrast, the audit fee (ADF) demonstrates an inverse relationship with the current assets ratio (CURASR; $r = -0.12$, $p < 0.01$) and the occurrence of losses (LOSS; $r = -0.23$, $p < 0.01$), suggesting that firms with higher liquidity or weaker financial performance tend to incur lower audit fees. Concerning significant governance elements, the CEO's accounting experience (CEOEXP) does not show any linear relationship with audit fees ($r = -0.01$), whereas the independence of the audit committee (ACIND) exhibits a slight, statistically insignificant positive correlation with ADF ($r = 0.02$). Notably, ACIND is significantly linked to CEOEXP, although this connection is negative

and weak ($r = -0.07$, $p < 0.01$), warranting further investigation through multivariable analysis. Board independence (BOIND) has a moderate and statistically significant association with audit committee independence (ACIND) ($r = 0.49$, $p < 0.01$), consistent with their conceptual similarity as indicators of governance quality. Apart from the strong correlation between the audit committee's financial expertise (ADF) and firm size (SIZE) ($r = 0.80$) and the relatively strong link between ACIND and BOIND, other correlation coefficients are below 0.50. This outcome supports the assumption that multicollinearity is unlikely to pose a significant issue in subsequent regression analyses; however, caution is advised when interpreting models that include SIZE or governance variables that are correlated.

The correlation results provide preliminary support for several expected relationships in the audit pricing literature and affirm the appropriateness of including these variables in the regression model.

Table 2: Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) ADF	1.00												
(2) CEOEXP	-0.01	1.00											
(3) ACIND	0.02	-0.07*	1.00										
(4) BOIND	-0.01	-0.03	0.49*	1.00									
(5) ADFRM	0.40*	-0.01	0.15*	0.03	1.00								
(6) SIZE	0.80*	0.02	-0.03	-0.07	0.40*	1.00							
(7) CURASR	-0.12*	-0.11*	0.10*	0.02	-0.14*	-0.25*	1.00						
(8) MTB	0.05	-0.01	0.01	0.02	0.03	0.05	-0.03	1.00					
(9) ROA	0.11*	0.00	-0.03	-0.07	0.03	0.15*	0.10*	0.00	1.00				
(10) LEV	0.04	0.01	-0.07*	-0.03	-0.09*	-0.06	0.00	0.01	-0.23*	1.00			
(11) LOSS	-0.23*	-0.08*	-0.07*	-0.02	-0.22*	-0.32*	-0.11*	-0.04	-0.41*	0.28*	1.00		
(12) GSG	0.07*	0.13*	0.07	0.10*	-0.01	-0.01	0.10*	-0.02	0.01	0.00	-0.01	1.00	
(13) BSG	0.14*	-0.14*	0.05	0.05	0.01	0.14*	0.17*	-0.01	0.04	-0.07*	-0.02	-0.10*	1.00

* p<0.01

See Table 2 for variable definition.

4.3 Regression results

The results reported by Table 3 from multiple regression analysis examining the key drivers affecting audit fees (ADF) in terms of CEO accounting expertise (CEOEXP) and audit committee independence (ACIND), while adjusting for relevant firm-level and governance controls. The full model exhibits large explanatory power, reflected in an R-squared measure equal to 0.7124, meaning that 71% of audit fee variance is explained by model variables. In addition, the model is statistically significant (Prob > F = 0.0000), thus confirming that the set of independent variables jointly explains the variation in audit fees.

Variable	Coefficient	std.	t	P>t
CEOEXP	-0.08***	0.03	-2.59	0.01
ACIND	0.17*	0.09	1.88	0.06
BOIND	-0.11	0.10	-1.15	0.25
ADFRM	0.18***	0.02	8.55	0.00
SIZE	0.34***	0.01	40.49	0.00
CURASR	0.20***	0.03	6.81	0.00
MTB	0.00***	0.00	8.01	0.00
ROA	-0.00	0.07	-0.07	0.95
LEV	0.12***	0.02	7.13	0.00
LOSS	0.06	0.05	1.08	0.28
GSG	0.04***	0.01	5.17	0.00
BSG	0.03**	0.01	2.15	0.03
IND		Yes		
cons	2.52***	0.14	17.66	0.00
Number of obs	=	1313		
Prob > F	=	0.0000***		
R-squared	=	0.7124		
*p<0.10, **p<0.05, ***p<0.01				
See Table 2 for variable definition.				

The regression analysis reveals that the Chief Executive Officer's accounting experience (CEOEXP) is associated with a statistically significant negative coefficient ($\beta = -0.08$, $p < 0.01$). This finding suggests that CEOs possessing an accounting background tend to incur lower audit fees, thereby supporting the hypothesis that such expertise mitigates risk perception and facilitates the engagement process. Additionally, audit committee independence (ACIND) demonstrates a marginally significant positive relationship with audit fees ($\beta = 0.17$, $p < 0.10$), indicating that independent committees may require additional audit work, leading to increased fees.

The control variables examined include the engagement of a Big 4 auditor (ADFRM), firm size (SIZE), liquidity status (CURASR), market value ratios (MTB), leverage levels (LEV), and the extent of both geographic (GSG) and business (BSG) activities, all of which exhibit statistically significant positive correlations with audit fees ($p < 0.05$). Among these, firm size exerts the most

pronounced effect ($\beta = 0.34, p < 0.01$), reinforcing the well-established association between firm size and audit fees. In contrast, board independence (BOIND), profitability (ROA), and loss occurrences (LOSS) do not yield statistically significant results, indicating their lack of substantial influence on audit fees in this context. Overall, these results corroborate the study's hypotheses: executive accounting expertise appears to reduce audit costs, whereas greater audit committee independence seems to elevate them. These findings underscore the importance of considering both governance structures and managerial expertise when analyzing variations in audit fees.

Table 4: Regression results for interaction effect

Variable	Coefficient	std.	t	P>t
CEOEXP	-0.07***	0.03	-2.72	0.01
ACIND	0.13	0.08	1.53	0.13
CEOEXP*ACIND	0.16**	0.08	2.05	0.04
BOIND	-0.11	0.09	-1.13	0.26
ADFRM	0.18***	0.02	8.47	0.00
SIZE	0.34***	0.01	41.13	0.00
CURASR	0.21***	0.03	6.95	0.00
MTB	0.00***	0.00	8.00	0.00
ROA	-0.01	0.07	-0.09	0.93
LEV	0.12***	0.02	7.08	0.00
LOSS	0.06	0.05	1.05	0.30
GSG	0.04***	0.01	4.65	0.00
BSG	0.03**	0.01	2.21	0.03
IND		Yes		
cons	2.65***	0.18	15.10	0.00
Number of obs	= 1313			
Prob > F	= 0.0000***			
R-squared	= 0.7128			

*p<0.10, **p<0.05, ***p<0.01
 CEOEXP*ACIND is the interaction term of CEO expertise and the mean centered of ACIND.

