The Influence of Family Firm Succession on Financialisation: Evidence from China

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The Influence of Family Firm Succession on Financialisaton: Evidence from China

Lijie Zhang, Xiamen University

Yevhen Baranchenko, Northumbria University

Zhibin Lin, Durham University Business School

Li Ren, Xiamen University

Abstract

Purpose – This study seeks to fill a gap in the literature by examining the role of family firm succession in shaping the firm's approach to financialisaton, which has received limited attention in previous research. In addition, the study explores the influence of factors such as clan culture, concentration of control, and generational differences on the relationship between succession and financialisaton.

Design/methodology/approach – Data were based on a sample of 7023 firm-year observations, compiled from the listed family firms in China's A-share. Several Tobit models are used for analysing the data and testing the hypotheses.

Findings – Family firm succession is negatively related to the level of financialisaton, and this relationship is influenced by clan culture, concentration of control, and the stage of succession. Specifically, a higher clan culture, a greater concentration of ultimate control by the controlling family member, and the dominance of the first generation in management strengthen the negative relationship between family firm succession and financialisaton.

Originality/value - This study offers new insights into the consequence of family firm succession on a new area of the firm's strategy, i.e. financialisaton. The study further advances our understanding of family firm succession by considering the role of clan culture, the concentration of control, and the stage of the succession process.

Keywords: Family business; Intergenerational succession; Financialisaton; Socio-emotional wealth; Long-term orientation.

Introduction

Family businesses are widely represented in the world economy, including rapidly expanding economies such as China, where family firms maintain their distinctiveness due to the unification of ownership and management in a business model characterized by adherence to traditions, social values, and a common vision to preserve family influence and control in succeeding generations (Gagné *et al.*, 2021, Loehde *et al.*, 2020, Schulze and Gedajlovic, 2010). For many family businesses, preservation of control over the firm while maintaining family unity and manifesting identity remains the priority (Gomez-Mejia et al., (Gómez-Mejía *et al.*, 2007). According to the behavioural agency theory (Wiseman and Gomez-Mejia, 1998), company decisions are dependent "on the reference point of the firm's dominant principals" (Berrone et al., 2012). Preserving accumulated SEW endowment in family firms thus becomes the overarching aim for the principals, as any decrease in SEW is perceived as a significant loss (Chrisman and Patel, 2012).

Succession, defined as the transfer of leadership and control from one generation to the next (Nave *et al.*, 2022, Porfírio *et al.*, 2020, Sharma *et al.*, 2001), is recognised as one of the most challenging actions experienced by family businesses in various contexts (Fendri and Nguyen, 2019, Gabriel and Bitsch, 2018, Li *et al.*, 2022, Porfírio et al., 2020, Shi *et al.*, 2019). In China, a new generation of founder-owned and managed firms emerged in the early 1980s playing important roles in economic growth and employment (Wang *et al.*, 2016, Yang *et al.*, 2022). Currently, these business owners are contemplating retirement and anticipating younger family members to take over the businesses they founded, thus entering a critical period of continuity for both the firm and the family (Weng and Chi, 2019, Yang et al., 2022, Yang *et al.*, 2021, Zhang *et al.*, 2020, Zhao *et al.*, 2020). The notion of family continuity is particularly underpinned by the distinct Chinese social and cultural conditions (an aspect of Confucianism ideology) and manifested in maintaining family control over the business thereby encouraging intra-family succession (Chen *et al.*, 2021, Dou *et al.*, 2020, Shi et al., 2019).

There has been a developing trend of economic financialisaton in China in recent years (Xu and Xuan, 2021). The real economy sector on the one hand is facing an array of difficulties due to structural changes in market demand, overcapacity, rising costs, and declining returns, whereas on the other hand, benefiting from the growth of financial and real estate industries (Jiang *et al.*, 2021, Zhang *et al.*, 2018). The widespread increasing importance of financial markets and financial institutions gave a boost to substantial risky investments in financial assets (Dore, 2008, Hahn, 2019). At the firm level, this increased the orientation toward short-term financial performance, invoking the engagement of non-financial companies in financial activities, and leading to disproportionate income generation outside the core business (Colombo *et al.*, 2021, Huang *et al.*, 2022a). This phenomenon is conceptualised as financialisaton and it encompasses the capital flows between industries and financial markets (Davis and Kim, 2015, Orhangazi, 2008).

Prior studies suggest that succession influences a family firm's financing structure and new investments (Bjuggren and Sund, 2005, De Massis *et al.*, 2008). However, the extant literature provides little insight regarding succession's influence on a family firm's financialisaton. For example, some studies show that successors tried to avoid the increase in borrowing following taking over the control of the firm (Kaye and Hamilton, 2004), while other studies showed successors may increase debts to finance the firm's growth (Bjuggren and Sund, 2005). Moreover, business owners who consider intergenerational succession may have the desire to build up a family legacy (Achtenhagen et al., 2022, Hammond et al., 2016, Kalali, 2022) and adopt a long-term orientation, which is likely to inhibit firm financialisaton - a phenomenon that is characterised by short-termism, down-sizing and reduced innovativeness (Buchanan, 2017, Demir, 2009, Hahn, 2019, Lazonick and O'sullivan, 2000). Nevertheless, there has not been any empirical test of this hypothesis.

