

**Determinants and economic consequences of  
leadership succession: Evidence from family  
firms in China**

**Mengyuan Chen**

A Thesis Submitted in Fulfilment of the Requirements for the  
Degree of Doctor of Philosophy of Cardiff University

Cardiff Business School  
*Accounting & Finance Section*  
2018

## Declaration and Statements

### DECLARATION

This work has not been submitted in substance for any other degree or award at this or any other university or place of learning, nor is being submitted concurrently in candidature for any degree or other award.

Signed ..... Mengyuan Chen (candidate)                      Date 30/09/2018

### STATEMENT 1

This thesis is being submitted in partial fulfillment of the requirements for the degree of PhD.

Signed ..... Mengyuan Chen (candidate)                      Date 30/09/2018

### STATEMENT 2

This thesis is the result of my own independent work/investigation, except where otherwise stated, and the thesis has not been edited by a third party beyond what is permitted by Cardiff University's Policy on the Use of Third Party Editors by Research Degree Students. Other sources are acknowledged by explicit references. The views expressed are my own.

Signed ..... Mengyuan Chen (candidate)                      Date 30/09/2018

### STATEMENT 3

I hereby give consent for my thesis, if accepted, to be available online in the University's Open Access repository and for inter-library loan, and for the title and summary to be made available to outside organisations.

Signed ..... Mengyuan Chen (candidate)                      Date 30/09/2018

### STATEMENT 4: PREVIOUSLY APPROVED BAR ON ACCESS

I hereby give consent for my thesis, if accepted, to be available online in the University's Open Access repository and for inter-library loans **after expiry of a bar on access previously approved by the Academic Standards & Quality Committee.**

Signed ..... Mengyuan Chen (candidate)                      Date 30/09/2018

## **Acknowledgement**

I would like to express my sincere gratitude to a lot of people who have provided much appreciated support and assistance throughout my PhD journey.

First, and foremost, my deepest gratitude goes to my primary supervisor, Professor Jason Zezhong Xiao, for his guidance and support over the past years. Your expertise and wisdom have been invaluable, not only for this thesis, but also for my personal growth. I would also like to thank my second supervisor, Dr. Yang Zhao, for his insightful comments and suggestions all the time. I am grateful to both supervisors for their prompt feedback and the great tolerance and patience they have shown over the years.

My heartfelt gratitude also goes to Professor Marc Goergen, my annual review meeting convenor, who has taken the time and effort to give me numerous valuable comments and suggestions not only on my research but also on my writing skills. For this, I am eternally grateful to him.

I am also indebted to Dr. Guoqiang Hu from Tianjin University of Finance and Economics, who has offered me countless help at various stages of my study.

My appreciation is also extended to the Faculty of the Accounting and Finance section at the Cardiff Business School, particularly Professor Khelifa Mazouz, Dr. Qingwei Wang, and Dr. Woon Sau Leung for their help and advice. My thanks are also due to the PhD secretaries, especially Elsie Phillips and Lainey Clayton, for their generous assistance in all kinds of ways.

Special thanks also go to my PhD colleagues, especially Dr. Mujeeb U Rehman, Karen Wonter, and Nguyen Bui Huynh, for their kindness and warm help during the past years.

Last but far from least, I cannot thank my parents and my grandparents enough for their endless love, support, and always believing in me. I would also like to thank my boyfriend, Hanlin Yang. Without your company, encouragement, and unwavering support, I would never have been able to complete this thesis. This thesis is especially dedicated to you.

## Abstract

This thesis has three major objectives relating to leadership succession in Chinese family firms: (1) to identify the determinants of the successor choice, (2) to investigate the impact of the succession on firm performance, and (3) to explore the effect of the successor decision on the firm's access to debt finance.

Most prior studies on the leadership transition issue in family businesses are based on developed economies. Little attention has been paid to this issue in China's context, probably because many Chinese family firms have always been managed by the founder during the past decades. However, after more than 30 years' dedication to the business, most founders are recently retired or very close to retirement. Thus, it is clearly important and urgent to investigate the leadership succession issue in Chinese family firms. Moreover, as a country whose institutional, social, and cultural context is distinctive from developed economies, China provides an interesting setting for the exploration of the succession issue in family businesses.

To achieve the above objectives, this thesis uses a sample of 348 Chairman or CEO succession cases in publicly listed family firms in China during 2003-2014. In relation to the first objective, I find that family firms without foreign ownership and whose founder is deeply affected by clan culture are more likely to choose a family successor. In addition, the founders who are strongly affected by Confucian values and having more political connections are more likely to appoint not only a family successor but also a nonfamily successor having a *guanxi* with them.

Regarding the second objective, I document that the leadership succession does not cause a significant change in firm performance. Moreover, family and nonfamily successors do not have significantly different impacts on firm performance. Furthermore, family or *guanxi*-connected successors' acquisition of the founder's specialised assets can significantly increase the firm performance after the succession.

Finally, relating to the third objective, I find that family successors have a significant and negative impact on the firm's post-succession access to debt financing but their acquisition of the founder's specialised assets greatly contributes to the access after the

succession.

Overall, this thesis makes the following key contributions. First, it contributes to the literature on the determinants of the successor choice in family businesses by identifying several new factors that have never been explored before in the context of family firms. This, in turn, can provide several new research avenues for future studies. Second, this thesis is the first to shed light on the existence and importance of a unique type of successors, i.e. nonfamily members having a *guanxi* with the founder. This also contributes to a novel research direction, i.e. paying attention to the founders' *guanxi*-connected members, for researchers interested in family firms in China or other economies having a similar cultural background with China. In addition, this thesis proposes innovative criteria for identifying a *guanxi*-connected successor, which may be useful in future research. Moreover, while prior research recognises the importance of successors' acquisition of the founder's specialised assets in theory, this thesis is the first to empirically demonstrate the importance.

In practice, this thesis, first, may help investors in Chinese family firms to predict the identity of the new leader more accurately based on the firm and the firm founder's publicly available information. Second, it provides an important implication for the founders regarding the choice of the successor: both their family and *guanxi*-connected members can acquire their specialised assets and can use the assets to improve firm performance. Finally, this thesis provides a useful suggestion for the founders' descendants who may inherit the business in the future that their potential inferior ability in debt-financing compared with nonfamily agents can be largely remedied by the specialised assets that they obtain from the founder.

## Table of Contents

<b>Declaration and Statements</b> .....	<b>i</b>
<b>Acknowledgements</b> .....	<b>ii</b>
<b>Abstract</b> .....	<b>iii</b>
<b>Table of Contents</b> .....	<b>v</b>
<b>List of Tables</b> .....	<b>x</b>

### **Chapter 1 Introduction**

1.1 Introduction .....	1
1.2 Research background: The choice of China .....	1
1.3 Research objectives, motivation, and main findings.....	4
1.4 Structure of the thesis.....	13

### **Chapter 2 Determinants of the successor choice**

2.1 Introduction .....	14
2.2 Literature review .....	21
2.2.1 Individual level factors.....	21
2.2.2 Family and firm level determinants.....	23
2.2.3 Environmental factors.....	25
2.2.4 Determinants in China.....	25
2.3 Hypothesis development.....	27
2.3.1 Foreign ownership.....	28
2.3.2 Confucianism.....	29
2.3.3 Clan culture.....	31
2.3.4 Overseas experience.....	32
2.3.5 Political connections.....	33
2.4 The identification of a <i>guanxi</i> between the founder and the successor.....	34
2.5 Data and methods.....	37
2.5.1 Data collection.....	37
2.5.2 Research design.....	38
2.6 Empirical results and discussion.....	42
2.6.1 Descriptive statistics.....	42

2.6.1.1 Industry and annual distributions of different successions.....	42
2.6.1.2 Summary statistics.....	44
2.6.1.3 Comparison between family and nonfamily successions.....	44
2.6.1.4 Comparison between <i>guanxi</i> and <i>non-guanxi</i> successions.....	44
2.6.1.5 Correlation among variables.....	45
2.6.2 Baseline regression results.....	45
2.6.3 Robustness checks.....	47
2.6.3.1 The extension of the baseline models.....	47
2.6.3.2 Endogeneity.....	51
2.6.4 Additional analysis.....	56
2.6.4.1 Does regional institutional environment play a role in the foreign ownership-successor decision relationship?.....	56
2.6.4.2 Confucius temples.....	57
2.6.4.3 Clan culture or familism?.....	58
2.6.4.4 The length of overseas experience.....	58
2.6.4.5 Does regional marketisation level play a role in the political connection-successor decision relationship?.....	59
2.6.4.6 Does the type of the political identity matter?.....	60
2.6.4.7 Does the rank of the political identity matter?.....	61
2.6.4.8 The decomposition of <i>FamilyOrGuanxi</i> .....	62
2.7 Conclusion.....	62
Chapter 2 Tables.....	66

### **Chapter 3 Leadership succession and firm performance**

3.1 Introduction .....	85
3.2 Theories on family management issues .....	92
3.2.1 Agency theory.....	93
3.2.2 Stewardship theory.....	96
3.2.3 The resource-based view.....	97
3.2.4 The institution-based view.....	100
3.2.5 Theories in China's setting.....	103
3.3 Literature review .....	108
3.3.1 The family management-firm performance relationship .....	108

3.3.2 Comparison of founder-, descendant- and nonfamily management in terms of firm performance .....	109
3.3.3 The family succession-firm performance relationship .....	111
3.3.4 The family management-firm performance relationship in China .....	112
3.3.5 The family succession-firm performance relationship in China .....	114
3.3.6 The transfer of the specialised assets in succession .....	115
3.3.7 Specialised assets in Chinese family firms .....	116
3.3.8 Managers' work experience and firm performance .....	118
3.4 Hypothesis development.....	119
3.4.1 Leadership succession and firm performance.....	119
3.4.2 Family succession and firm performance.....	120
3.4.3 Successors' acquisition of the founder's specialised assets and firm performance.....	120
3.5 Data and methods.....	123
3.5.1 Data collection.....	123
3.5.2 Research design.....	123
3.5.2.1 PSM and DID analysis of H1.....	123
3.5.2.2 DID analysis of H2.....	127
3.5.2.3 DID analysis of H3.....	127
3.6 Empirical results and discussion.....	128
3.6.1 Descriptive statistics.....	128
3.6.1.1 Industry distributions of firms.....	128
3.6.1.2 Summary statistics.....	129
3.6.1.3 Comparison between non-succession and succession firms.....	130
3.6.1.4 Comparison between family and nonfamily successions.....	132
3.6.1.5 Correlation among variables.....	132
3.6.2 Baseline regression results.....	132
3.6.2.1 Leadership succession and firm performance (H1).....	132
3.6.2.2 Family succession and firm performance (H2).....	133
3.6.2.3 Successors' pre-succession internal work experience and firm performance (H3) .....	134
3.6.3 Robustness checks.....	135
3.6.3.1 The extension of the PSM Model for H1.....	136

3.6.3.2 The extension of the models for H2 and H3.....	136
3.6.3.3 Alternative performance measures.....	137
3.6.3.4 Endogeneity.....	138
3.6.4 Additional analysis.....	138
3.6.4.1 Different access to the specialised assets or different learning ability?...	139
3.6.4.2 Non-managerial or managerial experience? .....	140
3.6.4.3 Do successors' trust levels matter? .....	142
3.7 Conclusion.....	144
Chapter 3 Tables.....	148

## **Chapter 4 Leadership successor decision and access to debt**

4.1 Introduction .....	169
4.2 Literature review .....	176
4.2.1 The family management-debt financing relationship .....	176
4.2.2 Successors in family businesses .....	178
4.2.3 The specialised assets in family businesses .....	179
4.3 Hypothesis development.....	179
4.3.1 Family successor and access to debt.....	179
4.3.2 Successors' acquisition of the founder's specialised assets and access to debt.....	180
4.4 Data and methods.....	182
4.4.1 Data collection.....	182
4.4.2 Research design.....	182
4.5 Empirical results and discussion.....	186
4.5.1 Descriptive statistics.....	186
4.5.1.1 Summary statistics.....	186
4.5.1.2 Comparison between family and nonfamily successions.....	186
4.5.1.3 Correlation among variables.....	187
4.5.2 Baseline regression results.....	187
4.5.2.1 Family successions and the firm's access to debt (H1).....	187
4.5.2.2 Family successors' acquisition of the founder's specialised assets and the firm's access to debt (H2).....	189
4.5.3 Robustness checks.....	190

## Table of Contents

---

4.5.3.1 The extension of the baseline models.....	190
4.5.3.2 Endogeneity.....	192
4.5.3.3 Alternative explanations.....	194
4.5.4 Additional analysis.....	198
4.5.4.1 Does the regional marketisation level matter? .....	198
4.5.4.2 Does the cultural atmosphere matter? .....	200
4.5.4.3 Alternative proxies for firms' access to debt .....	202
4.5.4.4 Founders' political connection as a specialised asset .....	203
4.5.4.5 <i>Guanxi</i> -connected nonfamily successors .....	204
4.6 Conclusion.....	206
Chapter 4 Tables.....	209
 <b>Chapter 5 Conclusion</b>	
5.1 Introduction .....	233
5.2 Review of research background and objectives.....	233
5.3 Summary of findings .....	234
5.4 Summary of contributions and implications .....	238
5.5 Limitations .....	243
 <b>References</b> .....	 245

---

**List of Tables****Chapter 2 Tables**

Table 2.1: Industry and annual distributions of different successions.....	66
Figure 1: Trend of successions.....	68
Table 2.2: Summary statistics.....	69
Table 2.3: Comparison between family and nonfamily successions.....	70
Table 2.4: Comparison between <i>guanxi</i> successions and <i>non-guanxi</i> successions.....	71
Table 2.5: Correlation matrix.....	72
Table 2.6: Determinants of the successor .....	73
Table 2.7: The consideration of other firm-, environment-, and succession-specific characteristics.....	74
Table 2.8: Two-stage regression analysis.....	75
Table 2.9: Additional analysis.....	77
Table 2.10: The decomposition of <i>FamilyOrGuanxi</i> .....	79
Table 2.11: Definitions of variables.....	81

**Chapter 3 Tables**

Table 3.1: Industry distribution of firms.....	148
Table 3.2: Summary statistics.....	149
Table 3.3: Comparison between non-succession and succession firms.....	150
Table 3.4: Comparison between family and nonfamily successions.....	151
Table 3.5: Correlation matrix.....	152
Table 3.6: Post-PSM comparison between non-succession and succession firms....	153
Table 3.7: Leadership succession and firm performance.....	154
Table 3.8: Family succession and firm performance.....	155
Table 3.9: Successors' pre-succession internal work experience and firm performance.....	156
Table 3.10: Comparison between non-succession and succession firms after the extension of the PSM model.....	158
Table 3.11: Leadership succession and firm performance after the extension of the PSM model.....	159
Table 3.12: The consideration of other firm-level, environmental, and succession-	

specific characteristics for H2 and H3.....	160
Table 3.13: Successors' learning ability.....	162
Table 3.14: The decomposition of successors' work experience.....	163
Table 3.15: The role of successors' trust level.....	165
Table 3.16: Definitions of variables.....	166

#### **Chapter 4 Tables**

Table 4.1: Summary statistics.....	209
Table 4.2: Comparison between family and nonfamily successions.....	210
Table 4.3: Correlation matrix.....	211
Table 4.4: Family successions and the firm's access to debt.....	212
Table 4.5: Family successors' acquisition of the founder's specialised assets and the firm's access to debt.....	213
Table 4.6: The consideration of other firm-level, environmental, and succession-specific characteristics.....	214
Table 4.7: Two-stage regression analysis for H1.....	216
Table 4.8: Alternative explanations for H1.....	218
Table 4.9: Successors' acquisition of the specialised assets and the regional marketisation level.....	220
Table 4.10: Successors' acquisition of the specialised assets and the regional cultural atmosphere.....	222
Table 4.11: Alternative proxies for firms' access to debt.....	224
Table 4.12: Founders' political connections.....	226
Table 4.13: <i>Guanxi</i> -connected nonfamily successors.....	228
Table 4.14: Definitions of variables.....	230

# Chapter 1 Introduction

## 1.1 Introduction

This chapter presents research background, describes research objectives and motivation, discusses the main findings, and provides the structure of this thesis.

## 1.2 Research background: The choice of China

The existing literature suggests that family firms, i.e. firms controlled by their founder or by the founder's families and heirs, have become the dominant form of economic organisations across the globe (La Porta et al., 1999; Burkart et al., 2003; Anderson & Reeb, 2003a; Venter et al., 2005). These firms occupy the majority of economic activities, and have become one of the most important contributors to worldwide wealth creation and employment (Sharma, 2001; Astrachan & Melissa, 2003; Ward, 2004). For example, in Western Europe, such as the UK, family firms represent over 65% of the enterprises and contribute to more than 30% of the GDP (Laforet, 2016). In East Asia, such as Singapore, family businesses occupy almost 90% of registered enterprises and are responsible for more than half of the country's workforce (Sharma & Chua, 2013). Even in the US, where a dispersed ownership structure is prevalent, family firms still generate about 65% of the GDP and 62% of the labour force (Astrachan & Melissa, 2003; Ibrahim et al., 2008).

Due to their great contributions, family firms have gained increasing attention in the economics, finance, and corporate governance literature. One of the most popular issues in the discussion of family firms is the leadership succession. This is because forced by nature – the ageing of the family business founder, the succession issue has to be faced at some point. In addition, the leaders of family businesses, normally referring to the Chairman of the Board and the CEO, dominate the majority of important decisions in the business (Minichilli et al., 2010). As a result, the transition of the leadership positions plays a crucial role in determining the firm's future strategies and activities, thus, in turn, being critical to the firm's continuity, profitability, and development (Bennedsen et al., 2007).

Researchers interested in family firms' leadership successions mainly focus on factors that facilitate or damage a smooth succession (e.g., Sharma et al., 2001, 2003, 2004; Venter et al., 2005; Royer et al., 2008); determinants of the choice of the successor (e.g., Pérez-González, 2006; Bocatto et al., 2010; Ansari et al., 2014); and the financial consequences of the leadership transitions (e.g., Villalonga & Amit, 2006; Bennedsen et al., 2007; Amore et al., 2011; Bennedsen et al., 2015). These studies provide valuable insights and abundant evidence, which greatly contribute to the readers' understanding of the complexity of family businesses' succession issues. A detailed review of the literature shows that most existing research focuses on western and developed countries. While some studies deal with family businesses in Asian economies, family businesses in one of the largest and fastest-growing emerging economies in Asia, i.e. mainland China, are rarely studied (Jiang & Peng, 2011; Peng & Jiang, 2010).

One reason for the above situation is the short history of the businesses. The family business is a relatively new concept in China. Its development is closely related to that of Chinese private enterprises (Qin & Wang, 2012). Specifically, private enterprises were forbidden in China before the late 1970s (Cai et al., 2012). Later on, due to the implementation of the Reform and Opening policy in 1978, China began to transform from a centralist-planned economy to a market-based socialist economy (Anderson et al., 2003a). Since then, private firms have been permitted. However, at the beginning of the reform, private businesses were only permitted to operate at the margins of the economy, and thus developed very slowly (Qin & Wang, 2012). A turning point came at the 15th National Congress of the Communist Party in 1997, where the non-public sector was for the first time stated as an "important component" of the socialist market economy rather than merely a "complement" to the economy as it had been in the past (Chow et al., 2012). From then on, private enterprises started to grow rapidly in China. For example, the number of registered private firms increased from fewer than one million in 1997 to 8.18 million in 2010, and almost 90% of those firms are family businesses (Qin & Wang, 2012).

In other words, unlike many of their counterparts in western and developed economies having a history of more than 100 years, the majority of family firms in

China were just developed by the founder about 30 years ago. As a result, many Chinese family businesses are still managed by the founder, and yet their counterparts in developed countries have been transferred to the third or even fourth generation of the founder (Qin & Wang, 2012). Therefore, the extant attention to the leadership succession in family businesses in China, compared to that in developed countries, is much limited.

However, precisely because family firms in China has a relatively short history, the leadership transition, nowadays, is becoming an increasingly important and impendent issue for most of the firms. This is because, after more than 30 years' dedication to the business, most of the firm founders recently are old enough to retire or very close to retirement. In other words, many family businesses in China are just about to have their first leadership transition. This makes the founders' choice of the successor especially crucial for the businesses. This is because family business founders are widely viewed as the most valuable leaders<sup>1</sup>, the best stewards of the firm<sup>2</sup>, and the main source of the firm's competitive advantages<sup>3</sup> (e.g., Villalonga & Amit, 2006; Royer et al., 2008; Villalonga & Amit, 2010). Their successors, however, are often regarded as having a weaker stewardship sense to the firm and may dissipate the firm's competitive advantages, and thus may be adversary to the firm's longevity and development (e.g., Fan et al., 2012; Liu et al., 2012).

In addition, although Chinese private enterprises have a short history, their contributions to China's economy are prominent. For example, the GDP generated by the state-owned enterprises (SOEs), i.e. the dominant type of business organisations in China before the permission of private businesses, declined sharply from 77% in

---

<sup>1</sup> For example, by using S&P 500 firms as the sample, Villalonga and Amit (2006) find that founder-CEO firms have the highest average Tobin's q of all family and nonfamily firms.

<sup>2</sup> The founders are those who create the company, responsible for the company's early development, and who have devoted most of their wealth, time and energy to run the business from scratch to success (Villalonga & Amit, 2010). In this case, the founders' emotional attachment to the company should be the strongest, and thus their stewardship sense towards the business is the strongest (Liu et al., 2012). However, successors neither invest most of their personal wealth in the firm nor take responsibility for the firm's earliest operations, i.e. the hardest phase for the business, and hence their emotional attachment and stewardship awareness to the business should be much weaker.

<sup>3</sup> Family business founders' specialised assets, e.g. their tacit knowledge and personal connections, have been widely agreed as the key contributor of the firm's competitive advantages (Cabrera-Suárez et al., 2001; Lee et al., 2003; Royer et al., 2008). However, because the specialised assets are intangible and individual-specific, they may be dissipated when being transferred across individuals (Fan et al., 2012).

1978 to around 28% in 1999 (Anderson et al., 2003a). Meanwhile, the GDP produced by private enterprises increased from 0% to 33% (Chow et al., 2012). Moreover, the private sector was reported to account for about 75% of the industrial output and new employment opportunities in 2005 (Amit et al., 2010). Furthermore, private firms have been becoming increasingly important in the Chinese economy during recent years, contributing to more than 60% of the GDP, half of the tax revenues, and 90% of the new employment every year (Huang, 2010).

Given the above figures and the aforementioned fact that 90% of private enterprises in China are family firms, it should be no exaggeration to say that the sharp rise of family businesses is one of the main reasons for the unprecedented growth of the Chinese economy. This, in turn, causes China to become one of the largest and fastest-growing emerging countries around the world (Amit et al., 2010).

Consequently, Chinese family firms' leadership succession issues, such as the choice of the successor and the financial consequences of the choice, deserve special attention. These issues are critical not only for the future of the family businesses *per se* but also the prospect of China's economy and living standards.

### **1.3 Research objectives, motivation, and main findings**

To extend current knowledge on the leadership succession in Chinese family businesses, this thesis has three main objectives. Firstly, it aims at identifying the factors determining the successor choice in the businesses.

When it is the time to "*pass on the baton*" (Plath, 2008:6), family business founders often struggle between appointing their family members and nonfamily agents as the successors (Lee et al., 2003). This is a critical junction for the firm, because whether the founder can choose an appropriate successor directly determines whether the firm can survive and make profits after the succession (Wasserman, 2003; Royer et al., 2008; Pinheiro & Yung, 2015). Given such importance, the identity of the successor has received a lot of attention in the existing literature. However, most of the literature focuses on the different financial outcomes driven by different successors (e.g., Pérez-González, 2006; Bennedsen et al., 2007; Amore et al., 2011). The research dealing with the driving force of the successor decision is relatively scarce.

Moreover, as mentioned above, among the few studies on the determinants of the successor, the vast majority are conducted on western and developed economies. The literature for family firms in China is even more limited.<sup>4</sup> Nevertheless, as previously discussed, the successor decision in Chinese family businesses is *de facto* an important issue for not only the businesses *per se* but also China's economy.

Moreover, China also offers a distinctive setting to study the above issue. This is because, firstly, China is one of the most ancient countries in the world (Tam & Redding, 1993), whose traditional culture has exerted a durable and profound impact on Chinese people's cognitions and behaviour. However, in contrast to the developed countries where most succession research focuses on, i.e. the countries where individualistic cultures prevail, such as the US and the UK, the Chinese traditional culture has been recognised as being mostly collectivist (Chen et al., 1998; Hofstede, 1991). In this case, focusing on China's context and exploring whether the Chinese culture has an impact on the successor choice should be an interesting issue.

Secondly, due to the transitional economy from centrally planned to market-oriented, China has been experiencing a market-based reform within a socialist economic and political governance system (Xu et al., 2015). As a direct consequence, the Chinese government controls most economic resources, such as materials, land, and financial capital (Chen et al., 2013c; Cao et al., 2017). In this background, the whole business environment in China has been heavily affected by its political climate, and political connections can generate great economic value for Chinese enterprises (Xu et al., 2015). Such importance and identifiability of political connections in China may make Chinese family firms behave very differently from their counterparts in other countries, and thus increase the interestingness of studying family firms' successor decisions in such a context.

Finally, China was strict in executing a one-child policy until 2016.<sup>5</sup> This policy has imposed significant human capital constraints on Chinese family business founders

---

<sup>4</sup> Based on my literature review in Chapter 2, only two papers to date focus on this issue for China.

<sup>5</sup> This policy was enacted in late 1979. It applies to all families in China. It officially restricts married couples to have only one child. Some exceptions are permitted. For example, couples in which both partners are single children are allowed to have two kids. Some parents are also permitted to have a second child if their firstborn is a girl or if they suffer "hardship" as determined by local officials. Minorities (such as Uighurs and Tibetans) are

for their selection of a qualified family successor, as many of them have only one child (Cao et al., 2015).<sup>6</sup> Nevertheless, in the meantime, China is featured with weak shareholder protection, an underdeveloped managerial labour market, and a low level of social trust outside of kinship (Xu et al., 2015). This makes it difficult for the founders to find a competent and trustworthy nonfamily successor. In other words, compared with the founders in other contexts who typically have many heirs and those in developed economies who are protected by strong legal systems and provided with developed labour markets, selecting an appropriate successor should be much more difficult for the founders in China, no matter they prefer a family or nonfamily succession. This, in turn, makes China a more distinctive and interesting setting for the exploration of the successor decision in family firms.

The above reasons lead to the first objective of this thesis, i.e. the identification of the determinants of the successor in family firms in China. To this end, a unique hand-collected sample of 348 Chairman or CEO succession cases in publicly listed family firms in China during 2003 to 2014, with the firm founder as the predecessor, is employed. In addition, five factors are postulated as the determinants, i.e. foreign ownership, Confucianism, clan culture, the founders' overseas experience, and the founders' political connections. The motivation for focusing on these factors will be elaborated in Section 2.1 of Chapter 2.

My empirical evidence indicates that all the five factors have a significant influence on the choice of the successor. More specifically, family firms without foreign ownership and whose founder is deeply affected by clan culture are more likely to choose a family successor. Moreover, the founders strongly influenced by Confucianism, without overseas experience, and with more political connections are more likely to appoint not only a family successor but also a nonfamily successor

---

allowed to have a second, and sometimes a third child, whichever the gender of the firstborn. Children born overseas are not counted under the policy if they do not take Chinese citizenship. Chinese returnees are permitted more children born overseas. In most cases, couples who violate the policy must pay fines and could be punished in various ways ranging from social pressure to job loss (Cao et al., 2015).

However, the government has officially relaxed this policy by allowing a second child since late 2015.

<sup>6</sup> The policy has led to a pronounced drop in China's population growth rate over the last three decades. It has prevented 400 million births in China from 1979 to 2011 (Bennedsen et al., 2015). For family businesses in China, the policy has also imposed large constraints on the availability of heirs for within-family successions. Cao et al.'s (2015) survey in 2002 shows that 69% of their sampled family business owners have only one child, and the average number of children in the sample is only 1.22.

having a *guanxi* with them. Here, *guanxi*, a Chinese indigenous construct, refers to the direct particularistic relations between two or more individuals (Fan, 2002a, 2002b; Bedford, 2011). Those relations are highly informal and personal, and the parties in the relations are bounded by an implicit psychological contract to follow social norms such as reciprocity, mutual trust, and mutual obligations (Chen & Chen, 2004; Chen et al., 2013b). How to identify a *guanxi* between the founder and the successor will be elaborated in Section 2.4 of Chapter 2. Moreover, the above findings and the contributions of the findings will be discussed in detail in Section 2.1 of Chapter 2.

The second objective of this thesis is to explore the impact that leadership successions have on firm performance. For this objective, the following three research questions are answered:

- 1) Do leadership transitions cause a significant change in firm performance?
- 2) Do family successors have a significantly different impact on firm performance, compared with nonfamily successors?
- 3) Does successors' acquisition of the founder's specialised assets have an impact on firm performance?

There are some studies related to the first question. Specifically, they focus on cross-sectional comparisons between founder- and successor-managed firms in terms of their performance. Most of them find that the former, on average, perform better than the latter (e.g., Anderson & Reeb, 2003a; Villalonga & Amit, 2006). However, research exclusively focuses on the first issue above, i.e. whether the leadership transition from the founder to the successor leads to a significant change in firm performance, especially compared with the usual performance variation in firms without the transition, is surprisingly lacking. The extant cross-sectional studies undoubtedly can provide some clues on this issue, but exclusive empirical evidence on it is still necessary, which contributes to a thorough and accurate understanding of the dynamics of leadership successions in family businesses.

In addition, as previously mentioned, the founders often face a dilemma between appointing a family member and a nonfamily agent as the successor, and what concerns them most should be the potential different impacts that these two types of

successors may have on firm performance. This gives me the motivation for exploring the second issue above. There is some literature focusing on that issue in western and developed contexts, and most of which indicates that family successors have a significant and negative impact on firm performance, compared with their nonfamily counterparts. However, the relevant evidence specific for China is still lacking. Moreover, most of the literature are based upon agency theory, stewardship theory, or the resource-based view<sup>7</sup>, whose efficacy, however, may change in China's unique institutional, social, cultural context. Taking agency theory as an example, as previously discussed, China is characterised by ineffective shareholder protection and an underdeveloped managerial labour market. In such a context, both the principal-agent (PA) problem, e.g., the conflicts between the controlling family and nonfamily managers, and the principal-principal (PP) problem, e.g., the conflicts between the family and nonfamily shareholders, may deteriorate in family firms (Liu et al., 2012). Moreover, being affected by the Confucian familism culture, the founders in China generally have a low degree of trust towards nonfamily members (Xu et al., 2015). This may further aggravate the PA problem. However, in the meantime, the one-child policy may greatly reduce the benefits of having a family successor suggested by agency theory. This is because the largely restricted talent pool within the family and the founders' strong unidirectional altruism to their single child may significantly increase the likelihood of unqualified family successors and the successors' opportunistic behaviours.

The above discussion explains how the validity of agency theory varies in China's institutional and cultural background. The effectiveness of the aforementioned two other theories, i.e. stewardship theory and the resource-based view, may also change to some extent when embedding the theories into the context of China. This will be elaborated in Section 3.2.5 of Chapter 3. In this regard, the investigation of the preceding issue, i.e. whether family successors have a significantly different effect on firm performance relative to nonfamily successors, in China's setting becomes necessary and worthwhile. This is because the finding may be different from that in western and developed countries.

---

<sup>7</sup> These theories will be elaborated in Section 3.2 of Chapter 3.

Furthermore, family firm founders' specialised assets, normally referring to their tacit knowledge and social connections, have been widely recognised as the key contributor to the firm's competitive advantages, thus being crucial to the firm's sustained development (e.g., Royer et al., 2008; Bracci & Vagnoni, 2011; Fan et al., 2012). This is particularly the case in China. More specifically, despite the aforementioned great contributions to the economy, family firms have long suffered political, financial, and social discrimination in China (Chen et al., 2013). The main reason for this situation is the fact that, in China, it is the government who dominates the majority of economic resources. As a result, most of the resources often flow into SOEs rather than private enterprises such as family businesses (Allen et al., 2005; Fan et al., 2008; Li et al., 2008). In addition, as private enterprises in China are typically younger, smaller, and lack political support relative to SOEs, they are normally of higher risk in the eyes of investors. Therefore, Chinese family firms often suffer discrimination not only in terms of policy and resource allocation, but also in terms of financing, investment, and business cooperation. As a consequence, the firms have to heavily rely on their founders' specialised assets, such as reputation and social network resources, to lower transaction costs and to obtain external funds and business opportunities (Allen et al., 2005; Chen et al., 2011).

In other words, unlike family firms in developed economies having easy access to institutional resources (Carney et al., 2009), the family firms in China, due to the preceding discrimination, have to largely rely on the founder's personal specialised assets to survive and develop. This makes those assets especially important and valuable for the firm. In this case, for Chinese family firms experiencing or about to experience a leadership transition, whether the successor can acquire the founder's specialised assets should be critical to the firm's survival and development after the succession.

There have been some studies highlighting the importance of successors' acquisition of the specialised assets in theory (e.g., Bjuggren & Sund, 2002; Lee et al., 2003; Sharma & Irving, 2005). However, empirical research to demonstrate the importance, such as the potential contribution to the firm's financial consequences, is lacking. This research gap together with the above significance of the assets for family

businesses in China motivate me to explore the third research issue above, i.e. whether successors' obtainment of the founder's specialised assets has an impact on firm performance.

To answer the above three questions, the preceding 348 succession cases together with a control group of 337 non-succession firms are employed. The non-succession firms are publicly listed Chinese family firms with the founder as both the Chairman of the Board and the CEO and without a leadership transition during the period 2003-2014. As to the empirical evidence, I find that family firms do not experience a significant variation in firm performance around their leadership transitions, compared with their counterparts without a leadership transition during the same period. An appropriate interpretation for this finding is that the positive effect of leadership transitions in family firms is cancelled out by the negative effect. In addition, I find that family successors do not exhibit a significant difference in firm performance, relative to their nonfamily counterparts. This also suggests a balanced perspective, i.e. the benefits of having a family successor are likely to be offset by the costs in the context of China. Finally, I find that family or *guanxi*-connected successors' acquisition of the founder's specialised assets has a significant and positive impact on firm performance. This proves that successors' obtainment of the assets indeed greatly contributes to the firm's profitability and development after the succession. Here, I use the successors' pre-succession internal experience as a proxy for their acquisition of the specialised assets. The rationale for this proxy and why I apply it only to the successors who are the founder's descendant or *guanxi*-connected member will be elaborated in Section 3.4.3 of Chapter 3. In addition, the above findings and the contributions of the findings will be detailed in Section 3.1 of Chapter 3.

After the investigation of the impact of the successor choice on firm performance, the following question arises: Apart from the effect on firm performance, does the successor decision have any other financial consequences which are also critical to the firm's growth and development? This question leads to the final objective of this thesis, i.e. to investigate whether the successor decision has an impact on the firm's

access to debt. To this end, the following two research questions are attempted to be answered:

- 1) Do family successors have a significantly different impact on the firm's access to debt, compared with nonfamily successors?
- 2) Does successors' acquisition of the founder's specialised assets have an impact on the firm's access to debt?

Debt financing has been widely regarded as an important source of capital for family businesses and critical to their growth and development (Amore et al., 2011; Chua et al., 2011). This is because, compared with equity financing, debt capital can satisfy the business owners' need for external capital without diluting their control over the firm and can be less costly after tax (Graham, 2000; Romano et al., 2001; López-Gracia & Sánchez-Andújar, 2007). In addition, debt finance is especially important for family firms in China. This is because China is featured with an underdeveloped capital market, in which more than 70% of the financial resources are dominated by the four largest state-owned banks (Allen et al., 2005; Chen et al., 2013a; Shi, 2013).<sup>8</sup> In this background, debt financing, particularly in the form of bank loans, has become the major source of external finance for Chinese enterprises (Zou & Xiao, 2006; Fan et al., 2008; Cull et al., 2015). For example, as reported by the China Securities Regulatory Commission (2008), in the year 2006, the capital structure of Chinese listed companies was comprised by 84.9% of debts from the banks, 10.1% of corporate bonds, 3.9% of stock finance, and only 1.1% of asset-backed securities.

However, the Chinese government's controlling power in the state-owned banks makes the majority of the bank credit resources allocated to state-owned enterprises rather than their private counterparts, such as family businesses (Allen et al., 2005; Fan et al., 2008; Li et al., 2008). Moreover, as mentioned above, family firms in China are generally younger and smaller than their state-owned counterparts, and thus are much riskier in the eyes of most lenders (Xu et al., 2013). Due to these factors, family firms in China have long been subject to severe financial constraints, which have become one of the primary obstacles for the firm's longevity and development

---

<sup>8</sup> The four banks include the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), the Bank of China (BOC), and the China Construction Bank (CCB).

(Li et al., 2008; Yu et al., 2012; Xu et al., 2013). For example, World Bank (2006) conducted a survey of 12,400 firms in 120 cities in China, and 75% of the surveyed family firms viewed constraints in accessing external financial resources as the main barrier to the development of the firm.

Given the above situations and a prevalent view that firm leaders plays a crucial role in shaping the firm's financing policy and access to external finance (e.g., Minichilli et al., 2010; Amore et al., 2011), the relationship between the successor choice and the firm's access to debt in China's context deserves special attention. However, compared to the preceding importance of the successor decision and debt financing for family businesses, the extant literature on this issue is surprisingly scarce, let alone the research specific for Chinese family firms. This research void and the aforementioned situations give me the motivation for investigating the first research issue above, i.e. whether the choice of a family or nonfamily successor has a significant impact on the firm's access to debt finance.

Moreover, due to the aforementioned credit discrimination against private enterprises, family firms in China, as mentioned above, have to heavily rely on their founders' specialised assets to compete for external finance (Allen et al., 2005). In this case, whether successors can acquire the assets should be critical to the firm's access to the credit market after the succession. Thus, an investigation of the second research question above in China's setting is also worthwhile.

To solve the above two research issues, the preceding 348 succession cases are used. My empirical evidence shows that family successors have a significant and negative impact on the firm's access to debt capital, compared with their nonfamily counterparts. I contend this is because the former are less capable of raising debt capital than the latter. The reason behind is that China's familism culture and one-child policy make the founders very likely to appoint an incapable family successor. This, in turn, may cause lenders greater monitoring costs and default risks, and thus further decreases the successor's financing ability. Moreover, I find that family successors' acquisition of the founder's specialised assets has a significant and positive impact on the firm's access to debt. This suggests that family successors' inferior debt-financing ability, compared with nonfamily agents, can be significantly

mitigated by the specialised assets that they obtain from the founder. These findings and their contributions will be discussed more in detail in Section 4.1 of Chapter 4.

## **1.4 Structure of the thesis**

The remainder of this thesis comprises four chapters and is structured as follows. Firstly, considering that the above three research objectives are *de facto* three independent research topics, Chapters 2 to 4 are organised as three self-contained studies on the objectives. More specifically, each of the three chapters contains six main sections: Introduction, Literature review, Hypothesis development, Data and methods, Empirical results and discussion, and Conclusion. Secondly, Chapter 2, which focuses on the determinants of the successor, has an additional section providing six criteria for the identification of a *guanxi* between a Chinese family business founder and his or her nonfamily successor. Similarly, Chapter 3, which explores the succession-firm performance relationship, also includes an additional section. The section reviews the main theories employed in the previous literature regarding the family management-firm performance relationship and how China's institutional, cultural, and social context affects the applicability of the theories. This section aims at providing theoretical foundations for the relevant hypothesis development. Finally, Chapter 5 concludes this thesis, summarising the findings, highlighting the contributions and implications, and acknowledging the limitations.

## Chapter 2 Determinants of the successor choice

### 2.1 Introduction

This chapter aims at providing empirical evidence on what factors play a role in the successor choice in Chinese family firms. Specifically, I mainly focus on five factors, i.e. foreign ownership, Confucianism, clan culture, the founders' overseas experience, and the founders' political connections. The reasons for considering these factors are detailed as below.

My interest in foreign ownership comes from the fact that China has been the largest recipient of foreign investment in the world since its entry into the World Trade Organisation (WTO) in 2001 (Zou & Adam, 2008). As a result, Chinese companies have made great progress to adjust to global financial markets, and foreign investment has exerted a prominent impact on the companies (Liu & Kroll, 2011). Moreover, foreign shareholders are a unique type of investors in China. More specifically, due to China's inefficient stock market and weak protection systems for investors, most Chinese domestic investors are short-term speculators who make gains by trading rather than via long-term investment (Wang & Xu, 2004; Wong, 2006; Cai, 2010). However, foreign investors, most of which are from mature capital markets, tend to have a long-term investment horizon. Their investment is more likely driven by the companies' fundamental values and potential (Huang & Shiu, 2009; Liang et al., 2012).<sup>9</sup> As a result, foreign investors, different from their domestic counterparts,

---

<sup>9</sup> A unique feature of China's stock market is that a small number of listed firms issue two classes of common shares, i.e. A and B shares. These two classes of shares have identical voting and dividend rights and are listed on the same exchanges (Shanghai or Shenzhen stock exchanges), but are issued for different participants. Class A shares were restricted to domestic residents. Class B shares were limited to foreign investors before 2001. Since February 2001, China's domestic investors have been allowed to purchase B shares by using U.S or Hong Kong dollars. However, due to the Chinese government's capital controls and exchange controls (domestic Chinese investors only have limited access to the necessary foreign currency), the main players in the B-share market are still foreigners, even after the rule change.

Under this background, Mei et al. (2009) provide a good example of the different investment motivations between the domestic and foreign investors. Specifically, by studying A and B shares issued by Chinese companies during 1993-2000, they find that, despite the identical payoffs and voting rights offered by these two types of shares, A shares are traded more actively, on average 420% more than the corresponding B shares. Additionally, A shares' turnover rate is shown to be much higher, which is 500% versus 100% per year for B shares. Mei et al. (2009) argue that this is because domestic investors' speculative motives generate a speculative component in A-share prices, and this component is positively related to the turnover rate of A shares.

usually play an efficient monitoring and governance role in the companies they have invested in (Huang & Shiu, 2009; Choi et al., 2012).

Researchers have provided much evidence on the importance of foreign investment in Chinese enterprises in terms of various aspects, such as firm performance, capital structure, and corporate transparency.<sup>10</sup> However, there is little attention to foreign shareholders' role in family businesses, let alone their effect on the businesses' successor selections. This chapter fills this gap by empirically demonstrating that family firms with foreign ownership are more likely to choose a nonfamily successor. This supports my posit that foreign shareholders typically prefer a nonfamily successor, as family successors may be detrimental to firm performance and may help the controlling family to expropriate minority shareholders' interests (including those of foreign shareholders) (Peng & Jiang, 2010). However, I also find that a strong institutional environment can lower foreign shareholders' preference for a nonfamily successor in the family business.

The following three factors, i.e. Confucianism, clan culture, and the founders' overseas experience are used to explore the potential impact of China's traditional culture on the successor decision. National culture is often viewed as a set of values and beliefs, which are shared by a group of people and provide foundations for group members' cognitions and behaviour (Yan & Sorenson, 2006; Schwartz et al., 2012). The importance of cultural factors in the investigations of family businesses has long been emphasised (e.g., Handler, 1994; Nordqvist et al., 2013; Cheng, 2014).<sup>11</sup> However, there are few relevant studies, especially empirical investigations, on the succession issues.

China provides a good setting to explore the influence of culture. As one of the oldest countries in the world, China has a traceable history of over 5,000 years (Tam &

---

<sup>10</sup> E.g., Makhija & Spiro (2000); Xiao et al. (2004); Ahmadjian & Robbins (2005); Filatotchev et al. (2005); Bai et al. (2006); Douma et al. (2006); Zou & Xiao (2006); Xiao & Yuan (2007); Mohd Hassan et al. (2008); Zou & Adams (2008); Huang & Shiu (2009); Li et al. (2009); Gul et al. (2010); Choi et al. (2011); Huang et al. (2011); Liu et al. (2011); Choi et al. (2012).

<sup>11</sup> For example, Handler (1994) outlines a research agenda for future studies on the succession issues in family firms. The first item on the agenda is the need for exploring the impact of national culture. A recent literature review conducted by Cheng (2014) also suggests future research to pay more attention to the effect of culture on the evolution of family firms.

Redding, 1993). As a result, China's traditional culture has been woven into the very fabric of Chinese society and has exerted a profound influence on the everyday lives of Chinese people (Jacobs et al., 1995; Tu, 1998c; Xing, 1995). However, the degrees of people being affected by the Chinese culture may be heterogenous due to their different backgrounds and across different regions (Yan & Sorenson, 2006). In this case, it should be interesting to explore whether the founder's selection of the successor is determined by his or her degree of being influenced by China's traditional culture.

In the traditional Chinese culture, Confucianism is undoubtedly the most ancient and influential part (Tu, 1998a, 1998b; Du, 2015, 2016). Its influence on Chinese persons' ways of thinking and behaving has lasted for thousands of years (Yu, 1996; Slote & DeVos, 1998; Elman et al., 2002). Two of its key ideologies, familism and *guanxi* culture, have been widely recognised as the root of the organisational forms and management features in Chinese family firms (e.g., Yan & Sorenson, 2006; Yeung, 2006; Zhang & Ma, 2009). Nevertheless, despite the importance of Confucianism, no empirical test has been conducted of the impact of Confucian ideologies on family businesses' successor decisions.

This chapter provides some evidence on this issue. I hypothesise that the degree of the founder being affected by Confucian values significantly affects his or her choice of the successor. Consistent with this hypothesis, I find that family firms headquartered in regions with stronger Confucianism atmosphere are more likely to appoint the founder's descendant or a nonfamily member having a *guanxi* with the founder as the successor.

In addition to Confucianism, clan culture is also an important part of the traditional Chinese culture (Deshpande & Farley, 2004). A clan is often viewed as an extended family, and thus the core principles of clan culture are very similar to that of familism (Hu & Chen, 2015). The Chinese clan culture also has a strong and long-lasting influence on people's cognitions and behaviour. However, the attention it has received, compared to Confucianism, is very limited. This chapter attempts to fill this void by using the percentage of the founder's clan members in the firm's top management team as a proxy for the founder's level of being affected by the clan

culture. The results show that the more deeply the founder is affected by the culture, the greater is the likelihood of a family successor.

Apart from the above region- and firm-level factors, the founder's certain past experience may also imply how strong he or she is influenced by the traditional Chinese culture. According to Hambrick and Mason (1984), entrepreneurs' past experience can shape their cognitions, values, and beliefs, and in turn affect their behaviour and decision-making. People's experience abroad, as Friedman et al. (2012) argue, may result in a change of their values and cultural beliefs to a certain extent. Chinese managers' overseas experience has received increasing attention over recent years. A possible reason is that more and more Chinese have studied overseas and then returned to China.<sup>12</sup> Moreover, the Chinese government has started to initiate a number of returnee-preferential policies in the past few years, in order to encourage overseas talents back to China.<sup>13</sup> Many researchers have explored the role of Chinese returnees in a variety of ways, in terms of firm internationalisation, firm export, firm innovation, and firm performance.<sup>14</sup> However, the majority of the researchers focus on the effect of returnees' human capital and social capital, such as their high-quality educational backgrounds, advanced skills, and international network ties. None of the studies has investigated the impact of overseas experience from a cultural viewpoint. In particular no prior study focuses on the experience of family business founders, let alone linking it to the founders' successor decisions.

This chapter explores the above issue and demonstrates that the founders with overseas study or work experience are more likely to appoint a successor who is not a family member and without a *guanxi*. This supports my conjecture that the founders who have worked or studied overseas are less affected by China's traditional culture, and thus are less likely to choose their successor based on familism or *guanxi*. In

---

<sup>12</sup> For example, between 1978 and 2012, China had about 2.6 million overseas students, and almost half of them have been back.

<sup>13</sup> For example, to encourage more high-level overseas talent to return to China and contribute to the economy, the government launched a returnee-favourable policy entitled "*Recruitment Program of Global Experts*" in 2008. This policy offers returnees national-level policy support for working and living in China, and a tax-free lump sum of a million RMB. This scheme targets full professors at overseas universities, senior managers in multinational firms, and innovation-oriented entrepreneurs, and has attracted 2,263 elite returnees between 2008 and 2012 (Duan & Hou, 2015).

<sup>14</sup> E.g., Wright et al. (2008); Dai & Liu (2009); Filatotchev et al. (2009); Liu et al. (2010); Filatotchev et al. (2011); Deng et al. (2012); Li et al. (2012); Luo et al. (2013); Cui et al. (2015); Duan & Hou (2015).

addition, I also find that the founders with longer overseas experience are more likely to choose a nonfamily successor without a *guanxi*. This confirms my posit that the longer the founders have stayed abroad, the less they are influenced by Chinese traditional culture.

The final hypothesised determinant is a type of specialised assets that the founders may have, i.e. political connections. As discussed in the previous chapter, family business founders' specialised assets, which normally refer to their tacit knowledge and personal connections, have been widely recognised as the main source of the firm's competitive advantages and critical to the firm's sustained profitability (e.g., Royer et al., 2008; Bracci & Vagnoni, 2011; Fan et al., 2012). As a result, the founders tend to have a strong desire to preserve their specialised assets within the firm, and this desire may affect their choice of the successor (Xu et al., 2015).

In China, political connections should be one of the most important specialised assets for family business founders. This is because, firstly, the Chinese government's dominant power in allocating economic resources can provide politically connected entrepreneurs with huge benefits, such as better access to financing, better regulatory protection, more tax benefits, and more government financial assistance.<sup>15</sup> Secondly, due to the lack of political support, family firms in China often suffer discrimination in various aspects (Chen et al., 2013c). Such importance of political connections in China makes it interesting to study the possible impact of the founder's political connections on his or her successor choice.

To the best of my knowledge, Xu et al.'s (2015) study is the only one to date that provides evidence on this issue. The authors find that politically connected founders are more likely to appoint a descendant as the Chairman of the Board, the CEO, or a director in the family firm. My findings complement Xu et al.'s (2015) work. More specifically, I demonstrate that the founders with more political connections are more likely to appoint a family successor or a nonfamily successor having a *guanxi* with the founder. This result confirms my conjecture that Chinese family business founders' political connections are accessible not only to their family members but also to their

---

<sup>15</sup> E.g., Fan et al. (2008); Li et al. (2008); Francis et al. (2009); Berkman et al. (2010); Chan et al. (2012); Wu et al. (2012a, 2012b); Cull et al. (2015); Lin et al. (2015); Cao et al. (2017).

*guanxi*-connected members. In addition, I also find that the above result attenuates if the firm is located in a province where the local government has a low controlling power in resource allocation. Moreover, I find that the more valuable are the founder's political connections, the stronger is the founder's intention of appointing a family or *guanxi*-connected successor.

Overall, this chapter contributes to the literature in several aspects. Firstly, it contributes to a better understanding of the factors that drive family firms' successor decisions. This is because, out of the five hypothesised determinants, four, i.e. foreign ownership, Confucianism, clan culture, and the founders' overseas experience, have never been empirically explored in the extant literature.

Secondly, this chapter adds to the literature on foreign ownership. To the best of my knowledge, this study is the first that highlights the role of foreign ownership in family businesses. Thus, it may enhance people's understanding of foreign investment and may open a new research channel for future studies on foreign investors, i.e. exploring their potential impact on family businesses' corporate decision or behaviour.

In addition, this study is also among the first to empirically investigate the influence of national culture on the successor selections in family firms. This contributes to the extant literature in several ways. Firstly, the importance of culture in determining the successor has been largely highlighted in theory (e.g., Yan & Sorenson, 2006; Zhang & Ma 2009), yet there is very limited empirical support. Thus, this study fills the void. More specifically, it originally applies three factors at different levels, i.e. the regional level, firm level, and individual level, to comprehensively proxy for family business founders' extent of being affected by the traditional Chinese culture, and in turn, explores the effect of the culture on the successor decisions. The empirical results suggest that national culture is more than a background condition and has a significant impact on the successor choices. This lends support to the call for more studies on the role of cultural factors in family firms' succession issues.

Secondly, it provides initial empirical evidence on how Confucian values affect Chinese family firms' successor decisions. This may offer some implications for

researchers interested in other Asian contexts, such as Singapore, Taiwan, and Japan, where Confucian ideology still exerts influence over people's cognitions and behaviour (Yan & Sorenson, 2006). For example, researchers can apply the relevant propositions and proxies in this study to family businesses in those economies, in which case they can empirically examine the impact of Confucianism on the businesses' decision-making, including but not limited to the choice of successor.

Moreover, it sheds initial light on the role of clan culture in Chinese family businesses. Similar to Confucianism, clan culture is also an important element of China's traditional culture. However, compared to the former, the attention to the latter is very scarce. In this regard, this study provides a call for greater research attention to Chinese clan culture and may suggest a new research direction for scholars interested in the role of cultural factors in Chinese family firms, i.e. paying attention to the impact of the clan culture on the firms' governance features or corporate behaviour.

Furthermore, this chapter provides novel insights into the role of entrepreneurs' overseas experience in corporate behaviour and decision-making. More specifically, different from most researchers studying the impact of returnees from the perspectives of human capital or social capital, this study suggests that it is useful to look at the effect through the lens of cultural switching by providing original empirical evidence on the role of family business founders' overseas experience in determining the successor. This helps to broaden people's understanding of returnees in emerging and developing economies. It may also contribute to new research channels for further studies focusing on returnee managers' behaviour and decision-making in not only family businesses but also other forms of economic organisations.

The fifth major contribution of this chapter is that it sheds new light on the relationship between the founders' political connections and the successor selections in China's context. More specifically, it extends the existing evidence, i.e. politically connected founders are more likely to choose a descendant as the successor (Xu et al., 2015), by documenting that the founders' political connections are positively related to the likelihood of not only a family successor but also a *guanxi*-connected nonfamily successor.

Additionally, unlike the previous literature focusing on family/nonfamily successors, this study is the first highlighting the existence of a unique type of successors, i.e. the nonfamily members having a *guanxi* with the founder. This provides a novel and interesting research avenue, i.e. paying more attention to the role of *guanxi*-connected nonfamily members, for researchers interested in family firms in China or other economies having a similar cultural background with China. This new research focus should be applicable not only to studies on the succession issue but also to any research topics related to the different identities of managers in family firms. Moreover, this study provides innovative criteria for defining a *guanxi*-connected successor, which may be useful in future studies.

Finally, in practice, this study can help investors in family firms to predict the identity of the next leader according to the firm's publicly available information.

The remainder of this chapter is organised as follows. Section 2.2 reviews the literature. Section 2.3 develops the hypotheses, and Section 2.4 discusses how to identify a *guanxi*-connected successor. Section 2.5 describes the data collection and research design, Section 2.6 provides the empirical results, and Section 2.7 concludes.

## **2.2 Literature review**

Extant research regarding the determinants of the successor in family businesses primarily focuses on the following aspects: individual-level factors such as the founders' specialised assets and socio-emotional wealth; family-level features such as the controlling power and the structure of the controlling family; firm-level characteristics such as past performance and board independence; and environmental factors such as the level of shareholder protection and national policies.<sup>16</sup>

### **2.2.1 Individual level factors**

For example, Lee et al. (2003) argue that the founders' specialised assets, i.e. their tacit knowledge and personal connections, are the main source of the firm's

---

<sup>16</sup> E.g, Smith & Amoako-Adu (1999); Burkart et al. (2003); Lee et al. (2003); Bennesen, et al. (2004); Pérez-González (2006); Bennesen et al. (2007); Gómez-Mejía et al. (2007); Bertrand et al. (2008); Royer et al. (2008); Bocatto et al. (2010); Zellweger et al. (2012); Ansari et al. (2014); Bennesen et al. (2015); Cao et al. (2015); Xu et al. (2015).

competitive advantages and thus are crucial to the firm's sustained development. However, because the assets are the founders' personal distinctive and valuable resources, they are normally accessible only to the founders' family members and highly trustworthy nonfamily members. Therefore, Lee et al. (2003) propose that in order to preserve the resources in the firm after the succession, the founders typically prefer a descendant as the successor, even if the descendant is less capable than nonfamily agents. However, if the heir is so incompetent that his or her inheritance of the business is a disaster for the firm's survival and longevity, the founder will be in a dilemma. The strategy to solve the dilemma, as the authors advocate, is to adopt a seat-warmer strategy, i.e. arranging a temporary agent to manage and replacing him or her once there is a suitable and qualified family successor. Alternatively, the founders can appoint a trustworthy nonfamily member as the successor, such as a long-serving employee in the firm.

Similarly, Royer et al. (2008) also acknowledge the importance of the specialised assets in determining the successor and that family members are more likely to acquire the assets compared with nonfamily agents. However, they further argue that family successors' general knowledge, relevant technical or industry-specific knowledge may be much less than that of nonfamily professionals. Hence, the authors suggest that family successors are more appropriate only if their general knowledge, industry-specific technical knowledge, and obtained tacit knowledge from the founder are comprehensively greater than nonfamily agents' general, industrial, and technical knowledge. The authors' survey of 860 Australian family firms supports their conjecture to some extent. Specifically, they find that the founders are more likely to choose a family successor if the business is highly relevant to their idiosyncratic knowledge, and the industrial context affects their successor preference as well.

However, different from the above researchers, Gómez-Mejía et al. (2007) and Zellweger et al. (2012) contend that the founders' preference for family successors is derived from the desire for socio-emotional wealth. Specifically, behavioural theorists argue that most entrepreneurs have both economic and noneconomic goals (e.g., Cyert & March, 1963; Argote & Greve, 2007). For family business founders, their noneconomic objectives are referred to as socio-emotional wealth, which includes the

fulfilment of the needs for belonging, affect and intimacy, the altruism towards the descendants, and the realisation of family value and family dynasty (Gómez-Mejía et al., 2007; Zellweger et al., 2012). Moreover, because most founders have a strong emotional attachment to their firm and their family, they are more likely to place priority on the socio-emotional wealth. As a result, family members are always their first choice of the successor.

### **2.2.2 Family and firm level determinants**

In the existing literature, family- and firm-level determinants are those that attract the most attention. In addition, among others, the level of the family control and the firm's past performance are the most prevalent. For example, by using the proportion of family executives as a measure of the family's controlling power, Smith and Amoako-Adu (1999), Pérez-González (2006), and Bennedsen et al. (2015) all find that the proportion is strongly related to the likelihood of a family successor.<sup>17</sup> Moreover, the likelihood also increases if nonfamily large shareholders are lacking (Smith & Amoako-Adu, 1999).

Nevertheless, some researchers have different findings. For example, Bocatto et al. (2010) document that family ownership and the proportion of family directors do not have an impact on the successor decision in Spanish family businesses. In addition, Ansari et al.'s (2014) study, in France, Germany and the UK, shows that the three measures of family power, i.e. the family's cash-flow rights, voting rights, and the divergence between the cash-flow and voting rights, are all insignificantly related to the likelihood of a family successor.

It is worth noting that most of the aforementioned studies also explore the role of firm performance (except for Bennedsen et al. (2015)), and yet overwhelmingly find that the firm's past performance does not affect the successor decision. This is consistent with some other literature indicating that the turnover-performance sensitivity tends to be lower for family CEOs, relative to their nonfamily counterparts (e.g., Gómez-Mejía et al., 2001; Hillier & McColgan, 2009; Chen et al., 2013a).

---

<sup>17</sup> Smith and Amoako-Adu (1999), Pérez-González (2006), and Bennedsen et al. (2015) focus on family firms in Canada, the US, and three Asian economies (Hongkong, Singapore, and Taiwan), respectively.

Moreover, the aforementioned researchers also show interest in other factors. For example, Bocatto et al. (2010) also investigate the role of board independence, yet find no significant relationship between the percentage of independent directors and the successor choice. Ansari et al. (2014) also focus on this factor. However, they argue that those directors independent on paper may not be so *de facto*. Therefore, they propose a new way to measure directors' independence by focusing on the 'independence' relative to the controlling family. More specifically, they set six criteria, i.e., whether the director 1) is related to the controlling family by blood or marriage; 2) has at least nine years' tenure; 3) is appointed by the controlling family; 4) is an employee of another company controlled by the family; 5) sits on other boards together with a family director; and 6) is a former employee of the firm. They suggest that only those who do not satisfy any of the above criteria can be seen as independent directors. Moreover, the authors' empirical results indicate that those conventionally defined independent directors do not affect the CEO successor choice, consistent with the aforementioned Bocatto et al.'s (2010) finding. However, the corrected measure, based upon the preceding six criteria, is shown to reduce the likelihood of a family successor significantly. Furthermore, Ansari et al. (2014) also find that the generation of the predecessor, i.e. whether the predecessor is the founder or from later generations, does not affect the successor decision. Finally, the preceding Bennedsen et al.'s (2015) study observes that a firm's long-term debt ratio is positively related to the probability of a family successor, yet the probability decreases if the firm is co-founded by more than one entrepreneur.

The role of family structure is also explored by some researchers. For example, Bennedsen et al.'s (2004) study in Denmark documents that the likelihood of a family succession increases with the number of heirs in the controlling family and yet decreases if the family has four or more kids. The authors contend this is because more children create a larger talent pool for the successor and "crowd out" the agents outside the family. However, if the family has too many kids, the family conflict or sibling rivalry may reduce the probability of a family succession. Additionally, the authors find that the likelihood of a family successor decreases with the ratio of female children within the family and the number of marriages of the founder. Bennedsen et al. (2007) focus on a similar sample and demonstrate that female

firstborns decrease the probability of a family succession. Bertrand et al. (2008) observe similar results as the above in Thailand, showing that a larger family size of the founder leads to more family members' involvement in the business. However, this finding is mainly driven by the number of sons rather than daughters in the family.

### **2.2.3 Environmental factors**

Apart from the above internal factors, the business environment also receives some attention. For example, Burkart et al. (2003) theorise that firms' institutional environment may influence their successor selections. Specifically, family firms in regimes with strong investor protection are more likely to choose a nonfamily successor. In addition, in contexts with intermediate institutional efficiency, nonfamily agents should still be more appropriate. However, as the agents' managerial discretion may not be sufficiently restrained in such a context, the founder or the controlling family may stay in the firm to monitor the agents' behaviour. Nevertheless, for firms in countries with weak institutional protection, the founder may prefer a family succession, as the separation of ownership and management may cause severe agency problems. Moreover, Burkart et al. (2003) also predict that the level of family control will increase the founders' likelihood of appointing a family successor, especially when the investor protection is moderate to low.

The aforementioned Ansari et al.'s (2014) study has also considered shareholder protection. More specifically, they contend that firms cross-listing on a better market have better shareholder protection and document that French firms cross-listed in the US or UK are more likely to have a nonfamily successor.

Finally, the preceding Bennedsen et al. (2015) has investigated the role of firms' industrial contexts and indicates that the successor is more likely to be a family member if the firm is in a higher labour-intensive industry.

### **2.2.4 Determinants in China**

Evidence regarding family firms in China is very limited, and only two papers appear to be relevant to my study. The first one is the aforementioned Xu et al.'s (2015)

study. Specifically, it focuses on the founders' political connections and finds that politically connected founders are more inclined to appoint a descendant as the Chairman of the Board, the CEO, or a board member. This finding is consistent with Bennedsen et al.'s (2015) viewpoint, i.e. family successions are more likely to happen when the founders have specialised assets transferable to the next generation. This is also similar to the aforementioned Lee et al.'s (2003) and Royer et al.'s (2008) perspective, i.e. the founders are more prone to transfer their specialised assets to family members rather than nonfamily agents. This preference, in turn, affects their successor choice.

The second one is Cao et al.'s (2015) paper regarding China's one-child policy and documents that having only one child significantly decreases the founder's intention of family succession and the *de facto* number of the founder's adult children working in the business. However, with a male child, the founder's intention of appointing a family successor will increase. These findings are similar to the preceding results observed by Bennedsen et al. (2004), Bennedsen et al. (2007), and Bertrand et al. (2008).

In summary, the extant research has explored the roles of various factors in the choice of the successor in family businesses. More specifically, at the individual -level, the founder's specialised assets and socio-emotional wealth are theorised to drive the preference for a family successor, yet the predecessor's generation is indicated to have no impact on the successor decision. In addition, at the family -level, the proportion of family top executives, as a measure of the family's controlling power, is positively related to the likelihood of a family successor. Whereas the other measures of the family's control level, i.e. the family's cash-flow rights, voting rights, and the divergence between the rights, are shown to have no significant effect on the successor choice. Furthermore, the number of heirs has a nonlinear relationship with the probability of a family successor, i.e. the probability increases first, yet decreases if the family has four or more children. The likelihood of observing a family succession also decreases with the proportion of female kids, the number of marriages that the founder has, and a female firstborn. Moreover, at the firm -level, past performance is shown to not influence the successor decision. In addition, the

proportion of independent directors also has no effect if the directors are defined as independent on paper, yet is negatively associated with the likelihood of a family successor if the independence is relative to the controlling family. Some other firm-level characteristics, such as the firm's long-term debt level and the lack of nonfamily large shareholders, are shown to increase the probability of a family successor, yet the probability decreases if the firm is co-founded by more than one entrepreneur. Finally, at the environment -level, better shareholder protection and labour-intense industries have a positive impact on the likelihood of a family succession.

It is worth noting that most of the above findings are observed in western and developed contexts while there are limited investigations of the determinants of the successor in family firms in China. More specifically, there are only two relevant studies, documenting that having political connections and a male child increase the founder's likelihood of appointing a family successor, yet having only one child decreases the probability. A possible reason for the much-limited attention to China, as mentioned in the previous chapter, is the shorter history of China's family businesses relative to their counterparts in developed economies.<sup>18</sup> This causes many family firms in China are still managed by the founder (Qin & Wang, 2012). Nevertheless, as previously mentioned, after more than 30 years of operations, for many Chinese family firms, their founders are now old enough and about to retire. In such a context, the successor decision in family firms should be an important and meaningful issue for researchers, for the family firms *per se*, and for the investors of the firms. Therefore, further and more in-depth explorations of this issue are needed.

## 2.3 Hypothesis development

This section develops the hypotheses for the aforementioned five factors, i.e. foreign ownership, Confucianism, clan culture, the founder's overseas experience, and the founder's political connections, in terms of their potential effects on the firm's successor decision.

---

<sup>18</sup> As previously discussed, unlike many family firms in developed economies having a history of more than 100 years, family businesses were forbidden in China until the implementation of the Reform and Opening policy in 1978. After that, they still developed very slowly, until their status and importance were for the first time acknowledged by the Chinese government at the 15th National Congress of the Communist Party in 1997 (Qin & Wang, 2012).

### 2.3.1 Foreign ownership

As previously discussed, unlike China's domestic investors whose share trading activities are largely driven by speculative motives, foreign investors from mature markets tend to have a long-term investment horizon. In this case, foreign shareholders should have strong incentives to actively monitor the companies they have invested in and exert influence on the companies' management and operations. Thus, one of the most important corporate decisions, i.e. the selection of the next leader, should especially concern the foreign shareholders.

Chinese enterprises normally care about their foreign shareholders' voice, regardless of the shareholders' relatively small ownership. This is because foreign investment can bring a local company huge benefits, such as attracting domestic investors, stabilising stock volatility, and more access to international markets (e.g., Liang et al., 2012; Khanna et al. 2004; Liu et al., 2011).<sup>19</sup> Considering such advantages, Chinese enterprises, including those dominated by private families, normally have strong incentives to attract and hold onto foreign investment. As a result, they may seek means to communicate with, to attract, and to satisfy foreign investors, and take foreign shareholders' voice into careful consideration (Huang & Shiu, 2009).

On the other hand, for foreign investors, if their investee is a family firm and that firm is going to change the leader, they are very likely to prefer a nonfamily professional rather than a descendant of the controlling family. The reasons are threefold. First, nonfamily successors tend to be more experienced, skilled, and competent than family successors, as the former are selected from a much larger pool of managerial talent than the latter (Chua et al., 2003; Amore et al., 2011). Second, family successors have been widely documented, by researchers from mature markets, to have a negative impact on firm performance, in terms of firm profitability and firm value (e.g., Pérez-González, 2006; Bennedsen et al., 2007; Cucculelli & Micucci, 2008). Third, family

---

<sup>19</sup> Firstly, foreign investors are often perceived as informed, knowledgeable, and experienced investors, who are capable of picking long-term winners. Thus, their investment flows are usually deemed to be an important indicator for investment decisions by domestic investors (Liang et al., 2012). Secondly, foreign investors' long-term buy-and-hold investments help to stabilise stock volatility and reduce the firm's cost of capital (Bailey et al. 1999; Dahlquist & Robertsson 2001; Khanna et al. 2004). Furthermore, foreign ownership may provide the company with new capital, new technologies, and more access to international markets for financing and business opportunities (Mohd Hassan et al., 2008; Luo et al., 2009; Liu et al., 2011).

business owners usually hold control in excess of their ownership in the firm via control-enhancing mechanisms such as pyramid structures, cross-holdings, and dual-class shares (Shleifer & Vishny, 1997; Mork et al., 2005). As a result, the Principal-Principal agency problem suggested by agency theory, i.e. controlling shareholders may expropriate minority shareholders' interests to satisfy their own private benefits, tends to be prevalent in family firms (La Porta et al., 1999).<sup>20</sup> Family successors, in turn, may aggravate this agency problem (Liu et al., 2012).<sup>21</sup>

Based on the above reasons, foreign investors, as minority shareholders in a family firm, are likely to exert influence on the successor decision and pressure the firm to select a nonfamily agent as the new leader. Thus, the following hypothesis is postulated:

H1: Firms with foreign ownership have a greater likelihood of appointing a nonfamily successor.

