**Family Succession and Outside Directors: Evidence from China**

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**Abstract**

Over 40 years have passed since China legally authorized privately owned businesses individuals in 1978, and it is one of the fastest growing countries. Family businesses are a big type of Chinese companies; it shows an important economic impact on the Chinese the capital market. However, being affected by the One-Child Policy, most founders have already retired, which lead to the issue of family succession. The purpose of this study is to determine whether the family successor requires more outside directors after family succession. Moreover, this study also explores the relationship between institutional characteristics and outside directors after succession. This research takes the A shares as an example, which listed in China capital market from 2011 to 2019.

The results indicate that after family estate, the needs of outside director have generally declined. However, after concerning the institutional characteristics, the more the institutional characteristic of the Chinese family business is, the more demands of outside director. Furthermore, the additional analysis demonstrates that differences in China’s industrial category and political connections also affect the needs of outside director.

**Keywords: Family Succession, Outside Director**

1. **Introduction**

In recent society, although there are many statements about the definition of family business, the only common point is that family business has occupied a certain proportion of the business society, is an important enterprise pattern. According to Forbes, 2009 reports that family-owned businesses account for about 80% of global businesses, and that about 35% of Fortune 500 companies are family-owned or operated by Kelin et al.(1997) Considers the most conservative estimate to be that approximately 65 to 80% of the world is owned or operated by families, while family-owned businesses in the United States account for 80 to 90% of all businesses in North America and play the greatest role in the United States economy (Astrachan and Shanker, 2003). In Europe and Southeast Asia, the proportion of family-owned enterprises in each country accounts for a certain proportion[[1]](#footnote-1)and has made an important contribution to the country's economy[[2]](#footnote-2), showing that family-owned businesses have long played a pivotal role in global business models.

China has been more than 40 years since the reform and opening up, in recent years is undoubtedly the fastest growing economy, but also in 2010 became the world's second largest economy. Family-owned enterprises already account for about 40% of China's capital market (Chi, Weng and Yao, 2015). A-shares in China's capital markets are far more important than B-shares in terms of number of companies or trading volume, and by the end of 2017, Family-owned companies account for 55.7% of all private companies listed on the A-share market, indicating that family-owned companies play an important role in the Chinese market (PwC, 2018).

Compared with western countries, Chinese society is deeply influenced by traditional Confucian culture, and the concept of "blood is thicker than water and home-oriented" has deeply affected the whole society. Chinese enterprises combine traditional culture and family concept to develop a unique set of "paternalistic leadership", fathers show strong authority and later generations must conform to the management style of their elders in order to gain the trust of other family members and maintain discipline in the family. In addition, in China, the enterprise itself as an extension of the family, compared to how long-term business to pay more attention to the continuation of family incense. Therefore, the family business in the wealth of corporate philosophy and equity concentration, here are strong incentives to reduce operational risk and centralize control (Li and Maddie, 2006).

Since the opening of private enterprises in China in 1978, most of the family founders are old, so the succession of future generations has become the most important issue for Chinese family enterprises. According to a study conducted in 2012 by PwC survey, 41% of family businesses still inclined to transfer equity and management rights to the next generation in the face of inheritance. However only 21% of Chinese family-owned companies said they now have succession plans in place, well below the global average of 49%, indicating that Chinese family-owned businesses are not yet fully prepared to continue their operations in the face of the imminent retirement of their founders (PwC, 2018). The characteristics of Chinese family business are its special ownership, with paternalistic leadership style and power structure, according to a PwC (2018) survey, more than 60% of business owners consider guardian family businesses to be the most important family assets, so the founders of the patriarchal family pass on the business and assets to future generations for the sake of the family business's sustainable development and long-term operation (Casson, 1999; Chami, 2001)。

In addition to the succession of family business is the extension of the family incense, whether the internal resources and capabilities of the enterprise can be transferred to the next generation is also one of the important issues. In addition to the children who take charge of the affairs and property of their parents, cultural heritage, organizational values and the integration of ideas are the fundamental projects of the family inheritance (Miller and Le-Breton-Miller, 2006; Gomez-Mejia et al., 2007; Fan et al., 2012). Furthermore the leadership characteristics and network of contacts owned by the founders of the family fathers and leaders belong to the unique social capital of the family business, these unique social capitals are difficult to completely transfer to future generations, if the successors cannot inherit the original social contacts, management style, etc. , may not be able to obtain the recognition of other family members and external stakeholders, this in turn has a negative impact on the long-term operations of the business (Perez-Gonzalez, 2006; Bennedsen et al., 2007; Cucculelli and Micucci, 2008).

Most family successions are chosen by blood as a priority, with in-laws second. Under the policy if a child from China, there are not many successors, so the only child in succession does not have to compete with other siblings to gain control the consecutive business. However, given the rapid transformation of the global economic environment, having research and development expertise and capacity will contribute to a competitive advantage. In addition, the global economy has become the mainstream of the world's business model, family-owned enterprises are facing the scale of gradual expansion, the only successor in the face of China's rapid economic development and succession problems of the dual challenges, in addition to relying on the parents of the founder left behind by the enterprise resources, external directors must be brought in in time to sustain the growth of the family business.

According to the PricewaterhouseCoopers (2018) survey, the biggest challenges facing Chinese family-owned companies are the need to stay ahead of innovation (77%), the response to changes in the economic environment (58%) and the lack of specialization (52%). Therefore, future generations have a stronger incentive to hire external directors by introducing the expertise, relevant experience and network of external directors, provide diverse industry experience and reduce uncertainty in the corporate environment. The timely introduction of external directors can use its benefits to increase industrial knowledge and share capital of firms and thus improve the competitiveness of firms.

This study first examines whether successors of family business should seek out external directors under the influence of the Chinese one-child policy. The succession of Chinese family-owned enterprises is profoundly influenced by the Chinese culture of anyone’s and the emphasis place on trust and loyalty and family ethics. There is a major difference with the rational thinking of the company’s general employment standard, which emphasizes occupational competence, economic efficiency and efficiency.

In addition, although China became the world's second largest economy in 2010, the gap between urban and rural areas is serious due to its large geographical size, according to the World Bank (2017) survey, the average income of Chinese nationals ranked 66th in 2017, only belonging to the middle income group, China has become one of the most diverse countries in the world. Also, because of the inconsistency of the organizational environment in China's provinces, local governments have become the dominant force in local operations, deeply affecting the local economy, capital markets and legal environment (Brandt and Li, 2003; Wang et al., 2008). Therefore, there are significant differences in the market organization environment between provinces in China (Fan et al., 2012), and this study will also examine the succession of family-owned enterprises in China. Whether the organizational environment in provinces of China has an intermediate effect on the degree of demand for company successors to seek out external directors.

Chinese family-owned enterprises play an important role in China's capital market, but under the influence of the one-child policy, the gradual decline of the family population leads to a shortage of family-owned enterprise talent, coupled with the rapid changes in the economic environment of Chinese enterprises and global business model, prompting family business successors to have a stronger incentive to seek the assistance of external directors. Therefore, this study will explore whether the success of Chinese family business should be sought by external director in order to sustain the long-term operation of family businesses.

In the past, the literature has pointed out that China's wide geographical area, urban and rural gap is severe, resulting in significant differences in the market organization environment between Chinese provinces (Fan et al., 2012). In this way, this study will further explore whether the differences in the organizational environment between Provinces in China will have an intermediary effect on the needs of successors and external directors of Chinese family-owned enterprises.

Few Chinese families-owned enterprises have been used to explain the impact of succession, so this study is the first to explore the needs of external directors of family descendants under the changes of China's one-child policy and economic environment, and to further consider China's unique environment, the differences between the organizational environment of each province into consideration. Consequently, this study makes the following contributions to the practical and academic communicate of the island and abroad:

Family-owned business in China are a common business model, with a deep impact on the China's capital market. Under the influence of the one-child policy, there is a gradual shortage of talents in the family enterprise, and the family successor has more incentive to introduce external directors to facilitate the operation of the business. Therefore, if it can be inherited successfully has an important impact on the business and the market environment. However, Chinese family businesses are deeply influenced by Confucian traditional culture, and the founders of family businesses and other family members remain wary of hiring external directors, clashing with the idea of "meritocracy" as their successors. This study will be explored in empirical studies, whose results can serve as a benchmark for family business in hiring external directors.

