TO SUCCEED IN SUCCESSIONS: FAMILY SUCCESSION AND FIRM BEHAVIOR IN CHINESE FAMILY FIRMS

A Dissertation
Submitted to
the Temple University Graduate Board

In Partial Fulfillment
of the Requirements for the Degree
DOCTOR OF SCIENCE IN GLOBAL FINANCE

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Diploma Date: May 2023

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ABSTRACT

In family firms, CEO successions are key events for firms' sustainable development, and different types of successors may influence firm behaviors in significantly different ways. To respond to the mixed results of extant studies and unveil the underlying effects, this study adopted a socioemotional wealth perspective. The hypothesis was that family firms with internal succession are more likely to be involved in behaviors that could increase the socioemotional wealth of the family, including corporate innovation, diversification strategies, and corporate philanthropy. Using data on Chinese publicly-listed family firms from 2008 to 2017, the above hypotheses were tested. Results largely showed support for the hypotheses. Multiple methods were employed to mitigate endogeneity problems and enhance robustness. Overall, this study contributes to the current research on family leadership by proving that internal family succession has a positive influence on preserving the socioemotional wealth of the family.

Keywords: Family Firms, Internal Succession, Firm Behavior, Corporate Governance

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CHAPTER 1

INTRODUCTION

Family business is an important but often overlooked global phenomenon (Villalonga and Amit, 2006, 2010). Anderson and Reeb (2003) revealed that more than 30% of companies listed in the S&P 500 index are family-run, while 40% of the 250 largest companies in West Europe can be defined as family firms, suggesting that family business is one of the fundamental pillars in many countries' economies. Therefore, it is necessary to understand the motivation behind the decisions and behaviors of family firms.

Most extant research agrees that a firm's major driver of business decisions is economic potential—specifically, profit maximization (Chrisman and Patel, 2012). However, many recent studies documented a behavioral decision-making process in family businesses, which can be summarized as socioemotional wealth (SEW). The purpose of socioemotional wealth is to retain family control over the company and to perpetuate the family dynasty, as opposed to the more commonly seen economic benefit and cost purposes (Gomez-Mejia et al., 2007). Gomez-Mejia et al. (2007) also revealed that to maintain non-economic utility, family companies have found it acceptable to sacrifice economic benefits, given that SEW is their main reference point.

Thus, strategy decisions in family businesses are often greatly influenced by SEW protection (Berrone et al., 2010). Family firms are willing to bear higher financial risks and lower long-term performance to protect their SEW. According to extant research, to preserve their SEW, family-owned businesses are less environmentally harmful than

non-family-run businesses, more willing to take on social responsibility (Deniz and Suarez, 2005), avoid layoffs (Stavrou et al., 2007), and more likely to grant caregiving contracts to critical employees (Berrone et al., 2010; Gómez-Mejia et al., 2010). However, although SEW has been widely used to illustrate the distinctions and differences between family and non-family businesses, many critical issues related to family succession remain unexplored (Chang and Shim, 2015). This study focuses on this gap and explains families' decision-making in the succession events of family businesses from a SEW perspective.

Ever since Berle and Means's (1932) seminal work on the natural assumption of the separation of ownership and management in modern firms, research on CEO succession events has focused mainly on the choice of professional managers inside and outside the firms and the impacts on firm performance (Zhang and Rajagopalan, 2003). However, family businesses with family CEOs, which are still a large part of economies in Western countries (La Porta et al., 1999), challenged these research findings with no separation between ownership and management. Thus, the traditional research wisdom on CEO succession in modern firms seems to be inapplicable to family firms with family management.

The succession decision and process are vital to the success and continuity of a firm, and this is especially the case for family firms. It is acknowledged that very few family firms can continue to prosper—and, in some cases, even survive—over generations, a fact that is universal across cultural contexts and institutional environments. The life expectancy of family firms is no more than 30 years on average

(Pan et al., 2018), which is almost equal to the average tenure of founders. Meanwhile, many family firms can survive only until the second generation in China. There is also a well-known Chinese saying that the third generation dissipates the families' wealth that the founders created. There is also a similar English saying: "clogs to clogs in three generations" (Villalonga and Amit, 2010). Despite the global prevalence of family businesses, their low rate of successful succession in many countries can have negative implications for employees and local economies. In addition, the research on family businesses has not focused on how strategic decisions change after CEO succession. For example, using Chinese-listed companies, some studies analyzed whether family succession can improve corporate performance.

Therefore, a critical dimension of the long-term success of family businesses is setting clear succession plans (Chang and Shim, 2015; Miller and LeBreton Miller, 2005). The choice that families usually face is whether to hire professional managers from outside the family, which will result in a separation of ownership and control, or to appoint family members to manage the firm, which will help the family maintain control.

A key question regarding the succession events of family firms is: will family firms benefit from internal successions as opposed to external ones? Existing research on the influence of generational transfer on the performance of a family firm reaches mixed conclusions. Although some scholars suggested poorer performance from next-generation within-family succession in family firms, others found opposite results (Bloom and Van Reenen, 2010; Perez-Gonzalez, 2006). Moreover, these mixed results

and different arguments can also be further explained by the fact that family firms have adopted different strategic choices after their succession periods. On the one hand, studies suggest that because of nepotism, conflicts of internal interest, and family heritage (Bennedsen et al., 2007; Bertrand and Schoar, 2006), family businesses tend to perform poorly when the CEO position stays within the family, especially when shifting from the founder to the next generation (Blumentritt et al., 2007; Chang and Shim, 2015). Explanations for this negative consequence include cronyism with a weak monitor mechanism (Schulze et al., 2001), selection based on kinship and dominance (Bertrand and Schoar, 2006), and decisions made in the larger market for managerial talent (Mehrotra et al., 2013).

However, the above findings regarding the poor performance of family heirs stand in stark contrast to the fact that many family businesses are thriving worldwide (Miller and LeBreton-Miller, 2005; Huybrechts et al., 2011). Studies also showed that family-run companies outperform professionally managed firms, owing to less agency conflict and a longer investment horizon (Merotra et al., 2013). Thriving and long-lasting family businesses enjoy some advantages (Anderson and Reeb, 2003). First, they may suffer less from agency problems and conflicts of interest between shareholders and top management teams (Lansberg, 1999; Anderson and Reeb, 2003). Second, family firms are inclined to develop business strategies that generate value from the families' martial and spiritual assets, including implicit corporate knowledge and rich networks with key stakeholders, which all help internal successors build up value-added leadership and social capital (Habbershon and Williams, 1999; Miller and LeBreton-Miller, 2005).

Two underlying reasons can explain and further reconcile these inconclusive results. First, while the appointment of both family successors and professional managers can have positive and negative consequences, “the positives neutralize the negatives and vice versa” (Gomez-Mejia et al., 2011: 691). In addition, positive and negative neutralization exists in the decision process and is reflected in multiple strategic choices (Bennedsen et al., 2015). Therefore, comparing family management’s financial performance with professional management is highly likely to cause confusion. Second, several studies noted that a significant flaw in previous empirical studies is that they often utilized cross-sectional data (Arregle et al., 2007). The use of cross-sectional data can only indirectly prove whether the company’s behavior has changed after the transfer. For example, a well-performing family business may be more likely to choose a family successor, while a company performing poorly will choose professional managers, which results in reverse causality.

Building upon extant discussions, this paper studies the behavior of the successors and conducts a longitudinal analysis based on panel data. Considering the several factors mentioned above that influence decision behavior, this study will try to explain the succession choice in family businesses in a more comprehensive framework from the social-emotional wealth perspective.

This study uses publicly-listed Chinese family businesses as the research setting. China has become the second-largest economy in the world and is generally regarded as the world’s fastest-growing economy. Previous studies have often attributed this unprecedented development to China's gradual economic reforms that started in the

1980s. This series of reforms has provided the foundation for China to transfer to the “market economy” from a centrally planned economic system. Over the past four decades, China's GDP has grown by an average of 8% yearly. China’s private sector has also become a significant growth driver during this transition. A recent business report released by the Family Business Association shows that family businesses now account for 85.4% of private companies in China (Yang et al., 2019).

Although in the 1990s, family businesses in China also gradually grew and increased in size and number, it was not until 2004 that they had the opportunity to enter the stock market (Xu et al., 2013). In March 2004, the National People's Congress passed a constitutional amendment about protecting private property rights, which has also been recognized as the most significant change since the 1980s. This was the first time China officially recognized the legal status of private property in the constitution. A revamped Chinese stock market has allowed family companies to go public. In the first ten years after the establishment of the stock market, the number of family businesses grew at an annual rate of 83.8% (Pan et al., 2018).

Many of these publicly listed family firms, established in the 1980s and 1990s, have experienced succession events in recent years or will face future succession decisions. Therefore, it is necessary to understand what happens to firm behaviors and performance after a succession in family firms. As family relationships and behaviors face subtle changes across generations, how to achieve successful succession in family firms is a social topic of great concern to Chinese entrepreneurs. This issue is also receiving increased attention in academic research, especially in light of China's unique

political system and social culture, which engender unique Chinese characteristics that differ from existing Western theory and research.

How family firms prosper is my research interest, but it also has more personal and practical implications for me. I am a second-generation entrepreneur in a family business that is a leading enterprise in China's snack food industry. In addition, as a second-generation entrepreneur, I have an intuitive understanding of China's political and economic environment and the underlying motivation of private enterprises and entrepreneurs. Therefore, my background will also provide different insights and perspectives in this study.

From a horizontal perspective, the succession patterns of different companies and families are quite different. Some choose professional managers to manage family firms; an example is Midea, where a family member stays on board only to monitor core business. Other firms choose second-generation children to take over the family business, including New Hope, Wahaha, and others. At present, it is less meaningful to analyze and evaluate the benefits and costs of succession patterns through case studies.