### **2.3.2 Confucianism**

Confucianism, as the most ancient and influential philosophy in Chinese history, has exerted a strong influence on Chinese entrepreneurs' management styles and decision-making (Yan & Sorenson, 2006). Familism is a key element of Confucian values. It advocates family-centredness and family-orientation, as well as loyalty, strong commitment, and contribution to family (Zhang & Ma, 2009). As a result, Chinese family business founders who are strongly influenced by familism are very likely to consider the business as a family property that will be bequeathed to the descendants, to keep family ownership and control over the business, and to provide family members with good positions in the business as a means of taking care of them

---

<sup>20</sup> Agency theorists argue that the divergence between family control and family ownership provides the controlling family with incentives and ability to extract private benefits at the expense of minority shareholders (e.g., Shleifer & Vishny, 1997; La Porta et al., 1999; Su et al., 2008). This is because control in excess of ownership rights enables the family to carry out the expropriation with enough control but at the same time reduces the costs of the expropriation due to the family's relatively low ownership.

<sup>21</sup> This is because family successors are very likely to help the controlling family carry out the expropriation (Cai et al., 2012). In addition, family successors may aggravate information asymmetry problems between the controlling family and nonfamily minority shareholders, which provides the family with more opportunities to expropriate the minority shareholders' benefits (Liu et al., 2012).

(Chen, 1995; Zhang & Ma, 2009). This may lower the founder's intention of choosing a nonfamily successor.

Moreover, apart from familism, *guanxi* culture is also an important part of Confucian ideology (Jacobs et al., 1995; Luo et al., 2012b). *Guanxi* is a Chinese indigenous construct, which commonly refers to the direct particularistic relations between two or more individuals (Jacobs, 1979; Fan, 2002a, 2002b; Bedford, 2011). Those relations are highly informal and personal, and the parties in the relations are bounded by an implicit psychological contract to follow social norms such as reciprocity, mutual trust, and mutual obligations (Chen & Chen, 2004; Chen et al., 2013b). Such a culture has exerted a strong influence on the social interaction and organisational activities in the Chinese society (Yan & Sorenson, 2006). As a result, Chinese persons, more or less, have a clear in-/out-group concept. More specifically, they normally have a high degree of particular trust in a limited group of people based on kinship or *guanxi*<sup>22</sup>, yet their trust towards other "out-group" members tends to be low (Fukuyama, 1995; Gudykunst et al., 1996; Tsui & Farh, 1997).

Similar to familism, the *guanxi* culture has also prominently affected the Chinese family business founders' cognitions and behaviour. In consequence, the founders who are deeply affected by the culture are very likely to positively view, favourably treat, and deeply trust in nonfamily members who have a *guanxi* with them (Jacobs, 1979; Tsui & Farh, 1997). In this case, apart from family members, they are also very likely to choose a nonfamily agent, who is connected with them through a *guanxi*, as the successor. However, for those who do not have a *guanxi*, the founders may hold conservative views on or even discriminate against them. This may further enhance the founders' preference for a family successor or a *guanxi*-connected nonfamily successor.

Confucius used to travel to various places to promote his philosophy. Because of his profound impact in the Chinese history, those places, where he has lived for a long time to accept students and spread his theory, have become nationally famous monuments, usually called as Confucian centres (Du, 2015). China is a large country

---

<sup>22</sup> Kinship is also a type of *guanxi*, and is, in fact, the most important *guanxi* for the Chinese (Tsang, 1998).

with more than 20 provinces and hundreds of cities, and yet only nine cities have a nationally famous Confucian centre.<sup>23</sup> In this case, family firms headquartered in those cities should be surrounded by strong Confucianism atmosphere. Therefore, the founders of those firms, compared with their counterparts located in other regions, should be much more deeply edified by Confucianism, and thus more likely to select a descendant or a *guanxi*-connected member as the successor.

According to the above arguments, the following hypothesis is formulated:

H2: Firms headquartered in cities with a Confucian centre have a greater likelihood of appointing a family successor or a nonfamily successor who has a *guanxi* with the founder.

### 2.3.3 Clan culture

Apart from Confucianism, clan culture is also an important element of the traditional Chinese culture (Deshpande & Farley, 2004). Chinese people have an old saying that individuals sharing the same family name can be traced back to the same ancestor 500 years ago, and thus are relatives. Clan members, which are generally defined as the people sharing the same surname, are therefore often viewed as from the same extended family (Chuang et al., 2012). Additionally, because a clan is often deemed as a big family, the core ideology of clan culture is very similar to that of Confucian familism. More specifically, it advocates that clan members should be united and reciprocal and have the responsibility to support each other, take care of each other, and trust in each other (Hu & Chen, 2015).

Clan culture is particularly prevalent in China's rural areas (Peng, 2004; Ruan & Zheng, 2012). Therefore, those senior Chinese family business founders, most of which were born in rural areas, should be affected by clan culture to some extent.<sup>24</sup> As a result, they may positively view and trust their clan members and provide those

---

<sup>23</sup> Those cities are: Qufu in Shandong province, Chengdu in Sichuan province, Luoyang in Henan province, Sanming and Longyan in Fujian province, Dongtai in Jiangsu province, Ningbo and Shaoxing in Zhejiang province, and Linchuan in Jiangxi province (Du, 2015).

<sup>24</sup> The All-China Federation of Industry and Commerce, one of the largest industrial and commercial associations in China, has published a list of the top 500 private enterprises in China in 2012. In the list, 69.4% of the business founders were born in rural areas (Yuan & Li, 2012).

members with good managerial positions in the business, due to the trust and the purpose of taking care of clansmen. In other words, in a family business, the percentage of the directors and top managers sharing the same surname with the founder may be an appropriate proxy for the extent to which the founder is influenced by clan culture. In addition, because clan culture is closely related to familism, the more deeply the founder is affected by the culture, the more likely he or she should be to prefer a family successor. Moreover, the larger the proportion of the board members and top managers in the company sharing the founder's family name, the more likely it is that the founder's decision of family succession can be approved within the firm.

In light of the above arguments, the following hypothesis is developed:

H3: The higher the percentage of directors and top managers sharing the same surname with the founder, the greater is the likelihood that the successor will be the founder's descendant.

#### **2.3.4 Overseas experience**

According to upper echelon theory, managers' past experience may shape their cognitions, values, and beliefs, and in turn, impact their behaviour and decision-making (Hambrick & Mason, 1984).<sup>25</sup> In this sense, family business founders' overseas experience should be important, as experience abroad may lead to the change of values and cultural beliefs to a certain extent (Friedman et al., 2012). Just as Schuetz (1945) writes, "home-comers' are not likely to ever fit as naturally into their home environment. Such people return with different assumptions --different 'taken-for-granted' aspects of how they see the world". In this case, the founders who have studied or worked overseas for years may have different ideas about the selection of the successor, relative to their counterparts without any experience abroad. More specifically, compared with the founders who have always lived in China, have received solely Chinese traditional education, and thus have always been

---

<sup>25</sup> The upper echelon theory is developed by Hambrick and Mason (1984). Specifically, it suggests that managers' demographics, such as age, education, and experience, determine the managers' cognitive base, values, beliefs, and competencies. These, in turn, affect the managers' strategic choice and decision-making, and ultimately the firm's financial consequences.

influenced by Chinese familism and *guanxi* cultures, those having overseas experience should be less likely to be deeply affected by the cultures. As a result, their successor choice is less likely due to nepotism or *guanxi*. Instead, because most Chinese family business founders' overseas experience is obtained in Western and developed countries where individualism prevails, the founders are likely to be affected by individualistic cultures to a certain extent.<sup>26</sup> Thus, their successor decisions are more likely to be contingent upon competences and rules only (Hofstede, 1991, 1994).<sup>27</sup> This should increase the likelihood of those professional agents who do not have a *guanxi* with the founder being appointed as the successor.

Based on the above discussion, I hypothesise that:

H4: If the founder has studied or worked overseas, it is less likely that the successor will be the founder's descendant or a nonfamily member having a *guanxi* with the founder.

### **2.3.5 Political connections**

As previously discussed, Chinese family firm founders' political connections have become one of the most important specialised assets for the firm due to the dominant power of the Chinese government in economic resource allocation (Xu et al., 2015). In this background, the founders should have a strong desire to transfer their political connections to the successor, in the hope of preserving this specialised asset in the firm after the succession (Lee et al., 2003; Xu et al., 2015). This is because, based on the resource-based view, family firm founders' specialised assets, i.e. their tacit knowledge and personal connections, are one of the key contributors of the firm's

---

<sup>26</sup> Among my sampled founders with overseas experience, 90% has the experience in developed countries including the US, the UK, Canada, and Australia. According to Hofstede (1991, 1994), these countries are featured with highly individualist cultures.

<sup>27</sup> Hofstede (1991, 1994) summarises the differences between individualistic and collectivistic societies in terms of various aspects. In the summary, the key difference in terms of hiring and promotion decisions is, in individualistic societies, the decisions are normally based on skills and rules only, yet in collectivistic societies, the decisions take employees' in-group into account. And the Chinese society, as Hofstede argues, is among the most collectivist.

competitive advantages and thus are crucial to the firm's sustained development (Royer et al., 2008; Bracci & Vagnoni, 2011; Fan et al., 2012).<sup>28</sup>

The founders' specialised assets are typically individual-specific, distinctive, and very valuable (Lee et al., 2003; Bracci & Vagnoni, 2011). As a result, the founders are normally only willing to transfer the assets to those who they highly trust (Cabrera-Suárez et al., 2001; Lee et al., 2003; Bracci & Vagnoni, 2011). In this case, Chinese family business founders with more political connections should have much stronger intention to choose a descendant or a *guanxi*-connected member as the successor, and transfer their political capital to that person.<sup>29</sup> Therefore, the following hypothesis is postulated:

H5: The more the political connections of the founder, the greater is the likelihood that the successor will be the founder's descendant or a nonfamily member having a *guanxi* with the founder.

## **2.4 The identification of a *guanxi* between the founder and the successor**

As previously discussed, *guanxi* refers to the direct particularistic relations between two or more individuals (Jacobs, 1979; Fan, 2002a, 2002b; Bedford, 2011). However, because the relations are highly informal and personal, they are very difficult for researchers to observe. To solve this issue, this section proposes several criteria which may help to identify whether a Chinese family business founder and his or her successor have a *guanxi*.

According to existing literature, whether a *guanxi* exists between two individuals firstly depends on whether they have a "*guanxi* base" (Jacobs, 1979; Farh et al., 1998; Tsang, 1998). The *guanxi* bases are defined as the commonalities that the two persons

---

<sup>28</sup> According to the resource-based view, the specialised assets of a firm refer to the intangible resources and tacit knowledge that shape the firm's competitive advantages over other companies, thus being critical to the firm's sustained profitability and development (Royer et al., 2008). The resource-based view proponents suggest that, in a family business, the specialised assets are mainly derived from the original owner-manager of the business, i.e. the founder (Cabrera-Suárez et al., 2001; Royer et al., 2008; Fan et al., 2012).

<sup>29</sup> As discussed before, being affected by the Confucian familism and *guanxi* culture, Chinese people typically have a high level of trust only towards their "in-group" members, i.e. their family and *guanxi*-connected nonfamily members.

share in terms of their origins or identities, such as being relatives, being clan members, sharing the same natal or ancestral origin, being neighbours, colleagues, classmates, alumni, teacher and student, having the same hobbies, and so on (Farh et al., 1998; Chen et al., 2013b). The first three commonalities are often categorised as blood bases, as they are predetermined by blood or birth; the others are usually defined as social bases, as they are developed later in life and through social interaction or experience (Tsang, 1998; Fan, 2002a, 2002b; Chen et al., 2013b). It is notable that the natures of some bases can be quite elastic, and thus the definitions of them can be contracted or expanded (Jacobs, 1979). For example, the definition of relatives can stretch to the furthest horizons, ranging from the members in the nuclear family to distant relatives who are remotely connected to someone in the family. Similarly, the same natal or ancestral origin can mean a small village, a county, a city, a province, or even a regional grouping of provinces (Jacobs, 1979). In addition, it is also noteworthy that most of the *guanxi* bases are different from the demographic traits prevalently studied in the Western context, such as age, gender, race, and educational level (Tsui & Farh, 1997). More specifically, the common identities which can be viewed as *guanxi* bases are generally anchored in specific social settings with clear social or even physical boundaries, such as a city, a community, a school, or a workplace. However, demographic commonalities are anchored in demographic criteria, which can cut across organisational and institutional boundaries (Chen & Chen, 2004).

Based on the previous literature (e.g. Jacobs, 1979; Fan, 2002b; Chen & Chen, 2004), the most prevalent *guanxi* bases in Chinese society refer to kinship, clanship (sharing the same surname), origin (from the same birthplace or native place), alumni, neighbours, colleagues, and the teacher-student relationship. To be more specific, kinship is typically the most important *guanxi* for the Chinese, as China is a family-oriented country (Tsang, 1998). Sharing the same surname is also a common base for a *guanxi*, because Chinese people believe that individuals having the same family name are descended from the same ancestor, and thus are kinsmen (Langenberg, 2007). As to the preceding other bases, researchers contend that those commonalities can cause potential *guanxi* parties' reminiscence of the past. As a result, the parties may recall and discover some common events, similar experiences, common interests,

or mutual acquaintances (e.g., Chen & Chen, 2004). This helps expand and enrich the parties' sharedness, enhance their communication, and increase their level of intimacy, and thus contributes to the development of an informal and personal *guanxi* between them (Tsui & Farh, 1997; Law et al., 2000; Chen et al., 2013b).

In other words, in Chinese family businesses, if the founder and an employee have a pre-existing *guanxi* base, they have more reasons and opportunities to develop an informal and personal connection outside the work setting (Law et al., 2000; Chen et al., 2013b). In addition, through the private interactions, their relationship should become more intimate, fraternal, or even quasi-familial, thus becoming a *guanxi*.

Based on the above discussion, a pre-existing *guanxi* base is a condition to identify a *guanxi* between a family business founder and his or her successor.

However, it is also worth noting that a *guanxi* base should not be the only criterion for identifying whether the founder and the successor have a *guanxi*. In many Chinese family firms, there are some senior nonfamily employees who have worked in the company since its startup. Considering Chinese people's low trust towards general nonfamily members (Redding, 1993; Fukuyama, 1995; Zhang & Ma, 2009), those who entered in the business at that early stage should be either the founder's good friends or recommended by the founder's relatives or friends (Yan & Sorenson, 2006). For those persons, even if they may not share any obvious common identities with the founder, they should still be deemed as having a *guanxi* with the founder (Yan & Sorenson, 2006). Moreover, the start-up stage has been widely recognised as the most difficult and uncertain period for an enterprise (e.g., Churchill & Lewis, 1983; Adizes, 1988; Li, 2000). During this period, entrepreneurs have numerous arduous tasks to finish, such as seeking investments and clients, building reputation and business networks, and setting up a qualified top management team. In addition, the start-up phase is also the riskiest stage, as any mistakes made in this stage may directly threaten the survival of the business (Li, 2000). Therefore, nonfamily employees joining the family firm at its start-up stage are those who accompany the founder to get over the most difficult time and help the founder to set up the business from scratch to success. In this case, the founder should have a special affection and a

very high level of trust towards those persons. Hence, their *guanxi* should be very intimate and family-like.

Finally, nonfamily members who are appointed as directors or top managers in more than one company controlled by the founder should also be seen as having a *guanxi* with the founder. As discussed before, Chinese family business founders have a low level of trust towards general nonfamily members and a strong stewardship sense towards the firm. Moreover, the founder's family wealth is normally highly correlated with the firm's interests (Villalonga & Amit, 2006). Therefore, if the founder is willing to appoint a nonfamily member as a top executive in more than one family company, the founder should have great trust in that person, in terms of not only his or her capability but also allegiance to the founder's family. Such trust, given China's cultural background, is very unlikely to be established without a long-term and close *guanxi*. Therefore, nonfamily successors who have been board members or top managers in more than one company owned by the founder should also be categorised as the *guanxi*-connected successors.

In light of the above discussion and considering the availability of founders' and successors' background information, in the following investigations in this thesis, a nonfamily successor will be defined as having a *guanxi* with the founder if the successor has one of the following six identities:

- (1) Sharing the same surname with the founder;
- (2) Sharing the same birthplace or native place (the same province) with the founder;
- (3) Graduating from the same college or university as the founder;
- (4) Being the founder's former colleague before the startup of the family firm;
- (5) Acting as a director or a top manager in more than one company controlled by the founder before the succession;
- (6) Joining the family firm at its start-up stage, i.e. the first three years after the setting-up of the company.<sup>30</sup>

---

<sup>30</sup> In China, the first three years of an enterprise seem to be widely regarded as the most difficult and uncertain stage by policy-makers and researchers. Firstly, this notion is clearly embodied in a number of policies. For example, the China Securities Regulatory Commission (2015) strictly requires that companies applying for listing on the Chinese stock exchanges must be operated for at least three years. Additionally, to support the self-employment of unemployed individuals, disabled persons, retired soldiers, and college graduates, the State

## 2.5 Data and methods

### 2.5.1 Data collection

Most data are collected from the China Stock Market & Accounting Research (CSMAR) over the period from 2003 to 2014. The year 2003 is used as the start because it is the first year in which CSMAR began to track the information on controlling shareholders in Chinese listed firms. In light of the extant literature regarding Chinese family businesses (e.g., Su & Zhu, 2003; He & Lian, 2009; Amit et al., 2010; Xu et al., 2015), family firms are defined as non-state-owned enterprises whose ultimate owner, which at the same time holds the largest ownership stake, is either an individual or a family. This chapter focuses on successions to the Chairman of the Board and the CEO positions, with the business founder as the predecessor. If a family firm has the transitions of both the Chairman and the CEO at the same time, they are counted as two cases. The final sample in this chapter consists of 348 Chairman of the Board or CEO succession cases in Chinese family firms listed on the Shanghai or Shenzhen Stock Exchanges.<sup>31</sup>

Family and nonfamily successors are identified through reading their biographies in CSMAR and cross-checking with the firms' prospectuses, annual reports, and *Baidu*, i.e. the most popular search engine in China. Data regarding the founders' and successors' backgrounds are either obtained from CSMAR or manually collected, also by reading the biographies and cross-checking with *Baidu.com* and *Finance.sina.com.cn*. Firms' financial data and variables capturing firm-

---

Council of the People's Republic of China (2005a, 2005b, 2008) stipulates that if these persons would like to set up their own business, they will be exempted from relevant administrative charges for the first three years after the startup of their companies. Moreover, the Ministry of Human Resources and Social Security of the People's Republic of China (2017) states that if technicians from public institutions would like to leave their job to start a business, they can have their original positions and rights to be retained for three years.

The government's special concern about the "first three years" is not groundless. The State Administration for Industry and Commerce of the People's Republic of China provided an official report about the survival time of Chinese domestic enterprises in 2013. The statistics clearly show that in the 12 years' observation period, the year with the highest mortality rate is the third year after the startup of the companies. This figure should imply that the first three years are indeed the riskiest period for most Chinese enterprises.

Finally, some Chinese researchers also employ the first three-year period of a business as its start-up stage in their studies (e.g., Yang, 2001; Li, 2005; Shi & Huang, 2006).

In light of the above support, the first three years after the setting-up of the business should be an appropriate cut-off point to distinguish between successors who joined the family firm in its start-up period and those who did not.

<sup>31</sup> However, in later analyses, the number of observations varies due to missing values for different variables.

governance-, and environment-level characteristics are all from different databases of CSMAR.

## 2.5.2 Research design

This chapter aims at investigating the impacts of five factors, i.e. foreign ownership, Confucianism, clan culture, the founders' overseas experience, and the founders' political connections, on the firm's successor decision. For this purpose, the following probit regression models are applied:

$$\text{Probit}(\text{Family}_{i,t}) = \alpha + \beta_1 \text{Foreign ownership}_{i,t-1} + \beta_2 \text{Confucian centre}_i + \beta_3 \text{Same surname}_{i,t-1} + \beta_4 \text{Returnee founder}_i + \beta_5 \text{Political connection}_i + \beta_6 \text{Control variables}_{i,t-1} + \text{Industry}_{i,t} + \text{Year}_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$\text{Probit}(\text{FamilyOrGuanxi}_{i,t}) = \alpha + \beta_1 \text{Foreign ownership}_{i,t-1} + \beta_2 \text{Confucian centre}_i + \beta_3 \text{Same surname}_{i,t-1} + \beta_4 \text{Returnee founder}_i + \beta_5 \text{Political connection}_i + \beta_6 \text{Control variables}_{i,t-1} + \text{Industry}_{i,t} + \text{Year}_{i,t} + \varepsilon_{i,t} \quad (2)$$

In the above models,  $t$  indicates the succession year. In Model (1), the dependent variable, *Family*, is a dichotomous variable. It equals one if the successor is the founder's descendant, by blood or marriage, and equals zero if the successor is a nonfamily member. In Model (2), the dependent variable, *FamilyOrGuanxi*, is also a dummy. It equals one if the successor is a descendant or a nonfamily member having a *guanxi* with the founder, and equals zero if the successor is a nonfamily member without a *guanxi*. As discussed in Section 2.4, a nonfamily successor is defined as having a *guanxi* with the founder if the successor has one of the aforementioned six identities.

In addition, the independent variables of interest in the models are the same, which are the measures for the five hypothesised determinants of the successor. More specifically, *Foreign ownership* is a dummy equal to one if the firm has shares owned by foreign investors<sup>32</sup> one year before the succession and zero otherwise. *Confucian*

<sup>32</sup> The shares include A-shares held by Qualified Foreign Institutional Investors, B-shares, H-shares, and other overseas shares if applicable (Gul et al., 2010; Huang & Zhu, 2015).

*centre* is a proxy for the extent to which the founder is affected by Confucianism. It is an indicator equal to one if the firm is headquartered in a city with a Confucian centre; and zero otherwise. *Same surname* is a proxy for the level of the founder being impacted by the Chinese clan culture and is calculated as the percentage of directors and top managers sharing the same surname with the founder for the year prior to the succession. *Returnee founder* is a dummy variable equal to one if the founder has studied or worked overseas before the succession; and zero otherwise. *Political connection* measures the number of political identities that the founder has before the succession. Following the extant literature (e.g., Fan et al., 2007; Chen et al., 2011; Yu et al., 2012; Xu et al., 2015), the political identities include a current or former officer of either the central government or a local government; currently or formerly serving in any other institutions or organisations directly affiliated with the central or a local government; a current or former representative of the National People's Congress (NPC); a current or former member of the Chinese People's Political Consultative Conference (CPPCC); and a current or former representative of the National Congress of Communist Party of China (NCCPC).

*Control variables* in the preceding models represent a series of firm-, governance-, and family-level factors, including *Firm age*, *Firm size*, *Long-debt level*, *Sales growth*, *Business risk*, *Board ownership*, *Board independence*, *Family ownership*, *Family control*, and *Family divergence*. All these factors are well argued or documented to have an impact on family firms' succession decisions by the existing literature. More specifically, *Firm age* is shown to be positively related to management succession (Fan et al., 2015) and is measured by the year since the firm has been founded.

*Firm size* is the natural logarithm of total assets and is considered because a small company may find it harder than other companies to hire competent outside professionals (e.g., Pérez-González, 2006).

The inclusion of *Long-debt level* follows Ansari et al. (2014), who argue that greater debt can alleviate the firm's free cash flow problem. This, in turn, may reduce the private benefits that the controlling family can expropriate from the company, and thus may reduce the family's incentives to appoint a family successor. *Long-debt level*

is measured as the long-term debt scaled by total assets (Anderson & Reeb, 2003b; Chu, 2009).

*Sales growth* is a proxy for the firm's growth opportunities and is calculated as the difference in total sales between year t-1 and year t-2 divided by total sales in year t-2 (Chen & Strange, 2005; Cao et al., 2015; Liu & Xue, 2015). According to Ansari et al. (2014), the larger the firm's growth opportunities, the higher is the likelihood that the successor will be a family member.

*Business risk* is considered because management turnover is often a strategy for risk reduction (May, 1995). Following the previous literature, the volatility of firm earnings is used as the proxy for business risk and is calculated as the standard deviation of ROA over the three years prior to the succession (Crutchley & Hansen, 1989; Chen & Strange, 2005; Su & Sun, 2011).

*Board ownership* and *Board independence* are controlled for because they are documented to have an impact on firms' hiring and firing decisions (e.g., Pérez-González, 2006; Bocatto et al., 2010; Ansari et al., 2014). Based on the literature, *Board ownership* is defined as the ownership held by directors as a percentage of total shares outstanding (Pérez-González, 2006), and *Board independence* is the proportion of independent directors among the board members (Bocatto et al., 2010; Xu et al., 2015).

The incorporation of *Family ownership*, *Family control*, and *Family divergence* follows Ansari et al. (2014), who posits that these factors are positively related to the likelihood of a family successor. *Family ownership* is the percentage of all shares outstanding owned by the family in the firm.<sup>33</sup> *Family control* denotes the family's voting control of the firm and is measured by the family's votes as a percentage of total votes outstanding in the firm.<sup>34</sup> *Family divergence* captures the family's

---

<sup>33</sup> If the family controls the firm indirectly through a pyramid structure, *Family ownership* is calculated as the product of the family's ownership stakes along the chain of control (La Porta et al., 1999; Claessens et al., 2000). For example, if a family owns 30% of all shares in Firm A, which in turn owns 20% of all stocks in Firm B, the family owns 6% (30%\*20%) of Firm B.

<sup>34</sup> Again, if the family controls the firm indirectly through a pyramid structure, *Family control* is measured by the minimum voting stake (i.e., the "weakest link") along the control chain. For example, if a family holds 30% of the votes in Firm A, which in turn holds 20% of the votes in Firm B, the family controls 20% of the votes in Firm B.

excessive control over ownership and is measured by the difference between *Family control* and *Family ownership*.

In addition, to control for industrial and temporal fixed effects, *Industry* denotes a set of industry dummies based on the industrial classification guide proposed by China Securities Regulatory Commission (CSRC)<sup>35</sup>, and *Year* is a vector of year dummies from 2003 to 2014.

Finally, to make sure that empirical results are not driven by outliers, all continuous variables in this chapter (and this thesis) are winsorised at the 1% and 99% percentiles. Furthermore, considering the potential arbitrary heteroscedasticity and autocorrelation within-groups, the clustering of standard errors at the firm level is applied to all regressions in this thesis (Petersen, 2009; Amore et al., 2011; Xu et al., 2015).

## 2.6 Empirical results and discussion

### 2.6.1 Descriptive statistics

#### 2.6.1.1 Industry and annual distributions of different successions

Table 1.1 reports the distribution of succession cases by industry (Panel A) and by year (Panel B). In line with my research focus, successions are divided into three categories: family successions, *guanxi* successions, and *non-guanxi* successions. Family successions are those whose successors are the founders' descendants by blood or marriage. *Guanxi* successions are those whose successors are nonfamily members having a *guanxi* with the founder before the succession, i.e. nonfamily successors occupying at least one of the preceding six identities. *Non-guanxi* successors are nonfamily members who do not have a *guanxi* with the founder. Panel

---

<sup>35</sup> The sample is distributed across 14 out of 16 industries classified by CSRC. However, because manufacturing is the largest industry in China and makes up the vast majority of the Chinese listed companies, to balance the distribution of the sample across industries, firms operating in the manufacturing sector are grouped based on their second level industry codes, while other firms are classified according to their first level codes. Additionally, there are some industries with very few observations in the sample. Hence, also for the purpose of balanced sample distribution, industries with less than 10 observations are classified as *Other industry* and denoted by one dummy in the following regression tests. Based on these adjustments, the final *Industry* variables include nine dummies. However, in a previous version of this study, the original 14 industry dummies were applied. The results were qualitatively the same as those presented in this version.

A shows that the vast majority of successions are distributed in the manufacturing sector, amounting to 86.52% (77 cases) of family successions, 70% (105 cases) of *guanxi* successions, and 72.48% (79 cases) of *non-guanxi* successions. This is not surprising, as manufacturing is the largest industry in China. Successions are much less prevalent in other industries. For example, family successions range from zero cases (in seven industries) to four cases at most (in the agriculture industry) across the other industries. Similarly, *guanxi* successions vary from zero cases (in three sectors) to only seven cases (in the real estate industry) across the rest of industries, except for the information technology sector having 10 cases of *guanxi* successions. The information technology also possesses the second largest concentration of *non-guanxi* successions and occupies 11.93% of the total in the group. However, similar to the case of *guanxi* successions, *non-guanxi* successions are rarely distributed across the other industries, with zero cases minimum (in four industries) and five cases maximum (in the real estate industry).

Panel B indicates that the number of successions increases smoothly as time goes on, from only four cases in 2003 to 74 cases in 2013, which is also the peak during the whole sample period. In addition, the number decreases slightly in the next year, arriving at 49 successions in 2014. As to the prevalence of each type of successors, the figures show that most of the time nonfamily members having a *guanxi* with the founder are more favourable than their family and *non-guanxi* counterparts. Moreover, the total number of *guanxi* successions is much higher than that of family and *non-guanxi* successions, with 150, 89 and 109 cases respectively. These figures may imply that compared with nonfamily members without a *guanxi*, Chinese family business founders prefer to hand over their leadership position to those having a *guanxi* with them, if their descendants are unqualified, unwilling, or not ready to take over the business.

The statistics in Panel B, in turn, are plotted in Figure 1 to show the trend of the succession cases over the sample period.

[Insert Table 2.1 and Figure 1 about here]

### 2.6.1.2 Summary statistics

Table 1.2 reports the summary statistics of variables applied to the preceding models, including the five hypothesised determinants of the successor as well as the firm-, governance-, and family-level control variables. As indicated by the table, only 13% of the sample firms have foreign ownership one year prior to the succession. In addition, only 12% of the firms are headquartered in cities with a Confucian centre. Moreover, the average percentage of board members and top managers sharing the founder's surname is 13.2% for the year before the succession. Furthermore, only 6% of the founders have studied or worked overseas before the succession. Finally, the average number of political identities that the founders have is 0.78.

[Insert Table 2.2 about here]

### 2.6.1.3 Comparison between family and nonfamily successions

Table 1.3 compares family successions with nonfamily successions in terms of the aforementioned pre-succession characteristics. The results indicate that three of the hypothesised determinants, i.e. *Confucian centre*, *Same surname*, and *Returnee founder*, are significantly different between the two succession groups. Specifically, the family succession group has a significantly higher percentage of firms located in cities having a Confucian centre. This is consistent with H2. Additionally, firms with family successions have a significantly higher percentage of top executives sharing the founder's surname. This accords with H3. Moreover, firms with family successors have a significantly lower percentage of returnee founders. This is in line with H4. Furthermore, all the control variables are shown to be insignificantly different between the two groups.

[Insert Table 2.3 about here]

### 2.6.1.4 Comparison between *guanxi* and *non-guanxi* successions

Table 1.4 reports the comparison results between the successions with a *guanxi*-connected nonfamily successor and those having a nonfamily successor without a *guanxi*. The results show that the majority of the variables are insignificantly different

across the two groups, except the average percentage of the returnee founders. Specifically, the percentage is significantly lower in the *guanxi* succession group, suggesting that returnee founders are more likely to choose a successor without a *guanxi*. This further confirms H4.

[Insert Table 2.4 about here]

### 2.6.1.5 Correlation among variables

Table 2.5 presents the correlation matrix for the aforementioned variables. It shows that *Confucian centre* and *Same surname* are significantly and positively correlated with *Family*, and *Returnee founder* is significantly and negatively correlated with *Family*. This is consistent with my H2, H3, and H4. Moreover, *Returnee founder* is also significantly and negatively related to *FamilyOrGuanxi*, which further confirms my H4. Furthermore, most variables in the table do not have a high pairwise correlation, except that *Board ownership* is highly correlated with *Family ownership* and *Family divergence* as well as *Family ownership* is highly correlated with *Family control*. Given such a result, in the following tests, *Family ownership* and *Family divergence* will be excluded from the regressions.<sup>36</sup>

[Insert Table 2.5 about here]

### 2.6.2 Baseline regression results

Table 2.6 reports the results from the preceding two multivariate probit models. Columns (1) and (2) present the results for Model (1), whose dependent variable, *Family*, equals one if the successor is the founder's descendant by blood or marriage and zero otherwise. Columns (3) and (4) report the results for Model (2) with the dependent variable, *FamiyOrGuanxi*, equalling one if the successor is a descendant or a *guanxi*-connected nonfamily member and zero otherwise. The independent variables of interest in the columns are the measures for the five hypothesised determinants, i.e. foreign ownership, Confucianism, clan culture, the founders' overseas experience, and the founders' political connections. Columns (1) and (3) provide the coefficients

---

<sup>36</sup> *Board ownership* is shown to be significantly related to *Family* in the following tests, and thus should be included in the regressions.

and their standard errors, with the corresponding marginal effects and the standard errors of the effects presented in the adjacent column, i.e. Columns (2) and (4).

As to the regression results, Column (1) shows that *Foreign ownership*<sup>37</sup> is significantly and negatively related to *Family* at the 1% significance level. More specifically, as shown in Column (2), firms with foreign ownership are 36.1% less likely to appoint a family successor, in comparison to their counterparts without foreign investors. This confirms my H1. In addition, *Confucian centre* is significant and positive at the 5% level or better in all the columns, suggesting that Confucianism has a significant and positive impact on the likelihood of a family or *guanxi*-connected successor. To be more specific, Column (4) indicates that firms located in cities with a Confucian centre are 25.1% more likely to choose a family or *guanxi*-connected successor, relative to those whose headquartered cities do not have a Confucian centre. This provides support for my H2. Moreover, Columns (1) and (2) document that the percentage of top executives sharing the founder's surname is significantly and positively associated with the probability of a family successor at the 1% level, which verifies H3. Furthermore, Columns (3) and (4) indicate that returnee founders are much less likely to choose a descendant or a *guanxi*-connected member as the successor, which supports H4. Finally, similar to *Confucian centre*, the coefficients on *Political connection*<sup>38</sup> are also significant and positive in all the columns. This confirms H5, that is, the greater the political connections of the founder, the more likely it is that the successor is the founder's descendant or a nonfamily member having a *guanxi* with the founder.

Overall, the findings in Table 2.6 support H1 and H3, as the successor is more likely to be a descendant of the founder if the firm does not have foreign investors and have a larger percentage of directors and top managers having the same surname as the founder. Moreover, the findings also confirm H2, H4, and H5, as the successor is more likely to be a descendant or *guanxi*-connected if the firm is headquartered in a

---

<sup>37</sup> I have attempted to substitute the *Foreign ownership* dummy with the percentage of shares owned by foreign investors in the firm. The result is qualitatively similar to the above.

<sup>38</sup> Substituting a *Political connection* dummy, i.e. equaling one if the founder has political identities and zero otherwise, for the above variable, i.e. the number of the founder's political identities, would not affect the validity of the finding.

city with a Confucian centre, if the founder does not have overseas experience, and if the founder has more political connections.

[Insert Table 2.6 about here]

### **2.6.3 Robustness checks**

Two checks are conducted to examine the robustness of the above results. Firstly, another array of firm-level, environmental, and succession-specific factors, which are seldom controlled for in the previous literature but may play important roles in the successor decision, is incorporated in the baseline probit models. In addition, the instrumental variables approach is employed to alleviate endogeneity issues.

#### **2.6.3.1 The extension of the baseline models**

The preceding regression models have included a number of firm-, governance-, and family-level factors widely considered in the previous research. However, there also exist some factors much less prevalent in the literature but may also play a role in the successor selection process. Therefore, in this section, the baseline models are extended by another vector of pre-succession firm-level, environmental, and succession-specific variables, to explore whether the above findings are *de facto* due to the overlook of those factors.

The firm-level factors include *Prior average performance*, *Dividend payout*, *Interest coverage*, *Nonfamily ownership*, and *State ownership*. Specifically, *Prior average performance* denotes the firm's performance before the succession. As previously discussed, a number of researchers have documented that past firm performance is not a determinant of the successor choice in family businesses (e.g., Smith & Amoako-Adu, 1999; Bocatto et al., 2010; Ansari et al., 2014). However, it is worth noting that those researchers' original prediction is that prior firm performance is positively related to the likelihood of a family successor. In other words, in theory, it is possible that past firm performance has an impact on the successor decision in family firms, and such a possibility should be controlled for in this study. To this end, *Prior average performance* is measured as average ROA during the three years prior to the succession. Focusing on the three years' average firm performance is because family

business founders tend to be more concerned about long-term firm performance (Pérez-González, 2006; Villalonga & Amit, 2010). Thus, the founders are less likely to base the successor decision on the firm's one or two years' short-term performance.

In addition, the consideration of *Dividend payout* and *Interest coverage* is because, apart from higher debt levels<sup>39</sup>, greater dividend and interest payments also contribute to the alleviation of the free cash flow problem (Ansari et al., 2014). This, in turn, as I discussed before, helps to reduce the private benefits the controlling family can extract from the firm, and thus may decrease the family's incentives to appoint a family successor. In other words, instead of merely allowing for the high leverage situation, the control of *Long-debt level*, *Dividend payout*, and *Interest coverage* together can more efficiently mitigate the potential confounding impact of the free cash flow issue on the successor selection.

Following Ansari et al. (2014), *Dividend payout* is measured as dividend per share as a percentage of earnings per share. *Interest coverage* denotes the firm's ability to generate enough earnings to pay interest on its outstanding debt. It is a dummy equal to one if the firm's interest coverage ratio, i.e. earnings before interest and tax divided by total interest payable on bonds and other contractual debt, is greater than two; otherwise, it equals zero (Ansari et al., 2014).<sup>40</sup>

*Nonfamily ownership* is the ratio of the number of shares held by all nonfamily block-holders<sup>41</sup> to the total shares outstanding (Villalonga & Amit, 2006). The control for this variable stems from the perspective that large nonfamily shareholders can restrict the controlling family's voice and control, and thus may have an impact on the successor choice (Villalonga & Amit, 2006).

*State ownership* is the percentage of the number of shares held by the state to the total shares outstanding (Zou & Xiao, 2006). The incorporation of this variable is derived from the fact that in China, it is the government who controls the majority of

---

<sup>39</sup> This factor has been controlled for by *Long-debt level* in the baseline regression models.

<sup>40</sup> This measure follows Goergen and Renneboog's (2001) perspective that interest coverage of less than two is typically a sign that the firm faces severe financial needs or financial constraints.

<sup>41</sup> Block-holders are individuals or institutions holding at least 5% ownership of the firm (Villalonga & Amit, 2006).

economic resources (Cao et al., 2017). In this background, the state should have a strong voice in the family firms it has invested in, as the firms normally have a strong desire to build a good relationship with the state. In this case, the potential impact of the state ownership on the successor decision should not be neglected.

In addition to the above firm-level characteristics, two contextual factors are also considered, i.e. *Institutional environment* and *Industrial competition*. The consideration of *Institutional environment* is in light of Burkart et al. (2003), who argue that a high level of the institutional environment increases the likelihood of a nonfamily successor. The measure of the factor is based upon Fan et al.'s (2011b) index regarding the market development levels of Chinese provinces and is denoted by the market development level of the province where the firm is headquartered.<sup>42</sup> The higher the value of the index, the better is the institutional environment for the firm.<sup>43</sup>

The control for *Industrial competition* follows Ansari et al.'s (2014) argument that firms operating in more competitive industries are more likely to appoint a nonfamily successor. As to the measurement, the Herfindahl index of the industry where the firm operates is used as the proxy for the competitiveness in the industry. The index is calculated as  $H = \sum_{i=1}^n S_i^2$ , where  $S_i$  is the market share of firm  $i$  (the firm's sales as a percentage of the sales for the same industry), and  $n$  is the number of firms in the industry. The lower the H index, the greater is the competition in the industry.

Finally, some succession-specific features, such as the reason of the succession, the age at which the founder retires, or whether the founder retires too early, may reveal information about the state of affairs of the firm that is not captured by the above factors (Pérez-González, 2006). Thus, those features may also play a role in determining the successor. Considering this possibility, three succession-specific

---

<sup>42</sup> Fan et al.'s (2011b) index considers the following perspectives: (1) the relationship between government and market; (2) the development of the private sector; (3) the development of product markets; (4) the development of factor markets (i.e. the labor market, the financial market and the foreign direct investment market); (5) the development of market intermediaries and legal environment. This index has been widely used to measure the institutional environment of Chinese provinces in the extant literature focusing on China (e.g., Chen & Chen, 2014; Liu & Wu, 2014).

<sup>43</sup> Fan et al.'s (2011b) index ends up to the year 2009. Therefore, for those years later than 2009, the index values in 2009 are used as the substitutions (Liu & Wu, 2014).

factors are also controlled for, including *Founder age*, *Early succession*, and *Retire*. More specifically, *Founder age* is the age of the founder in the succession year (Ansari et al., 2014). *Early succession* is an indicator variable equal to one if the founder leaves the leadership position before 65 and zero otherwise. *Retire*<sup>44</sup> equals one if the founder is reported to leave due to “retirement” and zero otherwise (Pérez-González, 2006).

Table 2.7 reports the regression results after incorporating the above variables into the preceding baseline probit models. More specifically, Columns (1) and (2) indicate that a family successor is less likely to be appointed if the firm has foreign ownership and a lower proportion of top executives sharing the founder’s surname. In addition, Columns (3) and (4) show that the successor is more likely to be either a descendant or a *guanxi*-connected nonfamily member if the firm is headquartered in a city with a Confucian centre, if the founder is not a returnee, and if the founder has more political connections. These findings are statistically similar to the previous results drawn from the baseline models, and thus further support my hypotheses.

Moreover, it is worth noting that Columns (1) and (2) also document that prior average firm performance is significantly and negatively related to the likelihood of a family successor.<sup>45</sup> An appropriate interpretation for this finding is that the founders tend to have the strongest emotional attachment to the business,<sup>46</sup> and thus poor firm performance may make them more conservative, cautious, and risk-averse. As a result, to be on the safe side, the founders are more likely to choose a family successor, who should be more trustworthy, and whose personality and capability are sufficiently familiar to the founder, compared with nonfamily agents. This finding,

---

<sup>44</sup> However, in most of the following tests, *Retire* is excluded from the regressions because this variable has a perfect prediction correlation with the dependent variables. More specifically, in a logistic regression, perfect prediction occurs if there is a level of a categorical explanatory variable for which the observed values of the outcome are all one (or all zero) (White et al., 2010). In that case, the explanatory variable, i.e. the perfect predictor of the outcome, should be excluded from the regression. This is because, dropping the variable does not affect the estimates of the remaining coefficients in the regression, but the retention of the variable may produce instabilities in the estimation process (StataCorp, 2013).

<sup>45</sup> The pre-succession three-year average Tobin’s *q* is also attempted to be used as an alternative measure of *Prior average performance*, and the result shows that this measure is also significantly and negatively associated with the probability of a family succession.

<sup>46</sup> This is because the founders are those people who set up the company and are responsible for its early growth and development, and they devote most of their wealth, time, and energy to run the business from scratch to success (Villalonga & Amit, 2010).

based on my previous discussion, is different from the extant evidence obtained in developed economies, i.e. prior firm performance has no significant impact on the successor decision in family firms. A possible reason for the different findings is that China's transitional economy, weak legal system, and traditional culture make the Chinese family firms' business environment, governance characteristics, and corporate behaviour very different from their counterparts in developed contexts (Fan et al., 2011a; Xu et al., 2015; Bennedsen et al., 2015). Moreover, it may also be because that I use the pre-succession long-term average performance (i.e. the three years' average ROA) as the measure, whereas the prior research focuses on one-year short-term performance (e.g., Pérez-González, 2006; Bennedsen et al., 2007; Ansari et al., 2014).<sup>47</sup>

[Insert Table 2.7 about here]

### 2.6.3.2 Endogeneity

There exists a concern that the above results are *de facto* driven by some variables not captured by the models yet affecting both the independent and dependent variables. For example, those firm-level hypothesised determinants, i.e. foreign ownership and the percentage of the firm's top executives sharing the founder's surname, may be influenced by some other unspecified firm-level factors, such as the firm's corporate culture. This factor may also be related to the dependent variable, i.e. whether the successor is the founder's descendant or not. Likewise, the hypothesised individual factors, such as the founder's overseas experience and political connections, may be affected by some omitted individual factors such as the founder's ability, which may also have an impact on the founder's successor decision.

To mitigate the above concern, the instrumental variables approach is employed, and several instruments are applied to the hypothesised determinants. More specifically, for *Foreign ownership*, the instrument is *Industry-province foreign firm*, i.e. the percentage of firms having foreign ownership in the family firm's industry and province for the year before the succession. The rationale for this instrument is that it

---

<sup>47</sup> The pre-succession one-year ROA is also tested, yet the relevant results are insignificant, which are consistent with the previous literature.

should reflect the trends in foreign investment flows to China's different industries and under Chinese provinces' different markets and policies for foreign investment. In other words, it indicates what industries and provinces are favoured by or out of favour with foreign investors, and such different investment priorities should have an effect on the foreign investment in the individual firms operated in those industries and provinces. Based on this discussion, I posit that the more prevalent are foreign investors in the family firm's industry and province, the more likely it is that the family firm has foreign ownership. Therefore, *Industry-province foreign firm* is expected to be positively related to *Foreign ownership*. However, whether foreign ownership is popular in the industry and province seems to be unlikely to directly affect the family firm's decision of a family or nonfamily successor.

As to the second hypothesised factor, *Confucian centre*, i.e. a dummy equal to one if the family firm is located in a city with a Confucian centre and zero otherwise, should be an exogenous variable in this study. This is because the value of the dummy is determined by two factors, i.e. the cities that have a Confucian centre and whether the family firm is located in one of those cities. The first factor, i.e. the locations of Confucian centres, is determined by Confucius and thousands of years' influence, spread, and evolution of Confucianism in China (Du, 2015). The second factor, the location of the firm, based on the previous literature, is usually determined by the labour costs, populations, tax, and transport in the city or the province (e.g., Loughran & Schultz, 2005; Loughran, 2007; John et al., 2011; El Ghouli et al., 2012). However, none of the factors seems to have a significant effect on the firm founder's choice of a family or *guanxi*-connected nonfamily successor. In other words, it is unlikely for a factor to have a significant impact on the locations of the Confucian centres, whether the family firm is headquartered right in one of those locations, and the founder's successor selection simultaneously.

For the third hypothesised determinant, *Same surname*, the instrumental variable is *Rare surname*, a dummy equal to one if the founder's surname is not ranked among the top 20 Chinese surnames and zero otherwise.<sup>48</sup> This variable indicates whether the founder has a rare surname, and if the surname is rare, the percentage of top

---

<sup>48</sup> The ranking is in the most recent survey by the Chinese Ministry of Public Security (CMPS).

executives in the firm having that surname should be lower. Thus, this variable is expected to be negatively related to *Same surname*. However, whether the founder's surname is out of the top 20 is unlikely to have a direct effect on the founder's decision of a family or nonfamily successor.

For the fourth hypothesised factor, *Returnee founder*, the instrument is *Industry-province returnee* and is calculated as the mean of the percentages of returnee entrepreneurs, i.e. Chairpersons and CEOs, in the family firm's industry and province for the years before the succession. The rationale for this instrument is that it should reflect the popularity of returnee entrepreneurs in that industry and that province. More specifically, if the industry has a large proportion of returnee entrepreneurs, it may imply that a number of entrepreneurial opportunities suitable for returnees, who are characterised by distinctive knowledge and skills, overseas experience, and international network resources, exist in the industry. In addition, if the province is featured with a large proportion of returnee entrepreneurs, it may imply that the province has good business opportunities and favourable policies for returnees. These factors, in turn, should attract many returnees to enter the industry and the province to start their own business, i.e. to become a family business founder. The above factors may also motivate many family business founders in the industry and the province to go abroad, in the hope of obtaining foreign technologies and expertise as well as building international networks. In other words, for a family business, the prevalence of returnees in its industry and province should reflect the industry' and province's demand for and attractiveness to returnees, and thus may have an impact on the family business founder's likelihood of being a returnee. Therefore, *Industry-province returnee* is expected to be positively associated with *Returnee founder*. However, the industry- and province-level proportion of returnee entrepreneurs is unlikely to directly affect an individual family business founder's choice of a family or *guanxi*-connected successor.

As to the final hypothesised determinant, *Political connection*, the instrumental variable is *Industry-province SOE*, i.e. the mean of the percentages of state-owned enterprises (SOEs) in the family firm's industry and province for the years before the succession. This is because in China, as previously, private enterprises often suffer

discrimination in various aspects relative to their state-owned counterparts. In such a context, a larger percentage of SOEs in the family firm's industry and province may stimulate the founder to seek for more political connections to make the firm more competitive and less likely to be discriminated against due to lack of political support. Thus, *Industry-province SOE* should be positively associated with *Political connection*. However, as an industrial and provincial level factor, *Industry-province SOE* is unlikely to have a direct impact on the founder's likelihood of appointing a descendant or *guanxi*-connected member as the successor.

The relevant results are presented in Table 2.8. Panel A of the table provides the results for *Foreign ownership* and *Same surname*, where *Family* is the dependent variable in the second-stage regression. Panel B of the table reports the results for *Returnee founder* and *Political connection*, thus having *FamilyOrGuanxi* as the dependent variable in the second-stage regression.<sup>49</sup> More specifically, in Panel A, Columns (1) and (2) show that *Industry-province foreign firm* is significantly and positively related to *Foreign ownership*, and *Rare surname* is significantly and negatively related to *Same surname*. This result is consistent with my predictions. In addition, the panel indicates that the first-stage F-statistics are highly significant as well as greater than both Staiger and Stock's (1997) rule of thumb, ten, and the maximum critical value for the F-statistics provided by Stock and Yogo (2005).<sup>50</sup> Moreover, the Cragg and Donald's (1993) Wald F weak-instrument statistic is also larger than the corresponding maximum critical value from Stock and Yogo (2005). These results suggest that none of my instruments is weak (Cragg & Donald, 1993; Stock & Yogo, 2005; Sanderson & Windmeijer, 2016).

More importantly, in the second-stage analysis (Columns (3) of Panel A), *Predicted (Foreign ownership)*, the variable with the predicted values of *Foreign ownership*

---

<sup>49</sup> I have attempted to treat all the four variables, i.e. *Foreign ownership*, *Same surname*, *Returnee founder*, and *Political connection*, as endogenous variables for both *Family* and *FamilyOrGuanxi* to conduct the two-stage regressions. In other words, for either *Family* or *FamilyOrGuanxi* as the dependent variable in the second-stage regression, there are four endogenous regressors and thus four instruments in each of the four first-stage regressions. However, probably because in that case, there are too many endogenous regressors, instruments, and control variables simultaneously, and yet my sample is quite small, the relevant Stata command cannot be executed due to "convergence not achieved".

<sup>50</sup> It is worth noting that according to Wooldridge (2010), maximum-likelihood estimation, compared with 2SLS estimation, is more appropriate for a small sample and logistic regressions with a binary endogenous variable. Therefore, the Stock-Yogo critical value is for the maximum-likelihood estimation.

from the first-stage regression, is significantly and negatively related to *Family*. In addition, the corresponding variable for *Same surname*, i.e. *Predicted (Same surname)*, is significantly and positively related to *Family*.<sup>51</sup> These results are in line with my prior relevant results, thus suggesting that the results are not due to the potential endogeneity of *Foreign ownership* or *Same surname*.

Moreover, in Panel B, Columns (1) and (2) show that *Industry-province returnee* and *Industry-province SOE* are significantly and positively associated with the relevant hypothesised determinant. This is also in line with my predictions. Furthermore, both the first-stage F-statistics and the Cragg-Donald Wald F-statistic are greater than the corresponding critical values, suggesting that my instrumental variables in this panel are also not weak.

More importantly, Column (3) of Panel B indicates that *Predicted (Returnee founder)* is significantly and negatively associated with *FamilyOrGuanxi*, and *Predicted (Political connection)* is significantly and positively associated with *FamilyOrGuanxi*.<sup>52</sup> This result is also qualitatively similar to those reported in the

---

<sup>51</sup> It is worth noting that in Panel A, *Confucian centre* and *Political connection*, i.e. the hypothesised determinants of *FamilyOrGuanxi*, are used as control variables. This is because my previous baseline regression results indicate that these two variables are also significantly related to *Family*. However, another determinant of *FamilyOrGuanxi*, i.e. *Returnee founder*, is not included in Panel A. This is because, firstly, the preceding results show that *Returnee founder* is not significantly related to *Family*. Secondly, the Stata results show that there is a perfect prediction correlation between *Returnee founder* equal to one and *Foreign ownership* equal to zero in the first-stage regression. In this case, as previously mentioned (in Footnote 44), *Returnee founder* should be excluded from the regressions. This is because dropping the perfect predictor variable does not affect the estimates of the remaining coefficients in the regressions, yet retaining it would cause numerical instabilities in the estimation process (StataCorp, 2013).

It is also worth mentioning that industry and year dummies are also not included in the regressions. This is because most of the dummies are either having the collinearity issues or perfect predictor variables of *Foreign ownership*. However, based on the above discussion, the exclusion of the dummies has no effect on the validity of the regression results for other variables. Moreover, the industry and year fixed effects have been controlled for in the preceding analysis, which generates qualitatively similar results as those from the two-stage regressions.

<sup>52</sup> In Panel B, the hypothesised determinants of *Family*, i.e. *Foreign ownership* and *Same surname*, are not included. For *Foreign ownership*, this is because, firstly, it is not significantly related to *FamilyOrGuanxi*, as indicated in my prior results. Secondly, as discussed in the above footnote, *Foreign ownership* has a perfect prediction correlation with *Returnee founder*. As to *Same surname*, its exclusion from Panel B is also because it is not significantly associated with *FamilyOrGuanxi*, as shown in the previous results.

It is also worth noting that, in Panel B, *Confucian centre* is also not included. Similar to the second reason for *Foreign ownership*, this is because *Confucian centre* is also a perfect predictor variable of *Returnee founder* in the first-stage regression. However, again, in light of StataCorp (2013), the exclusion of *Confucian centre* does not affect the validity of the results for the other variables in the regressions.

Moreover, industry and year dummies, again, are not included in the regressions. The reason is similar to that mentioned in Footnote 51, i.e. most of the dummies either have the collinearity issues or have a perfect prediction correlation with *Returnee founder*. However, again, as discussed in Footnote 51, the exclusion of the dummies does not affect the reliability of the results of the two-stage regressions.

previous sections, thus suggesting that my findings are also not driven by the potential endogeneity of *Returnee founder* or *Political connection*.

Finally, Panels A and B also report the p-values for the Durbin-Wu-Hausman endogeneity test for the two-stage regressions. The results indicate that all of the four potential endogenous variables, i.e. *Foreign ownership*, *Same surname*, *Returnee founder*, and *Political connection*, in fact, are exogenous in the regressions (Durbin, 1954; Wu, 1973; Hausman, 1978). This finding further confirms the validity and reliability of the results presented in the previous sections.

[Insert Table 2.8 about here]

## **2.6.4 Additional analysis**

This section provides several additional analyses for the preceding results. The analyses include the investigation of the role of regional institutional environment and marketisation level, alternative measures of the determinants, and a multinomial logistic regression to further test the validity of the findings.

### **2.6.4.1 Does regional institutional environment play a role in the foreign ownership-successor decision relationship?**

The above results indicate that family firms with foreign ownership are more likely to appoint a nonfamily successor. One of the underlying reasons, as discussed in the hypothesis development section, is that the PP agency problem<sup>53</sup> typically prevails in family firms, and the appointment of a family successor may exacerbate the problem. Therefore, foreign investors, as minority shareholders in family firms, have a strong motivation to pressure the firm to choose a nonfamily successor. In this case, it is reasonable to posit that the impact of foreign ownership on the successor decision may be contingent upon the institutional environment of the family business. This is because the agency problem tends to be less serious in family firms in a strong institutional environment (Peng & Jiang, 2010). In this case, foreign shareholders in those firms may have fewer incentives to force the firm to choose a nonfamily

---

<sup>53</sup> Controlling shareholders expropriate minority shareholders' interests to satisfy their own private benefits.

successor. To test this posit, an interaction term between *Foreign ownership* and *Strong institutional environment*, i.e.  $Foreign\ ownership * Strong\ institution$ , is employed. Here, *Strong institutional environment* is a dummy equal to one if the firm is headquartered in a strong (above-median) institutional environment and equal to zero if the firm is headquartered in a weak (below-median) institutional environment.<sup>54</sup>

Table 2.9 presents the relevant result. More specifically, Column (1) of the table shows that the above interaction term is significantly and positively related to *Family*. This suggests that a strong institutional environment can moderate the aforementioned significant and negative impact that foreign ownership has on the probability of a family successor. This, in turn, supports the above conjecture, i.e. a strong legal environment can alleviate the PP agency problem in family firms, and thus can lower foreign investors' preference for a nonfamily leader in those firms.

#### **2.6.4.2 Confucius temples**

In the previous tests, *Confucian centre*, a dummy equal to one if the family firm is headquartered in a city with a Confucian centre and zero otherwise, is used as a proxy for whether the firm founder is strongly affected by Confucianism. It is worth noting that, apart from the Confucian centres, there also exist 52 nationally famous Confucius temples located in different provinces in China (Du, 2015). In this case, it is also likely that family firms in provinces with more Confucius temples are surrounded by stronger Confucianism atmosphere (Du, 2015). As a result, the founders of those firms, compared with their counterparts in provinces with less Confucius temples, are also more likely to be strongly affected by the Confucian familism and *guanxi* cultures, and thus more likely to choose a family or *guanxi*-connected successor. To test this conjecture, another proxy for the founder's degree of being influenced by Confucianism is used. More specifically, the variable is *Confucius temple*, calculated as the number of the nationally well-known Confucius temples in the firm's headquartered province.

---

<sup>54</sup> The measure of *Institutional environment*, as previously discussed, is based on Fan et al.'s (2011b) index regarding the market development levels of Chinese provinces. More specifically, the higher the value of the index for the firm's headquartered province, the better is the institutional environment for the firm.

The relevant results are provided by Columns (2) to (4) of Table 2.9, showing that *Confucius temple* is significantly and positively associated with *FamilyOrGuanxi*. This finding is qualitatively similar to those based on the *Confucian centre* dummy, and thus further supports the relevant hypothesis.

#### **2.6.4.3 Clan culture or familism?**

In the previous sections, *Same surname*, i.e. the percentage of top executives in the firm having the same surname with the founder one year before the succession, is used as a proxy for the founder's extent of being affected by clan culture. The relevant results show that *Same surname* is significantly and positively related to *Family*, thus providing support for my hypothesis that the founders deeply affected by the clan culture are more likely to prefer a family successor.

However, for the above finding, there exists a possibility that the top executives having the founder's surname are *de facto* the founder's family members. In other words, the above result is *de facto* driven by the familism culture rather than the clan culture. To test this possibility, an additional variable is used: *Nonfamily same surname*, measured as the percentage of nonfamily board members and top managers in the firm sharing the founder's surname one year before the succession.

The relevant result is reported in Column (1) of Table 2.9, indicating that *Nonfamily same surname* is significantly and positively associated with *Family*. This result rules out the above possibility, and thus further confirms my hypothesis.

#### **2.6.4.4 The length of overseas experience**

My existing results also document that the founders with overseas experience are more likely to choose a successor who is not a family member and without a *guanxi*. As discussed in the hypothesis development section, this is because those founders are less likely to be deeply affected by Chinese familism and *guanxi* cultures, compared with their counterparts without any experience abroad. In this case, it should be reasonable to posit that the founders with longer overseas experience are much less influenced by the above cultures, relative to those with shorter or no overseas experience. As a result, the former is much more likely to choose a nonfamily

successor without a *guanxi*, compared with the latter. In other words, the length of the founders' overseas experience may also play a role in determining the identity of the successor. To test this conjecture, a new variable, *Overseas length*, is employed. More specifically, this is an ordinal variable, equal to two if the founder has overseas work experience; equal to one if the founder's overseas experience is pure study experience; and equal to zero if the founder does not have any work or study experience abroad. The rationale for this variable is that, due to visa issue, study used to be the major route for Chinese people to live abroad (Duan & Hou, 2015). After finishing the study, some Chinese choose to return to China immediately, and some choose to work abroad for a number of years. In other words, the founders with overseas work experience tend to have stayed abroad longer than those with study experience only (Duan & Hou, 2015).

The relevant results are presented in Columns (2) to (4) of Table 2.9, documenting that *Overseas length* is significantly and negatively related to the likelihood of a family or *guanxi*-connected successor. This confirms the above posit.

#### **2.6.4.5 Does regional marketisation level play a role in the political connection-successor decision relationship?**

It has been demonstrated that the founders with more political connections are more likely to choose a family or *guanxi*-connected successor. I attribute this finding to the fact that the Chinese government's dominant role in economic resource allocation makes the founders' political connections become one of the most important specialised assets for family firms in China (Xu et al., 2015). As a result, the founders with more political connections should have a stronger intention of appointing a family or *guanxi*-connected successor, as the founders are normally only willing to transfer the specialised assets to those persons. Based on this discussion, a possibility exists, i.e. the relationship between the founders' political connections and the succession decision may be contingent on the marketisation level of the province where the firm is located. More specifically, there exists a great heterogeneity in the degree of marketisation of Chinese provinces, which causes the controlling power of the local government in allocating economic resources varies across different provinces (Fan et al., 2009). For example, the government intervention in resource

allocation typically is much heavier in provinces with a low marketisation level. As a result, for family firms located in those provinces, their founders' political connections can generate great benefits, such as better access to financial resources, more tax benefits, and more privileges (Li, 2008). On the contrary, for firms in provinces where resource allocation is less dominated by the government but more market-oriented, the economic value of political connections should be much less significant. This, in turn, may mitigate the founders' intention of transferring their political connections to successors, thus making the founders have fewer incentives to appoint a descendant or a *guanxi*-connected member as the successor.

To test the above conjecture, an interaction term between *Political connection* and *High marketisation*, i.e. *Political connection\*High market*, is adopted. Here, *High marketisation* is a dummy equal to one if the firm's headquartered province has a high (above-median) level of marketisation in terms of economic resource allocation for the year before the succession; otherwise, it equals zero. The measure of this variable is based on Fan et al.'s (2011b) index, "the importance of the market in economic resource allocation", for each province in China. Whether the firm's headquartered province has a high marketisation level regarding resource allocation, therefore, is defined as whether the index value of the province is above the sample median.

The relevant result is reported in Column (2) of Table 2.9, showing that the above interaction term is significantly and negatively related to *FamilyOrGuanxi*. This supports the above conjecture.

#### **2.6.4.6 Does the type of the political identity matter?**

Chinese private entrepreneurs' political identities can generally be classified into two types, i.e. government officials and representatives of different congresses.

Government officials normally have rights to allocate resources and offer privileges, and yet representatives of congresses can only participate in the discussion of political affairs (Du et al., 2010). As a result, the political connections and resources that the entrepreneurs can obtain from "government official" identities tend to be much more valuable than those from "representative" identities. In this case, family business founders with the former identities should have a much stronger desire to preserve

their political connections in the firm. Such a desire, in turn, may strengthen the founders' intention of appointing a family or *guanxi*-connected successor.

To test the above conjecture, an ordinal variable, *Political type*, is applied. It equals two if the founder has worked as a government official; one if the founder's political identities are all about representatives of the NPC, CPPCC, or NCCPC; and zero if the founder does not have any political identities. Column (3) of Table 2.9 provides the relevant result, indicating that *Political type* has a significant and positive relationship with *FamilyOrGuanxi*. This provides support for the above conjecture. It, in turn, suggests that the more valuable are the founder's political identities, the stronger is the founder's intention of appointing a family successor or a *guanxi*-connected nonfamily successor.

#### **2.6.4.7 Does the rank of the political identity matter?**

The political system in China is featured with a strict hierarchy of rankings. In such a system, officials at higher rankings typically possess more political power than their lower-ranking counterparts (Chen et al., 2017). In other words, higher-level political identities should be more valuable than lower-level identities in China's context. Given such a background, it should be reasonable to hypothesise that the founders with higher-ranking political identities have a stronger desire for preserving their political resources and connections in the firm. Such a desire, in turn, may make the founders more likely to choose a family or *guanxi*-connected successor. To test this hypothesis, another ordinal variable, *Political rank*, is employed. It equals five, four, three, two, and one if the founder's highest-ranking political identity is at the national level, the sub-national level, the provincial level, the sub-provincial level, and the city-level, respectively. The variable equals zero if the founder does not have any political identities.

The relevant result is shown in Column (4) of Table 2.9. Specifically, *Political rank* has a significant and positive relationship with *FamilyOrGuanxi*. This is consistent with the above hypothesis, and thus further confirms the above perspective, i.e. the more valuable are the founders' political identities, the higher is the likelihood that the successor is a family or *guanxi*-connected nonfamily member.

[Insert Table 2.9 about here]

#### **2.6.4.8 The decomposition of *FamilyOrGuanxi***

It has been demonstrated that the founder's extent of being affected by Confucianism, the founder's overseas experience, and the founder's political connections have significant effects on the likelihood of a family or *guanxi*-connected successor. In this case, this section aims at exploring whether the significant results are *de facto* derived from only one type of the successors. To this end, a multinomial logistic regression is employed, where the dependent variable is defined as 3 if the successor is the founder's descendant, 2 if the successor is a nonfamily member having a *guanxi* with the founder, and 1 if the successor is a nonfamily member without a *guanxi*. The independent variables include the five hypothesised determinants and the preceding control variables.

Table 2.10 reports the regression result. In the table, the base case is always the successions with a successor who is a nonfamily member without a *guanxi*. In Column (1), the comparison is between family successions and non-*guanxi* successions, whereas in Column (2), it is between nonfamily successions with a *guanxi*-connected successor and those without. The result, as expected, shows that *Confucian centre* and *Political connection* are significantly positive, while *Returnee founder* is significantly negative in both columns. This suggests that firms headquartered in cities with a Confucian centre, whose founder does not have overseas experience, and whose founder has more political connections are indeed more likely to appoint not only a family successor but also a nonfamily successor having a *guanxi* with the founder. This finding further supports the relevant hypotheses.

[Insert Table 2.10 about here]

## **2.7 Conclusion**

This chapter explores the determinants of the leadership successor decision in family firms in China. Specifically, five factors are examined, i.e. foreign ownership, Confucianism, clan culture, the founders' overseas experience, and the founders' political connections.

For the first factor, foreign ownership, its importance in China and effect on Chinese enterprises have been largely explored by the previous researchers, yet its role in driving family firms' successor decisions has never been noticed. This chapter fills this void and documents that family firms with foreign ownership are more likely to choose a nonfamily successor. This finding supports my H1, and thus suggests that foreign shareholders can exert influence on the family firm's successor decision and prefer a nonfamily successor.

The second hypothesised determinant, Confucianism, has been widely regarded as the most ancient and predominant philosophy in Chinese society (Fung, 1952; Tu, 1998a, 1998b; Du, 2015, 2016). Its role in family firms' successor decision-making has been theoretically emphasised by some researchers (e.g., Yan & Sorenson, 2006), yet the relevant empirical support is lacking. This study uses whether the firm is headquartered in a city with a Confucian centre as a proxy for the founder's level of being affected by Confucianism and shows that this proxy is positively related to the likelihood of a family successor or a nonfamily successor having a *guanxi* with the founder. This evidence confirms my H2, thus proving that familism and *guanxi* culture, the two most influential Confucian values, have a pronounced impact on Chinese family business founders' successor preference.

In addition to Confucianism, clan culture is also an important component of China's traditional culture. However, compared to the extant focus on the former, that on the latter is very scarce. This study fills this gap by using the percentage of the board members and top managers sharing the founder's surname as a proxy for the founder's extent of being influenced by the clan culture, and finds that this proxy has a significant and positive effect on the probability of a family successor. This finding is consistent with my H3, and in turn supports the underlying argument that because a clan in China is often viewed as a large family and the clan culture is very similar to Confucian familism, the founders who are deeply affected by the clan culture are more likely to prefer a family successor. Moreover, a larger proportion of the founder's clan members on the board and in the top management team may facilitate the approval of the founder's family succession decision.

The fourth hypothesised factor is the founders' overseas experience. Chinese entrepreneurs' experience abroad has been largely explored in various aspects, yet its effect exclusively on family businesses, and in particular, on the businesses' successor selections, has never been considered theoretically and empirically. This chapter fills the gap and documents that the founders with overseas experience have a greater likelihood of appointing a nonfamily successor without a *guanxi*. This result confirms my H4. It, in turn, suggests that the founders who have worked or studied in western and developed countries are less likely to be deeply affected by Chinese culture but more likely to be influenced by individualist cultures, and thus are more likely to choose a successor who is not a family member and does not have a *guanxi*.

The final factor is the founders' political connections. This factor has been investigated as a determinant of the successor decision by one research (Xu et al., 2015), which indicates that politically connected founders have a greater probability of choosing a family successor. My study provides further evidence, which demonstrates that the founders' political connections have a positive impact on not only the likelihood of a family successor but also that of a *guanxi*-connected nonfamily successor. This finding is in line with my H5, and thus confirms that Chinese family business founders' personal specialised assets are accessible to not only their family members but also nonfamily members having a *guanxi* with them.