In the past, there has been sufficient research on family business, but the existing literature on the succession of family business issues are rare (Perez-Gonzalez, 2006; Fan, Wong and Zhang, 2012), especially in the face of the upcoming succession of Chinese family-owned enterprises, the employment of external directors and the differences in the organizational environment in various provinces of China, this study can make up for the shortcomings of the past literature and provide a reference of economic significance.

1. **Literature Review**

In order to explore whether the succession of family-owned enterprises is more necessary to seek external directors under China's one-child policy, and to organize relevant research literature at home and abroad, as the basis of this research topic, for research. This section is divided into three sections, the first section is the definition and characteristics of the family business, the second section explores the family business succession on the impact of external directors, the third section is the relevant literature on the degree of external director demand for future generations in various provinces of China.

* 1. The Definition and Characteristics of the Family Business

The definition of a family business

In the past, many scholars at home and abroad have discussed family business, but because of the different views of scholars in previous generations, they have not given a clear and unified definition of family business. However, it is difficult for a family business to judge on a single condition, therefore, most scholars consider more than two criteria of judgment, defined by a comprehensive point of view.

From an ownership perspective, Alfred (1977) defines a family business as a family business in which the founder holds a majority stake in the company's founders and closest partners and their families, retaining decision-making power at the senior management level and maintaining good relationships with the managers. Alcorn (1982) believed that the family was a business organization with a common interest, and that if the business was a public offering company, families need to have both ownership and control of the business. Ultimately, if the family holds or controls a certain degree of equity in the business and can effectively control major decisions such as the operation of the business, the company may be defined as a family business (La Porta et al., 1999; Claessens et al., 2000; Faccio et al. 2002; Berghe and Caechon, 2002).

In terms of intergenerational transfer rights, Habbershon et al. (2003) It is pointed out that the unique and inseparable family resources generated by the family enterprise, through the family and the enterprise system are linked to each other in order to create the financial and social value that the family passes from generation to generation. Olson et al. (2003) Consider that family businesses are jointly run and managed by family members with blood or in-laws, and can effectively control the operation of enterprises, investment and finance and other key decisions. Overall, because family businesses are not defined by one condition, many studies consider comprehensive indicators to be criteria for determination. Miller, Breton-Miller, Lester and Cannella (2007) definitely a family business as (1) a family member holding or controlling more than 5% of the total number of shares and (2) more than two members of the company's chairman or manager.

* + 1. The characteristics of the family business

Family business have both property and management rights in the early stage of development, but with the gradual expansion of enterprise size, ownership and management rights will become increasingly separate. Compared to the individualism of Western society, the familyism highlighted by the Chinese family makes it less likely that the company completely separates ownership and management rights. It shows the traditional Confucian color of "blood is thicker than water and oriented towards home " in Chinese society. In addition, compared with overseas Chinese enterprises, China is a family culture has been deeply rooted and far-reaching impact on the whole society, the family is the core of Chinese society, economy and culture, and even become the dominant factor in politics, attention must therefore be paid to the importance of the family.

Casson (1999) and Chami (2001) point out that family businesses see the business itself as an important asset to pass on to future generations, rather than a consumer asset, and that family members are more concerned about how to properly manage it to the next generation, so survival is the most important issue for family members. The founders though the family still retains the traditional concept of family culture and thus do not trust external directors. Even if family members are not good at managing, they prefer to appoint family members instead of professionals, which makes it difficult for family businesses to operate sustainably.

However, since the end of the 1970s, China opened up private enterprises and the implementation of the one-child policy has been nearly 40 years, most of the family business founders are old, the only child of succession, although not to compete with other brothers and sisters, but if the successor cannot undertake the family founder's knowledge, ability, leadership and accumulated social capital, coupled with the traditional Chinese family culture of the artificial and crowding out the professional management style, may not be able to obtain the recognition of other internal managers and external stakeholders, and thus affect the long-term development of family business.

* 1. The Influence of Succession of Family Businesses on External Directors

According to the families’ Business Alliance (2014) survey, more than 30% of family businesses can be handed over to the second generation, 12% can be passed on to the third generation, and only 3% of the family businesses can pass on to the fourth generation or more, indicating that succession plans must be made within the family business in advance to facilitate the succession of successful succession and continued operations. While future generations have strong intentions to continue running the family business and to protect the family business's core beliefs and reputation (Anderson and Reeb, 2003), only 21% of Chinese family-owned businesses said they now have a succession plan in place, well below the global average of 49%, indicating that the family business is not ready to continue operating after the founder retires (PwC, 2018). Therefore, in order to avoid the rumors of "rich, but three generations", family-owned enterprises should make succession plans early and learn from the successful succession experience of foreign family-owned enterprises.

In addition, the successors of Chinese family descendants born after the 1980s are mostly only children, most of whom do not have to compete with outsiders to take over the business and are responsible for the development of the family business. Faced with the rapid growth of China's economy, if you have professional and technical expertise and research and development capabilities to help enterprises establish long-term competitive advantage, will be an important resource for the future of the family business. Weng and Chi (2015) found that the descendants of Chinese families took over, preferring to adopt a multi-faced business strategy, extending the family business different industry sectors, thereby expanding the family business. Therefore, in this environment, the succession of future generations of the family will pay more attention to the upgrading of knowledge industry technology. Other than that since only one child is in succession, conflicts between siblings at the time of succession are relatively rare and can weaken conflicts of interest among family insiders (Cao et al., 2015).

PwC (2018) surveyed that more than half of family-owned businesses see the changing economic environment (58%) and lack of specialization (52%) as the primary challenges for businesses, so human capital is an important factor in their success or failure (Dyer, 1989; Bewayo, 2009), the timely hiring of external directors to become one of the most important issues in the growth of the family business (Storage Xiaoping, 2002).China's second-generation successor to the National People's Congress has received Western education studying abroad for many years. Compared to the founding fathers who prefer to hire low-paid but very loyal people, the second-generation successor is more inclined to Western leadership to attract professionals with high salaries.

The powers of the Board of Directors are mainly divided between the provision of advise on commercial operations and the supervision of management and to grasp the lifeline of commercial operations. World Bank (1999) defines the board of directors as the core of internal corporate governance. When the number of directors concurrently serving as directors of other companies, the more social capital is represented, and the accumulated experience and contacts can provide more suggestions for the company (Haynes and Hillman, 2010). When discussing the composition of the board of directors, directors are normally distributed between internal directors and external directors. In terms of outside directors, outside directors are not corporate employees or members of the board of high-level employees, and do not usually participate in the daily management of the company. Its main objective is to provide companies with greater professional knowledge and experience and to supervise the management. If the number of outside directors on the board of directors is greater, their experience and skills are more diverse, and the family's decision-making considerations will be more comprehensive, which is conducive to corporate performance (Eisenhardt, 1989). Many other family members (Gersick, Davis, Hampton, and Lansberg, 1997) or non-family members (Chandler, 1977; Dyer, 1989) have gradually joined the business in order to seek talents to assist in the business operation. Outside directors cannot fully control the decision-making power, but they still have considerable contribution and influence on the operation and management of the family group business (Morck and Yeung, 2003).

Therefore, hiring external directors can not only strengthen the supervisory authority of the company's board of directors, but also reduce the company's environmental uncertainty through external connections and networks (Pearce and Zahra, 1992), and provide companies with their professional capabilities and knowledge. Diversified industry experience (Haynes and Hillman, 2010). Kim, Mauldin and Patro (2014) pointed out that the term of the office of outside directors and their professional knowledge can have a positive impact on the company, and at the same time play the role of supervising and advising the board of directors. As a result, external directors play a very important role on the board.

The traditional management mode of family business is only applicable to industries with low labor density and low level of knowledge, however, China is in the stage of industrial transformation, unlike traditional manufacturing industry, artificial intelligence and new business model pose a great threat to enterprises, if we still apply the entrepreneurial management mode to industries with high capital intensity and information intensity. Conflicts and inefficiencies are probable. From a corporate specialization perspective, external directors can assist family-owned businesses in complex and changing environments (Tushman and Romanelli, 1985; Finkelstein and Hambrick, 1990), through their professional judgment and experience, to develop feasible strategies for enterprises, or through their networks to obtain opportunities for business cooperation, in response to changes in the external environment, this in turn improves corporate performance.