I manually collected CEO succession data from listed family firms in China, identified internal succession samples, and discovered the impact of succession on firm behavior. Specifically, I found that internal succession in family firms is positively related to firm innovation input/outcome and philanthropic donations, suggesting that family firms preserve socioemotional wealth during the succession process. I also used multiple methods to mitigate the endogeneity problems and ensured the robustness of my conclusions. However, although internal succession may be positively associated

with a diversification strategy, further tests showed a result that was not robust. Possible explanations are discussed in the Discussion section of this paper.

This study offers several contributions to the current research on family businesses. First, it complements the extant research on succession in family firms by adopting a socioemotional wealth perspective. Although succession is widely recognized as one of the central themes of family businesses, research has focused on how family firms tackle the succession process with an emphasis on the economic value framework. Prior studies found that internal successors experience a decline in firm value due to their lack of willingness or ability to do what needs to be done to maintain or grow value (Bennedsen et al., 2007, 2015). My study complements this strand of literature by showing how family firms prepare for internal succession through investing in several behaviors and, therefore, obtaining long-run benefits and maintaining SEW. These findings have important implications for family firms since they may guide family owners or external consultants in nurturing successful successors.

Second, the empirical results from my study enrich the current literature on family succession. The extant literature has generated many insights on the performance differences between internal family successors and external professional managers but has offered little in the way of a cohesive process structure. This has resulted in a recent call to conduct more comprehensive empirical tests during the family business succession process. Empirical results from this study show that internal successors are likely to engage in several specific activities. Since successors cannot completely inherit previous family owners' implicit assets, they are inclined to invest more in

corporate philanthropy and innovation, thereby reducing uncertainty in the succession period. This study also advances our current understanding of how family-specific resources encourage innovative behaviors after internal succession.

Finally, this study examines China's unique context and adds to the burgeoning literature on family succession in an emerging market context. By doing so, this study deepens the understanding of family businesses' intergenerational succession process in a relatively weak and developing institutional environment.

CHAPTER 2

LITERATURE REVIEW

2.1. Family Firms in the Literature

Much of the research on the management of modern firms in corporate finance, accounting, and corporate governance is based on the presumption that firm ownership is dispersed, a classical concept originated by Berle and Means (1932). However, this assumption may face many challenges for a globally dominant organizational form, family-owned companies. The importance of family firms has been repeatedly examined in different contexts. For example, Claessens et al. (2000) show that more than half of East Asian companies are family businesses. Anderson and Reeb (2003) confirmed that more than 30% of the S&P 500 companies listed in the United States are family-run. Likewise, Faccio and Lang (2002) found that nearly half of Western European firms are family-controlled. Owing to the prevalence of family firms, researchers have begun to uncover the uniqueness of family businesses over the past 20 years.

Compared to non-family firms, family businesses demonstrate significantly different characteristics. First, it is generally recognized that owners of family businesses have longer investment lifespans than other shareholders (Zellweger et al., 2012). Homeowners often see their property as something that can be passed on to future generations (Cronqvist and Nilsson, 2003). Long-term investment patience—that is, family involvement—is the second characteristic of the family business (Keating and Little, 1997; Gomez-Mejia et al., 2007). Since their asset structures are

diversified, and they emphasize the long-term development of the company, family firms are often willing to participate in daily operations and essential decisions. Given the above characteristics, family firms seem immune to the agency problem between managers and shareholders (Villalonga and Amit, 2006)—namely, a "Type I agency problem."

Recent research also documented that family firms can benefit from various non-financial values, such as treating the company as part of oneself and gaining identity from the company, thus creating a positive family image and reputation (Zellweger et al., 2012; De Massis and Foss, 2018), and enjoying family influence on firms and social capital (Gomez-Mejia et al., 2007). These non-economic benefits are also known as "socioemotional wealth" (Gomez-Mejia et al., 2003). Although non-family members such as professional managers also enjoy some of these non-economic benefits, social-emotional wealth, a deeply ingrained psychological phenomenon, is more intrinsically meaningful to internal family members. Berrone et al. (2010) further revealed that owners of family businesses might make strategic decisions to preserve families' socioemotional wealth, even at the expense of other shareholders, which is defined as a "Type II agency problem". In other words, because of their substantial cash flow rights and extensive involvement in their businesses, family owners have an incentive to take advantage of other shareholders (Villalonga and Amit, 2010).

Since the literature covering family business is wide-ranged and connected with different subjects, such as corporate finance, accounting, and management, it is difficult to yield an accurate definition of family business (Lansberg, 1999). However, it is well-

accepted that family businesses are often controlled and run by multiple generations (Shanker and Astrachan, 1996, Anderson and Reeb, 2003).

Table 1 lists the definitions of a family business from the literature. The table shows that different kinds of family businesses are often encountered in different situations and contexts, and their performance can vary. A classical definition of a family firm is a company run by a founder or founding family members (McConaughy et al., 1998; La Porta et al.,1999). Following this definition, many later studies have acknowledged that the founder or founders of a company, or a company that works with a board of directors, can be traced to a specific family and, thus, fits the definition of a family business (Smith and Amoako, 1999; Faccio and Lang, 2002; Barth et al., 2005). Some studies have explored multiple definitions, including ownership and management by individuals or families of various classes and generations. Other studies showed that in some family businesses, some specific members of the same family are involved in the management only for a specific time (Cronqvist and Nilsson, 2003; Villalonga and Amit, 2006). Meanwhile, some scholars focused on the involvement of later generations, in which descendants of the founder or large shareholders took the position of CEO (Perez-Gonzalez, 2006). Gomez-Mejia et al. (2007), however, proposed that the definition of a family business is one in which multiple family members are involved in controlling and managing the firm. It is also worth noting that the studies mentioned above were conducted in different countries, and as a result, the governance mechanisms, company types, and operations are heterogenous.

Table 1. Family Firms as Defined in the Literature

No	Author/ Authors	Year	Sources of Data	Empirical Context	Definitions of family firm
1	Allen and Panian	1982	250 largest firms in 1974 or 1975 using sales as standard	U.S.A.	Family businesses, if their children hold or control more than 5% of the company's voting rights and are represented on the board. Alternative Definitions: A direct household control if the CEO is a person who controls the household.
2	Anderson and Reeb	2003	S&P 500 listed companies	U.S.A.	Family business, including some shares of the founder and/or family members. Alternative definitions: Percentage of board seats owned by family members and seats owned by independent directors/CEO Founders; the CEO was a descendant of the founding family business/CEO in the past decade when he became the founder of the company.
3	Anderson and Reeb	2004	S&P 500 listed companies	U.S.A.	Family business, including some shares of the founder and/or family members. Alternative definitions: The ratio of board seats owned by family members to board seats owned by independent directors/control on the family board is higher than that of independent directors.
4	Anderson, Mansi, and Reeb	2003	Firms can be found on both The Lehman Brothers Bond Database and the S&P 500	U.S.A.	If the founder and his related family hold shares, it is a family business. Alternative definitions: Partial equity of founders and their related family members and directors/Partial equity of founders and their immediate family members, and shareholding ratio of company and other major shareholders/shareholding ratio of minority-owned promoters and their immediate family members.

Table 1. (continued)

No	Author/ Authors	Year	Sources of Data	Empirical Context	Definitions of family firm
6	Barontini and Caprio	2006	675 large listed firms greater over 300 million euros in assets.	11 countries from Continental Europe	If the largest shareholder holds more than 10% of the shares, the family or the largest shareholder controls more than 51% of the direct voting rights, or more than twice the direct voting rights. Other Definitions: A company managed by a family COO/a company managed by a non-family COO, but a family member manages the company on the company's board of directors/founders or descendants of founders.
7	Barth et al.	2005	Survey data of firms related to the Confederation from Norwegian Business and Industry	Norway	If the company is owned by one person or a single company, the company controller must hold at least 33% of the shares.
8	Bennedsen et al.	2007	Limited liability public and private firms experiencing CEO succession	Denmark	Whenever a new CEO is related to or married to a previous CEO.
9	Claessens et al.	2000	World Scope Database	9 Countries from East Asian	The family group holds more than 5% of the voting rights. Depending on the family tree published in each country, it can include a family or a group of people.

Table 1. (continued)

No	Author/ Authors	Year	Sources of Data	Empirical Context	Definitions of family firm
11	Cronqvist and Nilsson	2003	Firms listed on Stockholm Stock Exchange	Sweden	The founder's family members may consist of only one non-same family member or a group of closely related members. Alternative Definitions: The founder's family ownership is the founder or his descendants and the family/individuals associated with the founder.
12	Denis and Denis	1994	Survey Data from Value Line Investment	U.S.A.	Family firm if two or more family members are present as officers/directors or if founders are officers. If two or more family members are present as TMT, or if the founder of the company is CEO, it is a family business.
13	Faccio and Lang	2002	World Scope data and many country- specific unique databases	13 Western European countries	A family firm is an individual a family or privately owned firm (control or cash flow over 20%).
14	Fahlenbrach	2009	listed firms in IRCC, also data from Business Week, Fortune, Forbes, and S&P 500	U.S.A.	A family CEO is the founder or co-founder of the firm.
16	Gomez-Mejia et al.	2003	Random sample obtained from Compustat	U.S.A.	Family business can be defined in two situations: two or more directors are family members who hold or control at least 5% of the voting power. Kinship includes father, mother, sister, brother, son, daughter, spouse, in-laws, aunt, uncle, nephew, nephew, cousin. Alternative Definitions: Family Control and Family members as Chief Executive Officer and Compensation Committee.