Table 4 presents the outcomes of regression analyses examining the interaction between audit committee independence (ACIND) and CEO accounting expertise (CEOEXP) on audit fees (ADF). The model demonstrates high statistical significance (Prob > F = 0.0000) and substantial explanatory power ($R^2 = 0.7128$), indicating that 71% of the variance in audit fees is accounted for by the independent and control variables in the analysis. In alignment with previous research, the coefficient for CEOEXP is negative and statistically significant ($\beta = -0.07, p < 0.01$), suggesting that firms with CEOs possessing accounting expertise tend to incur lower audit fees, likely due to auditors perceiving a reduced risk of engagement.

While audit committee independence (ACIND) continues to exhibit a positive direct effect, it does not achieve statistical significance in this analysis ($\beta = 0.13$, $p = 0.13$). This suggests that audit committee independence alone does not directly affect audit fees when potential interaction effects are considered. In contrast, the interaction term ($\text{CEOEXP} \times \text{ACIND}$) demonstrates a positive and statistically significant relationship ($\beta = 0.16$, $p < 0.05$). This finding underscores a critical insight: the relationship between CEO accounting expertise and audit fees is dependent on the degree of audit committee independence. Specifically, in organizations where an accounting-expert CEO operates in conjunction with a highly independent audit committee, audit fees tend to be higher. This is likely because auditors anticipate more rigorous scrutiny, elevated audit quality standards, and increased complexity in engagements due to the dual-layered governance structure. The control variables conform to expectations and exhibit economically significant magnitudes. Notably, factors such as firm size (SIZE), association with a Big 4 audit firm (ADFRM), current asset ratio (CURASR), market-to-book ratio (MTB), leverage (LEV), geographic segmentation (GSG), and business segmentation (BSG) display statistically significant positive correlations with audit fees ($p < 0.05$ or better). However, board independence (BOIND), return on assets (ROA), and the presence of a loss position (LOSS) are statistically insignificant, indicating they do not have a measurable impact on audit fees in the interactive model.

5. Summary and conclusion

This study explores the impact of Chief Executive Officers' accounting expertise and the independence of audit committees on the determination of audit fees, utilizing a panel data sample comprising 1,313 firm-year observations. Grounded in audit risk and corporate governance theories, the research investigates both the direct and interactive effects of these governance characteristics on auditor pricing, alongside a comprehensive array of firm-specific control variables.

The findings from the direct effects model reveal that firms led by CEOs with accounting expertise tend to incur significantly lower audit fees. This supports the hypothesis that financial acumen in executives enhances financial reporting quality and reduces perceived audit risk. Conversely, audit committee independence is positively associated with audit fees, albeit with marginal significance, suggesting that independent committees may demand greater assurance, as governance theories advocate for enhanced oversight. Regarding control variables, factors such as firm size, auditor type (particularly Big 4 auditors), liquidity, market valuation, leverage, and operational complexity (measured by business and geographic segmentation) exhibit a positive and significant impact on audit fees. In contrast, variables such as profitability (assessed through return on assets), board independence, and financial loss occurrences do not demonstrate a statistically significant relationship with audit pricing. The interaction model uncovers a critical insight: the combined effect of a CEO's financial expertise and a highly independent audit committee is associated with significantly higher audit fees. While a CEO's financial expertise generally correlates with lower fees, and audit committee independence does not exhibit a significant effect in the interaction model, their joint presence strongly influences auditors' pricing decisions. This suggests that auditors anticipate a more rigorous and demanding auditing environment when both governance factors are robust, leading to increased audit effort and, consequently, higher fees. The results underscore the importance of considering the interaction between executive competence and board monitoring when evaluating the determinants of audit fees.

This research contributes to the existing literature on audit pricing and corporate governance in several significant ways. Firstly, it corroborates previous findings that a CEO's accounting expertise is associated with reduced audit fees, thereby supporting the notion that such expertise enhances internal oversight and reduces auditors' perceived engagement risk. Additionally, it provides partial validation for demand-side governance theory by identifying a modest positive relationship between the independence of audit committees and audit fees, suggesting that independent committees are more likely to demand rigorous auditing processes. Notably, the study reveals a significant interaction effect: when a CEO's financial expertise is combined with a highly independent audit committee, audit fees increase. This indicates that auditors perceive the combination of executive expertise and robust board oversight as indicative of a more complex audit environment, necessitating increased audit effort and corresponding fee adjustments. Collectively, these findings underscore the importance of considering governance mechanisms in tandem rather than in isolation, as their interactions can significantly influence audit outcomes. Furthermore, from a practical perspective, these insights are pertinent to audit firms as they develop engagement pricing strategies and to corporate boards aiming to balance stringent governance with cost-effectiveness. Future research could build on this framework by including additional moderating factors—such as the financial expertise of audit committee members, CEO duality, or board tenure—and empirically testing the model across various institutional contexts.

While this study provides valuable insights, it is not devoid of limitations. Firstly, the reliance on cross-sectional data collected during a specific period may constrain the temporal applicability of the findings. Secondly, employing a binary approach to represent CEO accounting knowledge may not adequately capture the diversity of individual experiences, such as the duration, depth, or relevance of their past experience. Thirdly, focusing solely on audit quality in terms of audit fees neglects other fee-independent indicators, such as modifications in audit reports or the promptness of the audit process. Fourthly, the study does not explicitly consider external factors, such as regulatory influences, competitive dynamics in the audit market, or industry-specific challenges, which could affect audit pricing. Future research could be enhanced by adopting longitudinal study designs, incorporating more sophisticated measures of governance attributes, and examining the dynamic interactions among the CEO, board, and audit firm characteristics to gain a deeper understanding of the factors influencing audit pricing.

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FAMILY BUSINESS METASTASIS: AN ANALOGY OF DISSEMINATION AND CORPORATE COLLAPSE

METÁSTASIS EN LA EMPRESA FAMILIAR: UNA ANALOGÍA ENTRE LA DISEMINACIÓN Y EL COLAPSO CORPORATIVO

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ABSTRACT

Organizational decline, which might be seen as an involutionary process, has primarily been examined through a life cycle lens and, more recently, from a biological standpoint. This research introduces the concept of family business metastasis (FBM), which describes how detrimental practices and negative organizational cultures spread within a company. Findings suggest that FBM significantly undermines workplace culture, diminishes productivity, and heightens employee turnover, substantially increasing the likelihood of family firm failure. Key contributors to FBM include inadequate leadership, insufficient accountability and innovation, and poor communication.

KEYWORDS:

Family business metastasis, organizational theory, failure, organizational death.

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RESUMEN

El declive organizacional, que podría considerarse un proceso involutivo, se ha analizado principalmente desde una perspectiva del ciclo de vida y, más recientemente, desde una perspectiva biológica. Esta investigación introduce el concepto de metástasis en la empresa familiar (EMF), que describe cómo se propagan las prácticas perjudiciales y las culturas organizacionales negativas dentro de una empresa. Los hallazgos sugieren que la EMF debilita significativamente la cultura laboral, disminuye la productividad y aumenta la rotación de personal, lo que incrementa considerablemente la probabilidad de fracaso de la empresa familiar. Entre los factores clave que contribuyen a la EMF se encuentran el liderazgo inadecuado, la falta de responsabilidad e innovación, y la comunicación deficiente.

PALABRAS CLAVE:

Metástasis de la empresa familiar, teoría organizacional, fracaso, muerte organizacional.