The aim of this study, therefore, is to examine, whether intergenerational succession can influence the family firm's financialisaton, with consideration of the moderating effects of Chinese clan culture, and the heterogeneity of the firm, such as the concentration of ultimate control of the firm and the succession stage. First, the clan culture is closely linked to the Confucianist values of persistence, frugality, and long-term orientation (Chen et al., 2021, Huang *et al.*, 2022b). The clan network plays an important role in family firms' dealing the financing issues, (Cheng *et al.*, 2021, Zhang, 2020). Within a strong clan culture, family businesses tend to prioritize long-term outlook, frugality, and consensus norms. They adopt defence-oriented strategies and conservative business operations to safeguard clan stability and reputation. It is expected that in such contexts, family businesses undergoing succession are even less likely to engage in financialisaton.

Second, the concentration of ultimate control can enhance decision-making efficiency and reduce agency problems. The negative relationship between intergenerational succession and financialisaton in family firms may vary based on the family's actual power within the company. A higher concentration of ultimate control within the family strengthens the family's influence, aligning investment decisions with their objectives and reducing external interference.

Third, attitudes toward financialisaton often diverge between the first and second generations. When first-generation entrepreneurs are in sole control without second-generation leaders in top positions, financialisaton might be inhibited. In contrast, second-generation successors may exhibit a higher inclination towards financialisaton due to emotional factors, lower attachment to the core business, and a desire for personal achievements. Furthermore, as the transition of power occurs, the first-generation entrepreneurs may support and facilitate successors' decisions, potentially leading to increased financialisaton.

To test our hypotheses, we extracted data from China's premier stock market research database, which includes a comprehensive sample of privately owned firms listed on China's A-share markets between 2007 and 2018. We further gathered financial statements, annual reports, and regulatory filings of the family firms to compile our dataset. The final sample comprises 7,023 firm-year observations. We employed several Tobit models to analyse the data.

This study makes valuable contributions to the existing literature on family businesses. By investigating the influence of clan culture, the concentration of control, and the stage of succession, the study enhances our understanding of family firm succession and its implications. This study addresses the lack of research on the financialisaton of family firms, which has predominantly focused on traditional firms. The study reveals that the family's commitment to their values and legacy during intergenerational succession is a deterrent to adopting financialisaton practices. In addition, the study shows that clan culture, a characteristic of the Chinese context, shapes social control and reinforces the family firm's long-term focus. Moreover, the study indicates a greater concentration of control allows family member executives to prioritize long-term goals and resist short-term pressures associated with financialisaton. Furthermore, the study reveals that second-generation successors tend to be more involved in financialisaton and take higher risks compared to their parents. This study opens up avenues for further exploration of the strategic choices and practices employed by family businesses undergoing intergenerational succession to maintain their competitive edge while preserving their unique family-oriented values and long-term orientation.

Literature review and hypotheses

Family firm succession and financialisaton

Family businesses have emerged as dominant governance structures in many countries, including those with emerging economies. They have made significant contributions to economic development and employment (Chen et al., 2021, Cheng et al., 2021, Chung and Luo, 2013, Yang et al., 2022). Family businesses are established with the intention of ensuring longevity across generations and maintaining enduring relationships with stakeholders, which are fostered through identity and trust. These aspects are rooted in intangible elements such as beliefs, values, rituals, customs, and norms (Bennedsen *et al.*, 2015, Ibáñez *et al.*, 2022, Rondi *et al.*, 2019). Given that wealth generation is not the sole driving force behind a family business venture (Umans *et al.*, 2021), succession is a critical step for the survival of family firms.

In comparison to non-family firms, family businesses rely on strong interpersonal relationships, enabling them to bypass formal bureaucracy when making decisions (Chung and

Luo, 2013). This ability allows them to reduce transaction costs and prioritize non-financial objectives, collectively known as the “Socio-Emotional Wealth (SEW) perspective” (Gómez-Mejía et al., 2007). SEW is rooted in the behavioural agency model developed by Wiseman and Gomez-Mejia (1998), incorporating the prospect theory of the firm (Kahneman and Tversky, 2013) and behavioural theory of the firm (Cyert and March, 1963).

The gain or loss of SEW is considered a critical factor in strategic decision-making, with intergenerational succession serving as an important dimension of SEW, reflecting the long-term orientation of family businesses (Donbesuur *et al.*, 2022, Minichilli *et al.*, 2014). A long-term orientation may involve using a lower discount rate to evaluate future investment returns or considering a longer investment time horizon during the decision-making process, rather than prioritizing short-term interests (Strike *et al.*, 2015, Yang et al., 2022). They tend to tie family reputation to corporate evergreening, and shape the family’s virtuous social image by adhering to the continuance of the family dynasty and because of the embeddedness into local communities (Kurland and McCaffrey, 2020, Miller and Le Breton–Miller, 2014, Yang et al., 2022). Moreover, from the perspective of social identity, Kellermanns and Eddleston (2004) argue that the controlling family assumes a role that resembles that of a nurturer and guardian of the family business.