Table 1. (continued)

No	Author/ Authors	Year	Sources of Data	Empirical Context	Definitions of family firm
17	Gomez-Mejia et al.	2001	Registry of Newspapers, Media Guide of Spain, Oficina de Justificacion de la Difusion—All daily newspapers	Spain	Family-run, in this context, if the newspaper's president and editor were family members.
18	Holderness and Sheehan	1988	Random sample of listed firms from Spectrum 5 Database	U.S.A.	Family business, if holding at least 50.1% of individual major shareholders or entities: can be trust companies and foundations.
19	La Porta et al.	1999	World scope data -27 represented countries	Worldwide	Family business if individuals own more than 20% of direct or indirect voting rights (ultimate owners).
20	Luo and Chung	2005	Taiwan Directory about business groups data	Taiwan	A company founded by an entrepreneur. Alternative Definitions: The inner circle of key leaders of a business consists of all the heads of their family/company who are previously socially connected—distant relatives, in-laws, friends; classmates, colleagues, business associates.

Table 1. (continued)

No	Author/ Authors	Year	Sources of Data	Empirical Context	Definitions of family firm
21	Maury	2006	2002 data and 2003 WorldScope data	13 Western European countries	In a family business, the largest controlling shareholder with more than 10% of the voting rights is a family, an individual, or a privately issued company (a privately issued company tends to be tightly held and, thus, considered family-controlled). Other Definitions: The majority shareholder/largest control controlled by a non-public company is a particular family or individual/the controlling family or individual holds the title of CEO, Honorary Chairman, Chairman or Vice-Chairman.
22	McConaughy et al.	1998	CEO 1000data from *Business Week*	U.S.A.	A company controlled by a family founder, whose CEO is the founder of the company or the founder's family.
24	Perez-Gonzalez	2006	Listed companies in *Compustat*	U.S.A.	Companies included in sample must satisfy the following conditions: (1) was established before 1971; (2) has at least one of the following characteristics: (a) two or more relatives are directors, officers or shareholders; (b) personally owned at least 5% of the equity; (c) the founder is a CEO or director; (3) there has been a CEO change within a certain period. In addition, if the new CEO has a relative or marital relationship with: (1) the departing CEO, (2) the founder, and (3) the major shareholder.
25	Schulze et al.	2001	American family businesses surveyed	U.S.A.	Privately owned family company with annual sales of more than $5 million and listed by Arthur Anderson as a family company.

Table 1. (continued)

No	Author/ Authors	Year	Sources of Data	Empirical Context	Definitions of family firm
26	Schulze et al.	2003	American family businesses surveyed by the Arthur Anderson Center for Family Business.	U.S.	Privately owned family company with annual sales of $500,000 and listed as a family company by Arthur Anderson.
27	Smith and Amoako	1999	Listed companies from Toronto Stock Exchange	Canada	Family-run, where an individual or a family-related group holds the largest share of the vote and 10% of the total vote.
28	Villalonga and Amit	2006	*Fortune* 500 listed firms	U.S.A.	If the founder or family member is an officer, director or family business holding more than 5% of the company. Alternative Definitions: One or more family members are executives or major shareholders/at least one family senior management; one family director/family member is the largest shareholder/family member/family largest shareholder/more than one family member. More than one family member is the executive director or major shareholder/family member is the largest voter, at least one family manager and one family director/family member is the largest shareholder, with more than 20% of the voting rights/family member.

This table selects studies published in top economics, finance, and management journals (e.g., *Academy of Management Journal, Administrative Science Quarterly, Journal of Financial Economics, Review of Financial Studies, Quarterly Journal of Economics, The Journal of Finance,*) for titles or abstracts using the terminology “family business” or “family firm.” The above list reflects important contributions to empirical family business research over the past decade.

2.2. CEO Selection and Succession in Family Firms

Appropriate selection standards are especially needed in the succession process of family firms. Chrisman et al. (1998) identified some key characteristics of family business successors, such as integrity, loyalty to the family, and rich experience with the family business. According to the extant research, the criteria for selection come from the families' desire to select a successor who will maximize the benefits of the family business from all aspects, such as personal qualities, business and interpersonal skills, and experience. The combination of the above characteristics highlights the importance of good relationships with family members in the selection process (Schulze et al., 2001). This alignment is also necessary for family firms since CEOs need to balance family and business goals simultaneously (Wiseman and Gomez-Mejia, 1998). Family goals and firm goals are closely linked in the process of choosing a company successor. In this process, family-run businesses search for qualified heirs because they want to continue to be successful in the business. At the same time, they find family members the best choice because they want to remain in control of the business. To achieve this, family businesses mainly consider family members as candidates (Tabor et al., 2018). In addition, there is nepotism in many family businesses, which is an extreme form of family rules. Because of nepotism, successors may not be chosen for competencies but for family inheritance (Salvato et al., 2012; Jaskiewicz et al., 2013).

Families tend to hold important management positions in their own family businesses (Chua et al., 1999; Tabor et al., 2018). However, potential successors in the

next generation may not always follow the older generation's guidance and participate in the family business. They might want to choose their own careers; they may also accept jobs outside the family business or find jobs on their own (Zellweger et al., 2012). Hence, CEO succession in family firms is a complicated process and is worth exploring further (Combs et al., 2018; Firfiray et al., 2018).

Even though CEO succession is recognized as an essential process in family businesses' long-term development (Virany et al., 1992), extant work has focused predominantly on differences between insiders and outsiders. Empirical evidence showed that when firms face turbulent or highly competitive situations, outsiders as successors outperform insiders (Datta and Rajagopalan, 1998; Zhang and Rajagopalan, 2003). Although insider successors are believed to outperform outsiders in specific situations, such as when firms' internal power structures are simpler (Shen and Cannella, 2002; Karaevli, 2007), little is known about the underlying logic of internal succession in family businesses.

An important tenet in family business research is that the successors serve an indispensable role in the prosperity of family-run companies (Lee et al., 2003; Zahra et al., 2004). Pfeffer (1981) pointed out that CEO turnover can greatly enhance or weaken the power of managers and key employees, which, in turn, has implications for future direction, strategy, and structure. While family businesses may find that firms with new professional CEOs outperform companies that maintain family leadership in terms of economic performance, professional managers are often naturally considered a second choice in the succession events of family businesses (Agrawal et al., 2006; Chang and

Shim, 2015). Internal successors from the controlling family or relatives are more likely to inherit the company than non-family CEOs (Stewart and Hitt, 2012; Tabor et al., 2018). Traditional wisdom has also suggested that outside successors are appointed only when family firms are suffering from poor performance (Cannella and Lubatkin, 1993), and thus change or revolution is needed (Blumentritt et al., 2007). Without a suitable internal heir, the family business will be faced with a dilemma when selecting a CEO (Chang and Shim, 2015). Because of many considerations—e.g., how family backgrounds may affect the prosperity of the family business—and the difficulty in deciding the heir, "there is a need for a better understanding of what the important factors are in choosing a family successor" (Keating and Little, 1997).

A growing body of research on CEO succession finds that family businesses share many similarities with non-family businesses. Considering that many companies are still family-owned and controlled (Faccio and Lang, 2002; La Porta et al., 1999), the biggest concern for family businesses is to decide whether the key position should be held by a family member or by a professional manager from outside the family. Therefore, the typical difference between insider and outsider professional CEOs may be of less importance in the decision framework. The current literature has explored considerable antecedents of successor choice through macro-level analysis (Ansari et al., 2014; Gomez-Mejiaet al., 2011; Shen and Su, 2017; Calabrò et al., 2018), but the impact of the successor selecting process has been largely neglected in the family business research.

2.3. Socioemotional Wealth in Family Firm Succession

In recent years, scholars conducted a lot of in-depth research on the socioemotional wealth protection of family businesses and empirically tested them in many dimensions (Berrone et al., 2010; Gomez-Mejia et al, 2007, 2011). The socioemotional wealth theory is based primarily on the notion that family owners can use the potential benefit or loss of socioemotional wealth as an important frame of reference in running their family business. However, although socioemotional wealth might not be directly related to CEO succession events, there are indirect socioemotional wealth consequences. On the one hand, CEO successions may threaten SEW due to diminished family control and changes in strategic plans that are unrelated to family interests and priorities. On the other hand, this also proves that improving financial performance is possible (Bennedsen et al., 2007; Gomez-Mejia et al., 2011). Therefore, CEO succession is an event with a mixture of non-financial and financial incentives, creating apparent conflicts between two critical points of reference: new managers' economic performance and the SEW protection potential.

According to the socioemotional wealth theory, internal CEO successors are more closely related to their family members than to external ones. It is widely acknowledged that many founders of family firms want their successors to inherit their property after succession (Bennedsen et al., 2015; Calabrò et al., 2018). Family continuity is so critical that some researchers defined a family business as a "company that can be managed and controlled by the next generation" (Ward, 1987). This preference for a sense of familial continuity arises from deeper incentives that can be considered a result of early

social communication (Davis et al., 1997). Owing to the generalized exchange process between parents and children, family firm owners with a “stewardship” style can express an inner desire to bring their children into the business and, to ensure the wealth and reputation of the next generation, will not hesitate to do so (Miller and LeBreton-Miller, 2005).

Moreover, family owners can also achieve this goal by retaining the family image and obtaining personal utility. Previous research showed that due to information asymmetry and shared non-financial goals for the family, family business owners are more likely to choose internal successors via transgenerational successions (Chrisman et al., 2014). Moreover, internal succession can effectively avoid the risk of sharing idiosyncratic resources or business secrets with outsiders (Lee et al., 2003).