In general, the above findings have several major contributions. For example, for some of the hypothesised determinants, including foreign ownership, clan culture, and the founders' overseas experience, their roles in family businesses have never been noticed in theoretical and empirical analyses. In this case, this study may provide some new research channels for researchers interested in either the above factors or family businesses, such as the investigations of the former's effect on the latter's various behaviours, decisions, and financial consequences.

Additionally, different from the prior research focusing on family or nonfamily successions, this study sheds initial light on the existence of the successors who are nonfamily members but having a *guanxi* with the founder. This should offer a novel research direction for future studies regarding family firms in China or other Asian countries affected by Confucianism, i.e. focusing more on the founders' *guanxi*-

connected nonfamily members. This direction should apply to any topics as long as they are related to the identities of family firms' stakeholders, such as managers, employees, or shareholders.

Furthermore, this study contributes to a much complete understanding of the driving force of the successor decision in China's family firms.<sup>55</sup> This, in practice, can have important implications for (potential) investors of Chinese family businesses, such as helping the investors to figure out the identity of the firm's next leader more accurately by using publicly available information.

---

<sup>55</sup> As previously discussed, there are only two studies hitherto focusing on the determinants of the successor in China's setting (Cao et al., 2015, Xu et al., 2015), and thus only two factors have been empirically investigated, i.e. China's one-child policy and the founders' political connections.

## Chapter 2 Tables

**Table 2.1—Industry and annual distributions of different successions**

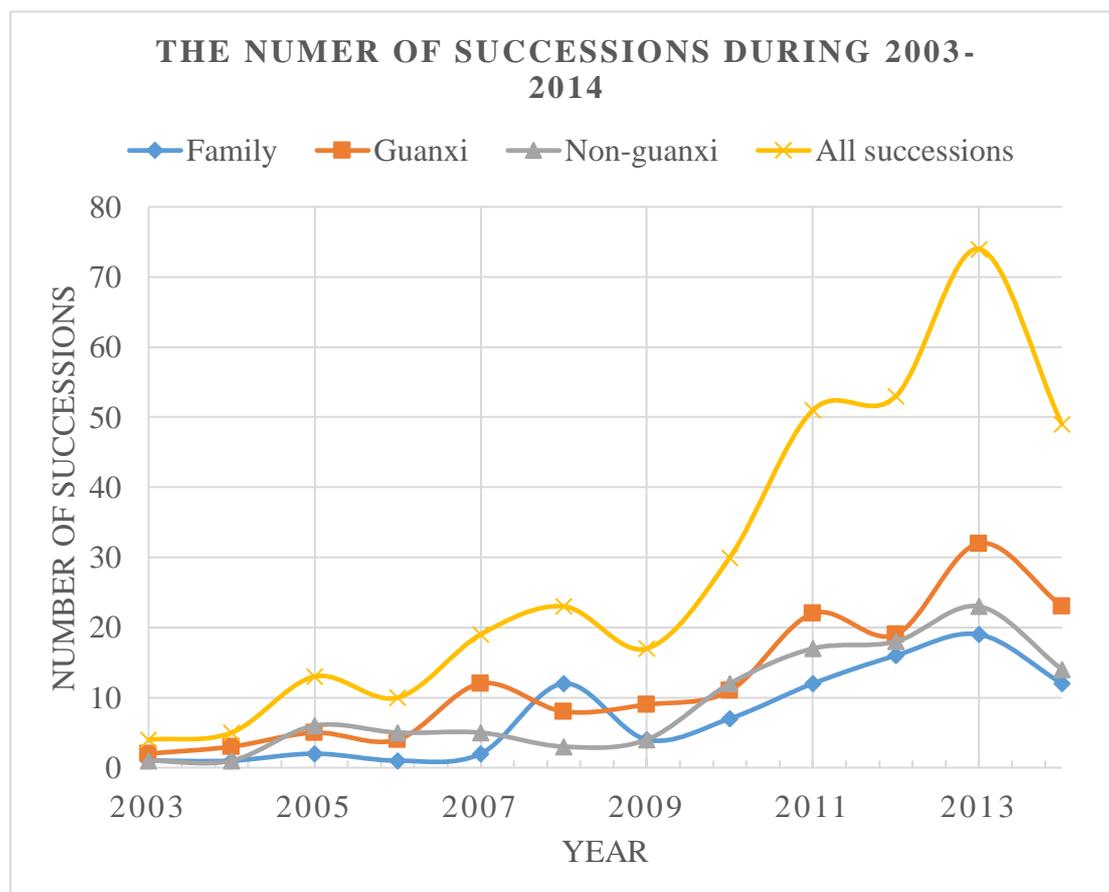
This table illustrates the distribution of succession cases across industries in Panel A and years in Panel B. The classification of industries is based on the guide provided by CSRC. Successions are classified into three types, family successions, i.e. successors who are the founder's descendants; *guanxi* successions, i.e. nonfamily successors having a *guanxi* with the founder before the succession; non-*guanxi* successions, i.e. nonfamily successors who do not have a *guanxi* with the founder before the succession. The numbers of each type of successions in each industry and each year are respectively presented in Panels A and B, with the proportions (%) in each group shown in the parentheses.

<b>Panel A: Successions distributed by industry</b>				
Industry	Family successions (1)	<i>Guanxi</i> successions (2)	Non- <i>guanxi</i> successions (3)	All successions (4)
1. Agriculture	4 (4.49)	6 (4.00)	0 (0.00)	10 (2.87)
2. Mining	0 (0.00)	5 (3.33)	2 (1.83)	7 (2.01)
3. Manufacturing	77 (86.52)	105 (70.00)	79 (72.48)	261 (75.00)
4. Energy	0 (0.00)	1 (0.67)	0 (0.00)	1 (0.29)
5. Construction	2 (2.25)	6 (4.00)	4 (3.67)	12 (3.45)
6. Wholesale and retail	0 (0.00)	4 (2.67)	2 (1.83)	6 (1.72)
7. Transport, storage and postal service	1 (1.12)	1 (0.67)	0 (0.00)	2 (0.57)
8. Information technology	0 (0.00)	10 (6.67)	13 (11.93)	23 (6.61)
9. Real estate	3 (3.37)	7 (4.67)	5 (4.59)	15 (4.31)
10. Leasing and commercial service	1 (1.12)	0 (0.00)	1 (0.92)	2 (0.57)
11. Scientific research service	0 (0.00)	0 (0.00)	1 (0.92)	1 (0.29)
12. Environment and public facility	0 (0.00)	0 (0.00)	1 (0.92)	1 (0.29)
13. Culture, sports and entertainment	0 (0.00)	1 (0.67)	0 (0.00)	1 (0.29)
14. Comprehensive industry	1 (1.12)	4 (2.67)	1 (0.92)	6 (1.72)
<b>Total</b>	<b>89 (100.00)</b>	<b>150 (100.00)</b>	<b>109 (100.00)</b>	<b>348 (100.00)</b>

<b>Panel B: Successions distributed by year</b>				
Year	Family successions	<i>Guanxi</i> successions	Non- <i>guanxi</i> successions	All successions
	(1)	(2)	(3)	(4)
2003	1 (1.12)	2 (1.33)	1 (0.92)	4 (1.15)
2004	1 (1.12)	3 (2)	1 (0.92)	5 (1.44)
2005	2 (2.25)	5 (3.33)	6 (5.50)	13 (3.74)
2006	1 (1.12)	4 (2.67)	5 (4.59)	10 (2.87)
2007	2 (2.25)	12 (8.00)	5 (4.59)	19 (5.46)
2008	12 (13.48)	8 (5.33)	3 (2.75)	23 (6.61)
2009	4 (4.49)	9 (6.00)	4 (3.67)	17 (4.89)
2010	7 (7.87)	11 (7.33)	12 (11.01)	30 (8.62)
2011	12 (13.48)	22 (14.67)	17 (15.60)	51 (14.66)
2012	16 (17.98)	19 (12.67)	18 (16.51)	53 (15.23)
2013	19 (21.35)	32 (21.33)	23 (21.10)	74 (21.26)
2014	12 (13.48)	23 (15.33)	14 (12.84)	49 (14.08)
<b>Total</b>	89 (100.00)	150 (100.00)	109 (100.00)	348 (100.00)

**Figure 1—Trend of successions**

This figure illustrates the trend of the succession cases over the period 2003-2014.



**Table 2.2—Summary statistics**

This table provides summary statistics of variables, including the five hypothesised determinants of the successor selection and a series of control factors. The hypothesised determinants are *Foreign ownership*, *Confucian centre*, *Same surname*, *Returnee founder*, and *Political connection*. Specifically, *Foreign ownership* is a dummy equal to one if the firm has shares owned by foreign investors one year before the succession, and zero otherwise. *Confucian centre* is also a dummy equal to one if the firm is headquartered in a city with a Confucian centre and zero otherwise. *Same surname* is the percentage of top executives in the firm sharing the founder's surname one year prior to the succession. *Returnee founder* is a dummy equal to one if the founder has worked or studied overseas before the succession and zero otherwise. *Political connection* is the number of political identities of the founder before the succession. The statistics in the table are provided after winsorising all continuous variables at the 1% and 99% percentiles.

Variables	N	Mean	Std	Median	Min	Max
Foreign ownership <sub>t-1</sub>	348	0.13	0.33	0	0	1
Confucian centre	348	0.12	0.33	0	0	1
Same surname <sub>t-1</sub> (%)	348	13.2	8.43	11.76	0	46.67
Returnee founder	348	0.06	0.24	0	0	1
Political connection	348	0.78	0.96	0	0	3
Firm age <sub>t-1</sub>	348	11.35	5.06	11	3	25
Ln(total assets) <sub>t-1</sub>	348	21.14	0.89	21.12	19.29	23.83
Long-debt level <sub>t-1</sub> (%)	348	2.89	5.43	0	0	31.01
Sales growth <sub>t-1</sub> (%)	295	34.85	165.59	14.68	-67.75	1609.59
Business risk <sub>t-1</sub>	183	0.04	0.07	0.02	0	0.52
Board ownership <sub>t-1</sub> (%)	335	22.04	23.9	11.31	0	69.82
Board independence <sub>t-1</sub> (%)	342	36.8	5.09	33.33	33.33	57.14
Family ownership <sub>t-1</sub> (%)	343	33.96	17.39	30	7.43	75
Family control <sub>t-1</sub> (%)	343	40.94	16.27	39.04	14.46	80.6
Family divergence <sub>t-1</sub> (%)	343	6.92	8.24	3.33	0	28.35

**Table 2.3—Comparison between family and nonfamily successions**

This table reports the mean comparisons between firms with a family successor and those with a nonfamily one in terms of the variables in the previous table. Column (1) reports the means of the variables for family succession firms, and Column (0) lists the means for the nonfamily succession group. Column “Mean difference” reports the results of the difference in means t-test for each variable.

Variables	Family successions (1)	Nonfamily successions (0)	Mean difference (1-0)
Foreign ownership <sub>t-1</sub>	0.1	0.14	-0.03
Confucian centre	0.18	0.1	0.08*
Same surname <sub>t-1</sub> (%)	16.66	12.01	4.65***
Returnee founder	0.02	0.07	-0.05*
Political connection	0.87	0.75	0.11
Firm age <sub>t-1</sub>	11.63	11.25	0.37
Ln(total assets) <sub>t-1</sub>	21.28	21.1	0.18
Long-debt level <sub>t-1</sub> (%)	3.52	2.67	0.85
Sales growth <sub>t-1</sub> (%)	35.82	34.5	1.32
Business risk <sub>t-1</sub>	0.03	0.04	-0.01
Board ownership <sub>t-1</sub> (%)	19.65	22.88	-3.22
Board independence <sub>t-1</sub> (%)	36.82	36.79	0.02
Family ownership <sub>t-1</sub> (%)	34.23	33.86	0.37
Family control <sub>t-1</sub> (%)	42.42	40.44	1.98
Family divergence <sub>t-1</sub> (%)	7.94	6.58	1.36

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 2.4—Comparison between *guanxi* successions and non-*guanxi* successions**

This table presents the results of the difference in means t-test between nonfamily successions with a *guanxi*-connected successor and those without.

Variables	<i>Guanxi</i> successions (1)	<i>Non-guanxi</i> successions (0)	Mean difference (1-0)
Foreign ownership <sub>t-1</sub>	0.15	0.12	0.03
Confucian centre	0.11	0.1	0.01
Same surname <sub>t-1</sub> (%)	11.69	12.44	-0.75
Returnee founder	0.05	0.11	-0.06*
Political connection	0.8	0.69	0.11
Firm age <sub>t-1</sub>	11.23	11.28	-0.05
Ln(total assets) <sub>t-1</sub>	21.2	20.95	0.25
Long-debt level <sub>t-1</sub> (%)	3.08	2.11	0.97
Sales growth <sub>t-1</sub> (%)	23.52	50.17	-26.65
Business risk <sub>t-1</sub>	0.04	0.05	0
Board ownership <sub>t-1</sub> (%)	21.22	25.24	-4.02
Board independence <sub>t-1</sub> (%)	36.5	37.2	-0.7
Family ownership <sub>t-1</sub> (%)	33.56	34.27	-0.71
Family control <sub>t-1</sub> (%)	40.87	39.84	1.03
Family divergence <sub>t-1</sub> (%)	7.37	5.49	1.88

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 2.5—Correlation matrix**

This matrix reports the Pearson correlation coefficients for the dependent and independent variables.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
Family (1)	1																
FamilyOr <i>Guanxi</i> (2)	0.40***	1															
Foreign ownership (3)	-0.04	0.01	1														
Same surname (4)	0.24***	0.06	0.03	1													
Confucian centre (5)	0.10*	0.05	0.07	0.15***	1												
Returnee founder (6)	-0.09*	-0.14***	0.09	0.02	-0.06	1											
Political connection (7)	0.05	0.07	0.01	0.03	-0.02	0.02	1										
Firm age (8)	0.03	0.01	-0.11**	0.07	0	-0.06	0.03	1									
Firm size (9)	0.09	0.15***	0.09*	0.01	-0.09	-0.01	0.24***	0.22***	1								
Long-debt level (10)	0.07	0.10*	-0.01	-0.03	0.03	-0.09	0.01	0.19***	0.30***	1							
Sales growth (11)	0	0.01	-0.04	0.02	-0.04	0.03	-0.01	0.20***	-0.03	0.03	1						
Business risk (12)	-0.09	-0.05	-0.04	-0.14*	0.01	0.05	-0.05	0.16**	-0.24***	-0.05	0.18**	1					
Board ownership (13)	-0.06	-0.09	-0.12**	0.05	-0.06	0.08	-0.08	-0.38***	-0.21***	-0.20***	-0.11*	-0.18**	1				
Independence (14)	0	-0.05	-0.08	0.09*	0.02	-0.04	-0.07	0.06	-0.14***	-0.12**	0.01	-0.04	0.13**	1			
Family ownership (15)	0.01	-0.01	-0.07	0.10*	0.02	0.06	0.04	-0.24***	-0.02	-0.18***	0.01	-0.04	0.52***	0.07	1		
Family control (16)	0.05	0.05	0.03	0.08	0.04	0.02	0.07	-0.17***	0.11**	-0.10*	0.04	-0.02	0.25***	0.04	0.88***	1	
Family divergence (17)	0.07	0.12**	0.19***	-0.05	0.05	-0.09*	0.05	0.17***	0.24***	0.18***	0.06	0.05	-0.60***	-0.08	-0.37***	0.11**	1

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 2.6—Determinants of the successor**

This table reports the results of the probit regressions for the five hypothesised determinants of the successor decision and the control variables. The dependent variable in Columns (1) and (2) is *Family*, equal to one if the successor is the founder's descendant and zero otherwise. The dependent variable in Columns (3) and (4) is *FamilyOrGuanxi*, equal to one if the successor is the founder's descendant or a *guanxi*-connected nonfamily member and zero otherwise. The hypothesised determinants are *Foreign ownership*, *Confucian centre*, *Same surname*, *Returnee founder*, and *Political connection*. The control variables are a series of pre-succession firm-, governance-, and family-level characteristics, as well as a set of industry and year dummies. ME stands for marginal effects. The definitions of all variables are described in Table 2.11.

Variables	Family		FamilyOrGuanxi	
	(1) Coef.	(2) ME	(3) Coef.	(4) ME
Foreign ownership <sub>t-1</sub>	-1.475*** (0.553)	-0.361*** (0.127)	0.488 (0.486)	0.124 (0.124)
Confucian centre	0.988*** (0.362)	0.242*** (0.083)	0.986** (0.470)	0.251** (0.115)
Same surname <sub>t-1</sub>	0.066*** (0.019)	0.016*** (0.004)	0.010 (0.016)	0.003 (0.004)
Returnee founder	-0.255 (0.751)	-0.062 (0.184)	-1.233* (0.702)	-0.314* (0.175)
Political connection	0.351** (0.153)	0.086** (0.036)	0.376** (0.192)	0.096** (0.048)
Firm age <sub>t-1</sub>	-0.026 (0.034)	-0.006 (0.008)	0.040 (0.033)	0.010 (0.008)
Firm size <sub>t-1</sub>	-0.009 (0.163)	-0.002 (0.040)	0.368** (0.173)	0.094** (0.043)
Long-debt level <sub>t-1</sub>	0.018 (0.018)	0.004 (0.005)	0.018 (0.025)	0.005 (0.006)
Sales growth <sub>t-1</sub>	0.001 (0.001)	0.000 (0.000)	-0.001** (0.001)	-0.000*** (0.000)
Business risk <sub>t-1</sub>	-4.888 (3.731)	-1.197 (0.901)	4.663** (2.376)	1.188** (0.594)
Board ownership <sub>t-1</sub>	-0.016* (0.010)	-0.004* (0.002)	0.009 (0.009)	0.002 (0.002)
Board independence <sub>t-1</sub>	0.012 (0.026)	0.003 (0.006)	-0.013 (0.026)	-0.003 (0.006)
Family control <sub>t-1</sub>	-0.015 (0.009)	-0.004 (0.002)	0.003 (0.011)	0.001 (0.003)
Industry & year dummies	Yes	Yes	Yes	Yes
Observations	171	171	171	171
Pseudo R <sup>2</sup>	0.267		0.252	

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 2.7—The consideration of other firm-, environment-, and succession-specific characteristics**

This table reports the results after controlling for another set of pre-succession firm-level, environmental, and succession-specific factors in the baseline regression models.

Variables	Family		FamilyOrGuanxi	
	(1) Coef.	(2) ME	(3) Coef.	(4) ME
Foreign ownership <sub>t-1</sub>	-1.452** (0.776)	-0.264** (0.136)	0.352 (0.487)	0.083 (0.114)
Same surname <sub>t-1</sub>	0.049*** (0.021)	0.009*** (0.004)	-0.009 (0.018)	-0.002 (0.004)
Confucian centre	1.347** (0.547)	0.245** (0.095)	1.327** (0.546)	0.311** (0.121)
Returnee founder	-0.810 (0.888)	-0.147 (0.161)	-1.599** (0.764)	-0.375** (0.176)
Political connection	0.620** (0.233)	0.113** (0.043)	0.607** (0.251)	0.142** (0.056)
Firm age <sub>t-1</sub>	-0.038 (0.046)	-0.007 (0.008)	0.052 (0.038)	0.012 (0.009)
Firm size <sub>t-1</sub>	0.002 (0.254)	0.000 (0.046)	0.186 (0.234)	0.044 (0.055)
Long-debt level <sub>t-1</sub>	-0.011 (0.024)	-0.002 (0.004)	-0.012 (0.026)	-0.003 (0.006)
Sales growth <sub>t-1</sub>	0.005*** (0.001)	0.001*** (0.000)	-0.002** (0.001)	-0.000*** (0.000)
Business risk <sub>t-1</sub>	-10.192** (4.652)	-1.855** (0.856)	8.572** (3.901)	2.011** (0.864)
Board ownership <sub>t-1</sub>	-0.030** (0.012)	-0.006** (0.002)	0.014 (0.010)	0.003 (0.002)
Board independence <sub>t-1</sub>	0.060 (0.038)	0.011 (0.007)	-0.016 (0.027)	-0.004 (0.006)
Family control <sub>t-1</sub>	0.006 (0.011)	0.001 (0.002)	-0.003 (0.012)	-0.001 (0.003)
Prior average performance	-0.135*** (0.046)	-0.025*** (0.008)	-0.073* (0.040)	-0.017* (0.009)
Dividend payout <sub>t-1</sub>	-0.001 (0.005)	-0.000 (0.001)	-0.002 (0.007)	-0.000 (0.002)
Interest coverage <sub>t-1</sub>	0.969** (0.386)	0.176*** (0.067)	0.359 (0.343)	0.084 (0.078)
Nonfamily ownership <sub>t-1</sub>	0.048** (0.023)	0.009** (0.004)	-0.037** (0.017)	-0.009** (0.004)
State ownership <sub>t-1</sub>	1.023* (0.522)	0.186** (0.089)	-0.594 (0.466)	-0.139 (0.110)
Institutional environment <sub>t-1</sub>	0.028 (0.090)	0.005 (0.016)	-0.087 (0.098)	-0.020 (0.023)
Industrial competition <sub>t-1</sub>	4.016 (3.437)	0.731 (0.617)	-2.183 (2.769)	-0.512 (0.638)
Founder age <sub>t</sub>	0.139*** (0.040)	0.025*** (0.006)	0.005 (0.023)	0.001 (0.005)
Early succession	-1.038* (0.603)	-0.189* (0.114)	-	-
Industry & year dummies	Yes	Yes	Yes	Yes
Observations	163	163	163	163
Pseudo R <sup>2</sup>	0.459		0.330	

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 2.8—Two-stage regression analysis**

This table provides the results for the hypotheses via two-stage regressions. Panel A reports the results regarding the impact of *Foreign ownership* and *Same surname* on *Family*. In the panel, Columns (1) and (2) present the first-stage regression results with *Foreign ownership* and *Same surname* as the dependent variable, respectively. The instrument for *Foreign ownership* is *Industry-province foreign firm*, and that for *Same surname* is *Rare surname*. Column (3) presents the results for the second-stage regression, where *Family* is the dependent variable. The independent variables of interest in the column are *Predicted (Foreign ownership)* and *Predicted (Same surname)*, i.e. the predicted values of the corresponding variables from the first-stage regressions. Panel B provides the results for the effect of *Returnee founder* and *Political connection* on *FamilyOrGuanxi*. Similar to the structure of Panel A, *Returnee founder* and *Political connection* are the dependent variables in Columns (1) and (2) of Panel B, respectively. Each of the variables has a corresponding instrument, i.e. *Industry-province returnee* and *Industry-province SOE*, respectively. *FamilyOrGuanxi* is the dependent variable in Column (3), where *Predicted (Returnee founder)* and *Predicted (Returnee founder)* are the predicted values of the corresponding variables from the first-stage regressions. All other control variables are the same as those in the baseline regression models.

<b>Panel A: Results for <i>Foreign ownership</i> and <i>Same surname</i></b>			
	Foreign ownership	Same surname	Family
	1 <sup>st</sup> Stage	1 <sup>st</sup> Stage	2 <sup>nd</sup> Stage
	(1)	(2)	(3)
	Coef.	Coef.	Coef.
Industry-province foreign firm <sub>t-1</sub>	0.079*** (0.017)	0.001 (0.001)	
Rare surname	-0.433 (0.325)	-0.048*** (0.018)	
Predicted (Foreign ownership)			-1.882*** (0.329)
Predicted (Same surname)			0.080*** (0.012)
Confucian centre	0.886* (0.470)	0.042** (0.019)	0.538* (0.305)
Political connection	0.173 (0.127)	0.009 (0.015)	0.201 (0.132)
Firm age <sub>t-1</sub>	-0.083* (0.049)	0.002 (0.001)	-0.049* (0.025)
Firm size <sub>t-1</sub>	0.427* (0.220)	-0.004 (0.009)	0.190 (0.137)
Long-debt level <sub>t-1</sub>	-0.024 (0.031)	-0.001 (0.001)	0.002 (0.016)
Sales growth <sub>t-1</sub>	0.001 (0.001)	0.000 (0.000)	0.000 (0.001)

**Table 2.8 continued**

	(1)	(2)	(3)
Business risk $t-1$	1.427 (2.638)	-0.243** (0.110)	-3.090 (2.862)
Board ownership $t-1$	0.002 (0.013)	0.000 (0.000)	-0.007 (0.007)
Board independence $t-1$	0.043 (0.041)	-0.001 (0.001)	0.010 (0.022)
Family control $t-1$	-0.027* (0.015)	0.000 (0.001)	-0.015* (0.008)
Observations	171	171	171
1st Stage F-statistics	29.46***	16.26***	
Stock-Yogo critical value for F-stat	8.68 (10% maximal size)		
Cragg-Donald Wald F-statistic	15.56		
Stock-Yogo critical value for CD F-stat	7.03 (10% maximal size)		
Durbin-Wu-Hausman test p-value	0.769		

**Panel B: Results for Returnee founder and Political connection**

	Returnee founder	Political connection	FamilyOr Guanxi
	1 <sup>st</sup> Stage	1 <sup>st</sup> Stage	2 <sup>nd</sup> Stage
	(1) Coef.	(2) Coef.	(3) Coef.
Industry-province returnee	0.380** (0.160)	0.017 (0.032)	
Industry-province SOE	0.021 (0.029)	0.008* (0.004)	
Predicted (Returnee founder)			-2.508*** (0.280)
Predicted (Political connection)			0.486*** (0.144)
Firm age $t-1$	0.009 (0.079)	0.001 (0.016)	0.007 (0.024)
Firm size $t-1$	0.214 (0.483)	0.302*** (0.088)	0.100 (0.141)
Long-debt level $t-1$	-0.044 (0.085)	-0.017 (0.011)	0.018 (0.019)
Sales growth $t-1$	-0.016 (0.011)	-0.000 (0.000)	-0.000 (0.001)
Business risk $t-1$	-12.171 (11.908)	0.062 (1.083)	0.306 (1.636)
Board ownership $t-1$	-0.027 (0.031)	-0.004 (0.004)	0.002 (0.007)
Board independence $t-1$	0.076 (0.068)	-0.009 (0.014)	-0.017 (0.021)
Family control $t-1$	0.014 (0.018)	0.008 (0.005)	0.001 (0.009)
Observations	171	171	171
1st Stage F-statistics	14.85***	14.58***	
Stock-Yogo critical value for F-stat	8.68 (10% maximal size)		
Cragg-Donald Wald F-statistic	7.15		
Stock-Yogo critical value for CD F-stat	7.03 (10% maximal size)		
Durbin-Wu-Hausman test p-value	0.315		

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 2.9—Additional analysis**

This table presents the results of the additional analyses. *Strong institutional environment* is a dummy equal to one if the firm's headquartered province has an above-median value of *Institutional environment* one year before the succession and zero otherwise. *Foreign ownership\*Strong institution* is the interaction term between *Foreign ownership* and *Strong institutional environment*. *Nonfamily same surname* is the percentage of nonfamily top executives in the firm sharing the founder's surname for the year before the succession. *Confucius temple* is the number of the nationally famous Confucius temples in the firm's headquartered province. *Overseas length* equals two if the founder has overseas work experience, one if the founder's overseas experience is pure study experience, and zero if the founder does not have any overseas work or study experience. *High marketisation* is a dummy equal to one if the firm's headquartered province has a high (above-median) degree of marketisation in terms of economic resource allocation for the year before the succession; otherwise, it equals zero. *Political connection\*High market* is the interaction term between *Political connection* and *High marketisation*. *Political type* equals two if the founder has worked as a government official, one if the founder's political identities are all about representatives of the NPC, CPPCC, or NCCPC, and zero if the founder does not have any political identities. *Political rank* equals five, four, three, two, and one if the founder's highest-level political identity is at the national level, the sub-national level, the provincial level, the sub-provincial level, and the city-level, respectively. It equals zero if the founder does not have any political identities.

Variables	Family	FamilyOrGuanxi		
	(1) Coef.	(2) Coef.	(3) Coef.	(4) Coef.
Foreign ownership <sub>t-1</sub>	-6.402*** (1.159)	0.143 (0.574)	0.771 (0.616)	0.646 (0.585)
Strong institutional environment <sub>t-1</sub>	-0.283 (0.347)			
Foreign ownership*Strong institution	5.251*** (1.245)			
Nonfamily same surname <sub>t-1</sub>	0.059*** (0.022)	0.012 (0.023)	0.018 (0.019)	0.017 (0.022)
Confucius temple		0.460*** (0.129)	0.257** (0.115)	0.310*** (0.118)
Overseas length		-1.922*** (0.532)	-1.134** (0.544)	-1.530*** (0.512)
Political connection	0.499** (0.223)	1.549*** (0.412)		

**Table 2.9 continued**

	(1)	(2)	(3)	(4)
High marketisation <sub>t-1</sub>		0.097 (0.419)	-0.410 (0.327)	-0.600* (0.322)
Political connection*High market		-1.371*** (0.484)		
Political type			1.905** (0.762)	
Political rank				0.212** (0.101)
Confucian centre	1.333*** (0.508)			
Returnee founder	-0.829 (0.848)			
Firm age <sub>t-1</sub>	-0.055 (0.044)	0.045 (0.043)	0.070 (0.042)	0.059 (0.038)
Firm size <sub>t-1</sub>	-0.030 (0.248)	0.397 (0.311)	0.387 (0.242)	0.248 (0.245)
Long-debt level <sub>t-1</sub>	-0.001 (0.023)	-0.002 (0.028)	-0.011 (0.028)	0.007 (0.026)
Sales growth <sub>t-1</sub>	0.004*** (0.001)	-0.001 (0.001)	-0.002*** (0.001)	-0.002** (0.001)
Business risk <sub>t-1</sub>	-9.272** (4.519)	7.940** (3.953)	9.978** (4.123)	6.899** (3.472)
Board ownership <sub>t-1</sub>	-0.031** (0.012)	0.019 (0.012)	0.024** (0.012)	0.016 (0.011)
Board independence <sub>t-1</sub>	0.057 (0.039)	-0.005 (0.029)	-0.032 (0.028)	-0.031 (0.027)
Family control <sub>t-1</sub>	0.006 (0.010)	-0.014 (0.013)	-0.008 (0.014)	-0.006 (0.012)
Prior average performance	-0.132*** (0.047)	-0.089** (0.044)	-0.082* (0.042)	-0.068* (0.037)
Dividend payout <sub>t-1</sub>	-0.001 (0.005)	-0.003 (0.007)	-0.007 (0.005)	-0.003 (0.007)
Interest coverage <sub>t-1</sub>	1.016*** (0.360)	0.729* (0.389)	0.516 (0.402)	0.481 (0.352)
Nonfamily ownership <sub>t-1</sub>	0.049** (0.022)	-0.058*** (0.019)	-0.049*** (0.018)	-0.044** (0.018)
State ownership <sub>t-1</sub>	0.910* (0.503)	-0.316 (0.528)	0.619 (0.496)	0.060 (0.492)
Industrial competition <sub>t-1</sub>	3.298 (3.150)	-1.693 (2.917)	-3.021 (2.451)	-1.501 (2.675)
Founder age <sub>t</sub>	0.155*** (0.037)	0.042* (0.022)	0.035 (0.022)	0.035 (0.022)
Early succession	-0.390 (0.556)	-	-	-
Industry & year dummies	Yes	Yes	Yes	Yes
Observations	163	163	163	163
Pseudo R <sup>2</sup>	0.491	0.459	0.440	0.417

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 2.10—The decomposition of *FamilyOrGuanxi***

This table provides the result of a multinomial logistic regression. The base case is the nonfamily successors without a *guanxi*. In Column (1), the comparison is between family successors and non-*guanxi* successors, whilst in Columns (2), it is *guanxi*-connected successors compared with non-*guanxi* successors.

Variables	Family successors	<i>Guanxi</i> successors
	Compared with non- <i>guanxi</i> successors	
	(1)	(2)
	Coef.	Coef.
Foreign ownership <sub>t-1</sub>	-1.629 (1.851)	1.646 (1.113)
Same surname <sub>t-1</sub>	0.029 (0.042)	-0.058 (0.043)
Confucian centre	4.176** (1.732)	2.174* (1.135)
Returnee founder	-3.792** (1.591)	-3.582* (2.021)
Political connection	2.087*** (0.652)	1.005** (0.440)
Firm age <sub>t-1</sub>	-0.047 (0.127)	0.069 (0.088)
Firm size <sub>t-1</sub>	0.492 (0.572)	0.616 (0.507)
Long-debt level <sub>t-1</sub>	-0.068 (0.066)	-0.032 (0.049)
Sales growth <sub>t-1</sub>	0.006** (0.003)	-0.009 (0.007)
Business risk <sub>t-1</sub>	-2.260 (10.916)	18.098** (7.528)
Board ownership <sub>t-1</sub>	-0.034 (0.027)	0.045** (0.021)
Board independence <sub>t-1</sub>	0.087 (0.071)	-0.081 (0.054)
Family control <sub>t-1</sub>	0.009 (0.026)	-0.012 (0.026)
Prior average performance	-0.409*** (0.122)	-0.120 (0.077)
Dividend payout <sub>t-1</sub>	-0.004 (0.013)	-0.026 (0.018)
Interest coverage <sub>t-1</sub>	2.144** (0.940)	0.456 (0.742)
Nonfamily ownership <sub>t-1</sub>	0.063 (0.052)	-0.097*** (0.036)
State ownership <sub>t-1</sub>	0.636 (1.345)	-1.647 (1.098)
Institutional environment <sub>t-1</sub>	-0.153 (0.263)	-0.169 (0.243)
Industrial competition <sub>t-1</sub>	4.841 (7.924)	-5.013 (4.722)

<b>Table 2.10 continued</b>		
	(1)	(2)
Founder age <sub>t</sub>	0.276*** (0.102)	-0.047 (0.058)
Early succession	-18.060*** (1.541)	-16.945*** (1.702)
Retire	35.488*** (2.862)	0.633 (1.555)
Industry & year dummies	Yes	Yes
Observations	163	163
Pseudo R <sup>2</sup>	0.499	0.499

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 2.11—Definitions of variables**

<b>Variable</b>	<b>Definition</b>
<i>Family</i>	An indicator equal to 1 if the successor is the founder's descendant, by blood or marriage, and 0 otherwise
<i>FamilyOrGuanxi</i>	An indicator equal to 1 if the successor is the founder's descendant or a nonfamily member having a <i>guanxi</i> with the founder, and 0 otherwise
<i>Foreign ownership<sub>t-1</sub></i>	An indicator equal to 1 if the firm has foreign ownership in year t-1, and 0 otherwise
<i>Confucian centre</i>	An indicator equal to 1 if the firm is headquartered in a city with a Confucian centre, and 0 otherwise
<i>Confucius temple</i>	The number of Confucius temples in the firm's headquartered province
<i>Same surname<sub>t-1</sub></i>	The percentage of directors and top managers sharing the founder's surname in the firm in year t-1
<i>Nonfamily same surname<sub>t-1</sub></i>	The percentage of nonfamily directors and top managers sharing the founder's surname in the firm in year t-1
<i>Returnee founder</i>	An indicator equal to 1 if the founder has studied or worked overseas before the succession, and 0 otherwise
<i>Overseas length</i>	An ordinal variable equal to 2 if the founder has overseas work experience, 1 if the founder's overseas experience is pure study experience, and 0 if the founder does not have any overseas work or study experience
<i>Political connection</i>	The number of the founder's political identities before the succession
<i>Political type</i>	An ordinal variable equal to 2 if the founder has worked as a government official, 1 if the founder's political identities are all about representatives of the NPC, CPPCC, or NCCPC, and 0 if the founder does not have any political identities before the succession

<i>Political rank</i>	An ordinal variable equal to 5, 4, 3, 2, and 1 if the founder's highest-level political identity is at the national level, the sub-national level, the provincial level, the sub-provincial level, and the city-level, respectively. It equals 0 if the founder does not have any political identities before the succession.
<i>Firm age</i> <sub>t-1</sub>	The number of years since the firm's founding year to year t-1
<i>Firm size</i> <sub>t-1</sub>	The natural logarithm of total assets in year t-1
<i>Long-debt level</i> <sub>t-1</sub>	Long-term debt / total assets in year t-1, where long-term debt is the borrowing with a maturity of more than 1 year
<i>Sales growth</i> <sub>t-1</sub>	The difference in total sales between year t-1 and year t-2 divided by total sales in year t-2
<i>Business risk</i> <sub>t-1</sub>	The standard deviation of ROA over the three years prior to the succession
<i>Board ownership</i> <sub>t-1</sub>	Directors' ownership / total shares outstanding in year t-1
<i>Board independence</i> <sub>t-1</sub>	The proportion of independent directors among the board directors in year t-1
<i>Family ownership</i> <sub>t-1</sub>	The number of shares held by the family as a percentage of total shares outstanding in year t-1. If the family controls the firm indirectly through a pyramid structure, it is calculated as the product of the family's ownership stakes along the control chain.
<i>Family control</i> <sub>t-1</sub>	The family's votes as a percentage of total votes outstanding in year t-1. If the family controls the firm through a pyramid structure, it is measured by the minimum voting stake along the control chain.
<i>Family divergence</i> <sub>t-1</sub>	The difference between <i>Family control</i> <sub>t-1</sub> and <i>Family ownership</i> <sub>t-1</sub>
<i>Prior average performance</i>	Pre-succession three years' average ROA
<i>Dividend payout</i> <sub>t-1</sub>	The dividend per share as a percentage of earning per share in year t-1
<i>Interest coverage</i> <sub>t-1</sub>	An indicator equals to 1 if the interest coverage ratio, calculated as earnings before interest and tax divided by the total interest payable on bonds and other contractual debt, is greater than 2 in year t-1, and 0 otherwise

---

<i>Nonfamily ownership</i> <sub>t-1</sub>	The number of shares held by nonfamily block-holders / total shares outstanding in year t-1, where block-holders are individuals or institutions holding at least 5% ownership
<i>State ownership</i> <sub>t-1</sub>	State-owned shares / total shares outstanding in year t-1
<i>Institutional development</i> <sub>t-1</sub>	Fan et al.'s (2011) index of the market development levels of Chinese provinces in year t-1
<i>Strong institutional environment</i> <sub>t-1</sub>	An indicator equal to 1 if the firm's headquartered province has an above-median value of <i>Institutional environment</i> <sub>t-1</sub> , and 0 otherwise
<i>Foreign ownership*Strong institution</i>	The interaction term between <i>Foreign ownership</i> <sub>t-1</sub> and <i>Strong institutional environment</i> <sub>t-1</sub>
<i>High marketisation</i> <sub>t-1</sub>	An indicator equal to 1 if the firm's headquartered province has an above-median marketisation level in terms of economic resource allocation in year t-1, and 0 otherwise. The measure of the marketisation degree is based on Fan et al.'s (2011) index, "the importance of the market in economic resource allocation".
<i>Political connection*High market</i>	The interaction term between <i>Political connection</i> and <i>High marketisation</i> <sub>t-1</sub>
<i>Industrial competition</i> <sub>t-1</sub>	$H = \sum_{i=1}^n S_i^2$ , where $S_i$ is the market share of firm $i$ (firm's sales as a percentage of sales for the same industry), $n$ is the number of firms in the industry
<i>Founder age</i> <sub>t</sub>	The age of the founder in year t
<i>Early succession</i>	An indicator equal to 1 if the founder leaves the leadership position before 65, and 0 otherwise
<i>Retire</i>	An indicator equal to 1 if the founder is reported to leave due to "retirement", and 0 otherwise
<i>Industry-province foreign firm</i> <sub>t-1</sub>	The percentage of firms having foreign ownership in the family firm's industry and province in year t-1
<i>Rare surname</i>	An indicator equal to 1 if the founder's surname is not ranked among the top 20 Chinese surnames, and 0 otherwise
<i>Industry-province returnee</i>	The mean of the percentages of returnee Chairpersons and CEOs in the family firm's industry and province for the years before the succession

---

*Industry-province SOE*

The mean of the percentages of SOEs in the firm's industry and province for the years before the succession

---

# **Chapter 3 Leadership succession and firm performance**

## **3.1 Introduction**

Chapter 2 has explored the determinants of the leadership successor in Chinese family firms. An important issue, in turn, arises: whether the leadership succession event and the choice of the successor have an impact on the firm's financial performance. This is the research objective of this chapter.

To understand the above issue thoroughly, the first research question I am interested in is what effect that leadership successions have on the family firms' performance variation, compared with their counterparts which have always been managed by the founder and never experienced a succession. Some researchers have compared the performance of family firms under the founder's management with that of firms under successors' management (e.g., McConaughy et al., 1998; Anderson & Reeb; 2003a; Villalonga & Amit, 2006). Most of them find that the founders are generally more valuable than successors. My exploration is different from theirs in terms of the methodology and the research focus. Most of the above literature rely on purely cross-sectional comparisons. However, this method may suffer from many endogeneity issues, which may adversely affect the validity of the results (Pérez-González, 2006; Bennesen et al., 2007). Given this concern, in this chapter, I attempt to apply the nearest-neighbour propensity score matching (PSM) method together with a difference-in-differences (DID) analysis to explore the above issue. Apart from the alleviation of the endogeneity concern, another advantage of my approach is that it is more in line with my research interest. More specifically, the previous literature demonstrates that the founders averagely perform better than their successors. Yet I am interested in the performance change that a family firm may experience if its leadership is transferred from the founder to the successor, especially compared with their counterparts without a leadership transition. The extant cross-sectional studies should provide some clues on this issue, but the gap still needs to be empirically filled

for a thorough and accurate understanding of the dynamics of leadership succession in family firms.

When facing the leadership transition issue, family business founders often struggle between appointing their descendants and unrelated agents as the successors. This is the second research issue dealt with in this chapter, i.e. whether family successors cause a significant change in firm performance, compared with their nonfamily counterparts. Most researchers interested in this issue find that firms with family successions experience a significant performance decline, compared with those appointing nonfamily successors. An obvious limitation is that those researchers limit their arguments to the impact of agency costs, stewardship (e.g., Pérez-González, 2006; Bennesen et al., 2007), or the transfer of specialised assets (e.g., Bennesen et al., 2015), none of which pay any significant attention to the role of outside environment. However, based on the institution-based view, for all the explanations employed in the previous literature, their validity may vary across different contexts. In other words, those conjectures that have been widely proved in the prior research may not apply to China's background. Therefore, to understand the above issue more accurately, in this chapter, I provide an in-depth theoretical analysis of how the effectiveness of the three prevailing theories in the literature, i.e. agency theory, stewardship theory, and the resource-based view, varies when embedding them into China's unique institutional, cultural, and social context.

As will be detailed later, agency and stewardship theorists hold contradicting perspectives on the family succession-firm performance relationship. However, the proponents of the resource-based view insist that the founders' family members and highly trusted agents are appropriate successors, as only they have access to the founders' specialised assets (Cabrera-Suárez et al., 2001; Lee et al., 2003). The specialised assets, as mentioned in the previous chapters, are viewed as the key source of family firms' competitive advantages, and thus are critical to the firms' sustained good performance and development (Bracci & Vagnoni, 2011; Bennesen et al., 2015; Xu et al., 2015). This motivates me to consider the impact that successors' acquisition of the founders' specialised assets may have on firm performance after the succession. A number of researchers have theoretically stressed the role of the

specialised assets in successions. However, they focus on either the relationship between the specialised assets and the successor decision (e.g., Lee et al., 2003; Royer et al., 2008; Xu et al., 2015) or the transfer process of the assets (e.g., Cabrera-Suárez et al., 2001; Steier, 2001). An obvious research void is that empirical evidence on the financial outcomes of the transfer of the assets is still lacking. A possible reason is that the founders' specialised assets, i.e. their tacit knowledge and personal connections, are typically very private, informal, and intangible, and thus are difficult to observe by researchers. Given such a situation, in this chapter, I attempt to use one observable demographic characteristic of successors, i.e. their pre-succession internal work experience, as a proxy for their acquisition of the founders' specialised assets. However, because the assets are private, distinctive, and very valuable, they are accessible only to the founder's highly trusted members (Lee et al., 2003; Bracci & Vagnoni, 2011). In this case, I posit that, in China, the above proxy is applicable only to successors who are the founder's family members or nonfamily members having a *guanxi* with the founder. Furthermore, because the specialised assets are critical to the firm's sustained good performance, I hypothesise that family or *guanxi*-connected successors' pre-succession internal work experience is significantly and positively related to firm performance, compared with other successors' corresponding experience.

At the same time, I also allow for the possibility that family or *guanxi*-connected successors' pre-succession internal experience is not truly related to their acquisition of the specialised assets. I conjecture that, in this case, it should be those nonfamily successors, i.e. who do not have a *guanxi* with the founder, whose internal experience has a better impact on firm performance. This is because, the internal experience can also bring some general benefits, such as the obtainment of firm-specific resources and the familiarity with the business, which are available to all types of successors. Moreover, unlike family or *guanxi*-connected successors whose appointments are very likely due to nepotism or *guanxi*, the appointments of the successors who do not have a *guanxi* are very likely purely driven by their superior management or leadership skills. In this case, the latter should be more capable of efficiently utilising the preceding general benefits, which are associated with pre-succession internal experience, to improve firm performance.

As to my empirical results, firstly, I find that family firms having leadership successions do not experience a significant change in firm performance around the succession, compared with their counterparts without a succession during the same period. An appropriate explanation for this finding is that the positive impact of leadership successions in family businesses is cancelled out by the negative impact in China's setting. It is worth noting that this finding is different from those observed in the cross-sectional comparisons between the founders and successors in western and developed contexts, as most of them find that the founders are related to higher firm value. According to my preceding discussion, this difference may be due to the differences in research focus and choice of the sample, or the potential endogeneity issues suffered by purely cross-sectional studies. In fact, my descriptive analysis shows that the pre-succession firm performance in the succession group is significantly lower than that in the non-succession group. This, to some extent, should imply that successors may take the blame for their lower performing predecessor if they are compared with the founders in non-succession firms through a cross-sectional analysis. In this regard, the PSM method coupled with the DID analysis, which are used in this chapter, should be more appropriate for the comparison between the founders and successors, at least in China's context.

Moreover, I find that there is no significant difference in firm performance between family and nonfamily succession firms. This result suggests that the benefits of having a family successor may also be offset by the costs in the context of China. I contend this is because all the competing perspectives suggested by the relevant theories are sufficiently valid in China's institutional, cultural, and social background. The result, again, is inconsistent with the previous literature conducted on developed economies.

In addition, I demonstrate that family and *guanxi*-connected successors' pre-succession internal work experience has a significant and positive impact on firm performance after the succession, compared with other successors' corresponding experience. This finding supports my posit that the above two types of successors' internal work experience before the succession is highly related to their acquisition of the specialised assets, and thus greatly increases firm performance after the

succession. However, for the successors who do not have a *guanxi* with the founder, their corresponding experience may not be much helpful for the acquisition of the specialised assets, due to the founder's lower trust towards them. This, in turn, also confirms that the founders' personal specialised assets are indeed accessible only to their family members and highly trusted nonfamily members and are indeed critical to the firm's sustained good performance. These perspectives have been widely accepted at the theoretical level (e.g., Lee et al., 2003; Royer et al., 2008; Bracci & Vagnoni, 2011), yet never empirically tested in the extant literature.

Moreover, after exploring family and *guanxi*-connected successors separately, I find that the positive impact of *guanxi*-connected successors' pre-succession internal experience is larger and more significant. This is interesting, as the founders' descendants have always been viewed as the most appropriate candidates to inherit the specialised assets (e.g., Cabrera-Suárez et al., 2001; Bennedsen et al., 2015; Xu et al., 2015). I contend this is because the descendants in China tend to have fewer incentives to acquire the specialised assets. More specifically, Chinese parents typically have very strong unidirectional altruism to their children, which may cause the descendants' immoderate reliance on the founder. In addition, China's one-child policy means that many family successors do not have competition with their siblings, which may aggregate the successors' free-riding consciousness. As a result, descendants may have fewer motivations to actively learn the founder's tacit knowledge or transfer the founder's personal connections to themselves. This is because the transfer process is usually long, arduous, and costly (Bracci & Vagnoni, 2011). However, nonfamily successors should have much stronger incentives to acquire the specialised assets. This is because, for the successors, the assets should contribute to the increase in their compensation, the consolidation of their position in the family business, and their future career if they leave the family firm.

Furthermore, I find that the preceding result, i.e. family and *guanxi*-connected successors' pre-succession internal experience has a significant and positive effect on firm performance, is still valid when the successors have a similar learning ability to nonfamily successors without a *guanxi*. This confirms that these successors' differences in the obtainment of the specialised assets are not caused by the potential

difference in their learning ability. Moreover, after decomposing successors' internal work experience into the managerial and non-managerial experience, the results indicate that the positive effect of family and *guanxi*-connected successors' pre-succession internal experience is mainly derived from the managerial experience rather than non-managerial working time. This suggests that it is the experience of being directors or top managers in the firm that helps the successor to acquire the specialised assets before the succession. I contend that this is because the internal managerial experience provides successors with the opportunities crucial for their final assimilation of the specialised assets. Specifically, through the internal managerial experience, the successors can directly and gradually practise the management and leadership skills observed from the founder, personally build relationships with the founder's important business connections, as well as keep in continuous and direct touch with the founder. However, all these opportunities are much less attainable via plain non-managerial experience in the family business.

Finally, I find that the more *guanxi* identities that a successor possesses, the larger positive impact that the successor's pre-succession internal experience has on firm performance. This finding supports my conjecture that the closer the *guanxi* between the founder and the successor, the more trustworthy is the successor for the founder, and the more specialised assets the successor can get access to and acquire through the pre-succession internal experience. In other words, successors' acquisition of the specialised assets not only is contingent on whether the successors are trustworthy for the founder but also is contingent upon how strong they are trusted by the founder.

This chapter makes several contributions to the literature. Firstly, it complements the literature on the leadership succession-firm performance relationship by exploring the potential difference in performance change between family firms experiencing leadership successions and those remaining under the leadership of the founder. The previous research has investigated the difference in the average performance between successor-managed and founder-managed firms (e.g., Anderson & Reeb, 2003a; Villalonga & Amit, 2006). However, a dynamic comparison between these two types of firms, i.e. whether the former's leadership transitions cause a significant performance change, compared with the latter's usual performance variation during

the same period, appears to be overlooked. My study fills this empirical research gap, and thus helps the readers to understand the dynamics of leadership successions more comprehensively and more accurately.

In addition, this chapter sheds light on the role of institutions and culture in the investigation of family firms' leadership succession issues. Specifically, I elaborately analyse how China's institutional and cultural characteristics affect the efficacy of agency theory, stewardship theory, and the resource-based view in exploring the family management/succession-firm performance relationship. My evidence indicates that family and nonfamily successors do not have a significantly different impact on firm performance in China, which is different from the finding widely observed in developed economies. This provides support for the institution-based view, which suggests that evidence in one context is not replicable in other contexts. The evidence also shows the importance for researchers to consider the applicability of their theoretical arguments when applying them to different contexts, especially applying the arguments that have been widely proved for the case of developed countries to solve questions in emerging or developing economies. This implication is not limited to studies on family businesses, but also research in other areas. It also lends support to the call for the exploration of family businesses' succession issues in emerging and developing countries, as the findings may be different from those obtained in western and developed contexts.

Moreover, to the best of my knowledge, this chapter is the first study attempting to apply successors' pre-succession internal experience as a proxy for their acquisition of the founders' specialised assets and explore the impact of the acquisition on firm performance. There is some research regarding the relationship between managers' work experience and firm performance (e.g., Hambrick & Mason, 1984; Goll et al., 2001; Peni, 2014). However, none of the research focuses on family business successors, let alone linking their internal experience to their acquisition of the founders' specialised assets. In this regard, my study provides a novel and interesting viewpoint to look at managers' tenures in the firm, especially for researchers interested in managers in family businesses, i.e. the tenures may be related to the managers' acquisition of the founder's specialised assets. Moreover, by using the

above proxy, this study provides initial evidence on issues such as whether the founders' specialised assets are accessible only to family and highly trusted nonfamily successors, and whether the successors' acquisition of the assets contributes to firm performance. These issues have been widely discussed in theory in the extant literature (e.g., Cabrera-Suárez et al., 2001; Lee et al., 2003; Bracci & Vagnoni, 2011), yet have never been empirically examined. As a result, my study enriches the literature on both the specialised assets in family businesses and the manager demographics-firm performance relationship.

Furthermore, following Chapter 2, this chapter sheds new light on the role of nonfamily successors having a *guanxi* with the founder. I posit that in China's cultural context, these successors are often viewed as friends or even quasi-family members by the founder. Therefore, their role in family businesses, especially in terms of the acquisition of the founder's specialised assets, may be similar to family successors. My evidence supports this posit by showing that both family and *guanxi*-connected successors can acquire the founders' specialised assets and can use the assets to improve firm performance after the succession. This, in practice, should provide some suggestions to family business founders regarding their successor selections. For example, if the founders intend to preserve their specialised assets in the business after their retirement, but their descendants are not willing to inherit the business, those senior top executives having a *guanxi* with them may be appropriate choices.

The remainder of this chapter is organised as follows. Section 3.2 reviews the relevant theories and their appropriateness in China's setting. Section 3.3 provides the literature review. Section 3.4 develops the hypotheses. Section 3.5 describes the data collection and research design, Section 3.6 provides the empirical results, and Section 3.7 concludes.

## **3.2 Theories on family management issues**

This section introduces the main theories employed in the prior literature, i.e. agency theory, stewardship theory, the resource-based view, and the institution-based view, regarding their perspectives on the family management-firm performance relationship and the appropriateness of the perspectives in China's setting. This helps to provide

the theoretical foundations for the hypothesis development and the discussion of empirical results in subsequent chapters.

### 3.2.1 Agency theory

Among mainstream management researchers, agency theory is the dominant theoretical framework for explaining and understanding the relationship between owners and managers. According to Chua et al. (2003), this theory is based on the assumption that managers who are not owners may not watch over the affairs of a firm as diligently as owners managing the firm themselves. Ross (1973) formalises such a conflict of interests between owners and managers, arising from the separation of ownership and management, as the Principal-Agent (PA) problem. Jensen and Meckling (1976) coin the phrase “agency costs” to represent the costs of all activities and operating systems designed to align the interests and actions of the managers (agents) with the interests of the owners (principals).

Agency theorists argue that the agency costs can be greatly mitigated in family firms, where the key manager is the owner or a family member of the owner. In that case, the interest of owners and that of managers should be highly congruent (Jensen & Meckling, 1976; Fama & Jensen, 1983; Chua et al., 2003). As a result, family managers have more incentives to dutifully manage the firm, reduce excessive perks, and thus improve firm performance (Jensen & Meckling, 1976; Anderson & Reeb, 2003a; Jiang & Peng, 2011).

Apart from the misalignment of personal interests, there also exists information asymmetry problem in the general PA relationship. This problem may also generate large agency costs of the firm owners if they would like to effectively monitor and discipline the agents (Cai et al., 2012). However, this issue can also be largely moderated in family firms, if the manager is the owner *per se* or the family member of the owner (Jiang & Peng, 2011; Liu et al., 2012).

Based on the above discussion, it can be argued that from the perspective of agency theory, family managers are beneficial to firm performance, as they tend to have

highly aligned interests and low information asymmetry problems with the firm owner.

However, Schulze et al. (2001, 2003) cast doubts on whether the above will always be the case. They contend that the situation may be different if the family manager is a descendant of the business founder. This is because the benefit of having family managers in reducing the agency costs may be offset by certain countering factors. More specifically, altruism pervades most families (Dyer, 2006) and parents are often asymmetrically altruistic to their children (Schulze et al., 2001, 2003). As a result, family business founders are likely to appoint their descendants as the managers in the firm, even if the descendants may be unqualified or incompetent compared with nonfamily agents (Schulze et al., 2003). In this case, once the descendants are on the job, the firm value may be destroyed (Jiang & Peng, 2011). Even worse, the founders' unidirectional altruism may result in their inability to effectively monitor and discipline underperforming descendants, which will further harm firm performance (Schulze et al., 2003). Moreover, for the descendant-managers, the founders' unreciprocated altruism may encourage their free-riding, shirking, and other forms of opportunistic behaviours (Schulze et al., 2003), as their positions will not be threatened even if they are unqualified or underperformed. The opportunistic behaviours, in turn, may undermine firm performance. Consequently, the higher the level of family business founders' altruism, the higher the risk that they may spoil their descendants (Jiang & Peng, 2011). As a result, if the founders appoint their descendants as the key managers of the firm, the benefit from having family managers in terms of agency costs reduction may be offset by the founders' unidirectional altruism to the offspring.

In conclusion, based on agency theory, the classic PA problem should be reduced greatly if the business founders own and manage the firm, yet the advantages of having family managers may decrease largely if the managers are the founders' descendants.

However and also in line with agency theory, there is another type of agency problem prevalent in family firms, i.e. the Principal-Principal (PP) problem (Dharwadkar et al., 2000; Yoshikawa et al., 2005; Su et al., 2008; Young et al., 2008; Jiang & Peng,

2011; Cai et al., 2012). This problem refers to the conflict of interests between the large and minority shareholders. More specifically, in family firms, especially those in emerging economies, family owners often control the firm with relatively low ownership through control-enhancing mechanisms such as pyramid structures, cross-holdings, and dual-class shares (Shleifer & Vishny, 1997; Claessens et al., 2000; Mork et al., 2005; Adams & Ferreira, 2008; Peng & Jiang, 2010; Jiang & Peng, 2011). In other words, family owners commonly hold control in excess of their ownership in the firm. Agency theorists argue that such a divergence between family control and family ownership increases the incentives and ability of the controlling family to extract private benefits at the expense of minority shareholders (Shleifer & Vishny, 1997; La Porta et al., 2000; Su et al., 2008; Jiang & Peng, 2011). This is because control in excess of ownership rights enables the family to carry out the expropriation with enough control but at the same time reduces the costs of the expropriation due to the family's relatively low ownership (Shleifer & Vishny, 1997; Lemmon & Lins, 2003; Morck et al., 2005; Young et al., 2008; Peng & Jiang, 2010; Luo et al., 2012a). In this regard, family managers are very likely to help the controlling family carry out the expropriation (Cai et al., 2012). With family managers in charge, family owners are also more likely to undertake unfair transactions or investment, which can privately benefit the family but reduce the payout to nonfamily shareholders (McConnell & Servaes, 1990; Villalonga & Amit, 2006; Jiang & Peng, 2011). In addition, family managers may aggravate information asymmetry problems between the controlling family and nonfamily minority shareholders, which may also facilitate the family to extract private benefits at the expense of the minority shareholders (Lemmon & Lins, 2003; Peng & Jiang, 2010; Liu et al., 2012).

Generally speaking, drawing on the PP perspective of agency theory, a conflict of interests exists between family and nonfamily shareholders in family businesses. Additionally, family management may exacerbate such a conflict and damage the firm performance as a whole. Moreover, compared with the business founders, the descendants of the founders may be more concerned about their private welfare, thus being more likely to expropriate minority shareholders (Villalonga & Amit, 2006).

Given the above discussion, there may not be a consistent answer as to family managers' effects, especially descendant-managers' effects, on firm performance, if researchers view the issue on the basis of agency theory.

### **3.2.2 Stewardship theory**

Stewardship theory is often discussed together with agency theory in the exploration of the family management-performance relationship. Different from agency theory with the premise that owners and managers are self-interested, stewardship theory advocates that owners and managers are driven by more than economic self-interest (Miller & Le Breton-Miller, 2006). Specifically, stewardship proponents contend that many firm owners and managers actually wish to make a contribution to the firm's mission, longevity, and stakeholders (Davis et al., 1997, 2000). This stewardship attitude is prominently reflected by family business owners and family managers (Bubolz, 2001). Researchers contend that managers who are "insiders"- whose names are closely linked with the business and whose personal satisfaction, family fortune, and public reputation are tied to the business, may act as especially solicitous stewards of the business (Bubolz, 2001; Miller & Le Breton-Miller, 2005). In this case, family owners and managers should identify strongly with the firm and view the firm performance as an extension of their well-being (Davis et al., 1997). This attitude, in turn, may motivate their lifelong commitment to the firm, assiduous management of organisational resources, and a host of competency creating investments (Davis et al., 1997). In addition, family stewards are more likely to have long-term and non-monetary rewards associated with the firm's success, compared with nonfamily managers (Davis et al., 1997). All these factors can engender far-sighted contributions and superior financial returns to the business.

However, strong stewardship attitude may also negatively affect firm performance (Finkelstein & Hambrick, 1996). Specifically, family owners and managers may view their firms as personal fiefdoms. Because of their strong controlling power, they have the discretion to act or to resist acting, without board or top team intervention. This may lead to risky decisions, lengthy tenures and strategic stagnation, all of which may be hazardous to the firm performance.

In addition, as Liu et al. (2012) argue, the sense of stewardship to the business may be different between family business founders and their descendants. According to Villalonga and Amit (2010), the founders are those people who set up the company and are responsible for its early growth and development. They devote most of their wealth, time, and energy to run the business from scratch to success. In this case, the founders tend to have the deepest and most considerable emotional attachment to the business. Their long tenure and central positions in the firm also encourage them to exert great commitment and motivation to the firm's operations (McConaughy, 2000). Thus, the founders' stewardship sense should be the strongest, and their management should aim at the wealth and success of the whole company. However, the founders' descendants neither invest most of their personal wealth in the business nor participate in the earliest setting up and operations of the firm which should be the hardest phase for a business. In this case, the descendants' emotional attachment to the firm should be much less than that of the founders, and thus is their stewardship awareness. As Anderson et al. (2002) argue, descendant-CEOs tend to have less sense of stewardship to the business and lack the motivation, commitment, and incentive to sustain it.

Drawing on the above discussion, the impact of family management on firm performance should also be inconclusive from the viewpoint of stewardship theory, and the answer should be more complicated if the family manager is a descendant of the founder.

### **3.2.3 The resource-based view**

Unlike agency and stewardship theorists framing the relationship between family management and firm performance from the angle of managers' personal incentives, the resource-based view advocates a different perspective.

The resource-based view was originally developed in the strategic management field and often used to study the competitive advantages of a firm (Huybrechts et al., 2011). According to the resource-based theorists (e.g., Penrose, 1959; Wernerfelt, 1984; Barney, 1991; Grant, 1991; Peteraf, 1993), every firm can be seen as a unique bundle of resources. The resources can normally be classified into three categories,

i.e. physical capital resources, human capital resources, and organisational capital resources. The first category corresponds to tangible resources, while the latter two are intangible by nature (Michalisin et al., 1997). Tangible resources are concrete and usually include resources such as materials and land (Haanes & Fjeldstad, 2000). Intangible resources, however, are immaterial and mostly tacit (Villalonga, 2000; Carmeli, 2004). Barney (1991) argues that resources are often asymmetrically distributed among competing firms and are not perfectly mobile. Valuable resources for a firm are often those resources that can enhance the firm's financial performance and at the same time are not used by other firms. Such resources shape a firm's competitive advantages. Moreover, for the sustainability of the competitive advantages, valuable resources should be imperfectly imitable, i.e. they cannot be copied by other firms. In this sense, a firm's intangible resources are usually the so-called valuable resources and lie at the heart of the firm's competitive advantages, as the resources are immaterial, distinctive, and hard-to-duplicate (Penrose, 1959; Prahalad & Hamel, 1990; Barney, 1991; Michalisin et al., 1997).

Moreover, to perform well, a firm needs more than its bundle of resources (Cabrera-Suárez et al., 2001). The knowledge to efficiently deploy, coordinate, and utilise those resources, and in turn, lead them to the final profits of the firm, is also important. A firm's knowledge is often divided into two categories, i.e. explicit and tacit knowledge (Polanyi, 1966; Nonaka & Takeuchi, 1995; Tsoukas, 1996; Nonaka & Konno, 1998). The explicit knowledge is that which can be formalised and transferred by way of a systematised language or code, and there is no need to link the knowledge to a very specific context for it to be meaningful. In this sense, firms' certain information, such as internal and external statistics, product descriptions, and so on, can be seen as explicit knowledge due to the easy transferability of the information. However, tacit knowledge refers to the kind of knowledge that can hardly be expressed or formalised – as Teece (1998) remarks, “we know more than we can tell.” In addition, tacit knowledge appears and develops through the interaction of individuals with situations, thus being context specific. Moreover, similar to intangible resources, tacit knowledge is often viewed as scarce, idiosyncratic, hard to imitate and transfer through individual or organisation boundary, thus being specific to the firm (Nonaka & Takeuchi, 1995; Bierly & Chakrabarti, 1996; Spender, 1996;

Teece, 1998). Furthermore, tacit knowledge is that which can transfer a firm's valuable resources to real profits, thus also being a key source of the firm's competitive advantages and critical to its sustained good performance.

In family businesses, as many researchers agree, the valuable resources and knowledge are often individual specific rather than firm specific. Moreover, most of the resources and knowledge are derived from the owner-manager of the business, i.e. the founder (Cabrera-Suárez et al., 2001; Lee et al., 2003; Royer et al., 2008; Bracci & Vagnoni, 2011; Huybrechts et al., 2011; Fan et al., 2012). Different researchers have different ideas about the components of the founders' tacit knowledge. For example, Nonaka and Takeuchi (1995) contend that the tacit knowledge includes the founders' mental schemes, beliefs, and insights, which are crucial to perceiving and defining the environment, as well as their ability, know-how, and skills to perform tasks. Lee et al. (2003) suggest that the founders' tacit knowledge consists of their ability to motivate employees to cooperate and the knowledge about local conditions and internal processes in the firm. Bracci and Vagnoni (2011) define the knowledge as work-related competencies, owner-managerial spirit, and values. Fan et al. (2008), Fan et al. (2012), and Bennedsen et al. (2015) contend that the founders' specialised assets refer to their values, reputation, and abilities to lower transaction costs with various stakeholders. As to the valuable resources, most researchers define them as the founders' personal social networks with business partners, employees, suppliers, customers, lenders, and investors, as well as political connections with regulators and governments (Steier, 2001; Lee et al., 2003; Fan et al., 2008; Bracci & Vagnoni, 2011; Fan et al., 2012; Bennedsen et al., 2015; Xu et al., 2015). No matter which definition they employ, the researchers have reached a consensus, that the founders' personal valuable resources and knowledge, termed as specialised assets, shape the firm's competitive advantages and are critical to its success. Therefore, for family firms experiencing or about to experience a leadership succession, one of the key issues is whether the founders' specialised assets can be successfully transferred to successors, as those assets are the key for the firm to sustain its competitive distinctiveness, longevity and development after the succession.

Researchers suggest the time spent together and the quality of the relationship between the source of the specialised assets and the recipient are the two main antecedents in the transfer of the assets (e.g., Hansen, 1999; Bracci & Vagnoni, 2011). More specifically, the longer time that the recipient (the successor) spent with the source (the founder), the longer time and more opportunities that the former can have to get exposed to, learn, and ultimately acquire the assets. In addition, the stronger and more intimate is the relationship between the founder and the successor, the more likely it is that the founder will be willing to expose his or her specialised assets to the successor, and thus the more effective will be the transfer process. Considering these conditions, the proponents of the resource-based view widely accept that family business founders' personal specialised assets are accessible only to their family members and nonfamily members who are highly trusted by them (Cabrera-Suárez et al., 2001; Steier, 2001; Lee et al., 2003; Fan et al., 2008; Royer et al., 2008; Bracci & Vagnoni, 2011; Fan et al., 2012; Bennedsen et al., 2015; Xu et al., 2015). As a result, family successors and nonfamily successors who are highly trustworthy for the founder are deemed to be conducive to firm performance from the resource-based of view.

To summarise, the resource-based view suggests that the most valuable resources and knowledge in family businesses are their founders' individual tacit knowledge and social connections. These specialised assets are the basis of the firm's competitive advantages, and thus are vital to its financial performance. Moreover, successors who are the founder's family members or highly trusted nonfamily members should be beneficial to firm performance, as only they have access to the specialised assets. Furthermore, successors' acquisition of the assets is crucial to the firm's survival and development after the succession.

### **3.2.4 The institution-based view**

As discussed above, agency theory, stewardship theory and the resource-based view are three predominant theories used to interpret the family management-firm performance relationship. However, some researchers argue that, all these prevalent perspectives limit their focus to the effects of agency costs, stewardship sense or specialised resources, while paying little attention to the role of external institutions in

conditioning managers' behaviour (Miller & Shamsie, 1996; Oliver, 1997; Priem & Butler, 2001; Meyer & Peng, 2005; Liu et al., 2012). These researchers are called institution-based view theorists, as they emphasise the embeddedness of family business in its institutional environment. As they argue, institutions are the rules of the game in a society, or more formally, the devised constraints that shape human interaction (North, 1990). Specifically, it is the institutional arrangements or a set of fundamental political, social, and legal rules shaping the strategic behaviours and outcomes of firms across institutions (North, 1990).<sup>56</sup> In this sense, family business managers' behaviour and impact on firm performance may vary across different institutional environments (Steier, 2009). In this case, the validity of the aforementioned perspectives, i.e. those from agency theory, stewardship theory, and the resource-based view, may vary across different institutional settings.