From a micro-perspective, financialisaton can be conceptualized as the involvement of non-financial firms in financial markets (Stockhammer, 2004) and the gradual shift of corporate economic behaviour towards the financial sector (Foster, 2007). Over the past fifteen years, the rapid expansion of the Chinese economy has provided a fertile environment for financialisaton. Corporate financialisaton is commonly attributed to two motivations. The first is capital reserves, where companies acquire financial assets to mobilize idle funds for future needs, aiming to mitigate financing constraints and enhance real investment (Stulz, 1996). The second motivation is the pursuit of greater short-term profit, as the returns in the real sector are usually lower compared to the virtual sector. Consequently, financialisaton presents an alternative avenue for corporate profitability. However, financialisaton driven by profit pursuit may have detrimental effects on the core business, as allocating excessive funds to the virtual sector, may “crowd out” investments in the real sector, leading to a decline in investment in the real economy, the core business of the firm (Demir, 2009, Orhangazi, 2008). Moreover, speculative financialisaton can significantly hamper R&D and innovation efforts by depleting internal funds and altering management decision-making perspectives (Seo *et al.*, 2012).

The principal driver of financialisaton among Chinese firms is profit-driven rather than precautionary savings and demonstrated several negative effects, as revealed by empirical evidence. Huang et al. (2022a) reported an increasing trend of firm-level financialisaton with a generally negative impact on firm performance. Similarly, Xu and Guo (2021) found a negative effect of financialisaton on the long-term performance of non-financial Chinese companies with a higher proportion of financial assets. This finding was also corroborated by Xu and Xuan (2021), who noted a potential short-term increase in shareholder income but a reduction in core business growth potential due to inadequate support for research and development, thus diminishing the firm’s long-term growth prospects.

Scholars argue that profit-driven financialisaton is largely influenced by the phenomenon of “short-termism” in corporate management (Davis and Kim, 2015, Froud *et al.*, 2000). This perspective highlights the managerial emphasis on maximizing shareholder value, which has significantly contributed to the widespread adoption of financialisaton in the real sector. As a result, the objective of “maximizing shareholder value” has become central to corporate governance. This has led companies to prioritize short-term profit maximization over long-term sustainable growth to meet the demands of short-sighted stock markets and influential institutional investors, particularly those with short-term investment horizons. Considering that family firms in succession prioritize the long-term viability of the family business and assess the impact of speculative financialisaton on non-economic objectives (Umans et al., 2021), it can be posited that financialisaton driven by short-termism conflicts with the long-term orientation of family businesses. Therefore, the following hypothesis is formulated:

H1: Family firm succession is negatively related to the level of financialisaton.

Moderating factors

Clan culture. In emerging economies, characterised by a high level of uncertainty and weak property rights protection, companies tend to utilise relationship networks, such as clan culture, when facing institutional constraints (Bennedsen et al., 2015, Zhang, 2020). Clan culture is deeply rooted in Chinese culture and clan-based enterprises were the first to evolve in China since the opening-up economic policy and the marketization reform introduced in 1978 (Huang et al., 2022b). A clan is defined as "a consolidated kin group made up of component families that trace their patrilineal descent from a common ancestor" (Cheng et al., 2021). Members of a clan live in the same region in one of several communities and clan culture is inbuilt in shared beliefs and values, which assist in goal setting and help to reduce discrepancies in goal preferences for the members of organisations, that do not have contractual bonds, such as participants of the family business.

The social control mechanism, which underpins clan culture is useful to effectively operate in the ambiguous business environment and convey information through traditions, belongingness, organizational identity, and common culture (Chuang *et al.*, 2012, Li *et al.*, 2021). Due to fostering of trust and dedication to the shared goals amongst employees and managers (Li et al., 2021), the likelihood of opportunistic behaviour of the successor is minimised (Floyd and Lane, 2000). Shared beliefs and values lay a foundation for positive reciprocal behaviour towards the company and form the platform, on which the exchange of values takes place (Li et al., 2021). Members of a clan are viewed as extended family and the conflicts are thereby reduced due to the members' vision convergence and created a highly trustful internal environment (Chuang et al., 2012).

In the context of a strong clan culture, family businesses undergoing succession are more inclined to uphold Confucian values such as perseverance, frugality, and a long-term outlook, viewing the firm's longevity as a matter of family honour based on consensus norms (Chen et al., 2021, Huang et al., 2022b). Chuang et al. (2012) found that companies with a strong clan culture tend to prioritize defence-oriented strategies over analysis-oriented ones. Research by L. Huang et al. (2022b) indicated that in regions where a strong clan culture prevails, managers adopt a more conservative approach to business operations, aiming to safeguard clan stability and reputation. Similarly, N. Xu et al. (2015) that argued enterprises operating within a strong clan culture, where founders have established influential political connections, are more likely to involve second-generation family members in the core business rather than high-risk innovation projects. Therefore, within a strong clan culture, family businesses undergoing succession are even less likely to engage in financialisaton. Thus,

H2: Clan culture strengthens the negative relationship between family firm succession and financialisaton.

Concentration of ultimate control

The involvement of family members in the business makes it unique (Chua *et al.*, 1999) and one of the key structural differences between the family business and its non-family counterpart is how the family influences strategic decisions and sets up company values while controlling the business. By means of family's control and influence, family firms can preserve their SEW (Swab *et al.*, 2020), the concentration of ultimate control helps to improve the efficiency of decision making, thereby alleviating agency problems (Blanco-Mazagatos *et al.*, 2016, Block, 2012). The ultimate control of a firm refers to the level of control held by family owners compared to non-family shareholders, indicating the degree of influence the family has over the company. When control is predominantly concentrated within the family rather than with external parties, it strengthens the family's influence. This enables the pursuit of non-financial objectives and reflects the long-term orientation commonly found in family businesses, thereby reducing financialisaton.

