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**The Family Business Map:
Framework, Selective Survey, and Evidence from Chinese Family Firm
Succession¹**

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Abstract

This paper analyzes the causes and consequences of founding family engagement in firm ownership and management. We hypothesize that families manage their firms because they are able to make contributions that non-family managers cannot provide. However, roadblocks arising from within the family, from markets, and from surrounding institutions challenge family ownership. We propose a new framework for organizing these assets and roadblocks, called the family business map; this framework is useful for categorizing the papers presented in this Special Issue. We support the predictions of the framework with evidence from Chinese family firm succession, and conclude that family firm organization is an adaptation to environmental opportunities and constraints. We end the paper with suggestions for future research.

JEL Classifications: D23; L20; M13

Key Words: Family firms; Family assets; Roadblocks; Succession

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1 Introduction

Since Jensen and Meckling's (1976) seminal work on the separation of ownership and control of the firm, finance research has focused on companies owned by numerous anonymous shareholders but managed by a small group of unrelated professionals who own few shares in the companies. This focus is not surprising, as diffusely held corporations raise most of the capital in the U.S. equity markets and are a symbol of capitalism and modern finance. However, in reality, diffusely held and non-owner managed organizations are far from the norm.² Globally, many if not most businesses have concentrated ownership by founders or founding family members, and often the family owners are also the senior managers.³ Even in the U.S., many large publicly traded companies are controlled, if not majority owned, by founding families: Du Pont, Ford Motors, New York Times, and Wal-Mart, to name just a few.⁴

Notwithstanding the prevalence of family firms, theories and empirical evidence on the causes and effects of this organizational form are only beginning to emerge.⁵ The family firm organization has been modeled as a second-best solution in weak institutional environments (Bhattacharya and Ravikumar, 2002; Burkart et al., 2003). However, specific institutional constraints that increase or decrease the benefits of family ownership and management remain to be discovered.

Instead of studying the causes of family firm organization, finance research

² In fact, Jensen and Meckling (1976) begin with an owner-managed firm, and analyze what governance problems can arise when the owner delegates decision rights to a hired manager. What they do not say, but imply in their analyses, is that when the cost of mitigating the conflicts is larger than the benefit of the decision right delegation, the firm may remain owner-managed.

³ The statement applies not only to closely held but also to many publicly traded firms in global stock markets that float either only a minority fraction shares or carve out majority shares that are effectively controlled by founding families. For example, 45 percent of publicly listed international firms are family owned (La Porta et al., 1999). Masulis et al. (2011) report that 19% of almost 28,000 public listed firms around the world belong to family-controlled business groups; this figure rises to over 40 percent in some emerging markets.

⁴ In the U. S., almost one third of S&P 500 firms and 37 percent of the Fortune 500 are family firms (Anderson et al., 2003; Villalonga and Amit, 2006). Family firms comprise about 46 percent of the S& P's 1500 index firms (Chen et al., 2008).

⁵ Bennedsen et al. (2010) provide a survey of the economic- and finance-based family firm literature.

has focused on its performance effects.⁶ Most of the studies use samples of large publicly traded U.S. firms whose ownership and management structures and institutional backgrounds are different from the rest of the world. The lack of theories and representative data makes it hard to interpret performance outcomes.

There are relatively more management studies of family firms. These studies collectively point out important cultural, psychological, and social factors that are typically ignored by finance researchers.⁷

Clearly, there is room for both theoretical and empirical research on this topic, which is the reason for publishing this Special Issue. In this introductory paper, we propose a conceptual framework for organizing strategic opportunities and key constraints that shape the management and ownership of a family firm. We call this framework the family business map. Strategic opportunities are closely related to the specialized intangible inputs delivered by the founding family, which we call family assets. Constraints can arise from within the family, from markets in which the family firm operates, or from the surrounding institutional environment. We focus on how changes in family assets and roadblocks can decisively predict whether a firm continues to be owned and/or managed by its founding family.

We use the framework to organize the papers included in this issue and to highlight their contributions to our understanding of family firms. Each of the papers provides an individual contribution to increasing our understanding of why family firms are different, and together they provide an interesting study of how family assets

⁶ See, for example, Anderson and Reeb (2003), Maury (2006), Pérez-González (2006), Andres (2008), and Miller et al. (2007). Finance research is unable to determine whether family ownership of firms *per se* is superior or inferior. However, several studies find that family management matters: a firm's performance is superior when the firm is run by a founder CEO or an outside (hired) CEO, but worse if it is run by a descendant (Smith and Amoako-Adu, 1999; Morck et al., 2000; Anderson and Reeb, 2003; Pérez-González, 2006; Villalonga and Amit, 2006; Bennedsen et al., 2014c).

⁷ See Gomez-Mejia et al. (2011) and Gedajlovic et al. (2012) for surveys of the management literature. In a rare finance study, Mehrotra et al. (2013) report that the adoption culture of Japanese families releases the human capital constraint of family firms that are typical in other cultures.

and roadblocks affect the organization and performance of family firms. The eight papers can be classified into two groups. The first group of five papers analyzes how the strategic use of family assets such as trust, religious and personal values, political connections, and reputation creates value in family firms. The second set of three papers analyzes the corporate consequences of specific roadblocks arising from the family and the legal environment.

As an exploratory test of our framework, we collect and analyze data from almost 217 Chinese firm successions and find that these firms' ownership and management choices indeed correlate with variables proxies for family assets and roadblock constraints. We also find that firm stock return performance in the succession process is related to institutional factors, not firm ownership or management choice *per se*. These findings are consistent with the view that the family ownership-management model is a rational adaptation to constraints in firms' environments.

The remainder of this paper is organized as follows. Section 2 discusses basic theories and proposes the family business map as our conceptual framework. Section 3 summarizes the papers included in this issue and their positions within the framework. Section 4 examines the choice between family and non-family succession and the value effects of these choices in the context of Chinese family firms. Section 5 discusses future research directions, and Section 6 presents our conclusions.

2. The family business map

2.1. Family firm defined

When starting a business, an entrepreneur is often the business's sole owner and manager. Over time, he may transfer part of the ownership and/or decision rights to more people—sometimes family members, sometimes not. The evolution of ownership and control (management) results in four possible types of firms (Figure 1). In the first type of firms, closely held family firms, majority owners and managers are all family members. The second type of firms, delegated family firms, are majority owned by family members, but firm decision rights are delegated to non-family

professionals. In the third type of firms, family-driven, diffusely held companies, ownership is diffusely held by the public; family members own minority stakes, but they continue to manage the firms. The fourth type of firms are professionally managed, diffusely held public companies whose founding families have exited the businesses they have created. Based on this classification scheme, Bennedsen et al. (2014b) report that all four types of firms exist among the firms publicly traded on the Tokyo Stock Exchange in Japan; even the family-driven but diffusely held group constitutes around 20 percent of public traded Japanese firms.

All of the first three classes of firms are often considered family firms, but not without confusion.⁸ A more restrictive definition of family firm is one in which the founder passes his ownership and control to family members—a family succession.⁹

[Figure 1]

2.2. Firm ownership rights partitions

The property rights and transaction costs theory is the basis of our analysis of the causes and effects of family ownership and management of firms. Our first question is why and when should a family own most of the shares of a company on a long-term basis, even across generations. Our second question is why and when should founding family members rather than non-family professionals manage a company in the long run.

2.2.1. Family ownership

We begin with the general question of whether firm ownership should be concentrated in the founder, or be distributed to stakeholders. Concentrated ownership enables the controlling owner to effectively control the firm and to be held responsible for his decisions (Alchian, 1965; Jensen and Meckling, 1976). However, diffused ownership has benefits too. Selling ownership shares to investors facilitates

⁸ For example, Microsoft is founded and owned by Bill Gates and his charitable foundation. Few would call it a family firm. The Toyoda family owns less than 3 percent of Toyota Motors. Based on the low family ownership, few would call Toyota a family firm; yet Toyota's CEO Akio Toyoda is a third generation founding family member.

