

## **Founder Succession and Accounting Properties\***

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### **ABSTRACT**

Using a sample of 231 entrepreneurial firm successions in Hong Kong, Singapore, and Taiwan, we find that firms' unsigned discretionary accruals decrease while timely loss recognition increases subsequent to successions, suggesting a shift in accounting toward a less insider-based system. We argue that the change in accounting properties is due to the loss of specialized assets in the succession process, such as the entrepreneur's reputation and political/social networks, inducing the firm to adapt to market-based rather than relationship-based contracting. Moreover, we find that the extent of the shift in accounting is larger in founder successions than in subsequent (non-founder) successions, as the dissipation of specialized assets is greatest in founder successions.

*Keywords:* Succession, founder, corporate governance, accounting properties.

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