Ultimate control involves the effective control exercised by the ultimate controlling party through direct and/or indirect ownership of company shares. In some cases, this oversight provided by the ultimate controlling party complements the formal governance mechanisms of the company, as concentrated control tends to enhance firm performance more effectively than dispersed control (Tian and Estrin, 2008). These phenomena can be attributed to the increased influence of the ultimate controlling party in the day-to-day operations of the company, addressing issues arising from the separation of ownership and control and emphasizing the intentions of the ultimate controlling party in decision-making. The negative relationship between intergenerational succession and financialisaton in family firms represents the expression of the controlling family's desires and is closely associated with the inherent characteristics of family businesses. Therefore, this negative relationship is expected to vary based on the actual power held by the controlling family within the company. Specifically, a higher concentration of ultimate control by the family strengthens the influence of the controlling family, increasing the likelihood of investment decisions aligning with the family's objectives. Likewise, during intergenerational succession in family businesses, a greater concentration of ultimate control is likely to have a positive impact on the articulation of the family's vision and the execution of long-term strategies, as opposed to short-term financialisaton. This leads to the following hypothesis:

H3: The concentration of ultimate control strengthens the negative relationship between family firm succession and financialisaton.

Stage of succession. The different stages of succession can be identified, based on whether the company is solely led by the family business founder or whether the two core positions of chairman or CEO are held by different generations. There is often a divergence in perspectives on financialisaton between the first and second generations of family businesses. When the first-generation entrepreneur assumes sole leadership of the business, with the second-generation not holding top positions such as chairman or CEO, the level of financialisaton tends to be limited. This can be attributed to two main factors. Firstly, family businesses embody the culmination of the founder's lifelong dedication, resulting in a strong sense of psychological ownership and a longer-term investment horizon (Bertrand and Schoar, 2006). Secondly, the founder's motivation for establishing and growing the business is rooted in their entrepreneurial spirit, characterized by keen business intuition and exceptional ability to integrate resources. Therefore, when the first generation entrepreneur is in control of business management, they are more inclined to accurately identify suitable opportunities for core business investments and allocate resources effectively, thereby reducing the extent of financialisaton within the company.

Second-generation successors may exhibit a higher propensity for financialisaton. They often have a relatively lower psychological attachment to the firm's core business, enabling them to swiftly shift towards other markets and business ventures. Moreover, the second generation of the family typically lacks management experience and the founder's proprietary assets, making it more challenging for them to achieve above-average performance compared to the first generation (Miller *et al.*, 2007). Consequently, when second-generation successors assume core positions such as CEO or chairman, they may be inclined to explore opportunities outside the core business (Yang et al., 2022), and pursue financialisaton as a means to achieve quick and high returns, thereby expediting their personal achievements and establishing credibility and prestige. During the transition of power from the first to second generations, even if the first-generation entrepreneur has not completely exited the core management, their role in the business often transforms into that of a supporter and facilitator. To ensure a smooth transition for the second generation to firmly establish their leadership position, the first-generation entrepreneurs may turn to support and facilitate the second generation's decisions to increase financialisaton. Thus, the following hypothesis is proposed:

H4: The negative relationship between family firm succession and financialisaton is much stronger in firms solely managed by the first generation compared to those where the second generation assumes key positions such as chairman or CEO.

Methods

Sample and data

The data were obtained from the China Stock Market and Accounting Research (CSMAR), which includes a sample of all private sector firms publicly traded in China's A-share markets from 2007 to 2018. As the existing literature lacks consensus on the definition of a family business, this study adopts two commonly used dimensions, namely ownership and management, to identify a family firm. A family firm is characterized by significant managerial and financial control exercised by family members, which influences the firm's strategic direction (Miller et al., 2007, Peng and Jiang, 2010, Westhead and Howorth, 2006). Consequently, a firm is classified as a family firm when two conditions are met: a) the ultimate actual controller is a family member or members of the family, and b) there are at least two family members holding shares or serving on the board of directors.

The study excludes the following cases: a) firms operating in the banking, insurance, and other financial industries; b) firms with financial irregularities or experiencing financial distress (referred to as ST or ST* firms); c) firms with incomplete financial information required for analysis; and d) insolvent firms. The final sample contains 7023 firm-year observations.

Regression models

Considering that the dependent variables in this study are left-truncated, the regression analysis employs Tobit models. To test H1 that Family business succession is negatively related to the level of financialisaton., the following model is used:

(1)

Where *Fin* represents the level of financialisaton of firm *i* in year *t*. We use the proportion of financial assets to total assets to measure the level of financialisaton. Specifically, financial assets include transactional financial assets, derivative financial assets, net loans issued and advances, net financial assets available for sale, net held-to-maturity investments and investment real estate. Succession is a dummy variable assigned 1 if there is at least one second-generation member on the board of directors, otherwise 0. To identify whether there is any heir entering the board, we manually collect and cross-check information on second-generation family member(s) from IPO prospectuses, annual reports, and information online searched by Baidu and Google.

To test hypothesis H2 that clan culture strengthens the negative relationship between family firm succession and financialisaton, we use an alternative model specification with interaction terms as in Eqs. (2):

(2)

Clan in Eq.(2) represents clan culture. Referring to Greif and Tabellini (2017), we manually collect the genealogical data of each province from the Ming Dynasty to 1990 and used the number of genealogical volumes owned by every million people in 1990 to measure the extent of clan culture in the province where the actual controller of the family firm is born. The reason for using the 1990 figure as the denominator is to rule out the effect of the mass migration of people started in 1992. Clan is a dummy variable, taking 1 if the actual controller is born in the province where genealogical volume density is higher than the national median level, otherwise 0.