⁹ See Bennedsen et al. (2010) for further discussion of the definition of family firms.

financing and firm growth (Demsetz, 1967). Transferring firm ownership to key stakeholders such as family members, managers, employees, suppliers, and customers creates incentives and helps to align these parties' interests (Alchian and Demsetz, 1972; Jensen and Meckling, 1976; Klein et al., 1978; Williamson, 1979; Grossman and Hart, 1986).

To what extent firm ownership is concentrated in the founder or diffused among stakeholders depends on the tradeoff between control and alignment of interests. At the founding stage, a firm is small and the number of stakeholders is limited. Optimal ownership of the firm tends to be highly concentrated, as the control benefits outweigh those of financing and interest alignment. As the firm develops over time, the demand for growth dictates more stakeholder engagement. Thus, the founder will transfer ownership shares to key stakeholders for financing and interest alignment purposes.

Sharing ownership among the founding family members is a specific kind of ownership diffusion. In addition to aligning interests, distributing firm ownership to family members could be for reasons such as inheritance; furthermore, the pattern of controlling ownership diffusion can be affected by factors such as the evolution of family structure, inheritance laws, and inheritance taxes (Bertrand et al., 2008; Ellul et al., 2010; Tsoutsoura, 2014).

In summary, the speed of the diffusion of controlling ownership, to either family or other stakeholders, depends on a host of family, market, and institutional factors including family complexity, external financing need, inheritance culture, laws and taxes, property rights protections, and so on. We call these factors “roadblocks” and note that in general they originate from family structures and changes, market developments, or institutional environment. Roadblocks tend to diffuse firm ownership from the founder to stakeholders.

2.2.2. Family management

In principle, firm decision rights should be given to the person who maximizes the productivity of firm assets (Grossman and Hart, 1986; Jensen and Meckling, 1992). If family members can provide contributions to firm value beyond what

non-family managers can contribute, then a firm is best managed by founding family members. The family's unique contributions could be talents and skills, or more profoundly specialized abilities that allow them to lower transaction costs with various stakeholders such as employees, suppliers, customers, lenders, investors, governments, regulators, and other family members. The sources of such specialized contracting abilities are usually intangible: beliefs, values, customs, and norms that form the basis of trust and make contracts self-enforceable (Demsetz, 1964; Alchian, 1965; Klein and Leffler, 1981; Fukuyama, 1995; Bach and Serrano-Velarde, 2014, this issue; Bennedsen et al., 2014a; Stacchini and Degasperri, 2014, this issue). Founding family members have specialized abilities to preserve and share these intangibles because of life-long interactions and family governance mechanisms that are not available to non-family members.¹⁰ In this paper, we call these specialized intangibles family assets. The more family members are able to preserve these family assets and use them to make the firms more competitive, the more likely it is that family members will be the most suitable managers of the firms, and vice versa.

2.3. The family ownership-management determination framework

From the above analysis, we formulate the family business map (Figure 1) as a way to understand the evolution of ownership and management structures of firms, focusing on the roles of founding families. The more a founding family is able to preserve family assets and overcome roadblocks, the more likely it is that the family will own and manage the firm on a long-term basis—creating a closely held family firm. In contrast, if a family is unable to share family assets and bypass roadblocks, the family will likely exit both the ownership and management of the firm, and the firm becomes a diffusely owned, professionally managed company. Third, if a family is able to bypass roadblock challenges yet is unable to transfer family assets, then the family will maintain ownership of the firm while delegating firm decision rights to

¹⁰ Family governance refers to mechanisms through which family members share values and expectations, harmonize relationships, and make decisions. These mechanisms could be informal such as parents showing children by example, or formal such as family constitutions.

external managers—creating a delegated family firm. Finally, if a family is able to continuously provide unique contributions to the firm, but faces serious roadblocks, then the family may exit the ownership yet continue to manage the firm—creating a family-driven, diffusely held company.

Our framework is a simple way of organizing the institutional factors that shape the evolution of firm ownership and management, in particular, how firm ownership and decision rights are concentrated in or diffused away from firm founders and families.

However, the framework is basic and does not address complexity. So far we have assumed that family assets and roadblocks are exogenous. Yet they may not be independent of each other. For example, although we have argued that family assets such as trust and relationships induce family management, we acknowledge that family shareholdings is an important means of incentivizing and bonding family members. Moreover, in countries with weak property rights protection, firms tend to depend on relationship networks (abundant family assets) when facing large institutional roadblocks. In such cases, both family assets and roadblocks are affected by common factors that may not be clearly delineated by our framework. Furthermore, firm owners may design and execute mechanisms to alter their family assets and/or roadblock constraints. For example, a founder wishing to have a family succession may improve family governance by introducing mechanisms to harmonize family members and by cultivating family successors, thereby increasing the family assets that the family can preserve. Thus, we acknowledge the limitations of our framework but leave the implications for future research.

3. Evidence of family assets and roadblocks from this Issue.

Each of the papers in this special issue provides new insights into the black box of why family firms are different from non-family firms. Together they support the framework that we propose in Section 2: family firms can strategically use family assets to create firm value beyond what non-family firms can, and they design governance strategies to mitigate the firm-level costs of family, market, and

institutional roadblocks.

The first example of family assets is presented in the paper “CEO Identity and Labor Contracts: Evidence from Transition” by Bach and Serrano-Velarde (2014, this issue). The underlying premise of their analysis is that a firm’s ability to shape contracts with its employees is partly determined by the firms’ ownership and management structure. Family links between departing and arriving CEOs, as occurs in family succession in closely held firms, facilitates the sustainability of the labor contracts. The authors show that dynastically promoted CEOs relative to external CEOs are associated with up to 25 percent less job separations and a 20 percent lower wage growth. They also show that this greater insurance ability of family-managed firms is more significant in labor markets that are more frictional. This is consistent with the notion that family succession transfers strategic family assets such as family values that are important inputs for sustaining a trusting relationship between a firm and its employees.

Our framework suggests that family succession at the managerial level occurs when there are strong family assets that are transferable to the next generation. This is investigated in the paper “Founders’ Political Connections, Second Generation Involvement, and Family Firm Performance: Evidence from China” by Xu et al. (2014, this issue). The authors focus on one of the most important assets in Chinese family firms, founders’ political connections, and investigate if they effect the second generation involvement in family firms. They find that when founders have strong political connections their second generation family members are more frequently involved in the businesses. Furthermore, the authors provide evidence that the involvement of the second generation enhances performance, supporting the notion that family succession is valuable when family assets are strong.

In Section 2, we note that strong values can be powerful family assets in firms around the world. Value-based decision making is the focus of the paper “Family Firm Risk-taking: Does Religion Matter?” by Jiang et al. (2014, this issue). Using a novel dataset they are able to identify the religious beliefs of each of the founders in a sample of 4,159 Chinese firms in the private sector. They find that religious

entrepreneurs on average are less risk taking and invest less in fixed and intangible assets than firms founded by non-religious entrepreneurs. Interestingly, they also document that it matters which religion a founder belongs to. The reduced risk taking and investment behavior are characteristics of religious founders who belong to Western religions and not Eastern religions.

Values, connections, and reputation are family assets that create trust in family firms. Trust is useful in contractual relationships between firms and their banks and financial institutions. This is the topic of the paper “Family Firms, Soft Information, and Bank Lending in a Financial Crisis” by D’Aurizio et al. (2014, this issue). They study how access to bank lending diverged between family and non-family firms in the 2007-2009 financial crisis. The authors predict that the incentive structure of family blockholders results in lower agency conflict in the borrower-lender relationship and they investigate this using a detailed dataset of bank lending in Italy during the financial crisis. They find statistically and economically significant evidence that the contraction in credit was smaller for family firms than for non-family firms. Furthermore, they show that the difference in the amount of credit granted to family and non-family firms is related to the increased role for soft information in Italian banks’ operations following Lehman Brothers’ failure. In addition, they provide support for the explanation that this differential effect is supply driven, i.e., it is banks that are willing to lend out relatively more to family firms.