Families prefer to make strategic choices to preserve SEW (e.g., designate a family successor), even at the expense of other stakeholders who may not share their socioemotional wealth. However, families’ pursuit of their socioemotional wealth does not necessarily mean that they always choose their heirs, even if they fear that external successors may threaten the family's fortune. Wiseman and Gomez-Mejia (1998) pointed out that owners and family members in family firms are both risk-averse and loss-averse, which is in accordance with the predictions of behavioral agency theory. In addition, when undertaking risks that might lead to bankruptcy, families must weigh their current wealth against future wealth (Martin et al., 2013). Therefore, families that are unwilling to lose future wealth to preserve their current socioemotional wealth tend to prefer internal managers to outside professional managers (Burkart et al., 2003).

2.4. Post-CEO Succession Performance of Family Firms

Researchers failed to reach a consensus on the impact of CEO succession on the financial performance of firms. Some believed that new CEOs' performance will naturally be better because predecessor CEOs are often replaced due to poor performance. Still, others argued that CEO changes have little impact on company performance (Kellermanns et al., 2012). As mentioned earlier, CEO succession may not benefit financial performance, especially in a family-run business. Family ownership tends to preserve long-term orientation, independence, a strong culture, and family identification with the business, leading to a greater focus on non-economic and non-financial purposes. In this case, successor CEOs face both financial and family members' socioemotional challenges, which puts them at odds with both SEWs and financial reference points (Nicholson, 2008; De Massis and Foss, 2018). Previous empirical research results on family and professional management related performance are also mixed. Although nepotism negatively influences firm performance, a lower level of agency conflicts between principals and agents may have a positive impact (Villalonga and Amit, 2006). On the one hand, there is some evidence that family firms may benefit from internal successors (Royer et al., 2008). On the other hand, other studies show that family businesses that install the founder's descendant as CEO perform poorly or even go bankrupt and vanish (Miller et al., 2015).

The previous literature on within-family succession discussed the influence of maintaining control rights through the eldest son's inheritance on the company's future performance (Anderson and Reeb, 2003). Utilizing a Danish second-hand sample of

private companies, Bennedsen et al. (2007) found supporting evidence that internal successors can create significant liability for future financial performance, known as the liability of internal succession. Other studies also suggested that firms that award positions to the oldest son perform significantly worse than other firms (Miller et al., 2015). Thus, when emotional considerations predominate over market and economic factors, family firms might witness a decline in financial performance in the years following the appointment of an internal CEO. The ultimate result is a lower post-succession performance (Bloom and Van Reenen, 2010). Favoring and selecting the founder's own child (often the oldest son) to be the successor can, thus, lead to adverse selection in the labor market and harm family firm performance (Luo and Chung, 2005; Jaskiewicz et al., 2013).

Even the transition from family to professional management cannot be treated as a single event but as a series of continuing interactions between family owners and professional managers. Thus, after families appoint specific successors to carry on the family business, family members are still inclined to protect current and prospective firm values by pursuing socioemotional wealth (Martin et al., 2013). Therefore, although different succession choices result in different performance feedback, it is important to note that the choices are also dependent on how successors manage the balance between preserving SEW and maintaining financial performance, which will be discussed later in the hypothesis development section.

CHAPTER 3

CONCEPTUAL FOUNDATION

3.1. Socioemotional Wealth Perspective

The socioemotional wealth perspective (SEW) has recently received growing attention. SEW generally refers to the non-economic benefits that family members receive from the company (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2011). A fundamental assumption of SEW is that the willingness to maintain and enhance SEW is a unique value for family business leaders and managers, who especially hate to lose SEW. Hence, family businesses are inclined to make decisions to protect the interests of their family members, such as investing in philanthropy or innovation inputs, even if such choices may harm the company's economic interests in the short term. Researchers also note that family businesses tend not to make decisions that sacrifice the SEW of family members in order to increase financial income (Chrisman and Patel, 2012). Recent research suggested that this so-called "SEW preservation logic" can be considered the most essential feature that distinguishes family businesses from non-family businesses. Thus, SEW serves as an essential theory for understanding the different policies and strategies of family businesses (Berrone et al., 2010; Gomez-Mejia et al., 2007).

Following the "SEW preservation logic," the controlling family want to preserve and strengthen the SEW of family members. They aim not only to keep the current SEW stock but also to protect future SEW. Because of this unique incentive, family business leaders behave differently from non-family business leaders. According to the

behavior theory of the firm, SEW preservation can also be understood as keeping direct relationships with family members' valence of SEW, as their high expectation of SEW reward results in related consequences of corporate behavior. Compared with short-term economic benefits such as net incomes, the benefits of SEW are more worthwhile and attainable to family firms (Gomez-Mejia et al., 2011).

The SEW perspective provides a comprehensive analytical framework to understand the different behavior outcomes of family firms. In the existing literature, some empirical studies focused on examining the role of SEW in many traditionally defined organizational behaviors, such as diversity, R&D investment, and globalization (Chrisman and Patel, 2012; Gomez-Mejia et al., 2010). As current practices reveal that an essential premise of corporate social responsibility is to stay connected with stakeholders, family members' willingness to maintain SEW motivates family firms to abandon short-term financial interests and engage in corporate social responsibility (Harrison et al., 2010). However, family involvement in management may not be considered the most trustworthy business unit for investors; for example, family members can use the company's resources to meet their own family's needs (Yang et al., 2019). Management perks and discriminatory employment decisions are possible practices in family businesses (Schulze et al., 2001). It is even believed that family businesses may safeguard the interests of the family at the expense of shareholders, who are regarded as outsiders. But with the pursuit of non-economic uses such as family reputation at the center of family business decisions, such abuses of non-family members and long-term harm to SEW are quite common in family businesses.

The discussions of these issues reflect that researchers are integrating the SEW perspective into a complete explanatory framework to explain family firm behaviors. However, the empirical evidence failed to fully demonstrate this valuable and continuing work. Current research shows that to avoid the impending SEW crisis, family businesses respond to external pressures with different attitudes. For example, some studies show that family-run companies outperform non-family-run companies in reducing social penalties. As a consequence, family-controlled companies outperform non-family-run companies in environmental protection issues (Dyer and Whetten, 2006; Berrone et al., 2010). However, little is known about the specific type of long-term benefits of internal succession choices. Kellermanns et al. (2012) also suggested that some dimensions of SEW may attenuate its long-term effect, but this has not been empirically verified.

In recent years, SEW achieved a certain status in this regard and has been adopted as the main framework by many scholars. For example, using a sample of family businesses in Switzerland and Germany, Zellweger et al. (2012) showed that in firms with more family members, they demand that the company be sold to someone who is not a family member. He further argued that the purpose of intergenerational control means that family business leaders regard future benefits as part of their current socioemotional stocks. So, the owners of family firms encounter SEW losses only when they choose to sell the firm. Miller and LeBreton-Miller (2005) used the SEW approach to investigate whether pursuing SEW goals could lead to greater strategic coherence in large public markets. Their findings show that the more involved the households that

own and operate a firm, the easier it will be to develop strategic alignment. According to the SEW perspective, they further argued that the family's involvement signals outside stakeholders that their priority is to protect SEW.

The above studies are also in line with the behavior theory of the firm, which also agrees with the notion that in a family-dominated firm, SEW retention is an essential non-economic reference point for making decisions, driving family leaders to make appropriate strategic choices that cannot be fully explained by financial logic. This means that in the family firm, it may not be possible to use economic reference points or avoid risk (Zellweger et al., 2012).

As an extension of the behavior-agent theory, several of the studies listed above allow family firm managers to have different reference points for adapting to external threats that the firm faces (e.g., Gomez-Mejia et al., 2007, 2011). Although SEW protection is a “higher-order” reference standard, poor performance can be a clue to changing a homeowner's loss-aversion structure. Poor performance poses two dangers: financial severe problems with the family’s long-term development (due to the family putting much wealth into one aspect of the firm); and a threat to SEW since the company may have to sell, merge with other companies, be acquired by another company, declare bankruptcy, liquidate, and so on. The results of the empirical studies are also consistent with the reference values for controlling family firms, but only when family firms were forced to rethink SEW as their primary reference point.

As mentioned earlier, SEW is a tie to the controlling family’s “emotional endowment,” which includes family members’ willingness to exercise power, enjoy

family influence, maintain family members' positions in the company, and appoint trusted family members to hold critical positions, thus enabling the company to retain a strong family identity and perpetuate the family dynasty (Gomez-Mejia et al., 2011). Therefore, SEW is essentially a multidimensional concept. Given that most previous SEW research has been based on secondary variable measures (such as family ownership, the proportion of family members on the board, and family members in high positions), archival data sources are often used to indicate the importance of SEW. Therefore, how SEW influences specific behaviors has not been discussed in detail in previous studies, especially in the case of family succession. Based on the family business literature and the social science disciplines that underpin it, what we need to do next is to decipher the various dimensions of SEW. Based on previous research, I will describe each of the five critical factors of the SEW perspective below.

3.1.1. Family Control and Influence. The first aspect of SEW is family members' control of and influence on the firm. Family members' control over strategic decisions is a critical feature that distinguishes a family business (Chua et al., 1999; Schulze et al., 2001). Family control can be exercised directly, such as by being a CEO or chairman, or indirectly, such as by appointing members to top management teams and boards. Moreover, family business leaders or critical family members can exercise control and influence within the firm. The ability to exercise power over family members may stem from strong family ownership, belonging, or charisma. Families play multiple roles in businesses to achieve formal or informal control (Mustakallio et al., 2002). In any case, control and influence are an integral part of SEW, and family members need both

(Zellweger et al., 2012); in other words, family members need to maintain control over the company to protect SEW. Therefore, family-run businesses are more likely to allow owners to directly or indirectly control and influence the firms' management and daily operations, regardless of financial reasons (Gomez-Mejia et al., 2007).