For example, in emerging economies without effective investor protection, nonfamily managers should have more opportunities to engage in self-interested behaviours (Burkart et al., 2003), while family managers are also more likely to expropriate minority shareholders' interests (Peng & Jiang, 2010). Additionally, without strong institutions, the appointment of family successors due to altruism and nepotism is more likely to happen, and family owners' monitoring of the successors may be much less effective. This, in turn, may lead to the successors' opportunistic and free-riding behaviours (Liu et al., 2012). In other words, both the PA and PP agency problems from agency theory may be more rampant in an inefficient institutional environment. However, for family firms in countries with efficient institutional systems, which can prevent managerial opportunism, nonfamily managers should be optimal (Burkart et al., 2003; Peng & Jiang, 2010).

In addition, the validity of the resource-based view may also be subject to different institutional contexts. For example, in economies with developed institutions, such as the US and the UK, firms tend to have easy access to institutional resources (Klapper & Love, 2004; Carney et al., 2009). While in those countries with institutional

---

<sup>56</sup> For example, legal institutions, such as corporate laws, regulate the internal relationships of firms and their relationships with shareholders and provide legal and regulatory regimes for corporate operation. Economic institutions, such as the infrastructure for capital distribution, influence firms' access to resources and their operational costs in the market. Political institutions help establish a stable social structure facilitating economic exchanges among firms (North, 1990).

deficiencies, such as many Asian countries, it should be very difficult for family firms to get resources through limited formal channels, such as labour markets and banks. As a result, family firms in those countries have to heavily rely on their informal and private networks to obtain resources, such as valuable information, financial capital and business opportunities (Sirmon & Hitt, 2003; Dyer, 2006; Arregle et al., 2007). Moreover, weak institutional environment usually comes along with inefficient external labour market, which may cause family firms to heavily lean upon their internal management skills and competencies, rather than resorting to outside professionals. In this case, family successors or the founders' highly trusted nonfamily successors should be more beneficial to the business, as only they have access to the founders' tacit knowledge and social network resources.

To summarise, the preceding four theories discuss the family management-firm performance relationship from different angles. Specifically, agency theory and stewardship theory analyse the effect of family managers in terms of their personal incentives, the resource-based view focuses on the resource and knowledge inheritance, and the institution-based view emphasises the role of external institutions in affecting the validity of the above three theories. However, except for the resource-based view explicitly identifying the positive impact of family successors and their nonfamily counterparts highly trusted by the founder, all the other theories reach no consensus on whether family successions are conclusively beneficial to firm performance relative to nonfamily successions. Moreover, the answer may become more ambiguous, when the comparison is between family and nonfamily successors and is embedded in different institutional contexts. Given such a situation, it should be important for researchers to reconcile the mixed perspectives in a specific context, if they would like to understand the relationship between family management, especially family successions, and firm performance accurately and thoroughly. This should be more important for researchers interested in family firms in emerging economies, as the findings may be inconsistent with the conjectures that have been verified in developed contexts.

Therefore, in the following section, I provide an in-depth analysis of the appropriateness of the preceding theories in China's institutional, social, and cultural setting.

### **3.2.5 Theories in China's setting**

Even though China is one of the largest and fastest-growing emerging countries, its institutional environment, just like that of other emerging economies, is much weaker than that of developed countries (Allen et al., 2005; Cai et al., 2012). For example, China is generally below average by most measures of the rule of law, legal enforcement, and governance quality, and is one of the most corrupt countries in the world (Allen et al., 2005). In such a background, as previously discussed, nonfamily managers may be more deceptive, opportunistic, and self-interested (Burkart et al., 2003; Zhang & Ma, 2009). In addition, China is featured with an underdeveloped managerial labour market and the culture of familism with a low degree of trust outside of kinship. These features, as Xu et al. (2015) argue, may exacerbate the conflicts between family business owners and nonfamily managers.

However, given the absence of efficient shareholder protection, the controlling family may have strong incentives to extract private benefits at the sacrifice of minority shareholders' interests. In this regard, the existence of family managers undoubtedly will aggravate the expropriation from the controlling family (Lemmon & Lins, 2003; Peng & Jiang, 2010; Liu et al., 2012).

Therefore, both the PA and PP agency problems derived from agency theory may be severe in China.

Moreover, as discussed before, if a family manager is the business founder's descendant rather than the founder *per se*, the benefit associated with family management, i.e. the agency costs reduction, may be offset by the founder's unidirectional altruism to the successor and the successor's potential incapability. This problem may be more pronounced in China's cultural and political context. Firstly, China is a family-based society, and the most important component of Chinese traditional culture is "familism" (Lee, 1996; Lu, 2003). In this background,

altruism, especially parents' altruism to their children, prevails (Wei & Chen, 2015). As a result, Chinese family business founders are typically more likely to appoint their descendants as managers or successors, even if the descendants are unqualified and incompetent to get the position. Other issues coupled with the unidirectional altruism, such as the founders' inability to effectively monitor and discipline descendants and descendants' free-riding behaviours, should also be more serious in Chinese family firms. In addition, family successors are often less capable than nonfamily agents, as the former is selected from a small pool of talents within the family (Pérez-González, 2006). This situation should also be more prevalent in China, because the talent pool is largely restricted by China's one-child policy. Specifically, unlike family business founders in other countries who typically have a relatively large pool of heirs for family successions, the founders in China often have little choice but to appoint their single child as the successor, if they prefer to keep the control over the firm within the family. In this regard, unqualified family successors should be more pervasive in Chinese family businesses. Moreover, family successors in China are more likely to behave opportunistically, as their positions will not be threatened by siblings even if they are underperformed. All these costs will unquestionably offset the benefits of having a family successor.

In light of the above discussion, if embedding agency theory into China's institutional and cultural environment, both the advantages and disadvantages of having a family successor will be significant.

As previously discussed, stewardship theory is another popular perspective for understanding family managers' behaviour. According to Davis et al. (1997), people in a collectivist culture are more likely to develop a principal-steward relationship than those in an individualistic culture. In this sense, family managers' stewardship sense towards the business should be much stronger in China, where collectivism and familism have been deeply rooted in people's cognitions and values (Yan & Sorenson, 2006). In this respect, having family managers should be more valuable in China.

However, strong stewardship sense may also generate costs. For example, family managers in China are very likely to view the company as their family wealth or

personal fiefdom. As a result, they are easy to become the dictator in the company and make decisions without considering the board's or top team's suggestions. This may lead to risky decisions, lengthy tenures, and strategic stagnation, all of which may jeopardise firm performance.

In summary, the effectiveness of stewardship theory should be stronger in China's cultural context. However, the impact of family successors on firm performance is still inconclusive, as strong stewardship sense will generate both benefits and costs.

Finally, China's social and cultural context may also enhance the validity of the resource-based view. More specifically, despite the rapid growth and great contributions to the economy, family firms have long suffered political, financial, and social discrimination in China (Chen et al., 2013c). This is because, in China, the majority of economic resources, such as materials, land, and financial capital, are dominated by the government. As a consequence, most of the resources have flowed into SOEs rather than private enterprises such as family firms (Allen et al., 2005; Fan et al., 2008; Li et al., 2008). In addition, as family firms are usually smaller, younger and lack political support relative to SOEs, they are much riskier in the eyes of most investors. Therefore, Chinese family firms often suffer discrimination not only regarding policy and resource distribution but also regarding financing, investments, business cooperation and operations. Under these circumstances, Chinese family firms have to primarily rely on their specialised assets, such as reputation and social network resources, to obtain external finance, investment, and business opportunities (Allen et al., 2005).<sup>57</sup> In other words, being affected by the preceding political, financial, and social discrimination, firms' specialised assets are much more important for family businesses in China.

As mentioned above, the resource-based view proponents suggest that the specialised assets are mainly derived from the business founders and accessible only to the founders' family members or highly trustworthy agents. This perspective should also apply to China's setting. This is because, as discussed in the previous chapter, the

---

<sup>57</sup> For example, reputation can help family firms win trust from various stakeholders and obtain lower transaction costs (Klein & Leffier, 1981). Social network resources, such as political connections, contribute to better access to financing (Li et al., 2008), the obtainment of government subsidies, the reduction of charges (Chen et al., 2011), and gaining government contracts as well as favourable legislation (Bertrand & Schoar, 2006).

Confucian familism makes Chinese people generally have a low level of social trust outside of kinship (Zhang & Ma, 2009; Xu et al., 2015). In this background, the founders are much more likely to transfer their personal specialised assets to family members rather than nonfamily agents.

However, apart from familism, the Confucian *guanxi* culture has also long affected Chinese people's cognitions and behaviour (Jacobs et al., 1995; Luo et al., 2012b). As a result, even though Chinese people are low in general trust in persons who are not their families, they tend to be high in particular trust in those who are *guanxi*-connected with them (Redding, 1993; Fukuyama, 1995; Gudykunst et al., 1996). Moreover, the trust in a *guanxi* usually involves strongly affective factors, i.e. the *guanxi* parties trust in each other like friends or even family members (Tan & Chee, 2005; Bedford, 2011). Such a culture has also exerted a prominent influence on Chinese family business founders' ways of thinking and behaving. Specifically, they are very likely to positively view, favourably treat, and deeply trust in nonfamily employees who have a *guanxi* with them (Jacobs, 1979; Tsui & Farh, 1997). Moreover, the founders may regard those persons as more than subordinates but friends or even family members. As a consequence, the founders should be willing to share their specialised assets with those persons, as the traditional Chinese culture advocates that individuals have an obligation to take good care of and take favourable actions towards their family members and friends (Tsui & Farh, 1997; Yan & Sorenson, 2006). However, for those only having the official superior-subordinate relationship with the founder, the founder may have a lower level of trust towards them and may hold conservative views on them. As a result, those persons are less likely to have access to the founder's specialised assets.

Based on the above discussion, it can be concluded China's institutional, political, and social context makes family business founders' specialised assets particularly important for the firm. In addition, affected by the familism and *guanxi* culture, it is very likely that only the founders' highly trusted successors, i.e. their family members and *guanxi*-connected nonfamily members, have access to the specialised assets. In

other words, the perspectives advocated by the resource-based view are effectively applicable to Chinese family businesses.<sup>58</sup>

To summarise, for all the three prevalent theories, i.e. agency theory, stewardship theory, and the resource-based view, their perspectives become more effective in China's institutional, political, social, and cultural background. However, because most of the viewpoints are contradictory, it is difficult to reach a conclusive answer as to the form of the family succession-firm performance relationship in the context of China. Instead, a balanced perspective between the optimistic view (family successors are beneficial) and the pessimistic view (family successors are detrimental) seems to be reasonable, i.e. family successors may perform insignificantly different from their nonfamily counterparts in China's setting.

It is also worth noting that even if both agency and stewardship theories hold contradictory perspectives on family successors' effect on firm performance, the

---

<sup>58</sup> However, the founders' different attitudes towards nonfamily members with and without a *guanxi* may arouse a question: if the founders have a low level of trust in those who do not have a *guanxi* with them, why would they appoint those people as the successor? An appropriate interpretation is that the founders may be attracted by those persons' talents and distinctive resources. More specifically, based upon the previous literature, trust is often divided into cognition- and affect-based trust (e.g., Rempel et al., 1985; McAllister, 1995; Jiang et al., 2011). Cognition-based trust is rational. It is based on the interacting party's "track record", and is usually inspired by the party's capability, experience, professionalism, personality or past performance (McAllister, 1995). In contrast, affect-based trust often depends on the emotional bond with and the feelings towards the interacting party, and usually goes beyond a regular professional relationship and any rational assessment. Affect-based trust makes one care about the other party's interest, welfare and well-being, and believe this kind of care is reciprocal (Rempel et al., 1985). According to Tan and Chee (2005), in Chinese society, there is normally heavy reliance on affective factors in the decision to trust. And in the aforementioned particular trust built by a *guanxi*, based on its definition, the affective factors undoubtedly carry a much heavier weight than the cognitive factors.

However, there may still be some founders who are more rational and more based on the cognitions to choose the successor, rather than emotion-oriented. Hence, it is still possible that a nonfamily member is affectively untrusted or affectively less trusted by the founder, but would still be appointed as the successor because of talents, distinctive skills, professional expertise, rich experience, good reputation, or new and valuable knowledge and network resources that the founder, the founder's family members, and the founder's *guanxi*-connected persons do not have. In fact, my sample shows some evidence of this possibility. Specifically, based on my sampled successors, I find that those without a *guanxi* have a significantly higher education level than family successors and nonfamily successors with a *guanxi*. I also find that the percentage of non-*guanxi* connected successors with external work or managerial experience is significantly higher, compared with that of family successors, and that of *guanxi*-connected nonfamily successors. These findings, to some extent, should imply that those successors whose appointments are not based on the founder's personal affection are indeed appointed because of talents and rich experience.

Another reason for the appointment of the affect-untrusted successors could be that the founders may not have any suitable descendants available, and thus they would like to apply a seat-warmer strategy to appoint an agent temporarily till a descendant is ready. However, they may feel inappropriate to let those who have a *guanxi* with them, i.e. who they see as friends or quasi-family members, to play this temporary role. Thus, the founders may choose an agent without a *guanxi* as the temporary leader and intend to pull the agent down from the position as soon as a descendant is available.

The above may be the reasons why the founders would be willing to appoint a nonfamily member that they have low trust in, i.e. a member without a *guanxi*, as the successor. I would like to thank Marc Goergen, the convenor of my annual review meeting, for raising this valuable query.

proponents of the resource-based view insist that the founders' family members and trusted agents are more valuable to the business, as only they have access to the founders' specialised assets. Based on this viewpoint, it should be interesting to explore whether successors' inheritance of the specialised assets plays a role in determining firm performance. Therefore, this chapter also attempts to solve two questions, i.e. whether the specialised assets are indeed accessible only to the successors who are highly trustworthy for the founder and whether the successors' acquisition of the assets contributes to firm performance after the succession. These questions should be important not only to the success of the succession but also to the firm's post-succession development.

### **3.3 Literature review**

This section provides eight strands of the relevant literature, including studies on the relationship between family management and firm performance, the comparison of founder-, descendant- and nonfamily-managers regarding their influence on firm performance, the comparison between family and nonfamily successors in terms of their effects on firm performance, the transfer of the founder's specialised assets, the relationship between managers' work experience and firm performance, and of course, the investigations of all the above issues in the context of China.

#### **3.3.1 The family management-firm performance relationship**

The first stream of the relevant research focuses on the family management-firm performance relationship. As previously discussed, the mixed perspectives of the agency theory, the stewardship theory, the resource-based view and the institution-based view lead to highly inconsistent findings regarding the impact of family management on firm performance. More specifically, compared with family firms managed by nonfamily CEOs, those managed by family CEOs are documented to be more productive (Durand & Vargas, 2003; Jiang & Peng, 2011; Cai et al., 2012), less productive (Barth et al., 2005; Westhead & Howorth, 2006; Jiang & Peng, 2011), or at least equally productive (Barontini & Caprio, 2006) in different research contexts. For example, Jiang and Peng (2011) find that, holding other things constant, the stock return is 48% (34%) higher for family-CEO firms than for nonfamily-CEO firms in

Indonesia (Taiwan). However, the stock return of Hong Kong companies with a family CEO is 28% lower than that of the companies with a nonfamily CEO. These findings support the authors' posit that family CEOs are good for firm performance in regions having a weak legal system, i.e. Indonesia and Taiwan, but bad for firm performance in regions that have strong legal and regulatory institutions (Hong Kong). Cai et al. (2012) further confirm Jiang and Peng (2011) perspectives and find that family CEOs are more beneficial in China, which is featured with underdeveloped institutions and weak shareholder protection.

### **3.3.2 Comparison of founder-, descendant- and nonfamily management in terms of firm performance**

Apart from the aforementioned inconclusive perspectives of multiple theories and different institutional environments, some researchers also cast the concern that the extant mixed empirical evidence may result from the researchers' different definitions of a family CEO (e.g., Liu et al., 2012). Specifically, in the prior studies, family CEOs often include both the family business founders and their descendants. However, as previously discussed, large differences exist between the founders and their offspring, in terms of their emotional attachment to the firm, their capability and resources, and their managerial motivation and behaviour.

Considering this fact, some researchers start to explore the differences between founder-, descendant- and nonfamily-CEOs in terms of their effects on firm performance (e.g., McConaughy et al., 1998; Anderson & Reeb, 2003a; Villalonga & Amit, 2006; Bennedsen et al., 2015). For example, McConaughy et al. (1998) document that founding family controlled firms (FFCFs), i.e. firms whose CEO is either the founder or the founder's descendant, are more efficiently run, indicated by higher sales growth and higher margins on sales, than non-FFCFs. In addition, FFCFs are also more valuable, i.e. having higher market-to-book equity ratios, than non-FFCFs. Moreover, the authors also find that descendant-controlled firms generate higher sales growth and margins than founder-controlled companies.

However, some researchers observe different findings. For example, Anderson and Reeb (2003a) demonstrate that family CEOs, including the founders and their

descendants, can improve firm profitability (measured by ROA) in S&P 500 firms. The authors also find that both the founders and nonfamily CEOs exhibit a significant and positive impact on firm value (Tobin's  $q$ ). However, descendants are proved to be unrelated to firm value. Villalonga and Amit (2006) observe similar results by using a similar sample. Specifically, they find that founder-CEO firms are the most valuable, i.e. having the highest average Tobin's  $q$ , of all family and nonfamily firms. Moreover, the founders' highest value is achieved when they serve as the Chairman of the Board but hire a nonfamily CEO. However, firm value is significantly destroyed if a descendant serves as the Chairman of the Board or the CEO.

In summary, the above research shows that there indeed exist some gaps between the founders and their descendants, and the founders are generally more valuable than successors (except for McConaughy et al. discussed above).

It is worth noting that all of the above studies rely on purely cross-sectional comparisons. However, cross-sectional studies may suffer from many endogeneity issues (Pérez-González, 2006; Bennis et al., 2007). Therefore, to mitigate this concern, as previously discussed, I attempt to use a different approach, i.e. the PSM method together with a DID analysis, to explore the possible changes that the leadership succession event may bring to firm performance. In light of the previous literature, this approach can significantly alleviate potential endogeneity issues (Pérez-González, 2006; Bennis et al., 2007; Amore et al., 2011). Specifically, the dependent variable in the DID analysis is the within-firm variation in performance, which helps to provide an estimate of the impact on performance that is not affected by possible time-invariant characteristics (Pérez-González, 2006; Bennis et al., 2007). In addition, the PSM method reduces the likelihood that any potential differences in firm performance are caused by other pre-succession factors, such as firm profitability, firm size, or board ownership, thus helping to enhance the reliability of the empirical results.

Another reason to apply the above approach, as previously mentioned, is that it is more in line with my research interest relative to the cross-sectional comparison method employed in the preceding studies. More specifically, the results in those studies suggest that founder-managed firms on average perform better than successor-

managed firms. Yet what I would like to investigate is whether family firms experience a significant performance change when their leadership is handed over from the founder to the successor, relative to the usual performance variation in their counterparts without a leadership transition. The preceding cross-sectional difference between founder-, descendant- and nonfamily-managers undoubtedly can provide some clues on this issue, but this small gap still needs to be empirically filled, in order to help researchers more comprehensively understand the dynamics of the leadership succession in family firms.

### **3.3.3 The family succession-firm performance relationship**

Apart from the comparison of different types of leaders, research exclusively focusing on the relationship between family successions and firm performance is also related to my research purpose. The empirical findings on this issue are overwhelmingly unidirectional, i.e. family successors are related to large declines in firm performance, compared with nonfamily successors (e.g., Smith & Amoako-Adu, 1999; Morck et al., 2000; Pérez-González, 2006; Bennedsen et al., 2007; Cucculelli & Micucci, 2008; Bertrand et al., 2008; Bennedsen et al., 2015). For example, Smith and Amoako-Adu (1999) find that the stock market reacts negatively to family successions in Canada. More specifically, the appointment of family successors results in significant and negative CARs around the announcement, which does not happen to nonfamily successions. The authors attribute this finding to family successors' younger age, as it may be a signal of the successors' inexperience in the eyes of investors. However, they also find that family succession firms are related to better long-term stock performance after the succession, compared with their nonfamily counterparts.

Nevertheless, Pérez-González (2006) argues that the above research has some unresolved issues. For example, the research shows that the sign of the abnormal returns for family successions switches over time, and thus leaves an unclear reading on whether family or nonfamily successors are superior. Additionally, the investigation into stock returns does not control for firm-level characteristics, making it difficult to distinguish between firms' or successors' traits. Given these limitations, Pérez-González (2006) conducts a study on US family firms and documents that family succession firms experience a significant decline in operating profitability and

market-to-book ratios, relative to the firms appointing a nonfamily successor. Moreover, family successors who did not attend a selective undergraduate institution account for the entire decline in the firm performance. This supports Pérez-González's nepotism hypothesis for family successions. Furthermore, he also observes that nonfamily successions are related to positive stock reactions around the announcement and three years after the succession. This result is largely driven by the successors hired from outside of the firm. In brief, Pérez-González's (2006) evidence shows that nepotism hurts firm performance, as the scope of labour market competition may be limited.

Bennedsen et al. (2007) further confirm the above findings via a sample of Danish family firms and an instrumental variable to rule out endogeneity issues. More specifically, they employ the gender of the departing CEO's firstborn child as the instrument and demonstrate that family successors are significantly and negatively associated with the firm's operating profitability around the transition. In addition, such underperformance of family successors is particularly prominent in fast-growing industries, industries with a highly skilled labour force, and large firms. This result is also consistent with Cucculelli and Micucci's (2008) evidence, which also shows that family successions reduce firm profitability, and the reduction is more pronounced in competitive sectors.

The above studies provide abundant evidence on the family succession-firm performance relationship. However, it is worth noting that the studies all focus on mature market economies. Given the aforementioned institution-based view, further investigations are still needed if I intend to understand the succession issue in China, where the economy is still in a transition from a centrally-planned to a market-oriented economy.

### **3.3.4 The family management-firm performance relationship in China**

Considering the aforementioned rapid growth of Chinese family firms and their great contributions to China's economy, family management in China's context also receives some attention (e.g., Amit et al., 2010; Li et al., 2010; Cai et al., 2012; Zhou

et al., 2013). For example, based on the institution-based view, Amit et al. (2010) find that family management is beneficial to firm value (Tobin's  $q$ ) only in the provinces with low institutional efficiency. They attribute this finding to the internal markets perspective, i.e. family managers are the better choice when low institutional development leads to an inefficient external labour market with a lack of qualified professional managers.

In addition, Li et al. (2010) focus on the relationship between family CEOs, firms' innovation capability and firm performance. They document that family CEOs are positively related to both the firm's innovation capability, i.e. the number of patents and the proportion of technicians, and firm profitability, i.e. ROA and ROS. Moreover, this finding is more pronounced among firms with a pyramidal structure, relative to those having a direct ownership structure.

Cai et al. (2012) observe similar results to the above, finding that family CEOs are positively related to both firm profitability (ROA) and firm value (Tobin's  $q$ ), compared with nonfamily CEOs. Moreover, such a result becomes stronger in firms with higher family ownership and multiple large shareholders but weaker if the divergence between family ownership and control in the firm is high.

Based on the above research, it can be concluded that family CEOs are generally more beneficial in China's context. However, as previously mentioned, this finding may be driven by the mix of the founders and their descendants acting as CEOs. In other words, it is possible that the positive effect of family management *de facto* demonstrates the "founder impact" rather than the "family impact". Zhou et al. (2013) verify this argument to some extent. Specifically, they find that the founders serving as the Chairman of the Board and the CEO or remaining as the Chairman with a relative as the CEO are the two most efficient combinations for Chinese family firms. The impact of these two combinations on firm performance (ROA) is much higher than that of a hired CEO, regardless of whether the Chairman is the founder, a relative, or an agent. However, if the Chairman is a family member but not the founder, the performance of the firm with a family CEO is indistinguishable from that with a hired CEO. Moreover, the total absence of the family from monitoring and management causes a significant loss in performance. In other words, the benefit of

having a family CEO exists if and only if the founder acts as the Chairman of the Board. This finding is in line with the aforementioned literature demonstrating that the founders are the most valuable leaders (e.g., Morck et al., 2000; Anderson & Reeb, 2003a; Villalonga & Amit, 2006). However, unlike Villalonga and Amit (2006) documenting that the combination of founder-Chairman and hired-CEO adds firm value, Zhou et al. (2013) find that the founder-Chairman is more valuable when the CEO position is also occupied by the family.

In summary, the above studies document that family leaders tend to be more valuable in China's context, and the value is mainly derived from the founders. However, similar to some of the preceding literature, these studies also focus on purely cross-sectional comparisons of founder-, descendant-, and agent-managed firms in terms of the average firm performance. In this case, further investigations are still necessary if my research interest is the performance dynamics caused by the leadership succession in Chinese family firms. This shapes my first research purpose in this chapter.

### **3.3.5 The family succession-firm performance relationship in China**

As reviewed in above, family firms' leadership successions have been widely explored in western and developed economies. However, relevant studies are very limited in China's setting. To the best of my knowledge, Xu et al.'s (2015) paper is the only study hitherto closely related to my research purpose. Specifically, by using 694 Chinese family firms as the sample, the authors find that the profitability (OROA and OROS) in firms with a second-generation Chairman of the Board or CEO are 3.1% and 6.9% higher than that in their peers, respectively. This finding is contrary to the aforementioned evidence observed in developed economies. Moreover, the authors also document that the positive impact of the second-generation on firm profitability is more salient in firms with less outside monitoring. This study sheds light on the impact of leadership successions on firm performance in family businesses in China's context. However, this study may suffer from certain limitations. For example, they conduct a DID analysis as a part of their robustness checks. Because their research focuses not only on descendant-Chairmen of the Board/CEOs but also on descendant-directors, their control firms in the DID analysis are those not having any members from the controlling family serving as directors or

managers during the sample period. However, the problem is, if a Chinese enterprise has not had any family members of the founder (including the founder *per se*) acting as directors or managers during such a long period (the sample period of the study is 2003-2011), that firm may not be qualified to be defined as a family firm. This is because, as previously discussed, the familism culture makes Chinese people tend to have a low degree of trust outside of kinship. Given such a background, the controlling family should act as solicitous steward and be very actively involved in the management of the firm, if they see the firm as a family property that will be bequeathed to the offspring (Yan & Sorenson, 2006). In other words, those firms that have not been managed by the controlling family from the year 2003 to 2011 may not accord with the essence of family firms in China's cultural context. Therefore, the control firms in Xu et al.'s (2015) study may not be very appropriate if their research focus is the comparison between family and nonfamily successors both in family firms.

Moreover, Xu et al. (2015) omitted to control for some important factors in both their main tests and robustness checks, such as the controlling right of the family, the wedge between family ownership and family control, and governance characteristics such as board ownership, all of which have been widely recognised to have an impact on not only successor decision but also firm performance. More importantly, the study does not consider the pre-succession firm profitability in its regression models, yet this factor has been proved to significantly affect firms' change in performance during the succession period (e.g., Pérez-González, 2006; Bennedsen et al., 2007).

Considering the above limitations, further explorations of the impact of different types of successors on firm performance exclusively for Chinese family businesses should still be necessary and worthwhile. This shapes my second research purpose in this chapter.

### **3.3.6 The transfer of the specialised assets in succession**

Apart from the above literature, research about the transfer of the founders' specialised assets during the succession process is also relevant to my study. As discussed before, a number of proponents of the resource-based view have noticed the

importance of the founders' specialised assets and successors' inheritance of the assets (e.g., Cabrera-Suárez et al., 2001; Bjuggren & Sund, 2002; Lee et al., 2003; Sharma & Irving, 2005; Royer et al., 2008; Xu et al., 2015). Based on their research interests, their studies can be further classified into two streams. Specifically, the first stream pays attention to the relationship between the specialised assets and the successor decision (e.g., Lee et al., 2003; Royer et al., 2008; Xu et al., 2015) and has been reviewed in the previous chapter.<sup>59</sup> The second stream focuses on the transfer process of the assets from the founder to the successor. For example, based on the resource-based view, Cabrera-Suárez et al. (2001) create a theoretical framework with the factors facilitating the transfer and the successor's development of the specialised assets. The factors include the founder's overcome of the psychological fears about the succession, the successor's adequate motivation to take over the business, early exposure to the business, and academic and experiential training, as well as the intimacy of the relationship between the founder and the successor. Moreover, the business context, such as the economic environment and cultural background, as well as the family context, such as the family's cohesion and commitment to the business, should also affect successors' inheritance of the specialised assets.

In addition, Steier (2001) proposes several steps for successors to obtain and develop the founder's social network resources via interviewing the second-generation entrepreneurs in 18 family firms. More specifically, successors should first identify the key players and connections in the network, what resources and benefits those connections can provide to the firm, and which connections are the most critical to the firm's success. Secondly, they should attain legitimacy and clarify their optimal role in the firm, such as acting as good technicians, managers, or stewards. Finally, they should manage the network resources through delegation and division of labour and reconstitute the structure and content of the network.

### **3.3.7 Specialised assets in Chinese family firms**

There are also some relevant studies specific for China (e.g., Zhu, 2007; Dou & Jia, 2008; Dou et al., 2009; Dou & Li, 2013; Xu et al., 2015). For example, Dou and Jia

---

<sup>59</sup> Lee et al.'s (2003) study and Royer et al.'s (2008) study have been discussed in Section 2.2.1 of Chapter 2. Xu et al.'s (2015) research has been discussed in Section 2.2.4 of Chapter 2.

(2008) employ a content analysis of 41 media reports on and questionnaires from 60 Chinese family firms and attempt to figure out what specialised assets are the most important in the succession process. They find that the founders' entrepreneurship, tacit knowledge, and individual social connections are widely agreed as the vital specialised assets that should be inherited by successors. However, they also find that the founders and successors differ in their perceptions of not only the components of the above three assets but also the importance of the assets in the succession. Even just for successors, their evaluation of the assets varies when they are at the different stages of the succession process.

Furthermore, a study conducted by Dou and Li (2013) is similar to the aforementioned Steier's (2001) paper. It is a case study focusing on how to transfer the founders' social network resources to the successor. Specifically, the authors divide the transfer process into six phases, i.e. the teaching and learning of the philosophy of the network, the deconstruction of the profile of the network, the introduction of the successor to the existing parties, the readjustment of the founder's and the successor's roles in the building and management of the network, the renewal of the network parties, and the rebuilding of the network structure.

To summarise, researchers who are interested in the role of the founders' specialised assets in the succession process focus on either the association between the assets and the successor selection or the transfer process of the assets. An obvious gap is that empirical evidence on the consequence of the transfer is still lacking. For example, no studies have investigated whether family successors and the founders' highly trusted nonfamily successors are indeed more likely to obtain the assets relative to their counterparts who are less trustworthy for the founder. In addition, whether successors' acquisition of the assets indeed contributes to firm performance after the succession. The lack of solutions to these issues may be because the founders' specialised assets are more about cognition, tacit knowledge, skills or personal connections, which are typically very private, implicit, and abstract, and thus difficult for researchers to observe. Given such a situation, my final research purpose in this chapter is to solve the above issues by using successors' internal experience before the succession as a proxy for their acquisition of the specialised assets. The above

issues should be especially important for family firms in China compared with those in other countries. This is because the various discrimination against Chinese family firms, as previously discussed, makes the specialised assets particularly crucial for the firms' longevity and development.

### **3.3.8 Managers' work experience and firm performance**

There is some research focusing on the impact of managers' work experience on firm performance (e.g., Hambrick & Mason 1984; Baysinger & Hoskisson, 1990; Goll et al., 2001; Peni, 2014). For example, Baysinger and Hoskisson (1990) posit that top executives' tenure is positively related to firm performance, as longer tenure implies more firm-specific knowledge and better ability to monitor and provide valuable resources. However, Goll et al. (2001) find that top managers' tenure has a significant and negative impact on firm performance, which is contrary to Baysinger and Hoskisson's posit. In addition, Peni (2014) focuses on the Chairman of the Board and the CEO and documents that their tenure is positively related to both ROA and Tobin's q. This finding supports Baysinger and Hoskisson.

There also are some studies specific for China. For example, Wei et al. (2005) find that top management team (TMT) members' career experience heterogeneity has a negative impact on firm performance (ROA), and yet their occupational experience heterogeneity has a positive impact. Moreover, Zhang's (2007) evidence shows that both the tenure heterogeneity and functional experience heterogeneity of the TMT have a significant and negative effect on firm performance, measured as the firm's EVA.

It is worth noting that all the above studies are based on upper echelon theory originated by Hambrick and Mason (1984). Specifically, the theory suggests that managers' demographics, such as age, education, and experience, are good proxies for their cognitive base, values, and competencies, which, in turn, affect the managers' strategic choice and ultimately firm performance. However, as managers exist in every firm and the tenet of upper echelon theory applies to every manager, none of the extant research focuses on family business successors' internal experience, let alone linking the experience to the successors' acquisition of the specialised assets.

## 3.4 Hypothesis development

### 3.4.1 Leadership succession and firm performance

Family business founders, on the one hand, should be more valuable than both their descendants and nonfamily agents. Based on the preceding discussion, the reasons are threefold. First, the founders' stewardship sense towards the firm should be the strongest,<sup>60</sup> which, based on the stewardship theory, can engender far-sighted contributions and superior financial returns to the firm (Davis et al., 1997).<sup>61</sup> Second, the founders' personal specialised assets have been widely agreed, by the resource-based view theorists, as the key contributor of the firm's competitive advantages (e.g., Cabrera-Suárez et al., 2001; Lee et al., 2003; Royer et al., 2008).<sup>62</sup> Third, the institution-based view proponents suggest that in a weak institutional environment such as China, both family and nonfamily successors have strong incentives to behave opportunistically (e.g., Zhang & Ma, 2009).<sup>63</sup>

On the other hand, the founders may also be disadvantageous to firm performance relative to successors. This is because, firstly, the strong stewardship awareness to the company may cause the founder to view the company as a personal fiefdom and to become the dictator in the company (Finkelstein & Hambrick, 1996). This, in turn, may lead to risky decisions, lengthy tenures and strategic stagnation, all of which may be hazardous to firm performance. Secondly, the founders are generally older than successors. Based on upper echelon theory (Hambrick & Mason, 1984), old managers may have less physical and mental stamina and be less able to grasp new ideas as well as learn new knowledge and skills. Moreover, older executives should have greater psychological commitments to the organisational status quo. Due to the lack of

---

<sup>60</sup> The founders are those who create the company, responsible for its early growth and development, and devoting most of their wealth, time, and energy to run the business from scratch to success (Villalonga & Amit, 2010). As a result, the founders' emotional attachment to the business should be the strongest, and thus is their stewardship sense (Liu et al., 2012). However, successors neither invest most of their personal wealth in the firm nor take responsibility for the firm's earliest operations, i.e. the hardest phase for the business, and hence their emotional attachment and stewardship awareness to the firm should be much weaker.

<sup>61</sup> Section 3.2.2 has provided an elaborated discussion of stewardship theory.

<sup>62</sup> As discussed in Section 3.2.3, the resource-based view theorists suggest that a firm's specialised assets shape its competitive advantages over other companies and thus are crucial to its survival and development, and for a family business, the founder is the main source of the specialised assets.

<sup>63</sup> A detailed discussion of the institution-based view has been provided in Section 3.2.4.

stamina, the commitment to the status quo, and the strong emotional attachment to the firm, the founders should be very loss averse, and thus less likely to make innovative but risky decisions, such as investments in R&D or M&A. However, managers' stamina, new ideas, and innovative behaviours are critical to the firm's long-term success (Hambrick & Mason, 1984). In this regard, successors who are younger, more energetic, more adventurous, and more innovative should be more conducive to the firm's development.

The above discussion implies that the leadership successions in family firms may have both positive and negative effects on firm performance. However, it is difficult to conclude which direction will dominate. Therefore, it should be appropriate to hypothesise the succession-firm performance relationship as follows:

H1: Leadership successions have a significant effect on firm performance.

### **3.4.2 Family succession and firm performance**

Sections 3.2.1, 3.2.2, and 3.2.3 have elaborated the contradictory perspectives on the family successor-firm performance relationship from agency theory, stewardship theory, and the resource-based view, respectively. Section 3.2.5 has discussed how those perspectives all become sufficiently effective in China's institutional, social, and cultural context. As a consequence, it is also difficult to reach a conclusive answer regarding the direction of the impact of family successors relative to their nonfamily counterparts. Thus, it is proper to develop the hypothesis as follows:

H2: Family successors have a significantly different impact on firm performance, relative to nonfamily successors.

### **3.4.3 Successors' acquisition of the founder's specialised assets and firm performance**

As stated in Section 3.2.3, the resource-based view proponents suggest that the founders' personal specialised assets, i.e. their tacit knowledge and social connections, shape the firm's competitive advantages over other companies and lead to the firm's sustained good performance. Therefore, for family firms experiencing or

about to experience a leadership transition, whether the successor can acquire the founder's specialised assets before the succession should be critical to firm performance after the succession.

However, because the founders' specialised assets can hardly be expressed or formalised, they are typically difficult to be transferred across individuals or firm boundaries (Fan et al., 2008; Xu et al., 2015). As previously discussed, one of the main antecedents in the transfer of the assets is the time spent together between the founder and the successor (e.g., Hansen, 1999; Bracci & Vagnoni, 2011). More specifically, the longer time that the successor spends with the founder, the longer time and more opportunities that the former can have to get exposed to the latter's tacit knowledge and personal connections. As a result, successors can have more opportunities to learn the knowledge, to familiarise themselves and build good relationships with the connections, and finally transform the knowledge and connections into their own resources. In this regard, the role of successors' pre-succession internal work experience should be highlighted. Firstly, the founders should often spend a lot of time at work. Therefore, for successors, working in the family business before the succession should be a very efficient way to increase the time spent with the founder and obtain more opportunities to approach the founder's specialised assets. In addition, the founders' specialised assets typically are embedded in the situations in which the assets are appeared and developed, and thus are highly context specific (Cabrera-Suárez et al., 2001). In this respect, working in the same environment, i.e. the family firm, should greatly help successors to learn and capture the nuances of the assets in different circumstances. Finally, the only way to absorb tacit knowledge is through observation and practice (Bracci & Vagnoni, 2011). In this case, working with the founder should provide successors with sufficient opportunities to observe the founder, by tracking his or her work practices. This, in turn, can foster successors' obtainment of the tacit knowledge, through a learning by doing process. Based on these arguments, successors' pre-succession internal work experience should be a proper proxy for their acquisition of the founders' specialised assets.

However, as highlighted before, the founders' specialised assets are accessible only to their family members or highly trustworthy nonfamily agents. Therefore, the above proxy may only apply to these persons. For other successors who are less trusted by the founder, their internal work experience may not contribute much to their obtainment of the assets. This is because, for the persons not highly trustworthy, the founder may limit their access to his or her personal specialised assets or even prevent the assets from being exposed to them to avoid appropriation risk<sup>64</sup> (Lee et al., 2003; Bracci & Vagnoni, 2011). Given this discussion and the aforementioned fact that Chinese family business founders tend to have a high level of particular trust towards family or *guanxi*-connected members yet a lower degree of trust towards other people, the following hypothesis is developed:

H3a: Family or *guanxi*-connected successors' pre-succession internal work experience is positively related to firm performance, compared with other successors' corresponding experience.

However, there also exists a possibility that family or *guanxi*-connected successors' pre-transition internal experience is not truly related to their acquisition of the specialised assets. In this case, the benefits of having experience in the firm before the succession should be discussed from other perspectives. More specifically, even if the experience would not contribute to the obtainment of founder-specific assets, it may still help to obtain other firm-specific knowledge and resources<sup>65</sup> (Baysinger & Hoskisson, 1990). In addition, pre-succession internal experience can help successors familiarise with the environment and the nature of the business, understand the culture and intricacies of the firm, build relationships within the firm, and gain credibility and acceptance in the firm (Lansberg & Astrachan, 1994; Cabrera-Suárez et al., 2001; Brockhaus, 2004). All these advantages should also facilitate successors to perform better after they take over the leadership position. Moreover, unlike the specialised assets accessible only to the founders' highly trusted successors, the above general benefits linked with the intra-firm experience should be available to all types of

---

<sup>64</sup> The risk that those people may betray the family firm after the acquisition of the specialised assets or utilise the assets to ask for a much higher compensation (Lee et al., 2003).

<sup>65</sup> Those firm-specific assets, such as relevant internal and external statistics, product descriptions or certain expertise, are often formalised by systematised language or code, and thus are much easy to be transferred.

successors. Furthermore, in China's context, those benefits should contribute more to firm performance if the successors are those nonfamily members who do not have a *guanxi* with the founder. This is because, for family or *guanxi*-connected successors, their appointment, undoubtedly, is very likely due to nepotism or *guanxi*. However, for those who do not have a *guanxi* with the founder, their appointment is more likely purely driven by their superior management or leadership skills. Therefore, those successors should be more capable of efficiently utilising the aforementioned general benefits, associated with pre-succession internal experience, to improve firm performance. Based on this discussion, the following hypothesis is formulated:

H3b: Family or *guanxi*-connected successors' pre-succession internal work experience is negatively related to firm performance, compared with other successors' corresponding experience.

## **3.5 Data and methods**

### **3.5.1 Data collection**

Section 2.5.1 of Chapter 2 has described the data for the sampled succession cases in this thesis. However, it is worth noting that this chapter also explores the impact of the succession event on firm performance. Therefore, another group of family firms which have never experienced a leadership succession during the sample period is also employed in this chapter as a control group for the succession cases. As a result, different from the sample used in the previous chapter, the final sample in this chapter consists of both the 348 succession cases<sup>66</sup> and another 337 non-succession firms<sup>67</sup>.

### **3.5.2 Research design**

#### **3.5.2.1 PSM and DID analysis of H1**

---

<sup>66</sup> As discussed in the previous chapter, these cases are about the successions to the Chairman of the Board and the CEO positions in Chinese family firms listed on the Shanghai or Shenzhen Stock Exchanges during 2003-2014, with the firm founder as the predecessor.

<sup>67</sup> These firms have the founder as both the Chairman of the Board and the CEO and do not have a leadership transition during the period 2003-2014.

H1 aims at investigating the influence of leadership successions on firm performance. To this end, the full sample of 348 succession cases and 337 non-succession firms are used.

In light of the previous literature (e.g., Pérez-González, 2006; Amore et al., 2011; Xu et al., 2015), there is an endogeneity concern that a firm's performance variation around a leadership succession is *de facto* driven by some factors other than the succession event.<sup>68</sup> To mitigate this concern, the PSM method is applied.

Specifically, every succession case is matched with a non-succession firm closely resembling the succession firm in terms of a set of characteristics in the year before the succession. In this case, for every matched pair, their possibility to receive the treatment, i.e. a leadership transition, should almost be the same, and yet only the succession firm experiences a transition. Therefore, if firm performance turns out to be significantly different between the post-matched succession and non-succession firms, the only reason driving the result should be the succession event. This process can effectively control for pre-transition confounding factors, and thus helps to separate the impact of the succession on firm performance.

To estimate the probability (the propensity score) of experiencing a succession, the following probit regression model is applied, after randomly sorting the full sample of 348 succession cases and 1641 observations from 337 non-succession firms:

$$\begin{aligned}
 \text{Probit}(\text{Succession}_{i,t}) = & \alpha + \beta_1 \text{Firm performance}_{i,t-1} + \beta_2 \text{Firm age}_{t-1} + \\
 & \beta_3 \text{Firm size}_{i,t-1} + \beta_4 \text{Longdebt level}_{i,t-1} + \beta_5 \text{Sales growth}_{i,t-1} + \\
 & \beta_6 \text{Board size}_{i,t-1} + \beta_7 \text{Board ownership}_{i,t-1} + \beta_8 \text{Board independence}_{i,t-1} + \\
 & \beta_9 \text{Family ownership}_{i,t-1} + \beta_{10} \text{Family control}_{i,t-1} + \beta_{11} \text{Family divergence}_{i,t-1}
 \end{aligned}
 \tag{1}$$

In the above model,  $i$  indicates the firm and  $t$  indicates the succession year.

*Succession* is an indicator variable equal to one for succession cases and zero for non-succession firms. The independent variables capture various firm-, governance-, and

---

<sup>68</sup> For example, any potential differences in firm performance change between firms experiencing a succession and those not experiencing one during the same period may merely stem from the firms' different characteristics before the succession, such as the difference in pre-succession firm performance trend, rather than from the succession event *per se*.

family-level characteristics one year prior to the succession. Most of the variables are the controls in Chapter 2. The rationale for them as the matching factors in this chapter is that, firstly, as discussed in Chapter 2, they may have an impact on the firm's successor decision. Secondly and also more importantly, they may affect firm performance. More specifically, *Firm performance* is used because a firm's performance after the succession may merely be a reflection of the firm's performance trend before the succession (Pérez-González, 2006). Based on the previous literature (e.g., Pérez-González, 2006; Bennedsen et al., 2007), *Firm performance* is measured by the industry-adjusted ROA and Tobin's q. ROA is the net income as a percentage of total assets. Tobin's q by definition is the ratio of the firm's market value to the replacement cost of its assets. It is worth noting that most Chinese listed enterprises had both tradable and non-tradable shares before the launch of the "split-share structure" reform in 2005, and most non-tradable shares were still within the 1-2 years official lock-up period after the completion of the reform in 2007 (Amit et al., 2010). Given this background, Tobin's q here is calculated as the ratio of the market value of equity plus the book value of debt over the book value of total assets, where the non-tradable shares are valued at the same price as the publicly traded shares (Villalonga & Amit, 2006; Cai et al., 2012). The industry-adjusted ROA (Tobin's q) is calculated by subtracting the median ROA (Tobin's q) of the relevant industry and year.<sup>69</sup> This, according to the literature (e.g., Pérez-González, 2006; Bennedsen et al., 2007), can control for aggregate changes in firm performance due to industry trends. As mentioned in Chapter 2, the industry classification is based on the guide proposed by CSRC.<sup>70</sup>

---

<sup>69</sup> All firms listed on the Shanghai or Shenzhen Stock Exchanges are adopted for the calculation of the medians.

<sup>70</sup> The sample is distributed across 14 out of 16 industries classified by CSRC. However, because manufacturing is the largest industry in China and makes up the vast majority of the Chinese listed companies, to balance the distribution of the sample across industries, firms operating in the manufacturing sector are grouped based on their second level industry codes, while other firms are classified according to their first level codes. Additionally, there are some industries with very few observations in the sample. Hence, also for the purpose of balanced sample distribution, industries with less than 10 observations are classified as *Other industry* and denoted by one dummy in the following regression tests. Based on these adjustments, the final *Industry* variables include nine dummies. However, in a previous version of this study, the original 14 industry dummies were applied. The results were qualitatively the same as those presented in this version.

In addition, *Firm age* is considered because older firms may have better information disclosure and corporate governance mechanisms, and thus may perform better (Claessens et al., 2002).

*Firm size* is included because the economies of scale and better access to financial resources may allow larger firms to perform better (Cai et al., 2012).

The use of *Long-debt level* is attributed to Ansari et al.'s (2014) viewpoint that the higher the debt level, the less are the controlling family's incentives to expropriate firm wealth. This, in turn, should be beneficial to the overall firm performance

The incorporation of *Sales growth* follows Yoshikawa and Rasheed's (2010) perspective, i.e. a firm's growth opportunities are pivotal to long-term firm performance.

*Board size*<sup>71</sup>, *Board ownership*, and *Board independence* are included in the model because these three factors are often used as proxies for firms' governance efficiency (e.g., Duan & Hou, 2015), and thus should have an impact on firm performance.

*Family ownership*, *Family control*, and *Family divergence* are proxies for the family's controlling power in the firm (Ansari et al., 2014). A strong family controlling power, on the one hand, can alleviate managerial opportunism and thus may be beneficial to firm performance; on the other hand, it increases the family's ability to extract private benefits and thus may jeopardise firm performance (Amore et al., 2011; Jiang & Peng, 2011).

The definitions of the above variables have been described in Section 2.5.2 of Chapter 2 and are also obtainable in Table 3.16.

---

<sup>71</sup> *Board size* is defined as the number of directors on the board (Duan & Hou, 2015). It is worth noting that this factor is not a control variable in the previous chapter, as I cannot find any literature mentioning that *Board size* is a potential determinant of the firm's family/nonfamily successor decision. However, including *Board size* in the regression models does not affect my findings in the previous chapter.

After obtaining the propensity score for each firm based on the above model, each succession case is attempted to be matched with a non-succession firm having the closest score for the year before the succession and from the same industry.<sup>72</sup>

After the PSM procedure, a DID analysis is employed to the post-matched subsample to test the validity of H1 via the following regression model:

$$\begin{aligned} \text{Performance difference}_{i,t} = & \alpha + \beta_1 \text{Succession}_{i,t} + \\ & \beta_2 \text{Control variables}_{i,t-1} + \text{Industry}_{i,t} + \text{Year}_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (2)$$

According to Pérez-González (2006), who pioneers the DID analysis approach in the context of family businesses, the dependent variable in the above model, *Performance difference*, denotes the difference in firm performance between the post-succession and pre-succession period. This variable is calculated as the two-year average industry-adjusted ROA (Tobin's q) after the succession minus the two-year average industry-adjusted ROA (Tobin's q) before the succession (Amore et al., 2011).<sup>73</sup>

As to the independent variables, *Succession*, as previously defined, is a dummy equal to one for succession cases and zero for non-succession firms. *Control variables* are the preceding matching factors in Model (1). *Industry* and *Year* denote a set of industry and year dummies to control for industrial and temporal fixed effects

### 3.5.2.2 DID analysis of H2

H2 examines the impact of family successors on firm performance relative to their nonfamily counterparts. For this purpose, a subsample of the 348 succession cases is used for the investigation. The following regression model is employed for the DID analysis:

---

<sup>72</sup> To ensure that the succession cases and their matched non-succession observations are sufficiently similar, I require that the maximum difference in the propensity score between these two groups does not exceed 0.01 in absolute value.

<sup>73</sup> Following prior literature (e.g., Pérez-González, 2006; Bennesen et al., 2007), an alternative time window from three years before the succession to three years after the succession is also employed. The relevant results are qualitatively similar to those obtained based on the above “two years ex-ante to two years ex-post” period. The results based on the alternative window are available upon request.

$$\text{Performance difference}_{i,t} = \alpha + \beta_1 \text{Family}_{i,t} + \beta_2 \text{Control variables}_{i,t-1} + \text{Industry}_{i,t} + \text{Year}_{i,t} + \varepsilon_{i,t} \quad (3)$$

In the above model, *Family* is an indicator equal to one if the successor is the founder's descendant, by blood or marriage; otherwise, it equals zero. All the other variables are defined as the same as in Model (2).

It is worth noting that the PSM method cannot be applied for the comparison among different types of successors in this chapter, because the number of observations in the control group (nonfamily succession cases) is not significantly larger than that in the treatment group (family succession cases).

### 3.5.2.3 DID analysis of H3

H3 focuses on the relationship between successors' acquisition of the founders' specialised assets and firm performance, where successors' pre-succession internal work experience is employed as a proxy for the acquisition. The following model is designed to test the hypotheses:

$$\text{Performance difference}_{i,t} = \alpha + \beta_1 \text{FamilyOrGuanxi}_{i,t} + \beta_2 \text{Successor work}_{i,t} + \beta_3 \text{FamilyOrGuanxi} * \text{Work}_{i,t} + \beta_4 \text{Control variables}_{i,t-1} + \text{Industry}_{i,t} + \text{Year}_{i,t} + \varepsilon_{i,t} \quad (4)$$

In the model, *FamilyOrGuanxi* is defined as the same as in Chapter 2, i.e. a dummy equal to one if the successor is a descendant or a *guanxi*-connected nonfamily member of the founder and zero otherwise. A nonfamily successor is defined as *guanxi*-connected if he or she has one of the following identities:

- (1) Sharing the same surname with the founder;
- (2) Sharing the same birthplace or native place (the same province) with the founder;
- (3) Graduating from the same college or university as the founder;
- (4) Being the founder's former colleague before the startup of the family firm;
- (5) Acting as a director or a top manager in more than one company controlled by the founder before the succession;

- (6) Joining the family firm at its start-up stage, i.e. the first three years after the setting-up of the company.

Moreover, *Successor work* in the above model denotes successors' pre-succession internal work experience and is calculated as the number of the years the successor has worked in the firm till the succession announcement year.

*FamilyOrGuanxi\*Work*, therefore, is the interaction term between *FamilyOrGuanxi* and *Successor work*. This variable, as previously mentioned, is a proxy for family or *guanxi*-connected successors' acquisition of the founder's specialised assets.

## **3.6 Empirical results and discussion**

### **3.6.1 Descriptive statistics**

#### **3.6.1.1 Industry distributions of firms**

Table 3.1 illustrates the distribution across industries for all sampled family firms with or without a leadership succession. It shows that the entire sample is unevenly distributed across 16 industries. Specifically, most of them are in the manufacturing industry, which occupies 76.56% of non-succession firms and 73.72% of succession firms. The information technology industry accounts for the second largest number of firms. As indicated, 9.5% of non-succession and 6.41% of succession firms specialise in information technology. The third largest industry of non-succession firms is the wholesale and retail sector, accounting for 3.26% of the total. Moreover, non-succession firms are evenly distributed across the rest, with no more than six companies in each sector. For succession firms, the third largest number belongs to the real estate business (15 firms), followed by the construction business (12 firms). The remaining industries are not very prevalent, occupying about 2.56% of succession companies at most.

[Insert Table 3.1 about here]

#### **3.6.1.2 Summary statistics**

Table 3.2 reports the summary statistics of variables applied to the preceding models. The first two variables, *Industry-adjusted ROA difference* and *Industry-adjusted Tobin q difference*, are the dependent variables. They measure the firm performance change, i.e. the industry-adjusted ROA (Tobin's q), of the sampled firms during the transition period of the succession firms. The statistics show that the means of the above two variables are -1.49% and -0.15, respectively. This indicates that the sampled firms, on average, undergo a decline in firm performance during the succession period. In addition, the means of *Industry-adjusted ROA<sub>t-1</sub>* and *Industry-adjusted Tobin q<sub>t-1</sub>* are 1.66% and 0.73, respectively. This implies that the sampled firms outperform other firms in their industries before the succession.<sup>74</sup> Moreover, the table shows that in the firms that have a succession, the successors' average internal work experience before the succession is 6.39 years. However, the maximum value of *Successor work<sub>t-1</sub>* implies that there is at least one successor who has worked for the firm for 37 years before being selected as the new leader.

[Insert Table 3.2 about here]

### 3.6.1.3 Comparison between non-succession and succession firms

Table 3.3 compares non-succession firms with succession firms in terms of their firm performance change around the succession (the dependent variable in Model (2)) and various characteristics before the succession (the matching variables in Model (1)). The results show that these two groups of firms have significant differences in most variables, except for firm performance change and growth opportunities. Specifically, the table indicates that the firm performance change, i.e. *Industry-adjusted ROA (Tobin q) difference*, is insignificantly different between the two groups. This may imply that leadership successions do not produce a significant change in firm performance, which, however, is contrary to my H1. Moreover, the pre-succession firm performance, i.e. *Industry-adjusted ROA (Tobin q)<sub>t-1</sub>*, is significantly lower in the succession group. These two findings together<sup>75</sup> imply that successors may take the

---

<sup>74</sup> The statistics for the sample's performance in the post-succession years are untabulated but show that the sample also outperforms their counterparts in the same industry in those years.

<sup>75</sup> Firm performance variation between the succession and non-succession groups is insignificantly different, yet firm performance before the succession is significantly lower in the succession group.

blame for lower performing predecessor if the pre-succession firm performance cannot be controlled for efficiently. In this regard, the PSM approach coupled with a DID analysis should be more effective for exploring the effect of leadership successions, compared with the preceding cross-sectional comparisons between founder- and successor-managed firms, at least for family firms in China.

In addition, the table shows that *Firm size* is significantly lower in the non-succession group. This is not surprising, as firms with successions should be older than those without<sup>76</sup>, and long-established firms normally have a large firm size.

*Long-debt level* is also significantly lower in non-succession firms relative to their succession counterparts. This may be driven by the former's smaller size, as smaller firms tend to have higher default risk and not much reputation, leading to an inferior debt capacity (Zou & Adams, 2008).

Moreover, non-succession firms tend to have a much smaller board size but much larger board ownership and board independence. This finding is also attributable to the firms' smaller size. More specifically, it is reasonable that a smaller firm has a smaller board of directors. In addition, a smaller firm may have a higher level of board ownership, as most board members in the firm should be the shareholders of the firm. Moreover, a smaller board may cause a higher level of board independence, as the same number of independent directors occupies a larger proportion in a smaller board relative to a larger one.

Furthermore, *Family ownership* and *Family control* are greater in the non-succession group, and yet *Family divergence* is lower in the group. This may still be because that non-succession firms tend to be younger and smaller than succession firms, resulting in that most of the shares and voting rights in the former are still held by the founding family. Additionally, the level of pyramidal ownership structure should be lower in smaller firms, thus causing the smaller divergence between family ownership and family control in the non-succession group (Claessens et al., 2000).

---

<sup>76</sup> This is because one of the main reasons for leadership transitions in a family business should be that the business has been run for a long time, and thus the founder is very approaching his or her retirement.

To summarise, succession firms are significantly different from their non-succession counterparts in terms of various characteristics before the succession. Therefore, it becomes more necessary to apply the PSM method to control for those pre-succession differences, in order to separate the impact of the succession on firm performance.

[Insert Table 3.3 about here]

#### **3.6.1.4 Comparison between family and nonfamily successions**

Table 3.4 focuses on the comparison between family succession and nonfamily succession firms regarding the aforementioned pre-succession characteristics. The results show that there is no significant difference between these two groups of firms in most of the characteristics, except for the pre-succession industry-adjusted Tobin's q. More specifically, the pre-succession Tobin's q is significantly lower in the family succession group. This is in line with one of my findings in Chapter 2, that past firm performance is negatively related to the likelihood of a family successor. However, the table also indicates that there is no significant difference across the groups in terms of firm performance change around the succession, which is inconsistent with my H2.

[Insert Table 3.4 about here]

#### **3.6.1.5 Correlation among variables**

Table 3.5 presents the correlation matrix for the preceding variables. It shows that most of the variables do not have a high pairwise correlation, except that *Board size* is highly correlated with *Board independence*, *Board ownership* is highly correlated with *Family divergence*, and *Family ownership* is highly correlated with *Family control*. Given such a result, in the following tests, *Board size*, *Board ownership*, and *Family ownership* will be excluded from the regressions.<sup>77</sup>

[Insert Table 3.5 about here]

---

<sup>77</sup> Substituting these three variables for *Board independence*, *Family divergence*, and *Family control* would not affect the main findings in this chapter.

## 3.6.2 Baseline regression results

### 3.6.2.1 Leadership succession and firm performance (H1)

After the PSM procedure, 154 succession cases are successfully matched with an otherwise identical non-succession firm, constructing a post-matched subsample of 308 observations. To test the effectiveness of the PSM procedure, a difference in means t-test by *Succession* is conducted in the post-matched subsample in terms of the pre-succession characteristics. Table 3.6 provides the result. It shows that the balance is reached in the subsample, as there is no significant difference between the succession cases and their matched non-succession observations in terms of all the matching factors in Model (1).<sup>78</sup>

In addition, Table 3.7 presents the results for H1. It shows that leadership transitions do not cause a significant change in both the industry-adjusted ROA (Column (1)) and the corresponding Tobin's q (Column (2)). This does not support my H1. A possible reason for this result is that the advantages of having a leadership transition may be offset by the disadvantages. This finding is not in line with the prior studies, as most of them document that the founders on average are related to higher firm value (e.g., Anderson & Reeb, 2003a; Villalonga & Amit, 2006). As previously discussed, this inconsistency may be driven by the differences in the choice of the sample (family firms in developed economies *vis-à-vis* family firms in China) and the research method (purely cross-sectional comparisons *vis-à-vis* PSM and DID analysis).

[Insert Tables 3.6 and 3.7 about here]

### 3.6.2.2 Family succession and firm performance (H2)

Table 3.8 presents the results for H2 and shows that family successors do not have a significantly different impact on both ROA and Tobin's q, compared with their nonfamily counterparts. This result also fails to support my H2. The underlying reason, as previously discussed, may be that all the contradictory perspectives of

---

<sup>78</sup> This proves that the PSM approach effectively solves the endogeneity problem that any potential firm performance variation around the succession may merely be a reflection of differential pre-succession trends between the succession and non-succession firms, rather than caused by the succession event *per se*.

agency theory, stewardship theory, and the resource-based view regarding the family succession-firm performance relationship can obtain sufficient support in China's context. Therefore, the benefits of having family successors are very likely offset by the costs. The above finding is also different from that in the previous literature focusing on developed contexts, as the literature documents that family successors are detrimental to firm performance relative to nonfamily successors.

The above difference between my results and those in the prior research, in turn, provides support for the institution-based view, i.e. family business managers' behaviour and impact on firm performance may vary across different institutional settings (Steier, 2009).

[Insert Table 3.8 about here]

### **3.6.2.3 Successors' pre-succession internal work experience and firm performance (H3)**

This section investigates whether the founders' highly trusted successors, i.e. family or *guanxi*-connected successors, are significantly different from other successors in terms of the impact that their pre-succession internal experience has on firm performance.

The results are presented in Table 3.9. Specifically, Columns (1) and (3) of the table indicate that *FamilyOrGuanxi\*Work* is significantly and positively related to both *Industry-adjusted ROA difference* (at the 1% level) and *Industry-adjusted Tobin's q difference* (at the 5% level). This suggests that family or *guanxi*-connected successors' pre-succession internal experience has a significant and positive impact on firm performance, compared with other successors' corresponding experience. This confirms my H3a. This result, in turn, supports my posit, i.e. family or *guanxi*-connected successors' internal experience before the succession can greatly help the successors acquire the founder's personal specialised assets, thus significantly contributing to firm performance after the succession. However, for those successors who do not have a *guanxi* with the founder, their corresponding experience may not

be much helpful for the acquisition of the specialised assets, due to the founder's lower trust towards them.

Moreover, Columns (2) and (4) present the results for investigating family and *guanxi*-connected successors separately. In the columns, *Guanxi* is a dummy equal to one if the successor is a *guanxi*-connected member and zero otherwise. *Family\*Work* is the interaction term between *Family* and *Successor work*. *Guanxi\*Work* is the interaction term for *Guanxi* and *Successor work*. The results show that *Family\*Work* and *Guanxi\*Work* are both positive and significant for ROA and Tobin's q. This provides further support for the hypothesis. However, the results also indicate that the coefficient of *Guanxi\*Work* is larger and more significant than that of *Family\*Work* in both columns. This is interesting, as the founders' descendants have always been viewed as the most appropriate candidates to inherit the specialised assets (e.g., Cabrera-Suárez et al., 2001; Bennedsen et al., 2015; Xu et al., 2015).

A proper explanation of the above finding is that the descendants may have fewer incentives to acquire the specialised assets. Specifically, being affected by the familism culture, Chinese parents typically have very strong unidirectional altruism to their children. This, in turn, may cause the descendants' immoderate reliance on the founder. In addition, China's one-child policy causes the descendants less likely to suffer competition from their siblings, which, in turn, may further trigger the descendants' free-riding consciousness. In such a background, family successors may have fewer motivations to actively learn the founder's tacit knowledge or transfer the founder's personal connections to their own resources, as it is often a long, arduous, and costly process (Bracci & Vagnoni, 2011). On the other hand, nonfamily employees should have much stronger incentives to proactively and zealously observe, acquire, and ultimately assimilate the specialised assets. This is because the assets should not only help to increase the nonfamily members' compensation and contribute to the consolidation of their position in the family firm but also be conducive to their future career prospects if they leave the firm.

[Insert Table 3.9 about here]

### 3.6.3 Robustness checks

Several checks are conducted to examine the robustness of the above results. Firstly, an extended PSM model is applied to the investigation of H1. Specifically, the model is extended by another set of firm- and environment-level factors, which are seldom controlled for in the previous literature but may have an impact on the successor decision. In addition, those factors are also applied to extend the regression models for H2 and H3, along with the consideration of several succession-specific features. Moreover, a number of alternative performance measures are used for robustness checks. Finally, a potential endogeneity issue is considered.

### **3.6.3.1 The extension of the PSM Model for H1**

The previous baseline PSM model has included a number of firm-, governance-, and family-level characteristics widely controlled for in the existing relevant studies. However, as discussed in Chapter 2, there also exist some factors seldom considered in the literature, but whose roles in the successor decision should not be neglected. Hence, in this section, an extended PSM model is employed, to explore whether the preceding finding for H1 is due to the overlook of those factors. More specifically, seven firm- and environment-level factors one year before the succession are considered, including *Dividend payout*, *Interest coverage*, *Nonfamily ownership*, *State ownership*, *Foreign ownership*, *Institutional environment*, and *Industrial competition*. The definitions of these variables and why they may have an impact on the successor decision have been elaborated in Section 2.6.3.1 of Chapter 2.

Table 3.10 reports the results of the difference in means t-test by *Succession* in the new post-matched subsample after including the above factors in the PSM model. It shows that the balance is reached between the treatment and control groups for all the pre-succession matching factors. Table 3.11 presents the regression results, indicating that *Succession* is not significantly related to *Industry-adjusted ROA (Tobin q) difference*. This is in line with my previous finding, and thus H1 is consistently rejected.

[Insert Tables 3.10 and 3.11 about here]

### **3.6.3.2 The extension of the models for H2 and H3**

In this section, the aforementioned factors are also included in the regressions for H2 and H3. Moreover, three succession-specific factors are also considered, including *Early succession*, *Retire*, and *Postsuccession founder*, all of which are dummy variables. More specifically, as discussed in Chapter 2, *Early succession* equals one if the founder leaves the leadership position before 65 and zero otherwise. *Retire* equals one if the founder is reported to leave due to “retirement” and zero otherwise. *Postsuccession founder* equals one if the founder remains as a board member or a top manager one year after the succession and zero otherwise. These factors, according to Pérez-González (2006), may also have an impact on either the successor selection or firm performance.

Table 3.12 presents the relevant results. Specifically, Columns (1) and (2) show that the coefficient of *Family* is insignificant in both columns, which is consistent with the existing result. Hence, there is still no support for H2. However, Columns (3) and (4) indicate that *FamilyOrGuanxi\*Work* is significantly and positively related to the dependent variables. This provides further support for my H3a.

[Insert Table 3.12 about here]

### 3.6.3.3 Alternative performance measures

In this section, several alternative measures of firm performance are also applied, including industry-adjusted return on equity (ROE), industry-adjusted operating return on assets (OROA), and the industry adjustment of another measure of Tobin’s q. Specifically, ROE is the ratio of net income to equity. OROA is calculated as the earnings before interest and taxes (EBIT) divided by total assets. The other measure of Tobin’s q is also calculated as the ratio of the market value of equity plus the book value of debt over the book value of total assets, but where the values of non-tradable stocks are their book values instead of the market prices of tradable stocks (Amit et al., 2010; Chen et al., 2013).

Moreover, apart from the industry adjustments, the industry- and performance-adjustments of all the aforementioned firm performance measures are also employed. Following Pérez-González (2006), this helps to control for the aggregate changes in

firm performance due to the mean-reversion from prior firm performance. As to the calculation, taking ROA as an example, the industry- and performance-adjusted ROA is the preceding industry-adjusted ROA minus the median of a control group of firms with similar performance. The control groups are created by dividing all publicly listed firms on the Shanghai or Shenzhen Stock Exchanges into deciles, sorted by the industry-adjusted ROA in the year prior to the succession. The yearly median of the relevant group of firms (ex-event) is then used as the control for each firm-year observation.

The relevant results are untabulated, but all of which remain unchanged in statistical terms.

#### **3.6.3.4 Endogeneity**

Empirical work in corporate governance is often subject to an endogeneity issue, i.e. any observed significant relationship between the independent and dependent variables may be driven by some omitted factors affecting both the former and the latter. However, the main findings in this chapter are unlikely to suffer from this endogeneity issue. This is because the results for H1 and H2 both indicate an insignificant relationship between the independent variables of interest (*Succession* and *Family*) and the dependent variables (*Industry-adjusted ROA difference* and *Industry-adjusted Tobin q difference*). Moreover, although the result for H3 documents a significant and positive relationship between *FamilyOrGuanxi\*Work* and the above dependent variables, this result should also not be subjected to the endogeneity issue. This is because the two variables which compose the interaction term, i.e. *FamilyOrGuanxi* and *Successor work, per se*, are insignificantly related to the dependent variables. However, it is unlikely that an omitted variable exists that can make *Successor work per se* and *FamilyOrGuanxi\*Work* have statistically different effects on the dependent variables, except the variable *FamilyOrGuanxi*. In this regard, *FamilyOrGuanxi\*Work* should be an exogenous variable in this study. This, in turn, confirms the reliability of my extant results.

#### **3.6.4 Additional analysis**

This section provides three additional analyses of the preceding impact that family or *guanxi*-connected successors' pre-succession internal work experience has on firm performance. The analyses include the consideration of the possible effect of the difference in successors' learning ability, the exploration of the components of the work experience, and the role of successors' trust level.