Trust as a family asset that provides access to cheaper finance is also the theme of the paper “Trust, Family Business, and Financial Intermediation” by Stacchini and Degasperi (2014, this issue). They investigate the extent to which interpersonal trust affects the agency costs of debt in family firms; they use the regional variation in trust measures in Italy to identify how variation in trust affects lending behavior. Supporting the conclusions in the paper by D’Aurizio et al. (2014, this issue), they find that banks apply a discount in terms of loan rates to family firms. Interestingly, they also show that this discount is larger in regions that are high in trust according to survey measures of trust across Italy. They rule out the alternative explanation that the discount is due to corruption or bilateral exchange of favors, as they find that the

lower rates applied are consistent with the better performance exhibited by loans to family firms. These findings suggest that the personal ties (a family asset) characterizing family-owned firms might mitigate delegation problems and other conflicts affecting the agency costs of debt.

To summarize, the first five papers in this special issue all provide evidence for how the strategic use of family assets such as networks, values, trust, and reputation can create value for family firms in ways that are not accessible to non-family firms. Thus, these papers support the first pillar of our framework: the strategic use of family assets is a source of value creation that successful family firms are able to exploit.

Our second premise in the family business map is that family firms face roadblocks not faced by non-family firms and that active governance design is needed to reduce the cost of these roadblocks. The final three papers in this special issue present three examples of roadblocks and their effect on family firms.

Institutional roadblocks are challenges that are legal, regulatory, or cultural in nature. Often laws, made for very different purposes, end up being a special challenge to family firms. A prominent example of a law that has a special effect on family firms, although this is by no means the motivation behind the law, is the Chinese one child policy. The policy was established to alleviate social, economic, and environmental problems and the government did not foresee its implications for business. According to official estimates, the policy prevented 400 million births in China between 1979 and 2011.

The corporate landscape of China is in many ways very different from other Asian countries (Fan et al., 2011; Fan et al., 2012a). Over the last decade, a new generation of entrepreneurs has created millions of private firms, and many of those entrepreneurs are now approaching retirement. Due to the one child policy, China's entrepreneurial families have far fewer children than business families elsewhere in Asia and are increasingly facing human capital constraints for within-family succession. In the paper "One Child Policy and Family Firms," Cao et al. (2014, this issue) investigate the consequences of this policy for succession in family firms using a new survey-based dataset. The results are clear: having only one heir decreases the

probability of continuing family management by over 3 percent, reduces the number of adult children working in the family firms by 14 percent, and significantly decreases founders' expectations of having a young heir for succession. Having fewer children negatively affects founders' expectation of going public, reduces family firms' reinvestment rates, and their research and development expenditures. Overall, the evidence suggests that the human capital constraints caused by the one child policy have a significant negative effect on within-family succession. Thus, the family firm roadblock created by the one child policy provides an important challenge for transferring family firms to the next generation in China.

The family itself is a common source of roadblocks. As a family grows, more family members receive income from the firm without being actively involved in its management (Tagiuri and Davis, 1996). Thus, it is likely that the payout policy of a family firm will diverge from the payout policies of non-family firms, as more and more family members rely on dividends to support their consumption level. "Payout Policies in Founding Family Firms" by Isakov and Weisskopf (2014, this issue) investigates how the payout policies in Swiss family firms are affected by family structure. In particular, they highlight how the size of the family stake, and the active involvement and the generation of the family are important determinants of dividend payments.

The final paper in this special issue addresses family roadblocks from a theoretical angle. In "CEOs in Family Firms: Does Junior Know What He's Doing?" Pinheiro and Yung (2014, this issue) analyze the challenge of learning about family heirs' managerial qualities when they are on a career path within the family firm. When heirs work toward a common goal alongside an older generation, Bayesian updating attributes success mostly to the older (proven) agent. Thus, heirs learn little about their own skills. This effect is strongest after the founder's generation, implying that family firms tend to be either very short-lived or relatively long-lived.

4. Empirical analysis of firm succession

In this section we perform an analysis of a sample of Chinese firms experiencing

leadership succession. Transfers of firm-controlling ownership are typically once-in-a-life-time events not observable in cross-sectional datasets. Therefore, the succession transitions provide opportunities to observe retiring firm owner-managers' decisions regarding ownership and management partitions.

We acknowledge that our analysis is exploratory and our results only suggest correlations, given the endogeneity issues discussed above and the difficulties of measuring some critical institutional constraints.

4.1. The succession sample

We define succession as an entrepreneur stepping down from the top executive position and being replaced by a family member or an unrelated professional. Unlike ordinary managerial turnovers, a succession is typically associated with the transfer of controlling ownership from the entrepreneur to a family member (an offspring or close relative), or to an unrelated outsider if the firm is sold.

Our initial sample consists of all of the publicly traded firms in three Chinese economies: Hong Kong, Singapore, and Taiwan. These economies all share a prevalence of firms controlled by Chinese families. We manually go through historical annual reports of all of the companies, to track the turnovers of the top executives (typically chairman) for each of the firms starting from the initial public offering year. We exclude firms that are controlled by non-Chinese families or governments. We also exclude firms that are in financial distress during the succession, to avoid making our analysis specific to the distress scenario. If any two turnovers in the same firm occur within 5 years of each other, we exclude the earlier turnover as it is likely a transitory arrangement. An entrepreneur may remain influential to his successor even after stepping down. To mitigate this issue, we exclude any cases in which an entrepreneur steps down from chairmanship but remains a director on the board.

The screening criteria result in a sample of 217 succession cases, of which 62 are from Hong Kong, 47 from Singapore, and 108 from Taiwan. As shown in Table 1, most of the successions occurred in the 1990s, but they did not concentrate in only a few years. Because of the varying availability of corporate annual reports, the sample coverage is uneven across the three economies. The succession cases span 1996-2005 in Hong Kong, 1992-2005 in Singapore, and 1987-2001 in Taiwan. The sample firms are spread across various industry sectors, with higher concentrations in the machinery, equipment, and instrument sector (44 cases) and construction and real estate sector (34 cases).

We rely on corporate annual reports and initial public offering prospectuses for tracking ultimate ownership and identifying the relationships between the old and new leadership of the firms. These public documents typically disclose information on director profiles, shareholdings of major shareholders, and related party transactions that are useful for identifying relationships among managers and directors. In addition, stories in various local newspapers, magazines, and periodicals are referenced when they provide supplementary information.

Table 2 classifies the succession cases by new leadership type and by economy. Overall, 140 or 65% of the successions involve turnovers of chairmanship to family members, of which 79 (36%) are heir successions and 61 (28%) are successions by close relatives such as brothers or nephews. There are 47 cases (22%) in which the new chairmanship is given to an unrelated outsider, although the old chairman and his family maintain the controlling ownership. There are 25 cases (12%) in which the old chairman and family not only leave the top executive position but also sell off the controlling ownership, and hence exit from the business entirely. We are unable to identify the relationship between the old and the new chairman in 5 Singaporean cases

because of information limitations. Across the three economies, Taiwan has the highest rate (74%) of family succession, followed by Hong Kong (69%), and Singapore (36%). Singapore has the highest rate of outside succession (36%), followed by Taiwan (22%), and Hong Kong (10%). Among the sold-out cases, Hong Kong accounts for the most (21%), followed by Singapore (17%), and Taiwan (4%).

Overall, the statistics confirm that the Chinese firms follow three different modes of ownership-control transition: family succession of both ownership and management, family ownership with professional management, and exit. No firms in the sample achieve family management without substantial family ownership.

