

Family Succession and Quality of Financial Information: Evidence from China

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Abstract

It has been more than 30 years since China opened private enterprises in 1978. Family firms is a very common type of Chinese business. Family Succession have a significant economic impact on the Chinese capital market. The purpose of this study is to explore the relationship between Chinese family succession and the quality of financial information. This study samples the A shares listed in China capital market from 2012 to 2020 and finds that after the succession of Chinese family firms, the quality of financial information has generally increased. However, after a family company with political connection take over the succession of its descendants, it will inhibit its earnings management and maintain the quality of financial information.

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1. Introduction

In recent years, China's economy has grown. According to the 2014 World Bank World Development Report, China has gradually transformed from the world's factory to the world's market. In terms of GDP, China has become the world's second largest economy after the United States. From the perspective of the Chinese society, the growth rate of Chinese family businesses is also increasing (Claessens , Djankov , Fan, and Lang, 2002). Previous studies have described the characteristics of Chinese family businesses, such as the characteristics of family members, the economic consequences of family businesses, and the succession of family businesses (Wang, Lin, Kao, and Fung, 2017; Jiang, Jiang, Kim, and Zhang, 2015; Cao, Cumming, and Wang, 2015; Xu, Yuan, Jiang, and Chan, 2015; Ma, Ma, and Tian, 2016; Cheng, Lin, and Wei, 2015). The succession of a family business is particularly important for the founding family who intend to control the business for a long time, and the factors to be considered are very complex. In addition, the succession of family members or non-family members is also different in the past literature (Calabr , Minichilli , Amore, and Brogi , 2018; Liu, Luo, and Tian, 2015). However, in the past, few studies have explored whether the succession of Chinese families will affect the quality of their financial information. Therefore, this study is the first to investigate the impact of family business succession on the quality of financial information in China.

In China, Hong Kong, Singapore and Taiwan, etc., due to the deep influence of the Chinese culture's emphasis on ethics and family, it has gradually developed family businesses that are very different from those in Europe and the United States. The founders of Chinese family businesses often have a patriarchal style, and this paternalistic leadership can play an effective role in leading Chinese family businesses (Redding, 1990). Unlike European and American family businesses, when the founders pass on to the second generation, they will introduce professional managers for institutionalized management. Chinese family businesses attach great importance to the continuity of incense. Enterprises are sometimes used as a tool to continue the family, not as a tool. To seek the goal of maximizing the interests of all stakeholders, most Chinese family businesses are run by the children of the family founders. Although the successor can take over the company without competing with outsiders, if the successor cannot inherit the founder's knowledge, ability, leadership style and accumulated social capital (Perez-Gonzalez, 2006; Villalonga and Amit, 2006) , it will affect the long-term development of family businesses (Golden, 1995). Benson (1984) pointed out that only 30% of family businesses in the United States can be successfully transferred to the second generation, which shows that the task of succession is not easy; therefore, when family successors face internal and external challenges, they will tend to use more information communication to reduce conflicts. At this time, the transmission mechanism of internal information may be converted into the transmission mechanism of external information, so the quality of financial information after taking over may be affected.

For China, the influence of the political environment of its communist system on business

operations cannot be ignored, and it also has many economic consequences (Chow, Fung, Lam, and Sami, 2012; Chen, Li, Su, and Sun, 2011). Companies that rely on political networks affect not only market reactions but also the quality of financial information (Liu, Shu, and Wei, 2017; Harymawen and Nowland, 2016; Braam, Nandy, Weitzel, and Lodh, 2015). It can be seen from this that in China's unique political environment, the political relationship of a family business will also affect the quality of its financial information after taking over.

This study is the first cross-sectional study to explore the succession of family businesses in China and the quality of financial information. Therefore, it has the following contributions to domestic and foreign practitioners and academia. First, in recent years, China has developed into the world's second largest economy after the United States, and Taiwanese businessmen's investment in China has accounted for China's largest foreign investment over the years. The results of this study will help the Chinese government and business circles understand the Chinese market. Second, Chinese family businesses have their own special culture, and the development of family businesses will inevitably go through the inheritance stage. Whether the inheritance goes smoothly and the impact on the quality of corporate financial information are closely related to the future operation of the enterprise. Since China opened up private enterprises in 1978, it has been more than 30 years, and the founders are all old. Today, the succession problems faced by Chinese family businesses will come one after another. Since family businesses are a very common type of Chinese enterprises, they will have a significant economic impact on China's capital market after succession. Third, research on family business is common at home and abroad, but there are few existing literatures on the issue of family business succession (Perez-Gonzalez, 2006; Bertrand et al., 2008; Fan, Wong and Zhang, 2012). The succession of Chinese family businesses is mainly influenced by the unique Chinese culture of "nepotism", and most family members with blood ties are used to succeed them, which is very different from the general enterprise employment standards that focus on professional ability, economic efficiency and efficiency. Therefore, this study collects information on family business succession in China, and explores the impact of family business succession in China on the quality of corporate financial information, in order to make up for the insufficiency of domestic discussions on issues related to family succession in China. Accordingly, the results of this study can be used as a reference for subsequent research on Chinese family businesses and succession issues.

2. Literature Discussion and Hypothesis Development

2.1 Chinese family business

Family business is defined as an enterprise formed through kinship or blood relationship. From the perspective of power, it is necessary to explain whether the founding family occupies an important position on the board of directors or a major shareholder in the enterprise, and whether the seats are more than 50%, and the total number of shares held by the ultimate controller must also be considered, (Anderson and Reeb, 2003; Villalonga and Amit, 2006). In the capital markets around the world, family businesses occupy a pivotal position. The founding family holds a large number of shares in

the company, controls important positions in governance and management, and through the self-identification of the family, In terms of emotional belonging, social network and family inheritance, the family can consolidate its business position (Anderson and Reeb , 2003 ; Villalongaa and Amit, 2006 ; Berrone , Cruz, and Gomez-Mejia , 2012).

Regardless of whether it is in Europe, America or Asia, although family businesses have a profound influence on the capital market, their business models and corporate characteristics are not the same. Taking the financial information quality of family businesses as an example, Ding et al. (2011) found that family businesses in China have higher discretionary accruals than non-family businesses, which can be explained as family leaders based on self-interest motives. Damage the interests of the enterprise; Haw, Ho, and Li (2011) found that when the ultimate owner of the company is a family member, it is easier to use the classification transfer method for earnings management. On the other hand, Tong (2008) pointed out that family businesses in the United States have lower accrual items for adjudication. The reason may be that family business leaders are worried about reputation damage based on the identity of the business itself as the founding family business No behavior that compromises the quality of corporate earnings; other studies have found that family firms report higher earnings quality (Ali, Chen, and Radhakrishnan, 2007 ; Wang , 2006) . The association between family business and financial information quality is moderated by internal control systems and board effectiveness (Srinidhi, He, and Firth, 2014; Jaggi , Leung, and Gul , 2009) .