3.1.2. Family Members' Identification with the Firm. The second aspect refers to the vital link between families and businesses. Many family business scholars believe that in a family business, the relationship between the family and the firm itself forms an inherent and unique identity (Berrone et al., 2010). The identity of the family owners and the organizations is generally expressed through firm names, which have an impact on both internal and external relationships. Within the company, this identity has a great impact not only on employee attitudes but also on the quality of the services and products they produce and provide. As for external influence, family members are sensitive to their public reputation among external stakeholders (Carrigan and Buckley, 2008).

It has also been shown that family-owned firms have a higher sense of social responsibility and social citizenship due to their strong identification with the company name and the emotional harm that public condemnation can inflict on the family (Westhead et al. 2001.; Berrone et al.; 2010).

3.1.3. Forming Social Ties. The third aspect concerns social ties in family businesses. Recent research has acknowledged that in a closed network, SEW can provide certain shared benefits, such as collective social capital, relational trust, and intimacy and interpersonal relationships (Uzzi, 1997).

Interrelationships in the family business are not limited to family members but are likely to extend more widely. For example, family businesses generally have long-term suppliers who can be considered—or are—family members (Uhlaner, 2006). A sense of belonging, self-awareness, and identity in a family company is generally shared among non-family employees, thus enhancing stability and commitment to the company (Miller and LeBreton-Miller, 2005).

Blood ties and kinship between family members can also establish strong social relationships. For example, Brickson (2005) shows that, given the relationships in family businesses, one would expect these companies to pursue the interests of those around them, even though this approach may not bring significant economic benefits. Berrone et al. (2010) also regard family businesses as ingrained social groups which are likely to conduct activities favored by the community, such as supporting the United Way, the YMCA, charitable organizations, special projects, and local sports teams. Firms that engage in such activities will earn a reputation for selflessness, generosity (Stewart and Hitt, 2012), or both.

3.1.4. Emotional Attachment. The fourth aspect refers to the emotional connotation of family management—the impact of emotions on family businesses. In this context, emotion can be defined as “an integral and inseparable part of everyday organizational work” (Ashforth and Humphrey, 1995). In a place where family relationships dominate, the history and knowledge of shared experiences and past events will come together to influence current activities, events, and relationships. Many scholars view the combination of business factors and family members' emotions

as an essential aspect of family businesses (Tagiuri and Davis, 1996; Eddleston and Kellermanns, 2007). Family characteristics are multifaceted: some have a positive side, such as warmth, tenderness, love, comfort, and happiness, while others have a negative side, such as anger, disappointment, fear, anxiety, sadness, loneliness, and depression (Tagiuri and Davis, 1996). These mentioned emotions stem naturally from daily life, but they. Still, they are not static due to the occurrence of significant events (e.g., inheritance, divorce, illness) in each family business's system (i.e., loss of family or business, recession, succession issues, etc.) (Davis et al., 1997).

Considering that in family businesses, the controlling families and companies are bonded and integrated (Berrone et al., 2010), emotions can permeate the organization and affect family business leaders' decision-making (Baron, 2008). At the same time, emotional attachment also includes the family's psychological control over the company to maintain its positive self-concept. Family members usually have various social relationships inside and outside the family firm, so these relationships encompass belonging, affection, and intimacy needs (Kepner, 1983). In other words, families' emotional dependence on the business can "facilitate self-continuity by connecting a person with a desirable past self (e.g., memories), a present self (me now), or a future self (whom I am becoming)" (Klein et al., 1995). This practice also fosters a sense of family heritage, as most family owners find the loss of control unacceptable.

3.1.5. Renewal of Family Bonds with the Firm through Dynastic Succession. The fifth level of SEW concerns the ultimate goal of family businesses, which can be summarized as the willingness to pass the business on to the next generation. Indeed,

Zellweger et al. (2012) regard this cross-generational sustainability as a central aspect of SEW.

This sense of dynasty plays a pivotal role in the time horizon of decision-making. From a family shareholder's point of view, family ownership is more than a tradable asset, as it represents a family's heritage and tradition (Tagiuri and Davis, 1996). Therefore, family members view the firm as a long-term family investment for future generations (Berrone et al., 2010). Empirical evidence also suggests that preserving the business for future generations is generally considered an important goal. Many family-owned companies take a long-term planning perspective in their strategic decisions (Miller and LeBreton-Miller, 2005; Miller et al., 2015).

The long-term orientation might result in some adverse effects, such as potential inheritance conflicts and Type II agency problems; however, the literature on family business has fully appreciated the value of the preservation of the family dynasty, the continuation of its value through occupation, and the hope to pass the business on to the next generation, all of which helps to cultivate "a cross-generational investment strategy that develops patient capital" (Stewart and Hitt, 2012), promoting competitive advantages and organizational learning (Gomez-Mejia et al., 2007, 2011; Ahrens et al., 2019).

3.2. Testable Hypotheses

Many leaders in family businesses want to pass the company on to the next generation to maintain the firm-specific resources, capabilities, and competitive advantage (Habbershon and Williams, 1999). The continuity offered by family

successors provides them with great incentives to maintain their family's uniqueness and valuable resources after the period of succession, especially in terms of social capital (Arregle et al., 2007). Usually, successors from within the family are able to utilize the social wealth and network accumulated by their families even before they can fully control the firm and make decisions (Habbershon and Williams, 1999). Other family members, especially those that are company shareholders, can pass on the acquired trust from suppliers and customers, the goodwill of the company, and the responsibilities and expectations of the family, to the successor CEO (Ahrens et al., 2019). Due to the abundance of social capital, family members are more inclined to enjoy the advantage of knowledge transfer, allowing internal successors to quickly utilize the unique resources of family businesses (Hatak and Roesll, 2015). Therefore, if older generations of the family have formed positive connections with important stakeholders of the family and company, the next generation in the family can also benefit from these resources if they take the position of CEO (Ahrens et al., 2019).

Previous research showed that family-run businesses are more likely to be accepted by the community due to their social ties as a part of socioemotional wealth. Compared to non-family-run companies, family-run ones are often more environmentally friendly and socially responsible. They pay more attention to their reputation and interactions with social networks inside and outside the firm that can help family businesses. They are also encouraged to conduct effective management towards stakeholders, formulate external employment contracts to ensure employees' work stability, thereby improving the firm's ability to obtain resources (Berrone et al., 2010).

Therefore, the unique resources and rich social capital of family members enable family heirs to leverage the resources owned by critical stakeholders and long-term partners in the firm's innovation process. More access to resources during the innovation process encourages family successors to be more involved in innovations and helps them increase their possibility of success. These resources include the social capital accumulated by family members in their social network maintenance with key stakeholders (Daspit et al. 2016).

Therefore, family members are at an advantage in terms of social capital and then the potential knowledge transfer in the innovation process (Davis et al., 1997; Du, 2017). This is especially the case when senior members of the family stay in the family firm as mentors after succession (Boyd et al., 1999). Moreover, mentoring can often be characterized by the tacit knowledge sharing of management skills and operations processes, systems, and values in firms (Letonja and Duh, 2015). As a result, family CEO successors can benefit from close contact with their predecessors, who want to ensure and, thus, reinforce the transfer of tacit knowledge (Du, 2017). Therefore, the risk of losing valuable resources and social capital of the family due to the succession event is largely reduced (Letonja and Duh, 2015). Consequently, selecting a family heir as the CEO can enable the family firm to acquire more tacit knowledge and intangible resources that are accumulated by the family than by non-family CEOs.

As mentioned earlier, the second FIBER dimension is family members' identification with the family firm. Family members often keep strong relationships with companies through formal and informal links (Jaskiewicz et al., 2013). Family

members are familiar with the company's story and able to recognize their relationship with and responsibilities in the family business, which attaches great importance to their sense of personal identity (Zellweger et al., 2012). There is no doubt that family members feel more about belonging to the family business than non-family members.

Considering the arguments above, family heirs are more conscious about preserving their family-specific resources and maintaining family-related capabilities. On the contrary, non-family successor CEOs may have difficulties in maintaining their relationship with the controlling family (Stewart and Hitt, 2012). Thus, it is likely that non-family CEO successors, i.e., professional managers, are unable to maintain and benefit from these valuable resources. They undermine the extant social capital of the controlling family and as a result, disrupt the ties and information flows between the family business and internal and/or external stakeholders (Royer et al., 2008). Also, a lack of family ties and family identification increases the difficulty of transferring knowledge to non-family CEO successors.

From this point of view, compared to non-family CEO successors, family heirs are more likely to receive and benefit from unique family and firm resources after succession. Specifically, successors from the family can inherit and maintain social capital from the family, understand the family culture, responsibilities, and expectations and have a better grasp of the tacit knowledge from the incumbent family leaders, which will in the end contribute to positive innovation outcomes.

H1: Internal succession in family firms has a positive effect on positively affects firm innovation, ceteris paribus.

It has been long believed that the controlling family has a strong desire to pass the business on to future generations. In this case, the controlling family makes long-term investments in their strategic decisions to ensure the sustainable development of the company (Zellweger et al., 2012). Diversification has been considered as such a long-term investment that can promote the sustainable development of the family business (Lee et al., 2003). Because of the strong desire to pass the business on to the next generation, the controlling family members are more entrepreneurial and proactive in exploiting the potential uses and making the best use of their extant resources (Srivastava and Lee, 2005). This indicates that compared to non-family managers, family managers are more likely to make decisions on diversification (Burkart et al., 2003).