INTRODUCTION

Numerous models and theories have been developed in organizational research to understand and manage firm behavior and dynamics. Family business metastasis (FBM) offers a unique perspective by comparing the spread of dysfunctional behaviors and practices in a family firm with the way cancer cells spread in an organism. This model is particularly relevant in contexts where toxic practices and negative cultures can spread rapidly, affecting the efficiency, morale, and overall viability of the organization.

The idea of comparing a clinical metastasis with an organizational metastasis comes from a process that is carried out with similarities; that is, the research covers the possible cause of death in a family business due to the metastasis of some evil, whether exogenous or endogenous.

The fact that cancer patients can develop metastasis years or even decades after the diagnosis of the primary tumor adds complexity to the metastatic process. Metastasis is an extraordinarily complex disease. To successfully colonize a secondary site, a cancer cell must complete a series of sequential steps before becoming a clinically detectable lesion. These steps include separation from the primary tumor; invasion through surrounding tissues and basement membranes; entry into and survival in the circulation, lymphatics, or peritoneal space; and arrest in a distant organ (Gupta et al., 2024).

Thus, in comparison to the organizational process, we can see how family firms evolve throughout their life cycles. Typically, life cycle models have four stages: birth, growth, maturity, and decline; however, there are sometimes a stage of renewal or change (Greiner, 1972; Adizes, 1979; Ionescu & Negrusa, 2007; Shyu & Chen, Y. L, 2009; Quinn & Cameron, 1983; Kazanjian, 1988; Gersick et al., 1997). Organizations that do not respond can either fail or perish (death).

This article aims to explore the general model of family business metastasis, a first perspective based on Montiel, Canales-Garcia, and Gardea-Morales (2023), the first study to mention metastasis as the outcome of an organizational dysfunctional process. This analogy concerns Røvik (2011), who explored how organizations adopt and manage new ideas through management using metaphors. A crucial part of this approach is the use of a medical metaphor to describe how ideas spread and evolve within family firms, allowing for a novel understanding of how management

ideas travel and transform within organizations and provide a framework for analyzing their impact and evolution over time.

The present study is organized as follows: The first section provides a comprehensive view of how and why metastasis occurs, including its process; in the second section, the concept of organizational death is explored, focusing on family businesses; the third section addresses the methodology (scoping review) to explore emerging themes. The fourth section addresses and explains the proposed general FBM model. In the fifth section, we discuss a case study in which we analyze the decline/fall of Gucci, in which parallels exist between the biological concepts of metastasis and organizational processes. Finally, we conclude this paper.

1. METASTASIS PROCESS

Metastasis is the most common cause of cancer-related death. Most patients with metastatic disease respond transiently to conventional treatment. A greater understanding of the relationship between apoptosis resistance (the death of cells that occurs as a normal and controlled part of an organism's growth or development) of metastatic cancer cells and their chemoresistance should provide important clues to improve systemic therapies (Ahmad & Hart 1997).

Cancer metastasis occurs because of the complex interactions between cancer cells and their environment. The first event leads to the escape of the primary tumor, migration of tumor cells, and entry into lymphatic vessels, where their presence can be detected using various techniques. The interconnections between the lymphatic and vascular compartments allow cells to disseminate tumors to transit between these two systems (Mehlen & Puisieux, 2006). Tumors first migrate from the primary tumor, penetrate blood vessels, and then migrate to distant locations (Ahmad & Hart 1997). Throughout this process, tumor cells must avoid and survive apoptotic signals and host immune responses (Hunter et al., 2008).

Therefore, highly metastatic cells often acquire alterations in more genes than non-metastatic cells do, and several genes are differentially expressed between metastatic and non-metastatic cells. These cells selectively produce metastatic tumors in distant organs; therefore, metastatic tumor cells carry all the genetic alterations necessary to maintain the malignant phenotype of cancer cells (Mehlen & Puisieux 2006).

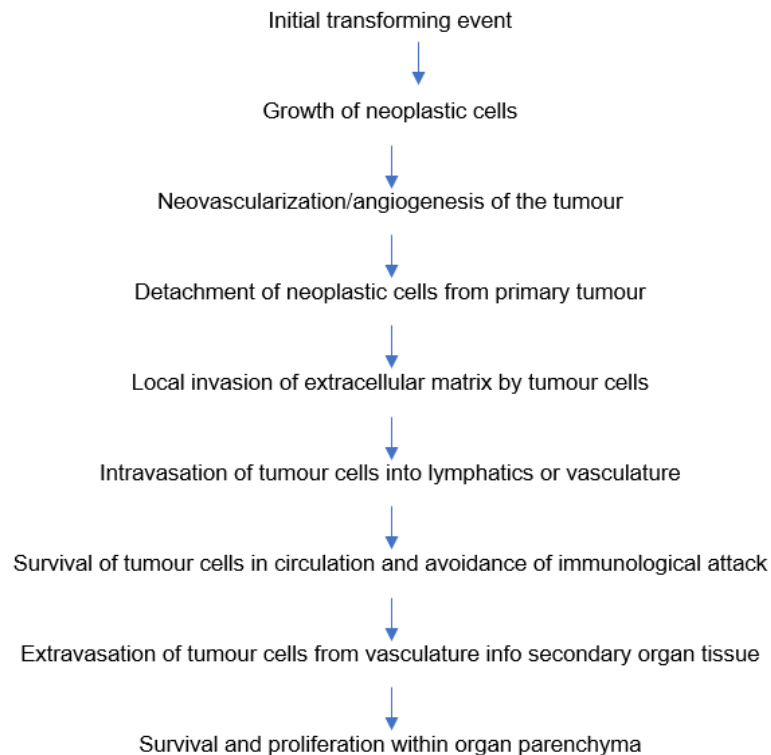
However, metastasis is an extremely inefficient process, owing to the frequency of secondary tumors in patients with cancer. To successfully colonize a distant site, a cancer cell must complete all the steps of the metastatic cascade. If none of these steps are completed, the cell fails to colonize and proliferate in distant organs. Micrometastases may form, but most preclinical lesions appear to regress, probably because of apoptosis (Hunter et al., 2008).

This standardized approach is akin to the systemic nature of metastatic cells, which adapt to and thrive in new environments, ensuring the continued growth of malignancy (Ahmad & Hart, 1997).

Metastasis involves complex interactions between cancer cells and their environment. Therefore, to address organizational metastasis, one must understand the mechanics of tumor migration from the primary site, its penetration into blood vessels, and the colonization of distant places, which is crucial for the development of effective therapies and to address the analogy/metaphor between clinical metastasis and family firm metastasis.

In Figure 1, Ahmad and Hart (1997) show each of the key points of the metastatic process:

Figure 1. General clinical model, metastasis



Source: Ahmad & Hart (1997).

- **Initial Transformative Event**

The metastasis process begins with an initial transformative event in which a normal cell undergoes genetic mutations and epigenetic changes that convert it into cancerous cells. This establishes the basis for cancer development by transforming normal cells into neoplastic cancer cells (Chaffer & Weinberg, 2011).

- **Neoplastic Cell Growth**

Once a cell becomes neoplastic, it begins to proliferate uncontrollably, forming the primary tumor. Here, the neoplastic cells grow and divide rapidly, forming the initial tumor mass (Ha, Faraji, & Hunter, 2013).