In the late 1970s and early 1980s, China set off the first wave of family business. With the recognition of the status of the private economy in the national economy, family businesses, which occupy the vast majority of the private economy, have developed by leaps and bounds. In 1989, there were 90,500 private enterprises in China. By 2001, the number of private enterprises had increased to 2,028,500 , an increase of 21.4 times, and the registered capital had increased from 8.4 billion yuan to 1,821.22 billion yuan, an increase of 215.8 times. In terms of the contribution of private enterprises to the national economy, the contribution rate of the private economy to GDP rose from 0.57% in 1989 to 12.7% in 2001, an average annual increase of nearly 1 percentage point since the 1990s. In terms of employment contribution, the proportion of the private economy is increasing. In 1989, 0.07 of every 100 new jobs in the whole society went to private enterprises. It can be seen from this that family businesses play an important role in the national economy, whether in developed countries in Europe and America or in developing countries in East Asia. Especially in countries with unbalanced economic development and great employment pressure, the development of a private economy dominated by family businesses has extremely important practical significance for solving employment pressure and improving the level of national welfare. In addition, from the perspective of Chinese history, Confucianism has a profound influence (Yan and Sorenson, 2006; Hofstede and Bond, 1998), and "family culture" is the core of Confucianism as a whole, pursuing " father's kindness and son's love, long- term benevolence and children's obedience. Since China or the Chinese society pays more attention to traditional family rules and moral and ethical concepts, the influence of these concepts on family businesses makes the corporate culture of Chinese families have the following

characteristics: a high degree of cohesion and centripetal force, centralized management, adopting the rule of people instead of the rule of law (Farh and Cheng, 2000).

Previous studies have described the characteristics of Chinese family businesses. Jiang et al. (2015) pointed out that the religious beliefs of the founders will affect the investment behavior of the company; Wang et al. (2017) found that the benevolent character of the founders could help reduce the company's investment behavior. Default Risk. In addition, the family succession system is also affected by the political connection of the family founder or the influence of national policies (Xu, et al., 2015; Cao et al., 2015). In terms of the characteristics of family businesses, compared with non-family businesses, when a family founder is in charge, the firm is more robust and the cost of debt capital is lower (Ding et al. 2011; Amit et al. , 2015; Cheng et al. al. , 2015; Ma, et al. , 2016) .

2.2 Succession of descendants of family business and the quality of financial information

The succession of the family business is particularly important for the founding family who intend to control the business for a long time. Chinese family businesses attach great importance to the continuity of incense and are often succeeded by their children to ensure the inheritance of family business and property from generation to generation. The purpose of the existence of enterprises is often used as a tool to continue the family, rather than seeking to maximize benefits. Most of the related researches on family business inheritance in Taiwan focus on the cultivation process of succession or the change of power to explore the succession of leaders. The main difference between a Chinese family business and an American family business is that when the business is passed on to the third generation, only a few Chinese companies have completed institutionalized work. In contrast, when the founders hand over the baton to the second generation, they will be timely. Introduce professional managers and carry out institutionalized management (Fukuyama, 1995).

The family inheritance system refers to the inheritance of the incumbent (family member of the founding family, possibly the founder) to the successor (usually compared to another member of the founding family whose next generation is the incumbent). Fan, Jian, and Yeh (2008) believe that among the types of heirs in family businesses, although 65% are still family members, only 40% are their own. Obviously, family inheritance is not to be underestimated in family businesses. In the process, it will even affect the harmony and coexistence atmosphere of the family, and then affect the family business operation (Massis, Chua, and Chrisman, 2008) . Redding (1990) pointed out that Chinese family businesses are mainly based on blood relationship, and it is difficult for people who are not blood related to be accepted as insiders. Therefore, when the scale of the family business organization grows to a certain stage, if it cannot absorb a large number of professional managers to enter The core of the company, leading the enterprise towards professionalism and institutionalization, will be detrimental to the long-term development of the organization. Royer, Simons, Boyd, and Rafferty (2008) believe that inheritance by family members is more suitable for family businesses. Mehrotra et al. (2013) pointed out that successors of family members will perform better than

professional managers in charge of family businesses.

Therefore, after the family business is succeeded by descendants, if the successor cannot fully inherit the founder's ability, management style and unique social capital, and the process of power transfer leads to the dispersion of enterprise resources and factional struggle, the successor will not be able to obtain the recognition of other managers and external shareholders of the company (Golden, 1995) ; therefore, when family descendants face internal and external challenges and conflicts, they tend to convey more information to reduce the phenomenon of information asymmetry. The transmission mechanism of information will be converted into the transmission mechanism of external information (Fan et al., 2012), so the quality of financial information after taking over may be improved accordingly. The results may imply that the family business is trying to reduce financial forecast errors, or avoid issuing overly optimistic financial forecasts to avoid reputational damage from inaccurate financial forecasts. Accordingly, this study proposes the following hypothesis:

Hypothesis 1: Firms succeeded by family descendants will have better financial information quality.

Bennedsen et al. (2015) find that the external relationship of the founding family, such as political connection, is also an important feature that affects the inheritance of family businesses. For China, the influence of the political environment under its communist system on business operations cannot be ignored. Ezzamel et al. (2007) pointed out that the change of the top leadership of the CCP, its political style will affect the conduct of the accounting system. In addition, current political events in China can easily affect companies with political ties that want to take rent-seeking behavior (Tu et al. 2013). In terms of the type of enterprises, Chinese enterprises can be roughly divided into state-owned enterprises and private enterprises, among which private enterprises often establish good relations with local governments or government units that have the power to allocate support in order to obtain better capital costs (Chow et al. 2012; Chen et al. 2011) . From the perspective of CEOs, politically connected CEOs receive higher compensation and better performance in the companies they manage (Conyon , He, and Zhou, 2015). In terms of the behavior of politically connected enterprises, Lin, Tan, Zhao, and Karim (2015) found that when the existing political connections are facing changes, politically connected enterprises will establish new political relations with the replaced government units through CSR. In addition, companies that rely more on political networks tend to generate greater negative market reactions when political scandals occur (Liu et al. 2017; Hung et al. 2015). The above literature shows that the economic consequences of a firm's political relevance are not entirely positive or negative.

On the other hand, there are also inconsistent conclusions in the previous literature on the relationship between political relevance and the quality of financial information. In the positive impact argument, Batta et al. (2014) used a Venezuelan sample to find that companies with political ties to ruling party officials or high-level government officials had higher quality financial information. However, in the argument of negative effects, The past literature also found that the

general enterprises with political affiliation have lower financial information quality than other enterprises (Belghitar et al. 2019; Braam et al. 2015). Since political connections may have a positive or negative effect on the quality of corporate financial information, this study does not make inferences about the direction of the impact, but points out that politically connected family businesses will have a negative impact on the quality of their financial information after taking over. The quality of its financial information, the second hypothesis is proposed as follows:

Hypothesis 2: In the presence of political connections, there will be an incremental impact on the relationship between family succession businesses and the quality of financial information.

3. Research Design

3.1 Sample and data collection

The sample for this study is selected from A-share companies listed in Shanghai and Shenzhen, China. The sample selection period was from 2012 to 2020. Taking firm-year as an observation, the sample number of family businesses initially obtained in this study was 6,590. The samples of financial, insurance and securities companies are excluded, and the samples listed as ST shares, as well as the samples that were delisted during the research period and have insufficient data on relevant variables. The sample selection process is shown in Table 1.