Second, diversified business practices provide a platform for the next generation of family members to exploit and study (Anderson et al., 2003). As mentioned earlier, the desire of passing on the business within the controlling family via internal successions may also encourage family members to diversify their family business. Another main reason is that through a diverse business portfolio, families can provide various opportunities for the next generations to practice their management skills without compromising their core business (Miller et al., 2015). There is ample anecdotal evidence to provide support for this view. The Rothschilds, for example, used a variety of strategies to send their five sons to different places to cultivate their skills. In this context, diversity allows second-generation family members to develop their expertise and pursue career opportunities.

Finally, succession within a family is a complex challenge as the number of family members increases and more are involved in the daily management of the business (Bertrand and Schoar, 2006). Family members often have different or even conflicting interests, incentives, and goals regarding the family business (Cennamo et al., 2012). These differences or conflicts are especially evident when the rule of equal family inheritance is taken into consideration (Bertrand and Schoar, 2006). Equal succession regards each household as the basic unit of the blood relationship. After the death of the father, the children of the various families (in some cases, only the sons, not the daughters) inherit the family property. Compared with the primogeniture principle, equal inheritance rights are more complicated, which poses a threat to the prosperity of the family business.

Growing conflict in the family may harm the family business’s long-term development (Calabrò et al., 2018). Entering a new industry or region can help solve the problem of inheritance of the family business, which creates more business sectors for each eligible offspring to meet their autonomous needs, thus reducing conflict and contributing to family harmony and reputation (Mehrotra et al., 2013).

In short, as the number of family members in the firm increases, it will become more challenging to complete a successful succession to achieve a family dynasty. Diversification provides new business opportunities for all the younger family members to participate in the family business. And apparently, the building and growth of the diversified business will in the end strengthen the reputation and socio-emotional wealth of the controlling family. Therefore, I put forward Hypothesis 2:

H2: Internal succession in family firms positively affects firm diversification, ceteris paribus.

Recent research on SEW has also been focusing more on social responsibility in family businesses (Cennamo et al., 2012). Berrone et al. (2010) identified and documented five dimensions of SEW by using the FIBER model, and pointed out that the demand for all aspects of SEW by family businesses provided a positive incentive to motivate companies to take social responsibility. Kellermanns et al. (2012) agreed with this view, but they also noted that some aspects of SEW indicated adverse effects in certain situations. The underlying logic is that the heirs who wanted to be out of the family business tended to view robust family control and identity as repressive (Schulze et al., 2001). Further evidence such as Kellermanns et al. (2012) showed that the reluctance of the next generation to take control of the family business would lead to a "dark" impact on some (but not all) aspects of SEW and weaken the involvement of family businesses in CSR activities. Overall, the effect of family business succession on corporate social responsibility is mixed and needs further research.

Philanthropic giving is considered an important part of corporate social responsibility (Brammer and Millington, 2006). Philanthropy is defined as a discretionary obligation for firms, i.e., firms need to decide whether and how much to donate, despite high expectations of external stakeholders in charitable giving. Charitable donations can enhance companies' credibility and public image in the long run, boost the trust of non-family shareholders, and accumulate moral and social capital for companies. However, at the same time, there is also a negative impact on cash flow

and resource exploitation in the short run (Mohtashemi and Mui, 2003; Bekkers and Wiepking, 2011). These benefits are particularly significant when external stakeholders are aware of a company's philanthropic donations. While other typical positive stakeholder engagement approaches such as adopting environmentally friendly practices within the framework of strict government regulations are often conducted to avoid imminent penalties, charitable donations are primarily intended to moderate future negative impacts and buffer the firm from future adverse events (Cennamo et al., 2012). Therefore, participating in donations is "doing good by doing well" (Bekkers and Wiepking, 2011).

As for family firm succession, corporate philanthropy can build a good reputation and establish a network with key stakeholders for a specific company. Although these assets are intangible, they add value to the family businesses by enhancing the socioemotional wealth of the family.

The company's philanthropic activities can also help promote new family CEOs' legitimacy in their new positions. Therefore, corporate philanthropy can enhance the status of the heirs of the controlling family and make succession in family firms go smoothly. The business map theory proposed by Bennedsen et al. (2015) argues that the value destruction in family firms during succession concerns specialized assets associated with the founders of family businesses. To be successful in family businesses, family firms need to develop strategies to cope with the succession process. The theoretical model of Kammerlander et al. (2015) also showed that, in terms of succession in family businesses, firms need to pave the way for new successors. Hence,

philanthropy serves as an ideal strategy for a family firm to gain legitimacy for successors and at the same time promote the socioemotional wealth of the family business after succession.

H3: Internal succession in family firms has a positive effect on philanthropic donations, ceteris paribus.

CHAPTER 4

RESEARCH METHODOLOGY

4.1. Data and Variables

I used all the family-owned firms listed on China's A-share stock market from 2008 to 2016 as my research setting in the empirical test part. Most key variables were derived from the CNRDS database, but I manually collected data on family member composition, family firm ownership, and family involvement from annual reports and public information.

Following extant literature (Wang and Qian, 2011; Pan et al., 2018), a firm was regarded as a family business in this study if it met the following conditions, (a) the actual ultimate controller of the company is family or an individual family member, and (b) there is at least one family member on the top management team. Moreover, I excluded firms from financial industries, firms in severe financial trouble/imminent closure with ST/PT notes, and observations with missing key variables or information on family members. In the final sample, there are 925 listed family firms and a total of 3,882 observations. The firm-year distribution of my final sample is presented in the result chapter.

Corporate Innovation

In this paper, I divided innovation input and output into two different variables to consider their innovation effectiveness (Carney et al., 2019). I used the ratio of R&D investment to operating income (***LnRD***) as the measurement of innovation investment and the natural logarithm of the number of patent licenses plus 1 (***LnGrants***) as the

measurement of innovation output. In the robustness test, the natural logarithm of the number of patent applications plus 1 (***LnAapply***) was also used as an alternative measure to capture corporate innovation.

Corporate Diversification

In the extant literature on diversification, the concept of entropy is based mainly on industrial classification codes from the Standard Industrial Classification (SIC). While the industry classification standard in this article is carried out in accordance with the "Industry Classification of National Economy" (GB/T4754-2011) promulgated by the National Bureau of Statistics (NBS) in China, to understand the actual situation in China better. The diversification entropy indicator (***DIV***) is calculated as follows:

$$\sum Pi*\ln(1/Pi).$$

Pi denotes the firm's share of sales in segment i, and ln (1/Pi) denotes the weighted value for each segment i in a specific firm, suggesting the reciprocal of its sales. This approach is useful in capturing diversification because it considers both the segmentation of the markets in which the firm operates and the impact of each market on total returns (Schmid et al., 2015).

Corporate Philanthropy

This variable was measured by social donations from the CNRDS database. This study focused on long-term philanthropy instead of corporate responsibility. There are mainly two measurement methods of corporate philanthropy according to existing research, (1) the proportion of donated cash to total revenue (Wang and Qian, 2011; Pan et al., 2018); and (2) the natural logarithm of charitable donations made by companies in the past

year (Du, 2017). I utilized the first method to measure a company's philanthropic activities and adopted it in my main tests. The underlying logic is that the company's size plays a crucial role in the company's philanthropic activities. For example, Brammer and Millington (2006) revealed that large companies tended to participate more actively in corporate philanthropy, implying that the size of the company should be considered in the analysis.

Definition of Family Firms and Measure of Family Succession

Based on extant empirical studies, I adopted three criteria for family firms: (1) one or more family members are shareholders; (2) at least one family member is an executive or director; and (3) at least one family member has actual ownership (Gomez-Mejia et al, 2003; Anderson and Reeb, 2003). I slightly adapted the latter criterion and followed the measures taken by Gomez-Mejia et al. (2010), which defined a company family business when one or more family members own at least 20% of the shares in the firm. Thus, a family business is one in which at least one family member is a shareholder, at least one family member is an executive or director, and at least one family member owns 20% or more of the equity (La Porta et al.,1999; Claessens et al., 2000). Family succession (***Succession***) was defined as succession completed by an internal heir in the following years, implying that firms will continue to be under family control. The change of managers and board members is tracked by following annual reports and public disclosures of all private companies in China. If at least one heir inherits the company, it was considered internal succession (Fan et al., 2012).

Control Variables

Some variables were included as controls in this study. Return on Assets (***ROA***) was measured as net income before depreciation divided by the total assets of family firms. This performance indicator was controlled in this study since prior financial performance before family succession plays an important role in firms' decisions in innovation, diversification, and philanthropic donations (Gomez-Mejia et al, 2003; Anderson and Reeb, 2003; Carney et al., 2019). Market value (***Market Value***) was measured as the logarithm of outstanding shares multiplied by the closing price at the end of the fiscal year. Research showed that the enterprise's size greatly influences its performance because the firm requires more resources and information to meet the needs of external customers and internal development. Size (***Size***) was then measured as the natural logarithm of total assets in a given year (He and Yu, 2019). Firm age (***Age***) was also included since older companies may become more diversified over time, and their social responsibility and company efficiency will also increase, which is why a firm's age is expected to positively impact its performance (Mishra, 2017). I measured firm age as the natural logarithm of the company's operating years. Leverage (***LEV***) is an essential indicator of a company's financial performance.

Meanwhile, existing literature suggests that a significant motivation for firms' prosocial behaviors is to obtain funds and valuable resources from stakeholders (He and Yu, 2019). Thus, if the company lacks sufficient funds, it will be inclined to take more social actions. Another control variable is board size (***BS***), which represents the natural logarithm of board members (Pan et al., 2018). The size of the board of directors

can reflect the agency costs and influence the company's decisions, which can, therefore, have an impact on the performance of the company (Su and Carney, 2013). Duality (***DUAL***) is a dummy variable with a value of 1 when the owner is both the CEO and the Chairman. Detailed definitions can be found in Appendix I.