Since China's one-child policy, most of the first generation of the founders have reached retirement age, the sharp decline in family talent has led to the founders can assign a succession is not many, the second generation of only children to become the family business continued hope. Even after the successful succession, the family business is inclined to train an "old broker and young master" management dispute. Furthermore, when faced with industrial depression and poor corporate performance as a result of transformation, companies can improve their performance by replacing senior executives and seek outside expertise based on the company's own problems and needs (Engle, Rachel, and Wang, 2003). Chinese family-owned enterprises are facing the decline of talent within the family business, the conflict between old and new concepts after succession, and the rapid transformation of the external environment. In addition to making up for the lack of industrial knowledge of the family business, the incentive for the successor to appoint external directors can also ease the conflict between the old and the new in the enterprise through outside unsociable professionals.

For family-owned businesses, trust and loyalty are an important basis for hiring external directors to enter the core management of the business (Chua et al., 2003; Fukuyama, 1995), the combination of family business and social financial capital is often combined with human capital, and personal ability, trust, loyalty, etc. are the key elements that family business human capital must cover. If the family business is willing to introduce an outside director without blood, there is a high degree of trust between the representative family and the external director, which can not only alleviate the agency problem between large and small shareholders, but also enhance the performance of the enterprise by the advantages of the external directors. Therefore, how to manage and maintain the relationship with external directors of a family business is a central issue that comes after family assets.

* 1. The Demand for External Directors

Stinchcombe (1965) points out that the development process, form of organization and the relationship between activities and organizations depend on the specific institutional conditions of a society, including the provision of resources, government laws and cultural norms. La Porta, Lopez-de-Silanes, Shleifer and Vishny (2004) have found that the national legal environment affects the development of capital markets. However, China is in the process of moving from a planned economy to a market economy, in the transition from traditional society to modern society, the formulation and effective implementation of laws are not within reach, and they are in the dual constraints of historical tradition and the reality of transformation, which makes it difficult for China's legal environment to progress.

China is in the newly established market economy system, because the market mechanism formation time is short, resulting in the legal system is not perfect, low social credit and the lack of control of the market, coupled with the traditional "family culture" thinking is deeply rooted, resulting in the control of Chinese family enterprises and property rights difficult to transfer to non-family members. Choi et al. (1999) Points out that in the course of economic restructuring, due to the lack of good prices and legal systems, enterprises are more inclined to use interpersonal relationships as part of their business strategies rather than to obtain resources through market mechanisms. Glaeser and Shleifer (2001) found that government regulation is sometimes more effective than legal mechanisms in terms of policy implementation and property protection.

The "relationship" valued by Chinese society is seen as a solution to obstacles to entry into the Chinese market, and in the context of the generally low level of legal protection in China, enterprises are more effective in protecting their property through political relations (Bai et al 200).China's leading organs from the Party, the central to local government organs at all levels are shouldering the responsibility of managing enterprises, the Party's policies and government regulations together formed China's institutional environment. Walder (1995b) argues that local governments in China have the characteristics of "government as factory", so in the reform process, local governments have become the dominant force in the operation of the local economy.

Due to China's size, the organizational environment varies from province to province (Fan et al., 2012). Since the reform and opening up, the income gap between China's regions has continued to widen, and has become one of the few countries in the world with the most wide disparities. Many studies have emphasized that government agencies have a significant influence on Chinese society. Therefore, any business organization should understand how the institutional environment affects corporate behaviors and adapts to the local environment (Williamson, 2000). The specialization of urban industry is helpful to urban economic growth, but the diversification of industry has a inhibitory effect, so the industrial structure and strategy of each region and city should be adjusted. In terms of innovation efficiency, China's innovation efficiency has been increasing year by year, but the eastern provinces are gradually moving to the western provinces, with spatial differences (Shifeng, 2013). Hiring an external director can use his knowledge and related experience to increase the degree of specialization of the enterprise and thus enhance the performance of the enterprise. And in line with the Chinese economic system progressively from the planned economy to the market economy and rapidly evolving economic environment.

**3 Hypothesis Development and Research Design**

This study is mainly to explore whether the succession of family-owned enterprises is more necessary to seek external professional, and further explore whether the differences in the organizational environment of China's provinces will produce different effects. This chapter is divided into three sections, the first of which is hypothetical development, based on the research purpose of this study and the research literature at home and abroad in the past, and establishing this hypothesis, the second section is the research design of this study, the empirical model is established according to the hypothesis of the first section, and the measurement method of the variables in the model is introduced, and the third section is the sample selection and the source of the source. The sections of this chapter are as follows:

3.1 Hypothesis of Development

Chinese family business is deeply influenced by traditional Confucian culture, the concept of "family culture" has far-reaching impact on the whole society, compared with the Western society's family business attaches importance to business performance, Chinese family business pays more attention to the family's incense, more than 60% of the founders of the family business as an extension of the family, hoping to transfer wealth to the family descendants, to maintain the family's most important assets (PwC, 2018), so it is less likely that corporate ownership and management rights will be completely separated.

However, as companies grow year by year, expanding in size, having expertise and research and development helps them build long-term competitive advantages, and facing the form of globalization, leading to major challenges such as the rapid transformation of the economic environment and the lack of specialization of enterprises, Weng and Chi (2015) found that the succession of future generations of Chinese families, prefer to adopt a multi-angled business strategy, the family business to different industrial areas, in order to expand the family business. Therefore, human capital has become an important key to the success or failure of enterprises, we must have more professionals to maintain the family business in an increasingly competitive environment for a long time.

As most of the founders of Chinese family-owned enterprises are old, the only child in succession, although not necessary to compete with other brothers and sisters, but if the successor cannot undertake the family founder's knowledge, leadership, social contacts and accumulated social capital, will have a negative impact on the operation of family businesses. In addition, due to the one-child policy, there is a gradual shortage of talent within the family business, and future generations of successors place more emphasis on professional competence than trust and loyalty, so in addition to relying on the resources left behind by their parents, there are stronger incentives to seek external directors to respond to changes in the external environment and to assist the sustainable development of family businesses.

Boards are often key factors influencing the driving force of business decisions, and it is important to carefully consider the company's core values and future direction of operations and to be responsible for major decisions (e.g. the implementation of resolutions of the shareholders' meeting, the appointment of key staff, etc.) to ensure that the business can operate sustainably and is also accountable to shareholders and creditors. Fama and Jensen (1983) noted that board members play an important role in corporate governance. The board of directors is the core of corporate governance and grasps the lifeblood of the company, so the board members must have good business ability and maximize the interests of shareholders, that is, the functions of representing the board members have a better quality.

External directors are not members of the board of directors of corporate or senior staff, and have better independence than internal directors, and past scholars have shown that when there are external directors on boards, they do provide positive effects on the company's share price, whether the outside directors own shares of the corporation, the improvement of the monitoring and management of liability and effective reduction of the management of the government’s surplus (Rosenstein and Wyatt, 1990; Jensen, 1993; Pope and Young, 2005), thus, there are more directors external to the board of directors, the more effective quality of board decisions and, therefore the performance (Mehran, 1995) of the corporation.

The risk of a family business stems from a narrow vision due to excessive reliance on one's own experience, so it is necessary to bring in external directors to provide different perspectives and advice on the board. When the only child takes over, it tends to introduce more external directors, according to which it can not only ease the conflict between old and new ideas within the enterprise, more able to increase the professionalism of the board of directors and management, will be able to help enterprises to upgrade and transform the industry, in response to the expansion of enterprises and changes in the external environment, according to this study put forward the first hypothesis:

**Hypothesis 1: When future generations take over Chinese family businesses, more external directors will be brought in on the board.**

The development process and behavior, the activities of an organization depend on institutional conditions if a society, including its resources, government laws and cultural norms, etc., so that the legal environment of a country will affect the development of capital markets (Stinchcombe, 1965; La Porta et al., 2004)。At present, the legal environment of Chinese companies still poses many problems, such as the imperfection of the legal system and the absence of legal rules, which lead to the lack of control market. China is in the midst of economic restructuring, and due to the lack of good prices and legal systems, companies are more inclined to use interpersonal relationships as business strategies rather than to obtain resources through market mechanisms. In addition, Dahya et al. (2008) Research shows that in countries where the rule of law environment is poor for shareholders, the ratio of corporate value to the proportion of independent directors on boards is positively correlated.