Table 1 Sample selection procedure

	Earnings Response Coefficient	Project Earnings Management	real earnings management
Raw observations from 2012 to 2020	6,590	6,590	6,590
Less: Sample of Financial, Insurance and Securities Firms	(47)	(47)	(47)
listed as a sample of ST shares	(12)	(12)	(12)
Delisting during the study period, insufficient data on relevant variables	(2,395)	(1,257)	(1,257)
Total sample observations	<u>4,136</u>	<u>5,274</u>	<u>5,274</u>

3.2 The regression model

(1) Earnings Response Coefficient (ERC)

This study explores whether family succession can enhance the connotation of financial information, thereby increasing information transparency, and can correctly reflect economic facts and help investors make market forecasts (Francis and Schipper, 1999; Teoh and Wong, 1993). In

addition, family succession and inheritance will bring about major changes in corporate operation, so this study expects that the information content will indirectly affect unexpected earnings, which in turn will have a significant impact on stock prices. This study uses the Earnings Response Coefficient (ERC) to measure market investors' responsiveness to financial information, in order to measure whether information on family succession will change the investing public's perception of financial information, thereby affecting stock price returns. This study adopts the method of earnings response coefficient of Fan and Wong (2002), as shown in formula (1):

$$CAR_{i,t+1} = \beta_0 + \beta_1 UE_{i,t+1} + \varepsilon_t \quad (1)$$

In order to test Hypothesis 1 of this study, the family succession variable is added to Equation (1) for consideration to test whether family succession information will affect investors' perceptions of financial information. The normalized model is as follows:

$$\begin{aligned} CAR_{i,t+1} = & \beta_0 + \beta_1 UE_{i,t+1} + \beta_2 SUCC_{i,t} + \beta_3 UE_{i,t} * SUCC_{i,t} + \beta_4 Size_{i,t} + \beta_5 Lev_{i,t} + \beta_6 Turn_{i,t} \\ & + \beta_7 CFO_{i,t} + \beta_8 Dual_{i,t} + \beta_9 Board_{i,t} + \beta_{10} BigX_{i,t} + \beta_{11} OStock_{i,t} + \beta_{12} Age_{i,t} \\ & + Ind_{i,t} + Year_{i,t} + \varepsilon_t \end{aligned} \quad (2)$$

The strain factor part is a measure of Cumulative Abnormal Return (CAR), which is based on Fan and Wong (2002). First, start from the abnormal return rate (Abnormal Return), this study defines the abnormal return rate as the monthly actual return rate (monthly return rate of individual stocks) of the company *i* from April *t* to March *t*+1 minus the *t* year Monthly market return from April to March in year *t*+1 (monthly return for the broader market). The cumulative abnormal return rate is calculated by accumulating the abnormal return rate for 12 months. Therefore, this study uses the above measures to obtain abnormal returns from 2012 to 2020.

Main independent variables

The first independent is Unexpected Earnings (UE). The magnitude of the change in unexpected earnings will affect the stock market reaction (Beaver, Clarke, and Wright, 1979; Ball and Brown, 1968), so this study subtracts the after-tax net profit of the continuing operating department of the company *i* in year *t*+1 from the net profit in year *t*. Continue the after-tax net profit of the operating department, and deduct it with the common stock market value at the beginning of the year (Ji et al ., 2015; Fan and Wong, 2002) to obtain unexpected earnings, and according to the conclusions of past research, it is expected to be presented with the information content positive correlation.

The second independent variable is the indicator variable (*SUCC*) of the successor enterprise. This study refers to the definition of family business by La Porta et al. (1999) and Yeh, Lee and Woitke (2001) as a standard, "when several shareholders belong to the same A family with a total shareholding of more than 10% or more than 2 members of the board of directors is regarded as a family business", and those meeting the above conditions are classified as family businesses. However, when it is defined as a family business, the founder of the family has left the board of directors or management of the company, and the company's decision-making matters are completely

managed by the descendants of the successor, it is regarded as the successor of the family's descendants, and the *SUCC* order is 1, otherwise it is 0.

(2) Earnings Management

Previous studies have been conflicting about whether family members practice earnings management. Family members may agree with the core values of the family business and will not act to harm the company for short-term interests, but family members who hold important positions may take opportunistic behavior and conduct earnings management for self-interest, damages the quality of financial information (Bills, Lisic, and Seidel, 2017; Davidson et al., 2004). Family succession is a major strategy for family businesses and involves a wide range of economic consequences. Based on this, this study analyzes whether family business succession will adopt different types of earnings management behaviors. To test Hypothesis 1 of this study, the constructed model is as follows:

$$DA_{i,t} = \beta_0 + \beta_1 SUCC_{i,t} + \beta_2 Size_{i,t} + \beta_3 Lev_{i,t} + \beta_4 Turn_{i,t} + \beta_5 CFO_{i,t} + \beta_6 Dual_{i,t} + \beta_7 Board_{i,t} + \beta_8 BigX_{i,t} + \beta_9 OStock_{i,t} + \beta_{10} Age_{i,t} + Ind_{i,t} + Year_{i,t} + \varepsilon_{i,t} \quad (3)$$

As part of the accruals is based on the model of Kothari, Leone, and Wasley (2005), which incorporates the performance of the enterprise into the Jones Model model, and uses the cross-sectional data of the same year and the same industry into the model to estimate discretionary accruals, the regression formula is as follows:

$$\frac{Total\ Asset_{i,t}}{Asset_{i,t-1}} = \alpha_0 + \alpha_1 \left(\frac{1}{Asset_{i,t-1}} \right) + \alpha_2 \left[\frac{(\Delta Revenue_{i,t} - \Delta Receivable_{i,t})}{Asset_{i,t-1}} \right] + \alpha_3 \left(\frac{PPE_{i,t}}{Asset_{i,t-1}} \right) + \alpha_4 (ROA_{i,t}) + \varepsilon_{i,t} \quad (4)$$

Among them, *Total Asset_{i,t}* is the total accrual item of the *ΔRevenue_{i,t}* company in the t year, deducting the cash flow from the operating activities from the pre-tax net profit of the continuing business unit; is the i company's net operating income in the t year minus the i company's net operating income in the t-1 year; *ΔReceivable_{i,t}* is the net receivables of company i in year t minus the net receivables of company i in year t-1; *PPE_{i,t}* is the total depreciable assets of company i in the total amount of property, plant and equipment in year *ROA_{i,t}*; The return on assets *Asset_{i,t-1}* before tax and depreciation of company i in year t ; it is the total assets of company i in year t-1, which is used for deduction in this regression formula.

Furthermore, using the least squares method (ordinary least squares; OLS) for formula (4) to estimate the individual estimated coefficients of each industry in each year — $\hat{\alpha}_0$ 、 $\hat{\alpha}_1$ 、 $\hat{\alpha}_2$ 、 $\hat{\alpha}_3$ 、 $\hat{\alpha}_4$, and then bring in the actual data of individual company i to obtain the non-discretionary accruals (NDA).), as shown in formula (5):

$$\frac{NDA_{i,t}}{Asset_{i,t-1}} = \alpha_0^{\wedge} + \alpha_1^{\wedge} \left(\frac{1}{Asset_{i,t-1}} \right) + \alpha_2^{\wedge} \left[\frac{(\Delta Revenue_{i,t} - \Delta Receivable_{i,t})}{Asset_{i,t-1}} \right] + \alpha_3^{\wedge} \left(\frac{PPE_{i,t}}{Asset_{i,t-1}} \right) + \alpha_4^{\wedge} (ROA_{i,t}) \quad (5)$$

Discretionary accruals (DA) are obtained by subtracting the actual number of accruals from the estimated non-discretionary accruals, as shown in Equation (6):

$$\frac{DA_{i,t}}{Asset_{i,t-1}} = \frac{Total\ Asset_{i,t}}{Asset_{i,t-1}} - \frac{NDA_{i,t}}{Asset_{i,t-1}} \quad (6)$$