- **Tumor neovascularisation/angiogenesis**

Tumors induce the formation of new blood vessels (angiogenesis) to supply the oxygen and nutrients necessary for their growth. It is important to understand that angiogenesis is essential for

sustained tumor growth, allowing it to expand beyond a size limited by nutrient diffusion (Folkman, 2002).

- Detachment of Neoplastic Cells from the Primary Tumor

This is where individual cancer cells or small groups of cells break away from the primary tumor and begin to invade the surrounding tissues. These shed cells are crucial for the spread of cancer to new areas in the body (Chaffer & Weinberg, 2011).

- Local Invasion of the Extracellular Matrix by Tumor Cells

Tumor cells produce enzymes that degrade the extracellular matrix, allowing them to invade the adjacent tissues. This step is vital for cancer cells to escape from the primary tumor and move to other tissues (Friedl & Alexander, 2011).

- Intravasation of Tumor Cells in Lymphatic or Vascular Vessels

Cancer cells invade lymph or blood vessels, allowing them to spread to other parts of the body. Intravasation allows tumor cells to enter the circulatory system (Thiery, 2002).

- Survival of circulating tumor cells and prevention of immunological attacks

Once in circulation, tumor cells must survive adverse blood flow conditions and avoid destruction by the immune system. Cancer cells develop mechanisms to resist immune attack and survive in the bloodstream (Fidler, 2003).

- Extravasation of Tumor Cells from the Vasculature to the Secondary Vasculature

Here, tumor cells leave the vascular system (extravasation) and enter the tissues of the secondary organ, where they can form new tumors. This process allows cancer cells to colonize new organs and tissues (Valastyan & Weinberg, 2011).

- Survival and Proliferation within Organic Parenchyma

Once tumor cells have extravasated and settled in a new tissue, they must survive and proliferate in the new environment to form a metastasis. The ability of tumor cells to adapt and grow in a new environment determines the success of metastasis (Massagué & Obenauf, 2016).

Fig. 1 provides a comprehensive understanding of the complex and sequential steps by which cancer cells spread from the primary tumor to other parts of the body. Each stage, from the initial transformation of a normal cell to a neoplastic cell, invasion of secondary tissues, and proliferation in new environments, is crucial for cancer progression. This detailed understanding is essential for developing effective therapeutic strategies that can interrupt the metastatic process at different points, thus improving the chances of treatment and patient survival (Fidler, 2003).

On the other hand, organizational death occurs when an organization functionally ceases to exist, whether because of bankruptcy, voluntary dissolution, or absorption by another entity (Ghazzawi 2018). The path to financial breakdown and bankruptcy is directly related to the factors associated with a business's internal conditions (Arnis et al. 2020). The life cycle of an organization is akin to the biological life cycle (Mouzelis, 2010).

The next section presents various causes and stages of family business death, symptoms, signs of approaching decline, and strategies that businesses can employ to prevent or mitigate these risks.

2. FAMILY BUSINESS

Family businesses have two characteristics: ownership of capital, which belongs to one or more family members, and family management of the business in which family members control and make decisions (Kallmuenzer et al., 2018; Kellermanns et al., 2008; Araya-Castillo et al., 2022). Family firms are an emerging research area because of the importance of their global impact. Family businesses represent more than 60% of global businesses, contributing 50-75% of the Gross Domestic Product (GDP) (Poza et al., 2004; Gagné et al., 2019; Chaudhary et al., 2021). In the USA, 30% of family companies do not survive to the second generation, and only 3% can pass down to the fourth generation (Karagouni, 2018; Song, 2024). According to La Porta et al. (1999) and Araya-Castillo et al. (2022), family firms are the most common form of business in any economy in the world (La Porta et al., 1999; Araya-Castillo et al., 2022). Research suggests the importance of analyzing situations that have hindered entrepreneurship and businesses of all sizes and from various regions of the world (Yitzhak, 2017; Kücher & Feldbauer-Durstmüller, 2019; De Keyser et al., 2021).

The process of organizational decline generally follows a pattern that includes a gradual loss in profitability and market share, as well as a decline in staff morale and motivation (Van Rooij & Fine, 2018). As these problems intensify, organizations may be forced to reduce their operations, close divisions, or even file for bankruptcy. Family business failure is often driven by several critical factors, mainly related to the owners/founders as CEOs, because of their deficiency in management capacity, appropriate knowledge, lack of specific skills to make decisions, mismanagement of capital, and communication (Arnis et al. 2020).

Family businesses have specific issues related to family stakeholders: nepotism, selecting family members with inadequate experience, internal conflicts, and the dominant ambition to stay under the control of family members (Corbetta & Salvato, 2012) (Caputo et al. 2018).

In addition, the inability of leadership to adapt to changes and challenges in the environment is another determining factor that can lead an organization to decline (Gupta et al., 2024). This process causes the organization to experience a deterioration in its performance and may eventually face dissolution or loss of relevance in its industry (Ghazzawi, 2018). According to the literature review, the main factors of family business deaths are as follows:

- **Size.** Hannan and Freeman (1984) argue that large organizations are less likely to fail. Small organizations would have several novel drawbacks that would manifest themselves, such as difficulties in raising financial capital, less ability to recruit and train their workforce, and a lower stock of social capital, which would increase the possibility of failure. On the other hand, the size of the family firm is crucial for the founder's influence in the entire organization, where management and governance are executives to match the entrepreneur's philosophy, even if it is not the best way to do it (Caputo et al. 2018).
- **Family relationships.** The substantial difference between a company and a family firm is that family members are part of the business. They are all part of the company because they are part of the family, but at the same time, they must respect and care for family relationships. Although Deephouse and Jaskiewicz (2013), Zellweger et al. (2012), and Chaudhary et al. (2021) explain that family businesses protect reputations and trustful relationships, the intersection between family interests and personal ambitions is a cause of death.

- **Poor management.** Bibeault (1982) noted that failed changes are related to poor management, insufficient financial resources, and weak change strategies; associated with deficient management is the extreme control that the founder executes intending to maintain secrecy and control information about the organization (Miller & Le Breton Miller, 2021)
- **Decision making.** Considering the central work of Staw et al. (1981), decision-making has a strong influence on the development of resources and capabilities, influencing either growth or decline. According to Miller and Le Breton-Miller (2021), family businesses make decisions based on the family first, even ignoring good business strategies.
- **Leadership.** Little research effort has been directed toward investigating the role of leadership orientation in organizational decline, despite the accumulating body of evidence, albeit anecdotal, suggesting that leaders' personal qualities could be potentially detrimental, rather than beneficial, to firms. Despite accumulating anecdotal evidence suggesting that leaders' personal qualities could be potentially detrimental rather than beneficial to firms, little research effort has been directed toward investigating the role of leadership orientation in organizational decline (Carmeli & Sheaffer, 2009). Leaders play a crucial role in this process, because their emotions can strongly impact their subordinates (Barsade et al., 2020).
- **Top Management Team (TMT) Behavioral Integration:** Differences in group process effectiveness among TMTs, particularly in their levels of behavioral integration, become particularly critical to group performance when the group is confronted by the rapid and unexpected changes that characterize organizational decline (Carmeli & Schaubroeck, 2006).
- **Lack of Adaptation to Change:** Organizations that fail to adapt (Weitzel & Jonsson, 1989) to changes in their external environment, such as technological, market, or regulatory changes, may fall behind and lose relevance, such as the demise of companies such as Gucci due to their inability to adapt to the digital age (Hannan & Freeman, 1984). Family businesses struggle to maintain the initial organization and chase growth (Zapata-Cantu et al. 2023); specifically, family firms tend to stop innovation because they feel nostalgic for the good times of the business and traditions.
- **Financial problems:** The inability to maintain sound financial health, manage debt, or generate sufficient income can lead to bankruptcy, such as the Lehman Brothers bankruptcy that occurred during the 2008 financial crisis (Cameron et al., 1987).