In the absence of a sound legal environment in China, family-owned enterprises with political relations can effectively protect the assets of enterprises and help improve corporate performance (Bai et al., 2006). Due to the vast geographic area, the organizational environment between provinces is not the same, and in the reform process, local governments shoulder the responsibilities entrusted to them by the CPC Central Committee and become the dominant force in the operation of the local economy, so enterprises must understand the environment and adapt to the local environment. If the organizational environment in the Chinese provinces will have a different impact on the introduction of external trustees by successors. Accordingly, this article puts forward two hypotheses as follows:

**Hypothesis 2: Different organizational environments in China's provinces will affect the succession of family-owned companies to bring in more external directors**

* 1. Research Design

In order to check whether the estate of descendants of family enterprises will have a strong demand for external directors, this study should be variable according to external director’s participation ratio, average academic qualifications of external directors and the experience of foreign directors as an agent variable of external directors, the reason is that the family business in the founder's operation, most family members have substantial control over the company and generally hold the positions of supervisor and senior manager, so there may be fewer outside talents in the family business (Barontini and Caprio, 2006; Chung and Chan, 2012). However, because of the influence of the only child, the family population gradually decreased after the one-child succession, in the absence of family talent, coupled with China's corporate environment, family successors will have more incentive to seek professional help to keep the family business afloat. Therefore, an empirical model to test the hypothesis is established as follows:

(1)

(2)

(3)

The variables are defined as follows:

|  |  |
| --- | --- |
|  | =the shareholding ratio of external directors in the t-1 period, the proportion of external directors' shareholdings to the total number of shares outstanding; |
|  | =The average academic qualification of the external directors in the t-1 period, if the degree of the external directors is 1 below the high school (job), the university is 2, the master's degree is 3, and the doctor's degree is 4; |
|  | =The score level of the experience of the external directors. This paper builds on the experience narrative project of external directors in the annual report as the basis for calculation, when there is only one narrator in narration of the external filmmaker experience, then 1, there are two narrators, then 2, in order to calculate, up to 6 experience narratives, so the variable is between 0 and 6; |
|  | =Whether the family business has been taken over by the descendants of the family, if the annual successor is 1, otherwise 0; |
|  | =Company size, t-year total assets take natural reality; |
|  | =Board size, number of board members at the end of t; |
|  | =Whether the chairman of the board of directors at the same time as the general manager, there is 1, otherwise 0; |
|  | = Financial leverage, total liabilities at the end of t divided by total assets; |
|  | =Return on assets, net profit before tax at the end of t divided by total assets at the end of t; |
|  | =Growth opportunities, t-year equity market value divided by t-year equity book value; |
|  | =Company age, the company has been established to date, to the year as a unit; |
|  | =Shareholding ratio, rate of family members total shareholding rate of family members at the end of t; |
|  | =Annual audit accounting firm for BIG4 accounting firm is 1, otherwise 0. |
|  | =Annual year effect; |
|  | =Industrial effect. |

(4)

(5)

(6)

The variables are defined as follows:

|  |  |
| --- | --- |
|  | China's provinces to organize environmental data, this study cites Fan et al., (2012) compiled 30 provinces or regions in China's relative process of market-oriented indicators data, the median index of index, greater than the median is a better development of the region and ordered to 1, the reverse of 0. |

The variable () is based on market-oriented relative process indicator data for 30 provinces or regions in China compiled by the National Economic Research Institute: China Reform Foundation and its sub-indicator data. This indicator involves five sub-indicators, they are the relationship between the government and the market, the development of the non-state-owned economy, the degree of product market development, the degree of development of the factor market and the development of market intermediary and legal system environment. Among them, this study will be Fan et al. (2012) The points expected for the legal environment in China for each year and the area is used as an indicator of the organizational environment for each year in which the companies in this study are situated.

3.3 Sample Selection and Data Sources

This study is based on A-shares listed in Shanghai and Shenzhen, China from 2011 to 2019. The financial, insurance and securities industries are all government-licensed industries, so they are not included. The company’s accounting earnings information and control variables are all collected from the Taiwan Economic News database, and related data such as family businesses are manually collected from the annual reports published by China’s A-share companies. The samples for this study were screened as follows:

1. Samples of China's domestic public offering in the A-share market trading listed companies, the director and management of the relevant information in the annual report.
2. Due to the specific nature of the industry and the difference between accounting treatment and other general companies, this study excludes the financial, insurance and securities industries.
3. This study excludes companies that are unable to obtain relevant information about administrators required for this study or that do not have complete samples of missing values.
4. Companies that do not continue to issue publicly or go public during the study period are not included.
5. This study excludes companies classified as in the category of .ST, primarily for companies that "risk the termination of listing of their shares", and the Exchange will exclude companies whose shares are previously marked with the "ST" label.

|  |  |
| --- | --- |
| Table 1 Sample Screening Process | |
| Original observations from 2011 to 2019 | 4,685 |
| Less: Sample of financial, insurance and securities companies | (127) |
| Less: Family business data is incomplete | (88) |
| Subtract: Other related variables are incomplete | (12) |
| Total study samples | 4,458 |

**4. Empirical results**

This chapter explains the impact of succession of family businesses on the degree of demand for external directors and the degree of external directors' needs in different organizational environments in various provinces of China, with the first section being narrative statistical analysis, the second section being correlation analysis, the third section being regression analysis, and the fourth section being additional analysis.

* 1. Statistical Analysis

This study explores the degree of demand for external directors for the succession of descendants of Chinese family-owned enterprises, and in order to avoid extreme values affecting empirical results, winsorized all continuity variables after 1% before extreme values before regression analysis. Table 2 is a narrative statistic processed by winsorized. Among them, the average (median) of external director's shareholding ratio (OUTDIR) is about 0.38 (0.35), the CSRC has been promoting the external director system since 2001, but most of China's listed companies are restructured by state-owned enterprises, with relatively concentrated equity and excessive internal directors still prevalent. The average (median) of external directors' average education (MAGMT) is approximately 2.53 (2.59). It indicates that most of the external directors of listed companies in China have university degrees or above. The average (median) of external director experience (MAGMTEXP) is about 3.43 (3.67), indicating that most of the external directors of listed companies in China have more than three experiences in addition to their directorships, and that a wealth of experience can help improve corporate performance. The average number of family businesses that have taken over (SUCC) is 0.10, which means total sample size4, ten per cent of the 458 samples were taken over by family descendants.

The average (median) of the market-oriented relative process index (INDEX) is 0.38 (0.00), because this study takes THEEX to the median, greater than the median is 1 for the region's better development, otherwise 0, so the average is greater than the median, showing that most of the listed companies in the sample have their headquarters in provinces with relatively good legal environment. The average number of family succession and market-oriented relative process indicators (SUCC\*INDEX) is 0.06, i.e. in areas with better organizational environments, about 6% of family businesses have completed succession.

The average size of the board of directors (BOARDSIZE) is 8.53, and the Company Law of China stipulates that the board of directors of a limited liability company must have 3 to 13 members, indicating that all listed companies in China follow the legal norms. The average number of chairman and general manager (DUEL) is 0.29, indicating that 29% of the 4,458 samples in the total sample size are owned by the chairman of the company as general manager. The average family member shareholding ratio (FAMOWN) is about 0.64, or 64% of family members' shareholding, indicating that most Chinese family-owned companies still hold more than half of the company's shares, tending to internalize and master the main rights of business operations.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Table 2 Statistics Analysis | | | | | | | | |
| variable | Mean | Standard deviation | Minimum | Median | Maximum | 25th place | 50th place | 75th place |
| OUTDIR | 0.38 | 0.15 | 0.10 | 0.35 | 0.76 | 0.26 | 0.35 | 0.47 |
| MAGMT | 2.53 | 0.66 | 1.00 | 2.59 | 4.00 | 2.00 | 2.59 | 3.00 |
| MAGMTEXP | 3.43 | 1.31 | 0.33 | 3.67 | 6.00 | 2.67 | 3.67 | 4.33 |
| SUCC | 0.10 | 0.30 | 0.00 | 0.00 | 1.00 | 0.00 | 0.00 | 0.00 |
| INDEX | 0.38 | 0.49 | 0.00 | 0.00 | 1.00 | 0.00 | 0.00 | 1.00 |
| SUCC\*INDEX | 0.06 | 0.23 | 0.00 | 0.00 | 1.00 | 0.00 | 0.00 | 0.00 |
| SIZE | 6.60 | 0.48 | 5.53 | 6.55 | 8.20 | 6.29 | 6.55 | 6.83 |
| BOARDSIZE | 8.53 | 1.50 | 5.00 | 9.00 | 13.00 | 7.00 | 9.00 | 9.00 |
| DUEL | 0.29 | 0.45 | 0.00 | 0.00 | 1.00 | 0.00 | 0.00 | 1.00 |
| LEV | 0.41 | 0.20 | 0.06 | 0.40 | 0.97 | 0.25 | 0.40 | 0.56 |
| ROA | 0.05 | 0.06 | -0.18 | 0.04 | 0.22 | 0.02 | 0.04 | 0.07 |
| GROWTH | 4.69 | 3.58 | 0.00 | 3.68 | 20.13 | 2.33 | 3.68 | 6.08 |
| AGE | 18.74 | 9.78 | 0.00 | 17.00 | 64.00 | 14.00 | 17.00 | 21.00 |
| FAMOWN | 0.64 | 0.15 | 0.24 | 0.67 | 1.00 | 0.55 | 0.67 | 0.75 |
| BIG4 | 0.27 | 0.44 | 0.00 | 0.00 | 1.00 | 0.00 | 0.00 | 1.00 |