(4) Compound Real Earnings Management (REM)

In addition, this study also uses real earnings management as a proxy variable for financial information quality. This study adopts the real earnings management measure of Roychowdhury (2006) and Cohen, Dey, and Lys (2008), and uses three components - abnormal cash flow from operating activities (Abn_CFO), abnormal production costs (Abn_Prod) and abnormal discretionary expenses (Abn_Discexp) and estimate it with the residual value of the model.

$$REM_{i,t} = \beta_0 + \beta_1 SUCC_{i,t} + \beta_2 Size_{i,t} + \beta_3 Lev_{i,t} + \beta_4 Turn_{i,t} + \beta_5 CFO_{i,t} + \beta_6 Dual_{i,t} + \beta_7 Board_{i,t} + \beta_8 BigX_{i,t} + \beta_9 OStock_{i,t} + \beta_{10} Age_{i,t} + Ind_{i,t} + Year_{i,t} + \varepsilon_{i,t} \quad (7)$$

The residuals obtained from regression equations (8), (9) and (10) are used as estimates of abnormal cash flow from operating activities (Abn_CFO), abnormal production costs (Abn_Prod) and abnormal discretionary expenses (Abn_Discexp), respectively. The model is described as follows:

$$\frac{CFO_{i,t}}{Asset_{i,t-1}} = \gamma_1 \left(\frac{1}{Asset_{i,t-1}} \right) + \gamma_2 \left(\frac{SR_{i,t}}{Asset_{i,t-1}} \right) + \gamma_3 \left(\frac{\Delta SR_{i,t}}{Asset_{i,t-1}} \right) + \kappa_{i,t} \quad (8)$$

$$\frac{Prod_{i,t}}{Asset_{i,t-1}} = \delta_1 \left(\frac{1}{Asset_{i,t-1}} \right) + \delta_2 \left(\frac{SR_{i,t}}{Asset_{i,t-1}} \right) + \delta_3 \left(\frac{\Delta SR_{i,t}}{Asset_{i,t-1}} \right) + \delta_4 \left(\frac{\Delta SR_{i,t-1}}{Asset_{i,t-1}} \right) + \theta_{i,t} \quad (9)$$

$$\frac{Discexp_{i,t}}{Asset_{i,t-1}} = \lambda_1 \left(\frac{1}{Asset_{i,t-1}} \right) + \lambda_2 \left(\frac{SR_{i,t-1}}{Asset_{i,t-1}} \right) + \mu_{i,t} \quad (10)$$

Among them, $CFO_{i,t}$ is the operating cash flow of company i in year t ; $SR_{i,t}$ is the net operating income of company i in year t ; $\Delta SR_{i,t}$ is the net operating income of company i in year t minus the net operating income of company i in year $t-1$. $Prod_{i,t}$ is the sum of cost of goods sold and changes

in inventory of company i in year t ; is the sum $Discexp_{i,t}$ of operating expenses, advertising expenses and research and development expenses of company i in year t ; is the net operating income of company i in year $t-1$.

The measurement of compound real earnings management (REM) is based on the total of three individual indicators after normalization to calculate the real earnings management composite indicator. Higher compounded real earnings management (REM) represents more severe REM.

Control variables are described as follows. The size of a company will affect its operating performance. The main reason is that it is easier for large companies to obtain internal and external funds, and large-scale companies have economies of scale in operations, marketing and finance (Demsetz and Lehn, 1985). The debt ratio (Lev) defined as the debt ratio in year t minus the debt ratio in year $t-1$, where the debt ratio in year t is the debt ratio at the end of year t . The asset turnover ratio (Turn) is defined as the net sales revenue of the year t divided by the average total assets of the year t . Cash flow from operating activities (CFO) is defined as the natural logarithm of the cash flow from operating activities in year t . The chairman concurrently serves as the general manager (Dual) is defined as if the chairman concurrently serves as the general manager, set the dummy variable $DUAL$ to 1, and otherwise 0. Board size ($BOARDSIZE$) is defined as the board of directors in year t number of people. The top ten audit firms (BigX) is defined as whether the company is audited by the top ten audit firms in year t . In addition, it also controls the foreign shareholding ratio (OStock) and the age of the enterprise (Age). The fixed effects of Year and Industry (Ind) are also controlled.

3.3 Regression model and variable description

This study further analyzes the influence of political relations on family succession and earnings quality. Family businesses have both "economic" and "kinship". When family businesses face challenges, they often use "social and emotional methods" rather than "formal organizations and institutions." Family businesses often build relationships through interpersonal networks, and bring economic resources and benefits through relationships. Therefore, in a structure based on "relationships", external resources such as political resources and social resources will become factors that affect the development of the enterprise. China's political connections must be very important interpersonal relationships. Based on this, this study also takes the political relationship of family businesses as an intermediary variable in this study, adding the political relationship variable (POLIT), hoping to understand the special economic system in China, so as to explore the relationship between family businesses with political relationships and their Whether the succession of future generations will affect the quality of its surplus information.

Therefore, this study includes the political relationship variable (POLIT), multiplied with the family succession variable (SUCC), and re-runs the regression model of the above three groups of earnings quality proxy variables. The model is as follows:

$$\begin{aligned}
CAR_{i,t+1} = & \beta_0 + \beta_1 UE_{i,t+1} + \beta_2 SUCC_{i,t} + \beta_3 POLIT_{i,t} + \beta_4 UE_{i,t} * SUCC_{i,t} + \beta_5 UE_{i,t} * POLIT_{i,t} \\
& + \beta_6 UE_{i,t} * SUCC_{i,t} * POLIT_{i,t} + \beta_7 Size_{i,t} + \beta_8 Lev_{i,t} + \beta_9 Turn_{i,t} + \beta_{10} CFO_{i,t} \\
& + \beta_{11} Dual_{i,t} + \beta_{12} Board_{i,t} + \beta_{13} BigX_{i,t} + \beta_{14} OStock_{i,t} + \beta_{15} Age_{i,t} + Ind_{i,t} \\
& + Year_{i,t} + \varepsilon_t
\end{aligned} \tag{11}$$

$$\begin{aligned}
DA_{i,t} = & \beta_0 + \beta_1 SUCC_{i,t} + \beta_2 POLIT_{i,t} + \beta_3 SUCC_{i,t} * POLIT_{i,t} + \beta_4 Size_{i,t} + \beta_5 Lev_{i,t} + \beta_6 Turn_{i,t} \\
& + \beta_7 CFO_{i,t} + \beta_8 Dual_{i,t} + \beta_9 Board_{i,t} + \beta_{10} BigX_{i,t} + \beta_{11} OStock_{i,t} + \beta_{12} Age_{i,t} \\
& + Ind_{i,t} + Year_{i,t} + \varepsilon_{i,t}
\end{aligned} \tag{12}$$

$$\begin{aligned}
REM_{i,t} = & \beta_0 + \beta_1 SUCC_{i,t} + \beta_2 POLIT_{i,t} + \beta_3 SUCC_{i,t} * POLIT_{i,t} + \beta_4 Size_{i,t} + \beta_5 Lev_{i,t} \\
& + \beta_6 Turn_{i,t} + \beta_7 CFO_{i,t} + \beta_8 Dual_{i,t} + \beta_9 Board_{i,t} + \beta_{10} BigX_{i,t} + \beta_{11} OStock_{i,t} \\
& + \beta_{12} Age_{i,t} + Ind_{i,t} + Year_{i,t} + \varepsilon_{i,t}
\end{aligned} \tag{13}$$

The political relationship variable (POLIT) defined in this study refers to the research of Faccio (2006), which refers to any member of the board of directors or management of a family business who was or is currently serving as the central party department, provincial municipality, sub-provincial city, prefecture People with political positions such as city-level cities, county-level cities, national (local) people's congresses, national (local) CPPCC, military and police are regarded as those with political connections, and the dummy variable is set to 1, and otherwise 0.