When testing H3, we use another model with an interaction term as in Eqs (3):

(3)

Ulticon in Eq.(3) represents the concentration of ultimate control. Ulticon is a dummy variable that takes 1 if the actual controller's ultimate control is larger than the sample median, otherwise 0.

When testing H4, we divide succession family firms with second-generation involvement into two categories. One is the succession family firms that are mainly run by the first generation. Family firms with this kind of succession meet the following two conditions: (1) the first generation holds the core position of chairman or CEO and (2) the second generation does not hold the core position. Under this circumstance, FirManage takes 1, otherwise 0. The other is the succession family firms that do not meet the two conditions at the same time. Under this circumstance, SeManage takes 1, otherwise 0.

We put the dummy variables FirManage and SeManage into the model to obtain Eqs. (4).

(4)

denotes the control variables including financial leverage (Lev), growth (Grow), firm size (Size), ownership concentration (Top1), shareholding ratio of the executive (Msh), board size (Board), board independence (Indep), CEO duality (Dual), shareholding ratio of institutional investors (Ins), financial return rate (Froi), earning capacity (Magin), chairman's age (Age), education degree (Degree), gender (Gender), broad money issuance growth rate (M2) and GDP growth rate (GDP). In addition, we control for industry, year, and province fixed effects in the four models respectively. Table 1 provides a detailed description of the variables used in the study.

[Table 1 here]

Results

Descriptive statistics

Summary statistics of the variables are reported in Table 2. We winsorize all continuous variables at 1% in both tails to reduce extreme values. 35.4% of the 7023 firm-year observations have second-generation members as directors and are identified as succession family firms. The average financialisaton level of the sample is 2.513%, while the median is 0.296%.

[Table 2 here]

Baseline results

Table 3 reports the regression results for the hypothesis testing. Model (1) shows that Succession has a negative effect on Fin, which is statistically significant at the 1% level (coefficient=-0.593). H1 passes the test. Model (2) shows that the coefficient of the interaction term Clan_Succession is statistically significant and negative (coefficient=-2.589), suggesting that clan culture strengthens the negative relationship between family firm succession and financialisaton. Clan culture negatively moderates the negative relationship between family firm succession and financialisaton level. Model (3) shows that the coefficient of the interaction term Ulticon _Succession is statistically significant and negative (coefficient=-0.984), meaning that the concentration of ultimate control also strengthens the negative relationship between family firm succession and financialisaton. The concentration of ultimate control negatively moderates the negative relationship between family firm succession and financialisaton level. H2 and H3 pass the tests. Model (4) shows that the coefficient of FirManage is statistically negative at the 1% level while the coefficient of SeManage is not significant. This result suggests that when second-generation successors hold the core positions (Chairman or CEO), the negative relationship between succession and financialisaton is weakened. In other words, second-generation assuming the key roles positively moderates the main effect, thus H4 is supported.

[Table 3 here]

Robust tests

IV Method. We use the average second-generation involvement at the city level as our instrumental variable, in line with previous research (Fisman and Svensson, 2007). The instrumental variable, CitySuccession, successfully passes the weak instrumental variable test with an F-value exceeding 10. The regression results are shown in Table 4. The first-stage regression demonstrates a significant positive correlation between CitySuccession and Succession, while the second-stage regression continues to reveal that intergenerational Succession significantly reduces the level of financialisaton

[Table 4 here]

PSM Method. Because succession family firms and non-succession family firms differ in various aspects such as growth, firm size, and ownership concentration, we employ the PSM method to address this issue. In this approach, we designate succession family firms as the treatment group and non-succession family firms as the control group. The regression results after nearest neighbour matching (1:2) are presented in Table 5, and our conclusion remains robust

[Table 5 here]

Substitution Variables. We replace the explained variable and redefine financial derivatives, short-term investments, trading financial assets, interest receivable, buy-back financial assets, financial assets available for sale, hold-to-maturity investment, and long-term receivables as financial assets. Table 6 shows the re-regression results and our conclusions remain robust.

[Table 6 here]

Subsample Test. To mitigate the influence of the 2008 financial crisis, we have excluded the samples from 2008 and 2009, which were significantly affected by the crisis. The re-regression results are presented in Table 7, and our previous conclusions remain robust.

[Table 7 here]

Discussion

Succession is one of the most critical events in a family firm. It can either improve or impede the firm's performance (Gabriel and Bitsch, 2018, Molly et al., 2010). Family businesses often prioritize long-term sustainability, non-economic goals, and the preservation of family values and reputation, known as socioemotional wealth (Achtenhagen et al., 2022, Hammond et al., 2016). Intergenerational succession is a crucial step in ensuring the business's continuity and success across generations (Fendri and Nguyen, 2019, Porfírio et al., 2020). As leadership and control transition from the first generation to the second generation, it becomes vital to maintain the family's long-term orientation and commitment to non-financial objectives (Berrone et al., 2012). In addition to the potential negative consequences of pursuing short-term gains followed by long-term challenges, financialisaton can result in a dilution of family control and a loss of their influence. The family's commitment to their values and legacy serves as a deterrent against embracing financialisaton practices. Previous studies indicate that financialisaton is often driven by short-sightedness and speculation. However, researchers have rarely examined whether family succession can mitigate the level of financialisaton.