1. The variables are defined as follows: OUTDIR - external director shareholding ratio, the number of external directors holding shares in the total number of shares outstanding; MAGMT - average academic qualifications of external directors, if the external director's degree in high school (job) below 1, university 2, master's degree 3, doctor's degree 4; MAGMTEXP - external director experience, external director experience score level; SUCC - Whether the family business has been taken over by the descendants of the family, if the t-year successor is 1, otherwise it is 0; INDEX is the relative process indicator of marketization, the environmental data of the Chinese provinces will be the median, greater than the median number of people belonging to the better developed areas and ordered to be 1, and vice versa 0; SUCC-INDEX is the relative indicator of succession and marketization process; SIZE - company size, t-year total assets take natural re-index; BOARDSIZE - Board size, number of board members at the end of t;DUEL - whether the chairman of the board of directors at the same time as the general manager, there is 1, otherwise 0; LEV - financial leverage, t-year total liabilities divided by total assets; ROA - return on assets, t year-end net profit before tax divided by total assets at the end of t; GROWTH - growth opportunities, t-year equity market value divided by t-year equity book value; AGE - the age of the company, the number of years since the establishment of the company, to the year as a unit; FAMOWN - Family Member Shareholding Ratio, total shareholding ratio of family members at the end of the year; The check accountant for big4 s is BIG4 accounting firm 1, otherwise 0.
2. To avoid the effects of extreme values, the study treated 1% of all continuity variables with winsorized, which was greater than 99% and less than 1%, replaced by 99% and 1%, respectively.
   1. Relevance Analysis

Table 3 is a Pearson correlation analysis of each variable. The average external director's education (MAGMT) and external director's experience (MAGMTEXP) were significantly negatively correlated with the external director's shareholding ratio (OUTDIR), with correlation coefficients of -0.149 and -0.117, respectively. In addition, the external director shareholding ratio (OUTDIR) is significantly positively correlated with the family succession (SUCC), with a correlation coefficient of 0.117,The average academic qualifications (MAGMT) and external director experience (MAGMTEXP) and family succession (SUCC) showed significant negative correlation, the correlation coefficients were -0.075 and -0.104, respectively, indicating that the external directors' shareholding ratio was positively correlated after the succession of family companies, while the average academic qualifications and experience of external directors after succession had a negative impact. The intersection of family succession and market-oriented relative process indicators (SUCC\*INDEX) showed a significant positive correlation with the shareholding ratio of external directors, with a correlation coefficient of 0.086, indicating that the shareholding ratio of external directors had a positive impact after succession of family-owned enterprises with better organizational environment. Family succession, market-driven process relative indicators of the intersection of multiplication (SUCC\*INDEX) and external director average education (MAGMT) and external director experience (MAGMATEXP) are significantly negative correlation, the correlation coefficient is -0.056 and -0.088, indicating that the family business succession and external director's average education and experience in a better organizational environment have a negative impact.

In the Control Variables section, board size (BOARDSIZE), financial leverage (LEV) and company age (AGE) and external director shareholding ratio (OUTDIR) are all significantly positively correlated, while both chairman and general manager (DUEL), return on assets (ROA), growth opportunity (GROWTH) and family member shareholding ratio (FAMOWN) are significantly negatively correlated with external director shareholding ratio (OUTDIR).Financial leverage (LEV) was significantly negatively correlated with the average academic qualifications and experience of external directors, while family member shareholding ratio (FAMOWN) was significantly positively correlated with both variables. Finally, the ratio of external directors' shareholdings (OUTDIR) to family member shareholdings (FAMOWN) is highly correlated among the variables. Family succession (SUCC) is moderately related to the cross-section (SUCC\*INDEX), corporate size (SIZE) and financial leverage ratio (LEV) and growth opportunity (GROWTH), with the rest being low-related.

Additionally, the study was tested with variance Inflation Factor, or VIF for short, and the results showed that the VIF value was less than 10 among all arguments, so there wasn’t a collision issue between the arguments.

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| Table 3 Pearson Correlation | | | | | | | | | | | | | | | |
| variable | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) |
| (1)OUTDIR | 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (2)MAGMAT | -.149\*\*\* | 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (3)MAGMATEXP | -.117\*\*\* | -.291\*\*\* | 1 |  |  |  |  |  |  |  |  |  |  |  |  |
| (4)SUCC | -.117\*\*\* | -.075\*\*\* | -.104\*\*\* | 1 |  |  |  |  |  |  |  |  |  |  |  |
| (5)INDEX | -.045\*\*\* | -.094\*\*\* | -.127\*\*\* | -.120\*\*\* | 1 |  |  |  |  |  |  |  |  |  |  |
| (6)SUCC\*INDEX | -.086\*\*\* | -.056\*\*\* | -.088\*\*\* | -.724\*\*\* | -.315\*\*\* | 1 |  |  |  |  |  |  |  |  |  |
| (7)SIZE | -.025\*\*\* | -.035\*\*\* | -.073\*\*\* | -.042\*\*\* | -.037\*\*\* | -.053\*\*\* | 1 |  |  |  |  |  |  |  |  |
| (8)BOARDSIZE | -.033\*\*\* | -.024\*\*\* | -.043\*\*\* | -.030\*\*\* | -.046\*\*\* | -.007\*\*\* | -.106\*\*\* | 1 |  |  |  |  |  |  |  |
| (9)DUEL | -.040\*\*\* | -.021\*\*\* | -.039\*\*\* | -.014\*\*\* | -.019\*\*\* | -.005\*\*\* | -.107\*\*\* | -.052\*\*\* | 1 |  |  |  |  |  |  |
| (10)LEV | -.140\*\*\* | -.026\*\*\* | -.092\*\*\* | -.097\*\*\* | -.041\*\*\* | -.095\*\*\* | -.417\*\*\* | -.061\*\*\* | -.096\*\*\* | 1 |  |  |  |  |  |
| (11)ROA | -.062\*\*\* | -.008\*\*\* | -.009\*\*\* | -.060\*\*\* | -.043\*\*\* | -.001\*\*\* | -.094\*\*\* | -.058\*\*\* | -.020\*\*\* | -.245\*\*\* | 1 |  |  |  |  |
| (12)GROWTH | -.039\*\*\* | -.019\*\*\* | -.167\*\*\* | -.052\*\*\* | -.089\*\*\* | -.081\*\*\* | -.505\*\*\* | -.052\*\*\* | -.122\*\*\* | -.083\*\*\* | -.031\*\*\* | 1 |  |  |  |
| (13)AGE | -.096\*\*\* | -.003\*\*\* | -.086\*\*\* | -.031\*\*\* | -.025\*\*\* | -.003\*\*\* | -.051\*\*\* | -.045\*\*\* | -.051\*\*\* | -.098\*\*\* | -.028\*\*\* | -.005\*\*\* | 1 |  |  |
| (14)FAMOWN | -.878\*\*\* | -.150\*\*\* | -.134\*\*\* | -.137\*\*\* | -.022\*\*\* | -.110\*\*\* | -.043\*\*\* | -.025\*\*\* | -.051\*\*\* | -.151\*\*\* | -.063\*\*\* | -.068\*\*\* | -.125\*\*\* | 1 |  |
| (15)BIG4 | -.007\*\*\* | -.042\*\*\* | -.019\*\*\* | -.074\*\*\* | -.022\*\*\* | -.058\*\*\* | -.020\*\*\* | -.015\*\*\* | -.048\*\*\* | -.011\*\*\* | -.007\*\*\* | -.009\*\*\* | -.090\*\*\* | -.007\*\*\* | 1 |

1. All variables are defined in Table 2.

2 \*\*\*,\*\*,\*represents a significant level of 1%, 5%, and 10%, respectively.