4. Empirical Results and Analysis

4.1 The descriptive statistics

This study explores the impact of succession of descendants of Chinese family businesses on the quality of financial information. Panel A in Table 2 is a sample descriptive statistic of the variables used in the earnings response coefficient. The mean (median) of Cumulative Abnormal Returns (CAR) was 0.180 (0.125) in the part of the strain number. For the main independent variables, the mean (median) of Unexpected Earnings (UE) is 0.004 (0.003); the mean of Succession by Family Descendants (SUCC) is 0.1, indicating that 10% of the sample companies have completed family succession; The average value of political affiliation (POLIT) is 0.599, which shows that among the sample companies, nearly 60% have political affiliation. In the part of controlling variables, the average number of chairman and general manager (DUAL) is 0.341, which means that 34.1% of the sample companies have this phenomenon; the average number (median) of board size (BOARD) is 8.346 (9.000), indicating that Among the board of directors of the sample companies, there are on average more than 8 directors; the average number of large accounting firms audit (BIGX) is 0.604, the result shows that nearly 60% of the sample companies choose to be audited by large accounting firms. Panel B of Table 2 presents sample descriptive statistics of the variables used in accruals and real earnings management. In the statistic description, the mean (median) of discretionary accruals (DA) is 0.009 (-0.001); the mean (median) of discretionary accruals taking the absolute value (AbsDA) is 0.069 (0.043); the mean (median) of compound real earnings management (REM) was 0.005 (0.01).

The main independent variables and control variables are similar to Panel A in Table 2.

Table 2 Descriptive statistics

Panel A: Descriptive Statistics - Earnings Response Coefficient (N=4,136)					
Variables	Mean	Median	Standard Deviation	Q1	Q3
CAR	0.180	0.125	0.386	-0.081	0.382
UE	0.004	0.003	0.049	-0.006	0.011
SUCC	0.100	0.000	0.300	0.000	0.000
POLIT	0.599	1.000	0.490	0.000	1.000
Size	21.683	21.585	1.024	20.939	22.247
C_Lev	0.018	0.013	0.989	-0.022	0.055
TURN	0.666	0.570	0.494	0.390	0.810
CFO	-0.108	-0.078	0.165	-0.152	-0.032
DUAL	0.341	0.000	0.474	0.000	1.000
BOARD	8.346	9.000	1.420	7.000	9.000
BIG10	0.604	1.000	0.489	0.000	1.000
OSTOCK	0.006	0.000	0.056	0.000	0.000
AGE	16.350	14.649	8.580	11.445	18.719
Panel B: Accruals/Real Earnings Management (N=5,274)					
Variables	Mean	Median	Standard Deviation	Q1	Q3
DA	0.009	-0.001	0.299	-0.042	0.043
AbsDA	0.069	0.043	0.291	0.020	0.079
REM	0.005	0.010	0.127	-0.024	0.041
SUCC	0.096	0.000	0.295	0.000	0.000
POLIT	0.588	1.000	0.492	0.000	1.000
Size	21.631	21.537	1.011	20.920	22.205
C_Lev	0.006	0.012	0.924	-0.030	0.056
TURN	0.654	0.560	0.496	0.380	0.790
CFO	-0.116	-0.081	0.187	-0.160	-0.030
DUAL	0.353	0.000	0.478	0.000	1.000
BOARD	8.271	9.000	1.424	7.000	9.000
BIG10	0.595	1.000	0.491	0.000	1.000
OSTOCK	0.006	0.000	0.052	0.000	0.000
AGE	16.465	14.802	8.452	11.741	18.802

Note 1: Variables are defined as follows: CAR — the monthly actual rate of return (monthly return of individual stocks) of company *i* from April in year *t* to March in year *t*+1 minus the monthly rate of return from April in year *t* to March in year *t*+1 Monthly market rate of return (monthly rate of return for the broader market), calculated by accumulating 12 months; UE — subtracting the after-tax net profit of the continuing business department of *i* - company in year *t*+1 from

the after-tax net profit of the continuing business department in year t , and adding it to the common stock at the beginning of the year. The market value is deflated; SUCC - when the family founder of the family business has completely left the board of directors or management of the company, and the company's decision-making matters are completely managed by the descendants of the successor, it is regarded as the successor of the family's descendants, and the SUCC order is 1, Otherwise, it is 0; DA — is calculated according to the method of Kothari et al. (2005); AbsDA — the absolute value of DA ; REM — is calculated according to Roychowdhury (2006) and Cohen, Dey, and Lys (2008); POLIT — refers to the research of Faccio (2006). People with political positions such as prefecture-level cities, county-level cities, national (local) people's congresses, national (local) CPPCC, military and police are regarded as those with political connections, and the dummy variable is set to 1, otherwise it is 0; SIZE — is defined as The natural logarithm of the total assets at the end of the year in year t ; C_Lev — defined as the rate of change between the debt ratio in year t and the debt ratio in year $t-1$, where the debt ratio in year t is the total debt at the end of year t divided by the total assets at the end of year t ; Turn — defined as the net sales revenue in year t divided by the average total assets in year t ; CFO — defined as the natural logarithm of cash flow from operating activities in year t ; Dual — defined as if the chairman is also the general manager, set the dummy variable DUAL is 1, otherwise it is 0; BOARDSIZE — is defined as the number of board members in year t ; BigX — is defined as whether the company is audited by the top ten accounting firms in year t ; OStock — foreign shareholding ratio at home and abroad; Age — enterprise age.

4.2 The correlation coefficient analysis

In Panel A of Table 3, Unexpected Earnings (UE) was significantly positively correlated with Cumulative Abnormal Return (CAR), but succession of family descendants (SUCC) and Political Relevance (POLIT) were significantly correlated with Cumulative Abnormal Return (CAR). A negative correlation indicates that companies with family succession or political connections are less likely to have cumulative abnormal returns, but the reason is not significant, so attention should still be paid when inferring. In the control variable part, company size (Size) is significantly negatively correlated with cumulative abnormal return rate (CAR); chairman concurrently as general manager (DUAL) has a significant positive correlation with cumulative abnormal return rate (CAR), indicating that the company has a chairman concurrently serving as general manager. The manager phenomenon is less likely to have cumulative abnormal returns.

In Panel B of Table 3, succession of family succession (SUCC) and political connection (POLIT) are positively correlated with real earnings management (REM), indicating that companies with family succession or political connection are more inclined to engage in real earnings management, but due to the lack of significance, attention should still be paid when inferring. We find that company size (Size), debt ratio change rate (C_Lev), board size (Board), top ten accounting firms (BIG10) and foreign ownership ratio (OStock) and real earnings management (REM) present significant negative correlation, but asset turnover ratio (Turn) and cash flow from operating activities (CFO) and real earnings management (REM) all show a significant positive correlation.