4.2. Proxies for constraints on family ownership and management

We construct several variables to proxy for constraints on family ownership and management. We admit that we are unable to exhaust most of the family asset and roadblock factors, and we are unable to measure these factors precisely. Our intention is to provide an initial validation of the proposed framework.

Appendix 1 provides a summary of the variables. *Founder* is a dummy variable equal to one if the old chairman is the founder of the company, and otherwise zero. We expect that family asset level is higher if a firm is not far away from its founding stage, and in such cases the founder likely imposes higher ideological/value factors in firm decisions. *Founder* may also indicate roadblocks, if founders typically find it more difficult to adapt to changes than non-founders. *Amenity* is another variable proxy for ideology and values. Following Demsetz and Lehn (1985), it is defined as a dummy variable equal to one if the company has any business in museums, galleries, recreation facilities, clubs, gardens, movies, newspaper or book publishing, advertising, restaurants, or hotels, and otherwise zero. *Labor intensity* is the ratio of the number of employees to total shipments in the firm's industry. The variable is

estimated from the industry employment and shipment data from the 2002 U.S. Census. Labor could be an important roadblock in countries with protective labor laws (Bach and Serrano-Velarde, 2014, this issue). However, employees' trust and relationships with an entrepreneur are likely to be family assets. The specific relationships may be more transferrable to family successors than to professionals unrelated to the retiring leader. This issue is particularly thorny in labor intensive industries. *Bank relation* is the firm's ratio of long-term debt to total assets. Relationship banking is common in emerging markets. Whether a firm has good access to long-term loans depends on its relationships with banks. *Co-founded* is a dummy variable equal to one if the firm is founded by more than one entrepreneur, and otherwise zero. *Family number* is the number of family members serving as executive directors, including the entrepreneur. Excluding the entrepreneur would not affect the result in any way. We expect that co-founded firms or firms managed by more family members are subject to more serious conflicts for property right re-distribution during succession—a roadblock. However, more family members on the management team could also mean that the family has abundant family assets to share and contribute to the firm.

In summary, *Founder*, *Amenity*, *Labor Intensity*, *Bank Relation*, and *Family number* are indicative of family assets, and *Founder*, *Labor Intensity*, *Co-founded*, and *Family number* are indicative of roadblocks.

Two variables are included to proxy for a successor's capability, which has been found to be important in prior studies. *Experience* is a dummy variable equal to one if the successor has been a senior manager of the firm prior to succession, and otherwise zero. *Education* is a dummy variable equal to one if the successor has a bachelor or higher degree, and otherwise zero. In all of the regressions, we include

Size, defined as the natural logarithm of total assets, to control for any effects of firm size.

All of the above variables are constructed using data from 5 years before the succession year, to prevent any effects of succession *per se*. Historical financial data are collected from *Worldscope*, supplemented by two additional databases, *PACAP* and *TEJ*, and corporate annual reports. When data are not available for the 5-year period before succession, we use information from the 3-year period before the succession events.

Table 3 presents the basic statistics of the above variables. The number of observations used for calculating the statistics varies across variables, due to data availability. About 55% of the sample firms are controlled by founders before their succession events. Close to 6% of the firms have businesses associated with amenities. About 5% are co-founded firms. The average number of family members co-managing the firms is 2.45. The average labor intensity ratio is 0.009, with substantial variations across firms, as indicated by the value of its standard error, 0.024. The average ratio of long-term debt to total assets is about 10%, with substantial variations across firms (standard error 0.14). Almost 44% of the successors have experience as senior managers before they take the helm. About 57% hold a bachelor or higher degree. The table also reports ownership statistics of the sample firms. The average ultimate equity ownership of the families is about 34%, which is comparable with the literature (Claessens et al., 2000; Claessens and Fan, 2002; Yeh and Woidtke, 2005).

We alternatively construct these variables using information from 3 years before the succession events and find similar patterns.

4.3. Regressions of ownership and management choices in succession

We perform regression analyses to determine how family succession and family ownership concentration are related to family asset and roadblock factors.

We first perform a multinomial logistic regression to analyze successor choice. The dependent variable is *successor*, defined as 3 if the successor is a family member of the old chairman, 2 if the successor is an unrelated outsider, and 1 if the successor is an unrelated outsider who also bought up the controlling ownership from the old chairman. On the right-hand side, we include the variables introduced in the previous sub-section. Standard errors are clustered at the economy level (Petersen, 2009).

Column 1 of Table 4 reports the regression results. Several estimated coefficients are significantly related to successor choice. The successor is more likely to be a family member of the previous chairman when more family members are involved in the business, when the business is more labor intensive, and when banking relationships are more important. The effect of founder is positive, but statistically insignificant. In contrast, the successor is less likely to be a family member of the previous chairman when the firm is co-founded. Consistent with prior studies, we find that a candidate's experience and education level both affect the probability that he/she later becomes the successor.

Although the positive relationship between family members and family successors is interpreted as part of a family asset that induces family succession of management, it also may be due to the effect of family structure. Indeed, Bennedsen et al. (2007) find that a larger pool of potential heirs is associated with a higher likelihood of family succession. Note also that the negative effect of co-founders on family succession suggests that conflicts between co-founders is likely resolved by or leads to outside succession or even selling rather than family succession, consistent

with Bertrand and Schoar (2006) and Bennedsen et al. (2007).

We alternatively perform a logit regression on a redefined successor variable that is equal to one if the successor is a family member, and zero otherwise. The results are similar to those of the multinomial logistic regression. We also re-run the logit regression after deleting the sold-out cases. The results remain similar.

We next examine whether the concentration of family ownership is related to institutional factors, in particular whether roadblocks are associated with the diffusion of family ownership. We regress the entrepreneur's and his family's ultimate ownership of the firm on the same set of explanatory variables, except for the experience and education variables. The ultimate ownership is the direct and indirect shareholdings of the controlling family, estimated as in La Porta et al. (1999) and Claessens et al. (2000).

Column 2 of Table 4 reports the ordinary least squares regression results. We find that the ownership concentration is higher when more family members are engaged in the business and when the firm is in a more labor intensive industry. These findings are consistent with the view that family assets encourage concentration of family ownership for effective family control. However, we do not find that roadblocks diffuse family ownership as predicted. This could be due to problems in the measurement of roadblocks or may indicate that the firms have means to overcome the roadblocks.¹¹

In summary, we find that family ownership and management choices are related to several proxies for family assets, consistent with the view that specialized inputs provided by founding families help to explain the existence of the family firm organization.

¹¹ For example, a controlling family can use pyramidal ownership or cross-shareholdings to balance its financing needs and effective control (Claessens et al., 2000).

4.4. Firm value change

We are interested in a variable that can capture the change in firm value during a succession process. Typically, succession takes time to complete and it is difficult to be certain exactly when the process starts and ends. To facilitate our empirical analysis, we define a 9-year observation period starting from 5 years before the chairman turnover to 3 years after the turnover year. The 5-year period prior to the turnover year is to account for the fact that a succession process typically starts much earlier than the turnover year. We could alternatively choose a longer pre-turnover period, but as the missing data issue is more serious in earlier years, choosing a longer pre-turnover period would leave us with a smaller sample of firms. The 3-year post-succession period is chosen for the same reason.

To estimate changes in firm value we use an event study methodology. We use two approaches to estimate the market-adjusted stock return of a given firm. The first is compounded abnormal return (CAR). We calculate the monthly compounded return of a security within a defined period and the corresponding monthly compounded return of a market index. The difference between the security and the market index compounded returns serves as our first proxy for firm value change. The second approach is to calculate the monthly abnormal return for security i on month t as

$$AR_{i,t} = R_{i,t} - R_{m,t}$$

where $AR_{i,t}$ and $R_{i,t}$ are the abnormal and actual return for firm i for month t , respectively, and $R_{m,t}$ is the market index returns for month t . We add up $AR_{i,t}$ across all t to obtain the cumulative abnormal returns.