The study of family business death or decline is crucial for understanding how companies and other entities can confront crises, avoid collapse, and in some cases reinvent themselves to survive.

Given the aforementioned, the concept of organizational pathology (OP) has arisen, which refers to problems that affect the performance of organizations, compromise their objectives, and jeopardize their long-term survival. Any internal organizational feature that jeopardizes an organization's ability to survive is encompassed by the wide concept of OP. In particular, the idea compares organizational differentiation to a person's vital organs and systems; organizational formalization to biological systems such as breathing and circulation; organizational centralization to the brain, appendages, and orifices to resource-dependent connections to the outside world; and

organizational culture to mental health and personality. (Boardman & Pomnomariov, 2016). But no mention of a FBM under OP.

These problems manifest in the form of dysfunction, disorders, recurrent problems, and inappropriate behaviors. Their common characteristics allow them to be classified as various “organizational pathologies.” These pathologies arise because of a lack of inputs, excess inputs, inadequate inputs, or abnormalities in the processing of inputs into outputs (Yitzhak, 2017).

A shortage of critical resources is a serious pathological deficiency. Like respiratory distress in living organisms with insufficient oxygen, lack of working capital has a similar effect on organizations. Similar pathologies include shortages of skilled labor and up-to-date technology (Yitzhak, 2017). Furthermore, continued competition between divisions and departments within an organization causes conflict and exacerbates power struggles between subunits, which is likely to be detrimental to the organization as a whole (Yitzhak, 2017). Changes in economic, technological, and competitive environments are external factors that can precipitate declines. Hannan and Freeman (1984) highlight that organizations operate in complex and changing environments.

Family businesses are considered natural systems, although they are not. Like individuals, organizations can suffer from prolonged and severe pathologies that do not necessarily lead to death. A similar pathology in medicine is known as chronic illness. In organizations, this manifests itself as a lasting deficiency in production or support subsystems. As open systems that exchange resources with their environment, organizations can delay their demise for a long time, a phenomenon known as negentropy (Yitzhak, 2017).

Witzel and Jonsson (1989) identified five stages of organizational decline: blindness, inaction, wrong action, crisis, and dissolution. They mentioned that organizations often go through these stages sequentially, beginning with a lack of recognition of the problem and culminating in dissolution if effective corrective actions are not implemented. Meyer et al. (1990) point out that adaptive capacity and organizational resilience are crucial to overcoming periods of crises. Cameron, Kim, and Whetten (1987) discuss that organizational decline can have a devastating impact on employees, including increased stress, job insecurity, and decreased morale and productivity.

In addition, there is a community impact, as family business closures can negatively affect local economies and communities. Freeman and Hannan (1983) observed that business closures affect not only employees but also local communities, especially in terms of job loss and decreased economic activity.

Tushman and O'Reilly (1996) also emphasize the importance of continuous innovation in maintaining competitiveness and relevance in the market. Organizations must invest in R&D and be open to new ideas and approaches.

Family business death is a critical phenomenon that can affect any entity, regardless of its size or industry. Organizational death not only implies the cessation of operations but also the loss of identity, value, and relevance in the market.

3. METHOD

Exploratory research has been conducted to ascertain the applicability and utility of FBM as a construct in organizational and management studies. Scoping reviews are excellent for, among other things, exploring "emerging" topics from multiple disciplines while "mapping the key concepts" of a line of research and describing "gaps" in the research (Peters et al., 2015). A scoping review was conducted to explore the contemporary issues in the aforementioned research streams. No indication of a previous conceptualization of FBM was discovered despite a thorough literature review conducted utilizing a variety of databases, including Google Scholar, EBSCOhost, ProQuest, Scopus, Emerald, Ingenta, JSTOR, ScienceDirect, and Wiley (with no precise dates, under the "any time or moment" criteria). Using keywords such as "organizational metastasis" "organizational failure" "organizational death" and "organizational cancer" (we also did this search in the Spanish language), no articles were found on elaborating FBM.

We did not introduce geographical restrictions. The last search was conducted in March 2025. The scoping review suggests that FBM has potential research applications in various research streams, such as organizational and management studies, entrepreneurship, and family business.

Based on the previous sections, the next section focuses on the proposal and explanation of the general FBM model.

4. PROPOSAL AND EXPLANATION OF THE GENERAL MODEL OF ORGANIZATIONAL METASTASIS AND ITS DEFINITION.

According to Whetten (1989), not all theoretical contributions require propositions; nevertheless, they can have a significant impact on the logic and derivations that lead to the dimension. Consequently, four claims were made to outline the ramifications of logic. These were designed with the understanding that the entrepreneur will change as a normal part of running the business and that the industrial climate and the emergence of unusually severe crises (such as COVID-19) should also have an impact (figure 2).