In Panel C of Table 3, succession of family descendants (SUCC) and political connection (POLIT) are negatively correlated with accrual earnings management (DA), indicating that companies with family succession or political connection are less inclined to engage in Accrual of earnings management (DA), but the cause is not significant, so attention should still be paid when inferring. In the control variable part, company size (Size) and accrual earnings management (DA) both show a significant positive correlation; cash flow from operating activities (CFO) and accrual

earnings management (DA) show a negative correlation.

Table 3 Correlation coefficient matrix

Panel A: Correlation coefficient matrix - Earnings response coefficient (N=4,136)													
	(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(09)	(10)	(11)	(12)	(13)
(01)CAR	1	0.176**	-0.002	-0.025	-0.116**	-0.004	0.021	-0.016	0.035*	-0.004	0.004	-0.026	-0.027
(02)UE	0.176**	1	0.017	0.016	0.109**	-0.153**	0.102**	-0.120**	0.004	0.009	0.034*	0.015	-0.014
(03)SUCC	-0.002	0.017	1	0.014	0.041**	-0.004	0.000	0.042**	-0.002	-0.024	-0.014	-0.004	0.023
(04)POLIT	-0.025	0.016	0.014	1	0.140**	-0.006	0.051**	0.007	-0.113**	0.081**	0.033*	-0.011	0.055**
(05)Size	-0.116**	0.109**	0.041**	0.140**	1	-0.035*	0.073**	-0.043**	-0.101**	0.143**	0.076**	0.089**	0.086**
(06) C_Lev	-0.004	-0.153**	-0.004	-0.006	-0.035*	1	-0.006	-0.064**	0.010	0.003	-0.002	0.009	0.003
(07)TURN	0.021	0.102**	0.000	0.051**	0.073**	-0.006	1	-0.041**	-0.038*	0.038*	0.018	0.001	-0.011
(08) CFO	-0.016	-0.120**	0.042**	0.007	-0.043**	-0.064**	-0.041**	1	-0.057**	0.030	-0.008	0.002	0.048**
(09)DUAL	0.035*	0.004	-0.002	-0.113**	-0.101**	0.010	-0.038*	-0.057**	1	-0.095**	0.014	-0.009	-0.068**
(10)BOARD	-0.004	0.009	-0.024	0.081**	0.143**	0.003	0.038*	0.030	-0.095**	1	0.031*	0.085**	0.021
(11) BIG10	0.004	0.034*	-0.014	0.033*	0.076**	-0.002	0.018	-0.008	0.014	0.031*	1	0.094**	0.013
(12)OSTOCK	-0.026	0.015	-0.004	-0.011	0.089**	0.009	0.001	0.002	-0.009	0.085**	0.094**	1	0.160**
(13)AGE	-0.027	-0.014	0.023	0.055**	0.086**	0.003	-0.011	0.048**	-0.068**	0.021	0.013	0.160**	1
Panel B: Correlation coefficient matrix - Real earnings management (N=5,274)													
	(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(09)	(10)	(11)	(12)	
(01)REM	1	0.027	0.012	-0.079 **	-0.221 **	0.053 **	0.106 **	-0.020	-0.028 *	-0.058 **	-0.042 **	-0.013	
(02)SUCC	0.027	1	0.018	0.050 **	-0.002	-0.002	0.039 **	-0.001	-0.012	-0.022	-0.026	0.025	
(03)POLIT	0.012	0.018	1	0.146 **	0.000	0.069 **	0.030 *	-0.110 **	0.074 **	0.071 **	-0.028 *	0.099 **	
(04)Size	-0.079 **	0.050 **	0.146 **	1	-0.019	0.079 **	-0.038 **	-0.104 **	0.188 **	0.064 **	0.139 **	0.176 **	
(05) C_Lev	-0.221 **	-0.002	0.000	-0.019	1	-0.003	0.004	0.012	-0.012	0.003	-0.001	-0.010	
(06)TURN	0.053 **	-0.002	0.069 **	0.079 **	-0.003	1	-0.031 *	-0.030 *	0.049 **	0.019	-0.006	-0.013	
(07) CFO	0.106 **	0.039 **	0.030 *	-0.038 **	0.004	-0.031 *	1	-0.062 **	0.021	-0.012	0.015	0.069 **	
(08)DUAL	-0.020	-0.001	-0.110 **	-0.104 **	0.012	-0.030 *	-0.062 **	1	-0.158 **	-0.018	-0.011	-0.082 **	
(09)BOARD	-0.028 *	-0.012	0.074 **	0.188 **	-0.012	0.049 **	0.021	-0.158 **	1	0.019	0.095 **	0.012	
(10) BIG10	-0.058 **	-0.022	0.071 **	0.064 **	0.003	0.019	-0.012	-0.018	0.019	1	0.092 **	0.010	
(11)OSTOCK	-0.042 **	-0.026	-0.028 *	0.139 **	-0.001	-0.006	0.015	-0.011	0.095 **	0.092 **	1	0.159 **	
(12)AGE	-0.013	0.025	0.099 **	0.176 **	-0.010	-0.013	0.069 **	-0.082 **	0.012	0.010	0.159 **	1	
Panel C: Correlation coefficient matrix - Accrual earnings management (N=5,274)													
	(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(09)	(10)	(11)	(12)	(13)
(01)DA	1	0.575**	-0.002	-0.002	0.033*	0.030*	-0.003	-0.234**	-0.007	-0.001	-0.015	-0.003	-0.013
(02) AbsDA	0.575**	1	-0.003	-0.022	-0.046**	-0.481**	0.011	-0.185**	-0.016	0.007	-0.024	-0.006	0.013
(03)SUCC	-0.002	-0.003	1	0.019	0.051**	-0.003	-0.003	0.042**	-0.019	-0.013	-0.018	-0.007	0.019
(04)POLIT	-0.002	-0.022	0.019	1	0.148**	0.000	0.069**	0.028*	-0.087**	0.071**	0.042**	-0.019	0.069**

(05)Size	0.033*	-0.046**	0.051**	0.148**	1	-0.019	0.080**	-0.041**	-0.099**	0.159**	0.056**	0.091**	0.080**
(06) C_Lev	0.030*	-0.481**	-0.003	0.000	-0.019	1	-0.003	0.004	0.007	0.000	0.006	0.010	0.002
(07)TURN	-0.003	0.011	-0.003	0.069**	0.080**	-0.003	1	-0.033*	-0.034*	0.041**	0.023	-0.008	-0.006
(08) CFO	-0.234**	-0.185**	0.042**	0.028*	-0.041**	0.004	-0.033*	1	-0.025	0.023	0.000	0.015	0.060**
(09)DUAL	-0.007	-0.016	-0.019	-0.087**	-0.099**	0.007	-0.034*	-0.025	1	-0.158**	-0.018	-0.011	-0.082**
(10)BOARD	-0.001	0.007	-0.013	0.071**	0.159**	0.000	0.041**	0.023	-0.158**	1	0.019	0.095**	0.012
(11) BIG10	-0.015	-0.024	-0.018	0.042**	0.056**	0.006	0.023	0.000	-0.018	0.019	1	0.092**	0.010
(12)OSTOCK	-0.003	-0.006	-0.007	-0.019	0.091**	0.010	-0.008	0.015	-0.011	0.095**	0.092**	1	0.159**
(13)AGE	-0.013	0.013	0.019	0.069**	0.080**	0.002	-0.006	0.060**	-0.082**	0.012	0.010	0.159**	1

Note 1: All variables are defined as in Table 2.