This study contributes new insights by demonstrating that intergenerational succession plays a significant role in curbing a firm's financialisaton level. This study is significant because, despite several studies suggesting that succession influences family firms' financing decisions (Bjuggren and Sund, 2005, De Massis et al., 2008), the existing literature offers limited insights into family firms' financialisaton. The study provides additional insights into the boundary conditions of family firms' succession in limiting the level of financialisaton. It suggests that factors such as clan culture, concentration of control, and whether one generation dominates management play a significant role in influencing the relationship between intergenerational succession and financialisaton.

The study advances our understanding of family firm succession by showing the influence of China's unique clan culture on family firm behaviours. Clan culture reflects the collectivistic nature of the Chinese context and shapes social control, which is based on shared values, beliefs, and goals (Chuang et al., 2012). It provides an effective mechanism for running a company in a volatile business environment (Cheng et al., 2021, Chuang et al., 2012, Greif and Tabellini, 2017, Huang et al., 2022b). The influence of clan culture on family firm behaviours adds an important dimension to our understanding of family firm succession. It suggests that the cultural values and norms embedded within the clan culture shape the priorities and decision-making processes of family firms (Bennedsen et al., 2015, Ibáñez et al., 2022, Rondi et al., 2019). The emphasis on long-term orientation, non-economic goals, and the commitment to preserving family values and reputation is reinforced by clan culture.

Moreover, the study suggests the negative relationship between family firm succession and financialisaton is stronger when there is a higher level of concentration of ultimate control by the controlling family member. This finding aligns with the study's argument that a greater concentration of ultimate control enables family member executives to adopt a long-term perspective (Goel *et al.*, 2011, Lu *et al.*, 2021). When the controlling family member has a higher level of ultimate control, they wield greater influence and decision-making power within the firm. This concentrated control allows them to prioritize long-term goals and considerations, including the preservation of family values, reputation, and socioemotional wealth (Deephouse and Jaskiewicz, 2013, Kurland and McCaffrey, 2020). With a longer-term perspective, family member executives are more likely to resist the short-term pressures and profit-seeking behaviours associated with financialisaton (Kellermanns and Eddleston, 2004).

The study also shows that the negative relationship between family firm succession and financialisaton is significantly stronger for firms mainly run by the first generation than those by the second generation, indicating second-generation successors tend to involve more in financialisaton compared to their parent generation and are likely to take higher risks (Yang et al., 2022). This finding contrasts with previous research that indicated successors might be risk-averse and hesitant to increase debt (Kaye and Hamilton, 2004), but is consistent with other studies that suggest successors may be keen on financing the growth (Bjuggren and Sund, 2005). The tendency for second-generation successors to be more involved in financialisaton and take higher risks may stem from various factors. As the second generation assumes leadership positions, they may have a greater desire to make their mark on the business and prove themselves. They may also be influenced by external factors such as market trends and expectations, which could drive them to seek financial opportunities and take on more risk to achieve growth and success. Furthermore, the second generation may have different perspectives and attitudes toward financialisaton compared to the first generation (Yang et al., 2022). They may have greater exposure to modern financial practices and a higher comfort level with financial instruments and strategies (Hernandez-Perlines et al., 2021). This could make them more receptive to financialisaton and more willing to utilize debt and external financing to fuel growth.

Conclusion

This study provides important insights into the relationship between family firm succession and financialisaton. While financialisaton can offer certain benefits, it can also carry significant drawbacks, including a focus on short-term gains, increased risk, and the potential erosion of family control and influence over the business. Our evidence shows that family firm succession inhibits financialisaton. Factors such as clan culture, control concentration, and generational dominance moderates this effect. China's unique clan culture strongly influences family firm behaviour, reinforcing non-economic goals and a long-term orientation. A higher concentration of control by a family member strengthens the negative link between succession and financialisaton, promoting long-term goals and discouraging short-term profit-seeking. Second-generation leaders tend to engage more in financialisaton and embrace higher risks, challenging prior beliefs about successor behaviour.

Implications for practice

The study's findings provide several practical implications that highlight the importance of succession planning, careful consideration of financialisaton practices, preservation of the firm's unique characteristics, and balance between financial considerations and non-financial goals. First, the finding that family firm succession is negatively related to the level of financialisaton suggests that it is important for family businesses to be aware of the potential risks and challenges associated with financialisaton and carefully evaluate the trade-offs between financial gains and the preservation of socioemotional wealth. Family businesses should avoid over-financialisaton, and prioritize and carefully manage the succession process to maintain their long-term orientation and commitment to non-financial objectives. By resisting the temptation of short-term gains from financialisaton, family firms can devote efforts to ensure a smooth transition of leadership and control and preserve their unique tradition and values that contribute to their sustainable competitive advantage (Gagné et al., 2021, Schulze and Gedajlovic, 2010).

Second, the finding that clan culture strengthens the negative relationship between family firm succession and financialisaton indicates that family businesses should leverage the unique advantages of clan culture to shape decision-making processes and reduce opportunistic behaviour, such as financialisaton. Understanding the influence of clan culture can guide succession planning and management, facilitating smoother transitions and ensuring the continuity of family values and commitment to non-financial goals. By leveraging clan culture, family firms can align their strategies with long-term sustainability and non-economic objectives.