In calculating these stock return measures, we use both equal- and value-weighted market index returns. We use several time windows of different lengths: from month -60 to month -1; month -36 to month -1; and month 0 to month 48. Month 0 for a given event is defined as January of the succession year. Because

the results based on the various versions of stock returns are similar, we report the set of results based on the value-weighted market index and compounded abnormal returns.

Table 5 reports the summary statistics of CAR, the firm value change variable. As explained earlier, the number of usable observations is smaller than that of the full sample due to missing stock data. To avoid the influence of extreme values, the CAR variable is winsorized at the top and bottom 5% level. Overall, firm value dissipates extraordinarily in the succession period. The average CAR in pre-succession years is negative 56% when compounded over the 5 years (60 months) before the succession year, and negative 16 percent when compounded over the 3 years (36 months) before the succession year. Firm value stabilizes upon and after the turnover of chairmanship: the average CAR is negative 2.9% for the 4-year (48-month) period including and subsequent to the succession year. Even after winsorizing the data, we still observe large variations in the CAR patterns, indicated by the large standard errors. The median values of the various time windows are typically smaller than the mean values, suggesting that most firms experience value dissipation during the succession process.

Hong Kong firms experience the most severe value decline with an average negative 126% pre-succession 60-month CAR. Taiwan firms' average CAR is negative 31%. In contrast, Singaporean firms' CAR is on average positive 22%. However, the median value is a much smaller 5%. During the post-succession period, Hong Kong and Taiwan firms' values stabilize, as indicated by the small average post-succession 48-month CAR. However, the average (median) post-succession CAR of the Singaporean firms is negative 18% (37%).

Figure 2 plots the average monthly CAR pattern of the full succession sample, starting from 60 months before to 48 months after month 0 (January of the succession year). During the entire 9-year period, the average CAR is almost negative 75%. The CAR continuously declines until it stabilizes around the succession year. However, the CAR does not increase, but rather decreases further during the post-succession years. Note that in Figure 2 the post-succession decline in CAR seems more

substantial than the negative 3% estimated from month 0 to 48 that is reported in Table 5. The larger post-succession decline in CAR shown in Figure 2 is because the pre-succession negative stock return from month -60 to month -1 has a compounding effect on the post-succession stock return.

[Figure 2]

Figure 3 reports the average monthly CAR pattern by economy. Hong Kong firms experience the most severe decline in CAR during succession, followed by Taiwanese firms. Interestingly, Singaporean firms' average CAR does not reveal a significantly decreasing or increasing pattern.

[Figure 3]

Overall, succession in all three economies is typically associated with severe value dissipation, confirming that transferring the property rights of entrepreneurial activities is challenging.

We next examine the specific factors that influence firm value in succession. The CAR of the three different time windows is alternately used as the dependent variable in the regressions. Independent variables, specified below, are generally measured at the first year for which the CAR variable is estimated. For example, if CAR is estimated from 60 months before succession to month -1, all of the independent variables are estimated in year -5.

In Column 1 of Table 6, we regress the 60-month pre-succession CAR on whether the successor is a family member of the old chairman, whether the firm is sold to unrelated parties, firm size, and industry dummy variables. Clustered standard errors are estimated at the economy level. We find that family succession has a negative effect on CAR relative to succession by an unrelated professional. Firms that are sold are also associated with a negative effect on CAR, but the coefficient is statistically insignificant. Column 2 reports the results of a modified model that excludes the successor-type variables but includes the family ultimate ownership variable. The ownership variable is negative and significant, suggesting that more family ownership concentration is associated with more negative CAR.

Column 3 reports the results of the full model, including the successor type

variables, the family ownership variable, and the set of variables that proxy for family assets, roadblocks, and successor's experience and education level. As the results show, CAR is negatively affected by whether the old chairman is the founder, whether the business is co-founded, and the number of family members co-managing the business. In contrast, whether the successor is a family member or an unrelated professional have no effects on firm value. The sold cases are associated with the worst CAR, as suggested by the negative and significant estimated coefficient.

Alternatively, we use the pre-succession 36-month CAR as the dependent variable and re-run the full regression. The corresponding independent variables are estimated using data from the 3 years before the turnover year. In column 4, the results are quite similar to those from the regression using the 60-month CAR. Labor intensity has a negative effect on CAR, whereas successor's experience has a significant positive effect.

We also regress the post-succession 48-month CAR on the same set of independent variables, but estimated with data from the succession year. As shown in column 5, most of the coefficients are statistically insignificant, suggesting that most of the factors cease to be important to firm value change after the succession process is completed. Interestingly, the *founder* variable is significantly positive, indicating a more positive firm value effect after the founder steps down. The negative pre-succession effect (column 3) and positive post-succession effect (column 5) of *founder* on firm value are perhaps consistent with the view that founders tend to stay in business for too long.

Most of the value destruction happens before the turnover year. This raises the question of whether the value destruction is primarily caused by the old chairman or his successor. Several explanations are possible. First, letting a family member take over the firm may destroy value because he is incapable of managing the firm. To mitigate this concern we have controlled for experience and education level in the regressions, and found that they indeed matters. Second, perhaps value destruction is not a consequence of the new management or the transfer costs of family assets, but the cost of the old power hanging on too long. To examine if delaying succession *per*

se causes value destruction, we include the age of the old chairman in the turnover year in the CAR regressions. We find that the age variable does not affect CAR, neither does it affect the other results. Another possibility is that both the outgoing and the incoming chairman are capable, but assets have to be liquidated to facilitate succession. For example, a part of a firm's assets might be given or sold to family members that are non-successors, to facilitate their exit. Also, government may levy taxes on succession transfer. To examine the possibility that the value decline in succession is mainly due to liquidation, we include in the CAR regressions a dummy variable equal to one if the firm's level of total assets is reduced between the fifth year before turnover to the turnover year. We find that this variable is indeed significantly positively related to CAR. However, it does not affect the other results.¹²

Our analysis of stock return patterns provides strong evidence of value destruction in succession. After controlling for the family asset and roadblock factors, the effects of family ownership and family succession disappear, suggesting that family ownership and management choices may not be the fundamental causes of poor succession performance. In contrast, the extent of firm value change is significantly related to family asset and roadblock factors.

In summary, this analysis of Chinese family firm succession provides preliminary but strong evidence that family asset and roadblock factors shape family ownership and management decisions and overall firm value and sustainability.

5. Directions for future research

The above analysis of Chinese firm successions and the collection of papers in this issue highlight the importance of founding families' contributions and the institutional constraints that shape the family firm organization. Although we attempt to capture these concepts by introducing the terms family assets and roadblocks, which together constitute the family business map, they are very broadly defined. Much more research is needed to understand the causes and consequences of the

¹² We do not tabulate these results. They are available upon request.

family firm organization.

5.1. Family assets in firm strategies and outcomes

Family assets are specialized inputs provided by a founding family that make the family firm more competitive than a similar firm without the family inputs. Specifically what these inputs are and how they affect business decisions and performance are important research topics. For example, Bunkanwanicha et al. (2013) study marital decisions of prominent Thai business families, reporting that 80 percent of almost 200 marital events facilitate the creation of political and/or business networks. When a daughter of a business family marries a son of a political or business family, the cumulative net of the market stock return of the daughter's family's company increases by almost 4% around the wedding period. In this case, business families' marital decisions result in a unique input to the business—a relationship network. Other family assets include specialized proprietary skills passed on generation after generation, family values originating in family history, regional cultures, or religions, and so on.

It remains to be answered how these intangible assets shape business decisions such as management, investment, accounting, finance, and governance. Along this line, Fan et al. (2012b) examine changes in the usefulness in accounting information around Chinese family firm successions. They report that various measures of accounting informativeness improve subsequent to the retirement of old generation leaders. They argue that the dissipation of intangible assets specialized to the previous family leaders increase the usefulness of accounting value measures, as there is no evidence of changes in firms' accounting policies.