#### **3.6.4.1 Different access to the specialised assets or different learning ability?**

The preceding results for H3 document that family or *guanxi*-connected successors' pre-succession internal experience has a significant and positive impact on firm performance after the succession, compared with other successors' corresponding experience. This, as previously discussed, supports my conjecture that family or *guanxi*-connected successors can acquire the founder's specialised assets via the internal experience, and yet other successors may not. This is because Chinese family business founders' personal specialised assets may be accessible only to the former two types of successors. However, a potential concern is that the difference in the acquisition of the specialised assets between the successors may not be driven by their different access to the assets, but due to the successors' difference in learning ability. This is because successors' ability to efficiently learn the founder's tacit knowledge is also an important condition of their ultimate assimilation of the knowledge (Cabrera-Suárez et al., 2001). Driven by the above concern, in this section, successors are divided into two groups based on their learning ability, and the relationship between their pre-transition internal work experience and firm performance are re-investigated in each group. Following the extant literature (e.g., Pérez-González, 2006; Lee et al., 2008), successors' education level is used as a proxy for their learning ability. This is because high education attainment may imply a good learner and enables the successor to learn more quickly and effectively by building on his or her existing knowledge bases (Lee et al., 2008). As to the measurement, the highest education level that a successor has attained is coded as a categorical variable, with "1" for High school, Technical secondary or below; "2" for College; "3" for Bachelors; "4" for Masters; and "5" for PhD (Wei & Wang, 2002; Han et al., 2014; Yang, 2014). Succession cases, therefore, are classified into the high (low) learning ability group, if

the successor's highest education attainment is higher (lower) than the median value of the succession group. In this case, the previous results for H3 can be re-assessed when family successors, *guanxi*-successors, and successors without a *guanxi* have a similar learning ability.

Table 3.13 reports the results across the groups. It indicates that *FamilyOrGuanxi\*Work* is significantly and positively related to the dependent variables in both groups. This is in line with the preceding results for H3. This finding rules out the above concern, and thus confirms that the difference in the acquisition of the specialised assets between family (*guanxi*-connected) successors and other successors is indeed driven by their different access to the assets, rather than their potential different learning ability.

[Insert Table 3.13 about here]

#### **3.6.4.2 Non-managerial or managerial experience?**

Successors' pre-succession internal work experience can generally be decomposed into two parts, i.e. the non-managerial and managerial experience. This section aims at exploring whether these two types of experience have a similar role in helping family or *guanxi*-connected successors to obtain the specialised assets. To this end, several variables are employed. More specifically, *Successor manage* denotes the successor's pre-succession intra-firm managerial experience and is defined as the number of years that the successor has served as a director or a top manager in the firm before the succession. In addition, *Successor non-manage* is the successor's non-managerial working time in the firm before the succession, measured as the difference between the pre-succession internal work experience and the corresponding managerial experience. *FamilyOrGuanxi\*Manage* is the interaction term between *FamilyOrGuanxi* and *Successor manage*. *FamilyOrGuanxi\*Non-Manage* is the interaction term for *FamilyOrGuanxi* and *Successor non-manage*.

The relevant results are reported in Table 3.14, showing that the coefficients of *FamilyOrGuanxi\*Non-Manage* are insignificant, and yet those of *FamilyOrGuanxi\*Manage* are significant and positive at the 5% level. This finding

implies that the specialised assets obtained by family or *guanxi*-connected successors via the pre-succession internal work experience are *de facto* mainly derived from the managerial experience rather than non-managerial working time.

One possible interpretation of the above finding is that the internal managerial experience can provide the successors with some opportunities critical for the acquisition of the specialised assets, and yet the non-managerial experience cannot. More specifically, as previously discussed, the reason that the internal experience contributes to the acquisition of the assets is because it helps successors to be early exposed to the assets, to have time spent with the founder, to track the founder's work practices, and to capture the nuances of the assets in different contexts. All these benefits, as researchers suggest (e.g., Cabrera-Suárez et al., 2001; Lee et al., 2003), are the key conditions for successors to obtain the founder's tacit knowledge and intangible resources. These conditions can be satisfied through either the non-managerial or managerial experience inside the family business. However, successors may need more than the above to ultimately assimilate and internalise the specialised assets. As Bracci and Vagnoni (2011) argue, the only way to absorb tacit resources and knowledge is through observation and practice. In other words, apart from observing the founder, practice is also an indispensable step to the final assimilation of the assets.

Nevertheless, due to the uniqueness and tacitness of the specialised assets, the "practice to assimilation" process tends to be slow, arduous, and costly (Grant, 1996; Szulanski, 1996; Brown & Duguid, 1998; Wareham & Gerris, 1999). Taking this into consideration, the pre-succession internal managerial experience should be more valuable than the corresponding non-managerial experience, as the former can provide successors with sufficient time and direct opportunities to practise, and yet the latter cannot. More specifically, the longer time successors serve as directors or top managers in the firm before the succession, the more opportunities they can have to directly and progressively practise the observed management and leadership skills in different managerial and decisional processes. This, in turn, helps the successors to capture the essence of the skills and eventually internalise them. Moreover, being a director or a top manager in the firm before the succession may help the successor to

personally get in touch with the founder's important business connections. This can provide the successor with opportunities to gradually build his or her own relationship with those connections and earn their recognition and trust. However, all the above opportunities provided by the internal managerial experience should be much less obtainable through plain non-managerial experience.

Moreover, Cabrera-Suárez et al. (2001) suggest that a continuous and direct contact between the source and the recipient of the specialised assets during the transition process can facilitate the success of the transfer. In this respect, the internal managerial experience should be more beneficial than the corresponding non-managerial experience. This is because just working in the firm does not necessarily mean that successors have close contact with the founder every day, but working as directors or top managers in the firm can greatly increase the successors' likelihood to keep in continuous and direct touch with the founder.

The above discussion implies that family or *guanxi*-connected successors' pre-succession internal managerial experience should play a much more important role in the acquisition of the specialised assets, relative to the corresponding non-managerial experience. This, in turn, can explain the results in Table 3.14.

[Insert Table 3.14 about here]

#### **3.6.4.3 Do successors' trust levels matter?**

It has been demonstrated that only the founders' highly trusted successors have access to the specialised assets. This arouses another interesting question, i.e. whether successors' access to and acquisition of the assets increase along with their trust levels for the founder.

Following the previous literature, the *guanxi* between two individuals varies in different degrees (Tsui & Farh, 1997; Bedford, 2011). Specifically, the more commonalities exist between the *guanxi* parties, the more reasons and opportunities they have to interact with each other outside the workplace. As a result, their communication would be more frequent and comfortable, and their feeling of commonality would be stronger. All these contribute to their deeper trust in and

stronger affection to each other, and thus a higher level of intimacy of their *guanxi*. Furthermore, with a closer *guanxi*, one is more likely to take special care of and take favourable actions towards the other.

Based on the above discussion, it should be reasonable to assume that for a family business founder and the successor, the more commonalities they share, a more intimate *guanxi* they may have. Moreover, due to the corresponding higher level of trust and stronger positive affection, the more willing that the founder may be to expose or even voluntarily transfer his or her specialised assets to the successor. As a result, the more specialised assets that the successor can get access to and acquire through the pre-succession internal experience, and thus the larger positive impact that the experience should have on firm performance.

To examine the above conjecture, in light of the previous literature (Tsui & Farh, 1997; Bedford, 2011), a variable, *Trust index*, is constructed for each successor and is calculated by the number of the aforementioned seven identities he or she possesses. The identities include being a descendant of the founder, sharing the same surname with the founder, sharing the same birthplace or native place with the founder, graduating from the same college or university with the founder, being a former colleague of the founder, serving as a top executive in more than one company controlled by the founder, and joining the family firm at its start-up stage. The larger the value of the index, the more trustworthy should be the successor for the founder. The following model is adopted to test the conjecture:

$$\begin{aligned} \text{Performance difference}_{i,t} = & \alpha + \beta_1 \text{Trust index}_{i,t} + \beta_2 \text{Successor work}_{i,t} + \\ & \beta_3 \text{Trust index} * \text{Work}_{i,t} + \beta_4 \text{Control variables}_{i,t-1} + \text{Industry}_{i,t} + \text{Year}_{i,t} + \\ & \varepsilon_{i,t} \end{aligned} \quad (5)$$

In the model, *Trust index \* Work* is the interaction term between *Trust index* and *Successor work*. All the other variables are defined as the same as in the preceding models.

Table 3.15 provides the results, indicating that the coefficients of *Trust index \* Work* are significant and positive for both the industry-adjusted ROA and Tobin's q

difference. This suggests that the higher is the successor's trust index, the larger is the positive impact that the successor's pre-succession internal work experience has on firm performance after the succession. This finding supports my conjecture, i.e. successors' acquisition of the founder's specialised assets not only depends on whether the successors are trustworthy for the founder but also is contingent upon how strong they are trusted by the founder.

[Insert Table 3.15 about here]

### **3.7 Conclusion**

This chapter investigates the leadership succession-firm performance relationship in Chinese family firms. To understand this issue as thoroughly as possible, the first purpose of this chapter is to explore whether leadership successions cause a significant performance change in family firms. After employing the PSM method and a DID analysis to alleviate endogeneity concerns, I find no evidence that leadership successions lead to a significant change in firm performance around the succession. I contend this finding suggests that the positive impact of leadership transitions is offset by the negative effect in China's context.

The second aim of this chapter is to investigate in those family firms that have experienced leadership successions, whether family successors are more or less beneficial to firm performance relative to their nonfamily counterparts. After controlling for an extensive array of confounding factors and the application of a DID analysis, I find that family successions do not have a significantly different effect on firm performance relative to their nonfamily counterparts. This result implies that the benefits of having family successors may also be offset by the costs in China's background.

The final purpose of this chapter is to examine the impact that successors' acquisition of the founder's specialised assets has on firm performance. To this end, I use successors' pre-succession internal work experience as a proxy for their acquisition of the specialised assets. However, because the assets may be accessible only to the founders' highly trusted successors, I conjecture that, in China's context, the above

proxy only applies to successors who are the founder's descendants or having a *guanxi* with the founder. Moreover, because the assets are crucial to the firm's financial performance, I further hypothesise that family or *guanxi*-connected successors' pre-succession internal experience has a significant and positive impact on firm performance, compared with other successors' corresponding experience. My empirical results confirm this hypothesis, thus, in turn, supporting my posit that family or *guanxi*-connected internal experience before the succession contributes to their acquisition of the founder's specialised assets, thus can significantly improving the post-succession firm performance. However, successors who do not have a *guanxi* with the founder are unlikely to acquire the assets through the same experience, because the founder does not provide them with the access or only provides them with limited access to the assets.

Moreover, I find that the significant and positive effect of *guanxi*-connected successors' pre-succession internal experience is larger and more significant than that of family successors' corresponding experience. This finding is different from the common view that the founders' descendants are those who can inherit the most specialised assets. I attribute this finding to the situation that China's familism culture, Chinese persons' strong unidirectional altruism to their children, and China's one-child policy may largely decrease family successors' incentives to actively acquire the specialised assets.

Furthermore, I document that the significant and positive impact of family and *guanxi*-connected successors' internal experience mainly stems from the successors' managerial experience. I interpret this finding as that the internal managerial experience can provide the successors with some important benefits that the non-managerial experience cannot, i.e. the opportunities to directly practise the observed tacit knowledge, to personally contact with the founder's business connections, and to keep continuous and direct contact with the founder.

Finally, I find that successors' acquisition of the founder's specialised assets is also contingent upon their trust levels for the founder. Specifically, I document that the closer is the *guanxi* between the founder and the successor, the larger is the positive impact of the successor's pre-succession internal experience on firm performance.

This chapter has several major contributions. Firstly, it adds to the literature on leadership succession issues in family firms by providing initial evidence on the impact that the leadership transition event has on firm performance. As previously discussed, there is some research comparing founder-managed firms with successor-managed firms in terms of their average performance (e.g., Anderson & Reeb, 2003a; Villalonga & Amit, 2006). However, a dynamic comparison in performance between these two types of firms, i.e. whether firms having leadership transitions experience a significant performance change, compared with their counterparts without a transition during the same period, is lacking. This chapter fills this empirical research void, and thus contributes to a more accurate understanding of the leadership succession-firm performance relationship in family firms.

Secondly, this chapter provides support for the institution-based view via an in-depth theoretical analysis of how the validity of some prevalent perspectives regarding the family successor-firm performance relationship varies in China's context. The analysis is then supported by empirical evidence, showing that the finding in China's setting is different from that observed in western and developed economies. This shows the readers the importance of the consideration of institutional and cultural factors when using theories proved for the case of developed countries to explore issues in emerging or developing economies. This, in turn, may contribute to more attention to family firms' succession issues in emerging and developing contexts, as the readers of this chapter may realise that they can have some distinctive findings in those contexts compared with that in developed countries.

In addition, this chapter should be the first study linking family business successors' pre-succession internal experience to their acquisition of the founder's specialised assets. In this regard, it provides a new and interesting research direction for researchers interested in family business managers' tenures, i.e. to explore whether the tenures are related to the managers' obtainment of the founder's specialised assets.

Moreover, this chapter provides original evidence on the role that family business successors' acquisition of the founder's specialised assets plays in driving the firm's financial performance. As previously mentioned, the importance of successors' acquisition of the specialised assets has been largely highlighted in theory (e.g.,

Bjuggren & Sund, 2002; Lee et al., 2003; Sharma & Irving, 2005), and yet empirical research to demonstrate the importance is lacking. In this respect, this chapter contributes to the literature on the specialised assets in family businesses.

Finally, it highlights the role of nonfamily successors having a *guanxi* with the founder by demonstrating that both family and *guanxi*-connected successors can acquire the founder's specialised assets through pre-succession internal experience and can use the assets to improve post-succession firm performance. This may provide a useful suggestion to family business founders on their successor decisions. More specifically, apart from the founders' descendants, their *guanxi*-connected senior top executives may also be appropriate choices, not only in terms of the preservation of the specialised assets in the firm but also in terms of applying the assets to make a contribution to firm performance.

## Chapter 3 Tables

**Table 3.1—Industry distribution of firms**

This table reports the industry distribution of the sampled 337 non-succession family firms, i.e. firms have always been managed by the founder as both the Chairman of the Board and the CEO, and 312 succession family firms, i.e. firms that have experienced a leadership succession during the sample period. The industrial classification is based on the Guidelines for Classification of Listed Companies proposed by Chinese Security Regulatory Commission (CSRC). The table presents both the numbers of each type of firms in each industry and their percentages in the group (shown in the parentheses).

Industry	Non-succession firms (1)	Succession firms (2)	All firms (3)
1. Agriculture	3 (0.89)	8 (2.56)	11 (1.69)
2. Mining	3 (0.89)	7 (2.24)	10 (1.54)
3. Manufacturing	258 (76.56)	230 (73.72)	488 (75.19)
4. Energy	0 (0.00)	1 (0.32)	1 (0.15)
5. Construction	4 (1.19)	12 (3.85)	16 (2.47)
6. Wholesale and retail	11 (3.26)	6 (1.92)	17 (2.62)
7. Transport, storage and postal service	1 (0.30)	2 (0.64)	3 (0.46)
8. Information technology	32 (9.50)	20 (6.41)	52 (8.01)
9. Real estate	5 (1.48)	15 (4.81)	20 (3.08)
10. Leasing and commercial service	6 (1.78)	2 (0.64)	8 (1.23)
11. Scientific research service	3 (0.89)	1 (0.32)	4 (0.62)
12. Environment and public facility	3 (0.89)	1 (0.32)	4 (0.62)
13. Resident service, repair and others	2 (0.59)	0 (0.00)	2 (0.31)
14. Health and social work	1 (0.30)	0 (0.00)	1 (0.15)

15. Culture, sports and entertainment	4 (1.19)	1 (0.32)	5 (0.77)
16. Comprehensive industry	1 (0.30)	6 (1.92)	7 (1.08)
Total	337 (100.00)	312 (100.00)	649 (100.00)

**Table 3.2—Summary statistics**

This table provides summary statistics of variables for the entire sample, including 337 non-succession family firms and 348 leadership succession cases taking place in 312 firms. In the table, the first two variables measure the firm performance variation during the transition period of the succession firms. Specifically, for succession firms, *Industry-adjusted ROA (Tobin q) difference* is calculated as the difference between the average industry-adjusted ROA (Tobin's q) two years after the succession and that two years before the succession. For non-succession firms, *Industry-adjusted ROA (Tobin q) difference* is measured as the difference between the average two years after the year t and that two years before the year t, where year t stands for each firm-year during the sample period. Moreover, for succession firms, all the other variables are measured in the year prior to the succession announcement. As for non-succession firms, those variables are calculated for the year t-1, where year t also represents each firm-year in the sample period. It is worth noting that the statistics are provided after winsorising all continuous variables at the 1% and 99% percentiles.

Variables	N	Mean	Std	Median	Min	Max
Industry-adjusted ROA difference (%)	928	-1.49	5.44	-1.06	-22.03	14.57
Industry-adjusted Tobin q difference	769	-0.15	1.42	-0.26	-3.94	5.93
Industry-adjusted ROA <sub>t-1</sub> (%)	1641	1.66	4.61	1.32	-13.04	19.04
Industry-adjusted Tobin q <sub>t-1</sub>	1541	0.73	1.32	0.41	-1.29	5.99
Firm age <sub>t-1</sub>	1641	10.96	4.79	11	2	22
Ln(total assets) <sub>t-1</sub>	1641	21.06	0.85	20.96	19.19	23.83
Long-debt level <sub>t-1</sub> (%)	1641	2.05	4.58	0	0	23.29
Sales growth <sub>t-1</sub> (%)	1302	25.47	53.23	16.66	-51.17	393.87
Board size <sub>t-1</sub>	1637	8.37	1.39	9	5	12
Board ownership <sub>t-1</sub> (%)	1617	27.83	23.98	30.15	0	69.58
Board independence <sub>t-1</sub> (%)	1633	37.66	5.27	36.36	33.33	57.14
Family ownership <sub>t-1</sub> (%)	1626	39.33	16.26	38.64	7.43	77.77
Family control <sub>t-1</sub> (%)	1627	44.43	15.32	43.32	14.46	80.6
Family divergence <sub>t-1</sub> (%)	1626	5.08	7.53	0	0	28.35
Successor work <sub>t</sub>	348	6.39	5.89	5	0	37

**Table 3.3—Comparison between non-succession and succession firms**

This table reports the mean comparisons between non-succession and succession firms in terms of most variables shown in the previous table (except *Successor manage*). Columns (0) and (1) provide the means for non-succession and succession sub-samples, respectively. Column “Mean difference” presents the results of the difference in means t-test for each variable.

Variables	Non-succession firms (0)	Succession firms (1)	Mean difference (0-1)
Industry-adjusted ROA difference (%)	-1.41	-1.71	0.31
Industry-adjusted Tobin q difference	-0.2	-0.05	-0.15
Industry-adjusted ROA <sub>t-1</sub> (%)	1.86	0.92	0.94***
Industry-adjusted Tobin q <sub>t-1</sub>	0.77	0.57	0.21**
Firm age <sub>t-1</sub>	10.86	11.32	-0.46
Ln(total assets) <sub>t-1</sub>	21.05	21.14	-0.09*
Long-debt level <sub>t-1</sub> (%)	1.86	2.78	-0.92***
Sales growth <sub>t-1</sub> (%)	26.26	22.75	3.52
Board size <sub>t-1</sub>	8.33	8.51	-0.18**
Board ownership <sub>t-1</sub> (%)	29.38	21.87	7.51***
Board independence <sub>t-1</sub> (%)	37.89	36.8	1.09***
Family ownership <sub>t-1</sub> (%)	40.82	33.76	7.06***
Family control <sub>t-1</sub> (%)	45.41	40.76	4.66***
Family divergence <sub>t-1</sub> (%)	4.58	6.96	-2.38***

\*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.4—Comparison between family and nonfamily successions**

This table presents the results of the comparisons between firms with family and nonfamily successions in terms of the variables shown in the prior table and the successors' pre-transition internal work experience. Column (1) reports the means of the variables for family succession firms, and Column (0) lists the means for firms having a nonfamily successor. Column "Mean difference" documents the results of the difference in means t-test.

Variables	Family successions (1)	Nonfamily successions (0)	Mean difference (1-0)
Industry-adjusted ROA difference (%)	-1.12	-1.9	0.78
Industry-adjusted Tobin q difference	0.23	-0.1	0.33
Industry-adjusted ROA <sub>t-1</sub> (%)	0.37	0.56	-0.19
Industry-adjusted Tobin q <sub>t-1</sub>	0.2	0.69	-0.49***
Firm age <sub>t-1</sub>	11.63	11.25	0.37
Ln(total assets) <sub>t-1</sub>	21.28	21.1	0.18
Long-debt level <sub>t-1</sub> (%)	3.52	2.67	0.85
Sales growth <sub>t-1</sub> (%)	35.82	34.5	1.32
Board size <sub>t-1</sub>	8.66	8.47	0.19
Board ownership <sub>t-1</sub> (%)	19.65	22.88	-3.22
Board independence <sub>t-1</sub> (%)	36.82	36.79	0.02
Family ownership <sub>t-1</sub> (%)	34.23	33.86	0.37
Family control <sub>t-1</sub> (%)	42.42	40.44	1.98
Family divergence <sub>t-1</sub> (%)	7.94	6.58	1.36
Successor work <sub>t</sub>	6.99	6.18	0.81

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.5—Correlation matrix**

This matrix reports the Pearson correlation coefficients for the dependent and independent variables.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Industry-ROA difference (1)	1														
Industry-Tobin q difference (2)	0.26***	1													
Succession (3)	-0.02	0.05	1												
Industry-ROA <sub>t-1</sub> (4)	-0.25***	-0.22***	-0.08***	1											
Industry-Tobin q <sub>t-1</sub> (5)	-0.06*	-0.27***	-0.06**	0.48***	1										
Firm age <sub>t-1</sub> (6)	0.06*	0.05	0.04	-0.06**	-0.09***	1									
Firm size <sub>t-1</sub> (7)	0.03	-0.21***	0.04*	-0.09***	-0.31***	0.11***	1								
Long-debt level <sub>t-1</sub> (8)	0.02	-0.04	0.08***	-0.07***	-0.16***	0.13***	0.25***	1							
Sales growth <sub>t-1</sub> (9)	0.03	-0.19***	-0.03	0.22***	0.15***	0	0.06**	0.06**	1						
Board size <sub>t-1</sub> (10)	0	-0.07*	0.05**	-0.02	-0.06**	0.03	0.10***	-0.01	0	1					
Board ownership <sub>t-1</sub> (11)	-0.01	0.07*	-0.13***	0.12***	0.14***	-0.13***	-0.16***	-0.16***	-0.03	-0.08***	1				
Independence <sub>t-1</sub> (12)	0.02	0.04	-0.08***	0.06**	0.01	-0.05**	0.01	-0.03	-0.04	-0.56***	0.06**	1			
Family ownership <sub>t-1</sub> (13)	-0.06*	-0.04	-0.18***	0.20***	0.12***	-0.14***	0.04	-0.08***	0.03	-0.18***	0.40***	0.21***	1		
Family control <sub>t-1</sub> (14)	-0.07**	-0.05	-0.12***	0.21***	0.06**	-0.15***	0.10***	0	0.04	-0.14***	0.15***	0.19***	0.89***	1	
Family divergence <sub>t-1</sub> (15)	-0.02	-0.01	0.13***	0	-0.13***	0	0.13***	0.17***	0.01	0.10***	-0.56***	-0.07***	-0.35***	0.12***	1

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.6— Post-PSM comparison between non-succession and succession firms**

This table reports the difference between the succession cases and their matched non-succession firms in terms of a series of the pre-succession characteristics after the PSM process. Here, Column “P-value” presents the p-values for the difference in means t-tests.

Variables	Non-succession firms	Succession firms	Mean difference	P-value
Industry-adjusted ROA <sub>t-1</sub> (%)	1.42	0.88	0.54	0.75
Industry-adjusted Tobin q <sub>t-1</sub>	0.79	0.58	0.21	0.29
Firm age <sub>t-1</sub>	11.4	11.37	0.04	0.7
Ln(total assets) <sub>t-1</sub>	21.2	21.22	-0.02	0.73
Long-debt level <sub>t-1</sub> (%)	2.57	2.12	0.45	0.12
Sales growth <sub>t-1</sub> (%)	31.82	25.22	6.6	0.14
Board independence <sub>t-1</sub> (%)	37.58	37.07	0.51	0.34
Family control <sub>t-1</sub> (%)	41.73	41.51	0.21	0.42
Family divergence <sub>t-1</sub> (%)	6.62	5.4	1.21	0.34

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.7— Leadership succession and firm performance**

This table reports the results of the DID analysis of the leadership succession-firm performance relationship after the PSM procedure. The dependent variables are the difference between the two-year average industry-adjusted ROA after the succession and that before the succession (Column (1)) as well as the corresponding difference for the industry-adjusted Tobin's q (Column (2)). *Succession* equals one for the succession cases and zero for non-succession observations.

	Industry-adjusted ROA difference	Industry-adjusted Tobin q difference
	(1)	(2)
Succession	-0.007 (0.006)	0.150 (0.180)
Industry-adjusted ROA <sub>t-1</sub>	-0.290*** (0.095)	
Industry-adjusted Tobin q <sub>t-1</sub>		-0.385*** (0.094)
Firm age <sub>t-1</sub>	-0.000 (0.001)	-0.005 (0.016)
Firm size <sub>t-1</sub>	0.000 (0.005)	-0.721*** (0.131)
Long-debt level <sub>t-1</sub>	0.025 (0.087)	1.957 (1.511)
Sales growth <sub>t-1</sub>	0.005 (0.009)	-0.425** (0.169)
Board independence <sub>t-1</sub>	0.008 (0.057)	0.751 (1.768)
Family control <sub>t-1</sub>	-0.013 (0.022)	2.050*** (0.713)
Family divergence <sub>t-1</sub>	0.118*** (0.043)	-0.395 (1.074)
Industry & year dummies	Yes	Yes
Observations	308	260
R <sup>2</sup>	0.148	0.366
Adj. R <sup>2</sup>	0.063	0.289

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.8—Family succession and firm performance**

This table provides the results of the DID analysis of the comparison between family and nonfamily successors in terms of their effect on firm performance. The dependent variables are defined as the same as in the previous table. *Family* is the independent variable of interest, equal to one if the successor is a descendant of the founder, by blood or marriage; otherwise, it equals zero. All the other variables are the controls for pre-succession firm-, governance-, and family-level characteristics, as well as industry and year fixed effects.

	Industry-adjusted ROA difference	Industry-adjusted Tobin q difference
	(1)	(2)
Family	0.005 (0.011)	0.197 (0.236)
Industry-adjusted ROA <sub>t-1</sub>	-0.336** (0.164)	
Industry-adjusted Tobin q <sub>t-1</sub>		-0.441*** (0.132)
Firm age <sub>t-1</sub>	-0.001 (0.001)	0.005 (0.020)
Firm size <sub>t-1</sub>	0.008 (0.007)	-0.784*** (0.164)
Long-debt level <sub>t-1</sub>	-0.049 (0.122)	2.833 (1.740)
Sales growth <sub>t-1</sub>	0.002 (0.005)	-0.103* (0.061)
Board independence <sub>t-1</sub>	-0.045 (0.117)	0.709 (2.426)
Family control <sub>t-1</sub>	-0.020 (0.034)	1.293* (0.755)
Family divergence <sub>t-1</sub>	0.143** (0.069)	0.227 (1.479)
Industry & year dummies	Yes	Yes
Observations	236	204
R <sup>2</sup>	0.190	0.325
Adj. R <sup>2</sup>	0.090	0.226

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.9—Successors' pre-succession internal work experience and firm performance**

This table reports the results for the comparison among family, *guanxi*-connected, and non-*guanxi*-connected successors in terms of the effect that their work experience in the firm before the succession has on firm performance. In Columns (1) and (3), *FamilyOrGuanxi* equals one if the successor is the founder's descendant or a *guanxi*-connected nonfamily member and zero otherwise. *Successor work* is the number of the years that the successor has worked in the family business till the succession announcement year. *FamilyOrGuanxi\*Work* is the interaction term between *FamilyOrGuanxi* and *Successor work*. In Columns (2) and (4), *Guanxi* equals one if the successor is a nonfamily member having a *guanxi* with the founder before the succession and zero otherwise. *Family\*Work* is the interaction term between *Family* and *Successor work*. *Guanxi\*Work* is the interaction term for *Guanxi* and *Successor work*. Other variables are defined as the same as in the previous tables.

	Industry-adjusted ROA difference		Industry-adjusted Tobin q difference	
	(1)	(2)	(3)	(4)
<i>FamilyOrGuanxi</i>	-0.021 (0.017)		-0.541 (0.381)	
<i>Family</i>		-0.006 (0.020)		-0.140 (0.485)
<i>Guanxi</i>		-0.030 (0.022)		-0.811* (0.437)
<i>Successor work</i> <sub>t</sub>	-0.014*** (0.005)	-0.014*** (0.005)	-0.153* (0.080)	-0.158* (0.081)
<i>FamilyOrGuanxi*Work</i>	0.016*** (0.006)		0.185** (0.086)	
<i>Family*Work</i>		0.014** (0.006)		0.162* (0.090)
<i>Guanxi*Work</i>		0.017*** (0.006)		0.206** (0.089)
Industry-adjusted ROA <sub>t-1</sub>	-0.336** (0.138)	-0.328** (0.137)		
Industry-adjusted Tobin q <sub>t-1</sub>			-0.434*** (0.128)	-0.413*** (0.131)
Firm age <sub>t-1</sub>	-0.001 (0.001)	-0.001 (0.001)	0.005 (0.020)	0.004 (0.020)
Firm size <sub>t-1</sub>	0.003 (0.007)	0.003 (0.007)	-0.831*** (0.164)	-0.817*** (0.163)
Long-debt level <sub>t-1</sub>	-0.054 (0.122)	-0.060 (0.123)	3.305* (1.861)	3.091 (1.889)
Sales growth <sub>t-1</sub>	0.002 (0.005)	0.002 (0.005)	-0.106* (0.056)	-0.109* (0.058)
Board independence <sub>t-1</sub>	-0.059 (0.101)	-0.058 (0.101)	-0.134 (2.450)	0.112 (2.373)

<b>Table 3.9 continued</b>				
	(1)	(2)	(3)	(4)
Family control <sub>t-1</sub>	-0.027 (0.035)	-0.029 (0.035)	1.432* (0.802)	1.354* (0.774)
Family divergence <sub>t-1</sub>	0.155** (0.067)	0.147** (0.068)	0.363 (1.449)	0.144 (1.499)
Industry & year dummies	Yes	Yes	Yes	Yes
Observations	236	236	204	204
R <sup>2</sup>	0.268	0.273	0.350	0.361
Adj. R <sup>2</sup>	0.169	0.167	0.246	0.250

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.10— Comparison between non-succession and succession firms after the extension of the PSM model**

This table provides the mean comparison between the succession cases and the matched non-succession observations after extending the baseline PSM model by another host of firm- and environment-level characteristics.

Variables	Non-succession firms	Succession firms	Mean difference	P-value
Industry-adjusted ROA <sub>t-1</sub> (%)	1.03	0.92	0.11	0.81
Industry-adjusted Tobin q <sub>t-1</sub>	0.63	0.56	0.06	0.23
Firm age <sub>t-1</sub>	11.27	11.28	-0.01	0.45
Ln(total assets) <sub>t-1</sub>	21.15	21.19	-0.05	0.43
Long-debt level <sub>t-1</sub> (%)	2.56	2.22	0.34	0.67
Sales growth <sub>t-1</sub> (%)	27.56	25.36	2.2	0.13
Board independence <sub>t-1</sub> (%)	36.91	36.94	-0.04	0.99
Family control <sub>t-1</sub> (%)	42.76	41.21	1.55	0.36
Family divergence <sub>t-1</sub> (%)	5.4	5.6	-0.2	0.95
Dividend payout <sub>t-1</sub> (%)	25.84	27.06	-1.22	0.65
Interest coverage <sub>t-1</sub>	0.61	0.55	0.06	0.77
Nonfamily ownership <sub>t-1</sub> (%)	9.05	8.47	0.57	0.65
State ownership <sub>t-1</sub> (%)	0.64	0.36	0.28	0.45
Foreign ownership <sub>t-1</sub> (%)	1.35	1.49	-0.15	0.47
Institutional development <sub>t-1</sub>	9.63	9.7	-0.08	0.91
Industrial competition <sub>t-1</sub>	0.04	0.04	0	0.69

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.11—Leadership succession and firm performance after the extension of the PSM model**

This table reports the results for the relationship between leadership successions and firm performance variation after applying the extended PSM model.

	Industry-adjusted ROA difference	Industry-adjusted Tobin q difference
	(1)	(2)
Succession	-0.004 (0.007)	0.048 (0.171)
Industry-adjusted ROA <sub>t-1</sub>	-0.313*** (0.106)	
Industry-adjusted Tobin q <sub>t-1</sub>		-0.494*** (0.126)
Firm age <sub>t-1</sub>	0.001 (0.001)	0.001 (0.020)
Firm size <sub>t-1</sub>	0.004 (0.005)	-0.609*** (0.125)
Long-debt level <sub>t-1</sub>	-0.026 (0.103)	1.484 (1.429)
Sales growth <sub>t-1</sub>	0.000 (0.000)	-0.002 (0.002)
Board independence <sub>t-1</sub>	-0.038 (0.080)	0.122 (2.174)
Family control <sub>t-1</sub>	-0.016 (0.024)	0.515 (0.603)
Family divergence <sub>t-1</sub>	0.024 (0.052)	-0.751 (1.138)
Dividend payout <sub>t-1</sub>	-0.008 (0.010)	-0.054 (0.305)
Interest coverage <sub>t-1</sub>	-0.007 (0.008)	-0.656*** (0.178)
Nonfamily ownership <sub>t-1</sub>	0.007 (0.031)	-0.623 (0.978)
State ownership <sub>t-1</sub>	0.051 (0.213)	0.320 (3.242)
Foreign ownership <sub>t-1</sub>	0.009 (0.055)	-0.883 (1.759)
Institutional environment <sub>t-1</sub>	0.000 (0.003)	0.044 (0.059)
Industrial competition <sub>t-1</sub>	0.132 (0.091)	2.013 (4.598)
Industry & year dummies	Yes	Yes
Observations	304	255
R <sup>2</sup>	0.154	0.358
Adj. R <sup>2</sup>	0.047	0.259

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.12—The consideration of other firm-level, environmental, and succession-specific characteristics for H2 and H3**

This table reports the results for H2 and H3 after controlling for another set of firm-level, environmental, and succession-specific characteristics in the baseline regression models.

	H2		H3	
	Industry-adjusted ROA difference	Industry-adjusted Tobin q difference	Industry-adjusted ROA difference	Industry-adjusted Tobin q difference
	(1)	(2)	(3)	(4)
Family	0.005 (0.013)	0.154 (0.264)		
FamilyOr <i>Guanxi</i>			-0.024 (0.019)	-0.574 (0.429)
Successor work <sub>t</sub>			-0.014** (0.006)	-0.143* (0.079)
FamilyOr <i>Guanxi</i> *Work			0.016*** (0.006)	0.175** (0.084)
Industry-adjusted ROA <sub>t-1</sub>	-0.332* (0.173)		-0.334** (0.150)	
Industry-adjusted Tobin q <sub>t-1</sub>		-0.424*** (0.150)		-0.419*** (0.152)
Firm age <sub>t-1</sub>	-0.002 (0.001)	-0.015 (0.022)	-0.002 (0.001)	-0.016 (0.022)
Firm size <sub>t-1</sub>	0.013 (0.009)	-0.618*** (0.181)	0.009 (0.009)	-0.662*** (0.179)
Long-debt level <sub>t-1</sub>	-0.056 (0.126)	2.605 (1.838)	-0.059 (0.123)	3.017 (1.939)
Sales growth <sub>t-1</sub>	0.001 (0.006)	-0.116* (0.059)	0.001 (0.005)	-0.118** (0.053)
Board independence <sub>t-1</sub>	-0.001 (0.124)	1.516 (2.591)	-0.025 (0.111)	0.543 (2.611)
Family control <sub>t-1</sub>	-0.015 (0.035)	1.199 (0.773)	-0.019 (0.034)	1.368* (0.804)
Family divergence <sub>t-1</sub>	0.162** (0.077)	1.214 (1.658)	0.169** (0.073)	1.272 (1.601)
Dividend payout <sub>t-1</sub>	-0.004 (0.015)	-0.258 (0.309)	-0.005 (0.014)	-0.291 (0.307)
Interest coverage <sub>t-1</sub>	-0.011 (0.012)	-0.565*** (0.215)	-0.009 (0.012)	-0.531** (0.214)
Nonfamily ownership <sub>t-1</sub>	-0.027 (0.069)	0.251 (1.440)	-0.005 (0.070)	0.188 (1.485)
State ownership <sub>t-1</sub>	0.084 (0.265)	4.049 (5.386)	0.019 (0.218)	2.544 (4.392)
Foreign ownership <sub>t-1</sub>	0.017 (0.094)	-2.592 (1.974)	0.002 (0.092)	-2.798 (2.031)
Institutional environment <sub>t-1</sub>	0.001 (0.004)	0.011 (0.078)	0.001 (0.004)	0.020 (0.075)
Industrial competition <sub>t-1</sub>	0.072 (0.095)	1.789 (3.511)	0.051 (0.096)	1.322 (3.658)
Early succession	-0.017 (0.016)	-0.023 (0.351)	-0.011 (0.014)	-0.049 (0.341)
Retire	-0.020 (0.032)	0.163 (0.425)	-0.017 (0.030)	0.270 (0.410)

<b>Table 3.12 continued</b>				
	(1)	(2)	(3)	(4)
Postsuccession founder	0.012 (0.012)	0.021 (0.250)	0.007 (0.013)	-0.035 (0.270)
Industry & year dummies	Yes	Yes	Yes	Yes
Observations	236	204	236	204
R <sup>2</sup>	0.218	0.381	0.286	0.403
Adj. R <sup>2</sup>	0.048	0.220	0.122	0.238

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.13— Successors' learning ability**

This table reports the results for H3 when confining successors to similar learning ability. The learning ability is measured by the highest education level attained by the successors, and those whose highest education attainment is above (below) the median value are classified into the “high(low) ability” group.

Groups:	Industry-adjusted ROA difference		Industry-adjusted Tobin q difference	
	Low ability (1)	High ability (2)	Low ability (3)	High ability (4)
FamilyOr <i>Guanxi</i>	-0.034 (0.029)	-0.045 (0.039)	-0.726 (0.582)	-0.537 (0.710)
Successor work $t$	-0.015*** (0.006)	-0.014* (0.008)	-0.100 (0.133)	-0.197* (0.109)
FamilyOr <i>Guanxi</i> *Work	0.019*** (0.006)	0.015** (0.008)	0.159* (0.141)	0.232** (0.111)
Industry-adjusted ROA $t-1$	-0.342* (0.185)	-0.294 (0.220)		
Industry-adjusted Tobin q $t-1$			-0.278* (0.160)	-0.495* (0.294)
Firm age $t-1$	-0.000 (0.002)	-0.002 (0.002)	-0.014 (0.036)	-0.051 (0.043)
Firm size $t-1$	-0.008 (0.015)	0.012 (0.013)	-0.909*** (0.228)	-0.539* (0.317)
Long-debt level $t-1$	0.066 (0.135)	-0.257 (0.163)	5.567 (3.408)	0.812 (3.729)
Sales growth $t-1$	0.004 (0.007)	0.002 (0.004)	-0.157*** (0.049)	0.027 (0.072)
Board independence $t-1$	-0.166 (0.220)	0.143 (0.182)	-4.622 (3.569)	2.941 (3.402)
Family control $t-1$	-0.027 (0.083)	0.028 (0.070)	0.273 (1.121)	2.051* (1.234)
Family divergence $t-1$	0.124 (0.121)	0.112 (0.179)	4.336 (2.800)	-1.264 (2.729)
Dividend payout $t-1$	0.003 (0.020)	-0.039 (0.030)	-0.601 (0.539)	-0.217 (0.499)
Interest coverage $t-1$	-0.001 (0.020)	-0.004 (0.022)	-0.164 (0.310)	-0.960*** (0.363)
Nonfamily ownership $t-1$	-0.070 (0.122)	0.046 (0.186)	-0.498 (1.993)	0.820 (3.211)
State ownership $t-1$	0.154 (0.330)	-0.283 (0.681)	4.459 (6.807)	-3.015 (9.993)
Foreign ownership $t-1$	0.248* (0.148)	-0.057 (0.225)	-1.128 (3.525)	-1.920 (4.185)
Institutional environment $t-1$	0.010 (0.006)	-0.005 (0.007)	0.081 (0.098)	0.083 (0.145)
Industrial competition $t-1$	-0.060 (0.115)	0.074 (0.199)	-0.722 (3.992)	3.196 (5.843)
Early succession	0.045 (0.036)	-0.022 (0.031)	0.814 (0.753)	-0.161 (0.483)
Retire	-0.039 (0.080)	-0.015 (0.036)	0.829 (0.865)	-0.289 (0.555)
Postsuccesion founder	-0.016 (0.025)	0.016 (0.021)	-0.139 (0.497)	-0.198 (0.554)
Industry & year dummies	Yes	Yes	Yes	Yes
Observations	124	112	103	101
R <sup>2</sup>	0.578	0.518	0.511	0.534
Adj. R <sup>2</sup>	0.292	0.010	0.182	0.197

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.14—The decomposition of successors' work experience**

This table provides the results for H3 after decomposing successors' pre-succession internal work experience into the non-managerial and managerial experience. Successors' pre-succession internal managerial experience, i.e. *Successor manage*, is measured as the number of the years that the successor has worked as a director or a top manager in the family firm before the succession. The corresponding non-managerial experience, i.e. *Successor non-manage*, is calculated as the difference between the pre-succession internal work experience and the managerial experience. *FamilyOrGuanxi\*Non-manage* is the interaction term between *FamilyOrGuanxi* and *Successor non-manage*. *FamilyOrGuanxi\*Manage* represents the interaction term for *FamilyOrGuanxi* and *Successor manage*.

	Industry-adjusted ROA difference	Industry-adjusted Tobin q difference
	(1)	(2)
<i>FamilyOrGuanxi</i>	-0.013 (0.020)	-0.635 (0.443)
<i>Successor non-manage<sub>t</sub></i>	-0.011 (0.008)	-0.172 (0.110)
<i>Successor manage<sub>t</sub></i>	-0.017* (0.009)	-0.110 (0.120)
<i>FamilyOrGuanxi*Non-manage</i>	0.009 (0.008)	0.138 (0.125)
<i>FamilyOrGuanxi*Manage</i>	0.019** (0.009)	0.213** (0.117)
Industry-adjusted ROA <sub>t-1</sub>	-0.357** (0.151)	
Industry-adjusted Tobin q <sub>t-1</sub>		-0.414*** (0.152)
Firm age <sub>t-1</sub>	-0.002 (0.001)	-0.014 (0.022)
Firm size <sub>t-1</sub>	0.011 (0.009)	-0.665*** (0.183)
Long-debt level <sub>t-1</sub>	-0.055 (0.122)	3.072 (1.942)
Sales growth <sub>t-1</sub>	0.002 (0.005)	-0.119** (0.056)
Board independence <sub>t-1</sub>	-0.016 (0.105)	0.573 (2.635)
Family control <sub>t-1</sub>	-0.022 (0.034)	1.412* (0.793)
Family divergence <sub>t-1</sub>	0.178** (0.072)	1.325 (1.613)
Dividend payout <sub>t-1</sub>	-0.006 (0.014)	-0.304 (0.305)
Interest coverage <sub>t-1</sub>	-0.012 (0.012)	-0.536** (0.216)

**Table 3.14 continued**

	(1)	(2)
Nonfamily ownership <sub>t-1</sub>	-0.018 (0.072)	0.185 (1.540)
State ownership <sub>t-1</sub>	0.042 (0.211)	2.815 (4.436)
Foreign ownership <sub>t-1</sub>	-0.003 (0.093)	-2.780 (2.101)
Institutional environment <sub>t-1</sub>	0.003 (0.004)	0.055 (0.075)
Industrial competition <sub>t-1</sub>	0.093 (0.095)	1.294 (3.798)
Early succession	-0.011 (0.014)	-0.035 (0.341)
Retire	-0.012 (0.028)	0.207 (0.407)
Postsuccession founder	0.009 (0.014)	-0.067 (0.292)
Industry & year dummies	Yes	Yes
Observations	236	204
R <sup>2</sup>	0.299	0.406
Adj. R <sup>2</sup>	0.128	0.232

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.15—The role of successors' trust level**

This table reports the results for testing whether the impact that successors' internal experience has on firm performance is contingent upon their trust levels for the founder. *Trust index* denotes a successor's trust level, measured by the number of the preceding *guanxi* identities (including being a family member of the founder) that the successor possesses. *Trust index\*Work* is the interaction term between *Trust index* and *Successor work*.

	Industry-adjusted ROA difference	Industry-adjusted Tobin q difference
	(1)	(2)
Trust index	-0.001 (0.013)	-0.133 (0.246)
Successor work <sub>t</sub>	-0.003 (0.002)	-0.030 (0.029)
Trust index*Work	0.002* (0.001)	0.030* (0.017)
Industry-adjusted ROA <sub>t-1</sub>	-0.453*** (0.144)	
Industry-adjusted Tobin q <sub>t-1</sub>		-0.426*** (0.148)
Firm age <sub>t-1</sub>	-0.001 (0.001)	-0.013 (0.022)
Firm size <sub>t-1</sub>	0.005 (0.010)	-0.699*** (0.188)
Long-debt level <sub>t-1</sub>	-0.103 (0.131)	3.241* (1.893)
Sales growth <sub>t-1</sub>	0.002 (0.005)	-0.111* (0.058)
Board independence <sub>t-1</sub>	-0.051 (0.141)	1.199 (2.621)
Family control <sub>t-1</sub>	0.012 (0.038)	1.409* (0.789)
Family divergence <sub>t-1</sub>	0.109 (0.083)	1.455 (1.659)
Dividend payout <sub>t-1</sub>	0.007 (0.017)	-0.206 (0.303)
Interest coverage <sub>t-1</sub>	-0.003 (0.013)	-0.566*** (0.214)
Nonfamily ownership <sub>t-1</sub>	-0.037 (0.088)	0.175 (1.478)
State ownership <sub>t-1</sub>	-0.182 (0.297)	1.202 (4.160)
Foreign ownership <sub>t-1</sub>	0.094 (0.127)	-2.805 (2.019)
Institutional environment <sub>t-1</sub>	0.004 (0.004)	0.054 (0.076)
Industrial competition <sub>t-1</sub>	0.067 (0.105)	1.790 (3.741)
Early succession	-0.023 (0.018)	-0.127 (0.342)
Retire	-0.029 (0.033)	0.216 (0.424)
Postsuccession founder	0.002 (0.012)	-0.043 (0.274)
Industry & year dummies	Yes	Yes
Observations	236	204
R <sup>2</sup>	0.327	0.398
Adj. R <sup>2</sup>	0.120	0.232

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 3.16—Definitions of variables**

<b>Variable</b>	<b>Definition</b>
<i>ROA</i>	Net income / total assets
<i>Industry-adjusted ROA</i>	<i>ROA</i> - the median <i>ROA</i> of the relevant industry and year
<i>Industry-adjusted ROA difference</i>	(Post-succession 2-year average <i>ROA</i> ) – (pre-succession 2-year average <i>ROA</i> )
<i>ROA<sub>t-1</sub></i>	<i>ROA</i> in year t-1
<i>Tobin q</i>	(Market value of equity + book value of debt) / book value of total assets, taking tradable stocks' market price as non-tradable stocks' market price
<i>Industry-adjusted Tobin q</i>	<i>Tobin q</i> - the median <i>Tobin q</i> of the relevant industry and year
<i>Industry-adjusted Tobin q difference</i>	(Post-succession 2-year average <i>Tobin q</i> ) – (pre-succession 2-year average <i>Tobin q</i> )
<i>Tobin q<sub>t-1</sub></i>	<i>Tobin q</i> in year t-1
<i>ROE</i>	Net income / equity
<i>OROA</i>	Earnings before interest and taxes (EBIT) / total assets
<i>Another measure of Tobin's q</i>	(Market value of equity + book value of debt) / book value of total assets, the value of non-tradable stocks is its book value
<i>Industry- and performance-adjusted ROA</i>	<i>Industry-adjusted ROA</i> - the median <i>Industry-adjusted ROA</i> of a control group of firms with similar performance
<i>Succession</i>	An indicator equal to 1 if the firm has experienced a leadership succession, and 0 otherwise
<i>Family</i>	An indicator equal to 1 if the successor is the founder's descendant, by blood or marriage, and 0 otherwise
<i>FamilyOrGuanxi</i>	An indicator equal to 1 if the successor is the founder's descendant or a nonfamily member having a <i>guanxi</i> with the founder, and 0 otherwise
<i>Guanxi</i>	An indicator equal to 1 if the successor is a nonfamily member having a <i>guanxi</i> with the founder, and 0 otherwise
<i>Trust index</i>	The number of the <i>guanxi</i> identities (including a descendant of the founder) that the successor has

<i>Successor work<sub>t</sub></i>	The number of years the successor has worked in the firm till the succession announcement year
<i>Successor manage<sub>t</sub></i>	The number of years the successor has worked as a director or a top manager in the firm till the succession announcement year
<i>Successor non-manage<sub>t</sub></i>	The difference between <i>Successor work<sub>t</sub></i> and <i>Successor manage<sub>t</sub></i>
<i>FamilyOrGuanxi*Work</i>	The interaction term between <i>FamilyOrGuanxi</i> and <i>Successor work<sub>t</sub></i>
<i>Family*Work</i>	The interaction term between <i>Family</i> and <i>Successor work<sub>t</sub></i>
<i>Guanxi*Work</i>	The interaction term between <i>Guanxi</i> and <i>Successor work<sub>t</sub></i>
<i>Trust index*Work</i>	The interaction term between <i>Trust index</i> and <i>Successor work<sub>t</sub></i>
<i>FamilyOrGuanxi*Manage</i>	The interaction term between <i>FamilyOrGuanxi</i> and <i>Successor manage<sub>t</sub></i>
<i>FamilyOrGuanxi*Non-manage</i>	The interaction term between <i>FamilyOrGuanxi</i> and <i>Successor non-manage<sub>t</sub></i>
<i>Firm size<sub>t-1</sub></i>	The natural logarithm of total assets in year t-1
<i>Firm age<sub>t-1</sub></i>	The number of years since the firm's founding year to year t-1
<i>Long-debt level<sub>t-1</sub></i>	Long-term debt / total assets in year t-1, where long-term debt is the borrowing with a maturity of more than 1 year
<i>Sales growth<sub>t-1</sub></i>	The difference in total sales between year t-1 and year t-2 divided by total sales in year t-2
<i>Board size<sub>t-1</sub></i>	The number of directors on the board in year t-1
<i>Board ownership<sub>t-1</sub></i>	Directors' ownership / total shares outstanding in year t-1
<i>Board independence<sub>t-1</sub></i>	The proportion of independent directors among the board directors in year t-1
<i>Family ownership<sub>t-1</sub></i>	The number of shares held by the family as a percentage of total shares outstanding in year t-1. If the family controls the firm indirectly through a pyramid structure, it is calculated as the product of the family's ownership stakes along the control chain.
<i>Family control<sub>t-1</sub></i>	The family's votes as a percentage of total votes outstanding in year t-1. If the family controls the firm through a pyramid structure, it is measured by the minimum voting stake along the control chain.
<i>Family divergence<sub>t-1</sub></i>	The difference between <i>Family control<sub>t-1</sub></i> and <i>Family ownership<sub>t-1</sub></i>
<i>Dividend payout<sub>t-1</sub></i>	Dividend per share as a percentage of earning per share in year t-1

---

<i>Interest coverage</i> <sub>t-1</sub>	An indicator equals to 1 if the interest coverage ratio, calculated as earnings before interest and tax divided by the total interest payable on bonds and other contractual debt, is greater than 2 in year t-1, and 0 otherwise
<i>Nonfamily ownership</i> <sub>t-1</sub>	The number of shares held by nonfamily block-holders/ total shares outstanding in year t-1, where block-holders are individuals or institutions holding at least 5% ownership
<i>State ownership</i> <sub>t-1</sub>	State-owned shares / total shares outstanding in year t-1
<i>Foreign ownership</i> <sub>t-1</sub>	Foreign shares / total shares outstanding in year t-1
<i>Institutional development</i> <sub>t-1</sub>	Fan et al.'s (2011) index of the market development levels for Chinese provinces in year t-1
<i>Industrial competition</i> <sub>t-1</sub>	$H = \sum_{i=1}^n S_i^2$ , where $S_i$ is the market share of firm $i$ (firm's sales as a percentage of sales for the same industry), $n$ is the number of firms in the industry
<i>Early succession</i>	An indicator equal to 1 if the founder leaves the leadership position before 65, and 0 otherwise
<i>Retire</i>	An indicator equal to 1 if the founder is reported to leave due to "retirement", and 0 otherwise
<i>Postsuccesion founder</i>	An indicator equal to 1 if the founder remains as a director or a top manager in the firm one year after the succession, and 0 otherwise

---

## **Chapter 4 Leadership successor decision and access to debt**

### **4.1 Introduction**

Chapter 3 has investigated the relationship between the leadership successor decision and firm performance in Chinese family firms. A natural follow-up question is, apart from firm performance, whether the successor decision affects the firm's other financial outcomes which are also important to the firm's longevity and development. This chapter attempts to provide some evidence on this question by exploring the impact that the successor choice may have on the firm's access to debt finance. The reason to focus on this outcome, as discussed in Chapter 1, is because debt financing is an important financing channel for Chinese family firms. Firstly, it can trade-off the firm owners' need for external finance and the aversion to control dilution (Amore et al., 2011). Secondly, it is critical to the firms' growth and development, as China's underdeveloped capital market makes debt capital, especially in the form of bank credit, become the key source of external finance for the firms (Fan et al., 2008; Cull et al., 2015).<sup>79</sup> Thirdly, unlike state-owned enterprises (SOEs) which enjoy soft budget constraints and financing preference terms provided by the government, family firms in China often face credit discrimination and suffer from financial constraints (Xu et al., 2013). Therefore, it is especially interesting and important to examine family firms' ability in debt financing in the context of China.

Family business founders, as mentioned in the previous chapters, often face a dilemma between appointing a family member and a nonfamily agent as the new leader of the firm. Firm leaders, in turn, have long been considered as playing a key role in shaping the firm's financial strategies and access to external finance (e.g., Minichilli et al., 2010; Amore et al., 2011). Motivated by these arguments, the first aim of this chapter is to explore whether family successors and their nonfamily

---

<sup>79</sup> The reason for this situation, as mentioned in Chapter 1, is because, in China, more than 70% of the financial resources are controlled by state-owned banks (Allen et al., 2005; Chen et al., 2013a; Shi, 2013).

counterparts have different impacts on the firm's access to debt finance in China's setting.

As reviewed in Chapter 3, several prior studies have compared the above two types of successors in terms of their impact on firm performance (e.g., Smith & Amoako-Adu, 1999; Pérez-González, 2006; Bennedsen et al., 2007; Cucculelli & Micucci, 2008). However, the attention to firms' debt financing is very scarce. To the best of my knowledge, Amore et al.'s (2011) study is the only one hitherto providing some evidence on this issue in the context of Italy. More specifically, the authors find that nonfamily succession firms exhibit a significant increase in debt level relative to their family succession counterparts. The authors attribute this finding to the fact that nonfamily agents are better able to identify or create more investment and growth opportunities to the firm, and thus need more funds to cope with those opportunities. Moreover, they find that the positive nonfamily succession-debt level relationship primarily stems from short-term debt, which confirms the above explanation, as short maturities are particularly appropriate for firms with more growth opportunities (Barclay & Smith, 1995; Johnson, 2003).

While the above study has investigated the role of family and nonfamily successors in determining the firm's debt finance, the exploration of this issue for family firms in China is still necessary and worthwhile. This is because, firstly, the business and institutional environment in China is different from that in Italy, which may cause the difference in the successors' behaviour and capability, and, in turn, affect the firm's financing policy and ability. For example, China's legal system is much weaker than that in Italy<sup>80</sup>, and thus nonfamily agents in China are more likely to behave opportunistically and self-interestedly (Burkart et al., 2003). In addition, affected by Confucian familism, Chinese people typically have a low degree of trust outside of kinship. These factors may aggravate the conflict between the controlling family and the leadership successor if the successor is a nonfamily member (Jensen & Meckling,

---

<sup>80</sup> Allen et al. (2005) compare the institutional environment in China with that in La Porta et al.'s (1998) sampled countries, in which Italy is included. While Allen et al.'s (2005) statistics show that China and Italy have similar scores in terms of creditor and shareholder protection systems, they also underline that the scores measure the legal system on paper rather than in practice. However, for a more practical measure, the quality of legal enforcement, China's scores are significantly lower than that of Italy. For example, for two key categories of "law enforcement", i.e. the "rule of law" and "government corruption", China is scored as 5 and 2, respectively, and yet Italy is scored as 8.33 and 6.13, respectively.

1976; Xu et al., 2015). This, in turn, may increase lenders' agency concerns of managerial opportunism in the family firm, and thus may adversely affect the firm's access to debt capital.

However, in the meantime, different from the founders in other economies having a large pool of heirs for a family succession, those in China typically face a much severer human capital constraint for a qualified family successor due to the one-child policy. This also casts doubt on the capabilities of family successors, including their ability in terms of fundraising.

In other words, the leadership successors' ability in financing should always be a special concern for family firms in China, no matter the successor is the founder's family member or not. This, in turn, may adversely affect the firm's access to debt finance after the succession. Considering the fact that most Chinese family firms have already viewed the limited access to credit resources as one of the main barriers to their growth and development (Li et al., 2008), the successors' impact on the firm's debt-financing becomes especially crucial for the firm's survival and longevity after the succession. Thus, this issue deserves special attention.

Moreover, Amore et al. (2011) interpret their finding, i.e. nonfamily successors are positively related to the firm's debt ratio, as a reflection of the successors' greater demand for funds to fulfil their investment needs. However, this interpretation may not apply to China's setting. More specifically, as mentioned in Chapter 1, the vast majority of financial resources in China are dominated by the government, and thus the allocation of the resources is often biased towards state-owned enterprises instead of their private counterparts, such as family businesses (Allen et al., 2005). In addition, Chinese private enterprises' smaller size, younger age, and lack of political support make them much riskier in the eyes of most lenders compared with SOEs (Xu et al., 2013). These factors impose difficulties in accessing debt capital and result in severe financial constraints in most Chinese family businesses (Xu et al., 2013; Cull et al., 2015). In this context, family firms' debt level is less likely determined by how much the successors demand, but more likely determined by how much they can raise. In other words, even if nonfamily successors indeed need more debt capital for investment, their firms' debt level may still not be necessarily higher, if they are less

capable of fundraising compared with family successors. Therefore, instead of analysing family firms' debt financing from the angle of the successors' investment demand, it should be more appropriate to explore the issue from the perspective of the successors' ability in debt financing in China's setting. Meanwhile, it is interesting and necessary to examine whether Amore et al.'s (2011) finding holds in China.

Furthermore, Amore et al.'s (2011) study has a small limitation, that is, they classify successors' family or nonfamily nature by surname affinity with the controlling family. However, it is still possible that some successors sharing the controlling family's surname are not their family members, and some who are not are *de facto* the family's in-laws. This may have an adverse impact on the validity and reliability of the authors' findings.

For the above reasons and the aforementioned importance of debt finance for Chinese family firms, family and nonfamily successors' impact on the firm's access to debt after the succession deserves a systematic investigation in the context of China.

In addition, as discussed in Chapter 1, the aforementioned credit discrimination against Chinese family businesses makes them have to heavily rely on their founders' specialised assets to compete for credit resources (Allen et al., 2005). In this context, successors' acquisition of the specialised assets should also play an important role in determining the firm's access to debt capital after the succession. Motivated by this conjecture, the second research purpose of this chapter is to explore whether successors' acquisition of the founder's specialised assets has an impact on the firm's post-succession access to debt finance.

To explore the above issue, following Chapter 3, successors' managerial experience in the firm before the succession is used as a proxy for their acquisition of the founder's specialised assets.<sup>81</sup> However, because the assets are accessible only to the founder's highly trusted members and the Chinese familism culture means that family business founders tend to have a low degree of trust outside of kinship, I posit that the above proxy may be applicable only to family successors. This, in turn, leads to my

---

<sup>81</sup> In Chapter 3, I use successors' pre-succession internal work experience as a proxy for their acquisition of the specialised assets. However, in later analysis, I find that it is the internal managerial experience, rather than non-managerial working time, helps the successors to acquire the assets.

hypothesis that family successors' pre-succession internal managerial experience is more conducive to the firm's access to debt, relative to their nonfamily counterparts' corresponding experience.

As to my empirical results, I find that family successors are significantly and negatively related to the firm's debt level<sup>82</sup> compared with nonfamily successors. This finding confirms my posit that family successors are less capable of debt financing compared with nonfamily agents. Although this finding is similar to the preceding Amore et al.'s (2011) result and thus might also be attributable to nonfamily agents' greater investment needs, my following results rule out this possibility. More specifically, I find that the negative family succession-debt level relationship mainly stems from the long-term debt level. This is different from Amore et al.'s (2011) result that the relationship is driven by short-term debt, thus inconsistent with their argument that short-term debt is particularly suitable for firms with more investment opportunities. Instead, the above finding further confirms my argument, as having good access to long-term debt has long been viewed as a reflection of superior ability in debt financing in China (e.g., Zou & Adams, 2008). Moreover, Amore et al. (2011) attribute nonfamily agents' greater investment demand to the more growth opportunities they bring in the firm, but I do not find a significant and positive impact of nonfamily successors on the firm's post-succession growth opportunities.

Furthermore, my results are robust to possible endogeneity issues, and my explanation for the results still holds after allowing for alternative interpretations other than the aforementioned one from Amore et al. (2011).

In addition, I find that family successors' pre-succession internal managerial experience has a significant and positive impact on the firm's debt level, in terms of not only short-term but also long-term debt. This supports my conjecture that family successors' managerial experience in the firm before the succession is more beneficial to the firm's access to debt than nonfamily successors' corresponding experience. The

---

<sup>82</sup> Based on the previous literature (Graham & Rogers, 2002; Zou & Adams, 2008; Amore et al., 2017), a firm's debt level is used as a proxy for its access to debt. Alternative proxies for the access to debt finance are also employed in this chapter.

reason behind is that family successors are more likely to acquire the specialised assets critical to the firm's access to debt finance via the experience, compared with nonfamily agents. The above finding, in turn, implies that family successors' inferior debt-financing ability can be significantly mitigated by the specialised assets that they obtain from the founder before the succession.

In addition, I find that the validity of the above result is contingent upon where the firm is located. Specifically, I find that the positive impact of family successors' pre-succession internal experience is much weaker in firms headquartered in provinces with a high marketisation level regarding resource allocation. This is because, in those provinces where the economic resource allocation is more market-oriented, i.e. based on rules and market principles, the contribution that the acquisition of the specialised assets can make to the firm's access to credit resources should be less significant.

Moreover, the above positive result also diminishes in firms located in provinces without a nationally famous Confucian centre. The reason is that the founders in those provinces should be less deeply affected by familism, and thus their specialised assets may be accessible to both family and nonfamily members.

Furthermore, apart from the short-term and long-term debt level, family successors' pre-succession internal experience is also positively related to the firm's debt maturity and access to credit loans, as well as negatively associated with the firm's cost of debt. This finding further confirms my posit that family successors' acquisition of the specialised assets greatly contributes to the firm's access to debt finance after the succession.

Moreover, by regarding the founders' political connections as a type of the specialised assets, I find that the connections can make a greater contribution to the firm's access to debt-financing after the succession if the successor is the founder's descendant rather than a nonfamily agent. This provides further support for the perspective that the specialised assets which are critical to the firm's access to debt capital are much more likely to be acquired by family successors relative to nonfamily agents.

Finally, after classifying nonfamily successors into those having a *guanxi* with the founder and those without a *guanxi*, I find that the former's pre-succession internal

experience has a positive impact on the firm's access to debt compared with the latter, and yet the impact is insignificant. However, this finding is inconsistent with my result in Chapter 2, which shows that both family and *guanxi*-connected successors' pre-succession internal experience has a significant and positive effect on firm performance. A possible reason for this inconsistency is that good firm performance and good access to debt finance may rely on different types of specialised assets. More specifically, the former should mainly rely on the founder's tacit knowledge, such as superior managerial and leadership skills and strategies. Such skills and strategies can be assimilated and internalised by a successor through observation and practice, as long as the founder *per se* is willing to share them with the successor and provides the successor with the opportunities to practice them (Bracci & Vagnoni, 2011). Hence, this type of specialised assets should be acquirable for both family successors and nonfamily successors having a *guanxi* with the founder. However, family firms' access to debt capital should primarily rely on the founder's personal connections with the lenders. This type of specialised assets may be difficult for *guanxi*-connected successors to acquire even if the founder provides them with the access to the lenders. This is because the lenders may be more willing to help and build a personal connection with a family successor due to his or her unique identity, i.e. the descendant of the founder, and the fact that he or she has become or will be the ultimate controller in the firm. However, a nonfamily successor having a *guanxi* with the founder may be less attractive to the lenders, because the successor's nonfamily identity makes him or her essentially similar to other nonfamily managers, i.e. the agents working for the controlling family instead of the genuine dominator of the firm.

This chapter has three major contributions. Firstly, it contributes to a better understanding of the difference between family and nonfamily successors in terms of their impact on the firm's financial consequences. Specifically, different from most researchers focusing on firm performance<sup>83</sup>, this chapter pays attention to the successors' effect on the firm's access to debt, an under-researched issue given the preceding importance of debt financing for family firms, especially the family firms

---

<sup>83</sup> E.g., Smith & Amoako-Adu (1999); Morck et al. (2000); Pérez-González (2006); Bennedsen et al. (2007); Cucculelli & Micucci (2008); Bertrand et al. (2008); Xu et al. (2015).

in China. Although there has been one study providing some evidence on the above issue (Amore et al., 2011), my research, as previously discussed, is different from that study in terms of the setting, the theoretical perspective, and the finding. This may provide some implications for researchers interested in similar issues in countries having a similar business environment as China, such as the government also dominates the majority of economic resources. For example, for researchers who would like to investigate the financing behaviour in private enterprises, apart from basing on the firm leaders' investment need to explore the issue, focusing on their ability to finance is also an appropriate research perspective.

In addition, unlike the extant research emphasising the importance of successors' acquisition of the founder's specialised assets from theoretical angles<sup>84</sup>, this chapter follows my previous chapter to provide more initial evidence on the impact that the successors' obtainment of the assets has on the firm's financial outcomes, in particular, the firm's access to debt finance. This enriches the literature on the specialised assets in family businesses.

Finally, this chapter offers a practical suggestion to family business founders who prefer a family successor and the founders' descendants who may inherit the business, that being a top executive in the firm before the succession can greatly remedy the descendant's potential inferior financing ability compared with nonfamily agents.

The remainder of this chapter is organised as follows. Section 4.2 reviews the literature. Section 4.3 develops the hypotheses. Section 4.4 describes the data collection and research design, Section 4.5 provides the empirical results, and Section 4.6 concludes.

## **4.2 Literature review**

### **4.2.1 The family management-debt financing relationship**

According to my research focus, the first stream of the relevant literature investigates the relationship between family management and the firm's debt financing. However,

---

<sup>84</sup> E.g., Bjuggren & Sund (2002); Lee et al. (2003); Sharma & Irving (2005); Royer et al. (2008).

the literature is limited (Anderson et al., 2003b; Chua et al., 2011; González et al., 2013; Pan & Tian, 2016). Among the limited literature, González et al. (2013) investigate the effect of family involvement on Colombian firms' capital structure, finding that family CEOs are related to a higher debt level, relative to nonfamily CEOs in both family and nonfamily businesses. They reason this result as that family managers tend to be more risk-averse than their nonfamily counterparts, thus preferring lower leverage in the firm. However, the authors, in turn, find that the negative impact of family CEOs mainly occurs in young and median-age firms. For old firms, that impact changes in sign and becomes positive. The authors view this finding as support for Fama and Jensen's (1983) argument, that family firms avoid high leverage at early stages due to risk aversion. However, as the firm grows, the family tends to prefer a higher debt level, in the hope of financing larger growth opportunities but without losing control in the firm.

Nevertheless, Chua et al. (2011) observe a contradictory result based on the US new ventures, indicating that the number of family managers is positively associated with the amount of debt capital acquired by the venture. The authors attribute this result to family managers' lower likelihood of opportunism, higher risk aversion, and long-term orientation, which may reduce the borrower-lender agency costs and thus may increase the firm's access to debt.

Apart from firms' level of debt, the impact of family managers on the firm's cost of debt also receives some attention. For example, Anderson et al. (2003b) focus on the S&P 500 firms and demonstrate that family CEOs tend to bear a higher cost of debt<sup>85</sup> than nonfamily CEOs. Moreover, the higher debt cost is mainly derived from descendant CEOs rather than the family business founders. The authors interpret this as that descendants are more likely to detract from firm performance, as their appointment is often based on nepotism instead of capabilities.