4.2. Model Specification

To examine the relationship between family succession and firm performance in China, I used an ordinary least squares (OLS) model to link the level of diversification to family succession and control variables, as follows:

$$\boldsymbol{FirmPerfomance_{i,t+1} = \alpha + \beta FamilySuccession + \gamma X_{i,t} + year + industry + province + \varepsilon_{i,t}}$$

where i, t refer to firm and year, respectively. β indicates the relation between firm performance and family firm succession, which is expected to be significantly positive. *X* denotes a vector of firm characteristics. I also controlled for year, industry and province fixed effects. The dependent variable was measured in year t+1 while all explanatory variables were measured at year t to avoid possible reverse causality. According to the literature (Agrawal et al., 2006; Bennedsen et al., 2015), it may take about one year for successors to exert impacts on firm behaviors. Therefore, it is sufficient to lag one year to investigate the impacts. I adopted robust standard errors clustered at the firm level, i.e., observations from identical firms are not regarded as independent (Pan et al., 2018). Therefore, all regressions are clustered at the firm level in all regression models.

CHAPTER 5

EMPIRICAL RESULTS

5.1. Descriptive Statistics

Table 2 summarizes the descriptive statistics of the full samples for the key variables used in the regression models. All continuous variables in my empirical tests are winsorized at the 1% and 99% levels. According to the descriptive analysis of Succession, about 9.5% of family firms confirmed internal succession.

Table 2. Descriptive Statistics of Key Variables

Variables	Obs.	Mean	S.D.	p25	p50	p75	Max
LnRD	6338	2.13	5.35	0	0	0	18.08
LnGrants	6338	2.02	1.59	0.69	2.08	3.22	5.97
Div	6338	0.50	0.40	0.13	0.47	0.62	0.83
Philanthropy	6338	0.08	0.12	0	0.06	0.09	0.11
Succession	6338	0.10	0.30	0	0	0	1
Size	6338	0.06	0.08	0.03	0.06	0.09	0.11
MarketValue	6338	21.39	1.25	18.21	21.49	23.62	28.17
LEV	6338	0.40	0.20	0.24	0.39	0.56	0.83
Size	6338	21.86	1.13	21.01	21.71	22.53	25.29
Age	6338	15.08	5.25	11	15	18	59
Duality	6338	0.26	0.44	0	0	1	1
BS	6338	3.76	1.16	3	3	4	12

Table 3 presents an overview of the firm-year distribution of the family succession in my sample. The table shows the distribution of family firms by year and presents how family firms in my sample were progressively and increasingly distributed over the sample period (from 260 in 2008 to 988 in 2016). This finding reflects the rapid rise of family businesses in China, which indicates that family businesses have been playing

a more and more significant role in the private sector over the recent decade. I also present an overview of the distribution of family succession by year to provide a better picture of succession in the sample. Overall, it illustrates a clear trend, reflecting an increase in the number of family successions over the years.

Table 3. The Number of Family Firm Distribution by Year

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**total**
No. of Family Firms	260	354	562	728	802	843	876	925	988	6338
No. of Family Firm with Succession	35	42	53	66	78	84	85	77	82	602
Succession % of family	13.5 %	11.9 %	9.4%	9.1%	9.7%	10.0 %	9.7%	8.3%	8.3%	9.5%

5.2. Regression Results and Discussion

Table 4 reports the baseline regression results of the basic models that include only the control variables. Columns (1) - (4) show that holding all other control variables constant, the coefficients of succession are all significantly positive, suggesting a positive relationship between internal succession and firm behaviors (innovation, diversification, and philanthropy). This indicates that, compared with professionally managed family firms, family firms with the internal succession have stronger incentives to maintain and promote their socioemotional wealth by engaging more in innovation, diversification, and philanthropic activities. The coefficient of internal succession is positively correlated to innovation input and outcome and with corporate philanthropy at the 1% level. Internal succession is also positively related to diversification strategy at the 10% level. However, considering that this result is weak,

the remaining empirical tests will focus mainly on innovation and philanthropy. Therefore, the empirical evidence supports Hypotheses 1 and 3 and weakly supports Hypothesis 2.

The effect of internal succession on family firm behaviors is also at an economically significant level. According to the coefficients in columns (1), (2), and (5) in Table 4, after internal succession, family firms experience, on average, increases in innovation output and input of 14.5% and 22.3%, respectively, and a rise in philanthropic donation of 15.2%. In terms of economic magnitude, these results also provide support for Hypotheses 1 and 3.

With respect to control variables, my regression results show that larger firms engage more in corporate innovation, diversification, and philanthropic activities. Firms with duality of board chair and CEO also invest more innovation, diversification strategy and philanthropic donations. The increase of board size can help family firms promote R&D input. These results are in line with existing literature and also support the SEW perspective.

Table 4. Baseline Regression on the Influence of Internal Succession

Columns (1) - (4) report the results of estimating equation (1) using OLS regression to test basic arguments. Robust standard errors are reported in parentheses below the coefficients and are based on standard errors clustered at the firm level to adjust for heteroscedasticity and serial correlation. *, **, and *** represent two-tailed significance levels of 0.10, 0.05, and 0.01, respectively. All continuous variables are winsorized at 1% and 99%. Detailed variable definitions are in Appendix 1.

	(1) LnRD	(2) LnGrant	(3) Div	(4) Philanthropy
L.Succession	0.145***	0.223***	0.121*	0.152***
	(0.056)	(0.047)	(0.096)	(0.061)
L.MarketValue	0.0131	0.0128	0.0214	0.057
	(0.084)	(0.079)	(0.054)	(0.031)
L.ROA	0.040*	0.072**	0.062*	0.055**
	(0.021)	(0.035)	(0.039)	(0.028)
L.LEV	-0.158***	-0.023	-0.085	-1.070
	(0.053)	(0.022)	(0.165)	(9.556)
L.Size	0.045***	0.014**	0.683***	0.561***
	(0.013)	(0.006)	(0.064)	(0.241)
L.Age	-0.001	-0.001	0.000	0.045
	(0.003)	(0.005)	(0.003)	(0.462)
L.Duality	0.126**	0.072*	0.127**	0.073*
	(0.061)	(0.048)	(0.061)	(0.045)
L.BS	3.015**	-0.000	0.737	0.000
	(2.571)	(-1.192)	(0.471)	(0.335)
Constant	1.738	0.000**	6.283***	0.000***
	(1.700)	(0.000)	6.283***	(0.000)
Province	YES	YES	YES	YES
Year	YES	YES	YES	YES
Industry	YES	YES	YES	YES
Observations	6338	6338	6338	6338
Adjusted R-squared	0.082	0.115	0.175	0.254

5.3. Endogeneity Issue and Robustness Check

First, Bennedsen et al. (2007) reveals that internal family succession is not generated arbitrarily but is a rational response to the control of the family business by the founder and descendants. To control for the impact of endogeneity issues arising from omitted company-level variables and reverse causality, I use the DID model.

Table 5. Family Succession as Difference in Difference

Columns (1) - (4) in Table 5 report the Difference in Difference results using family succession as an event, while the current year denotes the year in which succession takes place. Robust standard errors are reported in parentheses below the coefficients and are based on standard errors clustered at the firm level to adjust for heteroscedasticity and serial correlation. *, **, and *** represent two-tailed significance levels of 0.10, 0.05, and 0.01, respectively. All continuous variables are winsorized at 1% and 99%. Detailed variable definitions are in Appendix 1.

Variables	(1) LnRD	(2) LnGrants	(3) Philanthropy	（4） Div
2 years before	0.111	-0.032	0.082	0.174
	(0.339)	(0.101)	(0.394)	(0.202)
1 year before	0.415	0.098	0.353	0.236*
	(0.333)	(0.097)	(0.399)	(0.141)
current	0.2395**	0.1772***	0.2413**	0.382
	(0.11)	(0.05)	(0.12)	(0.341)
After 1 year	0.090***	0.020**	0.099**	0.061*
	(0.330)	(0.095)	(0.400)	(0.432)
After 2 years	0.228***	0.003***	0.155***	0.009
	(0.039)	(0.001)	(0.046)	(0.010)
Constant	-19.57***	-9.083***	-28.960***	-7.056***
	(3.363)	(1.078)	(4.558)	(2.187)
Control Variables	YES	YES	YES	YES
Fixed Effect	YES	YES	YES	YES
Observations	6338	6338	6338	6338
Adjusted R-squared	0.031	0.155	0.034	0.071

I first treated family succession in a particular year as a change and constructed a difference-in-difference model to eliminate the above concern. I set the test window period to two years before and after a family succession (−2, +2), while the current year variable in the DID setting denoted the same year in which the family succession occurred. In this DID setting, the coefficient of the interaction term between the treatment dummy variable and the post-succession-period dummy variable is of interest.

The treatment dummy variable had a value of one if an observation was a treatment firm, i.e., a firm with internal succession, and zero if an observation was a control firm.

The results, which are presented in Table 5, proved the robustness of our main conclusions. Meanwhile, these results show that the coefficient of pre-turnover also met the parallel trend assumptions. Moreover, The DID specification can also partly control the pre-succession performance and discover the duration of post-succession influence. Therefore, the DID results in Table 5 supported the key arguments in this study and the results in Table 4.