5.2. Roadblocks and family firm strategies

Much is to be learned about the effects of various institutional challenges to family firms. These challenges could come from the family, the firm, the industry, or the market, and may occur at the national level.

For example, family ownership tends to be diffused over time due to its distribution to an increasing number of family members, or due to the need to raise

capital to finance firm growth. How do founding families balance business control and the need for distribution? How does the control factor influence financing decisions such as going public, seasonal equity offerings, and debt financing? There is worldwide evidence that family firms design control-enhancing mechanisms such as stock pyramids, dual-class shares, and cross-shareholdings to maintain effective control while raising capital (La Porta et al., 1999; Claessens et al., 2000; Almeida and Wolfenzon, 2006; Masulis et al., 2011). Most previous studies focus on specific aspects of ownership structures, such as the expropriation of minority shareholders and mitigating financing constraints. However, as we suggest earlier, protecting non-transferrable family assets is a potentially important reason for family firm owners to control and manage their businesses.

We have mentioned that national institutional factors such as property right protection and inheritance laws can affect family firm organization. There are other institutional factors that are potentially important, such as national culture and religion. Jiang et al. (2014, this issue) provide some evidence of these effects. However, more studies are warranted.

5.3. Family governance and firm governance

A unique feature of family firms is that family dynamics can affect firm decisions and performance. Specifically, how family members communicate, share values, and make decisions can profoundly affect family business efficiency. The management literature has long emphasized such effects (Tagiuri and Davis, 1996). Moreover, business families may engage in informal and formal family governance mechanisms to improve the efficiency of the family dynamics. Understanding how family dynamics and family governance mechanisms affect firm financing and governance decisions such as board and executive compensation policies is a promising research area.

6. Conclusions

We have proposed a family business map as a method for organizing the factors

that shape family firm organization. We suggest that a family firm is best managed by the founding family when the family continuously provides unique inputs called family assets to the firms, making the firm competitive. We also suggest that whether the founding family continues to own a controlling block of shares depends on the extent to which the family is able to bypass internal and external roadblocks.

We analyze the successions in 217 Chinese family firms and observe that most of the firms' ownership and management are transferred to the next generation of family members. The succession events are associated with an average value dissipation of almost 60%. The ownership and management transitions and associated value losses are related to several proxies for family asset and roadblock factors. Once these factors are controlled, family succession of ownership and/or management *per se* has no relationship with firm value.

The analyses and findings of the studies in this issue generally support the view that the organization of family firms and their evolution is a response to family asset and roadblock constraints. We suggest that future research could examine how family owners design governance to unify a family, how they inject family assets while filtering out negative family influences, and how family firms make decisions differently than other organizational forms, leading to their productivity and sustainability.

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Figure 1
Family Business Map

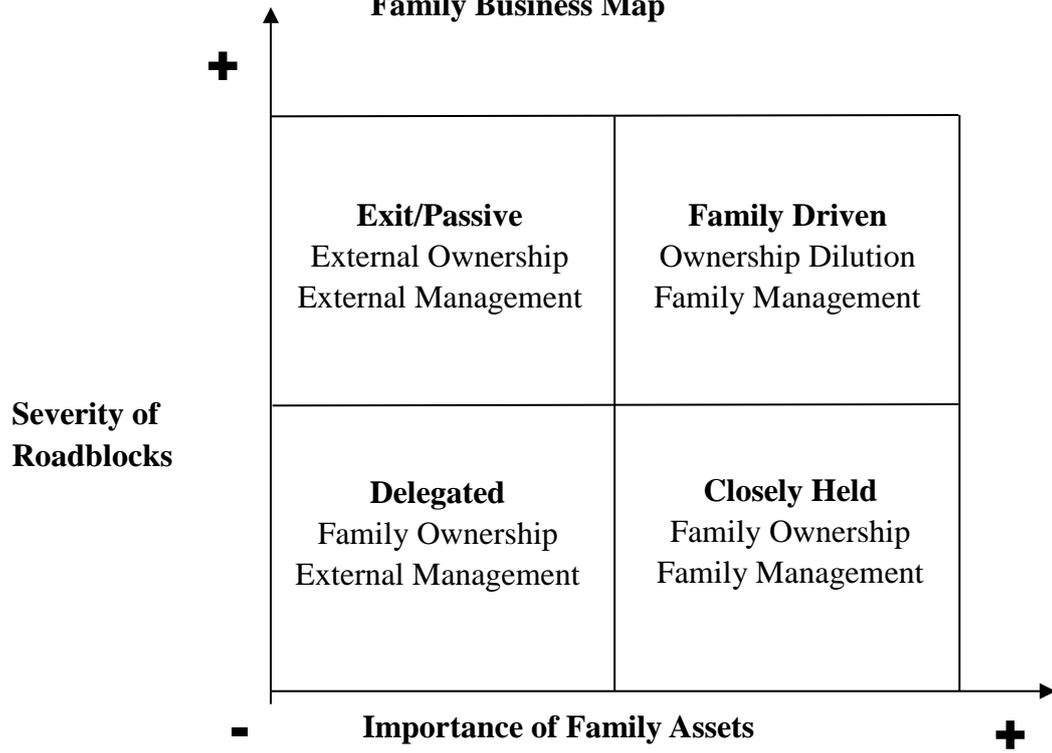


Figure 2
Monthly Cumulative Abnormal Stock Return (CAR) around Succession of Chinese Family Firms

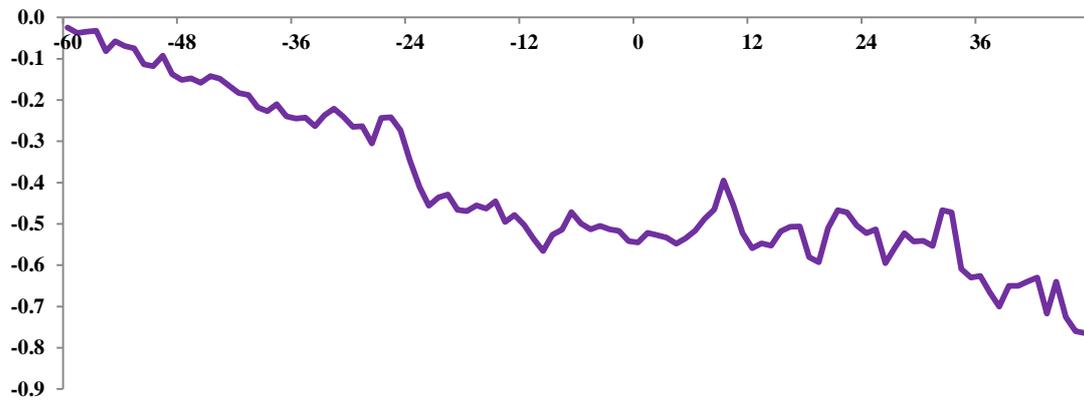
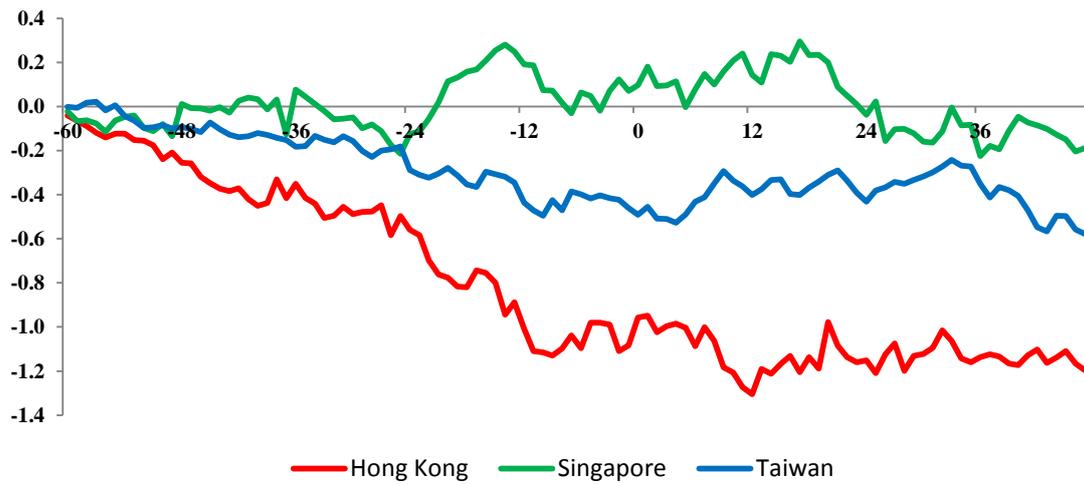