Note 2: ***: means $p < 0.01$, **: means $p < 0.05$, *: means $p < 0.1$ (two-tailed test).

4.3. Regression Analysis

(1) Empirical results of family succession and financial information quality

the empirical results of family succession and financial information quality after controlling for industry and year. First, in the test group of the earnings response coefficient, we find that unexpected earnings (UE) and cumulative abnormal returns (CAR) showed a significant positive correlation, which was in line with the expectations of previous studies. Although the succession of family descendants (SUCC) and the cumulative abnormal return rate (CAR) are not significant, the multiplication of unexpected earnings and family succession (UE*SUCC) has a significant positive correlation with the cumulative abnormal return rate (CAR). It shows that the unexpected earnings have an increasing effect on the cumulative abnormal return rate, indicating that the family succession will lead to increasing positive earnings information, and then make the financial information better, which support our first hypothesis.

As mentioned by Fan et al. (2012), the internal information transmission mechanism is transformed into an external information transmission mechanism. After the family business succeeds, it tends to transmit more information to reduce the information asymmetry with outsiders. Therefore, the quality of financial information will be improved after succession. However, in the two earnings management groups, after the family business took over, the associations with discretionary accruals-related variables (DA and AbsDA) and compound real earnings management (REM) did not reach a significant relationship. The possible explanation is that to avoid the increase of information asymmetry between the second-generation successor family business and other stakeholders, improving the quality of financial information is the first thing after the succession, so it will generate a positive surplus with an increase. information content, but did not significantly reduce earnings management behavior.

Table 4 Family succession and financial information quality

	$CAR_{i,t}$		$DA_{i,t}$		$AbsDA_{i,t}$		$REM_{i,t}$	
	coefficient	t value	coefficient	t value	coefficient	t value	coefficient	t value
UE	1.385	12.370***						
SUCC	-0.007	-0.390	0.013	1.480	0.001	0.120	0.009	1.480
UE*SUCC	1.478	2.680***						
Size	-0.053	3.890***	0.002	-5.310***	-0.031	-7.980***	-0.010	-5.310***
C_Lev	0.006	1.130	0.009	-16.650***	-0.151	-41.330***	-0.030	-16.650***
TURN	0.017	1.510	-0.008	6.220***	0.014	1.840*	0.023	6.220***
CFO	-0.005	-0.160	-0.389	7.720***	-0.317	-17.180***	0.070	7.720***
DUAL	0.023	2.040**	-0.005	-1.090	-0.007	-0.980	-0.004	-1.090
BOARD	0.002	0.540	-0.001	-1.790*	0.002	0.890	-0.002	-1.790*
BIG10	0.006	0.540	-0.012	-4.120***	-0.013	-1.910*	-0.014	-4.120***
OSTOCK	-0.195	-2.050**	0.017	-1.590	0.052	0.780	-0.053	-1.590
AGE	-0.001	-1.060	0.000	-1.490	0.000	0.570	-0.000	-1.490
Intercept	1.314	0.010***	-0.064	-0.630	0.669	7.830***	0.2348	5.520***
N		4,136		5,274		5,274		5,274
F value		43.34		11.90		66.05		15.26
Year-Effect		Yes		Yes		Yes		Yes
Ind-Effect		Yes		Yes		Yes		Yes
Adjusted R ²		0.264		0.064		0.289		0.082

Note 1: All variables are defined as in Table 2.

Note 2: ***: means $p < 0.01$, **: means $p < 0.05$, *: means $p < 0.1$ (two-tailed test).

(2) Empirical Results of Family Succession, Political Relevance and Earnings Information Quality

It shows that the moderating effect of political association on the association between family succession and financial information quality after controlling for industry and year. In the test group of the earnings response coefficient, it presents a significant positive correlation, showing that companies with political ties are compared with those without political ties. The unexpected earnings have an increasing effect on the cumulative abnormal return rate, which means that the political connection will make the earnings have additional positive information connotations. However, the multiplying term (UE*SUCC* POLIT) showed a significant negative correlation. It indicates that the second-generation successor family business will have a lower earnings response coefficient, which means that there will be an incremental negative earnings information connotation in this situation.

In the two earnings management groups, succession of family members (SUCC) and compound real earnings management (REM) showed a significant positive correlation. The agency conflict between minority shareholders makes real earnings management more likely to be used by family managers to manage earnings (Razzaque, Ali, and Mather, 2016); political relevance (POLIT) and

compound real earnings management (REM) show significant Positive correlation, indicating that due to the higher confidentiality of real earnings management and the potential to conceal political interests, politically connected companies are more inclined to use this type of earnings management (Braam et al. 2015); family business succession and The multiplicative term of political relevance (SUCC*POLIT) and compound real earnings management (REM) showed a one-tailed significant negative correlation, indicating that when there is a political connection in the enterprise, the political connection does not necessarily follow the completion of the family succession mechanism. However, the successful acquisition of such family heritage assets (Bennedsen et al. 2015) will, on the contrary, inhibit the succession of the family business from carrying out real earnings management, and because the reduction of real earnings management will prevent the long-term value of the enterprise from being damaged, so the quality of financial information will be improved.

In summary, we find that family succession companies with political connections, although they have poor earnings response coefficients, are less likely to carry out substantial earnings management. The warning signs of collusion will increase the doubts of external investors, so there will be a poor earnings response coefficient. However, based on the family's reputation, the successors of politically connected families will reduce the manipulation of financial statement information in order to alleviate the doubts of the capital market, thereby improving the quality of financial statements to gain the trust of the investing public.

Table 5 Family succession, political relevance and financial information quality

	<i>CAR_{i,t}</i>		<i>DA_{i,t}</i>		<i>AbsDA_{i,t}</i>		<i>REM_{i,t}</i>	
	coefficient	t value	coefficient	t value	coefficient	t value	coefficient	t value
UE	0.899	6.420 ***						
SUCC	-0.008	-0.470	0.020	0.930	-0.000	-0.020	0.018	1.960 **
POLIT	-0.007	-0.650	-0.001	-0.070	-0.006	-0.760	0.007	1.930 *
UE*SUCC	4.520	3.780 ***						
UE*POLIT	1.291	5.740 ***						
UE*SUCC*POLIT	-4.443	-3.330 ***						
SUCC*POLIT			-0.013	-0.450	0.003	0.130	-0.016	-1.340 *
Size	-0.054	-8.970 ***	0.002	0.360	-0.03	-7.810 ***	-0.011	-5.490 ***
C_Lev	0.003	0.550	0.009	2.080 **	-0.151	-41.320 ***	-0.030	-16.660 ***
TURN	0.015	1.350	-0.008	-0.960	0.014	1.860 *	0.023	6.170 ***
CFO	0.011	0.330	-0.389	-17.850 ***	-0.317	-17.150 ***	0.070	7.680 ***
DUAL	0.020	1.840 *	-0.005	-0.554	-0.007	-1.020	-0.003	-0.930
BOARD	0.002	0.520	-0.001	-0.190	0.002	0.910	-0.002	-1.820 *
BIG10	0.007	0.650	-0.012	-1.420	-0.013	-1.880*	-0.015	-4.200 ***
OSTOCK	-0.180	-1.900 *	0.018	0.230	0.049	0.740	-0.048	-1.440
AGE	-0.001	-1.030	0.000	0.220	0.000	0.620	-0.000	-1.760 *

<i>Intercept</i>	1.334	10.180 ***	-0.065	-0.64	0.664	7.75 ***	0.240	5.630 ***
N		4,136		5,274		5,274		5,274
F value		41.30		11.23		62.27		14.52
Year-Effect		Yes		Yes		Yes		Yes
Ind-Effect		Yes		Yes		Yes		Yes
Adjusted R ²		0.270		0.064		0.289		0.082

Note 1: All variables are defined as in Table 2.