Third, the finding that the concentration of ultimate control strengthens the negative relationship between family firm succession and financialisaton suggests that family businesses should maintain a higher level of control within the family to preserve family influence and long-term orientation and inhibit over-financialisaton. Nevertheless, family businesses should strike a balance between family control and external expertise, leveraging external knowledge while safeguarding their long-term orientation.

Finally, the study reveals the role of generational dynamics in the relationship between succession and financialisaton. The findings suggest that it is important to assess the readiness of the second generation and their alignment with family values and long-term orientation is essential. Family businesses should leverage the strengths and perspectives of both generations, involving the second generation in decision-making to strike a balance between tradition and innovation.

Limitations and future research

This study has two primary limitations. First, it did not directly measure the long-term orientation of family firms, making it impossible to quantify the extent to which long-term orientation influences the financialisaton of family firms. Future research could address this by utilizing questionnaires to gauge the psychological state of controlling family members and collect quantitative data on their "long-term orientation" or "short-sightedness." This could help establish a relationship between long-term orientation and the level of financialisaton in family businesses. Second, the study did not empirically test the impact of financialisaton levels on the performance of a firm's core business or the long-term performance of family firms. Future research should extend the study's time span and investigate the effects of financialisaton levels on the long-term development of family firms using specific case studies. While most existing studies argue that financialisaton is detrimental to long-term development, it is important to consider whether the unique characteristics of family firms, such as closer stakeholder relationships, fewer agency problems, and other intangible assets, make them more self-correcting and resilient. Furthermore, researchers can investigate how family firm financialisaton interacts with family holdings' control, especially concerning cash reduction and related issues. Lastly, future research could examine the impact of external institutional environments, the family firm life cycle, and second-generation personal traits on family firm financialisaton.

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Table1. Variable definitions

Variables	Symbols	Definitions
Dependent variables	Fin(%)	Fin=Financial assets / total assets×100%
	FirManage	A dummy variable assigned 1 if the succession family firms that are mainly run by the first generation, otherwise 0.
	SeManage	A dummy variable assigned 1 if the succession family firms are not mainly run by the first generation, otherwise 0.
Explanatory variables	Succession	A dummy variable assigned 1 if there is at least one family second-generation member is in the board of directors, otherwise 0
	Clan	A dummy variable which takes 1 if the actual controller is born in the province where genealogical volumes density is higher than the national median level, otherwise 0.
	Ulticon	A dummy variable which takes 1 if the actual controller's ultimate control is larger than the sample median, otherwise 0.
	Lev	Ratio of liabilities to assets
	Grow	Growth rate of the operating income
	Size	Natural log of total assets
	Top1	Share proportion of the largest shareholder
	Msh	Shareholding ratio of executive
	Board	Number of the board members
	Indep	Ratio of independent directors to all directors
	Dual	A dummy variable assigned 1 if the CEO is also chairman, otherwise 0.
	Msh	Shareholding ratio of institutional investors
	Froi	Financial return rate
	Magin	Gross profit rate
	Age	Natural log of the chairman's age
	Degree	Chairman's education; Chairman's gender; below college degree equal to 1; College degree equal to 2; Bachelor degree equal to 3; Master degree is 4; PhD equal to 5.
	Gender	Chairman's gender: equal to 1 for male, otherwise 0
	M2	Broad money issuance growth rate
	GDP	GDP growth rate

Source: Authors' own creation/work

Table 2. Descriptive statistics

variable	N	mean	sd	min	p50	max
Fin（%）	7023	2.513	5.168	0	0.296	29.06
Succession	7023	0.354	0.478	0	0	1
FirManage	7023	0.168	0.374	0	0	1
SeManage	7023	0.186	0.389	0	0	1
Lev	7023	0.375	0.189	0.0470	0.363	0.820
Growth	7023	0.218	0.347	-0.635	0.164	1.374
Size	7023	21.70	0.973	19.79	21.62	24.46
Top1	7023	34.50	13.16	10.48	33.07	70.29
Msh	7023	0.168	0.199	0	0.0660	0.686
Board	7023	8.203	1.462	3	9	17
Indep	7023	0.377	0.0520	0.333	0.357	0.571
Dual	7023	0.368	0.482	0	0	1
Ins	7023	0.307	0.225	0	0.273	0.822
Froi	7023	-0.170	1.437	-11.90	0	2.826
Magin	7023	0.301	0.167	0.0280	0.268	0.826
Age	7023	3.985	0.149	3.258	4.007	4.454
Degree	7023	3.128	0.959	1	3	5
Gender	7023	1.068	0.252	1	1	2