* 1. Regression analysis

Table 4 is an empirical result of the demand for external directors after controlling the year and industry, measured by the external director's shareholding ratio (OUTDIR), the average external director's education (MAGMT) and the external director's experience (MAGMTEXP). The results show that the external director shareholding ratio (OUTDIR) is negatively correlated with the family succession (SUCC), but does not reach a significant level. Whereas the average academic credentials of external directors (MAGMT) and external director experience (MAGMTEXP) and family succession (SUCC) showed a significant negative correlation, the coefficient estimates are -0.059 and -0.074, respectively, do not support this study hypothesis, indicating that after the succession of Chinese family enterprises, may be due to the traditional family culture of the enterprise management style, family members and no bloodless external directors, therefore, successors do not tend to hire external directors, it should be proved that the biggest difficulty in the growth of Chinese family-owned enterprises is trust, so the establishment of institutionalized trust is the key factor to promote the growth of family-owned enterprises.

Table 4 is a regression analysis of the needs of external directors by descendants of family-owned enterprises in various provinces of China to further explore the impact of family succession on the needs of external directors in provinces with better organizational environment, so add the Market Index Variable (INDEX) to detect hypothesis II. Based on the empirical results of the external board share ownership ratio (OUTDIR),The intersection of family succession and marketization process indicators (SUCC\*INDEX) is negative, but does not reach a significant level (coefficient estimate of -0.004), while the average external director's education (MAGMT) and external director's experience (MAGMTEXP) and family succession, marketization process indicators are significantly positive (coefficient estimates are 0.046 and 0.042, respectively), indicating that enterprises in the better organizational development environment, after succession of family-owned enterprises, successors tend to hire higher education and rich experience of external directors, may be due to the better development of the organizational environment of the provinces, higher degree of competition between enterprises and in response to the globalization of the business model, and under China's one-child policy, the family business within the talent sharp decline, so in order to expand the family business and sustainable development, successors have a high incentive to hire experienced external directors to enhance the competitiveness of family businesses through their professional knowledge and network of contacts in order to maintain the long-term operation of family businesses.

In the control variables section, both the size of the board of directors (BOARDSIZE) and share ratio of external directors (OUTDIR) show a significant positive correlation, indicating that the larger the board size, the higher the external director's shareholding ratio; Both age of the company (AGE) and family member shareholding ratio (FAMOWN) and external director shareholding ratio (OUTDIR) show significant negative correlations, indicating that the longer the company is established and the higher the shareholding ratio of family members, since most family-owned enterprises are restructured by state-owned enterprises and still maintain a family culture, the lower the shareholding ratio of external directors. The size of the company (SIZE), the chairman or general manager (DUEL) and the family member shareholding ratio (FAMOWN) are significantly positively correlated with the average external director's education (MAGMT).Indicates that the larger the size of the company, the higher the shareholding ratio of the chairman and general manager and family members, the higher the average education of external directors; Financial leverage ratio (LEV) is significantly correlated negatively with the average training of outside (MAGMT), indicating that the lower the average academic qualification of external directors, the lack of professionals to assist the company, the greater the probability of financial crisis, of bankruptcy, the higher the financial leverage ratio. The size of the company (SIZE), board size (BOARDSIZE), family member shareholding ratio (FAMOWN) and growth opportunity (GROWTH) are all significantly positively correlated with the experience of external directors, indicating that the larger the company, the larger the board, the higher the family member's share ownership ratio and the greater the opportunities for the company to grow, the more capable the company is of hiring experienced external directors.

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| --- | --- | --- | --- | --- | --- | --- |
| Table 4 Regression Analysis of Family Succession and External Directors | | | | | | |
|  | OUTDIR | | MAGMT | | MAGMTEXP | |
|  | coefficient | T-value | coefficient | T-value | coefficient | T-value |
| SUCC | -0.003 | -0.388\*\*\* | -0.059 | -4.131\*\*\* | -0.074 | -5.062\*\*\* |
| SIZE | -0.011 | -1.126\*\*\* | -0.064 | -3.289\*\*\* | -0.067 | -3.372\*\*\* |
| BOARDSIZE | -0.015 | -2.062\*\*\* | -0.025 | -1.778\*\*\* | -0.062 | -4.263\*\*\* |
| DUEL | -0.001 | -0.165\*\*\* | -0.033 | -2.251\*\*\* | -0.013 | -0.908\*\*\* |
| LEV | -0.011 | -1.173\*\*\* | -0.040 | -2.198\*\*\* | -0.060 | -3.238\*\*\* |
| ROA | -0.004 | -0.475\*\*\* | -0.036 | -2.384\*\*\* | -0.051 | -3.283\*\*\* |
| GROWTH | -0.015 | -1.651\*\*\* | -0.029 | -1.658\*\*\* | -0.175 | -9.794\*\*\* |
| AGE | -0.016 | -2.100\*\*\* | -0.012 | -0.829\*\*\* | -0.050 | -3.371\*\*\* |
| FAMOWN | -0.875 | -114.823\*\*\* | -0.108 | -7.252\*\*\* | -0.102 | -6.709\*\*\* |
| BIG4 | -0.003 | -0.395\*\*\* | - | - | - | - |
| YEAR | INCLUDE | | INCLUDE | | INCLUDE | |
| IND | INCLUDE | | INCLUDE | | INCLUDE | |
| N | 4,458 | | 4,458 | | 4,458 | |
| F-value | 450.555 | | 20.955 | | 14.268 | |
| Adjusted R2 | 0.769 | | 0.125 | | 0.087 | |

1. All variables are defined in Table 2.

2. \*\*\* represents p< 0.01, \*\*represents p< 0.05, \*presents p<0.1(two-tiles test).

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| --- | --- | --- | --- | --- | --- | --- |
| Table 5 Regression Analysis of Succession and External Directors in China's Provinces | | | | | | |
|  | OUTDIR | | MAGMT | | MAGMTEXP | | |
|  | coefficient | T-value | coefficient | T-value | coefficient | T-value | |
| SUCC | -0.004 | -0.369\*\*\* | -0.077 | -3.672\*\*\* | -0.089 | -4.180\*\*\* | |
| INDEX | -0.026 | -3.286\*\*\* | -0.118 | -7.728\*\*\* | -0.113 | -7.232\*\*\* | |
| SUCC\*INDEX | -0.004 | -0.396\*\*\* | -0.046 | -2.125\*\*\* | -0.042 | -1.894\*\*\* | |
| SIZE | -0.014 | -1.350\*\*\* | -0.056 | -2.880\*\*\* | -0.059 | -2.984\*\*\* | |
| BOARDSIZE | -0.016 | -2.199\*\*\* | -0.029 | -2.022\*\*\* | -0.066 | -4.506\*\*\* | |
| DUEL | -0.002 | -0.216\*\*\* | -0.035 | -2.429\*\*\* | -0.016 | -1.065\*\*\* | |
| LEV | -0.012 | -1.326\*\*\* | -0.037 | -2.051\*\*\* | -0.057 | -3.096\*\*\* | |
| ROA | -0.002 | -0.259\*\*\* | -0.033 | -2.143\*\*\* | -0.047 | -3.050\*\*\* | |
| GROWTH | -0.012 | -1.286\*\*\* | -0.017 | -0.993\*\*\* | -0.164 | -9.170\*\*\* | |
| AGE | -0.016 | -2.104\*\*\* | -0.015 | -1.000\*\*\* | -0.048 | -3.234\*\*\* | |
| FAMOWN | -0.874 | -114.654\*\*\* | -0.113 | -7.684\*\*\* | -0.107 | -7.106\*\*\* | |
| BIG4 | -0.004 | -0.508\*\*\* | - | - | - | - | |
| YEAR | INCLUDE | | INCLUDE | | INCLUDE | | |
| IND | INCLUDE | | INCLUDE | | INCLUDE | | |
| N | 4,458 | | 4,458 | | 4,458 | | |
| F-value | 426.261 | | 21.742 | | 15.127 | | |
| Adjusted R2 | 0.770 | | 0.137 | | 0.097 | | |

1. All variables are defined in Table 2.

2 \*\*\*,\*\*,\*represents a significant level of 1%, 5%, and 10%, respectively.