Second, current literature showed that several firm level factors can directly influence firm behavior after the succession period. Omitting these factors from the regression might lead to biases. One of the main challenges to family succession is to transfer certain assets, including intangible assets, between generations—for example, the relationship between founders and other shareholders, and between founders and successors (Bennedsen et al., 2015). If founders can bring huge benefits to their family businesses in a highly corrupt economic environment, they will go to great lengths to preserve their professional fortunes, even after they retire. So, it's natural in the controlling family for the retired founders to continue to carry on business activities to protect their special assets and thus to continue to have a significant impact on the family business. Therefore, I include a dummy variable of family involvement, which is measured as 1 if a retired founder still holds a seat on the board of directors or management while zero otherwise. The results remain robust after controlling these two variables.

Meanwhile, I also extended the baseline model and controlled for interactive fixed effects, such as province-year fixed effects, industry-year fixed effects, and province-industry fixed effects. I added the annual fixed effects of provinces in order to account for the invisible provincial effects of long-term changes, such as economic growth rates. I also incorporated the annual industry impact into the impact on different behaviors of companies in different industries. In addition, I included the province-industry fixed effects to analyze the factors that may have had an impact on the firm's performance. The results in Table 6 show support for my previous conclusions and rule out omitted variables bias.

Table 6. Endogeneity Issues: Control Omitted Variables

Columns (1) - (3) report the results addressing omitted variables bias by adding a founder involvement variable and interactive fixed effects. Robust standard errors are reported in parentheses below the coefficients and are based on standard errors clustered at the firm level to adjust for heteroscedasticity and serial correlation. *, **, and *** represent two-tailed significance levels of 0.10, 0.05, and 0.01, respectively. All continuous variables are winsorized at 1% and 99%. Detailed variable definitions are in Appendix 1.

	(1)	(2)	(3)	（4）
VARIABLES	LnRD	LnGrants	Philanthropy	Div
L.Succession	0.074***	0.125***	0.082***	0.116
	(0.023)	(0.021)	(0.041)	(0.109)
L.FounderInvolvement	0.193***	-0.0109	0.131***	0.373**
	(0.038)	(0.008)	(0.051)	(0.092)
Control Variables	YES	YES	YES	YES
Province-Year FE	YES	YES	YES	YES
Industry-Year FE	YES	YES	YES	YES
Province-Industry FE	YES	YES	YES	YES
Observations	6338	6338	6338	6338
Adjusted R-squared	0.252	0.636	0.194	0.125

Third, I considered alternative measures in robustness tests. Dependent variables used in the baseline regression may be subject to measurement bias, and there are

alternatives in the existing literature. Therefore, I used the natural logarithm of corporate philanthropic giving plus 1 in the particular year and the natural logarithm of the number of patent applications plus 1 to capture patents applied for in that year. In addition, I used the logarithm of the R&D input plus 1 to proxy for innovation input. Panel A in Table 7 reports the results.

Table 7. Robustness Check: Change Key Variables and Regression Method

Panel A in Table 7 reports robustness tests by changing measurements of dependent variables. Panel B in Table 7 reports the robustness test using the Tobit model. Robust standard errors are reported in parentheses below the coefficients and are based on standard errors clustered at the firm level to adjust for heteroscedasticity and serial correlation. *, **, and *** represent two-tailed significance levels of 0.10, 0.05, and 0.01, respectively. All continuous variables are winsorized at 1% and 99%. Detailed variable definitions are in the Appendix 1.

Panel A	(1) LnRD2	(2) LnApply	(3) Philanthropy	(4) Div
L.Succession	0.040*** (0.013)	0.010** (0.006)	0.076*** (0.028)	0.059* (0.401)
Control Variables	YES	YES	YES	YES
Fixed Effects	YES	YES	YES	YES
Observations	6338	6338	6338	6338
Adjusted R-squared	0.139	0.506	0.116	0.094
Panel B	**LnRD**	**LnGrants**	**Philanthropy**	**Div**
L.succession	0.071*** (0.029)	0.026*** (0.011)	0.058** (0.036)	0.053 (0.262)
Control Variables	YES	YES	YES	YES
Fixed Effects	YES	YES	YES	YES
Observations	6338	6338	6338	6338
R-squared	0.147	0.388	0.121	0.096

Data regarding innovation and philanthropy decisions by Chinese listed firms may show a density mass at zero about its distribution. The nature of such dependent variables may lead to my baseline regression model (OLS) being biased. I also used the Tobit model to further replicate the above analyses since Tobit model can serve as a

replaceable estimation model for this type of distribution. Panel B in Table 7 shows that the coefficient of family succession is not significantly affected.

Overall, my additional analyses using different methods addressed the endogeneity issues and checked the robustness of the results of the baseline models. The consistent results are in line with my expectations and contrary to the alternative explanations. The empirical evidence presented in this section is, therefore, consistent with my proposed theory regarding SEW.

CHAPTER 6

CONCLUSION AND DISCUSSION

6.1. Conclusion

Owing to its economic and social dominance worldwide, family businesses are widely regarded as the mainstay of the global entrepreneurial economy. In order to maintain long-lasting prosperity, family businesses need to balance the socioemotional and financial aspects of value creation in their decision process. Thus, the biggest challenge for family businesses is to consider and balance financial and socioemotional factors in their strategic choices (Gomez-Mejia et al, 2007).

Balancing and maintaining SEW is vital to potential successors and the succession process, which includes the socioemotional needs of family members, such as establishing family identity, exerting family influence, and maintaining family dynasties. It is also widely accepted that family firms' decisions are influenced by their unique contexts, such as their long-term value and attitudes towards preserving socioemotional wealth. Based on theoretical arguments and empirical results, my study extends the analysis of several strategic choices after family firms' internal succession.

To shape my arguments, I drew on recent developments in the literature on socioemotional wealth in family firms, which suggests that different socioemotional priorities have positive consequences for firm outcomes. My first hypothesis argued that family firms with internal succession are more likely to engage in innovation activities. The core reason is that family CEO successors consider the potential gain and endowment of SEW from innovation activities as their main initiative, which was

supported by empirical tests. I then argued that family firms with internal succession are more likely to diversify their business, but found weak support for this hypothesis (H2). Finally, as predicted, I found that in order to build a social network and maintain good relationships with external stakeholders, family firms with internal successions make more charitable donations (H3), fearing a loss of both SEW and economic wealth.

Using China's listed family firms from 2008 to 2017, I empirically show that second- generation succession can exert several positive influences. Specifically, internal family succession is positively related to innovation input and outcome and to philanthropic giving, both of which signal firm performance. These results are significant at both the statistical and the economic levels. Next, I use the Difference in Difference (DID) method to mitigate endogeneity problems and conduct several robustness checks to ensure my conclusion.

Overall, while non-economic, i.e., mostly socioemotional, and economic-driven goals can co-exist in the long run, they frequently result in tensions for organizational decision-makers in the short run, especially in family firms, which place more emphasis on family goals. Based on the empirical results, my work further suggests that SEW serves as a utility that family business leaders not only want to preserve but also want to shape and grow.

My findings corroborated and extended the current limited empirical work in this context. In summary, I provided robust findings of nuanced behavior outcomes due to internal succession in family firms in emerging economies, in this case, China. This paper also extends our current understanding of internal succession in family firms by

redirecting these strategic choices from a SEW perspective and by introducing two unique and largely ignored dimensions: innovation and philanthropic donation. In doing so, I relied on the recent and growing literature on SEW in family firms to establish the impact of the SEW utility after succession by family members.

6.2. Limitations for Future Research

My study is not immune from limitations. For example, I focus my analysis primarily on Chinese data. Future research can also extend the above findings to other countries and economies to examine whether the hypotheses stand in other contexts.

In addition, due to the nature of family succession, it is difficult to find a perfect identification strategy to eliminate the endogeneity problems. Future research can make more significant efforts to reduce alternative explanations.

Another future research avenue is to carry out this line of research by exploring the relationship between internal succession and international strategy. It is also interesting to compare a family business run by the founder’s siblings or sons-/daughters-in-law with a family business run by the second generation and/or outsiders. Few family businesses hand over control of their companies to outsiders, thus an exciting research topic would be the financial impact of outsiders on family businesses.

6.3. Practical Implications

This study can help practitioners, including family owners, external consultants, and related stakeholders, understand the factors influencing decision-making after internal succession. Therefore, careful consideration must be given to adopting a

systematic succession policy to ensure that each participant in decision-making can best meet the firm's socioemotional and economic needs. In future work, I aim to unpack further the potential challenges and complexities in the family firm succession process. At the same time, I also hope that my work on family business succession can inspire other researchers to investigate this ongoing topic further, which as a result will contribute to both relevant theoretical development and family business practices.

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APPENDIX

Appendix I. Definitions of Variables

Variables	Definitions
Panel A: Dependent Variables	
LnRD	The natural logarithm of one plus firm i's R&D investment expenditure plus one
LnGrants	The natural logarithm of one plus firm i's total granted patents plus one
DIV	calculated with the following formula: $\sum Pi*\ln(1/Pi)$
Philanthropy	the ratio of cash donations divided by total revenue
Panel B: Family Succession	
Family Succession	A dummy variable equals 1 if the family succession process could be completely confirmed, if a family heir succeeded to the entire business in subsequent years and 0 otherwise
Panel C: Control variables	
MarketValue	The logarithm of the tradable shares outstanding multiplied by the closing price at the end of fiscal year
ROA	The net income before depreciation divided by the total assets
LEV	The book value of total debts divided by the book value of total assets
Size	The natural logarithm of the book value of total assets plus one
Age	Firm i's age, which equals the difference of fiscal year t minus the year the firm was established
Duality	A dummy variable that equals 1 if the chairman and manager are the same person and 0 otherwise
BS	The number of independent directors in firm i