Figure 3
Monthly Cumulative Abnormal Stock Return (CAR) around Chinese Family Firm Succession by Economy



Appendix 1 Variable Definitions

| Variable | Definition |
|------------------------------|---|
| Dependent Variables | |
| Successor | A variable is defined as 3 if the successor is a family member of the old chairman, 2 if the successor is an unrelated outsider, and 1 if the successor is an unrelated outsider who also bought controlling ownership from the old chairman. |
| Ultimate ownership | The direct and indirect shareholdings of the firm owned by the family, as estimated as in La Porta et al. (1999) and Claessens et al. (2000). |
| CAR (-60, -1) | The monthly compounded abnormal stock return from 60 months before to the December immediately before the succession year. |
| CAR (-36, -1) | The monthly compounded abnormal stock return from 36 months before to the December immediately before the succession year. |
| CAR (0, +48) | The monthly compounded abnormal stock return from the January of the succession year to 48 months after that time. |
| Independent Variables | |
| Founder | A dummy variable equal to one if the old chairman is the founder of the company, and otherwise zero. |
| Amenity | A dummy variable equal to one if the company has any business in museums, galleries, recreation facilities, clubs, gardens, movies, newspaper or book publishing, advertising, restaurants, or hotels, and otherwise zero. |
| Co-founded | A dummy variable equal to one if the firm is founded by more than one entrepreneur, and otherwise zero. |
| Family number | The number of family members serving as executive directors of the company. |
| Labor intensity | The ratio of the number of employees to total shipment in the firm's industry. |
| Bank relation | The ratio of long-term debt to total assets. |
| Experience | A dummy variable equal to one if the successor has been a senior manager of the firm prior to succession, and zero otherwise. |
| Education | A dummy variable equal to one if the successor has at least a bachelor degree, and zero otherwise. |
| Size | The natural logarithm of total assets. |
| Market-to-book | The market value of equity plus book value of debt divided by total book assets. |
| Return on assets | The ratio of net earnings to total assets. |

Table 1 Sample Distribution

This table presents the sample by succession year and industry.

Panel A By succession year

| Year | Hong Kong | Singapore | Taiwan | Total |
|--------------|------------------|------------------|---------------|--------------|
| 1987 | 0 | 0 | 2 | 2 |
| 1988 | 0 | 0 | 4 | 4 |
| 1989 | 0 | 0 | 6 | 6 |
| 1990 | 0 | 0 | 6 | 6 |
| 1991 | 0 | 0 | 5 | 5 |
| 1992 | 0 | 4 | 6 | 10 |
| 1993 | 0 | 5 | 4 | 9 |
| 1994 | 0 | 6 | 7 | 13 |
| 1995 | 0 | 4 | 6 | 10 |
| 1996 | 4 | 5 | 11 | 20 |
| 1997 | 7 | 2 | 6 | 15 |
| 1998 | 3 | 3 | 8 | 14 |
| 1999 | 9 | 4 | 12 | 25 |
| 2000 | 12 | 4 | 13 | 29 |
| 2001 | 9 | 1 | 12 | 22 |
| 2002 | 8 | 3 | 0 | 11 |
| 2003 | 6 | 4 | 0 | 10 |
| 2004 | 2 | 1 | 0 | 3 |
| 2005 | 2 | 1 | 0 | 3 |
| Total | 62 | 47 | 108 | 217 |

Panel B By industry

| Industry | Hong Kong | Singapore | Taiwan | Total |
|--|------------------|------------------|---------------|--------------|
| Agriculture, Forestry, and Fishing | 0 | 1 | 0 | 1 |
| Construction and Real Estate | 20 | 6 | 8 | 34 |
| Food and Kindred Products | 1 | 1 | 5 | 7 |
| Textiles and Apparel | 3 | 1 | 13 | 17 |
| Lumber, Furniture, Paper, and Printing | 1 | 2 | 4 | 7 |
| Chemicals, Petroleum, Rubber, Plastic, and Leather | 5 | 0 | 15 | 20 |
| Minerals and Metals | 1 | 2 | 13 | 16 |
| Machinery, Equipment, and Instruments | 11 | 7 | 26 | 44 |
| Transportation and Communication | 2 | 4 | 10 | 16 |
| Utilities | 1 | 0 | 1 | 2 |
| Commerce | 8 | 5 | 6 | 19 |
| Finance | 4 | 7 | 3 | 14 |
| Service | 5 | 11 | 4 | 20 |

Table 2 Successor Types

The defined types include “Family member,” “Outsiders,” and “Sold-out.” “Unknown” is for firms whose successor type is unclear. We further differentiate the succession type “Family member” into “Heir” and “Relative.” The latter is used when successors are close relatives such as brothers or nephews.

| | Hong Kong | | Singapore | | Taiwan | | Total | |
|---------------|------------------|------|------------------|------|---------------|------|--------------|------|
| Family member | 43 | 69% | 17 | 36% | 80 | 74% | 140 | 65% |
| Heir | 18 | 29% | 4 | 9% | 57 | 53% | 79 | 36% |
| Relative | 25 | 40% | 13 | 28% | 23 | 21% | 61 | 28% |
| Outsiders | 6 | 10% | 17 | 36% | 24 | 22% | 47 | 22% |
| Sold-out | 13 | 21% | 8 | 17% | 4 | 4% | 25 | 12% |
| Unknown | 0 | 0% | 5 | 11% | 0 | 0% | 5 | 2% |
| Total | 62 | 100% | 47 | 100% | 108 | 100% | 217 | 100% |

Table 3 Summary Statistics of Independent Variables

This table presents the summary statistics of key independent variables used in the regressions. “Founder” is a dummy variable equal to one if the old chairman is the founder of the company, and otherwise zero. “Amenity” is a dummy variable equal to one if the company has any business in museums, galleries, recreation facilities, clubs, gardens, movies, publishing, advertising, restaurants, or hotels, and otherwise zero. “Co-founded” is a dummy variable equal to one if the firm is founded by more than one entrepreneur, and otherwise zero. “Family number” is the number of family members serving as executive directors in the company. “Labor intensity” is the ratio of the number of employees to total shipment in the firm’s industry. “Bank relation” is the ratio of long-term debt to total assets. “Experience” is a dummy variable equal to one if the successor has been a senior manager of the firm prior to succession, and zero otherwise. “Education” is a dummy variable equal to one if the successor has at least a bachelor degree, and zero otherwise. “Size” is the natural logarithm of total assets. “Ultimate ownership” is the direct and indirect shareholdings of the firm owned by the family.

| Variable | Obs. | Mean | Median | Std. Dev. |
|---------------------------|------|---------|---------|-----------|
| <i>Founder</i> | 217 | 0.5530 | 1.00 | 0.4983 |
| <i>Amenity</i> | 217 | 0.0553 | - | 0.2291 |
| <i>Co-founded</i> | 217 | 0.0461 | - | 0.2101 |
| <i>Family number</i> | 210 | 2.4476 | 2.0000 | 1.5027 |
| <i>Labor intensity</i> | 213 | 0.0089 | 0.0048 | 0.0239 |
| <i>Bank relation</i> | 216 | 0.0939 | 0.0491 | 0.1434 |
| <i>Experience</i> | 217 | 0.4378 | - | 0.4973 |
| <i>Education</i> | 217 | 0.5668 | 1.0000 | 0.4967 |
| <i>Size</i> | 217 | 11.8220 | 11.8315 | 1.4940 |
| <i>Ultimate ownership</i> | 202 | 0.3355 | 0.3106 | 0.2180 |