---

<sup>85</sup> Anderson et al. (2003b) use the firm's bond yield in excess of the Treasury yield as the measure of the firm's cost of debt. More specifically, the yield spread is calculated as the difference between the weighted-average yield to maturity on the firm's outstanding traded debt and yield to maturity on a Treasury security with the corresponding duration. Anderson et al. (2003b) employ this measure because it indicates the firm's debt risk premium.

In addition, Pan and Tian (2016) document a similar result by using Chinese private enterprises as the sample, although they use a different indicator of the firm's debt cost. More specifically, because most Chinese enterprises' debt capital comes from banks and the lending rate in China is relatively regulated, the authors measure the firm's cost of debt by its use of collateral for borrowing. Their result indicates that the use of collateral is higher for family firms with a family Chairman/CEO. Pan and Tian (2016) attribute this finding to family managers' stronger incentives and power to expropriate outside investors for private benefits.

Briefly speaking, the extant literature produces inconclusive findings regarding the role of family management in driving the firm's debt level. However, the evidence on the firm's debt cost is relatively unidirectional, i.e. family CEOs bear a higher cost relative to their nonfamily counterparts.

#### **4.2.2 Successors in family businesses**

The second strand of the relevant studies is those exclusively focusing on the successors in family firms. Given that family business founders often struggle between appointing a descendant and an unrelated agent as the successor, the comparison between these two types of successors regarding their impact on the firm's financial outcomes has received a lot of attention (e.g., Smith & Amoako-Adu, 1999; Morck et al., 2000; Pérez-González, 2006; Bennedsen et al., 2007; Cucculelli & Micucci, 2008; Bertrand et al., 2008; Amore et al., 2011; Xu et al., 2015). However, the majority of the literature appears to be interested in firm performance only. The relevant literature has been reviewed in Sections 3.3.3 and 3.3.5 of Chapter 3, and most of which demonstrates that family successors are adverse to firm performance relative to their nonfamily counterparts.

Although family and nonfamily successors' influence on firm performance is largely investigated, little is known about the impact of these two types of successors on other financial consequences, such as the firm's debt financing. As previously discussed, the aforementioned Amore et al.'s (2011) research appears to be the only one hitherto focusing on the above issue and shows that nonfamily successors lead to a significant increase in the firm's debt ratio compared with family successors in Italy. However,

as discussed in the above section, exploring the issue exclusively for China's setting is still worthwhile due to China's distinctive business environment.

### **4.2.3 The specialised assets in family businesses**

The third strand of relevant research relates to the role of family business founders' specialised assets in the succession process. Studies in this strand can further be classified into two branches. The first branch pays attention to the specialised asset-successor selection relationship, which has been reviewed in Chapter 2 (e.g., Lee et al., 2003; Royer et al., 2008; Xu et al., 2015).<sup>86</sup> The second branch focuses on the transfer process of the assets from the founder to the successor, which has also been discussed in Sections 3.3.6 and 3.3.7 of Chapter 3 (e.g., Cabrera-Suárez et al., 2001; Steier, 2001; Dou & Jia, 2008; Dou & Li, 2013).

## **4.3 Hypothesis development**

### **4.3.1 Family successor and access to debt**

Family successors have been widely viewed as less skilled and competent than nonfamily agents (e.g., Schulze et al., 2003; Pérez-González, 2006; Jiang & Peng, 2011). The main reason is the fact that family successors are selected from a much smaller pool of talents compared to nonfamily successors and are likely to be appointed due to nepotism rather than capability (e.g., Pérez-González, 2006). In this sense, incapable family successors are more likely to be prevalent in China's context. This is because the Chinese Confucian familism makes the founder more likely to base on nepotism to appoint the successor<sup>87</sup>, and China's one-child policy further and significantly restricts the pool for a qualified family successor<sup>88</sup>. In this case, it should be reasonable to hypothesise that family successors are less able to raise much debt

---

<sup>86</sup> Lee et al.'s (2003) study and Royer et al.'s (2008) study have been discussed in Section 2.2.1 of Chapter 2. Xu et al.'s (2015) research has been discussed in Section 2.2.4 of Chapter 2.

<sup>87</sup> Affected by Confucian familism, Chinese family business founders are very likely to consider the business as a family property that will be bequeathed to descendants and have the desire to keep family ownership and control over the business, and thus are more likely to choose a family successor regardless of the successor's capability (Zhang & Ma, 2009).

<sup>88</sup> China's one-child policy was enacted in late 1979 and has imposed significant human capital constraints on Chinese family business founders for their selection of a qualified family successor, as many of them have only one child (Cao et al., 2015).

capital relative to nonfamily agents. Moreover, banks *per se* are also less likely to grant much credit to family successors, because they may bear higher monitoring costs and default risks considering the family successors' potential incapability to manage the business. Therefore, the following hypothesis is developed:

H1a: Family successors are negatively related to the firm's access to debt, compared with nonfamily successors.

However, in the meantime, family successors are often viewed as having a stronger stewardship sense towards the firm relative to nonfamily agents (Miller & Le Breton-Miller, 2006).<sup>89</sup> This sense, according to the stewardship theory, may motivate family successors' long-term commitment to the firm, assiduous management of the firm, efficient utilisation of firm resources, and value-enhancing investment (Davis et al., 1997). This, in turn, may reduce the lenders' agency concerns of managerial opportunism, and thus may contribute to the firm's access to debt finance (Chua et al., 2011). Based on this discussion, the following hypothesis is postulated:

H1b: Family successors are positively related to the firm's access to debt, compared with nonfamily successors.

### **4.3.2 Successors' acquisition of the founder's specialised assets and access to debt**

As previously discussed, Chinese family business founders' specialised assets are critical to the firm's access to external finance (Allen et al., 2005; Chen et al., 2011).<sup>90</sup> In this case, whether successors can acquire the founder's specialised assets before the succession should be crucial to the firm's financing ability after the succession.

---

<sup>89</sup> Stewardship theory proponents contend that managers who are "insiders"- whose names are closely linked with the business and whose personal satisfaction, family fortune, and public reputation are tied to the business, may act as especially solicitous stewards of the business (Bubolz, 2001; Miller & Le Breton-Miller, 2005). In this case, family successors may identify strongly with the family business and view the success of the business as an extension of their well-being (Davis et al., 1997).

<sup>90</sup> As stated in the Introduction section in Chapter 1 and this chapter, this is due to the circumstance that, in China, it is the government who controls the majority of financial resources. As a result, the resources are usually allocated to SOEs instead of private enterprises, and family firms often suffer discrimination in terms of financing due to their younger age, smaller size, and lack of political support compared to SOEs. Thus, Chinese family firms have to heavily rely on their specialised assets, such as strategies and network resources, to compete for external finance (Allen et al., 2005; Chen et al., 2011). The specialised assets, as the resource-based view theorists suggest, are mainly derived from the founder's tacit knowledge and personal connections (Lee et al., 2003; Royer et al., 2008).

Chapter 3 has elaborated on the applicability of successors' internal experience before the succession, especially managerial experience, as a proxy for the successors' acquisition of the founder's specialised assets. Briefly speaking, the pre-succession internal managerial experience can help the successor to satisfy all the conditions critical to the acquisition and assimilation of the specialised assets. According to the resource-based view, those conditions include spending time with the founder<sup>91</sup>, working in the same environment with the founder<sup>92</sup>, observing the founder, practising the observed tacit knowledge and skills<sup>93</sup>, and directly getting in touch with the founder's connections<sup>94</sup>. However, because the founders' specialised assets are individual specific, distinctive, and very valuable, they tend to be accessible only to the founder's highly trusted members (Lee et al., 2003; Royer et al., 2008; Bracci & Vagnoni, 2011). Therefore, the proxy above may apply only to the successors highly trusted by the founder.

It has been widely accepted that family successors are more trustworthy than nonfamily agents for the founder (e.g., Cabrera-Suárez et al., 2001; Royer et al., 2008; Bennedsen et al., 2015). This case is more likely to happen in China's context, as under the influence of the traditional familism culture, Chinese people tend to have a low degree of trust towards nonfamily members (Xu et al., 2015). Therefore, it should be reasonable to conjecture that family successors' pre-succession internal managerial experience is highly related to their acquisition of the founder's specialised assets. Those assets include strategies and skills to attract and negotiate with potential

---

<sup>91</sup> The resource-based view theorists suggest that the time spent together between the founder and the successor is the main precondition of the transfer of the specialised assets (e.g., Hansen, 1999; Bracci & Vagnoni, 2011). This is because, the longer time the successor spends with the founder, the longer time and more opportunities the successor can have to get exposed to the founder's tacit knowledge and personal connections. As a result, the more opportunities the successor has to learn the knowledge, to get in touch with the connections and build good relationships with them, and in turn to transform the specialised assets into his or her own resources. In this regard, the managerial experience in the family firm can greatly increase the successor's time spent with the founder, as the founder should typically spend a lot of time in the firm.

<sup>92</sup> The founders' specialised assets are often highly context-specific (Cabrera-Suárez et al., 2001). Therefore, working in the same environment can help successors to learn and capture the nuances of the founder's skills and strategies in different circumstances.

<sup>93</sup> Researchers suggest that the only way to assimilate tacit knowledge is through observation and practice (Bracci & Vagnoni, 2011). In this regard, working as a top executive in the firm can provide the successor with opportunities to observe the founder and practise the observed skills in managerial and decisional processes.

<sup>94</sup> The internal managerial experience may help the successor to personally get access to the founder's business connections, and thus can provide him or her with the opportunities to build good relationships with the connections and in turn earn their recognition and trust.

lenders, the founder's personal connections with banks or other financial institutions, as well as political connections, all of which are critical to the firm's access to credit resources (Li et al., 2008; Bennedsen et al., 2015; Xu et al., 2015). However, nonfamily successors' corresponding experience may contribute less to their obtainment of the specialised assets. This is because, for the persons who are less trustworthy, the founder may limit their access to his or her specialised assets to avoid appropriation risk<sup>95</sup> (Lee et al., 2003; Bracci & Vagnoni, 2011). In this regard, family successors' pre-succession internal managerial experience, relative to their nonfamily counterparts' corresponding experience, should be more conducive to the firm's access to debt finance.<sup>96</sup> Therefore, the following hypothesis is postulated:

H2: Family successors' pre-succession internal managerial experience is positively related to the firm's access to debt, compared with nonfamily successors' corresponding experience.

## 4.4 Data and methods

### 4.4.1 Data collection

The sample used in this chapter is the same as in Chapter 2, i.e. 348 Chairman of the Board or CEO succession cases in Chinese family firms listed on the Shanghai or Shenzhen Stock Exchanges during 2003-2014, with the firm founder as the predecessor. The data collection process of the succession cases has been discussed in Section 2.5.1 of Chapter 2.

### 4.4.2 Research design

H1 investigates family successors' effect on the firm's access to debt relative to their nonfamily counterparts. H2 examines whether family successors' acquisition of the founder's specialised assets plays a role in determining the access. To these ends,

---

<sup>95</sup> The risk that those people may betray the family firm after the acquisition of the specialised assets or utilise the assets to ask for a much higher compensation (Lee et al., 2003).

<sup>96</sup> However, as discussed in Chapter 3, Chinese family business founders should also have a high level of trust towards their *guanxi*-connected members, and thus this type of successors should also have good access to the founder's specialised assets. This chapter also investigates the impact that *guanxi*-connected successors' pre-succession internal experience has on the firm's access to debt, and the corresponding results are provided and discussed in Section 4.5.4.5.

following the previous literature (e.g., Pérez-González, 2006; Bennedsen et al., 2007; Amore et al., 2011) and my Chapter 3, the DID analysis approach is employed via the following regression models:

$$\begin{aligned} \text{Debt difference}_{i,t} = & \alpha + \beta_1 \text{Family}_{i,t} + \beta_2 \text{Control variables}_{i,t-1} + \\ & \text{Industry}_{i,t} + \text{Year}_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (1)$$

$$\begin{aligned} \text{Debt difference}_{i,t} = & \alpha + \beta_1 \text{Family}_{i,t} + \beta_2 \text{Successor manage}_{i,t} + \beta_3 \text{Family} * \\ & \text{Manage}_{i,t} + \beta_4 \text{Control variables}_{i,t-1} + \text{Industry}_{i,t} + \text{Year}_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (2)$$

Models (1) and (2) are for H1 and H2, respectively, in which  $i$  indicates the firm and  $t$  indicates the succession year. The dependent variable,  $\text{Debt difference}_{i,t}$ , denotes the difference in the firm's access to debt between the post-succession and pre-succession period (e.g., Pérez-González, 2006).<sup>97</sup> Following the previous literature (e.g., Graham & Rogers, 2002; Zou & Adams, 2008; Amore et al., 2017), firms' total debt level, i.e. total debt scaled by total assets, is used to proxy for their access to debt finance.<sup>98</sup>

$\text{Debt difference}_{i,t}$  is calculated as the two-year average total debt level after the succession minus the two-year average total debt level prior to the succession (Amore et al., 2011).<sup>99</sup>

As to the main independent variables, in Model (1), *Family* is an indicator equal to one if the successor is the founder's descendant, by blood or marriage; otherwise, it equals zero. In Model (2), *Successor manage* denotes the successor's pre-succession internal managerial experience and is calculated as the number of the years that the

<sup>97</sup> Pérez-González (2006) suggests that applying the within-firm change around the succession as the dependent variable helps to reduce endogeneity concerns about time-invariant differences in firm characteristics, aggregate changes in the business environment such as macroeconomic shocks, or succession-specific shocks.

<sup>98</sup> Two alternative proxies for firms' access to debt are also used. The first one is the difference between the firm's debt level and the average debt level of the relevant industry and year. The rationale for this proxy is that a positive or negative difference between the firm's debt level and the industry average should indicate whether the firm has superior (above-average) or inferior (below-average) access to debt financing. The second proxy is the amount of the firm's debt financing, i.e. the value of the firm's total debt (without scaled by total assets), the use of which follows Li et al. (2008) and Chua et al. (2011). The results for the hypotheses based on these two alternative proxies are qualitatively similar to those based on the debt level as the proxy. The results are available upon request.

<sup>99</sup> Following the prior literature (e.g., Pérez-González, 2006; Bennedsen et al., 2007), an alternative time window from three years before the succession to three years after the succession is also employed. The relevant results are qualitatively similar to those obtained based on the above "two years ex-ante to two years ex-post" period. The results are available upon request.

successor has worked as a director or a top manager in the family business till the succession announcement year. *Family\*Manage*, therefore, is the interaction term between *Family* and *Successor manage*. This variable, as previously discussed, is a proxy for family successors' acquisition of the founder's specialised assets.

*Control variables* represents a series of firm-, governance-, and family-level factors one year prior to the succession, including *Firm age*, *Firm size*, *Debt level*, *Firm profitability*, *Sales growth*, *Business risk*, *Dividend payout*, *Interest coverage*, *Board size*, *Family ownership*, and *Family divergence*. The control for these variables, firstly, is attributed to the fact that they may have an impact on the firm's successor decision. The reasons why these variables may affect the successor choice and their definitions<sup>100</sup> have been elaborated in Sections 2.5.2 and 2.6.3.1 of Chapter 2. Secondly and also more importantly, these factors may play a role in determining the firm's debt level. For example, *Firm age* may have a positive impact on the firm's access to debt, as older firms are better able to create good credit histories, which help to reduce the perceived risk to lenders (e.g., Diamond, 1989; Leeth & Scott, 1989).

*Firm size* is considered because larger firms tend to have lower default risk and better reputation, which contribute to the firm's access to debt capital (e.g., Diamond, 1991; Petersen & Rajan, 1994; Zou & Adams, 2008).

*Debt level*, i.e. the firm's pre-succession debt level, is also controlled for, as a higher ex-ante debt level may reduce the firm's ex-post debt-financing ability (Molly et al., 2010).

*Firm profitability* is considered because banks are more prone to grant credit to financially healthier firms (e.g., Firth et al., 2009).

The incorporation of *Sales growth* is derived from the perspective that family firms with more growth opportunities tend to have a greater need for debt capital (Amore et al., 2011).

---

<sup>100</sup> The definitions of the variables are also described in Table 4.14.

The control for *Business risk* is attributed to the viewpoint that firms with higher business risk are more likely to lower the use of debt in order to safeguard against bankruptcy (e.g., Jensen et al., 1992; Mishra & McConaughy, 1999; López-Gracia & Sánchez-Andújar, 2007).

*Dividend payout* is often expected to be negatively related to the firm's debt level, as dividend and debt usually substitute for each other as a mechanism to alleviate the firm's free cash flow problem (Fama & French, 2002; Zou & Xiao, 2006).

*Interest coverage* is a dummy equal to one if the firm's interest coverage ratio is greater than two and zero otherwise. Its consideration is in light of Goergen and Renneboog's (2001) argument that interest coverage of less than two is typically a sign that the firm faces severe financial needs or financial constraints.

*Board size* is controlled for because it is documented to be negatively related to the firm's cost of debt (Anderson et al., 2004). Lower debt cost, in turn, may enable the firm to borrow more (Lim et al., 2018).<sup>101</sup>

The inclusion of *Family ownership* and *Family divergence*<sup>102</sup> stem from the evidence that owners with a greater shareholding tend to raise capital via debt instead of equity to avoid the dilution of their control over the business (Keasey et al., 2015). In addition, the control-ownership wedge may trigger the family's extraction of private benefits and thus may exacerbate the agency conflicts between the family and creditors (Claessens et al., 2002; Boubakri & Ghouma, 2010; Lin et al., 2011).

Finally, to control for industrial and temporal fixed effects, *Industry* denotes a set of industry dummies based on the industrial classification guide proposed by China

---

<sup>101</sup> My original regression model has also controlled for *Board independence* and *Board ownership*. However, *Board independence* is shown to be highly correlated with *Board size* (with a correlation coefficient of -0.575). Additionally, *Board ownership* is highly related to *Family ownership* (the coefficient is 0.521) and *Family divergence* (the coefficient is -0.595). Therefore, *Board independence* and *Board ownership* are excluded from the model.

<sup>102</sup> *Family control*, the measure of the family's voting rights, was also included in my original regression models. The current models exclude this variable because it is highly correlated with *Family ownership* (with a correlation coefficient of 0.878).

Securities Regulatory Commission (CSRC), and *Year* is a vector of year dummies from 2003 to 2014.

## **4.5 Empirical results and discussion**

### **4.5.1 Descriptive statistics**

#### **4.5.1.1 Summary statistics**

Table 4.1 reports the summary statistics of variables applied to the preceding models. The first variable, *Debt difference*, is the dependent variable, i.e. the change in the firm's total debt level during the succession period. The mean of this variable is 0.36%, indicating that the sample, on average, experiences an increase in debt level during the succession. However, the median of *Debt difference* is zero, implying that the debt level, in fact, remains stable in the majority of the sampled firms during the succession period. In addition, the table shows that the sampled successors' average internal managerial experience before the succession is 3.48 years, and yet there is at least one successor who has worked as a top manager in the firm for 15 years before becoming a leader of the firm.

[Insert Table 4.1 about here]

#### **4.5.1.2 Comparison between family and nonfamily successions**

Table 4.2 compares family successions with nonfamily successions in terms of the variables. It indicates that the dependent variable, i.e. the difference between the post-succession and pre-succession debt levels, is significantly lower in firms with a family successor relative to those with a nonfamily one. This is in line with my H1a, i.e. family successors are negatively related to the firm's access to debt in comparison to their nonfamily counterparts. Moreover, the family succession group is shown to have a significantly higher debt level one year prior to the succession. This suggests that the change in the firm's access to debt around the succession is indeed caused by the

succession event *per se*, rather than merely a reflection of the firm's pre-succession trend in debt financing.

Furthermore, family successors' pre-succession internal managerial experience is significantly longer than that of nonfamily successors. Except for the aforementioned ones, the rest of the variables are insignificantly different between the family succession and nonfamily succession groups.

[Insert Table 4.2 about here]

#### **4.5.1.3 Correlation among variables**

Table 4.3 presents the correlation matrix for the aforementioned variables. It shows that all the independent variables do not have a high pairwise correlation. Moreover, the dependent variable, *Debt difference*, is significantly and negatively correlated with the variable of interest, *Family*. This further supports my H1a.

[Insert Table 4.3 about here]

#### **4.5.2 Baseline regression results**

##### **4.5.2.1 Family successions and the firm's access to debt (H1)**

Table 4.4 presents the results for H1. Column (1) indicates that family successors are significantly and negatively related to the firm's debt level after the succession, compared with their nonfamily counterparts. This confirms H1a, and thus suggests that family successors are less capable of raising debt capital relative to nonfamily successors. The reason behind, as discussed in the hypothesis development section, may be that the Chinese familism culture makes the family business founders more likely to base on nepotism rather than capabilities to choose a family successor. Moreover, China's one-child policy further limits the small talent pool for a family successor compared with that for a nonfamily successor. Furthermore, financial institutions are also less likely to grant much credit to family successors, as the latter's potential inability to manage the business may lead to high monitoring costs and default risks to the former.

Columns (2) and (3) report the results after dividing the firm's total debt level into long-term and short-term debt levels. The long-term (short-term) debt level is the proxy for the firm's access to the corresponding debt finance. Similar to the measurement of the total debt level, the long-term debt level is measured as long-term debt scaled by total assets, in which long-term debt is defined as the firm's borrowing with a maturity of more than one year (e.g., Fan et al., 2008; Yang et al., 2012). Correspondingly, the short-term debt level is calculated as the firm's short-term debt, i.e. the borrowing with a maturity of not greater than one year, divided by total assets. The dependent variable in Column (2), similar to that in Column (1), is measured as the difference between the average long-term debt level two years after and that two years before the succession. The dependent variable in Column (3) is the corresponding difference for the firm's short-term debt level.

The results indicate that the preceding negative impact of family successions is mainly driven by long-term debt, as family successors do not exhibit a significantly different effect on the firm's short-term debt level, relative to nonfamily successors. This result is different from the aforementioned Amore et al.'s (2011) finding, i.e. the negative relationship between family successors and the firm's debt level is derived from short-term debt.<sup>103</sup> This further confirms my argument that the lower debt level in family succession firms is caused by the successors' inferior debt-financing ability relative to nonfamily agents. This is because having good access to long-term loans, compared with the access to short-term debt, has been much more widely regarded as a reflection of superior ability in terms of debt financing in the previous literature, especially in the context of underdeveloped financial market and weak creditor protection, such as in China (e.g., Houston & James, 1996; Zou & Adams, 2008; Bennedsen et al., 2015). More specifically, managers normally prefer long-term rather than short-term debt, as the former can avoid frequent monitoring from the creditors, alleviate financial constraints with lower liquidity risk, and allow the managers to invest in projects with a relatively long-term horizon (e.g., Datta et al., 2005; Fagiolo & Luzzi, 2006; D'Aurizio et al., 2015; Díaz-Díaz et al., 2016). However, creditors are

---

<sup>103</sup> As mentioned before, Amore et al. (2011) also observe a negative impact of family successions on the firm's debt level and reason that nonfamily agents need more funds for the more growth opportunities they bring to the firm. Moreover, they argue that their additional finding, i.e. the negative effect mainly stems from short-term debt, further supports their reasoning, because short-term debt is more suited for firms with greater growth opportunities.

less likely to grant long-term loans, as they may cause higher monitoring costs and default risks (e.g., Chen, 2004; Fan et al., 2008; Zou & Adams, 2008). In this case, long-term debt is much less common in economies with weak legal protections for creditors, such as China, as lenders *per se* have to monitor the borrowers more frequently and effectively (Zou & Adams, 2008). Therefore, in such a context, managers or firms having good access to long-term debt finance are often viewed as having a great capability of debt-financing.

[Insert Table 4.4 about here]

#### **4.5.2.2 Family successors' acquisition of the founder's specialised assets and the firm's access to debt (H2)**

In H2, successors' pre-succession internal managerial experience is used to proxy for their acquisition of the founder's specialised assets. However, this proxy should be more applicable to family successors rather than nonfamily agents. This is because the former, compared to the latter, are much more likely to acquire the specialised assets which are critical to the firm's access to debt finance via the internal managerial experience before the succession. In this case, I hypothesise that family successors' pre-succession intra-firm managerial experience has a significant and positive impact on the firm's access to debt, compared with nonfamily successors' corresponding experience.

Table 4.5 reports the results. It shows that the interaction term, *Family\*Manage*, is significant and positive in all columns. This suggests that family successors' pre-succession internal managerial experience has a significant and positive effect on the firm's access to debt capital after the succession, not only in terms of the access to short-term debt capital but also in terms of that to long-term debt. This confirms H2. Thus, it in turn supports the argument that family successors' internal managerial experience before the succession can greatly help them acquire the founder's specialised assets which are crucial to the firm's access to credit resources, and thus significantly contributes to the firm's access to debt after the succession. However, nonfamily successors' corresponding experience may be much less helpful for the acquisition of the assets. The above result, in turn, implies that family successors'

inferior ability in debt financing compared with nonfamily agents, which has been demonstrated in the above section, can be significantly mitigated by the specialised assets that they acquire from the founder before the succession.

[Insert Table 4.5 about here]

### **4.5.3 Robustness checks**

Three sets of checks are conducted in this section to examine the validity and robustness of the above results. The checks include extending the regression models with more control variables, the instrumental variables approach to alleviate endogeneity issues, and several tests to rule out alternative explanations.

#### **4.5.3.1 The extension of the baseline models**

The preceding regression models have included a number of firm-, governance-, and family-level factors widely controlled for in the previous literature. However, there also exist some factors much less prevalent in the literature but may still play a role in determining either the successor choice or the firm's debt level. Therefore, in this section, the baseline models are extended by another vector of pre-succession firm-level, environmental, and succession-specific variables, to explore whether the above findings are *de facto* due to the overlook of those factors.

The firm-level factors include *Nonfamily ownership*, *State ownership*, *Foreign ownership*, *Asset tangibility*, *Cash holding*, and *Income tax rate*. More specifically, *Nonfamily ownership* is the ratio of the number of shares held by the firm's nonfamily block-holders to the total shares outstanding, where block-holders are individuals or institutions holding at least 5% ownership of the firm (Villalonga & Amit, 2006). Including this variable is because nonfamily large shareholders can not only affect the controlling family's decision-making, such as the choice of the successor, but also corporate behaviour, such as the firm's financing activities.

*State ownership* and *Foreign ownership* are two unique types of nonfamily ownership. There is evidence showing that in China, having the state as a minority shareholder contributes to the firm's bank finance (Zou & Xiao, 2006; Firth et al.,

2009; Lim et al., 2018). Moreover, foreign shareholders may demand a higher debt level in the firm as a monitoring mechanism of the management (Zou & Xiao, 2006; Huizinga et al., 2008). These two variables are calculated as the corresponding shareholding, i.e. the number of shares held by the state or foreign investors, as a percentage of the total shares outstanding.

*Asset tangibility* is the firm's fixed assets scaled by total assets. Controlling for this factor is because firms having more tangible assets can provide more security for borrowing, which may increase lenders' willingness to grant credit (Zou & Adams, 2008; Lim et al., 2018).

*Cash holding* is the sum of cash and cash equivalents scaled total assets (Anderson & Reeb, 2003b). The inclusion of this factor stems from the argument that firms with greater internal funds have less need for external financing (Mishra & McConaughy, 1999; Amore et al., 2011).

*Income tax rate* is defined as the ratio between income tax expense and earnings after interest and before tax. It is considered because firms facing a higher tax rate have stronger incentives to increase the use of debt, in order to reduce tax burden (López-Gracia & Sánchez-Andújar, 2007).

In addition to the above firm-level characteristics, two contextual factors, i.e. *Institutional environment* and *Industrial competition*, are also considered. These two factors are also controlled for in the previous two chapters due to their possible impact on the successor decision in family firms. This is also the reason for their consideration in this chapter. The definitions of these two factors have been described in Section 2.6.3.1 of Chapter 2 and are also presented in Table 4.14.

Finally, three succession-specific factors controlled for in Chapter 3, i.e. *Early succession*, *Retire*, and *Postsuccession founder*, are also considered in this chapter, for the reason that they may have an effect on the successor decision (Pérez-González, 2006). The definitions of these factors are also described in Table 4.14.

Table 4.6 reports the regression results after incorporating the above variables into the preceding baseline regression models. It can be seen that the results are statistically

similar to those drawn from the baseline models, thus verifying the robustness of my findings.

[Insert Table 4.6 about here]

#### 4.5.3.2 Endogeneity

Even though the DID analysis approach is applied in the preceding sections, there still exists a concern that the above results are driven by some variables not captured by the models yet affecting both the firm's successor choice and change in the access to debt finance during the succession period. To mitigate this concern, the instrumental variables approach is employed. More specifically, two instruments for variable *Family* are used. Following Xu et al. (2015), the first one is *Founder age*, defined as the founder's age one year prior to the succession. This variable has been documented to be positively related to the likelihood of a family succession in Chapter 2.

However, the founder's age before the succession is unlikely to have a direct impact on the change in the firm's debt level around the succession event. The second instrumental variable is based on a family planning rate reported by the National Bureau of Statistics of China annually for provinces in China. The rate is calculated as the number of newborns whose birth complies with China's one-child policy as a percentage of the number of total newborns for each province in each year. It is a comprehensive index of the efficiency and effectiveness of the one-child policy across Chinese provinces (the National Bureau of Statistics of China, 2006). Based on this index, my second instrumental variable is *Family planning*, calculated as the average of the family planning rates in the firm's headquartered province for the years before the succession. This variable is expected to be negatively correlated with the appointment of a family successor. This is because the more efficient the policy in the province, the higher is the likelihood that the founders located in that province have only one child, which has been proved to have a significantly negative impact on the founder's intention of a family succession (Cao et al., 2015). However, the province-level family planning rate is unlikely to affect an individual family firm's variation in debt level around the leadership transition. The data for *Family planning* comes from the Chinese Population and Employment Statistics Yearbook from 2006 to 2013.

Columns (1) and (3) of Table 4.7 present the results of the first-stage regressions where the dependent variable is *Family*. Consistent with my predictions for the instruments, the coefficients of *Founder age* are significant and positive and those of *Family planning* are significant and negative at the 10% level or better. In addition, the first-stage F-statistics are highly significant as well as greater than both Staiger and Stock's (1997) rule of thumb, ten, and the maximum critical value provided by Stock and Yogo (2005).<sup>104</sup> This suggests that my instruments are not weak. Moreover, the p-values for Hansen's J over-identification test are not significant, indicating that both the instruments are valid (Hansen, 1982).

More importantly, in the second-stage analysis (Columns (2) and (4)), *Predicted (Family)*, the variable with the predicted values of *Family* from the first-stage regressions, is significantly and negatively related to *Debt difference* and *Long-debt difference*. This is consistent with my prior results for H1a, thus suggesting that the results are not due to the potential endogeneity of *Family*.

There is some concern that the first instrument, the founder's age before the succession, may affect the firm's pre-succession characteristics, such as the pre-succession debt level, which in turn may impact the change in the debt level during the succession period. However, as can be seen from the previous sections, most pre-succession factors have already been considered as long as they may have an impact on the firm's debt level theoretically or empirically. In addition, the aforementioned statistics for the F-test and Hansen's J test confirm the validity of both instruments. Moreover, the reported p-values for the Durbin-Wu-Hausman endogeneity test indicate that *Family*, in fact, is exogenous in the regressions (Durbin, 1954; Wu, 1973; Hausman, 1978). Therefore, the validity and robustness of the existing results for H1a should not be affected by the above concern for *Founder age* as one of the instruments.

Furthermore, the exogeneity of *Family*, in turn, should imply that the results for H2 are also not subject to the endogeneity issues. This is because, *Successor manage per*

---

<sup>104</sup> It is worth noting that according to Wooldridge (2010), maximum-likelihood estimation, compared with 2SLS estimation, is more appropriate for a small sample and regressions with a binary endogenous variable. Therefore, the Stock-Yogo critical value is for the maximum-likelihood estimation.

se, in fact, is insignificantly related to *Debt difference*, *Long-debt difference*, and *Short-debt difference*.<sup>105</sup> However, the interaction term, i.e. *Family\*Manage*, is significantly and positively associated with the dependent variables. Nevertheless, it is unlikely to exist an omitted variable that can make *Successor manage* and *Family\*Manage* have statistically different effects on the dependent variables, except the variable *Family*. Hence, *Family\*Manage* should also be an exogenous variable in the regressions. This suggests that my previous results for H2 are also valid and robust.<sup>106</sup>

[Insert Table 4.7 about here]

### 4.5.3.3 Alternative explanations

While the existing results for H1a support the view that the negative family succession-debt level relationship is due to the successors' lower debt-financing ability relative to nonfamily agents, alternative interpretations may still exist. For example, the preceding descriptive statistics show that the family succession group has a significantly higher debt level than its nonfamily counterpart before the succession. In this case, family successors *per se* may choose to reduce the debt level to alleviate the associated high risk of financial distress, and in turn safeguard against bankruptcy (Mishra & McConaughy, 1999; López-Gracia & Sánchez-Andújar, 2007). To test this conjecture, the PSM method is employed to obtain a subsample in which the family and nonfamily succession groups have a statistically similar debt level prior to the succession.<sup>107</sup> Column (1) of Table 4.8 presents the result based on the post-matched subsample. It indicates that family successors are still significantly and negatively related to the firm's debt level change relative to nonfamily successors,

---

<sup>105</sup> The results are available upon request.

<sup>106</sup> I have still employed the instrumental variables approach to test for H2, where the instruments are the interaction term between *Founder age* and *Successor manage* as well as that between *Family planning* and *Successor manage*. The results show that the variable for the predicted values of *Family\*Manage* is still significantly and positively related to *Debt difference*, *Long-debt difference*, and *Short-debt difference*. This is in line with my existing results for H2. Moreover, the p-values for the Durbin-Wu-Hausman endogeneity test are 0.425, 0.663, and 0.713, respectively. This confirms the exogeneity of *Family\*Manage*. The results are available upon request.

<sup>107</sup> The propensity score matching generates a subsample of 70 family succession cases and their matched 70 nonfamily succession cases. An untabulated t-test result for the subsample indicates that the debt level one year before the succession in the family succession group is insignificantly different from that in the nonfamily succession group, as the p-value for the result is 0.2.

even if their firms have a similar debt level before the succession. This finding rules out the above conjecture.

Apart from the high financial risk caused by high debt levels, a high level of business risk derived from high earnings volatility can also trigger financial distress in the firm (Bradley et al., 1984; Fama & French, 2002; Zou & Xiao, 2006). Therefore, it is also likely that the family succession group happens to have a higher level of business risk before the succession. This, in turn, forces the successor to reduce the firm's debt level to keep the firm's total risk of bankruptcy at a manageable level (Jensen et al., 1992; Mishra & McConaughy, 1999). If this is the case, firstly, the pre-succession business risk level in the family succession group should be higher than that in the nonfamily succession group. Secondly, the correlation between the family succession and the debt level in firms with high business risk is expected to be significantly different from that in firms with low risk. This is because, compared with family successors exposed to high business risk, those in low-risk firms may have little incentive to reduce their total risk exposure by lowering the use of debt.

However, the statistics regarding *Business risk* in Table 4.2 show that family succession firms do not have significantly different levels of business risk before the succession relative to nonfamily succession companies. Moreover, in Columns (2) and (3) of Table 4.8, the sample is split into subsamples with low (below-median) or high (above-median) business risk, and separate regressions are estimated for each subsample. After comparing the coefficient of *Family* in Column (2) with that in Column (3) via a Chow test, the p-value for the test result indicates that the relationship between family successors and the firm's debt level is not significantly different across the two groups. Therefore, the above alternative explanation for H1a can also be excluded.

Another possible explanation is that the family controllers in nonfamily succession firms may happen to have weak controlling power, and thus enforce higher debt levels on the nonfamily successor to increase outside supervision (Amore et al., 2011; González et al., 2013). More specifically, the conflict of interests between the controlling family and the nonfamily successor may cause the successor to behave

opportunistically and self-interestedly (Jensen & Meckling, 1976).<sup>108</sup> In this case, for the controlling family, forcing the successor to take on more debt can reduce the free cash available to him or her for opportunistic behaviours (Chen & Strange, 2005). Moreover, a higher debt level can also increase the outside monitoring from the creditors, thus helping the controlling family to mitigate the agency costs from the potential managerial opportunism (González et al., 2013; Sun et al., 2016). However, for family succession firms, the family controllers have little incentive to use debt as a governance device due to the high alignment of interests between the controllers and the successor.

Two tests are conducted for the above possibility. Firstly, the family's controlling power before the succession is compared between the family and nonfamily succession groups. Two of the control variables, *Family ownership* and *Family divergence*, as well as variable *Family control*, are used as the indicators of the controlling power (e.g., Villalonga & Amit, 2006; Villalonga & Amit, 2009; Ansari et al., 2014). The comparison reported in Table 4.2 shows that none of the three variables is significantly different between the two groups.<sup>109</sup> This suggests that the families in nonfamily succession firms do not have a significantly lower controlling power than their counterparts in family succession firms.

Secondly, the sample is classified into firms in which the family has weak (below-median) or strong (above-median) controlling power one year prior to the succession. The classification is based on the above three variables and aims at investigating whether the negative (positive) correlation between family (nonfamily) successions and the firm's debt level attenuates in firms where the family has strong controlling power. The rationale for this conjecture is that the families with strong control over the firm should have much less need to resort to creditors to monitor the nonfamily successor's behaviour.

---

<sup>108</sup> For example, the successor may transfer the firm's resources to his or her personal benefit via building 'empires' or consuming perquisites such as corporate jets, luxurious offices etc. (Chen & Strange, 2005).

<sup>109</sup> As mentioned earlier, *Family control* is not controlled for in the regressions due to its high correlation with *Family ownership*, and thus the comparison of this variable between the family and nonfamily succession groups is not reported in Table 4.2. However, the unreported comparison result shows that *Family control* is also insignificantly different between the two groups.

For brevity, only the results for the grouping based on *Family control*, i.e. the most direct measure of the control rights of the family, are reported in Columns (3) and (4) of Table 4.8.<sup>110</sup> Contrary to the conjecture, the results show that the negative family succession-debt level relationship is even stronger in firms highly controlled by the family. Moreover, the corresponding p-value for the Chow test suggests that notwithstanding the coefficient of *Family* is more negative for the firms strongly controlled by the family, it is still insignificantly different from that for the firms weakly controlled by the family.

The above results confirm that the much higher debt level in nonfamily succession firms, i.e. the existing finding for H1a, is not a governance mechanism used by the controlling family to monitor the nonfamily successor's management.

Apart from the above alternative interpretations, the result for H1a may also be explained by the aforementioned Amore et al.'s (2011) viewpoint, that nonfamily successors can bring more growth opportunities to the firm, and thus need more funds for those opportunities. Nevertheless, Column (5) of Table 4.8 documents that *Family* is insignificantly related to the post-succession two-year average sales growth ratio, where the ratio is often employed as a proxy for firms' growth opportunities (e.g., Chen & Strange, 2005; Cao et al., 2015; Liu & Xue, 2015). This indicates that family and nonfamily successors do not have a significantly different impact on the firm's growth opportunities after the succession, and thus inconsistent with Amore et al.'s (2011) explanation.

Another possible reason for the result is that family succession firms have already reserved enough internal funds before the succession, such as having a high level of cash holding, and thus have less need for debt to finance the successor's investment (Amore et al., 2011).<sup>111</sup> However, an unreported t-test result indicates that the family succession group, in fact, has a significantly lower cash holding ratio one year before

---

<sup>110</sup> Although the results for the classifications based on *Family ownership* and *Family divergence* are not tabulated, they are qualitatively similar to those reported for *Family control*.

<sup>111</sup> The pecking order theory suggests that managers tend to finance their investment in the order of internal funds, debt, and equity (Myers, 1984; Myers & Majluf, 1984).

the succession relative to the nonfamily succession group.<sup>112</sup> Therefore, the above reason can also be ruled out.

Moreover, if the result for H1a, i.e. family succession firms experience a significant decrease in debt level compared with nonfamily succession firms, indeed is derived from family successors' or the family's own choice due to the preceding reasons, the finding for H2 would not exist. For example, if it indeed is family successors *per se* choosing to use less debt to decrease the bankruptcy risk or having less need for debt due to the fewer growth opportunities or more internal funds of the firm, the successors' acquisition of the specialised assets would not have a significant and positive impact on the firm's debt level.

Given the above discussion, it can be concluded that the finding for H1a indeed can be attributed to family successors' inferior ability in term of debt financing relative to their nonfamily counterparts. Nevertheless, such disadvantage of family successions can be greatly mitigated by the successors' acquisition of the founder's specialised assets before the succession.

[Insert Table 4.8 about here]

#### **4.5.4 Additional analysis**

This section provides several additional analyses for the existing results. The analyses consider the potential impact of regional marketisation level and cultural atmosphere, alternative proxies for firms' access to debt, the founders' political connections as a type of the specialised assets, and the role of *guanxi*-connected nonfamily successors.

##### **4.5.4.1 Does the regional marketisation level matter?**

As previously discussed, the majority of financial resources in China are dominated by the state-owned banks and thus tend to be allocated to state-owned enterprises. However, private enterprises, such as family businesses, are often subject to credit discrimination and having limited access to external finance due to the lack of

---

<sup>112</sup> As mentioned earlier, *Cash holding* is the sum of cash and cash equivalents scaled by total assets (Anderson & Reeb, 2003b). The mean of the one-year pre-succession cash holding ratio in family succession firms is 0.22, which is significantly lower than that in nonfamily succession firms (0.26) at the 5% level.

government support (Li et al., 2008; Liu et al., 2013). This causes that family firms have to heavily rely on the founder's specialised assets, such as political connections or personal ties with banks, to obtain loans (Allen et al., 2005; Li et al., 2008). This, in turn, results in my finding for H2, i.e. family successors' acquisition of the specialised assets significantly contributes to the firm's access to debt finance after the succession. Given such a context, it should be reasonable to posit that the validity of the above finding is contingent upon the region where the firm is located. This is because, as mentioned in Chapter 2, there exists a great heterogeneity in the degree of marketisation of Chinese provinces. As a result, the controlling power of the local government in allocating economic resources varies across different provinces (Fan et al., 2009). More specifically, the government intervention in resource allocation typically is much heavier in provinces with a low marketisation level. As a result, family firms in those provinces are more likely to be unfairly treated on credit allocation, and thus the role of the founder's specialised assets in debt financing becomes especially important. On the contrary, in provinces where resource allocation is more market-oriented, banks are more likely to distribute credit based on rules and market principles rather than the borrowers' political support or personal relationship with the banks (Yang et al., 2012). Therefore, for family firms located in those provinces, the role of the founders' personal specialised assets in determining the firm's access to credit resources should be less important. As a direct consequence, the contribution that the successors' acquisition of the assets can make to the firm's access to debt capital should be less significant.

Based on the above discussion, I posit that the result for H2, i.e. the positive relationship between family successors' acquisition of the specialised assets and the firm's debt level, is weaker in firms located in provinces with a high degree of marketisation in the local resource allocation.

To test the above posit, the sample is divided into firms whose headquartered provinces have a low (below-median) or high (above-median) level of marketisation in terms of economic resource allocation one year prior to the succession. Such grouping is based on Fan et al.'s (2011b) index, "the importance of the market in economic resource allocation", for each province in China. The higher the index value

of a province, the more important is the role of the market in economic resource allocation in that province (Fan et al., 2011b). Whether a firm's headquartered province has a low (high) marketisation level, therefore, is defined as whether the index value of the firm's headquartered province is below (above) the sample median.

Table 4.9 reports the results for H2 across the above groups. Columns (1) and (2) show that the coefficients of *Family\*Manage*, the interaction term denoting family successors' acquisition of the founder's specialised assets, are significantly and positively related to *Debt difference* in both groups. However, the coefficient is lower and less significant among firms whose headquartered province has a high marketisation level (Column (2)). In addition, when using *Long-debt difference* and *Short-debt difference* as the dependent variables, Columns (3) to (6) indicate that the coefficient of the interaction term is positive and significant only in the "low marketisation" group. These results, together, support the aforementioned posit, thus confirming that the contribution of the successors' acquisition of the specialised assets to the firm's access to debt indeed is contingent on where the firm is located.

[Insert Table 4.9 about here]

#### **4.5.4.2 Does the cultural atmosphere matter?**

As previously mentioned, only the persons highly trustworthy for the founder have access to the founder's personal specialised assets (Lee et al., 2003). Moreover, the Confucian familism culture makes Chinese people tend to have a low degree of trust towards nonfamily members (Xu et al., 2015). Therefore, I contend that family successors' pre-succession internal managerial experience can greatly help them to acquire the founder's specialised assets, and yet nonfamily successors' corresponding experience may be much less helpful. This, in turn, leads to my H2, that family successors' managerial experience in the firm before the succession is more conducive to the firm's access to debt finance, relative to their nonfamily counterparts' corresponding experience. However, the degree to which Chinese people are influenced by the traditional culture may be heterogeneous across regions (Yan & Sorenson, 2006). Therefore, in this section, I conjecture that whether family

and nonfamily successors have different access to the founder's specialised assets depends on how strong the founder is affected by familism.

Based on my discussion in Chapter 2, familism is one of the core values of Confucianism (Zhang & Ma, 2009). Moreover, firms located in regions with nationally famous Confucian centres, i.e. the places where Confucius has lived for a long time to spread his philosophy, should be surrounded by strong Confucianism atmosphere (Du, 2015).<sup>113</sup> As a result, the founders in those firms should be more deeply edified by Confucian familism, and thus their specialised assets are more likely to be obtainable only to family successors. On the contrary, the founders in regions without a Confucian centre may be less deeply affected by familism, and thus less likely to have a low level of trust outside of kinship. In this case, nonfamily successors may have similar access to the specialised assets as their family counterparts. As a result, the significantly positive impact that family successors' pre-succession internal managerial experience has on the firm's access to debt, i.e. the finding for H2, may diminish.

To test the above conjecture, the sample is divided into firms whose headquartered provinces have or do not have a Confucian centre. Table 4.10 presents the results for H2 across the two groups of firms. Columns (1), (2), (5), (6) indicate that when the dependent variable is *Debt difference* or *Short-debt difference*, the coefficient of *Family\*Manage* is more positive and only significant for the firms headquartered in provinces with a Confucian centre. Moreover, for *Long-Debt difference* (Columns (3) and (4)), while *Family\*Manage* is significant and positive in both groups, the coefficient is still higher and more significant among firms having a Confucian centre in the headquartered province. These results are consistent with my conjecture, i.e. the greater contribution that family successors' pre-succession internal managerial

---

<sup>113</sup> Confucius used to travel to different places to promote his philosophy. Because of his tremendous and profound impact in Chinese history, those places where he has lived for a long time, to accept students and spread his theory, have become nationally famous monuments in China, which are often called Confucian centres (Du, 2015). China has 31 provinces, yet only seven provinces, i.e. *Shandong, Sichuan, Henan, Fujian, Jiangsu, Zhejiang, and Jiangxi*, have a Confucian centre. In this case, family firms located in those provinces should be surrounded by strong Confucianism atmosphere relative to other firms. Therefore, the founders of those firms, compared with their counterparts in other regions, should be much more deeply affected by Confucianism.

experience can make to the firm's access to debt attenuates if the founder is not strongly affected by Confucian familism.

[Insert Table 4.10 about here]

#### **4.5.4.3 Alternative proxies for firms' access to debt**

Apart from the debt level, whether a firm has superior access to debt financing may also be reflected in some other aspects, such as debt maturity, the cost of debt, and the access to credit loans (Zou & Adams, 2008; Díaz-Díaz et al., 2016; Pan & Tian, 2016). Hence, this section applies the above alternative proxies for firms' access to debt to test for H1 and H2. Following the prior literature, debt maturity is often measured as the firm's long-term debt divided by total debt (e.g., Fan et al., 2008; Díaz-Díaz et al., 2016). The cost of debt is usually calculated as the firm's interest expenses scaled by its average short- and long-term debt during the year (e.g., Pittman & Fortin, 2004; Bliss & Gul, 2012). The longer the debt maturity and the lower the debt cost, the greater the firm's access to the credit market.

Moreover, the outstanding loans in Chinese enterprises can mainly be divided into three types, i.e. collateral, guaranteed, and credit loans (Chen et al., 2013f; Pan & Tian, 2016). Credit loans, based on the designation, are the loans granted by the lenders without any collateral or guarantee requirement. This type of loans is typically unlikely to be obtained by private enterprises in China, due to their small size, young age, and the lack of political support, as well as the weak creditor protection systems in China (Chen et al., 2013c). Given such a context, having access to credit loans can also be an indicator of having good access to credit resources for family firms in China.

Table 4.11 reports the results. *Debt maturity difference* is the difference in the firm's debt maturity between the post- and pre-succession period and calculated as the two-year average ratio of long-term debt to total debt after the succession minus the corresponding ratio before the succession. *Debt cost difference* is measured as the firm's two-year average cost of debt after the succession minus that before the succession. *Credit loan* is a dummy equal to one if the firm has credit loans during the

two years after the succession and zero otherwise. Moreover, three additional control variables, *Debt maturity*<sub>*t-1*</sub>, *Debt cost*<sub>*t-1*</sub>, and *Past credit loan*<sub>*t*</sub>, are employed for the corresponding dependent variables. Specifically, *Debt maturity (Debt cost)*<sub>*t-1*</sub> is the firm's debt maturity (cost of debt) one year prior to the succession. *Past credit loan*<sub>*t*</sub> is a dummy equal to one if the firm has credit loans during the two-year pre-succession period and zero otherwise.

As to the regression results, Column (1) indicates that family successors are significantly and negatively related to the firm's debt maturity compared with nonfamily agents. This is consistent with the aforementioned result for H1a, that the negative impact of family successions on the firm's debt level is mainly derived from the decrease in long-term debt. However, Columns (3) and (5) show that family and nonfamily successors do not have a significantly different impact on the firm's cost of debt and access to credit loans.

In addition, Columns (2), (4), and (6) document that the coefficient of *Family\*Manage* is significant and positive for *Debt maturity difference* and *Credit loan*, yet significant and negative for *Debt cost difference*. This suggests that family successors' acquisition of the specialised assets can not only increase the firm's debt maturity and likelihood to have credit loans<sup>114</sup>, but also decrease the firm's cost of debt. This finding further supports my H2.

[Insert Table 4.11 about here]

#### 4.5.4.4 Founders' political connection as a specialised asset

Due to the dominant role of the government in economic resource allocation in China, the founders' political connections have become one of the most important specialised assets for Chinese family firms (Xu et al., 2015). The connections can bring huge benefits to the firms, including better access to financing (Li et al., 2008). However, because the founders' personal valuable assets are accessible only to their highly

---

<sup>114</sup> For this test, I have also attempted to use the change in the firm's percentage of credit loans during the two-year pre-succession to two-year post-succession period as the dependent variable, in which the percentage of credit loans is measured as the ratio of credit loans to total debt. However, due to the extensive missing information about firms' credit loans in CSMAR, only the period from one year before to one year after the succession has enough observations for the regression test. The result shows that the coefficient of *Family\*Manage* is significant and positive at the 1% level, which is qualitatively similar to the result reported in Table 4.11.

trusted members, family successors may have better access to the founder's political connections, relative to their nonfamily counterparts. This leads to another conjecture, i.e. the founders' political connections are more beneficial to the firm's post-succession access to debt if the successor is the founder's descendant rather than a nonfamily agent.

For the above conjecture, two additional variables are employed, i.e. *Political connection* and *Family\*Political connection*. Specifically, *Political connection* is a dummy equal to one if the founder has a political identity before the succession and zero otherwise. As defined in Chapter 2, the political identity can be: a current or former officer of either the central government or a local government; currently or formerly serving in any institutions or organisations directly affiliated with the central or a local government; or a current or former representative of the National People's Congress (NPC), the Chinese People's Political Consultative Conference (CPPCC), or the National Congress of Communist Party of China (NCCPC). *Family\*Political connection*, thereby, is the interaction term between *Family* and *Political connection*. The results are reported in Table 4.12. It indicates that *Family\*Political connection* is significantly and positively related to the firm's debt level (Column (1)), which is mainly driven by the increase in the short-term debt (Column (3)). Moreover, the interaction term is significantly and negatively associated with the firm's cost of debt (Column (5)). However, when the dependent variable becomes the long-term debt level, the debt maturity, or the access to credit loans (Columns (2), (4), and (6)), the interaction term turns to be insignificant. Although *Family\*Political connection* is not significantly related to all the proxies for firms' access to debt finance, the results still provide some evidence for the aforementioned conjecture.

[Insert Table 4.12 about here]

#### **4.5.4.5 Guanxi-connected nonfamily successors**

As discussed in the previous two chapters, Chinese family business founders should also have a high level of trust towards their *guanxi*-connected nonfamily members. Therefore, the founders should also be willing to transfer their specialised assets to nonfamily successors having a *guanxi* with them. In other words, those *guanxi*-

connected successors should also have good access to the founder's specialised assets, and thus can acquire the assets through pre-succession internal experience. This posit has been confirmed in the previous chapter, as I find that both family and *guanxi*-connected successors' pre-succession internal experience has a significant and positive impact on firm performance after the succession. Given this finding, in this section, successors are classified into family successors, *guanxi*-connected successors, and successors without a *guanxi*. This classification helps me to explore whether apart from family successors, *guanxi*-connected successors' pre-succession internal managerial experience can also significantly improve the firm's access to debt finance after the succession.

Table 4.13 presents the results. *Family*, the same as in the above sections, is a dummy equal to one if the successor is the founder's descendant and zero otherwise. *Guanxi* is also a dummy, which equals one if the successor is a nonfamily member having a *guanxi* with the founder and zero otherwise.<sup>115</sup> The independent variables of interest in the table are *Family\*Manage* and *Guanxi\*Manage*, where the former is still the interaction term between *Family* and *Successor manage* and the latter is that between *Guanxi* and *Successor manage*.

The results show that the coefficients of *Family\*Manage* are still significant and positive in all three columns, consistent with my previous results. *Guanxi\*Manage* is also positive, yet insignificant for the dependent variables. This suggests that for nonfamily successors who are *guanxi*-connected, their pre-succession internal managerial experience does not have a significantly different impact on the firm's access to debt, compared with their counterparts without a *guanxi*. An appropriate interpretation is that even if the founders *per se* are willing to transfer their specialised assets to both family and *guanxi*-connected successors, some assets critical to the firm's access to credit resources in China, such as personal connections with banks, are much more difficult for the *guanxi*-connected successors to acquire. This is because the connected banks may be more willing to help and build good

---

<sup>115</sup> Following my previous chapters, a nonfamily successor is defined as *guanxi*-connected with the founder if he or she has one of the following identities: 1) sharing the same surname with the founder; 2) sharing the same birthplace or native place (the same province) with the founder; 3) graduating from the same college or university as the founder; 4) being the founder's former colleague before the startup of the family firm; 5) acting as a director or a top manager in more than one company controlled by the founder before the succession; and 6) joining the family firm at its start-up stage, i.e. the first three years after the setting-up of the company.

relationships with family successors due to their unique connection with the founder, i.e. the blood ties, and the fact that they have become or will be the ultimate controller in the firm. However, *guanxi*-connected successors may be less attractive to the banks, because the nonfamily identity makes the successors essentially similar to other nonfamily successors, i.e. the agents working for the controlling family rather than the genuine dominator of the firm.

Moreover, a possible reason for the inconsistency between the above finding and that in my previous chapter is that firm performance should mainly rely on the leader's tacit knowledge, such as the business founder's superior managerial and leadership skills and strategies. This tacit knowledge can be absorbed by a successor through observation and practice, as long as the founder is willing to provide the successor with the access to the knowledge and opportunities to practice it (Bracci & Vagnoni, 2011). Thus, such knowledge is obtainable for both family successors and nonfamily successors having a *guanxi* with the founder. However, family firms' access to credit resources should primarily rely on the founder's personal relationships with banks or other financial institutions, which, as discussed above, should be much more easily for family successors to transform into their own resources because of their special identity.

[Insert Table 4.13 about here]

## 4.6 Conclusion

This chapter explores the role that the successor decision plays in determining the firm's access to debt finance in Chinese family firms. To this end, first, I investigate whether the choice of a family or nonfamily successor has a significantly different influence on the firm's access to debt after the succession. Based on the DID analysis approach, I find that family successors have a significant and negative impact on the firm's access to debt capital, compared with their nonfamily counterparts. This is in line with my H1a, thus supporting my argument that family successors *per se* are less capable of debt financing relative to nonfamily agents. In addition, I document that the result is mainly driven by the access to long-term debt. This further supports my argument, as having superior access to long-term debt finance has long been regarded

as a reflection of great debt-financing ability in China's setting (e.g., Zou & Adams, 2008). Moreover, the results and the argument for the results still hold after ruling out endogeneity concerns and alternative explanations.

Secondly, I explore whether successors' acquisition of the founder's specialised assets contributes to the firm's access to debt finance. Following the previous chapter, I use successors' pre-succession internal managerial experience to proxy for their obtainment of the assets. I posit that this proxy is more applicable to family successors relative to nonfamily agents due to family business founders' much higher level of trust towards the former. This, in turn, results in my H2 that family successors' managerial experience in the firm before succession is more conducive to the firm's access to debt, compared with nonfamily successors' corresponding experience. My empirical result confirms this hypothesis, showing that family successors' pre-succession internal managerial experience has a significant and positive effect on the firm's access to not only short-term loans but also long-term loans. This, in turn, implies that family successors' weaker debt-financing ability can be greatly alleviated by the specialised assets that they acquire from the founder.

In addition, I find that the validity of the above result for H2 attenuates if the firm's headquartered province has a high degree of marketisation in the local financial resource allocation and the founder is not surrounded by strong Confucianism atmosphere.

Moreover, family successors' pre-succession internal managerial experience is also shown to have a significant and positive impact on the firm's debt maturity and access to credit loans, and a significant and negative impact on the firm's debt cost. This further confirms that family successors' acquisition of the founder's specialised assets greatly contributes to the firm's access to debt finance.

Finally, my results indicate that the founders' political connections, as a type of the specialised assets, are more beneficial to the firm's access to debt after the succession if the successor is the founder's descendant instead of a nonfamily member. This further supports my argument for H2, that the founders' specialised assets which are

critical to the firm's access to credit resources are more easily to be obtained by their descendants compared with nonfamily agents.

In general, the contributions of this chapter are three-folded. Firstly, it complements people's understanding of the economic consequences of the successor decision in Chinese family firms, by going beyond firm performance measures to explore whether the choice of a family or nonfamily successor has an impact on the firm's debt financing.

Secondly, this chapter, following Chapter 3, provides more original evidence on the importance of successors' acquisition of the founder's specialised assets for the firm's survival and development after the succession. As previously mentioned, the importance of the assets for family businesses have long been highlighted in theory by researchers (e.g., Cabrera-Suárez et al., 2001; Lee et al., 2003; Bracci & Vagnoni, 2011), and yet have never been empirically examined.

Finally, this chapter may provide a useful suggestion to family business founders' descendants who may take over the leadership position in the future, that their internal managerial experience before the succession can provide them with sufficient opportunities to transform the founder's specialised assets into their own resources. This, in turn, can greatly mitigate their potential inferior capability of fundraising relative to nonfamily agents.

## Chapter 4 Tables

**Table 4.1—Summary statistics**

This table provides summary statistics of variables, in which the first variable is the dependent variable, i.e. the difference in the firm's total debt level between the two-year post-succession and two-year pre-succession period. The rest are the independent variables. It is worth noting that the statistics are provided after winsorising all continuous variables at the 1% and 99% percentiles.

Variable	N	Mean	Std	Median	Min	Max
Debt difference (%)	266	0.36	10.56	0	-31.52	24.55
Firm age <sub>t-1</sub>	348	11.35	5.06	11	3	25
Ln(total assets) <sub>t-1</sub>	348	21.14	0.89	21.12	19.29	23.83
Debt level <sub>t-1</sub> (%)	348	16.51	14.54	14.5	0	60.57
Firm profitability <sub>t-1</sub> (%)	295	4.57	5.49	4.37	-10.84	22.29
Sales growth <sub>t-1</sub> (%)	295	34.85	165.59	14.68	-67.75	1609.59
Business risk <sub>t-1</sub>	183	0.04	0.07	0.02	0	0.48
Dividend payout <sub>t-1</sub> (%)	348	26.49	30.99	19.3	0	176.96
Interest coverage <sub>t-1</sub>	348	0.59	0.49	1	0	1
Board size <sub>t-1</sub>	346	8.52	1.49	9	5	12
Family ownership <sub>t-1</sub> (%)	343	33.96	17.39	30	7.43	75
Family divergence <sub>t-1</sub> (%)	343	6.92	8.24	3.33	0	28.35
Successor manage <sub>t</sub>	347	3.48	3.02	3	0	15

**Table 4.2—Comparison between family and nonfamily successions**

This table reports the mean comparisons between family and nonfamily succession firms in terms of the variables in the previous table. Column (1) reports the means of the variables for the family succession group and Column (0) lists the means for the nonfamily succession group. Column “Mean difference” reports the results of the difference in means t-test for each variable.

Variables	Family successions (1)	Nonfamily successions (0)	Mean difference (1-0)
Debt difference (%)	-2.61	1.42	-4.04***
Firm age $t-1$	11.63	11.25	0.37
Ln(total assets) $t-1$	21.28	21.1	0.18
Debt level $t-1$ (%)	19.15	15.6	3.55**
Firm profitability $t-1$ (%)	4.61	4.55	0.06
Sales growth $t-1$ (%)	35.82	34.5	1.32
Business risk $t-1$	0.03	0.04	-0.01
Dividend payout $t-1$ (%)	28.38	25.84	2.54
Interest coverage $t-1$	0.61	0.58	0.02
Board size $t-1$	8.66	8.47	0.19
Family ownership $t-1$ (%)	34.23	33.86	0.37
Family divergence $t-1$ (%)	7.94	6.58	1.36
Successor manage $t$	4.1	3.27	0.83**

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 4.3—Correlation matrix**

This matrix reports the Pearson correlation coefficients for the dependent and independent variables.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Debt difference (1)	1													
Family (2)	-0.17***	1												
Firm age $t-1$ (3)	-0.06	0.03	1											
Firm size $t-1$ (4)	0.02	0.09	0.22***	1										
Debt level $t-1$ (5)	-0.25***	0.11**	0.14***	0.12**	1									
Firm profitability $t-1$ (6)	0.01	0	-0.09	0.13**	-0.40***	1								
Sales growth $t-1$ (7)	0.08	0	0.19***	-0.03	-0.04	0.18***	1							
Business risk $t-1$ (8)	0.03	-0.09	0.16**	-0.24***	0.23***	-0.06	0.18**	1						
Dividend payout $t-1$ (9)	-0.04	0.04	-0.23***	-0.08	-0.21***	0.16***	-0.12**	-0.22***	1					
Interest coverage $t-1$ (10)	-0.05	0.02	-0.02	0.24***	0.15***	0.20***	-0.09*	-0.12	-0.03	1				
Board size $t-1$ (11)	0	0.05	-0.09	0.16***	0.04	0.08	-0.02	0.01	0.04	0.03	1			
Family ownership $t-1$ (12)	0.15**	0.01	-0.24***	-0.02	-0.31***	0.16***	0.01	-0.04	0.05	-0.08	-0.04	1		
Family divergence $t-1$ (13)	-0.16***	0.07	0.17***	0.24***	0.17***	0.01	0.06	0.05	-0.04	0.16***	0.07	-0.37***	1	
Successor manage $t$ (14)	-0.12**	0.12**	0.18***	0.28***	0.05	-0.08	0.01	-0.1	-0.11**	0.09	0.06	-0.23***	0.15***	1

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 4.4—Family successions and the firm’s access to debt**

This table provides the results of the DID analysis of the comparison between family and nonfamily successors in terms of their effect on the change in the firm’s debt level around the succession. The dependent variables, *Debt difference*, *Long-debt difference*, and *Short-debt difference*, are the difference between the two-year average total debt level after the succession and that before the succession, as well as the corresponding differences for the long-term debt level and short-term debt level. *Family* is the independent variable of interest, equal to one if the successor is a descendant of the founder, by blood or marriage; otherwise, it equals zero. All the other variables are the controls for pre-succession firm-, governance-, and family-level characteristics, as well as industry and year fixed effects.

	Debt difference	Long-debt difference	Short-debt difference
	(1)	(2)	(3)
Family	-0.040** (0.019)	-0.018** (0.010)	-0.010 (0.016)
Debt level $t_{-1}$	-0.221*** (0.080)		
Long-debt level $t_{-1}$		-0.346*** (0.097)	
Short-debt level $t_{-1}$			-0.188*** (0.071)
Firm age $t_{-1}$	0.001 (0.002)	0.001 (0.002)	0.001 (0.002)
Firm size $t_{-1}$	0.024** (0.012)	0.002 (0.007)	0.027** (0.011)
Firm profitability $t_{-1}$	-0.571** (0.274)	0.043 (0.089)	-0.556** (0.230)
Sales growth $t_{-1}$	0.008 (0.005)	0.003 (0.003)	0.001 (0.003)
Interest coverage $t_{-1}$	0.022 (0.021)	0.022* (0.011)	0.001 (0.020)
Dividend payout $t_{-1}$	-0.074*** (0.028)	-0.035* (0.019)	-0.061** (0.027)
Business risk $t_{-1}$	0.111 (0.198)	0.067 (0.075)	0.036 (0.183)
Board size $t_{-1}$	0.008 (0.007)	-0.004 (0.004)	0.011** (0.005)
Family ownership $t_{-1}$	0.088 (0.071)	-0.018 (0.043)	0.050 (0.062)
Family divergence $t_{-1}$	-0.327** (0.128)	-0.098 (0.085)	-0.202* (0.108)
Industry & year dummies	Yes	Yes	Yes
Observations	161	161	178
R <sup>2</sup>	0.311	0.400	0.271
Adj. R <sup>2</sup>	0.158	0.267	0.128

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 4.5—Family successors' acquisition of the founder's specialised assets and the firm's access to debt**

This table presents the results of the comparison between family and nonfamily successors regarding the effect that their managerial experience in the firm before the succession has on the firm's debt level. *Successor manage* therefore denotes the number of the years that the successor has worked as a director or a top manager in the family business till the succession announcement year. *Family\*Manage* is the interaction term between *Family* and *Successor manage*. All other variables are defined as the same as in the prior table.

	Debt difference	Long-debt difference	Short-debt difference
	(1)	(2)	(3)
Family	-0.136*** (0.036)	-0.069*** (0.019)	-0.066** (0.033)
Successor manage <sub>t</sub>	-0.007** (0.003)	-0.004** (0.002)	-0.005* (0.003)
Family*Manage	0.019*** (0.006)	0.010*** (0.003)	0.011** (0.005)
Debt level <sub>t-1</sub>	-0.227*** (0.077)		
Long-debt level <sub>t-1</sub>		-0.385*** (0.098)	
Short-debt level <sub>t-1</sub>			-0.185** (0.071)
Firm age <sub>t-1</sub>	0.002 (0.002)	0.001 (0.002)	0.002 (0.002)
Firm size <sub>t-1</sub>	0.030*** (0.012)	0.007 (0.007)	0.032*** (0.011)
Firm profitability <sub>t-1</sub>	-0.570** (0.266)	0.039 (0.084)	-0.553** (0.228)
Sales growth <sub>t-1</sub>	0.007* (0.004)	0.003 (0.003)	0.001 (0.003)
Interest coverage <sub>t-1</sub>	0.026 (0.021)	0.024** (0.011)	0.001 (0.019)
Dividend payout <sub>t-1</sub>	-0.089*** (0.026)	-0.043** (0.019)	-0.063** (0.025)
Business risk <sub>t-1</sub>	0.099 (0.195)	0.061 (0.071)	0.027 (0.185)
Board size <sub>t-1</sub>	0.007 (0.006)	-0.005 (0.004)	0.010** (0.005)
Family ownership <sub>t-1</sub>	0.068 (0.070)	-0.033 (0.044)	0.038 (0.064)
Family divergence <sub>t-1</sub>	-0.304** (0.128)	-0.087 (0.084)	-0.184* (0.110)
Industry & year dummies	Yes	Yes	Yes
Observations	161	161	178
R <sup>2</sup>	0.363	0.444	0.297
Adj. R <sup>2</sup>	0.209	0.310	0.148

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 4.6—The consideration of other firm-level, environmental, and succession-specific characteristics**

This table reports the results after controlling for another set of firm- and environment-level as well as succession-specific factors in the baseline regression models. The definitions of all variables are described in Table 4.14.