* 1. Additional Analysis

Since China's reform and opening-up in 1978, from a planned economy to a market economy, in order to liberate productivity and promote economic development, under the influence of China's international economic strategy, traditional industries have become an important part of China's economy, in recent years, accounting for about half of China's gross domestic product. China's low labor costs make labor-intensive industries competitive. And have a large domestic market to promote economies of scale and reduce costs within the enterprise. Based on the above-mentioned advantages of traditional Chinese manufacturing, the government also believes that the traditional manufacturing an important economic foundation, making China the largest country in traditional sector is manufacturing. Therefore, this study further distinguishes the sample from traditional and non-traditional industries. To explore whether the differences between industries will affect the impact of Chinese family-owned enterprises on the demand of external directors after succession.

Tables 6 and 7 are family succession and external director regression analysis - distinguishing between traditional and non-traditional industries, empirical results show that the average external director education (MAGMT) and external director experience (MAGMTEXP) in the traditional industry showed a significant negative correlation, but in non-traditional industries although negative but not significant level, indicating that the traditional industry family business after succession does not tend to hire external directors, it may be that the corporate culture of traditional industries is still conservative, the business philosophy of family culture and the xenophobic consciousness of specialist trust deeply affect the internal members of family enterprises, and the traditional industries have been formed since the reform and opening up of the industrial culture, the development has been very mature and stable, so the family business after succession is not inclined to hire external directors. Non-traditional industries, although negative, have not reached a significant level, indicating that family-owned enterprises in non-traditional industries have not strongly excluded the hiring of external directors into family-owned enterprises.

Table 8 and 9 are the regression analysis of succession and external directors of family-owned enterprises in Various Provinces of China - distinguishing between traditional and non-traditional industries, empirical results show that the intersection of family succession, market-oriented relative process indicators (SUCC-INDEX) and the average external director education (MAGMT) and external director experience (MAGMTEXP) in traditional industries, although not significant level but present positive, in non-traditional industries have shown significant positive correlation, indicating that in the organization of better development of non-traditional industries, in the family business succession, successors will tend to hire experienced external directors, the reason may be non-traditional industries are knowledge-intensive industries, industry characteristics change speed, in the better development of the region more intense competition, coupled with the impact of a globalized business model, provinces with more complex organizations are more vulnerable to external environments such as multinationals, so successors tend to hire experienced external directors to take advantage of their expertise and social capital in response to changes in the external environment and to maintain the long-term operation of family businesses. To help businesses improve and develop and provide more yuan prospect.

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| Table 6 Regression Analysis of Succession and External Directors - Traditional Industries | | | | | | |
|  | OUTDIR e | | MAGMT | | MAGMTEXP | | |
|  | coefficient | T-value | coefficient | T-value | coefficient | T-value | |
| SUCC | -0.012 | -1.386\*\*\* | -0.077 | -4.519\*\*\* | -0.110 | -6.366\*\*\* | |
| SIZE | -0.001 | -0.047\*\*\* | -0.067 | -2.998\*\*\* | -0.047 | -2.067\*\*\* | |
| BOARDSIZE | -0.020 | -2.262\*\*\* | -0.054 | -3.151\*\*\* | -0.078 | -4.525\*\*\* | |
| DUEL | -0.005 | -0.566\*\*\* | -0.040 | -2.296\*\*\* | -0.017 | -0.959\*\*\* | |
| LEV | -0.013 | -1.246\*\*\* | -0.028 | -1.365\*\*\* | -0.034 | -1.649\*\*\* | |
| ROA | -0.007 | -0.740\*\*\* | -0.001 | -0.053\*\*\* | -0.029 | -1.521\*\*\* | |
| GROWTH | -0.016 | -1.594\*\*\* | -0.018 | -0.903\*\*\* | -0.169 | -8.189\*\*\* | |
| AGE | -0.006 | -0.679\*\*\* | -0.008 | -0.434\*\*\* | -0.105 | -5.952\*\*\* | |
| FAMOWN | -0.877 | -96.557\*\*\* | -0.109 | -6.105\*\*\* | -0.105 | -5.798\*\*\* | |
| BIG4 | -0.000 | 0.041\*\*\* |  |  |  |  | |
| YEAR | INCLUDE | | INCLUDE | | INCLUDE | | |
| IND | INCLUDE | | INCLUDE | | INCLUDE | | |
| N | 3,108 | | 3,108 | | 3,108 | | |
| F-value | 616.795 | | 24.339 | | 19.546 | | |
| Adjusted R2 | 0.772 | | 0.107 | | 0.087 | | |

1. All variables are defined in Table 2.

2 \*\*\*,\*\*,\*represents a significant level of 1%, 5%, and 10%, respectively.

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| Table 7 Regression Analysis of Succession and External Directors - Non-Traditional Industries | | | | | | |
|  | OUTDIR | | MAGMT | | MAGMTEXP | |
|  | coefficient | T-value | coefficient | T-value | coefficient | T-value |
| SUCC | -0.023 | -1.613\*\*\* | -0.028 | -1.053\*\*\* | -0.003 | -0.100\*\*\* |
| SIZE | -0.033 | -1.745\*\*\* | -0.060 | -1.646\*\*\* | -0.113 | -3.016\*\*\* |
| BOARDSIZE | -0.003 | -0.234\*\*\* | -0.029 | -1.120\*\*\* | -0.038 | -1.402\*\*\* |
| DUEL | -0.003 | -0.204\*\*\* | -0.012 | -0.466\*\*\* | -0.042 | -1.562\*\*\* |
| LEV | -0.014 | -0.835\*\*\* | -0.103 | -3.249\*\*\* | -0.172 | -5.230\*\*\* |
| ROA | -0.003 | -0.226\*\*\* | -0.116 | -4.347\*\*\* | -0.088 | -3.195\*\*\* |
| GROWTH | -0.018 | -1.106\*\*\* | -0.051 | -1.636\*\*\* | -0.224 | -6.877\*\*\* |
| AGE | -0.043 | -3.179\*\*\* | -0.052 | -2.022\*\*\* | -0.026 | -0.976\*\*\* |
| FAMOWN | -0.867 | -61.821\*\*\* | -0.156 | -5.834\*\*\* | -0.137 | -4.954\*\*\* |
| BIG4 | -0.005 | -0.379\*\*\* |  |  |  |  |
| YEAR | INCLUDE | | INCLUDE | | INCLUDE | |
| IND | INCLUDE | | INCLUDE | | INCLUDE | |
| N | 1,350 | | 1,350 | | 1,350 | |
| F-value | 255.801 | | 13.991 | | 7.627 | |
| Adjusted R2 | 0.763 | | 0.134 | | 0.073 | |

1. All variables are defined in Table 2.

2 \*\*\*,\*\*,\*represents a significant level of 1%, 5%, and 10%, respectively.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 8 Regression Analysis of Succession and External Directors in China's Provinces - Traditional Industries | | | | | | |
|  | OUTDIR | | MAGMT | | MAGMTEXP | |
|  | coefficient | T-value | coefficient | T-value | coefficient | T-value |
| SUCC | -0.002 | -0.138\*\*\* | -0.086 | -3.077\*\*\* | -0.114 | -4.016\*\*\* |
| INDEX | -0.032 | -3.410\*\*\* | -0.114 | -6.159\*\*\* | -0.088 | -4.711\*\*\* |
| SUCC\*INDEX | -0.005 | -0.312\*\*\* | -0.040 | -1.355\*\*\* | -0.027 | -0.903\*\*\* |
| SIZE | -0.004 | -0.320\*\*\* | -0.052 | -2.305\*\*\* | -0.035 | -1.535\*\*\* |
| BOARDSIZE | -0.020 | -2.331\*\*\* | -0.057 | -3.326\*\*\* | -0.080 | -4.658\*\*\* |
| DUEL | -0.006 | -0.679\*\*\* | -0.043 | -2.502\*\*\* | -0.014 | -0.813\*\*\* |
| LEV | -0.016 | -1.557\*\*\* | -0.019 | -0.957\*\*\* | -0.027 | -1.322\*\*\* |
| ROA | -0.005 | -0.531\*\*\* | -0.006 | -0.306\*\*\* | -0.025 | -1.320\*\*\* |
| GROWTH | -0.012 | -1.187\*\*\* | -0.006 | -0.277\*\*\* | -0.159 | -7.682\*\*\* |
| AGE | -0.007 | -0.766\*\*\* | -0.009 | -0.505\*\*\* | -0.106 | -6.024\*\*\* |
| FAMOWN | -0.875 | -96.286\*\*\* | -0.117 | -6.525\*\*\* | -0.111 | -6.103\*\*\* |
| BIG4 | -0.000 | -0.055\*\*\* | - | - | - | - |
| YEAR | INCLUDE | | INCLUDE | | INCLUDE | |
| IND | INCLUDE | | INCLUDE | | INCLUDE | |
| N | 3,108 | | 3,108 | | 3,108 | |
| F-value | 554.732 | | 24.024 | | 18.748 | |
| Adjusted R2 | 0.772 | | 0.118 | | 0.093 | |