Table 4 Regression Results of Successor and Ownership Choices

Column 1 reports the results of the multinomial logistic regression of successor choice. The dependent variable is “Successor,” defined as 3 if the successor is a family member of the old chairman, 2 if the successor is an unrelated outsider, and 1 if the successor is an unrelated outsider who also bought the controlling ownership from the old chairman. Column 2 reports the results of the ordinary least square regression of ownership choice. The dependent variable is the ultimate ownership of family. “Founder” is a dummy variable equal to one if the old chairman is the founder of the company, and otherwise zero. “Amenity” is a dummy variable equal to one if the company has any business in museums, galleries, recreation facilities, clubs, gardens, movies, publishing, advertising, restaurants, or hotels, and otherwise zero. “Co-founded” is a dummy variable equal to one if the firm is founded by more than one entrepreneur, and otherwise zero. “Family number” is the number of family members serving as executive directors in the company. “Labor intensity” is the ratio of the number of employees to total shipment in the firm’s industry. “Bank relation” is the ratio of long-term debt to total assets. “Experience” is a dummy variable equal to one if the successor has been a senior manager of the firm prior to succession, and zero otherwise. “Education” is a dummy variable equal to one if the successor has at least a bachelor degree, and zero otherwise. “Size” is the natural logarithm of total assets. Clustered standard errors are estimated at the economy level. The absolute values of the t-statistics are in parentheses.***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

| | Successor | Ultimate ownership |
|------------------------|---------------------|---------------------------|
| | (1) | (2) |
| Founder | 0.661 (1.53) | -0.023 (0.39) |
| Amenity | -0.156 (0.91) | 0.035 (0.69) |
| Co-founded | -0.579*** (3.09) | -0.066 (1.19) |
| Family number | 0.210*** (3.08) | 0.013*** (4.07) |
| Labor intensity | 5.313** (1.99) | 1.296*** (3.54) |
| Bank relation | 2.108*** (4.38) | 0.058 (1.19) |
| Experience | 0.655* (1.82) | |
| Education | 0.494*** (3.37) | |
| Size | -0.057 (0.94) | -0.059*** (39.68) |
| Constant | | 1.016*** (10.63) |
| Number of observations | 201 | 198 |
| Pseudo R-square | 0.165 | 0.20 |

Table 5 Statistics of Abnormal Stock Returns around Succession

This table provides the summary statistics of the compounded abnormal stock returns. CAR (-60, -1) is the monthly compounded abnormal stock return from 60 months before the December immediately before the succession year. CAR (-36, -1) is the monthly compounded abnormal stock return from 36 months before the December immediately before the succession year. CAR (0, +48) is the monthly compounded abnormal stock return from the January of the succession year to 48 months after that time.

| Variable | Obs. | Mean | Median | Std. Dev. |
|--------------------|------|---------|---------|-----------|
| Full sample | | | | |
| CAR (-60, -1) | 144 | -0.5558 | -0.5412 | 1.1225 |
| CAR (-36, -1) | 161 | -0.1560 | -0.2728 | 0.8471 |
| CAR (0, +48) | 179 | -0.0288 | -0.0754 | 0.8302 |
| Hong Kong | | | | |
| CAR (-60, -1) | 54 | -1.2567 | -1.0224 | 0.8656 |
| CAR (-36, -1) | 58 | -0.5400 | -0.7600 | 0.7163 |
| CAR (0, +48) | 54 | 0.0233 | -0.0930 | 1.0643 |
| Singapore | | | | |
| CAR (-60, -1) | 30 | 0.2217 | 0.0484 | 0.7734 |
| CAR (-36, -1) | 32 | 0.1884 | -0.0950 | 0.7176 |
| CAR (0, +48) | 32 | -0.1849 | -0.3734 | 0.8080 |
| Taiwan | | | | |
| CAR (-60, -1) | 60 | -0.3139 | -0.4101 | 1.1270 |
| CAR (-36, -1) | 71 | 0.0025 | -0.2244 | 0.8902 |
| CAR (0, +48) | 93 | -0.0054 | -0.0409 | 0.6712 |

Table 6 Regression Results of the Firm Value Changes around Succession

The dependent variable is alternately CAR (-60, -1), CAR (-36, -1), and CAR (0, +48). “Family member” is a dummy variable equal to one if the successor is a family member of old chairman, and zero otherwise. “Sold-out” is a dummy variable equal to one if the firm is sold out to unrelated parties, and zero otherwise. “Ultimate ownership” is the direct and indirect shareholdings of the firm owned by the family. “Founder” is a dummy variable equal to one if the old chairman is the founder of the company, and otherwise zero. “Amenity” is a dummy variable equal to one if the company has any business in museums, galleries, recreation facilities, clubs, gardens, movies, publishing, advertising, restaurants, or hotels, and otherwise zero. “Co-founded” is a dummy variable equal to one if the firm is founded by more than one entrepreneur, and otherwise zero. “Family number” is the number of family members serving as executive directors in the company. “Labor intensity” is the ratio of the number of employees to total shipment in the firm’s industry. “Bank relation” is the ratio of long-term debt to total assets. “Experience” is a dummy variable equal to one if the successor has been a senior manager of the firm prior to succession, and zero otherwise. “Education” is a dummy variable equal to one if the successor has at least a bachelor degree, and zero otherwise. “Size” is the natural logarithm of total assets. Industry dummy variables are included in Models (1) and (2). Ordinary least square regression is used. Clustered standard errors are estimated at the economy level. The absolute values of the t-statistics are in parentheses. ***, **, and * denote significance at 1%, 5%, and 10% level, respectively.

| | CAR (-60, -1) | | | CAR (-36, -1) | CAR (0,+48) |
|------------------------|---------------------|--------------------|---------------------|---------------------|--------------------|
| | (1) | (2) | (3) | (4) | (5) |
| Family members | -0.378*** (4.79) | | -0.236 (0.90) | -0.018 (0.13) | -0.019 (0.21) |
| Sold-out | -0.549 (1.34) | | -0.591* (1.85) | 0.118 (0.40) | 0.075 (0.51) |
| Ultimate ownership | | -1.259** (2.51) | -0.696 (1.58) | -0.568 (1.33) | 0.238 (0.59) |
| Founder | | | -0.402* (1.74) | -0.058 (0.36) | 0.126*** (3.15) |
| Amenity | | | -0.223 (0.34) | 0.031 (0.06) | -0.059 (0.37) |
| Co-founded | | | -1.113*** (8.98) | -0.792*** (4.88) | -0.015 (0.06) |
| Family number | | | -0.081*** (4.43) | -0.075*** (3.70) | 0.001 (0.02) |
| Labor intensity | | | -1.513 (0.46) | -3.486*** (3.73) | -2.613 (1.28) |
| Bank relation | | | 0.804 (1.03) | 0.528 (1.48) | 0.046 (0.07) |
| Experience | | | -0.168 (1.22) | 0.212*** (5.83) | 0.040 (0.80) |
| Education | | | 0.035 (0.32) | 0.016 (0.13) | -0.070 (0.38) |
| Size | 0.003 (0.04) | -0.035 (0.43) | -0.080 (0.83) | -0.129*** (3.12) | 0.044** (2.30) |
| Intercept | -0.062 (0.05) | 0.633 (0.82) | 1.408 (1.12) | 1.752*** (2.88) | -0.690 (1.10) |
| Industry dummies | Yes | Yes | No | No | No |
| Number of observations | 131 | 131 | 131 | 146 | 161 |
| Adjusted R-square | 0.10 | 0.12 | 0.17 | 0.13 | 0.02 |