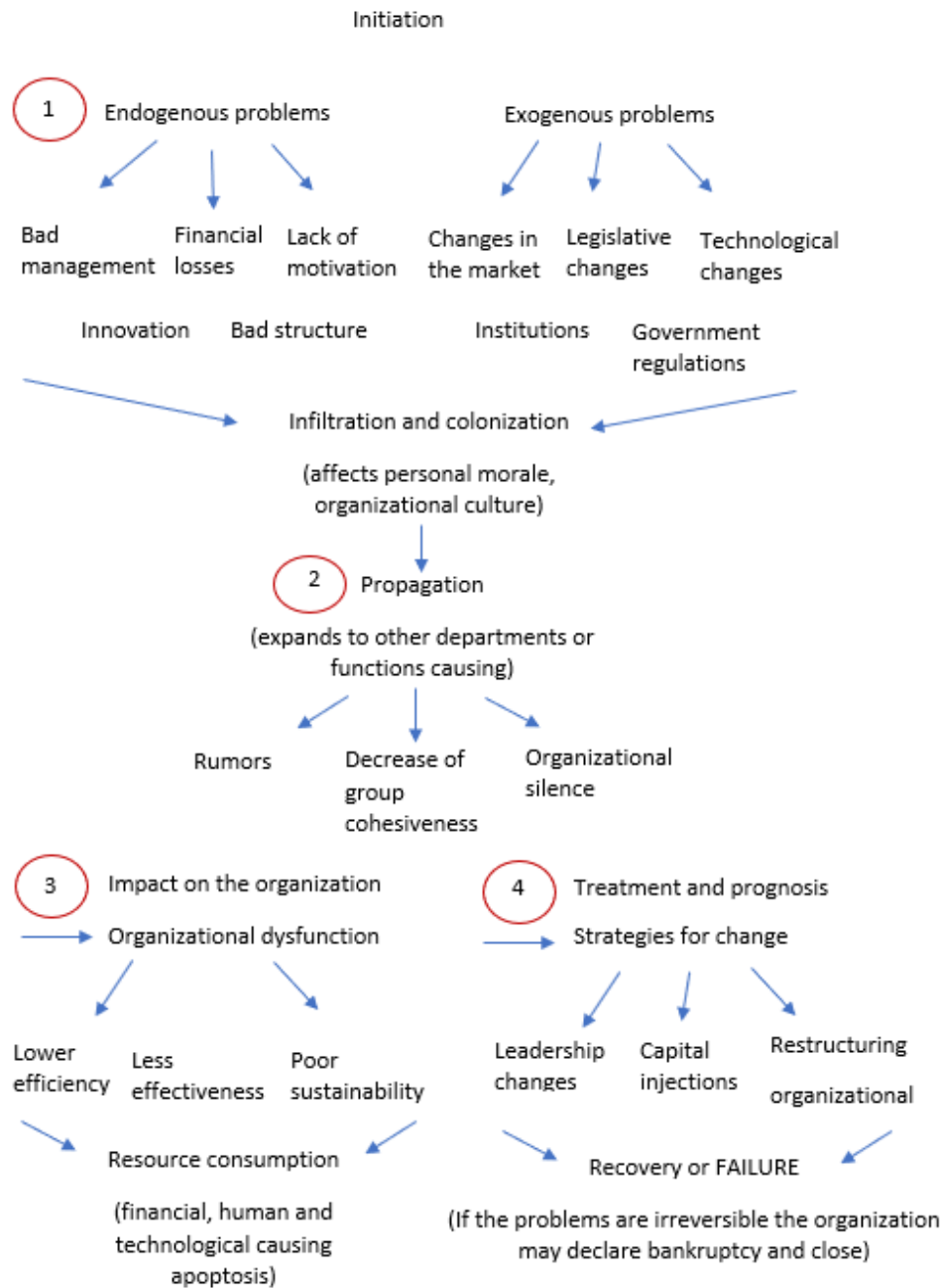
Proposition 1. Challenges faced by the organization originating within the firm's operations (endogenous), or by the influence of changes in the context (exogenous), more expected issues and complexity will arise, which might lead to the appearance of FBM.

Proposition 2. The more information the organization receives from the measurement of FBM, the more improved strategies can be made to escape the appearance of FBM, thus escalating the probability of accomplishing superior financial and nonfinancial performance for the firm.

Proposition 3. The more issues that appear in the organization are linked to the Logic Model's input elements, the more likely it is that the FBM will emerge.

Proposition 4. The more problems that arise from dysfunctional organizational practices, toxic behaviors, or ineffective structures/strategies/decision-making, the more likely the FBM will emerge.

Figure 2. FBM General model



Source: Own elaboration based on Carroll and Khessina (2005), Yitzhak (2017), Ghazzawi (2018), Carmeli and Sheaffer (2009), Ahmad and Hart (1997), Wiseman and Bromiley (1996), and Ejimabo (2015).

According to Whetten (1989), testing a model under different settings may reveal the limiting factors that restrict its usefulness. A new idea could lead to more questions about the hypotheses proposed and the gathering of empirical facts. Logical probability was applied to our model by assessing the theory through factual analysis based on a review of the literature (Meehl, 1990).

This model seeks to provide a detailed understanding of the mechanisms and stages through which problems can spread within an organization, as well as strategies to identify and contain this spread before it causes irreparable damage.

The FBM model describes how certain dynamics within an organization can spread, such as how cancer cells can spread in an organism. This model is used to analyze and understand the expansion of harmful practices, behaviors, and structures within organizations, as well as to help predict and manage these phenomena (Anderson, 2020).

We define FBM as *the process by which dysfunctional organizational practices, toxic behaviors, or ineffective structures/strategies/decision-making spread from one element of the organization (founder/family within or not in the family business) to another, progressively affecting the entire entity and resulting in firm death*. This concept is based on an analogy with biological metastasis, in which malignant cells spread from their original site to other parts of the body (Johnson & Smith, 2019).

Explaining the General Model of Family Business Metastasis

1. **Origin and Initiation of Dysfunctional Practices:** Clinical metastasis refers to the spread of cancer cells from a primary tumor to other parts of the body, forming new secondary tumors. Dysfunctional practices spread throughout the organization, affecting overall health (Hanahan & Weinberg, 2011). In both cases, early detection and intervention are crucial for mitigating harmful effects and stopping their spread.
2. **Propagation:** Dysfunctional practices and behaviors spread throughout the organization through various means, including informal communication, personnel turnover, policy implementation, and hierarchical structures. This process can be fast or slow, depending on factors such as the size of the organization, cohesion of the teams, and the presence of control mechanisms (Anderson, 2020). The traditional comparison of these ideas to fads suggests that management ideas act like viruses, spreading, mutating, and adapting within organizations (Røvik, 2011).
3. **Impact on the Family Business:** As dysfunctional practices spread, they begin to affect different areas of the organization, reduce efficiency, decrease staff morale, and increase operating costs. This impact can be particularly severe if corrective measures are not implemented in time (Van Rooij & Fine, 2018).
4. **Treatment and prognosis:** To mitigate organizational metastasis, it is crucial to implement appropriate control and preventive mechanisms. This includes constant monitoring of internal practices, promoting a positive organizational culture, ongoing staff training, and implementing transparency and accountability policies (Johnson & Smith, 2019).

The proposed general model of FBM identifies several critical points that reflect the internal and external challenges faced by organizations during a crisis. These include an inability to adapt to technological and market changes, ineffective management, and a lack of innovation and strategic responses in the face of competition and economic changes. In biology, where cancer cells spread from a primary tumor to other organs, organizations can experience problems spreading from core

areas that affect various parts of their structure and function. The virus theory suggests that management ideas spread and mutate within organizations, such as how viruses do in biological organisms. These ideas can be "contagious," adapt, and evolve to survive in different organizational contexts (Røvik, 2011).