1. All variables are defined in Table 2.

2 \*\*\*,\*\*,\*represents a significant level of 1%, 5%, and 10%, respectively.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 9 Regression Analysis of Succession and External Directors in China's Provinces - Non-Traditional Industries | | | | | | |
| Self-variable | OUTDIR | | MAGMT | | MAGMTEXP | |
|  | coefficient | T-value | coefficient | T-value | coefficient | T-value |
| SUCC | -0.021 | -1.235\*\*\* | -0.080 | -2.481\*\*\* | -0.075 | -2.268\*\*\* |
| INDEX | -0.001 | -0.076\*\*\* | -0.093 | -3.394\*\*\* | -0.167 | -5.949\*\*\* |
| SUCC\*INDEX | -0.003 | -0.180\*\*\* | -0.085 | -2.634\*\*\* | -0.115 | -3.464\*\*\* |
| SIZE | -0.033 | -1.695\*\*\* | -0.080 | -2.201\*\*\* | -0.145 | -3.885\*\*\* |
| BOARDSIZE | -0.003 | -0.220\*\*\* | -0.030 | -1.138\*\*\* | -0.040 | -1.498\*\*\* |
| DUEL | -0.003 | -0.205\*\*\* | -0.014 | -0.560\*\*\* | -0.047 | -1.775\*\*\* |
| LEV | -0.014 | -0.806\*\*\* | -0.115 | -3.613\*\*\* | -0.189 | -5.794\*\*\* |
| ROA | -0.003 | -0.206\*\*\* | -0.116 | -4.319\*\*\* | -0.084 | -3.040\*\*\* |
| GROWTH | -0.018 | -1.111\*\*\* | -0.051 | -1.629\*\*\* | -0.220 | -6.835\*\*\* |
| AGE | -0.043 | -3.127\*\*\* | -0.066 | -2.543\*\*\* | -0.049 | -1.838\*\*\* |
| FAMOWN | -0.867 | -61.747\*\*\* | -0.158 | -5.917\*\*\* | -0.139 | -5.087\*\*\* |
| BIG4 | -0.005 | -0.386\*\*\* |  |  |  |  |
| YEAR | INCLUDE | | INCLUDE | | INCLUDE | |
| IND | INCLUDE | | INCLUDE | | INCLUDE | |
| N | 1,350 | | 1,350 | | 1,350 | |
| F-value | 228.539 | | 13.350 | | 9.099 | |
| Adjusted R2 | 0.762 | | 0.141 | | 0.098 | |

1. All variables are defined in Table 2.

2 \*\*\*,\*\*,\*represents a significant level of 1%, 5%, and 10%, respectively.

**5. Conclusions and Suggestions**

China's reform and opening-up dates back over 40 years, is the fastest growing economy in the last couple of years, is now the world's second largest economy, and China's capital market family-owned enterprises accounted for 55.7% of all private enterprises listed A-shares, showing that family-owned enterprises for China's capital market occupies an important position. Furthermore, Taiwan businessmen's investment in China over the years accounted for the largest amount of Taiwan's outbound investment, the amount of investment accounted for 57.6% of Taiwan businessmen's overseas investment, so this study takes Chinese family-owned enterprises as a research sample, hoping to help China's academic and political and business sectors

Learn more about the Chinese market.

More than 40 years have passed since China opened private enterprises in 1978, and the succession of family-owned enterprises has come to the fore because of the age of the founders of family-owned enterprises. However, it is difficult for successors to fully undertake all the social capital of their parents' founders, and the one-child policy has led to a sharp decline in talent within the family business, coupled with the rapid changes in the external environment and the global business model, when the successor of family business faces the challenge of inside and outside, it is more necessary to seek external directors to provide more yuan perspective of the enterprise and expand the network resources of the enterprise, so the purpose of this study is to explore the impact of succession of descendants of Chinese family enterprises on the degree of external director demand.

In addition, due to the board geographic area of China, the inconsistent provincial organizational environment result in a significant gap between urban and rural areas, is one of the few countries in the world with the most disparity, so this paper also put the organizational environment of China's provinces into consideration, to further explore the succession of Chinese family-owned enterprises, whether the organizational environment of each province has different effects on the degree of demand for external directors.

The empirical results of this study show that after the succession of Chinese family-owned enterprises, the average academic qualifications of external directors and the experience of external directors decreased, indicating that the successor may be due to the business model of the enterprise still retains the traditional family culture, the members of the family feel ostracized and do not trust the directors of outsiders to hire external directors without blood relations. As a result, there is less demand for external directors with extensive academic experience.

However, empirical results also found that the succession of descendants of family-owned enterprises in China's provinces on the demand for external directors has further found that in the organization and development environment of enterprises in better provinces, family business successors for the study of rich external directors have a higher demand, indicating that because enterprises are in better-developed provinces, the industry is highly competitive and must respond to the global business model, so successors have a high incentive to hire experienced external professional directors.

In summary, the empirical results show only for family business, the overall demand for experienced external directors has not increased, but if the enterprise is in a province with better organizational development or if the family business belongs to non-traditional industries and has political relations, it will enhance the degree of demand from external directors with rich academic experience, it shows that Chinese family-owned enterprises have been gradually upgraded by provinces with better organizational environment, and are no longer restricted to the conservative way in which traditional Chinese society operates.

The limitations of this study are as follows: 1. All variable data of the sample in this study are collected manually from the Taiwan Economic News Database and the annual reports published by Chinese A-share companies, and the integrity and correctness of the samples may lead to bias. 2. This study was led by La Porta et al. (1999) define family business as the standard, only Chinese family business as the scope of research, so the empirical results of this study cannot be extended to other countries. 3.The financial, insurance and securities industries are not included in this study.

In addition, after empirical evidence, this study proposes the following future research directions. For the future research direction, the sample of this study is 2008 to 2015 in Shanghai, Shenzhen, China, the two exchanges of A-share listed companies, family succession (SUCC) by the China A-share listed companies annual report manual collection, family succession (SUCC) only about 10% of the total sample, it is suggested that future researchers can study in the coming years, the sample size may increase and thus increase the results of the study. This study only explores Chinese family-owned enterprises, and does not carry out other or transnational family-owned enterprises, and suggests that future researchers may conduct research in various countries, and that the special social cultures of each country may have different results, so as to enrich the literature of succession of family-owned enterprises. This study only investigates the impact of the succession of Chinese family-owned enterprises on the degree of demand for external directors, however, external directors can be distinguished between independent directors and grey directors and suggests that future researchers can further analyze whether there is any difference in the degree of demand for various directors after succession. This study uses only the external director’s share capital ratio, the average academic qualification of the external director and the external director's experience as the proxy variables of the external director and suggests that future researchers can measure the external director and enrich the research results with other variables.

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1. Van Bohhong, Morton. Benedeson (2015) points out that about half of listed companies in European countries are family-controlled, and family-owned businesses are more prevalent in Asian countries such as India, Indonesia, Malaysia, Thailand, Singapore, Hong Kong and Taiwan, where more than two-thirds of large business groups are managed by families. [↑](#footnote-ref-1)
2. According to the New Fortune (2002) report, listed companies controlled by the top 15 families in Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand accounted for 34.4%, 61.7%, 38.4%, 28.3% and 55.3% of GDP, respectively 1%, 29.9%, 20.1%, 53.3% and 84.2%, 21.5%, 12.9%, 76.2%, 46.7%, 48.3%, 17.0 %、39.3%,It follows the importance of family-owned businesses in the economies of these countries. [↑](#footnote-ref-2)