	Debt difference		Long-debt difference		Short-debt difference	
	(1)	(2)	(3)	(4)	(5)	(6)
Family	-0.048** (0.022)	-0.137*** (0.040)	-0.026** (0.011)	-0.078*** (0.018)	-0.008 (0.019)	-0.058 (0.035)
Successor manage <sub>t</sub>		-0.007* (0.003)		-0.005*** (0.002)		-0.005 (0.003)
Family*Manage		0.018*** (0.006)		0.010*** (0.002)		0.010** (0.006)
Debt level <sub>t-1</sub>	-0.157** (0.078)	-0.178** (0.075)				
Long-debt level <sub>t-1</sub>			-0.353*** (0.098)	-0.401*** (0.100)		
Short-debt level <sub>t-1</sub>					-0.131* (0.070)	-0.137* (0.071)
Firm age <sub>t-1</sub>	0.001 (0.002)	0.002 (0.002)	-0.000 (0.002)	0.000 (0.002)	0.001 (0.002)	0.002 (0.002)
Firm size <sub>t-1</sub>	0.020* (0.012)	0.029** (0.011)	0.003 (0.007)	0.010 (0.007)	0.024** (0.011)	0.029** (0.011)
Firm profitability <sub>t-1</sub>	-0.563** (0.251)	-0.560** (0.246)	-0.022 (0.101)	-0.014 (0.096)	-0.498** (0.218)	-0.487** (0.218)
Sales growth <sub>t-1</sub>	0.006 (0.005)	0.006 (0.004)	0.003 (0.003)	0.003 (0.003)	0.001 (0.003)	0.001 (0.003)
Business risk <sub>t-1</sub>	0.152 (0.198)	0.141 (0.196)	0.067 (0.082)	0.056 (0.078)	0.048 (0.177)	0.039 (0.181)
Dividend payout <sub>t-1</sub>	-0.062* (0.033)	-0.079** (0.031)	-0.035 (0.023)	-0.046** (0.023)	-0.054* (0.030)	-0.057** (0.029)
Interest coverage <sub>t-1</sub>	0.023 (0.021)	0.030 (0.021)	0.022* (0.012)	0.026** (0.012)	0.003 (0.020)	0.004 (0.020)
Board size <sub>t-1</sub>	0.007 (0.007)	0.007 (0.007)	-0.005 (0.004)	-0.005 (0.004)	0.010* (0.005)	0.009* (0.005)
Family ownership <sub>t-1</sub>	0.107 (0.078)	0.079 (0.076)	-0.022 (0.048)	-0.041 (0.047)	0.056 (0.073)	0.043 (0.073)
Family divergence <sub>t-1</sub>	-0.307** (0.123)	-0.292** (0.124)	-0.054 (0.083)	-0.046 (0.079)	-0.214* (0.114)	-0.202* (0.117)
Nonfamily ownership <sub>t-1</sub>	-0.044 (0.118)	-0.076 (0.124)	-0.006 (0.048)	-0.033 (0.050)	-0.112 (0.105)	-0.129 (0.108)
State ownership <sub>t-1</sub>	0.289 (0.337)	0.223 (0.364)	-0.003 (0.180)	-0.025 (0.183)	0.591 (0.363)	0.560 (0.378)
Foreign ownership <sub>t-1</sub>	-0.522 (0.555)	-0.857 (0.532)	-0.908** (0.360)	-1.146*** (0.353)	0.390 (0.559)	0.194 (0.533)
Asset tangibility <sub>t-1</sub>	-0.020 (0.090)	-0.007 (0.087)	-0.052 (0.049)	-0.041 (0.047)	0.000 (0.074)	0.014 (0.071)

<b>Table 4.6 continued</b>						
	(1)	(2)	(3)	(4)	(5)	(6)
Cash holding $t-1$	0.106 (0.084)	0.119 (0.078)	-0.012 (0.048)	-0.006 (0.045)	0.070 (0.074)	0.075 (0.071)
Income tax rate $t-1$	0.185 (0.114)	0.146 (0.118)	0.116** (0.056)	0.093* (0.053)	0.022 (0.100)	-0.008 (0.104)
Institutional environment $t-1$	-0.008 (0.006)	-0.008 (0.006)	-0.001 (0.003)	-0.001 (0.003)	-0.005 (0.005)	-0.004 (0.005)
Industrial competition $t-1$	-0.116 (0.187)	-0.078 (0.190)	-0.019 (0.082)	0.006 (0.082)	-0.085 (0.135)	-0.064 (0.137)
Early succession	-0.012 (0.033)	-0.013 (0.035)	-0.035** (0.015)	-0.038** (0.016)	0.025 (0.026)	0.025 (0.028)
Retire	0.074 (0.055)	0.043 (0.061)	-0.003 (0.034)	-0.017 (0.039)	0.055 (0.038)	0.042 (0.038)
Postsuccession founder	0.006 (0.021)	0.002 (0.019)	0.015 (0.012)	0.014 (0.011)	0.009 (0.017)	0.007 (0.016)
Industry & year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	161	161	161	161	178	178
R <sup>2</sup>	0.371	0.412	0.466	0.512	0.319	0.339
Adj. R <sup>2</sup>	0.161	0.203	0.287	0.338	0.120	0.134

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 4.7—Two-stage regression analysis for H1**

This table presents the results for H1 via two-stage regressions. Columns (1) and (3) report the first-stage regression results where the dependent variable is *Family*, the dummy equal to one if the successor is a descendant and zero otherwise. The first instrumental variable, *Founder age*, is the founder's age one year prior to the succession. The second instrument, *Family planning*, is the average family planning rate in the firm's headquartered province for the pre-succession years. Columns (2) and (4) present the second-stage regression results. The dependent variables, *Debt difference* and *Long-debt difference*, are defined as the same as in the above tables. The independent variable of interest, *Predicted (Family)*, is the predicted value of *Family* from the first-stage regressions. All other control variables are the same as those in the baseline regression models. Industry and year effects are also included.

	Family	Debt difference	Family	Long-debt difference
	1 <sup>st</sup> Stage	2 <sup>nd</sup> Stage	1 <sup>st</sup> Stage	2 <sup>nd</sup> Stage
	(1)	(2)	(3)	(4)
Founder age $t-1$	0.026*** (0.005)		0.026*** (0.005)	
Family planning	-0.017* (0.010)		-0.018* (0.010)	
Predicted (Family)		-0.082* (0.046)		-0.046* (0.024)
Debt level $t-1$	0.073 (0.263)	-0.186** (0.081)		
Long-debt level $t-1$			-0.169 (0.547)	-0.338*** (0.084)
Firm age $t-1$	0.006 (0.010)	0.002 (0.002)	0.005 (0.010)	0.001 (0.002)
Firm size $t-1$	-0.025 (0.043)	0.015 (0.012)	-0.020 (0.049)	-0.004 (0.007)
Firm profitability $t-1$	-0.169 (0.657)	-0.473* (0.257)	-0.267 (0.669)	0.028 (0.085)
Sales growth $t-1$	0.002 (0.013)	0.007 (0.004)	0.003 (0.013)	0.002 (0.003)
Dividend payout $t-1$	0.032 (0.083)	0.022 (0.020)	0.034 (0.082)	0.024** (0.010)
Interest coverage $t-1$	-0.050 (0.124)	-0.073*** (0.028)	-0.049 (0.126)	-0.038** (0.019)
Business risk $t-1$	-0.187 (0.589)	-0.033 (0.191)	-0.118 (0.574)	0.052 (0.080)
Board size $t-1$	-0.020 (0.026)	0.005 (0.007)	-0.021 (0.026)	-0.004 (0.004)
Family ownership $t-1$	0.147 (0.299)	0.108 (0.067)	0.123 (0.293)	0.001 (0.040)

**Table 4.7 continued**

	(1)	(2)	(3)	(4)
Family divergence $t_{-1}$	0.522 (0.611)	-0.212* (0.128)	0.529 (0.612)	-0.017 (0.087)
Industry & year dummies	Yes	Yes	Yes	Yes
Observations	144	144	144	144
1st Stage F-statistics	14.13***		14.47***	
Stock-Yogo critical value for F-stat	8.68 (10% maximal size)			
Hansen's J test p-value	0.147		0.512	
Durbin-Wu-Hausman test p-value	0.313		0.197	

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 4.8—Alternative explanations for H1**

This table presents the results for testing whether the finding for H1 attributable to alternative interpretations. The post-PSM subsample is derived from the propensity score matching of the firms' pre-succession debt level. The low-risk (high-risk) subsample consists of firms whose pre-succession business risk, i.e. the standard deviation of ROA over the three years before the succession, is below (above) the median. The low (high) control firms are those whose family's pre-succession control rights, i.e. the family's votes as a percentage of total votes outstanding in the firm one year before the succession, is below (above) the median value. The dependent variable in Column (6), *Postsuccession sales growth*, is the post-succession two-year average sales growth ratio. Sales growth ratio is measured as the change in total sales from the previous year scaled by total sales in the previous year.

Subsamples:	Debt difference					Postsuccession sales growth
	Post-PSM (1)	Low risk (2)	High risk (3)	Low control (4)	High control (5)	(6)
Family	-0.044*	-0.031	-0.071	-0.006	-0.018	-0.301
	(0.025)	(0.033)	(0.047)	(0.037)	(0.056)	(0.325)
Debt level $t-1$	-0.200*	-0.365**	-0.073	-0.156	-0.282**	0.327
	(0.110)	(0.154)	(0.126)	(0.131)	(0.123)	(1.290)
Firm age $t-1$	-0.002	0.000	0.004	0.007	-0.004	0.023
	(0.003)	(0.003)	(0.004)	(0.004)	(0.003)	(0.039)
Firm size $t-1$	0.034**	0.025	-0.005	0.029	0.016	-0.341
	(0.017)	(0.022)	(0.018)	(0.021)	(0.021)	(0.232)
Firm profitability $t-1$	-0.318	-0.144	-0.613**	-0.802**	-1.007**	-3.382
	(0.382)	(0.667)	(0.304)	(0.366)	(0.359)	(3.443)
Sales growth $t-1$	0.011*	0.031	0.003	0.012	0.017***	0.172
	(0.006)	(0.019)	(0.006)	(0.016)	(0.005)	(0.169)
Business risk $t-1$	0.278	-4.190	0.201	0.135	0.556	-6.413
	(0.314)	(3.712)	(0.239)	(0.232)	(0.489)	(3.911)
Dividend payout $t-1$	-0.068	-0.036	-0.006	-0.074*	-0.202	-0.014
	(0.047)	(0.050)	(0.087)	(0.038)	(0.209)	(0.349)
Interest coverage $t-1$	0.000	0.042	0.025	0.004	0.090***	0.307
	(0.000)	(0.039)	(0.033)	(0.032)	(0.032)	(0.356)
Board size $t-1$	0.013	0.000	0.014	0.020	0.001	-0.014
	(0.013)	(0.009)	(0.013)	(0.012)	(0.009)	(0.123)
Family ownership $t-1$	0.041	0.018	0.213*	0.408	-0.510***	1.271
	(0.128)	(0.135)	(0.124)	(0.272)	(0.165)	(1.385)
Family divergence $t-1$	-0.332	-0.233	-0.055	-0.428*	-1.045***	2.274
	(0.258)	(0.207)	(0.238)	(0.233)	(0.242)	(2.101)
Nonfamily ownership $t-1$	0.166	0.057	-0.003	-0.077	-0.522**	0.893
	(0.201)	(0.189)	(0.212)	(0.163)	(0.217)	(1.632)
State ownership $t-1$	-0.070	-0.039	0.847	0.203	3.196***	-4.399
	(0.411)	(0.385)	(0.689)	(0.477)	(1.129)	(6.085)
Foreign ownership $t-1$	-1.972	0.999	0.213	1.369	-0.245	-14.752
	(1.238)	(1.636)	(0.960)	(1.171)	(1.029)	(11.319)
Asset tangibility $t-1$	0.010	-0.013	0.104	0.039	-0.355***	-0.987
	(0.138)	(0.181)	(0.146)	(0.149)	(0.122)	(1.693)

<b>Table 4.8 continued</b>						
	(1)	(2)	(3)	(4)	(5)	(6)
Cash holding $t-1$	0.169 (0.167)	-0.002 (0.136)	0.259 (0.195)	0.218 (0.147)	-0.110 (0.117)	0.924 (2.301)
Income tax rate $t-1$	0.238 (0.218)	0.323 (0.248)	0.216 (0.162)	0.188 (0.147)	0.137 (0.194)	0.226 (1.913)
Institutional environment $t-1$	-0.006 (0.010)	-0.024** (0.010)	-0.010 (0.010)	-0.003 (0.010)	0.002 (0.012)	-0.011 (0.076)
Industrial competition $t-1$	-0.031 (0.334)	-0.574** (0.287)	0.063 (0.226)	-0.009 (0.220)	-0.806** (0.302)	-2.736 (1.928)
Early succession	0.005 (0.044)	-0.072 (0.065)	0.052 (0.045)	0.018 (0.049)	-0.029 (0.074)	-0.255 (0.690)
Retire	0.093 (0.058)	-0.025 (0.072)	- -	0.076 (0.069)	- -	0.013 (0.630)
Postsuccession founder	0.012 (0.038)	0.033 (0.031)	-0.018 (0.034)	0.007 (0.032)	-0.026 (0.034)	-0.338 (0.302)
Industry & year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	90	78	83	103	58	176
R <sup>2</sup>	0.532	0.635	0.490	0.461	0.844	0.351
Adj. R <sup>2</sup>	0.150	0.240	0.070	0.113	0.505	0.158
Chow test p-value for <i>Family</i>		0.352		0.776		

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level, respectively.

**Table 4.9—Successors’ acquisition of the specialised assets and the regional marketisation level**

The table provides the results for testing whether the finding for H2 is contingent on the marketisation level in the firm’s headquartered province in terms of resource allocation. The definition of the marketisation level is based on Fan et al.’s (2011) index, “the importance of the market in economic resource allocation”, for each province in China. Firms in the “Low (High) market” group are those whose headquartered province has a below-median (above-median) index value one year before the succession.

Groups:	Debt difference		Long-debt difference		Short-debt difference	
	Low market (1)	High market (2)	Low market (3)	High market (4)	Low market (5)	High market (6)
Family	-0.149*** (0.047)	-0.219*** (0.076)	-0.116*** (0.033)	-0.057 (0.056)	-0.065 (0.048)	-0.096 (0.076)
Successor manage <sub>t</sub>	-0.000 (0.006)	-0.014** (0.007)	-0.004 (0.003)	-0.002 (0.003)	-0.001 (0.005)	-0.014* (0.007)
Family*Manage	0.030*** (0.010)	0.026** (0.010)	0.020** (0.008)	0.008 (0.007)	0.021* (0.011)	0.016 (0.010)
Debt level <sub>t-1</sub>	-0.019 (0.090)	-0.425** (0.197)				
Long-debt level <sub>t-1</sub>			-0.368*** (0.125)	-0.503* (0.270)		
Short-debt level <sub>t-1</sub>					-0.043 (0.087)	-0.349** (0.151)
Firm age <sub>t-1</sub>	0.005* (0.003)	0.004 (0.006)	0.003 (0.002)	0.000 (0.003)	0.003 (0.003)	0.006 (0.005)
Firm size <sub>t-1</sub>	-0.006 (0.017)	0.057* (0.031)	0.001 (0.012)	0.021 (0.018)	0.009 (0.015)	0.026 (0.031)
Firm profitability <sub>t-1</sub>	-0.036 (0.281)	-0.966** (0.396)	0.247 (0.194)	-0.052 (0.139)	-0.163 (0.305)	-0.802** (0.315)
Sales growth <sub>t-1</sub>	0.005 (0.005)	-0.010 (0.015)	-0.003 (0.004)	0.005 (0.005)	0.005 (0.004)	-0.004 (0.007)
Business risk <sub>t-1</sub>	0.135 (0.273)	0.459 (0.282)	0.276 (0.187)	0.030 (0.129)	-0.383 (0.237)	0.266 (0.239)
Dividend payout <sub>t-1</sub>	-0.005 (0.064)	-0.079 (0.066)	-0.072* (0.042)	-0.014 (0.029)	-0.023 (0.055)	-0.079 (0.054)
Interest coverage <sub>t-1</sub>	0.039 (0.026)	0.015 (0.055)	0.027 (0.019)	0.035 (0.023)	0.010 (0.024)	-0.012 (0.049)
Board size <sub>t-1</sub>	-0.001 (0.008)	0.013 (0.015)	-0.008 (0.006)	-0.011 (0.008)	0.010 (0.006)	0.017 (0.017)
Family ownership <sub>t-1</sub>	0.117 (0.095)	0.223 (0.230)	-0.006 (0.065)	-0.060 (0.096)	0.033 (0.083)	0.114 (0.188)
Family divergence <sub>t-1</sub>	-0.362* (0.194)	-0.107 (0.311)	-0.013 (0.145)	-0.185 (0.182)	-0.134 (0.173)	-0.100 (0.267)
Nonfamily ownership <sub>t-1</sub>	0.014 (0.115)	-0.280 (0.360)	0.008 (0.081)	-0.154 (0.128)	-0.107 (0.115)	-0.291 (0.296)

<b>Table 4.9 continued</b>						
	(1)	(2)	(3)	(4)	(5)	(6)
State ownership <sub>t-1</sub>	0.273 (0.382)	0.284 (0.957)	0.030 (0.257)	-0.234 (0.364)	0.354 (0.393)	1.470 (0.916)
Foreign ownership <sub>t-1</sub>	-0.043 (0.748)	-6.560 (4.362)	-1.171** (0.480)	-3.729 (2.471)	0.552 (0.630)	-1.483 (3.134)
Asset tangibility <sub>t-1</sub>	-0.008 (0.102)	-0.386 (0.304)	-0.034 (0.076)	0.025 (0.107)	-0.023 (0.100)	-0.223 (0.207)
Cash holding <sub>t-1</sub>	0.044 (0.100)	0.338 (0.311)	-0.058 (0.070)	-0.037 (0.145)	0.033 (0.088)	0.112 (0.231)
Income tax rate <sub>t-1</sub>	0.297* (0.155)	-0.232 (0.406)	0.096 (0.082)	0.114 (0.151)	0.145 (0.142)	-0.316 (0.330)
Institutional environment <sub>t-1</sub>	-0.018* (0.010)	-0.006 (0.018)	-0.000 (0.006)	-0.003 (0.008)	-0.012 (0.008)	0.002 (0.015)
Industrial competition <sub>t-1</sub>	-0.434* (0.245)	-0.324 (0.534)	-0.079 (0.146)	0.181 (0.130)	-0.243 (0.190)	-0.458 (0.429)
Early succession	0.012 (0.047)	-0.060 (0.111)	-0.073** (0.028)	-0.001 (0.050)	0.090** (0.042)	0.007 (0.061)
Retire	0.026 (0.073)	0.234 (0.157)	-0.025 (0.056)	0.040 (0.084)	-0.095 (0.069)	0.114 (0.123)
Postsuccession founder	-0.004 (0.027)	-0.005 (0.036)	0.016 (0.017)	-0.001 (0.020)	-0.004 (0.026)	0.007 (0.034)
Industry & year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	90	71	90	71	97	81
R <sup>2</sup>	0.638	0.623	0.660	0.615	0.528	0.499
Adj. R <sup>2</sup>	0.314	0.058	0.355	0.038	0.161	0.054

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 4.10—Successors’ acquisition of the specialised assets and the regional cultural atmosphere**

The table presents the results for testing whether the finding for H2 is contingent upon whether the firm’s headquartered province has a nationally famous Confucian centre. Firms in the “No centre (Centre)” group are those headquartered in provinces without (with) a Confucian centre.

Groups:	Debt difference		Long-debt difference		Short-debt difference	
	No centre (1)	Centre (2)	No centre (3)	Centre (4)	No centre (5)	Centre (6)
Family	-0.136* (0.072)	-0.201*** (0.070)	-0.083** (0.034)	-0.072** (0.035)	-0.073 (0.064)	-0.101 (0.070)
Successor manage <sub>t</sub>	-0.001 (0.005)	-0.017** (0.007)	-0.006* (0.003)	-0.006** (0.003)	-0.001 (0.005)	-0.015** (0.006)
Family*Manage	0.013 (0.011)	0.031** (0.013)	0.010* (0.005)	0.012** (0.005)	0.010 (0.009)	0.023* (0.011)
Debt level <sub>t-1</sub>	-0.002 (0.145)	-0.277** (0.133)				
Long-debt level <sub>t-1</sub>			-0.353** (0.155)	-0.578*** (0.207)		
Short-debt level <sub>t-1</sub>					-0.135 (0.127)	-0.077 (0.130)
Firm age <sub>t-1</sub>	0.007* (0.004)	0.009 (0.006)	0.007*** (0.003)	-0.000 (0.003)	-0.001 (0.004)	0.010* (0.006)
Firm size <sub>t-1</sub>	0.001 (0.017)	0.026 (0.024)	-0.001 (0.010)	0.010 (0.013)	0.028* (0.016)	0.016 (0.026)
Firm profitability <sub>t-1</sub>	-0.559 (0.358)	-0.717* (0.402)	0.058 (0.194)	0.136 (0.114)	-0.501 (0.373)	-0.534* (0.313)
Sales growth <sub>t-1</sub>	0.011 (0.008)	0.002 (0.007)	0.005 (0.005)	0.005 (0.003)	0.002 (0.006)	-0.004 (0.005)
Business risk <sub>t-1</sub>	0.306 (0.333)	0.214 (0.285)	0.174 (0.183)	-0.043 (0.077)	0.038 (0.329)	0.031 (0.223)
Dividend payout <sub>t-1</sub>	0.050 (0.076)	-0.106* (0.060)	-0.073 (0.057)	-0.033 (0.026)	-0.029 (0.056)	-0.095* (0.056)
Interest coverage <sub>t-1</sub>	0.060 (0.036)	0.019 (0.050)	0.056*** (0.021)	0.036* (0.019)	0.000 (0.034)	0.007 (0.045)
Board size <sub>t-1</sub>	0.001 (0.011)	0.019 (0.014)	-0.002 (0.007)	-0.009 (0.006)	0.009 (0.008)	0.016 (0.013)
Family ownership <sub>t-1</sub>	0.173* (0.099)	-0.015 (0.189)	0.024 (0.075)	-0.194*** (0.062)	-0.011 (0.087)	0.096 (0.177)
Family divergence <sub>t-1</sub>	-0.412** (0.193)	-0.300 (0.249)	0.013 (0.147)	-0.276* (0.147)	-0.239 (0.185)	-0.166 (0.251)
Nonfamily ownership <sub>t-1</sub>	-0.042 (0.164)	-0.289 (0.384)	-0.027 (0.092)	-0.221* (0.111)	-0.093 (0.161)	-0.335 (0.263)
State ownership <sub>t-1</sub>	0.725 (0.441)	-0.266 (0.649)	0.316 (0.288)	-0.599* (0.301)	0.667 (0.541)	0.504 (0.661)
Foreign ownership <sub>t-1</sub>	-0.356 (0.825)	-6.246 (4.501)	-1.290** (0.583)	-3.526* (1.821)	0.288 (0.956)	-1.528 (3.256)
Asset tangibility <sub>t-1</sub>	-0.093 (0.112)	0.016 (0.221)	-0.055 (0.079)	0.080 (0.076)	-0.117 (0.108)	-0.003 (0.156)

**Table 4.10 continued**

	(1)	(2)	(3)	(4)	(5)	(6)
Cash holding <sub>t-1</sub>	0.066 (0.106)	0.338 (0.271)	-0.015 (0.080)	-0.109 (0.109)	0.004 (0.100)	0.219 (0.204)
Income tax rate <sub>t-1</sub>	0.118 (0.182)	-0.141 (0.333)	-0.003 (0.086)	-0.059 (0.098)	0.050 (0.153)	-0.282 (0.315)
Institutional environment <sub>t-1</sub>	-0.009 (0.011)	-0.010 (0.014)	0.002 (0.005)	-0.007 (0.007)	-0.004 (0.009)	-0.003 (0.012)
Industrial competition <sub>t-1</sub>	-0.131 (0.355)	-0.240 (0.305)	0.185 (0.159)	-0.051 (0.099)	-0.115 (0.243)	-0.424 (0.282)
Early succession	0.033 (0.039)	-0.097 (0.111)	-0.026 (0.025)	0.008 (0.036)	0.054 (0.036)	0.006 (0.067)
Retire	0.046 (0.070)	0.125 (0.154)	-0.065 (0.062)	0.026 (0.068)	-0.009 (0.074)	0.094 (0.109)
Postsuccession founder	-0.024 (0.032)	0.019 (0.039)	0.014 (0.020)	0.002 (0.012)	-0.013 (0.029)	0.021 (0.030)
Industry & year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	84	77	84	77	93	85
R <sup>2</sup>	0.618	0.556	0.648	0.759	0.485	0.451
Adj. R <sup>2</sup>	0.227	0.008	0.288	0.462	0.053	0.098

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 4.11—Alternative proxies for firms' access to debt**

This table presents the results for H1 and H2 when alternative proxies for firms' access to debt finance are used. *Debt maturity difference* (*Debt cost difference*) is the difference between the two-year average debt maturity (debt cost) after the succession and that before the succession. The debt maturity is the ratio of long-term debt to total debt. The debt cost is the interest expense divided by the average of short- and long-term debt. *Credit loan* is a dummy equal to one if the firm has credit loans during the post-succession two-year period and zero otherwise. There also are three additional control variables, i.e. *Debt maturity*<sub>*t-1*</sub>, *Debt cost*<sub>*t-1*</sub>, and *Past credit loan*<sub>*t*</sub>, for the corresponding dependent variables. *Debt maturity*<sub>*t-1*</sub> (*Debt cost*<sub>*t-1*</sub>) is the corresponding variable one year prior to the succession. *Past credit loan*<sub>*t*</sub> is a dummy equal to one if the firm has credit loans during the pre-succession two-year period and zero otherwise.

	Debt maturity difference		Debt cost difference		Credit loan	
	(1)	(2)	(3)	(4)	(5)	(6)
Family	-0.066*	-0.197***	0.019	0.065**	0.173	-0.864
	(0.035)	(0.063)	(0.022)	(0.032)	(0.477)	(0.925)
Successor manage <sub><i>t</i></sub>		-0.015**		0.001		0.013
		(0.006)		(0.004)		(0.097)
Family*Manage		0.025***		-0.009*		0.248*
		(0.010)		(0.005)		(0.145)
Debt maturity <sub><i>t-1</i></sub>	-0.403***	-0.429***				
	(0.090)	(0.091)				
Debt cost <sub><i>t-1</i></sub>			-0.318*	-0.351*		
			(0.191)	(0.196)		
Past credit loan <sub><i>t</i></sub>					6.466***	7.302***
					(1.074)	(1.273)
Firm age <sub><i>t-1</i></sub>	-0.002	-0.000	0.004	0.004	-0.239***	-0.264***
	(0.005)	(0.005)	(0.003)	(0.003)	(0.070)	(0.073)
Firm size <sub><i>t-1</i></sub>	0.006	0.024	0.007	0.007	0.786**	0.897**
	(0.024)	(0.023)	(0.017)	(0.018)	(0.345)	(0.362)
Debt level <sub><i>t-1</i></sub>	-0.033	-0.068	0.042	0.043	3.637	4.328*
	(0.155)	(0.148)	(0.097)	(0.105)	(2.263)	(2.334)
Firm profitability <sub><i>t-1</i></sub>	0.054	0.059	-0.237	-0.284	1.398	-1.168
	(0.475)	(0.460)	(0.232)	(0.252)	(5.428)	(6.095)
Sales growth <sub><i>t-1</i></sub>	0.004	0.005	-0.005	0.001	-0.327*	-0.444**
	(0.008)	(0.007)	(0.023)	(0.025)	(0.195)	(0.218)
Business risk <sub><i>t-1</i></sub>	-0.086	-0.104	0.157	0.149	-26.833***	-32.368***
	(0.292)	(0.285)	(0.263)	(0.263)	(9.536)	(11.236)
Dividend payout <sub><i>t-1</i></sub>	-0.099	-0.126	0.043	0.052	-1.352	-1.175
	(0.094)	(0.090)	(0.035)	(0.036)	(0.903)	(0.953)
Interest coverage <sub><i>t-1</i></sub>	0.046	0.057	0.003	0.002	-2.247***	-2.578***
	(0.043)	(0.043)	(0.026)	(0.026)	(0.776)	(0.819)
Board size <sub><i>t-1</i></sub>	-0.029**	-0.030**	-0.004	-0.004	-0.222	-0.312*
	(0.013)	(0.012)	(0.007)	(0.007)	(0.155)	(0.166)
Family ownership <sub><i>t-1</i></sub>	-0.015	-0.074	0.133	0.126	-1.556	-1.279
	(0.140)	(0.139)	(0.081)	(0.084)	(1.772)	(1.936)

<b>Table 4.11 continued</b>						
	(1)	(2)	(3)	(4)	(5)	(6)
Family divergence $t_{-1}$	-0.057 (0.249)	-0.031 (0.249)	-0.126 (0.161)	-0.131 (0.175)	6.628** (3.142)	6.713* (3.686)
Nonfamily ownership $t_{-1}$	0.166 (0.204)	0.087 (0.205)	0.259 (0.211)	0.274 (0.235)	-6.884* (3.970)	-7.648* (4.166)
State ownership $t_{-1}$	0.030 (0.739)	-0.009 (0.743)	-0.208 (0.448)	-0.210 (0.472)	17.354*** (6.593)	18.487*** (6.858)
Foreign ownership $t_{-1}$	-3.086** (1.491)	-3.794** (1.511)	-0.693 (1.048)	-0.534 (1.026)	-9.742 (13.546)	-4.935 (16.225)
Asset tangibility $t_{-1}$	-0.304 (0.187)	-0.279 (0.182)	0.014 (0.142)	0.012 (0.142)	-5.612** (2.355)	-7.040*** (2.565)
Cash holding $t_{-1}$	-0.095 (0.215)	-0.083 (0.208)	-0.157 (0.105)	-0.148 (0.104)	-6.076*** (2.256)	-6.533*** (2.325)
Income tax rate $t_{-1}$	0.502* (0.255)	0.429* (0.239)	-0.025 (0.133)	-0.034 (0.140)	-2.902 (2.402)	-2.816 (2.533)
Institutional environment $t_{-1}$	0.002 (0.013)	0.002 (0.013)	-0.003 (0.006)	-0.003 (0.007)	-0.945*** (0.198)	-1.072*** (0.240)
Industrial competition $t_{-1}$	0.196 (0.270)	0.274 (0.271)	-0.497*** (0.163)	-0.536*** (0.165)	8.714*** (3.247)	9.987*** (3.449)
Early succession	-0.142** (0.064)	-0.155** (0.068)	0.007 (0.035)	0.010 (0.034)	-0.351 (0.861)	0.905 (0.852)
Retire	-0.201** (0.098)	-0.230** (0.102)	0.021 (0.103)	0.018 (0.109)	-1.006 (1.013)	-1.262 (1.274)
Postsuccesion founder	0.056 (0.038)	0.052 (0.038)	-0.012 (0.024)	-0.007 (0.024)	0.243 (0.463)	0.023 (0.528)
Industry & year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	161	161	112	112	157	157
R <sup>2</sup> / Pseudo R <sup>2</sup>	0.453	0.478	0.520	0.531	0.697	0.707
Adj. R <sup>2</sup>	0.264	0.286	0.239	0.234		

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 4.12—Founders' political connections**

This table reports the results when viewing the founders' political connections as a type of specialised assets. The dependent variables are defined as the same as in the previous tables. *Political connection* is a dummy equal to one if the founder has a political identity before the succession and zero otherwise. The political identities include a current or former officer of either the central government or a local government; currently or formerly serving in any institutions or organisations directly controlled by the central or a local government; and a current or former representative of the NPC, the CPPCC, or the NCCPC. *Family\*Political connection* is the interaction term between *Family* and *Political connection*. All other control variables are also the same as those in the prior tables.

	Debt difference	Long-debt difference	Short-debt difference	Debt maturity difference	Debt cost difference	Credit loan
	(1)	(2)	(3)	(4)	(5)	(6)
Family	-0.101*** (0.038)	-0.030* (0.017)	-0.079** (0.030)	-0.076 (0.067)	0.096** (0.043)	-0.059 (0.107)
Political connection	0.000 (0.025)	0.007 (0.012)	-0.024 (0.022)	-0.003 (0.042)	0.041* (0.025)	-0.069 (0.078)
Family*Political connection	0.074* (0.041)	0.005 (0.019)	0.106*** (0.035)	0.015 (0.081)	-0.122** (0.055)	0.077 (0.130)
Debt level $t-1$	-0.159** (0.079)			-0.036 (0.158)	0.078 (0.099)	-0.071 (0.275)
Long-debt level $t-1$		-0.344*** (0.099)				
Short-debt level $t-1$			-0.147** (0.072)			
Debt maturity $t-1$				-0.405*** (0.093)		
Debt cost $t-1$					-0.389** (0.183)	
Past credit loan $t$						0.722*** (0.070)
Firm age $t-1$	0.001 (0.002)	-0.000 (0.002)	0.002 (0.002)	-0.002 (0.005)	0.004 (0.003)	-0.011 (0.008)
Firm size $t-1$	0.017 (0.013)	0.002 (0.007)	0.023* (0.012)	0.006 (0.027)	0.002 (0.017)	0.055 (0.036)
Firm profitability $t-1$	-0.570** (0.253)	-0.020 (0.102)	-0.531** (0.219)	0.050 (0.478)	-0.253 (0.236)	-0.037 (0.497)
Sales growth $t-1$	0.006 (0.005)	0.003 (0.003)	0.000 (0.003)	0.004 (0.008)	0.003 (0.023)	0.003 (0.007)
Business risk $t-1$	0.159 (0.195)	0.071 (0.084)	0.047 (0.173)	-0.086 (0.294)	0.190 (0.240)	-0.513 (0.436)
Dividend payout $t-1$	-0.064* (0.033)	-0.035 (0.024)	-0.046 (0.028)	-0.099 (0.095)	0.056 (0.036)	-0.152 (0.119)
Interest coverage $t-1$	0.028 (0.021)	0.022* (0.012)	0.007 (0.019)	0.047 (0.045)	0.005 (0.025)	-0.048 (0.071)

Table 4.12 continued

	(1)	(2)	(3)	(4)	(5)	(6)
Board size $t_{-1}$	0.008 (0.007)	-0.005 (0.004)	0.011** (0.005)	-0.029** (0.013)	-0.004 (0.007)	-0.012 (0.018)
Family ownership $t_{-1}$	0.091 (0.077)	-0.027 (0.049)	0.052 (0.070)	-0.017 (0.143)	0.131* (0.075)	-0.022 (0.240)
Family divergence $t_{-1}$	-0.289** (0.126)	-0.053 (0.083)	-0.186 (0.113)	-0.053 (0.252)	-0.179 (0.172)	0.251 (0.416)
Nonfamily ownership $t_{-1}$	-0.059 (0.117)	-0.008 (0.048)	-0.107 (0.104)	0.163 (0.207)	0.264 (0.210)	-0.236 (0.356)
State ownership $t_{-1}$	0.254 (0.349)	-0.009 (0.178)	0.531 (0.366)	0.026 (0.753)	-0.338 (0.430)	0.865 (0.967)
Foreign ownership $t_{-1}$	-0.554 (0.560)	-0.895** (0.356)	0.295 (0.526)	-3.101** (1.528)	-0.360 (0.934)	-1.966 (1.717)
Asset tangibility $t_{-1}$	-0.001 (0.093)	-0.049 (0.049)	0.020 (0.073)	-0.301 (0.190)	0.001 (0.136)	-0.111 (0.295)
Cash holding $t_{-1}$	0.130 (0.085)	-0.007 (0.049)	0.078 (0.072)	-0.092 (0.217)	-0.162 (0.106)	-0.314 (0.248)
Income tax rate $t_{-1}$	0.204* (0.112)	0.119** (0.056)	0.046 (0.097)	0.504* (0.259)	-0.016 (0.130)	-0.106 (0.286)
Institutional environment $t_{-1}$	-0.008 (0.006)	-0.001 (0.003)	-0.005 (0.005)	0.002 (0.013)	-0.003 (0.006)	-0.053*** (0.016)
Industrial competition $t_{-1}$	-0.107 (0.185)	-0.017 (0.083)	-0.079 (0.132)	0.198 (0.273)	-0.543*** (0.154)	0.660 (0.448)
Early succession	-0.009 (0.032)	-0.035** (0.015)	0.027 (0.025)	-0.142** (0.063)	0.001 (0.033)	-0.130* (0.070)
Retire	0.068 (0.057)	-0.004 (0.034)	0.050 (0.038)	-0.202** (0.101)	0.039 (0.099)	-0.050 (0.113)
Postsuccession founder	0.002 (0.021)	0.013 (0.012)	0.006 (0.017)	0.056 (0.039)	-0.012 (0.024)	0.007 (0.066)
Industry & year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	161	161	178	161	112	178
R <sup>2</sup> / Pseudo R <sup>2</sup>	0.389	0.468	0.355	0.453	0.554	0.633
Adj. R <sup>2</sup>	0.171	0.279	0.154	0.252	0.272	-

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 4.13—Guanxi-connected nonfamily successors**

This table presents the results for H2 when taking *guanxi*-connected nonfamily successors into account. *Guanxi*, therefore, is a dummy equal to one if the successor is a nonfamily member having a *guanxi* with the founder and zero otherwise. *Guanxi\*Manage* is the interaction term between *Guanxi* and *Successor manage*.

	Debt difference	Long-debt difference	Short-debt difference
	(1)	(2)	(3)
Family	-0.152*** (0.046)	-0.080*** (0.021)	-0.068 (0.043)
<i>Guanxi</i>	-0.019 (0.041)	0.009 (0.022)	-0.018 (0.037)
Successor manage <sub>t</sub>	-0.015 (0.012)	-0.011** (0.005)	-0.008 (0.010)
Family*Manage	0.026** (0.012)	0.016*** (0.005)	0.014* (0.011)
<i>Guanxi*Manage</i>	0.009 (0.012)	0.005 (0.005)	0.004 (0.011)
Debt level <sub>t-1</sub>	-0.169** (0.076)		
Long-debt level <sub>t-1</sub>		-0.415*** (0.104)	
Short-debt level <sub>t-1</sub>			-0.134* (0.071)
Firm age <sub>t-1</sub>	0.002 (0.002)	0.000 (0.001)	0.002 (0.002)
Firm size <sub>t-1</sub>	0.027** (0.011)	0.010 (0.007)	0.029** (0.011)
Firm profitability <sub>t-1</sub>	-0.556** (0.239)	-0.000 (0.095)	-0.494** (0.218)
Sales growth <sub>t-1</sub>	0.006 (0.004)	0.003 (0.002)	0.000 (0.003)
Business risk <sub>t-1</sub>	0.134 (0.196)	0.040 (0.076)	0.042 (0.184)
Dividend payout <sub>t-1</sub>	-0.074** (0.032)	-0.041* (0.023)	-0.056* (0.030)
Interest coverage <sub>t-1</sub>	0.034 (0.022)	0.026** (0.012)	0.007 (0.021)
Board size <sub>t-1</sub>	0.007 (0.007)	-0.005 (0.004)	0.010* (0.005)
Family ownership <sub>t-1</sub>	0.086 (0.079)	-0.046 (0.046)	0.049 (0.075)
Family divergence <sub>t-1</sub>	-0.276** (0.133)	-0.034 (0.077)	-0.198 (0.123)
Nonfamily ownership <sub>t-1</sub>	-0.058 (0.125)	-0.012 (0.047)	-0.127 (0.108)
State ownership <sub>t-1</sub>	0.190 (0.368)	-0.020 (0.181)	0.530 (0.388)
Foreign ownership <sub>t-1</sub>	-0.948* (0.561)	-1.290*** (0.326)	0.201 (0.552)

<b>Table 4.13 continued</b>			
	(1)	(2)	(3)
Asset tangibility <sub>t-1</sub>	-0.013 (0.086)	-0.053 (0.046)	0.014 (0.070)
Cash holding <sub>t-1</sub>	0.103 (0.083)	-0.020 (0.046)	0.069 (0.074)
Income tax rate <sub>t-1</sub>	0.143 (0.118)	0.096* (0.054)	-0.014 (0.108)
Institutional environment <sub>t-1</sub>	-0.008 (0.006)	-0.001 (0.003)	-0.004 (0.005)
Industrial competition <sub>t-1</sub>	-0.095 (0.180)	0.003 (0.077)	-0.073 (0.135)
Early succession	-0.013 (0.035)	-0.040** (0.016)	0.026 (0.028)
Retire	0.045 (0.061)	-0.016 (0.039)	0.042 (0.038)
Postsuccession founder TMT	-0.002 (0.019)	0.010 (0.011)	0.006 (0.017)
Industry & year dummies	Yes	Yes	Yes
Observations	161	161	178
R <sup>2</sup>	0.417	0.527	0.341
Adj. R <sup>2</sup>	0.196	0.348	0.123

Firm-level clustered standard errors are shown in parentheses.

\*\*\*, \*\*, \* denotes statistical significance at the 1%, 5% and 10% level (two-tailed test), respectively.

**Table 4.14—Definitions of variables**

<b>Variable</b>	<b>Definition</b>
<i>Debt level</i>	Total debt / total assets
<i>Debt difference</i>	(Post-succession 2-year average <i>Debt level</i> ) – (pre-succession 2-year average <i>Debt level</i> )
<i>Debt level</i> <sub>t-1</sub>	<i>Debt level</i> in year t-1
<i>Long-debt level</i>	Long-term debt / total assets, where long-term debt is the borrowing with a maturity of more than 1 year
<i>Long-debt difference</i>	(Post-succession 2-year average <i>Long-debt level</i> ) – (pre-succession 2-year average <i>Long-debt level</i> )
<i>Long-debt level</i> <sub>t-1</sub>	<i>Long-debt level</i> in year t-1
<i>Short-debt level</i>	Short-term debt / total assets, where short-term debt is the borrowing with a maturity of not greater than 1 year
<i>Short-debt difference</i>	(Post-succession 2-year average <i>Short-debt level</i> ) – (pre-succession 2-year average <i>Short-debt level</i> )
<i>Short-debt level</i> <sub>t-1</sub>	<i>Short-debt level</i> in year t-1
<i>Debt maturity</i>	Long-term debt / total debt
<i>Debt maturity difference</i>	(Post-succession 2-year average <i>Debt maturity</i> ) – (pre-succession 2-year average <i>Debt maturity</i> )
<i>Debt maturity</i> <sub>t-1</sub>	<i>Debt maturity</i> in year t-1
<i>Debt cost</i>	Interest expense / (short-term debt + long-term debt) / 2
<i>Debt cost difference</i>	(Post-succession 2-year average <i>Debt cost</i> ) – (pre-succession 2-year average <i>Debt cost</i> )
<i>Debt cost</i> <sub>t-1</sub>	<i>Debt cost</i> in year t-1
<i>Credit loan</i>	An indicator equal to 1 if the firm has credit loans during the 2-year post-succession period, and 0 otherwise
<i>Past credit loan</i> <sub>t</sub>	An indicator equal to 1 if the firm has credit loans during the 2-year pre-succession period, and 0 otherwise
<i>Family</i>	An indicator equal to 1 if the successor is the founder's descendant, by blood or marriage, and 0 otherwise
<i>Guanxi</i>	An indicator equal to 1 if the successor is a nonfamily member having a <i>guanxi</i> with the founder, and 0 otherwise

<i>Successor manage<sub>t</sub></i>	The number of years the successor has worked as a director or a top manager in the firm till the succession announcement year
<i>Family*Manage</i>	The interaction term between <i>Family</i> and <i>Successor manage<sub>t</sub></i>
<i>Guanxi*Manage</i>	The interaction term between <i>Guanxi</i> and <i>Successor manage<sub>t</sub></i>
<i>Political connection</i>	An indicator equal to 1 if the founder has a political identity before the succession, and 0 otherwise
<i>Family*Political connection</i>	The interaction term between <i>Family</i> and <i>Political connection</i>
<i>Firm age<sub>t-1</sub></i>	The number of years since the firm's founding year to year t-1
<i>Firm size<sub>t-1</sub></i>	The natural logarithm of total assets in year t-1
<i>Firm profitability<sub>t-1</sub></i>	ROA in year t-1
<i>Sales growth<sub>t-1</sub></i>	The difference in total sales between year t-1 and year t-2 divided by total sales in year t-2
<i>Postsuccession sales growth</i>	The post-succession 2-year average sales growth ratio
<i>Business risk<sub>t-1</sub></i>	The standard deviation of ROA over the three years prior to the succession
<i>Dividend payout<sub>t-1</sub></i>	The dividend per share as a percentage of earning per share in year t-1
<i>Interest coverage<sub>t-1</sub></i>	An indicator equals to 1 if the interest coverage ratio, calculated as earnings before interest and tax divided by total interest payable, is greater than 2 in year t-1, and 0 otherwise
<i>Board size<sub>t-1</sub></i>	The number of directors on the board in year t-1
<i>Family ownership<sub>t-1</sub></i>	The number of shares held by the family as a percentage of total shares outstanding in year t-1. If the family controls the firm indirectly through a pyramid structure, it is calculated as the product of the family's ownership stakes along the control chain.
<i>Family control<sub>t-1</sub></i>	The family's votes as a percentage of total votes outstanding in year t-1. If the family controls the firm through a pyramid structure, it is measured by the minimum voting stake along the control chain.
<i>Family divergence<sub>t-1</sub></i>	The difference between <i>Family control<sub>t-1</sub></i> and <i>Family ownership<sub>t-1</sub></i>
<i>Nonfamily ownership<sub>t-1</sub></i>	The number of shares held by nonfamily block-holders / total shares outstanding in year t-1, where block-holders are individuals or institutions holding at least 5% ownership
<i>State ownership<sub>t-1</sub></i>	State-owned shares / total shares outstanding in year t-1
<i>Foreign ownership<sub>t-1</sub></i>	Foreign shares / total shares outstanding in year t-1

<i>Asset tangibility</i> <sub>t-1</sub>	Fixed assets / total assets in year t-1
<i>Cash holding</i> <sub>t-1</sub>	(Cash + cash equivalents) / total assets in year t-1
<i>Income tax rate</i> <sub>t-1</sub>	Income tax expense / earnings after interest and before tax
<i>Institutional development</i> <sub>t-1</sub>	Fan et al.'s (2011) index of the market development levels of Chinese provinces in year t-1
<i>Industrial competition</i> <sub>t-1</sub>	$H = \sum_{i=1}^n S_i^2$ , where $S_i$ is the market share of firm $i$ (firm's sales as a percentage of sales for the same industry), $n$ is the number of firms in the industry
<i>Early succession</i>	An indicator equal to 1 if the founder leaves the leadership position before 65, and 0 otherwise
<i>Retire</i>	An indicator equal to 1 if the founder is reported to leave due to "retirement", and 0 otherwise
<i>Postsuccesion founder</i>	An indicator equal to 1 if the founder remains as a director or a top manager in the firm one year after the succession, and 0 otherwise
<i>Founder age</i> <sub>t-1</sub>	The founder's age in year t-1
<i>Family planning</i>	The average family planning rate in the firm's headquartered province for the pre-succession years, where the family planning rate is the number of newborns whose birth conforms to the one-child policy as a percentage of total newborns

---

## Chapter 5 Conclusion

### 5.1 Introduction

This chapter reviews research background and objectives, summaries the main findings, highlights the major contributions and implications, and indicates the limitations of this thesis.

### 5.2 Review of research background and objectives

This thesis focuses on the leadership succession issue in Chinese family firms. The transition of the leadership should be one of the most important issues for family businesses. This is because the ageing of the business founders makes the transition inevitable, and the leaders' dominant role in the business makes the transition crucial to the firm's future strategies, performance, and prosperity (Bennedsen et al., 2007). Given such importance, this issue has received a lot of attention in the existing literature. However, the vast majority of the literature is conducted on western and developed economies, the studies focusing on China, i.e. one of the largest and fastest-growing economies in the world, are very scarce.

I contend that the investigation of the above issue in the context of China is worthwhile and interesting for the following reasons. Firstly, family firms play a vital role in the Chinese economy. For example, there have been about 8 million family businesses in China since 2010, contributing more than 60% of the GDP, half of the tax revenues, and 90% of the new employment every year (Huang, 2010). Considering this situation, the issues about the leadership transition in Chinese family firms, such as the financial consequences of the transition, should be crucial to not only the firms *per se* but also China's economy and living standards.

Secondly, unlike many family businesses in developed economies having a history of more than 100 years, family firms in China have just started to emerge since 1978, after the implementation of the Reform and Opening policy (Qin & Wang, 2012). As a consequence, most Chinese family firms have always been managed by the founder over the past decades, and many of them are about to have their first leadership

transition after more than 30 years' development. This makes the founders' successor decision a particularly important issue, especially considering that successors are often viewed as much less valuable and capable than the founder of the business (Villalonga & Amit, 2006; Liu et al., 2012; Fan et al., 2012).

Moreover, China is featured with a weak institutional environment, an underdeveloped managerial labour market, a high collectivist culture, a one-child policy, and a transitional economy from centrally planned to market-oriented. In such a background, the family businesses should be very distinctive from their counterparts in western and developed contexts who are provided with strong shareholder protection, developed managerial labour markets, and large talent pools for family successions, as well as strongly affected by individualist cultures. This makes China an interesting setting to explore family firms' leadership succession issue.

The above reasons motivate me to embark on this thesis, for the purpose of complementing people's understanding of the leadership succession in Chinese family businesses. To this end, this thesis has three main objectives: (1) to investigate the driving force of the successor choice, (2) to explore the effects of the succession event and the successor choice on firm performance, and (3) to examine the impact of the successor choice on the firm's access to debt finance.

### **5.3 Summary of findings**

Chapter 2 addresses the first research objective. More specifically, I focus on five factors, i.e. foreign ownership, Confucianism, clan culture, the founders' overseas experience, and the founders' political connections. I mainly explore whether these factors affect the founders' choice between a family successor, a nonfamily successor who is *guanxi*-connected with them, and a nonfamily successor without a *guanxi*. I suggest six criteria to identify a *guanxi*-connected nonfamily successor, i.e. whether the successor is (1) sharing the same surname with the founder, (2) sharing the same birthplace or native place with the founder, (3) graduated from the same college or university as the founder, (4) the founder's former colleague before the startup of the family firm, (5) serving as a top executive in more than one company controlled by the

founder before the succession, (6) joining the family firm at its start-up stage. The rationale for these criteria has been elaborated in Section 2.4 of the chapter.

Based on a sample of 348 leadership succession cases in listed Chinese firms during 2003-2014, I find that, firstly, family firms with foreign ownership have a greater likelihood of appointing a nonfamily successor. Secondly, by using whether the firm is headquartered in a city with a Confucian centre as a proxy for the founder's extent of being influenced by Confucian values, I observe that the founders who are strongly affected by Confucianism are more likely to choose a descendant or a *guanxi*-connected member as the successor. Thirdly, by employing the percentage of internal top executives sharing the same surname with the founder as a proxy for the founder's level of being affected by clan culture, I document that the founders who are more deeply affected by clan culture are more likely to choose a family successor. In addition, I find that the founders with overseas work or study experience before the succession have a greater likelihood of appointing a family or *guanxi*-connected nonfamily successor. Finally, I demonstrate that the founders with more political connections are more likely to choose a family or *guanxi*-connected successor. More detailed summaries of these findings and their contributions have been provided by Section 2.1 (the Introduction section) and Section 2.7 (the Conclusion section) of the chapter.

Chapter 3 focuses on my second research objective. This chapter provides empirical evidence on the following three research issues:

- 1) Whether the leadership transition from the founder to the successor causes a significant variation in firm performance, compared with the usual performance change in family firms without the transition.
- 2) For firms experiencing a leadership succession, whether family successors lead to a significantly different firm performance change, compared with their nonfamily counterparts.
- 3) Whether successors' acquisition of the founder's specialised assets plays a role in determining the firm performance after the succession.

The investigation of the first issue is based on the above 348 succession cases and another 337 founder-managed family firms during the period 2003-2014. After employing the PSM approach and a DID analysis to alleviate endogeneity concerns, I find that firms with the leadership transition do not experience a significant performance change around the transition, compared with their counterparts without the transition during the same period.

The exploration of the other two issues is based upon the 348 succession cases only. The DID analysis approach is also employed, and the empirical results show that family successors do not have a significantly different impact on firm performance, compared with nonfamily successors.

Moreover, for the third research question, I apply successors' pre-succession internal experience as a proxy for their acquisition of the founder's specialised assets. The rationale for this proxy has been elaborated in Section 3.4.3 of the chapter. However, because only the founders' highly trusted members have access to the specialised assets, I contend that, the proxy, in China's context, is applicable only to successors who are the founder's descendants or having a *guanxi* with the founder.<sup>116</sup>

My empirical evidence indicates that family or *guanxi*-connected successors' pre-succession internal experience is significantly and positively related to the firm performance increase after the succession. This suggests that these two types of successors' acquisition of the specialised assets before the succession greatly contributes to the post-succession firm performance. In addition, the evidence shows that the above result is mainly derived from the successors' pre-succession internal managerial experience rather than non-managerial working time. I attribute this finding to the fact that the former can provide the successors with some opportunities critical to the final assimilation of the assets and yet the latter cannot. Finally, I find that the closer the *guanxi* between the founder and the successor, the larger is the positive impact of the successor's pre-succession internal experience on firm performance.

---

<sup>116</sup> As discussed in Chapters 2 and 3, this is because the Confucian familism and *guanxi* culture make Chinese persons, more or less, have a clear in-/out-group concept, i.e. they normally have a high degree of particular trust in a limited group of people based on kinship or *guanxi*, yet their trust towards other "out-group" members tends to be low (Fukuyama, 1995; Gudykunst et al., 1996; Tsui & Farh, 1997).

Chapter 4 addresses the aforementioned third research objective. For that objective, the following two issues are examined:

- 1) Whether family successors has a significantly different effect on the firm's access to debt after the succession, relative to nonfamily successors.
- 2) Whether family successors' acquisition of the founder's specialised assets affects the firm's access to debt after the succession.

Based on the 348 succession cases and the DID analysis approach, I find that family successors are significantly and negatively related to the firm's access to debt financing after the succession, compared with their nonfamily counterparts. In addition, following Chapter 3, I use family successors' pre-succession internal managerial experience to proxy for their obtainment of the specialised assets and find that the successors' acquisition of the assets has a significant and positive impact on the firm's access to debt finance after the succession. However, such a significant result attenuates if the firm is headquartered in a province with a high level of marketisation in the local economic resource allocation and the founder is not surrounded by strong Confucianism atmosphere. Moreover, I document that the founders' political connections, as a type of the specialised assets, are more conducive to the firm's post-succession access to debt if the successor is the founder's descendant instead of a nonfamily member.

Finally, after separating nonfamily successors who are *guanxi*-connected with the founder from those without a *guanxi*, I find that the former's pre-succession internal experience does not have a significantly positive impact on the firm's access to debt compared with the latter. However, this result is inconsistent with my finding in Chapter 3, i.e. both family and *guanxi*-connected successors' pre-succession internal experience has a significant and positive influence on firm performance, relative to successors without a *guanxi*. I attribute this inconsistency to the possibility that good firm performance and superior access to debt finance rely on different types of the specialised assets. The former primarily relies on the founder's tacit knowledge, which can be assimilated by a family or *guanxi*-connected successor as long as the founder offers the successor the access to the knowledge and the opportunities to internalise the knowledge. However, firms' access to debt capital mainly relies on the founder's

personal connections with the lenders, which are much more difficult for *guanxi*-connected successors to acquire due to their nonfamily identity.

The above findings and their contributions have been discussed in more detail in Section 4.1 (the Introduction section) and Section 4.6 (the Conclusion section) of the chapter.

## **5.4 Summary of contributions and implications**

This thesis contributes to the literature in several important ways. First, it complements the existing research about the leadership succession in family firms by investigating the issue in the second largest economy in the world, China, where family firms play an important role yet are largely neglected by researchers.

Second, it makes a significant contribution to the literature on the driving forces of the successor decision in family businesses. Specifically, it identifies three new determinants of the successor choice, i.e. foreign ownership, clan culture, and the founders' overseas experience. These factors have never been paid attention to theoretically and empirically in family business research. As for the rest two hypothesised determinants, Confucianism and the founders' political connections, the former's impact on the successor decision has been emphasised by some researchers in theory (e.g., Yan & Sorenson, 2006). However, this thesis provides original empirical evidence on the impact, showing that Confucianism makes the founders more likely to choose a family or *guanxi*-connected successor. The founders' political connections have been confirmed to drive the selection of a family successor (Xu et al, 2015), and yet this thesis complements this evidence by showing that the political connections also facilitate the appointment of a *guanxi*-connected successor. The above contributions to the literature, in turn, may provide several new research avenues for future studies. For example, as foreign investors, clan culture, and leaders' overseas experience have never been explored in the context of family businesses, it may be fruitful for researchers to consider the influence of the above factors on family firms' various behaviours and financial consequences.

Third, this thesis enriches the literature on national culture, as it is among the first to empirically investigate the influence of the Chinese culture on the successor selections in family firms. The importance of cultural factors in the exploration of family businesses has been largely emphasised in theory (e.g., Fukuyama, 1995, Zhang & Ma, 2009), yet there is limited empirical support.<sup>117</sup> In this regard, my thesis fills the void. Specifically, I originally use three observable region-, firm-, and individual-level factors to proxy for the degrees that Chinese family business founders are influenced by Confucianism and clan culture, which are two important ideologies of the Chinese culture. My findings show that the above two cultural factors play an important role in determining the successor. This, in turn, implies that researchers may benefit from applying my propositions and proxies regarding the impact of Confucianism and clan culture to family businesses not only in China but also in other eastern and southeastern Asian contexts where the Chinese traditional culture still exert influence over people's cognitions and behaviour.<sup>118</sup> In such a way, researchers can empirically explore the influence of the Chinese culture on the family firms' decision-making, including but not limited to the choice of successor.

Fourth, unlike the extant literature focusing on family or nonfamily successors only, this thesis sheds initial light on the existence and importance of a unique type of successors, i.e. nonfamily members having a *guanxi* with the founder. This suggests a novel and interesting research direction, i.e. to investigate the founders' *guanxi*-connected members, for researchers interested in family firms in China or other Asian economies affected by Confucianism. This research direction applies not only to studies on the succession issue but also to any research topics related to the identities of family firms' stakeholders, such as managers, employees, or shareholders. This thesis also proposes six criteria for identifying a *guanxi*-connected successor, which may be useful in future research.

Fifth, this thesis provides initial evidence on the financial consequences of family business successors' acquisition of the founder's specialised assets, showing that the successors' acquisition of the assets greatly contributes to the firm's financial

---

<sup>117</sup> A potential reason for the lack of empirical evidence is that culture is an abstract concept whose impact is difficult to be quantified by researchers.

<sup>118</sup> E.g., Singapore, Taiwan, Vietnam, and Japan (Richter, 2002; Elman et al. 2002; Yan & Sorenson, 2006).

performance and access to debt finance after the succession. As mentioned in the prior chapters, the importance of the transfer of the assets from the founder to the successor has been largely highlighted in theoretical analyses<sup>119</sup>, and yet empirical research to demonstrate the importance is lacking. In this regard, this thesis adds to the literature on the specialised assets in family firms.

This thesis also has some important theoretical implications. First, most extant studies on returnee managers are based upon human capital or social capital theories, thus focusing on the impact of the managers' advanced knowledge, distinctive skills, and international network resources.<sup>120</sup> However, my original evidence regarding the impact of the founders' overseas experience implies that it will be productive to explore managers' experience abroad from a novel viewpoint, i.e. the switching of the managers' cultural beliefs and values. This suggestion should contribute to future research on returnee managers' behaviour and decision-making in not only family businesses but also other forms of economic organisations.

Second, this thesis also suggests a distinctive theoretical perspective regarding managers' work experience. Specifically, researchers studying the effect of managers' work experience usually base their arguments on upper echelon theory (e.g., Baysinger & Hoskisson, 1990; Peni, 2014). The theory suggests that managers' demographics, such as age, education, and experience, are good proxies for their knowledge base and competences, which, in turn, affect the managers' strategic choices and ultimately the firm's financial consequences (Hambrick & Mason, 1984). This thesis, however, is the first to propose linking family business successors' internal experience to their acquisition of the founder's specialised assets. The validity of this proposition, in turn, is confirmed by the findings in this thesis. In this regard, for researchers particularly interested in managers' tenures in family businesses, this thesis provides a new theoretical angle for their studies, i.e. to explore whether the experience is related to the managers' obtainment of the family business founder's specialised assets.

---

<sup>119</sup> E.g., Bjuggren & Sund (2002); Lee et al. (2003); Sharma & Irving (2005).

<sup>120</sup> E.g., Wright et al. (2008); Dai & Liu (2009); Filatotchev et al. (2009); Liu et al. (2010); Filatotchev et al. (2011); Deng et al. (2012); Li et al. (2012); Luo et al. (2013); Cui et al. (2015); Duan & Hou (2015).

Third, this thesis provides an in-depth theoretical analysis of how the efficacy of agency theory, stewardship theory, and the resource-based view, i.e. three prevailing theories in the literature on family business succession, varies when embedding the theories into China's institutional, cultural, and social environment. The analysis, in turn, is supported by empirical evidence showing that the findings in this thesis are different from those widely observed in western and developed settings. This finding provides support for the institution-based view, which suggests that evidence in one context is not replicable in other contexts. It also highlights the importance for researchers to consider the applicability of their theoretical arguments when applying them to different contexts, especially applying the arguments that have been widely proved for the case of developed countries to solve questions in emerging or developing economies. This implication is not limited to studies on family businesses, but also research in other areas.

Apart from the above implications in terms of theory, this thesis also has practical implications and suggestions for investors, the founders, and successors in Chinese family firms, as well as China's policymakers. First, it may help the investors to understand a firm's successor decision and to predict the identity of the successor more accurately based on the firm and the firm founder's publicly available information. This implication is important, as many family firms in China nowadays are just about to have their first leadership transition.

Second, as previously mentioned, family business founders often struggle between appointing a descendant and an unrelated agent as the successor, and what concerns them most should be the potential different impacts that these two types of successors may have on firm performance. This thesis may relieve such a concern of Chinese family business founders, as it indicates that family and nonfamily successors do not have a significantly different effect on firm performance. I find that this result is different from those obtained in western and developed countries, which overwhelmingly show that family successors are adverse to firm performance relative to their nonfamily counterparts (e.g., Pérez-González, 2006; Bennesen et al., 2007; Cucculelli & Micucci, 2008). The reason for such a finding, based on my theoretical

analysis,<sup>121</sup> is that the benefits of having a family successor are likely to be offset by the costs in China's context. The above finding, in practice, may help investors to make an accurate evaluation of the successor in Chinese family firms, as the founders' descendants are often deemed to be much less capable than nonfamily agents (Jiang & Peng, 2011). This, in turn, may contribute to the investors' rationale investment on Chinese family firms which are going to experience a succession or have had a succession.

Third, this thesis provides an implication for the founders regarding the selection of the successor, i.e. both their descendants and *guanxi*-connected members can acquire their specialised assets via pre-succession internal managerial experience and can use the assets to improve firm performance after the succession. This implication should be important, as the founder's specialised assets are one of the key contributors of the firm's competitive advantages and are crucial to the firm's sustained development (Bracci & Vagnoni, 2011; Bennedsen et al., 2015; Xu et al., 2015).

Fourth, this thesis provides a useful suggestion for the founders' descendants who may inherit the business in the future, that their potential inferior capability of debt-financing relative to nonfamily agents can be greatly remedied by the specialised assets they obtain from the founder before the succession.

Finally, this thesis may have an important implication for the Chinese government. As discussed in the previous chapters, the leadership transition is a forthcoming event for many family firms in China due to the ageing of the firm founders. In addition, influenced by the Chinese traditional culture and the desire for preserving the specialised assets in the firm, the founders are very likely to appoint a family or *guanxi*-connected successor. In this case, this thesis suggests the policymakers encourage or require the founders to appoint a successor with internal managerial experience before the succession. This is because, as mentioned above, such experience contributes to the successor's obtainment of the founder's specialised assets which are critical to the firm's survival and development after the succession. The survival and development of Chinese family businesses, in turn, is crucial to China's economy and living standards,

---

<sup>121</sup> The aforementioned theoretical analysis of how China's institutional, cultural, and social context affects the validity of agency theory, stewardship theory, and the resource-based view.

as family firms make prominent contributions to the growth of the Chinese economy (Huang, 2010).<sup>122</sup>

## 5.5 Limitations

As with any research, this thesis has its limitations. For example, because many family firms in China nowadays are still under their founders' management, the sample size of the succession cases in this thesis is quite small, i.e. only 348 cases, and the actual observations for the regressions are even more limited due to the missing values of various variables. However, this may adversely influence the generalisability of the empirical findings in this thesis.

In addition, Chapter 2 suggests six criteria for identifying whether a family business founder and his or her successor have a *guanxi*. For four of the criteria, i.e. whether they share the same surname, share the same birthplace or native place, are graduated from the same college or university, or are former colleagues, the rationale is that these commonalities between two persons are the most prevalent *guanxi* bases in China. However, there are some other *guanxi* bases also pervasive in Chinese society, such as being neighbours, classmates (not just alumni), or having the teacher-student relationship. These *guanxi* bases are not considered in this thesis due to the information unobservability. However, they may also exist between the founder and the successor, and thus may adversely affect the reliability of my findings.

Moreover, as previously mentioned, one of the findings in Chapter 3 is inconsistent with that in Chapter 4. More specifically, I posit that both family and *guanxi*-connected successors can acquire the founder's specialised assets via pre-succession internal experience, and the assets are critical to the firm's financial performance and access to debt finance after the succession. In Chapter 3, I indeed find that both family and *guanxi*-connected successors' pre-succession internal experience has a significant and positive impact on the post-succession firm performance, compared with their counterparts without a *guanxi*. However, in Chapter 4, I find that only family successors' pre-succession internal experience has a significant and positive effect on

---

<sup>122</sup> For example, as previously discussed, they contribute to more than 60% of the GDP, half of the tax revenues, and 90% of the new employment in China every year (Huang, 2010).

the firm's post-succession access to debt. I have explained that this inconsistency between the findings is because good firm performance mainly relies on the founder's tacit knowledge, which can be acquired by both family and *guanxi*-connected successors. However, firms' access to debt capital primarily depends on the founder's personal connections with the lenders, which are much more difficult for *guanxi*-connected successors to acquire due to their nonfamily identity. For this explanation, it would be ideal if I could find some proxies for the tacit knowledge and the connections, respectively, and use the proxies to test its validity.

Given the above limitations, it may be more appropriate to consider this thesis as preliminary empirical research regarding Chinese family firms' leadership succession issue and a call for more and in-depth investigations of the issue in the future. The limitations, in turn, may be able to be solved when Chinese family firm leaders' publicly available information becomes more completed and more succession events happen in the firms.

## References

- Adams, R., & Ferreira, D. 2008. One share-one vote: The empirical evidence. *Review of Finance*, 12: 51–91.
- Adizes I. 1988. *Corporate lifecycles*. New Jersey: Prentice Hall.
- Ahmadjian, C. L., & Robbins, G. E. 2005. A clash of capitalism: foreign shareholders and corporate restructuring in 1990s Japan. *American Sociological Review*, 70: 451-71.
- Allen, F., Qian, J., & Qian, M. 2005. Law, finance, and economic growth in China. *Journal of Financial Economics*, 77: 57–116.
- Ambrose D. M. 1983. Transfer of the family-owned business. *Journal of Small Business Management*, 21(1): 49-56.
- Amit, R., Ding, Y., Villalonga, B., & Zhang., H. 2010. The role of institutional development in the prevalence and value of family firms. *Finance and Corporate Governance Conference 2010 Paper; Harvard Business School Finance Working Paper*.
- Amore, M., Caselli, S., Colla, P., & Corbetta, G. 2017. Board connections and debt structure in family firms. Available at SSRN: <https://ssrn.com/abstract=2821465>.
- Amore, M., Minichilli, A., & Corbetta, G. 2011. How do managerial successions shape corporate financial policies in family firms? *Journal of Corporate Finance*, 17: 1016–1027.
- Anderson, R. C., Mansi, S. A., & Reeb, D. M. 2004. Board characteristics, accounting report integrity and the cost of debt. *Journal of Accounting and Economics*, 37: 315-342.
- Anderson, R. C., & Reeb, D. M. 2003a. Founding-family ownership and firm performance: Evidence from the S&P 500. *Journal of Finance*, 58: 1301–1328.

- Anderson, R. C., & Reeb, D. M. 2003b. Founding-family ownership, corporate diversification, and firm leverage. *Journal of Law and Economics*, 46(2): 653-684.
- Anderson, R. C., Jin-Hai, L., Harrison, R., & Robson, P. 2003a. The increasing role of small business in the Chinese economy. *Journal of Small Business Management*, 41(3): 310-316.
- Anderson, R. C., Mansi, S. A., & Reeb, D. M. 2003b. Founding family ownership and the agency cost of debt. *Journal of Financial Economics*, 68(2): 263-285.
- Andersson, T., Carlsen, J., & Getz, D. 2002. Family business goals in the tourism and hospitality sector: A cross-case analysis from Australia, Canada and Sweden. *Family Business Review*, 15(2): 89–106.
- Anderson, C. W., Jandik, T. & Mahija, A. 2001. Determinants of foreign ownership in newly privatised companies in transitional economies. *The Financial Review*, 37: 161–176.
- Ananchotikul, N. 2009. Does foreign investment really improve corporate governance? Evidence from Thailand. *Unpublished Working Paper from Monetary Policy Group, Bank of Thailand*.
- Ansari, I., Goergen, M., & Mira, S. 2014. The determinants of the CEO successor choice in family firms. *Journal of Corporate Finance*, 28: 6-25.
- Argote, L., & H. R. Greve. 2007. A Behavioral theory of the firm— 40 years and counting: Introduction and impact. *Organization Science*, 18(3): 337–349.
- Aronoff, C., & Ward, J. 1995. Family-owned businesses: A thing of the past or the model for the future. *Family Business Review*, 8(2): 121–130.
- Arregle, J., Hitt, M. A., Sirmon, D. G., & Very, P. 2007. The development of organizational social capital: Attributes of family firms. *Journal of Management Studies*, 44(1): 73–95.