Note 2: ***: means $p < 0.01$, **: means $p < 0.05$, *: means $p < 0.1$ (two-tailed test).

Note 3: The values in bold and italics in the table indicate that the one-tailed test meets the significant level

4.4 Additional Analysis

(1) Group testing for discretionary accruals

In the main empirical results, there are no significant results in the detection of family succession and discretionary accruals earnings management and family succession, political relevance and discretionary accrual, so this study is based on discretionary accruals. Whether it is greater than zero is used as a grouping basis and recalculated, and the results are shown in Table 6. In the group with discretionary accruals greater than zero, this study found that the association between family succession and upward adjustment of discretionary accruals was not significant, even in the presence of political associations. effect.

However, in the group with discretionary accruals less than zero, we find a significant positive correlation between family succession and downward adjustment of discretionary, indicating that family succession businesses tend to use negative accruals earnings. The possible explanation is that future successors will avoid using overly optimistic accounting standards and try to use more conservative accounting measures to reduce conflicts with external users. However, when political relevance was included, the effect was not significant. Therefore, the results of the above test can complement the additional explanation of accrual earnings management in the main evidence.

Table 6 Additional analysis - Family succession and financial information quality

independent variable	<i>Discretionary accruals > 0</i>		<i>Discretionary accruals < 0</i>	
	<i>DA_{i,t}</i>		<i>DA_{i,t}</i>	
	coefficient	t value	coefficient	t value
SUCC	0.012	1.07	0.016	1.770 *
Control Variables		Yes		Yes
N		2,605		2,669
F value		312.04		58.77
Year-Effect		Yes		Yes
Ind-Effect		Yes		Yes

Note 1: All variables are defined as in Table 2.

Note 2: ***: means $p < 0.01$, **: means $p < 0.05$, *: means $p < 0.1$ (two-tailed test).

Note 3: The values in bold and italics in the table indicate that the one-tailed test meets the significant level

(2) Using the propensity score pairing method (PSM) for sample analysis

In this study, Propensity Sample Matching (PSM) was used for sample reconstruction. In the first stage, Probit regression with succession of family descendants (SUCC) as the dependent variable was used, referring to the method suggested by Shipman, Swanquist, and Whited (2017), including the same independent variables as in the second-stage regression model. Table 7 lists the balance test of the experimental group (with family succession) and the control group (without family succession). The regression results using PSM samples are based on the research content of Shipman et al. (2017), using the Caliper Distance (Caliper Distance) 0.03, which is widely used, as the data used in this study, and re-run the family succession and the results of all regression models for the measurement of earnings quality and family succession, political connection and financial information quality are consistent with previous findings.

Table 7: Propensity score pairing matching test

	<i>CAR_{i,t}</i>				<i>DA_{i,t}</i>				<i>REM_{i,t}</i>			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
UE	0.006	0.004	-0.960	0.337	—	—	—	—	—	—	—	—
POLIT	0.620	0.638	0.537	0.591	0.614	0.661	1.555	0.120	0.617	0.612	-0.173	0.863
Size	21.811	21.778	-0.482	0.630	21.782	21.803	0.317	0.752	21.788	21.839	0.795	0.427
C_Lev	0.005	0.015	1.903	0.057	0.001	0.004	0.506	0.613	-0.002	0.005	1.008	0.314
TURN	0.667	0.637	-1.046	0.296	0.651	0.657	0.214	0.830	0.649	0.630	-0.733	0.464
CFO	-0.087	-0.082	0.665	0.506	-0.094	-0.099	-0.573	0.567	-0.093	-0.098	-0.611	0.542
DUAL	0.339	0.309	-0.911	0.362	0.352	0.331	-0.709	0.478	0.325	0.337	0.400	0.690
BOARD	8.245	8.259	0.145	0.885	8.219	8.226	0.079	0.937	8.213	8.220	0.078	0.938
BIG10	0.584	0.559	-0.721	0.471	0.563	0.580	0.563	0.573	0.568	0.606	1.238	0.216
OSTOCK	0.006	0.008	0.493	0.622	0.002	0.001	-0.778	0.437	0.005	0.004	-0.493	0.622
AGE	16.936	16.836	-0.161	0.872	17.112	17.049	-0.122	0.903	16.959	17.941	1.734	0.083

Note 1: (1) is the experimental group, (2) is the control group, (3) is t-statistic, and (4) is $p > |t|$

Note 2: Variable definitions are shown in Table 1

5. Conclusions and Suggestions

The purpose of this study is to investigate the relationship between succession of descendants of Chinese family businesses and the quality of financial information. In addition, due to China's unique political environment, political connection is also an important feature that affects the inheritance of family businesses. The political relationship of the founder of a family business is a key factor in determining the participation of the second generation of the family. In China's unique political environment, the influence of political connections will moderate the impact of family succession and the quality of financial information in the family business, which is the focus of this study.

The empirical results of this research show that, from the test of the earnings response coefficient, it is possible to understand that the descendants of Chinese family businesses have better financial information quality after succession, indicating that the successors may not be recognized by external shareholders because they lack the ability of the founder. Therefore, there is a higher motivation to convert the internal information transmission mechanism into the external information transmission mechanism, and reduce information asymmetry through more information. In addition, under the influence of political connection, it is possible to restrain the family succession business from carrying out earnings management and maintain a better quality of financial information. In the part of additional analysis, the part of earnings management of accruals is explained, and it is pointed out that enterprises that have completed family succession tend to carry out earnings management of downward adjustment discretionary accruals. On the other hand, this study also used the propensity score matching method to group samples, and found that family succession companies tend to carry out earnings management, regardless of the type, but under the influence of political connections, it can inhibit the success of family succession.

There are several contributions of this research. First, the results of this research will help the Chinese government and the business community to understand the Chinese market. Previous research has focused on the association between family businesses and the quality of financial information (Ali et al., 2007), and found that family businesses strategically employ earnings management (Achleitner et al., 2014). However, the part of this study that is different from previous studies is whether the succession of the family business, which is a major process that family business operations must experience, affects the quality of financial information and the tendency to adopt earnings management behaviors. On the other hand, we focus on the unique political environment in China, and explore the relationship between the political environment and the quality of financial information for family business succession. Second, Chinese family businesses have their own special culture, and the development of family businesses will definitely go through the inheritance stage. Whether the inheritance goes smoothly and the impact on the quality of the company's earnings information are closely related to the future operation of the company. Because family businesses are very general in China. It will have a significant economic impact on China's capital market. Third, the succession of Chinese family businesses is mainly influenced by the unique Chinese culture of nepotism. We collect information on the succession of Chinese family businesses and explore the impact of Chinese family business succession on company accounting and financial information. The

impact of quality in order to make up for the inadequacy of domestic discussions on issues related to the succession of Chinese family businesses. Accordingly, the results of this study can be used as a reference for subsequent research on Chinese family businesses and succession issues.

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