Source: Authors' own creation/work

Table 3. Generational succession and financialization level: Baseline Findings

	(1)	(2)	(3)	(4)
	Fin	Fin	Fin	Fin
Succession	-0.593***	-0.599***	-0.622***	
	(0.18)	(0.18)	(0.18)	
Clan_Succession		-2.589***		
		(0.52)		
Clan		-1.072***		
		(0.32)		
Ulticon_Succession			-0.984***	
			(0.34)	
Ulticon			-0.902***	
			(0.21)	
FirManage				-0.980***
				(0.23)
SeManage				-0.234
				(0.23)
Lev	-0.765	-0.875	-0.877	-0.708
	(0.55)	(0.55)	(0.55)	(0.55)
Growth	-2.344***	-2.351***	-2.317***	-2.329***
	(0.25)	(0.25)	(0.25)	(0.25)
Size	0.793***	0.814***	0.781***	0.788***
	(0.11)	(0.11)	(0.11)	(0.11)
Top1	-0.018***	-0.018***	0.000	-0.017**
	(0.01)	(0.01)	(0.01)	(0.01)
Msh	-3.322***	-3.328***	-2.929***	-3.290***
	(0.53)	(0.53)	(0.53)	(0.52)
Board	0.052	0.069	0.030	0.055
	(0.07)	(0.07)	(0.07)	(0.07)
Indep	0.922	0.948	0.714	0.742
	(2.01)	(2.00)	(2.01)	(2.01)
Dual	-0.294*	-0.327*	-0.306*	-0.251
	(0.18)	(0.18)	(0.18)	(0.18)
Ins	-0.743*	-0.732*	-0.509	-0.749*
	(0.43)	(0.43)	(0.43)	(0.43)
Froi	-0.030	-0.033	-0.031	-0.028
	(0.05)	(0.05)	(0.05)	(0.05)
Magin	1.961***	1.863***	1.981***	2.033***
	(0.64)	(0.64)	(0.64)	(0.64)
Age	-2.130***	-2.173***	-2.126***	-1.759***
	(0.57)	(0.56)	(0.56)	(0.58)
Degree	0.026	0.014	0.001	0.027
	(0.09)	(0.09)	(0.09)	(0.09)
Gender	0.283	0.236	0.335	0.262
	(0.33)	(0.33)	(0.33)	(0.33)
GDP	-60.890	-62.622	-56.520	-60.274
	(42.55)	(42.41)	(42.47)	(42.53)
M2	19.90	21.037	15.954	19.994
	（33.26)	(33.15)	(33.19)	(33.24)

Year,Industry and Province	Control	Control	Control	Control
Cons	-9.563***	-8.757**	-4.457	-11.028***
	(3.58)	(3.59)	(3.66)	(3.62)
N	7023	7023	7023	7023
p-R^2	0.048	0.049	0.048	0.048
chi2	1644.50***	1679.02***	1671.86***	1651.20***

Source: Authors' own creation/work

Table 4. Generational succession and financialization level: IV method

	(1)	(2)
	Succession	Fin
CitySuccession	0.964***	
	（0.02）	
Succession		-1.109***
		(0.26)
CVs	Control	Control
Year,Industry and Province	Control	Control
Cons	-0.516**	-9.800***
	（0.20）	(2.86)
N	7023	7023
a-R^2/p-R^2	0.299	0.1452
Chi^2		1637.64***

Source: Authors' own creation/work

Table 5. Generational succession and financialization level: Matched sample

	(1)	(2)	(3)	(4)
	Fin	Fin	Fin	Fin
Succession	-0.595***	-0.563***	-0.621***	
	(0.18)	(0.18)	(0.18)	
Clan_Succession		-3.148***		
		（0.60）		
Clan		-0.389		
		（0.41）		
Ulticon_Succession			-0.811**	
			(0.37)	
Ulticon			-0.753***	
			(0.25)	
FirManage				-0.925**
				(0.24)
SeManage				-0.296
				(0.23)
CVs	Control	Control	Control	Control
Year,Industry and Province	Control	Control	Control	Control
Cons	-2.778	-2.901	1.326	-4.264
	(3.99)	(3.99)	(4.05)	(4.04)
N	4799	4799	4799	4799
p-R^2	0.0442	0.0456	0.0449	0.0444
Chi^2	1047.66***	1081.67***	1066.02***	1052.73***

Source: Authors' own creation/work

Table 6. Generational succession and financialization level: Replace the explained variable

	(1)	(2)	(3)	(4)
	Fin2	Fin2	Fin2	Fin2
Succession	-0.457***	-0.450***	-0.470***	
	(0.16)	(0.16)	(0.16)	
Clan_Succession		-1.833***		
		（0.48）		
Clan		-0.538*		
		（0.29）		
Ulticon_Succession			-0.580*	
			(0.31)	
Ulticon			-0.915***	
			(0.19)	
FirManage				-0.611***
				（0.21）
SeManage				-0.0312
				（0.20）
CVs	Control	Control	Control	Control
Year,Industry and Province	Control	Control	Control	Control
Cons	-22.194***	-21.941***	-16.203***	-22.771
	(3.25)	(3.27)	(3.32)	(3.29)
N	7023	7023	7023	7023
p-R^2	0.0408	0.0413	0.0416	0.0409
Chi^2	1430.45***	1448.03***	1458.28***	1431.79***

Source: Authors' own creation/work

Table 7. Generational succession and financialization level: Subsample Test

	(1)	(2)	(3)	(4)
	Fin	Fin	Fin	Fin
Succession	-0.565***	-0.572***	-0.595***	
	(0.18)	(0.18)	(0.18)	
Clan_Succession		-2.444***		
		(0.53)		
Clan		-1.214***		
		(0.32)		
Ulticon_Succession			-1.021***	
			(0.35)	
Ulticon			-0.786***	
			(0.21)	
FirManage				-0.906***
				(0.24)
SeManage				-0.248
				(0.23)
CVs	Control	Control	Control	Control
Year,Industry and Province	Control	Control	Control	Control
Cons	-8.307**	-7.322**	-2.835	-9.680***
	(3.65)	(3.65)	(3.73)	(3.70)
N	6581	6581	6581	6581
p-R^2	0.0481	0.0491	0.0488	0.0482
Chi^2	1568.06***	1601.51***	1590.85***	1573.11***

Source: Authors' own creation/work