- Astrachan, J. H., & Melissa, C. S. 2003. Family businesses' contribution to the U.S. economy: A closer look. *Family Business Review*, 16(3): 211-219.
- Bailey, W., Chung, Y. P., & Kang, J. 1999. Foreign ownership restrictions and equity price premiums: What drives the demand for cross-border investments? *Journal of Financial and Quantitative Analysis*, 34(4): 489–511.
- Bai, C., Liu, Q., Lu, J., Song, F. M., & Zhang, J. 2006. An empirical study on corporate governance and market valuation in china. *Frontiers of Economics in China*, 1(1): 83-111.
- Barclay, M. J., & Smith Jr., C. W. 1995. The maturity structure of debt. *Journal of Finance*, 50: 609–631.
- Barney, J. B. 1991. Firms resources and sustained competitive advantage. *Journal of Management*, 17: 99-120.
- Barontini, R., & Caprio, L. 2006. The effect of family control on firm value and performance: Evidence from Continental Europe. *European Financial Management*, 12(5): 689–723.
- Barth, E., Gulbrandsen, T., & Schone, P. 2005. Family ownership and productivity: The role of owner-management. *Journal of Corporate Finance*, 11: 107–127.
- Baysinger, B., & Hoskisson, R. E. 1990. The composition of boards of directors and strategic control: Effects on corporate strategy. *Academy of Management Review*, 15(1): 72–87.
- Bedford, O. 2011. *Guanxi*-building in the workplace: A dynamic process model of working and backdoor *guanxi*. *Journal of Business Ethics*, 104(1): 149-158.
- Bennedsen, M., Fan, J. P. H., Jian, M., & Yeh, Y. 2015. The family business map: Framework, selective survey, and evidence from chinese family firm succession. *Journal of Corporate Finance*, 33: 212-226.

- Bennedsen, M., Kasper, M. N., Pérez-González, F. & Wolfenzon, D. 2007. Inside the family firm: The role of families in succession decisions and performance. *The Quarterly Journal of Economics*, 122(2): 647-691.
- Bennedsen, M., Nielsen, K. M., & Wolfenzon, D. 2004. The family behind the family firm: Evidence from successions in Danish firms. In CEBR Discussion Paper.
- Berkman, H., Cole, R., & Fu, L. 2010. Political connections and minority-shareholder protection: Evidence from securities-market regulation in China. *Journal of Financial and Quantitative Analysis*, 45(6): 1391-1417.
- Bertrand, M., Johnson, S., Samphantharak, K., & Schoar, A. 2008. Mixing family with business: A study of Thai business groups and the families behind them. *Journal of Financial Economics*, 88: 466–498.
- Bertrand, M., & Schoar, A. 2006. The role of family in family firms. *Journal of Economic Perspectives* 20: 73-96.
- Bertrand, M., & Mullainathan, S. 2003. Enjoying the quiet life? Corporate governance and managerial preferences. *Journal of Political Economy*, 111(5): 1043–1075.
- Bhagat, R. S., McDevitt, A. S., & McDevitt, I. 2010. On improving the robustness of Asian management theories: Theoretical anchors in the era of globalization. *Asia Pacific Journal of Management*, 27(2): 179–192.
- Bhagat, S., Bolton, B. & Subramanian, A. 2010. CEO education, CEO turnover, and firm performance, working paper, University of Colorado at Boulder, Boulder, CO.
- Bierly, P., & Chakrabarti, A. 1996. Generic knowledge strategies in the U.S. pharmaceutical industry. *Strategic Management Journal*, 17: 123-136.
- Bjuggren, P. & Sund, L. 2002. Strategic decision making in intergenerational succession of small- and medium-size family-owned businesses. *Family Business Review*, 14: 11–23.

Bliss, M. A., & Gul, F. A. 2012. Political connection and cost of debt: Some Malaysian evidence. *Journal of Banking & Finance*, 36: 1520–1527.

Bocatto, E., Gispert, C., & Rialp, J. 2010. Family-owned business succession: The influence of pre-performance in the nomination of family and nonfamily members: Evidence from Spanish firms. *Journal of Small Business Management*, 48(4): 497-523.

Boubakri, N., Ghouma, H., 2010. Control/ownership structure, creditor rights protection, and the cost of debt financing: international evidence. *Journal of Banking and Finance*, 34: 2481–2499.

Bracci, E., & Vagnoni, E. 2011. Understanding small family business succession in a knowledge management perspective. *IUP Journal of Knowledge Management*, 9(1): 7-36.

Bradley, M., Jarrell, G., & Kim, E. H. 1984. On the existence of an optimal capital structure: theory and evidence. *Journal of Finance*, 39 (3): 857–878.

Brockhaus, R. H. 2004. Family business succession: Suggestions for future research. *Family Business Review*, 17(2): 165-177.

Brown, J. S., & Duguid, P. 1998. Organizing knowledge. *California Management Review*, 40: 90-111.

Bruton, G. D., Ahlstrom, D., & Wan, J. C. 2003. Turnaround in East Asian firms: Evidence from ethnic overseas Chinese communities. *Strategic Management Journal*, 24: 519–540.

Burkart, M., Panunzi, F., & Shleifer, A. 2003. Family firms. *Journal of Finance*, 58(5): 2167–2201.

Bubolz, M. 2001. Family as a source, user and builder of social capital. *Journal of Socio-Economies*, 30: 129-131.

- Cabrera-Suárez, K., De Saa-Perez, P., & Garcia-Almeida, D. 2001. The succession process from a resource-and knowledge-based view of the family firm. *Family Business Review*, 14(1): 37–46.
- Cai, D., Luo, J., & Wan, D. 2012. Family CEOs: Do they benefit firm performance in China? *Asia Pacific Journal of Management*, 29(4): 923-947.
- Cai, W. 2010. State control and the weak stock market in China. *Journal of Financial Crime*, 17(2): 179-194.
- Campbell, K., & Minguez-Vera, A. 2008. Gender diversity in the boardroom and firm financial performance. *Journal of Business Ethics*, 83(3): 435–451.
- Cao, X., Pan, X., Qian, M., & Tian, G. G. 2017. Political capital and CEO entrenchment: Evidence from CEO turnover in Chinese non-SOEs. *Journal of Corporate Finance*, 42: 1–14.
- Cao, J., Cumming, D., & Wang, X. 2015. One-child policy and family firms in China. *Journal of Corporate Finance*, 33: 317-329.
- Carmeli, A. 2004. Assessing core intangible resources. *European Management Journal*, 22 (1): 110–122.
- Carney, M., Gedajlovic, E., & Yang, X. 2009. Varieties of Asian capitalism: Toward an institutional theory of Asian enterprise. *Asia Pacific Journal of Management*, 26(3): 361–380.
- Carpenter, M. A. 2002. The implications of strategy and social context for the relationship between top management team heterogeneity and firm performance. *Strategic Management Journal*. 23(3): 275–284.
- Carter, D., Simkins, B., & Simpson, W. 2003. Corporate governance, board diversity, and firm value. *Financial Review*, 38(1): 33–53.
- Chan, K. S., Dang, V. Q. T., & Yan, I. K. M. 2012. Chinese firms' political connection, ownership, and financing constraints. *Economics Letters*, 115(2): 164–167.

- Chang, E. C., & Wong, S. M. L. 2004. Political control and performance in China's listed firms. *Journal of Comparative Economics*, 32(4): 617–631.
- Chen, Z. Y., & Chen, S. X. 2014. Institutional environment, local government investment impulse and local soft budget. *Economic Research Journal*, 3: 76-87 (in Chinese).
- Chen, X., Cheng, Q., & Dai, Z. 2013a. Family Ownership and CEO Turnovers. *Contemporary Accounting Research*, 30: 1166–1190.
- Chen, C. C., Chen, X., & Huang, S. 2013b. Chinese *guanxi*: An integrative review and new directions for future research. *Management and Organization Review*, 9(1): 167-207.
- Chen, D. Q., Xiao, Z. Z., & Dong, Z. Y. 2013c. Family firm control structure and bank loan contract: Rent or efficiency? *Management World*, 9: 130-188 (in Chinese).
- Chen, D. Q., Yang, J. X., & Dong, Z. Y. 2013d. Family control, professional management and corporate governance efficiency: Evidence from CEO turnover in Chinese listed companies. *Nankai Business Review*, 4: 55-67 (in Chinese).
- Chen, D. Q., Wei, G., & Xiao, Z. Z. 2013e. Law efficiency, financial deepening, and family control preferences. *Economic Research Journal*, 10: 55-68 (in Chinese).
- Chen, J., Lobo, G., Wang, Y., & Yu, L. 2013f. Loan collateral and financial reporting conservatism: Chinese evidence. *Journal of Banking & Finance*, 37: 4989-5006.
- Chen, C. J. P., Li, Z., & Su, X. 2011. Rent-seeking incentives, corporate political connections, and the control structure of private firms: Chinese evidence. *Journal of Corporate Finance*, 17: 229-243.
- Chen, S., Chen, X., & Cheng, Q. 2008. Do family firms provide more or less voluntary disclosure? *Journal of Accounting Research*, 46: 499–536.
- Chen, J., & Strange, R. 2005. The determinants of capital structure: Evidence from Chinese listed companies, *Economic Change and Restructuring*, 38(1): 11-35.

- Chen, J. J. 2004. Determinants of capital structure of Chinese-listed companies. *Journal of Business Research*, 57(12): 1341-1351.
- Chen, X. P., & Chen, C. C. 2004. On the intricacies of the Chinese *guanxi*: a process model of *guanxi* development. *Asia Pacific Journal of Management*, 21(3): 305–324.
- Chen, C., Chen, X., & Meindl, J. R. 1998. How can cooperation be fostered? The cultural effects of individualism-collectivism. *Academy of Management Review*, 23(2): 285-304.
- Chen, M. 1995. Thailand-Overseas Chinese family business: A case study. *East Asian Executive Reports*, 17(11): 8-21.
- Cheng, Q. 2014. Family firm research – A review. *China Journal of Accounting Research*, 7(3): 149-163.
- Cheng, L. T. W., Chan, R. Y. K., & Leung, T. Y. 2010. Management demography and corporate performance: Evidence from China. *International Business Review*, 19(3): 261-275.
- Chiao, C., Wang, Z., & Lai, H. 2009. Order submission behaviors and opening price behaviors: Evidence from an emerging market. *Review of Quantitative Finance and Accounting*, 33(3): 253-278.
- China Securities Regulatory Commission. 2015. *Measures for the administration of initial public offering and listing of stocks*. (May 2006, as amended in December 2015) Available at: [http://www.chinasee.com/attached/file/20160617/20160617082844\\_763.pdf](http://www.chinasee.com/attached/file/20160617/20160617082844_763.pdf) (Accessed: 27 April 2017) (in Chinese).
- China Securities Regulatory Commission. 2008. *China capital market development report*. Beijing: China Financial Publishing House (in Chinese).
- Chinese Family Business Research Association. 2015. *Chinese family business succession report*. Beijing: CITIC Publishing Press (in Chinese).

- Choi, H. M., Sul, W., & Min, S. K. 2012. Foreign board membership and firm value in Korea. *Management Decision*, 50(2): 207-233.
- Choi, S. B., Lee, S. H., & Williams, C. 2011. Ownership and firm innovation in a transition economy: Evidence from china. *Research Policy*, 40(3): 441-452.
- Chow, C., Fung, M., Lam, K., & Sami, H. 2012. Investment opportunity set, political connection and business policies of private enterprises in China. *Review of Quantitative Finance and Accounting*, 38(3): 367-389.
- Chrisman, J. J., & Patel, P. C. 2012. Variations in R&D investments of family and nonfamily firms: Behavioral agency and myopic loss aversion perspectives. *Academy of Management Journal*, 55(4): 976-997.
- Chu, W. 2009. The influence of family ownership on SME performance: Evidence from public firms in Taiwan. *Small Business Economics*, 33(3): 353-373.
- Chua, J. H., Chrisman, J. J., Kellermanns, F., & Wu, Z. 2011. Family involvement and new venture debt financing. *Journal of Business Venturing*, 26(4): 472-488.
- Chua, J. H., Chrisman, J. J., & Sharma, P. 2003. Succession and non-succession concerns of family firms and agency relationship with nonfamily managers. *Family Business Review*, 16(2): 89-108.
- Chuang, F., Morgan, R. E., & Robson, M. J. 2012. Clan culture, strategic orientation and new product performance in Chinese marketing ventures: An exploration of main and moderating effects. *Journal of Strategic Marketing*, 20(3): 267-286.
- Churchill, C., & Lewis, V. L. 1983. The five stages of small business growth. *Harvard Business Review*, 61(3): 30-50.
- Claessens, S., Djankov, S., Fan, J., & Lang, L. 2002. Disentangling the incentive and entrenchment effects of large shareholdings. *Journal of Finance*, 57: 2741-2771.
- Claessens, S., Djankov, S., & Lang, L. 2000. Separation of ownership from control of East Asian firms. *Journal of Financial Economics*, 58: 81-112.

- Covrig, V. M., DeFond, M. L., & Hung, M. 2007. Home bias, foreign mutual fund holdings, and the voluntary adoption of international accounting standards. *Journal of Accounting Research*, 45(1): 41–70.
- Cragg, J., & Donald, S. 1993. Testing identifiability and specification in instrumental variables models. *Econometric Theory*, 9: 222–240.
- Crutchley, C., & Hansen, R. 1989. A test of the agency theory of managerial ownership, corporate leverage, and corporate dividends. *Financial Management*, 18(4): 36-46.
- Cucculelli, M., & Micucci, G. 2008. Family succession and firm performance: evidence from Italian family firms. *Journal of Corporate Finance*, 14: 17–31.
- Cull, R., Li, W., Sun, B., & Xu, L. C. 2015. Government connections and financial constraints: Evidence from a large representative sample of Chinese firms. *Journal of Corporate Finance*, 32: 271-294.
- Cyert, R. M., & March., J. G. 1963. *A Behavioral Theory of the Firm*, 2nd ed. Blackwell, Malden, MA.
- Dahlquist, M., & Robertsson, G. 2001. Direct foreign ownership, institutional investors, and firm characteristics. *Journal of Financial Economics*, 59: 413–440.
- Dai, O., & Liu, X. 2009. Returnee entrepreneurs and firm performance in Chinese high-technology industries. *International Business Review*, 18: 373-386.
- Dalton, D. R., & Kesner, I. F. 1985. Organizational performance as an antecedent of inside/outside chief executive succession: An empirical assessment. *Academy of Management Journal*, 28: 749-762.
- Datta, S., Iskandar-Datta, M., & Ramna, K. 2005. Managerial stock ownership and the maturity structure of corporate governance. *Journal of Finance*, 60: 2333–2350.

- D'Aurizio, L., Oliviero, T., & Romano, L. 2015. Family firms, soft information and bank lending in a financial crisis. *Journal of Corporate Finance*, 33: 279-292.
- Davidson, W. N., III., Xie, B., Xu, W., & Ning, Y. 2007. The influence of executive age, career horizon and incentives on pre-turnover earnings management. *Journal of Management and Governance*, 11(1): 45–60.
- Davis, G. 2005. New directions in corporate governance. *Annual Review of Sociology*, 31(1): 143–162.
- Davis, J., Schoorman, R., Mayer, R., & Tan, H. 2000. The trusted general manager and business unit performance. *Strategic Management Journal*, 21: 563-576.
- Davis, J., Schoorman, R., & Donaldson, L. 1997. Towards a stewardship theory of management. *Academy of Management Review*, 22: 20-47.
- De Bary, W. T. 1991. *The trouble with Confucianism*. Cambridge, MA: Harvard University Press.
- Deng, Z., Jean, R. J., & Sinkovics, R. R. 2012. Determinants of international innovation performance in Chinese manufacturing firms: An integrated perspective. *Asian Business & Management*, 11(1): 31-55.
- Deshpande, R., & Farley, J. U. 2004. Organisational culture, market orientation, innovativeness, and firm performance: An international research odyssey. *International Journal of Research in Marketing*, 21(1): 3-22.
- Dezso", C. L., & Ross, D. G. 2008. "Girl power": Female participation in top management and firm quality. Working paper: University of Maryland.
- Dharwadkar, R., George, G., & Brandes, P. 2000. Privatization in emerging economies: An agency theory perspective. *Academy of Management Review*, 25: 650–669.
- Diamond, D. W. 1991. Debt maturity structure and liquidity risk. *Quarterly Journal of Economics*, 106: 709–737.

- Diamond, D. W. 1989. Reputation acquisition in debt markets. *Journal of Political Economy*, 97: 828–862.
- Díaz-Díaz, N. L., García-Teruel, P. J., & Martínez-Solano, P. 2016. Debt maturity structure in private firms: Does the family control matter? *Journal of Corporate Finance*, 37: 393-411.
- Dou, J. & Li, S. 2013. The succession process in Chinese family firms: A *guanxi* perspective. *Asia Pacific Journal of Management*, 30(3): 893-917.
- Dou, J. S., Li, S. X., & Wu, J. Y. 2009. An empirical study of the succession of tacit knowledge. *Management World*, 1: 108-120 (in Chinese).
- Dou, J. S., & Jia, S. H. 2008. The continuity of family business. *Management World*, 9: 105-117 (in Chinese).
- Douma, S., George, R., & Kabir, R. 2006. Foreign and domestic ownership, business groups, and firm performance: Evidence from a large emerging market. *Strategic Management Journal*, 27(7): 637-657.
- Du, X. 2016. Does Confucianism reduce board gender diversity? Firm-level evidence from China. *Journal of Business Ethics*, 136(2): 399-436.
- Du, X. 2015. Does Confucianism reduce minority shareholder expropriation? Evidence from China. *Journal of Business Ethics*, 132: 661-716.
- Duan, T., & Hou, W. X. 2015. The curse of returnee CEOs. Unpublished Working Paper.
- Dunfee, T. W., & Warren, D. E. 2001. Is *guanxi* ethical? A normative analysis of doing business in China. *Journal of Business Ethics*, 32(3): 191–204.
- Durand, R., & Vargas, V. 2003. Ownership, organization, and private firms' efficient use of resources. *Strategic Management Journal*, 24: 667–675.

Durbin, J. 1954. Errors in variables. *Review of the International Statistical Institute*, 22: 23-32.

Dyer, W. G. 2006. Examining the "family effect" on firm performance. *Family Business Review*, 19(4): 253.

El Ghouli, S., Guedhami, O., Ni, Y., Pittman, J., & Saadi, S. 2012. Does religion matter to equity pricing? *Journal of Business Ethics*, 111(4): 491-518.

Elman, B. A., Duncan, J. B., & Ooms, H. (Eds.). 2002. *Rethinking Confucianism: Past and present in China, Japan, Korea, and Vietnam*. Los Angeles: UCLA Asian Pacific Monograph Series.

Fagiolo, G., & Luzzi, A. 2006. Do liquidity constraints matter in explaining firm size and growth? Some evidence from the Italian manufacturing industry. *Industrial and Corporate Change*, 15: 1–39.

Fama, E., & French, K. 2002. Testing trade-off and pecking order theory about dividend and debt. *Review of Financial Studies*, 15: 1–33.

Fama, E., & Jensen, M. 1983. Separation of ownership and control. *Journal of Law and Economics*, 26: 301-325.

Fan, J. P. H., Wong, T. J., & Zhang, T. 2012. Founder succession and accounting properties. *Contemporary Accounting Research*, 29(1): 283-311.

Fan, J. P. H., Wei, K. C. J., & Xu, X. Z. 2011a. Corporate finance and governance in emerging markets: A selective review and an agenda for future research. *Journal of Corporate Finance*, 17(2): 207-214.

Fan, G., Wang, X. L., & Zhu, H. P. 2011b. *NERI INDEX of marketization of China's provinces 2011 report*. Beijing: Economic Science Press (in Chinese).

Fan, J. P. H., Jian, M., & Yeh, Y. H. (Eds.), 2015. Family firm succession: The roles of specialised Assets and transfer costs. Working Paper, The Chinese University of Hong Kong, Hong Kong.

- Fan, J. P. H., Jian, M., & Yeh, Y. H. 2008. Succession: the roles of specialised assets and transfer costs. Working paper, The Chinese University of Hong Kong, Hong Kong.
- Fan, J. P. H., Wong, T. J., & Zhang, T. 2007. Politically connected CEOs, corporate governance, and post-IPO performance of China's newly partially privatised firms. *Journal of Financial Economics*, 84: 330–357.
- Fan, J. P. H., Wong, T. J., & Zhang, T. 2005. The emergence of corporate pyramids in China. Working paper, The Chinese University of Hong Kong, Hong Kong.
- Fan, Y. 2002a. *Guanxi's* consequences: Personal gains at social cost. *Journal of Business Ethics*, 38(4): 371-380.
- Fan, Y. 2002b. Questioning *guanxi*: definition, classification and implications. *International Business Review*, 11: 549-64.
- Farh, J., Tsui, A. S., Xin, K., & Cheng, B. 1998. The influence of relational demography and *guanxi*: The Chinese case. *Organization Science*, 9(4): 471-488.
- Filatotchev, I., Liu, X., Lu, J., & Wright, M. 2011. Knowledge spillovers through human mobility across national borders: evidence from Zhongguancun Science Park in China. *Research Policy*, 40(3): 453–462.
- Filatotchev, L., Liu, X., Buck, T., & Wright, M. 2009. The export orientation and export performance of high-technology SMEs in emerging markets: the effects of knowledge transfer by returnee entrepreneurs. *Journal of International Business Studies*, 40(6): 1005–1020.
- Filatotchev, I., Yung-Chih Lien, & Piesse, J. 2005. Corporate governance and performance in publicly listed, family-controlled firms: Evidence from Taiwan. *Asia Pacific Journal of Management*, 22(3): 257-283.
- Finkelstein, S., & Hambrick, D. 1996. *Strategic leadership*. St. Paul, MN: West.
- Firth, M., Lin, C., Liu, P., & Wong, S. M. L. 2009. Inside the black box: Bank credit allocation in China's private sector. *Journal of Banking & Finance*, 33(6): 1144-1155.

- Fombrun, C., & Shanley, M. 1990. What's in a name? Reputation building and corporate strategy. *Academy of Management Journal*, 33(2): 233-258.
- Friedman, R., Liu, W., Chi, S. S., Hong, Y., & Sung, L. 2012. Cross-cultural management and bicultural identity integration: When does experience abroad lead to appropriate cultural switching? *International Journal of Intercultural Relations*, 36(1): 130-139.
- Fukuyama, F. 1995. *Trust: The Social Virtues and the Creation of Prosperity*. New York: The Free Press.
- Fung, Y. 1952. *A history of Chinese philosophy*, D. Bodde (Trans.) Princeton, NJ: Princeton University Press.
- Ge, Y., & Qiu, J. 2007. Financial development, bank discrimination and trade credit. *Journal of Banking & Finance*, 31: 513–530.
- Gersick, K.E., Davis, J.A., McCollom Hampton, M., & Lansberg, I. 1997. *Generation to generation: Life cycles of the family business*. Harvard Business School, Boston, MA.
- Goergen, M., Limbach, P., & Scholz, M. 2015. Mind the gap: The age dissimilarity between the chair and the CEO. *Journal of Corporate Finance*, 35: 136-158.
- Goergen, M., & Renneboog, L. 2001. Investment policy, internal financing and ownership concentration in the UK. *Journal of Corporate Finance*, 7(3): 257-284.
- Goll, I., Sambharya, R., & Tucci, L. 2001. Top management team composition, corporate ideology, and firm performance. *MIR: Management International Review*, 41(2): 109-129.
- Gómez-Mejía, L. R., Haynes, K. T., Núñez-Nickel, M., Jacobson, K. & Moyano-Fuentes, J. 2007. Socioemotional wealth and business risks in family controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly*, 52: 106-37.

Gómez-Mejía, L. R., Núñez-Nickel, M., & Gutierrez, I. 2001. The role of family ties in agency contracts. *Academy of Management Journal*, 44: 81–95.

González, M., Guzmán, A., Pombo, C., & Trujillo, M. 2013. Family firms and debt: Risk aversion versus risk of losing control. *Journal of Business Research*, 66(11): 2308-2320.

Gottesman, A. A., & Morey, M. R. 2010. CEO educational background and firm financial performance. *Journal of Applied Finance*, 20(2): 70-82.

Gottesman, A. A. & Morey, M. R. 2006. Does a better education make for better managers? An empirical examination of CEO educational quality and firm performance, working paper, Pace University, New York, NY.

Graham, J. R., & Rogers, D. A. 2002. Do firms hedge in response to tax incentives? *Journal of Finance*, 57: 815-838.

Graham, J. 2000. How big are the tax benefits of debt? *Journal of Finance*, 55(5): 1901–1941.

Grant R. M. 1996. Toward a knowledge-based theory of the firm. *Strategic Management Journal*, 17(2): 109-122.

Grant, R. M. 1991. The resource-based theory of competitive advantage: Implications for strategy formulation. *California Management Review*, 17: 114- 135.

Gudykunst, W. B., Matsumoto, Ting-Toomey, Y. S., Nishida, T., Linda, K. S., & Heyman, S. 1996. The influence of cultural individualism-collectivism, self construals, and individual values on communication styles across cultures. *Human Communication Research*, 22: 510-543.

Gurunlu, M., & Gursoy, G. 2010. The influence of foreign ownership on capital structure of non-financial firms: Evidence from Istanbul Stock Exchange. *The IUP Journal of Corporate Governance*, 9(4): 21-29.

- Gul, F. A., Kim, J., & Qiu, A. A. 2010. Ownership concentration, foreign shareholding, audit quality, and stock price synchronicity: Evidence from China. *Journal of Financial Economics*, 95(3): 425-442.
- Gul, F. A. 1999. Government share ownership, investment opportunity set and corporate policy choices in China. *Pacific- Basin Finance Journal*, 7(2): 157–172.
- Haanes, K., & Fjeldstad. 2000. Linking intangible resources and competition. *European Management Journal*, 18(1): 52–62.
- Habbershon, T. G., Williams, M. L., & MacMillan, I. 2003. A unified systems perspective of family firm performance. *Journal of Business Venturing*, 18(4): 451–465.
- Hambrick, D. C., Cho, T., & Chen, M. 1996. The influence of top management team heterogeneity on firms' competitive moves. *Administrative Science Quarterly*, 41(4): 659-684.
- Hambrick, D. C., & Fukutomi, G. 1991. The seasons of a CEOs tenure. *Academy of Management Review*, 16(4): 719–742.
- Hambrick, D. C., & Mason., P. A. 1984. Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review*, 9: 193-206.
- Han, J., Chen. Z. H., & Yang, X. X. 2014. The relationship between accounting conservatism and investment efficiency from top management team's background characteristics. *Accounting Research*, 12: 25-31 (in Chinese).
- Han, Y., & Altman, Y. 2009. Supervisor and subordinate *guanxi*: A grounded investigation in the people's republic of China. *Journal of Business Ethics*, 88: 91-104.
- Handler, W. 1994. Succession in family business: A review of the research. *Family Business Review*, 7(2): 133–157.

- Hansen M. T. 1999. The search-transfer problem: The role of weak ties in sharing knowledge across organization subunits. *Administrative Science Quarterly*, 44(1): 82-111.
- Hansen, L. P. 1982. Large sample properties of generalized method of moments estimators. *Econometrica*, 50: 1029–1054.
- Hausman, J. 1978. Specification tests in econometrics. *Econometrica*, 46(6): 1251-1271.
- He, X. G., & Lian, Y. L. 2009. Family authority and family-owned firm value: An empirical study in China. *Economic Research Journal*, 4: 90-102 (in Chinese).
- Heller, R. 1991. How the Chinese manage to keep it all in the family. *Management Today*, November: 31-34.
- Hillier, D., & McColgan, P. 2009. Firm performance and managerial succession in family managed firms. *Journal of Business Finance & Accounting*, 36: 461–484.
- Hingorani, A., Lehn, K., & Makhija, A. 1997. Investor behaviour in mass privatisation: The case of the Czech Voucher Scheme. *Journal of Financial Economics*, 44: 349-96.
- Hofstede, G. 1994. The business of international business is culture. *International Business Review*, 3(1): 1-14.
- Hofstede, G. 1991. *Cultures and organisations: Software of the mind*. London: McGraw-Hill.
- Hoopes, D. G., & Miller, D. 2006. Ownership preferences, competitive heterogeneity, and family-controlled businesses. *Family Business Review*, 19(2): 89-101.
- Houston, J., & James, C. 1996. Bank information monopolies and the mix of private and public debt claims. *Journal of Finance*, 51(5): 1863-1889.
- Hu, S., & Chen, S. 2015. Cultural beliefs, agency relationship, and network governance. *Chinese Management Studies*, 9(2): 176-196.

- Huang, W., & Zhu, T. 2015. Foreign institutional investors and corporate governance in emerging markets: Evidence of a split-share structure reform in China. *Journal of Corporate Finance*, 32: 312-326.
- Huang, B. Y., Lin, C. M., & Huang, C. M. 2011. The influences of ownership structure: Evidence from China. *The Journal of Developing Areas*, 45(1): 209-227.
- Huang, G. M. 2010. *The China private economy development report no. 7 (2009–2010)*. Beijing: Social Sciences Academic Press (in Chinese).
- Huang, R. D., & Shiu, C. 2009. Local effects of foreign ownership in an emerging financial market: Evidence from qualified foreign institutional investors in taiwan. *Financial Management*, 38(3): 567.
- Huizinga, H., Laeven, L., & Nicodeme, G. 2008. Capital structure and international debt shifting. *Journal of Financial Economics*, 88(1): 80–118.
- Huybrechts, J., Voordeckers, W., Lybaert, N., & Vandemaele, S. 2011. The distinctiveness of family-firm intangibles: A review and suggestions for future research. *Journal of Management and Organization*, 17(2): 268-287.
- Ibrahim, N. A., Angelidis, J. P., & Parsa, F. 2008. Strategic management of family businesses: Current findings and directions for future research. *International Journal of Management*, 25(1): 95-110,198.
- Jacobs, L., Goupei, G., & Herbig, P. 1995. Confucian roots in China: A force for today's business. *Management Decision*, 33(10): 29-34.
- Jacobs, J. B. 1979. A preliminary model of particularistic ties in Chinese political alliances: *Kan-ch'ing* and *kuan-hsi* in a rural taiwanese township. *China Quarterly*, 78: 237-273.
- Jalbert, T., Rao, R., & Jalbert, M. 2002. Does school matter? An empirical analysis of CEO education, compensation, and firm performance. *International Business and Economics Research Journal*, 1(1): 83-98.

- Jayaraman, N., Khorana, A., Nelling, E., & Covin, J. 2000. CEO founder status and firm financial performance. *Strategic Management Journal*, 21(12): 1215–1224.
- Jensen, G., Solberg, D., & Zom, T. 1992. Simultaneous determination of insider ownership, debt, and dividend policies. *Journal of Financial and Quantitative Analysis*, 27(2): 247-263.
- Jensen, M. C. 1986. Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review*, 76(2): 323-329.
- Jensen, M. C., & Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3: 305-360.
- Jiang, F., & Kim, K. A. 2015. Corporate governance in China: A modern perspective, *Journal of Corporate Finance*, 32: 190-216.
- Jiang, Y., & Peng, M. W. 2011. Are family ownership and control in large firms good, bad, or irrelevant? *Asia Pacific Journal of Management*, 28(1): 15–39.
- Jiang, C. X., Chua, R. Y., Kotabe, M., & Murray, J. Y. 2011. Effects of cultural ethnicity, firm size, and firm age on senior executives' trust in their overseas business partners: Evidence from china. *Journal of International Business Studies*, 42(9): 1150-1173.
- John, K., Knyazeva, A., & Knyazeva, D. 2011. Do shareholders care about geography? *Journal of Financial Economics*, 101: 533–551.
- Johnson, S. A. 2003. Debt maturity and the effects of growth opportunities and liquidity risk on leverage. *The Review of Financial Studies*, 16: 209–236.
- Johnson, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. 2000. Tunneling. *American Economic Review*, 90: 22–27.
- Kao, J. 1993. The worldwide web of Chinese business. *Harvard Business Review*, 71: 24-36.

- Kayser, G., & Wallau, F. 2002. Industrial family businesses in Germany - situation and future. *Family Business Review*, 15(2): 111-115.
- Keasey, K., Martinez, B., & Pindado, J. 2015. Young family firms: Financing decisions and the willingness to dilute control. *Journal of Corporate Finance*, 34: 47-63.
- Khanna, T., Palepu, K. G., & Srinivasan, S. 2004. Disclosure practices of foreign companies interacting with US markets. *Journal of Accounting Research*, 42(2): 475–508.
- Kim, Y., & Gao, F. Y. 2010. An empirical study of human resource management practices in family firms in China. *The International Journal of Human Resource Management*, 21: 2095-2119.
- Klapper, L. F., & Love, I. 2004. Corporate governance, investor protection, and performance in emerging markets. *Journal of Corporate Finance*, 10(5): 703–728.
- Klein, B., & Leffier, K. B., 1981. The role of market forces in assuring contractual performance. *The Journal of Political Economy* 89: 615-641.
- Knight, D., Pearce, C. L., Smith, K. G., Olian, J. D., Sims, H. P., Smith, K. A., & Flood, P. 1999. Top management team diversity, group process, and strategic consensus. *Strategic Management Journal*, 20(3): 445–465.
- Kogut, B., & Zander, U. 1992. Knowledge of the firm, combinative capabilities and the replication of technology. *Organization Studies*, 3: 383-397.
- Krishnan, H. A., & Park, D. 2005. A few good women—on top management teams. *Journal of Business Research*, 58(12): 1712–1720.
- Laforet, S. 2016. Effects of organisational culture on organisational innovation performance in family firms. *Journal of Small Business and Enterprise Development*, 23(2): 379-407.
- Langenberg, E. A. 2007. *Guanxi and business strategy: Theory and implications for multinational companies in China*. Heidelberg: Physica.

- Lansberg, I. S., & Astrachan, J. H. 1994. Influence of family relationships on succession planning and training: the importance of mediating factors. *Family Business Review*, 7(1): 39-59.
- Lansberg, I. S. 1988. The succession conspiracy. *Family Business Review*, 1(2): 121-125.
- La Porta, R., López de Silanes, F., & Shleifer, A. 1999. Corporate ownership around the world. *Journal of Finance*, 54: 471-517.
- Law, K. S., Wong, C., Wang, D., & Wang, L. 2000. Effect of supervisor – subordinate *guanxi* on supervisory decisions in China: An empirical investigation. *International Journal of Human Resource Management*, 11(4): 751–765.
- Le Breton-Miller, I., & Miller, D. 2006. Why do some family businesses out-compete? Governance, long-term orientations, and sustainable capability. *Entrepreneurship Theory and Practice*, 30: 731–746.
- Le Breton-Miller, I., Miller, D., & Steier, L. 2004. Towards an integrative model of effective FOB succession. *Entrepreneurship Theory and Practice*, Summer: 305-328.
- Lee, S. H., Phan, P. H., & Yoshikawa, T. 2008. The role of the board and its interaction with the successor's human capital in the Asian family enterprise. *Multinational Business Review*, 16(2): 65-88.
- Lee, K. S., Lim, G. H., & Lim, W. S. 2003. Family business succession: Appropriation risk and choice of successor. *Academy of Management Review*, 28(4): 657-666.
- Lee, J., 1996. Culture and management: A study of small Chinese family business in Singapore. *Journal of Small Business Management*, 34: 63-78.
- Leeth, J. D., & Scott, J. A. 1989. The incidence of secured debt: Evidence from the small business community. *The Journal of Financial and Quantitative Analysis*, 24(3): 379–394.

- Lemmon, M. L., & Lins, K. V. 2003. Ownership structure, corporate governance, and firm value: Evidence from the East Asian financial crisis. *Journal of Finance*, 58: 1445–1468.
- Leung, W. S. C. 2010. The ownership structure of family firms. Ph.D. Dissertation. The Chinese University of Hong Kong.
- Leung, F. F. 1995. Overseas Chinese management: Myths and realities. *East Asian Executive Reports*, 17(2): 6-13.
- Levenson, J. R. 1972. *Confucian China and its modern fate: A trilogy*. Berkeley/Los Angeles, CA: University of California Press.
- Li, H., Zhang, Y., Li, Y., Zhou, L., & Zhang, W. 2012. Returnees versus locals: Who perform better in China's technology entrepreneurship? *Strategic Entrepreneurship Journal*, 6(3): 257-272.
- Li, S. F. 2011. CEO Selection in Chinese family firms: Determinants and consequences. Ph.D. Dissertation. The Chinese University of Hong Kong.
- Li, J., He, X. G., Mao, J. 2010. Kinship, innovative competence and firm performance. *Nankai Business Review*, 13(3): 117-124 (in Chinese).
- Li, K., Yue, H., & Zhao, L. 2009. Ownership, institutions, and capital structure: Evidence from China. *Journal of Comparative Economics*, 37(3): 471-490.
- Li, H., Meng, L., Wang, Q., & Zhou, L. 2008. Political connections, financing and firm performance: Evidence from Chinese private firms. *Journal of Development Economics*, 87: 283-299.
- Li, S. S. 2005. *State-owned assets management and policy choice*. Dalian: Dongbei University of Finance and Economics Press (in Chinese).
- Li, Y. 2000. Modified life cycle model of enterprises. *South China Journal of Economy*, 2: 47-50 (in Chinese).

- Liang, J., Lin, M., & Chin, C. 2012. Does foreign institutional ownership motivate firms in an emerging market to increase voluntary disclosure? Evidence from Taiwan. *Review of Quantitative Finance and Accounting*, 39(1): 55-76.
- Liang, S. M. 1987. *Essence of Chinese culture*. Shanghai: Xuelin Press (in Chinese).
- Lim, C. Y., Wang, J., & Zeng, C. C. 2018. China's "Mercantilist" government subsidies, the cost of debt and firm performance. *Journal of Banking and Finance*, 86: 37-52.
- Lin, K. J., Tan, J., Zhao, L., & Karim, K. 2015. In the name of charity: political connections and strategic corporate social responsibility in a transition economy. *Journal of Corporate Finance*, 32: 327-346.
- Lin, C., Ma, Y., Malatesta, P., & Xuan, Y. 2011. Ownership structure and the cost of corporate borrowing. *Journal of Financial Economics*, 100: 1-23.
- Liu, Q., Luo, J., & Tian, G. G. 2016. Managerial professional connections versus political connections: Evidence from firms' access to informal financing resources. *Journal of Corporate Finance*, 41: 179-200.
- Liu, X., & Xue, Y. 2015. CEO succession, the deviation of firm performance and R&D investment: A research on the perspective of orientation of strategic change. *Nankai Business Review*, 18(3): 34-47 (in Chinese).
- Liu, H. L., & Wu, L. S. 2014. The institutional environment, the nature of ownership, and the effective tax rate of companies. *Management World*, 4: 42-52 (in Chinese).
- Liu, Q., Tang, J., & Tian, G. G. 2013. Does political capital create value in the IPO market? Evidence from China. *Journal of Corporate Finance*, 23: 395-413.
- Liu, W., Yang, H., & Zhang, G. 2012. Does family business excel in firm performance? an institution-based view. *Asia Pacific Journal of Management*, 29(4): 965-987.
- Liu, I., Atinc, G., & Kroll, M. 2011. The unique nature of Chinese corporate governance practices. *Journal of Business Strategies*, 28(1): 23-51.

- Liu, X., Lu, J., Filatotchev, I., Buck, T., & Wright, M. 2010. Returnee entrepreneurs, knowledge spillovers and innovation in high-tech firms in emerging economies. *Journal of International Business Studies*, 41(7): 1183-1197.
- López-Gracia, J., & Sánchez-Andújar, S. 2007. Financial structure of the family business: Evidence from a group of small Spanish firms. *Family Business Review*, 20(4): 269-287.
- Loughran, T. 2007. Geographic dissemination of information. *Journal of Corporate Finance*, 13: 675–694.
- Loughran, T., & Schultz, P. 2005. Liquidity: Urban versus rural firms. *Journal of Financial Economics*, 78: 341–374.
- Lu, L. 2003. *Influences of Confucianism on the market economy of China*. In *Chinese Culture, Organizational Behavior, and International Business Management*. Alon, I., edited. London, U.K.: Praeger Publishes.
- Luo, S., Lovely, M. E., & Popp, D. 2013. *Intellectual returnees as drivers of indigenous innovation: Evidence from the Chinese photovoltaic industry*. Cambridge: National Bureau of Economic Research, Inc.
- Luo, J. H., Wan, D. F., & Cai, D. 2012a. The private benefits of control in Chinese listed firms: Do cash flow rights always reduce controlling shareholders' tunneling? *Asia Pacific Journal of Management*, 29(2): 499–518.
- Luo, Y., Huang, Y., & Wang, S. L. 2012b. *Guanxi* and organisational performance: A meta-analysis. *Management and Organization Review*, 8(1): 139-172.
- Luo, X., Chung, C., & Sobczak, M. 2009. How do corporate governance model differences affect foreign direct investment in emerging economies? *Journal of International Business Studies*, 40(3): 444-467.
- Luo, Y. 1997. *Guanxi*: Principles, philosophies, and implications. *Human Systems Management*, 16(1): 43-51.

- Lyman, A. R. 1991. Customer service: Does family ownership make a difference? *Family Business Review*, 4(3): 303–324.
- Makhija, A. K., & Spiro, M. 2000. Ownership structure as a determinant of share value: evidence from newly privatised Czech firms. *Financial Review*, 35: 1-32.
- May, D. 1995. Do managerial motives influence firm risk reduction strategies? *Journal of Finance*, 50(4): 1291-1308.
- McAllister, D. J. 1995. Affect- and cognition-based trust as foundations for interpersonal cooperation in organisations. *Academy of Management Journal*, 38(1): 24-59.
- McConaughy, D. L. 2000. Family CEO vs. non-family CEOs in the family-controlled firm: An examination of the level and sensitivity of pay to performance. *Family Business Review*, 13(2): 121– 131.
- McConaughy, D. L., Walker, M. C., Henderson, Glenn V., Jr., & Mishra, C. S. 1998. Founding family controlled firms: Efficiency and value. *Review of Financial Economics*, 7(1): 1-19.
- McConnell, J. J., & Servaes, H. 1990. Additional evidence on equity ownership and corporate value. *Journal of Financial Economics*, 27: 595–612.
- Mei, J., Scheinkman, J. A., & Xiong, W. 2009. *Speculative trading and stock prices: Evidence from Chinese A-B share premia*. St. Louis: Federal Reserve Bank of St Louis.
- Meyer, K. E., & Peng, M. W. 2005. Probing theoretically into Central and Eastern Europe: Transactions, resources, and institutions. *Journal of International Business Studies*, 36(6): 600–621.
- Michalisin, M. D., Smith, R. D., & Douglas, M. K. 1997. In search of strategic assets. *The International Journal of Organizational Analysis*, 5 (4): 360–387.

Miller, D., & Shamsie, J. 1996. The resource-based view of the firm in two environments: The Hollywood film studios from 1936–1965. *Academy of Management Journal*, 39: 519–543.

Ministry of Human Resources and Social Security of the People's Republic of China. 2017. *Suggestions on supporting and encouraging the innovation and entrepreneurship of the technicians from public institutions*. Available at: [http://www.gov.cn/fuwu/2017-03/27/content\\_5181053.htm](http://www.gov.cn/fuwu/2017-03/27/content_5181053.htm) (Accessed: 22 April 2017) (in Chinese).

Minichilli, A., Corbetta, G., & MacMillan, I. C. 2010. Top management teams in family-controlled companies: 'Familianness', 'faultlines', and their impact on financial performance. *Journal of Management Studies*, 47: 205–222.

Mishra, C. S., & McConaughy, D. L. 1999. Founding family control and capital structure: The risk of loss of control and the aversion to debt. *Entrepreneurship Theory and Practice*, 23(4): 53-64.

Mitton, T. 2008. Why Have Debt ratios increased for firms in emerging markets? *European Financial Management*, 14(1): 127-151.

Mohd Hassan, C. H., Rashidah, A. R., & Mahenthiran, S. 2008. Corporate governance, transparency and performance of Malaysian companies. *Managerial Auditing Journal*, 23(8): 744-778.

Molly, V., Leveren, E., & Deloof, M. 2010. Family business succession and its impact on financial structure and performance. *Family Business Review*, 23(2): 131-147.

Morck, R., Wolfenzon, D., & Yeung, B. 2005. Corporate governance, economic entrenchment, and growth. *Journal of Economic Literature*, 63: 655–720.

Morck, R., Strangeland, D., & Yeung, B. 2000. Inherited wealth, corporate control, and economic growth. In R. Morck (Ed.). *Concentrated corporate ownership*. Chicago: University of Chicago Press.

- Murray, A. L. 1989. Top management group heterogeneity and firm performance. *Strategic Management Journal*, 10: 125 -141.
- Myers, S. 1984. The capital structure puzzle. *Journal of Finance*, 39: 575-592.
- Myers, S., & Majluf, N. 1984. Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, 13(2): 187-221.
- Nonaka, I., & Konno, N. 1998. The concept of “Ba”: Building a foundation for knowledge creation. *California Management Review*, 40: 40-54.
- Nonaka, I., & Takeuchi, H. 1995. *The knowledge-creating company*. New York: Oxford University Press.
- Norburn, D., & Birley, S. 1988. The top management team and corporate performance. *Strategic Management Journal*, 9: 225-237.
- Nordqvist, M., Wennberg, K., Bau, M., & Hellerstedt, K. 2013. An entrepreneurial process perspective on succession in family firms. *Small Business Economics*, 40(4): 1087-1122.
- North, D. C. 1990. *Institutions, institutional change and economic performance*. Cambridge: Harvard University Press.
- Oliver, C. 1997. Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal*, 18: 679–713.
- Pan, X., & Tian, G. G. 2016. Family control and loan collateral: Evidence from China. *Journal of Banking & Finance*, 67: 53-68.
- Pan, Y., & Chi, P. S. K. 1999. Financial performance and survival of multinational corporations in China. *Strategic Management Journal*, 20(4): 359–374.
- Park, S. H., & Luo, Y. 2001. *Guanxi* and organisational dynamics: Organisational networking in Chinese firms. *Strategic Management Journal*, 22(5): 455-477.

- Peng, M. W., & Jiang, Y. 2010. Institutions behind family ownership and control in large firms. *Journal of Management Studies*, 47: 253–273.
- Peng, M. W., Sun, S. L., Pinkham, B., & Chen, H. 2009. The institution-based view as a third leg for a strategy tripod. *Academy of Management Perspectives*, 23(3): 63–81.
- Peng, M. W., Wang, D. Y. L., & Jiang, Y. 2008. An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39(5): 920–936.
- Peng, M. W., & Jiang, Y. 2006. Family ownership and control in large firms: The good, the bad, the irrelevant—and why. William Davidson Institute working paper no. 840, William Davidson Institute, University of Michigan, Ann Arbor, Michigan.
- Peng, Y. 2004. Kinship networks and entrepreneurs in China's transitional Economy. *The American Journal of Sociology*, 109(5): 1045-1074.
- Peni, E. 2014. CEO and chairperson characteristics and firm performance. *Journal of Management & Governance*, 18(1): 185-205.
- Penrose, E. T. 1959. *The theory of the growth of the firm*. New York: John Wiley.
- Pérez-González, F. 2006. Inherited control and firm performance. *The American Economic Review*, 96(5): 1559-1588.
- Petersen, M. A. 2009. Estimating standard errors in finance panel data sets: Comparing approaches. *Review of Financial Studies*, 22(1): 435–480.
- Petersen, M., & Rajan, R. 1994. The benefits of lending relationships: Evidence from small business data. *Journal of Finance*, 49: 3-47.
- Peteraf, M. A. 1993. The cornerstone of the competitive advantage: A resource-based view. *Strategic Management Journal*, 14: 179-191.

- Phung, D. N., & Le, T. P. V. 2013. Foreign ownership, capital structure and firm performance: Empirical evidence from Vietnamese listed firms. *IUP Journal of Corporate Governance*, 12(2): 40-58.
- Pinheiro, R., & Yung, C. 2015. CEOs in family firms: Does junior know what he's doing? *Journal of Corporate Finance*, 33: 345-361.
- Pittman, J. A., & Fortin, S. 2004. Auditor choice and the cost of debt capital for newly public firms. *Journal of Accounting and Economics*, 37: 113-136.
- Plath, C. 2008. Analysing credit and governance implications of management succession planning: Difficult CEO transitions. *SSRN eLibrary*.
- Polanyi, M. 1966. *The tacit dimension*. London: Routledge & Kegan Paul.
- Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 1998. Law and finance. *Journal of Political Economy*, 106(6): 1113-1155.
- Prahalad, C. K., & Hamel, G. 1990. The core competence of the corporation. *Harvard Business Review*, 68 (3): 79–91.
- Priem, R. L., & Butler, J. E. 2001. Is the resource-based ‘view’ a useful perspective for strategic management research? *Academy of Management Review*, 26: 22–40.
- Priem, R. L., Lyon, D. W. & Dess, G. G. 1999. Inherent limitations of demographic proxies in top management team heterogeneity research, *Journal of Management*, 25(6): 935–953.
- Qin, Z. & Wang, Q. 2012. Father-daughter succession in china: The conceptual framework and a case study. *The Business Review, Cambridge*, 20(1): 68-75.
- Redding, S. G. 1993. *The Spirit of Chinese Capitalism*. New York: Walter de Gruyter.
- Rempel, J. K., Holmes, J. G., & Zanna, M. P. 1985. Trust in close relationships. *Journal of Personality and Social Psychology*, 45(1): 95–112.

- Richter, F. 2002. *Redesigning Asian business*. Westport, CT: Quorum Books.
- Romano, C., Tanewski, G., & Smyrniotis, K. 2001. Capital structure decision making: A model for family business. *Journal of Business Venturing*, 16: 285–310.
- Ross, S. 1973. The economic theory of agency: The principal's problem. *American Economic Review*, 63: 134-139.
- Royer, S., Simons, R., Boyd, B., & Rafferty, A. 2008. Promoting family: A contingency model of family business succession. *Family Business Review*, 21(1): 15-30.
- Ruan, R. P., & Zheng, F. T. 2012. Kinship networks and rural enterprises in the process of market liberalisation. *China Economic Quarterly*, 12: 331-356 (in Chinese).
- Rumelt, R. P. 1974. *Strategy, structure, and economic performance*. Boston: Harvard Business School Press.
- Sanderson, E., & Windmeijer, F. 2016. A weak instrument F -test in linear IV models with multiple endogenous variables. *Journal of Econometrics*, 190: 212-221.
- Schulze, W. S., Lubatkin, M. H., & Dino, R. N. 2003. Toward a theory of agency and altruism in family firms. *Journal of Business Venturing*, 18(4): 473–490.
- Schulze, W. S., Lubatkin, M. H., & Dino, R. N. 2002. Altruism, agency, and the competitiveness of family firms. *Managerial and Decision Economics*, 23(4): 247-259.
- Schulze, W. S., Lubatkin, M. H., Dino, R. N., & Buchholtz, A. K. 2001. Agency relationships in family firms: Theory and evidence. *Organization Science*, 12: 99-116.
- Schuetz, A. 1945. The homecomer. *American Journal of Sociology*, 50: 369–376.
- Schwartz, S. H., Cieciuch, J., Vecchione, M., Davidov, E., Fischer, R., Beierlein, C., & Dirilen-Gumus, O. 2012. Refining the theory of basic individual values. *Journal of Personality and Social Psychology*, 103(4): 663.

- Serrasqueiro, Z., Nunes, P., & Da Silva, J. 2012. Are financing decisions of family-owned SMEs different? Empirical evidence using panel data. *Journal of Management & Organisation*, 18(3): 363-382.
- Sharma, P., & Chua, J. H. 2013. Asian family enterprises and family business research. *Asia Pacific Journal of Management*, 30(3): 641-656.
- Sharma, P., & Irving, P. G. 2005. Four bases of family business successor commitment: Antecedents and consequences. *Entrepreneurship Theory and Practice*, 29(1): 13-33.
- Sharma, P. 2004. An overview of family business studies: Current status and directions for the future. *Family Business Review*, 17(1): 1-36.
- Sharma, P., Chrisman, J. J., & Chua, J. H. 2003. Predictors of satisfaction with the succession process in family firms. *Journal of Business Venturing*, 18(5): 667-687.
- Sharma, P., Chrisman, J. J., Pablo, A. L., & Chua, J. H. 2001. Determinants of initial satisfaction with the succession process in family firms: A conceptual model. *Entrepreneurship Theory and Practice*, 25(3): 17-35.
- Shi, S. 2013. Family business growth and financing decision under opportunity inequality: Evidence from listed companies in China. *Jinan Journal*, 11: 22-33 (in Chinese).
- Shi, Y. R., & Huang, S. C. 2006. *Financial Strategy Management*. Wuhan: Wuhan University of Technology Press (in Chinese).
- Shleifer, A., & Vishny, R. 1997. A survey of corporate governance. *Journal of Finance*, 52: 737-783.
- Sirmon, D. G., & Hitt, M. A. 2003. Managing resources: Linking unique resources, management, and wealth creation in family firms. *Entrepreneurship Theory and Practice*, 27(4): 339-358.
- Slote, W. H., & DeVos, G. A. 1998. *Confucianism and the family*. New York: State University of New York Press.

- Smith, N., Smith, V., & Verner, M. 2006. Do women in top management affect firm performance? A panel study of 2,500 Danish firms. *International Journal of Productivity and Performance Management*, 55(7): 569–593.
- Smith, B. F., & Amoako-Adu., B. 1999. Management succession and financial performance of family controlled firms. *Journal of Corporate Finance*, 5(4): 341–68.
- Spender, J. C. 1996. Making knowledge the basis of a dynamic theory of the firm. *Strategic Management Journal*, 17: 45-62.
- Staiger, D., & Stock, J. 1997. Instrumental variables regression with weak instruments. *Econometrica*, 65: 557-586.
- StataCorp. 2013. *Stata 13 base reference manual*. College Station, TX: Stata Press.
- State Council of the People’s Republic of China. 2008. *Notice on the promotion of employment*. Available at:  
<http://www.chinaacc.com/new/63/64/80/2008/7/wa290914295182780028952-0.htm>  
(Accessed: 21 April 2017) (in Chinese).
- State Council of the People’s Republic of China. 2005a. *Suggestions on encouraging, supporting and guiding the development of the private economy*. Available at:  
<http://www.chinaacc.com/new/63/64/80/2008/7/wa290914295182780028952-0.htm>  
(Accessed: 21 April 2017) (in Chinese).
- State Council of the People’s Republic of China. 2005b. *Suggestions on guiding and encouraging the employment of graduates to the grassroots*. Available at:  
<http://www.chinaacc.com/new/63/64/80/2008/7/wa290914295182780028952-0.htm>  
(Accessed: 21 April 2017) (in Chinese).
- Stavrou, E. 1999. Succession in family businesses: Exploring the effects of demographic factors on offspring intentions to join and take over the business. *Journal of Small Business Management*, 37(3): 43-62.

- Steier, L. P. 2009. Familial capitalism in global institutional contexts: Implications for corporate governance and entrepreneurship in East Asia. *Asia Pacific Journal of Management*, 26(3): 513–535.
- Steier L. 2001. Next-generation owner-managers and succession: An exploratory study of modes and means of managing social capital. *Family Business Review*, 14(3): 259-276.
- Steven, S. P. 1984. Traditional Chinese corporations: Beyond kinship. *The Journal of Asian Studies*, 43(3): 391.
- Stock, J., & Yogo, M. 2005. *Testing for weak instruments in linear IV regression*. In: *Andrews DWK identification and inference for econometric models*. New York: Cambridge University Press, 80-108.
- Su, J., & Sun, Y. 2011. Informal finance, trade credit and private firm performance. *Nankai Business Review International*, 2(4): 383-400.
- Su, Y., Xu, D., & Phan, P. H. 2008. Principal–principal conflict in the governance of the Chinese public corporation. *Management and Organization Review*, 4: 17–38.
- Su, C., Mitchell, R. K., & Sirgy, M. J. 2007. Enabling *guanxi* management in china: A hierarchical stakeholder model of effective *guanxi*. *Journal of Business Ethics*, 71(3): 301-319.
- Su, Q. L., & Zhu, W. 2003. Family control and firm value: Evidence from China listed companies. *Economic Research Journal*, 8: 36-45 (in Chinese).
- Sun, J., Ding, L., Guo, M. J., & Li, Y. 2016. Ownership, capital structure and financing decision: Evidence from the UK. *The British Accounting Review*, 48(4): 448-463.
- Sun, Q., & Tong, W. H. S. 2003. China share issue privatisation: the extent of its success. *Journal of Financial Economics*, 70(2): 183-222.
- Sun, Q. & Tong, W. H. S. 2000. The effect of market segmentation on stock prices: the China syndrome. *Journal of Banking & Finance*, 24: 1875-902.

- Szulanski, G. 1996. Exploring internal stickiness: Impediments to the transfer of best practice within the firm. *Strategic Management Journal*, 17(1): 27-44.
- Tam, S., & Redding, S. G. 1993. The Impact of Colonialism on the formation of an entrepreneurial society in Hong Kong, in *Entrepreneurship Research, Global Perspectives*, Eds. Birley, S., MacMillan, I.C. pp158-176, North Holland, Elsevier.
- Tan, H. H., & Chee, D. 2005. Understanding interpersonal trust in a confucian-influence society: An exploratory study. *International Journal of Cross-Cultural Management*, 5: 197–212.
- Teece, D. J. 1998. Capturing value from knowledge assets: The new economy, markets for know-how, and intangible assets. *California Management Review*, 40: 55-79.
- Tempest, S., Barnatt, C., & Coupland, C. 2002. Grey advantage new strategies for the old. *Long Range Planning*, 35: 475-492.
- The National Bureau of Statistics of China. 2006. *The Chinese population and employment statistics Yearbook 2006*. Beijing: China Statistics Press.
- Thomsen, S., & Pedersen, T. 2000. Ownership structure and economic performance in the largest European companies. *Strategic Management Journal*, 21: 689–705.
- Tihanyi, L., Ellstrand, A. E., Daily, C. M., & Dalton, D. R. 2000. Composition of the top management team and firm international diversification. *Journal of Management*, 26(6): 1157–1177.
- Tobin, J., & Brainard, W. C. 1976. Asset markets and the cost of capital. *No 427, Cowles Foundation Discussion Papers, Cowles Foundation for Research in Economics, Yale University*.
- Tsai, W. H., Kuo, Y. C., & Hung, J. H. 2009. Corporate diversification and CEO turnover in family businesses: Self-entrenchment or risk reduction? *Small Business Economics*, 32(1): 57-76.

- Tsang, E. W. K. 1998. Can *guanxi* be a source of sustained competitive advantage for doing business in china? *The Academy of Management Executive*, 12(2): 64-73.
- Tsoukas, H. 1996. The firm as a distributed knowledge system: A constructionist approach. *Strategic Management Journal*, 17: 11-26.
- Tsui, A. S., & Farh, J. L. 1997. Where *gunaxi* matters: Relational demography and *gunaxi* in the chinese context. *Work and Occupations*, 24(1): 56-79.
- Tu, W. 1998a. Joining east and west. *Harvard International Review*, 20(3): 44-49.
- Tu, W. 1998b. *Confucius and Confucianism*. In W. H. Slote & G. A. DeVos (Eds.), *Confucianism and the family* (pp. 3-36). New York: State University of New York Press.
- Tu, W. 1998c. *Probing the "three bonds" and "five relationships" in Confucian humanism*. In W. H. Slote & G. A. De Vos (Eds.), *Confucianism and the family* (pp. 121-37). New York: State University of New York Press.
- Venter, E., Boshoff, C., & Maas, G. 2005. The influence of successor-related factors on the succession process. *Family Business Review*, 18(4): 283-303.
- Villalonga, B., & Amit, R. 2010. Family control of firms and industries. *Financial Management*, 39(3): 863-904.
- Villalonga, B. & Amit, R. 2009. How are U.S. family firms controlled? *The Review of Financial Studies*, 22(8): 3047-3091.
- Villalonga, B., & Amit, R. 2006. How do family ownership, control and management affect firm value? *Journal of Financial Economics*, 80: 385-417.
- Villalonga, B. 2000. Intangible resources, Tobin's Q, and sustainability of performance differences. *Journal of Economic Behavior and Organization*, 54(2): 205-230.

Walsh, J. P., & Seward, J. K. 1990. On the efficiency of internal and external corporate control mechanisms. *The Academy of Management Review*, 15(3): 421-458.

Wang, F., & Xu, Y. 2004. What determines Chinese stock returns? *Financial Analysts Journal*, 60(6): 65-77.

Ward, J. 2004. *Perpetuating the family business*. Marietta: Family Enterprise Publishers.

Wareham, J., & Gerris, H. 1999. De-contextualising competence: Can business be bundled and sold? *European Management Journal*, 16: 39-49.

Wasserman, N. 2003. Founder-CEO succession and the paradox of entrepreneurial success. *Organisation Science*, 14(2): 149-172.

Wei, C. Y., & Chen, L. 2015. The altruistic behaviors around CEO transitions in family firms: basing on the asset impairment. *Management World*, 3: 137-150 (in Chinese).

Wei, L., Lau, C., & Young, M. 2005. The impact of top management team demography on firm performance in China. *Asian Business and Management*, 4(3): 227-250.

Wei, L. Q., & Wang, Z. H. 2002. Empirical study on the relationship between characteristics of TMTs and firm performance of Chinese Businesses. *Nankai Business Review*, 4:16–22 (in Chinese).

Weidenbaum, M. 1996. The Chinese family business enterprise. *California Management Review*, 38(4): 141-156.

Weidenbaum, M., & Hughes, S. 1996. *The bamboo networks: How expatriate Chinese entrepreneurs are creating a new economic superpower in Asia*. New York: Free.

Wernerfelt, B. 1984. A resource-based view of the firm. *Strategic Management Journal*, 5: 171-180.

- West, C. T., & Schwenk, C. R. 1996. Top management team strategic consensus, demographic homogeneity and firm performance: A report of resounding non-findings. *Strategic Management Journal*, 17(7): 571–576.
- Westhead, P., & Howorth., C. 2007. “Types” of private family firm: An exploratory conceptual and empirical analysis. *Entrepreneurship Regional Development*, 19(5): 405–431.
- Westhead, P., & Howorth, C. 2006. Ownership and management issues associated with family firm performance and company objectives. *Family Business Review*, 19(4): 301–316.
- White, I., Daniel, R., & Royston, P. 2010. Avoiding bias due to perfect prediction in multiple imputation of incomplete categorical variables. *Computational Statistics & Data Analysis*, 54(10): 2267–2275.
- Wong, S. M. L. 2006. China’s stock market: A marriage of capitalism and socialism. *Cato Journal*, 26(3): 389-424.
- Wooldridge, J. 2010. *Econometric analysis of cross section and panel data*. Cambridge: The MIT Press.
- Wooldridge, J. M. 2009. *Introductory econometrics: A modern approach*. Australia: South Western, Cengage Learning.
- World Bank. 2006. *China, governance, investment climate, and harmonious society: Competitiveness enhancements for 120 cities in China*. World Bank Report 37759-CN.
- Wright, M., Liu, X., Buck, T., & Filatotchev, I. 2008. Returnee entrepreneurs, science park location choice and performance: An analysis of high-technology SMEs in China. *Entrepreneurship Theory and Practice*, 32(1): 131–155.
- Wu, W. F., Wu, C. F., Zhou, C. Y., & Wu, J. 2012a. Political connections, tax benefits and firm performance: Evidence from China. *Journal of Accounting and Public Policy*, 31(3): 277–300.

Wu, W. F., Wu, C. F., & Rui, O. M. 2012b. Ownership and the value of political connections: Evidence from China. *European Financial Management*, 18(4): 695–729.

Wu, D. 1973. Alternative tests of independence between stochastic regressors and disturbances. *Econometrica*, 41(4): 733-750.

Xiao., H. F., & Yuan., J. G. 2007. Ownership structure, board composition and corporate voluntary disclosure. *Managerial Auditing Journal*, 22(6): 604-619.

Xiao, J. Z., He, Y., & Chow, C. W. 2004. The determinants and characteristics of voluntary internet-based disclosures by listed Chinese companies. *Journal of Accounting and Public Policy*, 23(3): 191-225.

Xin, Y., & Xu, L. P. 2007. Governance environments and consideration in share reform: An investor protection perspective. *Economic Research Journal*, 9: 121-133 (in Chinese).

Xing, F. 1995. The Chinese cultural system: Implications for cross-cultural management. *Sam Advanced Management Journal*, 60(1): 14-20.

Xu, N., Yuan, Q., Jiang, X., & Chan, K. C. 2015. Founder's political connections, second generation involvement, and family firm performance: Evidence from China. *Journal of Corporate Finance*, 33: 243.

Xu, N., Xu, X., & Yuan, Q. 2013. Political connections, financing friction, and corporate investment: Evidence from Chinese listed family firms. *European Financial Management*, 19(4): 675-702.

Xu, D., Pan, Y., Wu, C., & Yim, B. 2006. Performance of domestic and foreign invested enterprises in China. *Journal of World Business*, 41(3): 261.

Yan, J., & Sorenson, R. 2006. The effect of Confucian values on succession in family business. *Family Business Review*, 19(3): 235-250.

Yang, L. 2014. Empirical study on the relationship between the vertical dyad differences of top management team and entrepreneurial strategic orientation: The

moderating effects of industry environment and corporate ownership. *Nankai Business Review*, 1: 134-144 (in Chinese).

Yang, J., Lian, J., & Liu, X. 2012. Political connections, bank loans and firm value. *Nankai Business Review International*, 3(4): 376-397.

Yang, H. 2001. *Theory of modern enterprises*. Shanghai: Shanghai University of Finance and Economics Press (in Chinese).

Yao, Y. L., Zhao, H., & Wang, L. 2009. An empirical research on the relationship between corporate life cycle and M&A: Evidence from Chinese listed companies. *China Management Studies*, 4(4): 35-49 (in Chinese).

Yeung, H. W. C. 2006. Change and continuity in southeast Asian ethnic Chinese business. *Asia Pacific Journal of Management*, 23(3): 229-254.

Yoshikawa, T., & Rasheed, A. A. 2010. Family control and ownership monitoring in family-controlled firms in Japan. *Journal of Management Studies*, 47: 274–295.

Yoshikawa, T., Phan, P. H., & David, P. 2005. The impact of ownership structure on wage intensity in Japanese corporations. *Journal of Management*, 31: 278–300.

Young, M. N., Peng, M. W., Ahlstrom, D., Bruton, G. D., & Jiang, Y. 2008. Corporate governance in emerging economies: A review of the principal–principal perspective. *Journal of Management Studies*, 45: 196–220.

Young, M. N., Ahlstrom, D., Bruton, G., & Chan, E. 2001. The resource dependence, service and control functions of boards of directors in Hong Kong and Taiwanese Firms. *Asia Pacific Journal of Management*, 18(2): 223–244.

Yu, W., Wang, M., & Jin, X. 2012. Political connection and financing constraints: Information effect and resource effect. *Economic Research Journal*, 9: 125-138 (in Chinese).

Yu, Y. 1996. *Xiandai Ruxue Lun*. River Edge: Global Publishing Co., Inc.

- Yuan, J., & Li, J. 2012. The background of the founders of China's top 500 private enterprises: 70 percent are from rural areas. *The Tencent News*. Retrieved from <http://news.qq.com/a/20120926/000955.htm> (in Chinese).
- Yuan, Q. B. 2008. Public governance, political connectedness and CEO turnover: Evidence from Chinese state-owned enterprises. *Working Paper (Chinese University of Hong Kong, Hong Kong)*.
- Zahra, S., Hayton, J., & Salvato, C. 2004. Entrepreneurship in family vs. non-family firms: A resource based analysis of the effect of organizational culture. *Entrepreneurship Theory and Practice*, 28: 363– 381.
- Zellweger, T. M., Kellermanns, F. W., Chrisman, J. J., & Chua, J. H. 2012. Family control and family firm valuation by family CEOs: The importance of intentions for transgenerational control. *Organisation Science*, 23(3): 851-868.
- Zhang, J., & Ma, H. 2009. Adoption of professional management in Chinese family business: A multilevel analysis of impetuses and impediments. *Asia Pacific Journal of Management*, 26(1): 119–139.
- Zhang, P. 2007. Top management team heterogeneity and firm performance: An empirical research on Chinese listed companies. *Frontiers of Business Research in China*, 1(1): 123-134.
- Zhou, J., Tam, O. K., & Yu, P. 2013. An investigation of the role of family ownership, control and management in listed Chinese family firms. *Asian Business & Management*, 12(2): 197-225.
- Zhu, S. Y. 2007. *Succession of entrepreneurship in family businesses*. Beijing: Economic Science Press (in Chinese).
- Zou, H., & Adams, M. B. 2008. Corporate ownership, equity risk and returns in the people's republic of China. *Journal of International Business Studies*, 39(7): 1149-1168.

## References

---

Zou, H., & Xiao, J. Z. 2006. The financing behaviour of listed Chinese firms. *The British Accounting Review*, 38(3): 239-258.