Furthermore, (shown in Table 1), for an individual organization, the following forms of behavior suggest the instigation or stimulus for FBM and the beginning of organizational failure that could impact the markets, industry, or political economy in which it operates or resides (Adams, 2011; Clark, 2013):

- A. Incompetence or intentional negligence
- B. Elitism, bias or prejudice
- C. Moral inversion or criminality
- D. Ethnocentric activities

Table 1. Logic Model for Family Business Metastasis and its Measurement

	INPUT	OUTPUT	OUTCOME	METRICS	CORRECTION
This model is relevant in contexts where toxic practices and negative cultures can spread rapidly. During the decline phase of the organization's lifecycle, collaboration decreases, and any form of innovation offered by the organization becomes more authoritarian rather than collective (Rogers, 1962, 2003; Bass, 1994; Baumol, 2010)	Incompetence	Unproductive innovation practices	Decreased market share, demand, and prices become more elastic	Revenue change per employee, demand and price analysis related to market share and lifecycle phase	New market share and new technological processes (new products or markets)
	Elitism and bias	Unproductive collation or ideation for innovation	No new products, methods, or means for supply and no new market entries	Revenue per employee and market share	New market share and new technological processes (new products or markets)
	Moral inversion	Destructive culture (shared values, beliefs, attitudes) without information or behavioral controls	Loss of human capital and best available vendors and customers	Costs of resources per employee and revenues per employee	New administrative processes and better employee, vendor, and customer or secondary stakeholder groups

	Ethnocentrism	Destructive corporate governance practices	Leadership becomes unproductive, and investment in the organization decreases	Changes in overall financial position compared to rivals that are product, market, or industry leaders	New administrative processes and better employee, vendor, and customer or secondary stakeholder groups
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Source: Adapted from Clark (2014)

It appears that there are stages or orders related to the occurrence and observation of incompetence, elitism and bias, moral inversion, and ethnocentric behaviors initiated or promulgated by and within the organization (Adams, 2011; Clark, 2013). FBM does not begin outside the organization, but within or across its people or culture, and then its administrative or technological processes, or place or structure.

Simultaneously, it affects the primary, secondary, and tertiary stakeholders of the organization. It reduces the impact of the organization and is reflected by market share changes and changes in the inelasticity of prices related to past or current forms of productive innovation currently traversing or traveling through some product or organizational lifecycle phase (introduction, adoption, diffusion, and early or late growth or maturity), and then declines. It can be measured by the loss of revenue, cost of resources, and other measurable and observable changes in financial, market, and industry position, rank, or image.

Therefore, the independent variables for the dependent variables that then become inputs or measurable independent variables for FBM - incompetence, elitism and bias, moral inversion, and ethnocentric behavior (Adams, 2011) – are people [values, beliefs, attitudes], administrative processes [how the organization does things with people, places, and things], technological processes [what the organization does to things, places, (and) people], and place [location, access, amenities] or structure [organization, market, and industry].

For Table 1, the people or their values, beliefs, and attitudes that determine both individual and organizational behavior according to some mission, vision, and code of conduct or policy and procedure comprise the inputs to outputs incompetence, elitism and bias, moral inversion, and ethnocentrism.

It is only people – based on values, beliefs, and attitudes that determine behavior – that instigate or cause FBM that can lead to organizational failure based on decreased market share; more elastic demand and prices for finished products; loss of human capital that causes forms of innovation within the organization; loss of vendors and customers; or attraction of lesser quality vendors and customers, all of which lead to deterioration of people, processes, and place and investment in the place or organization (Hofstede et al., 2010; Adams, 2011; Clark, 2013).

Based on decision-making processes associated with job assignment from their employer or organization, choices are made on a routine basis, and those choices, after implementation and control, can be evaluated as having been (1) productive, (2) unproductive, or (3) destructive (Schumpeter, 1934; Kirzner, 1973; Baumol, 2010).

Destructive decisions or choices may be classified based on the inputs shown in Table 1, incompetence, elitism or bias, moral inversion, or ethnocentrism, and related to the outputs: (1) unproductive innovation practices, (2) unproductive collaboration, (3) destructive culture, and (4) governance that results in (i) decreased market share; (ii) no new forms of innovation; (iii) loss of human capital, vendors, and customers; and (iv) loss of future wealth and current investment.

This is the process of FBM at the organizational level that leads to or causes organizational failure, and its related conditions are listed by the outputs and outcomes displayed and defined by the “Logic Model for Family Business Metastasis and its Measurement.”

One of the challenges faced by FB is adapting to the changing environment. At FB, boundaries are important for times of change or crisis; FB management can have a constitution with formal rules, but when a conflict occurs, FB uses informal rules. These can be perceived or interpreted differently by family members (Kleve, 2020).

Adaptative behavior is an intangible value for every member of FB, which helps innovative functioning after experiencing a crisis, disturbance, or challenge. Conversely, the inability to adapt to biological conditions and FB can lead to decline or death. Team coordination routines and social networks are less prevalent in family businesses because of the stability of their members inside the business. However, when the family succession process occurs, some of the resources can be diminished or lost and affect the future of the family firm. As angiogenesis is crucial for cancer progression, family businesses require a consistent flow of resources to thrive.

Finally, conflicts and poor decisions within family dynamics and leadership are comparable to how mutations genetically occur in cancer. We can compare how a minute mutation can be powerful enough to drive malignant growth and familial discord, and we see that flawed leadership can upset the balance in an organization, weakening its core structures.

5. DISCUSSION, CASE STUDY

In this section, we provide a case vignette/narrative illustrating our conceptual model using an actual archival story. Narratives and stories (Boje, 2018) can generate knowledge about issues in organizational settings.

The exploratory case study is based on the Gucci family business, the largest fashion industry in the world, experiencing a meteoric rise followed by a major crisis that ended the family business era. This case study examines the factors that contributed to its decline, highlighting family relationships and decision-making. Like clinical metastasis, where cancer spreads to other parts of the body, Gucci's decline involves the spread of systemic issues within it. Gucci experienced a crisis in the 1980s, and some causes were governance mistakes and family disputes, namely, family relationships and decision-making. These dysfunctional practices exemplify the model's principles but highlight how internal and external factors can interact to drive a leading organization into an irreparable decline or radical change (Abatecola, 2013), ultimately leading to its collapse (Cobo, 2018).

Gucci background

Gucci was founded in 1921 by Guccio Gucci in Florence, Italy, as a small leather goods and luggage store. According to Abatecola (2013), family businesses have gained recognition for their

quality and appeal. For many years, the family business had only European customers. Gucci's expansion began in 1953, after Guccio Gucci's death. The succession of the family business brought his son into the brand. Aldo, the founder's son, expanded the company internationally by opening a leading store in New York City. Gucci grew by opening new stores worldwide, becoming a status and luxury brand.

The factors of the initial phase of metastasis that affected family relationships and decision-making became evident during the 1980s, when the grandson, Paolo, endeavored to begin his own brand and instigated conflicts between the family. The initial phase of metastatic cancer cells begins to spread and establish new tumors, leading to rapid growth and expansion (Ahmad & Hart, 1997).

Another factor was the decision to modernize the brand and expand the family business without control or exclusivity. Paolo had an ambitious purpose of creating modern lines for the family business, but it was above family decision-making or negotiations. When Paolo was rejected by the family, he performed dysfunctional practices and inappropriate behaviors that spread throughout the company. This over-expansion mirrors the metastatic spread of cancer cells, which infiltrate and dominate new areas and often lead to widespread systemic issues (Chaffer & Weinberg, 2011). This decline can be compared with the terminal stage of cancer, where the spread of malignant cells overwhelms the body, leading to systemic failure (Ha et al., 2013).

Organizational metastasis refers to the propagation or extension of disruptive changes within an organization, affecting multiple areas and fundamental processes (Cross et al., 2007). In the case of Gucci, organizational metastasis had dysfunctional organizational practices, toxic behaviors, and ineffective decision-making that spread from one element of the family business to another, progressively affecting the entire entity and resulting in the death of the family firm.

Today, Gucci's company is an Investcorp firm, meaning that the family business died in its third generation. As a result, this case exhibits the following outputs: (1) unproductive innovation practices; (2) unproductive collaboration; (3) destructive culture; (4) governance that results in (i) decreased market share; (ii) no new forms of innovation; (iii) loss of human capital, vendors, and customers; and (iv) loss of future wealth and current investment.

Initiation of the Metastasis Process: Gucci family member's misbehaviors

During metastasis, initiation occurs when normal cells undergo genetic mutations that transform them into cancerous cells. This change can be triggered by various factors such as radiation, chemicals, or inherited mutations. Similarly, Gucci's decline began with the emergence of misbehavior and wrongdoings from family members. Gucci's outrage may refer to broken social norms in a family or business (Rondi et al. 2023). Normal attitudes and decisions go through destructive choices for one important family member, transforming the firm and its members into a company with a bad reputation, where the family can damage themselves.

The destructive decisions of poor management and the incompetence of one unsatisfied member of the family (Paolo) are connected to other problems: unproductive collaboration, destructive culture, and governance. Gucci is the perfect case of a family concern that brings business problems. The metastatic initiation in Gucci began when family management suffered mutations as a response to the rejection of business modernization lacking control or exclusivity, which transformed the family business structure, union, values, beliefs, and attitudes.

According to Rondi et al. (2023), family business reputation is considered an intangible resource and might become a danger. Gucci was unable to respond to the scandal and the bad attitude of Paolo, which resulted in decreased market share, no new forms of innovation, loss of human capital, vendors, and customers, and loss of future wealth and current investment. Therefore, cancer cells evade treatment and proliferate, thereby weakening the host system (Ahmad & Hart, 1997).

Propagation

In cancer biology, spread refers to the expansion of cancer cells from their origin to other parts of the body to form metastases. This phase is crucial, as it determines the severity and treatment of cancer (Folkman, 2002). For Gucci, the initial propagation was the spread of poor management and a lack of skill for one displeased family member. According to Neffe et al. (2020), in the family business, the negative influence of one leader can be dangerous to all family businesses.

The Gucci company suffered because of third-generation members who were envious of each other, which was the cause of many conflicts (Fahed-Sreih, 2018). Contrasts in emotional opinions appointed to interactions between family members occasionally impede knowledge sharing (Chirico, 2008; Gunawam & Koenjoro, 2023; Trevinyo-Rodríguez & Bontis, 2010). The cancer cells that expanded the problem had different opinions among family members of the next generations. Propagation was created for one family member who instilled a family business with bad decisions and had a bad reputation for the public.

Several conflicts have grown over the years, destroying the family and company. The company has lost its cohesiveness. According to Ortín et al. (2014), in the family business, conflict decline in affective-emotional family relationships leads to poor management at the company and stubbornness and irrationality in decision making.

This social contagion suggests that emotions are transferred between individuals in Gucci, thereby influencing the work environment and organizational performance. Emotional contagion, which occurs through daily interactions and observations, can significantly affect the organizational climate, employee performance, and leadership dynamics. Furthermore, mechanisms such as verbal and nonverbal communication, automatic simulation, and empathy have been described as the main routes of emotional contagion. To effectively manage this phenomenon, it is recommended to promote emotional intelligence, implement programs that promote positive emotions, and train leaders in emotional management (Barsade, Coutifaris & Pillemer, 2020).

Impact on the Organization

Gucci began to reduce efficiency, decrease staff morale, and increase operating costs. The lack of one strategy to continue the family legacy brought significant debt and loss of the market, in addition to the bad reputation of the brand. The impact of metastasis on an organism is devastating, affecting the functions of vital organs and systems. For Gucci, the impact was catastrophic in continuing the family business.

In 1988, Paolo opened his own business (Gucci Shop) when his ideas were rejected by the rest of the family members, and as a result, Gucci had its competitors inside the company. Interpersonal conflicts were loaded with negative emotions, such as resentment, which damaged the performance of the family business (Eddleston and Kellermanns 2007) (Caputo et al. 2018). The aftermath was Gucci losing brand value and perfect reputation, including a loss of the market

because of poor management. Paolo was driven by emotions, revealing business secrets and finally taking the company to ruin.

Treatment and prognosis.

Early and aggressive intervention can improve the prognosis in the treatment of metastatic cancer, although this is often an uphill battle. For Gucci, treatment efforts included prohibiting and penalizing family members to protect the brand.

To Gucci, it was impossible to survive as a family business because the family members were cancerous cells for the company due to bad attitudes, irrational decision-making, and ambitious attitudes.

Resource consumption continues with subsequent generations. Gucci sold their family parts until almost 50% of the property was sold to an Eastern investment banking company in 1988. Currently, the Gucci Group is owned by French multinational Kering (Caputo et al. 2018).

The Gucci case illustrates the importance of organizational agility and the ability to manage family conflicts. According to Cross, Parise, and Weiss (2007), organizations that fail to identify and respond effectively to signals of change risk experiencing organizational metastasis with devastating effects on their long-term viability.

Gucci faced significant challenges as a family company that intends to continue with new family members. The company's inability to separate interpersonal conflicts from its goals, combined with a bad reputation caused by family members, has contributed to its decline. This case offers a clear view of how strategic family business decisions, negotiations, and collaboration between family members determine the destiny of an organization in a constantly evolving market.

In this analysis, parallels between the biological concepts of metastasis and organizational processes were explored, highlighting how poor management and a bad reputation can lead even the largest companies to fail. This case study provides valuable insights into how organizations can learn from past mistakes and develop resilient strategies to meet the challenges of the modern marketplace.

This integrative approach between biology and family business management not only enriches our understanding of organizational decline but also offers innovative perspectives for the development of effective management and business sustainability strategies in the 21st century.

6. CONCLUSIONS

In the dynamic contemporary business world, the concept of organizational decline remarkably resembles the biological process of metastasis, in which a series of interrelated events leads to the gradual dissolution of an organization. This phenomenon not only reflects the inherent fragility of business structures, but also the ability to adapt and resist internal and external challenges. A call is made to research FBM and its processes.

To understand this complex process, an FBM model that analyzes decline as a sequential and systematic process has been proposed. This model identifies critical stages, such as the inability to innovate and respond strategically as well as resistance to change within the organization. Each stage represents a challenge that can further weaken the viability and competitiveness of a family business in its market.

The case of Gucci highlights the importance of strategic agility and responsiveness to disruptive changes in the business environment. The lessons learned from this decline can be widely applied, highlighting the critical need to anticipate possible interpersonal conflicts resulting from the succession process.

Understanding and addressing organizational metastasis has broader societal implications, as healthier workplaces contribute to better employee mental health and well-being, leading to more productive and harmonious communities.

The main limitation of this study was its reliance on self-reported data, which may be subject to bias. Future research should incorporate longitudinal studies to validate these findings and to explore the long-term effects of organizational metastasis. Further research is required to validate the proposed model based on a single case.

The study of organizational decline through the prism of FBM provides a comprehensive multidimensional perspective. Integrating biological principles with management theories, this approach not only enriches our understanding of organizational behavior but also offers valuable insights for developing effective change management and business sustainability strategies in a globalized and dynamic business environment that can support the formulation of public policies as well as impact management education.

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