Familial altruism and reputation risk: evidence from China

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Abstract

Purpose – The authors study the effects of altruism and intention for succession on family firm's reputation risk-taking behaviors in Chinese publicly listed companies.

Design/methodology/approach – The authors use earnings management as a proxy for reputation risk in family firms, and hand-collected relationship between family members to measure the closeness of incumbent family members and their potential successors as a proxy for the altruistic degree.

Findings – Results show that, in developing countries like China, familial altruism in family firms with succession plans, which does not reduce the practice of earnings management, should be considered by practitioners while detecting it.

Originality/value – The hand collected data are very unique; the authors have focused on the relationship between incumbents and successors and the authors define their closeness by using genes shared between them.

Keywords Altruism, Family firm, Succession, Reputation risk

Paper type Research paper

1. Introduction

Over the last several decades, family businesses have become an increasingly important business sector entity in the world's emerging economies. As shown in prior research (Burkart *et al.*, 2003; Chrisman and Patel, 2012; Chua *et al.*, 1999), family firms' risk-taking behaviors and decision-making strategies are different from those of nonfamily firms. Studies on family firms' risk-taking behaviors have also identified a mixed relationship with regards to their succession plans (Bennedsen *et al.*, 2007; Munari *et al.*, 2010).

On the one hand, family firms prefer to maintain control under their business families, even if this may cause an increase in business risk (Gómez-Mejía *et al.*, 2007; Chua *et al.*, 1999). This echoes the behavioral agency model, which suggests that family firms prefer to have long-term-orientated strategic plans. They intend to maintain their businesses under their family's control in the long run, always keeping family wealth at an optimal level and putting more emphasis on their family members' interests (Chua *et al.*, 1999). Furthermore, they prefer to preserve their socio-emotional wealth (SEW), especially if they intend to pass their business on to their next generations (Bennedsen *et al.*, 2007). For instance, family firms tend to take higher risks in investing in R&D in order to obtain future opportunities (Chrisman and Patel, 2012), and less likely to obtain a short-term or high risk plan because it is not in their family members' best interests and or in alignment with family firm's long-term growth (Chrisman and Patel, 2012).

On the other hand, family firms tend to be more risk-averse, compared to their nonfamily counterparts, with respect to maintaining family control and protecting the family's reputation (Gómez-Mejía *et al.*, 2010). This particular behavior is also reasonable from the SEW perspective (Gómez-Mejía *et al.*, 2007; Chrisman and Patel, 2012). In order to maintain or

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improve family reputation, family firms tend to avoid behaviors, such as fraud and dishonest activities. In this paper, we investigate if altruism within business families affects earnings management which is viewed as a type of firms' risk-taking behaviors because manipulating earnings in an annual report or cash flow statement potentially increases the risk of damaging the firm's public image and reputation (Chen and Hsu, 2009; Chrisman and Patel, 2012; Baysinger et al., 1991). Specifically, since family firms value their reputation more than profit, they are less likely to manage earnings because that would threaten the family's public image.

Furthermore, although altruism is a key element of SEW (Berrone et al., 2012), previous studies mainly focus on comparing family to nonfamily firms in this regard. But those studies did not consider various levels of altruism within family firms. In this study, we therefore uncover the effects of familial altruism on reputation risk-taking behaviors of family firms with intention for succession. We use earnings management as a proxy for reputation risk in family firms, and hand-collected relationship between family members to measure the closeness of incumbent family members and their potential successors as a proxy for the altruistic degree. Previous studies of family business succession have found that altruistic incumbents are concerned about both the future of all their family members as well as the ownership/control of their business (MacDonald and Koh, 2003; Sharma et al., 2001). Therefore, the closeness of the relationship between incumbents and potential successors may affect their risk-taking behaviors.

The main result of this study is that familial altruism in Chinese family firms with succession plans, which does not reduce the practice of earnings management, should be considered by practitioners while detecting it. In other words, earnings management is not any more or less evident in altruistic firms than in nonaltruistic ones. This finding adds to the entrepreneurial finance and family business management literature in at least three ways. First, it sheds light on how altruism affects the risk-taking behaviors of family firms in China. Although family business succession has been recognized as an important influence on decision-making, no extant study has so thoroughly addressed the effects of family firms' succession intentions on decision-making. Second, although altruism is included in the SEW perspective (MacDonald and Koh, 2003; Schulze et al., 2003), how various levels of altruism within families influence decision-making has not been addressed in previous studies. Hence, this study significantly extends the SEW perspective by quantifying altruism within business families. Third, it adds to the literature by addressing issues about family firms' risk-taking behaviors with respect to both nonfinancial and financial perspectives.

Using hand collected data that is very unique, we highlight differences between developed and developing countries. As we know, emerging markets exhibit very different characteristic than developed markets. In addition, most studies only indicate whether or not a family firm has a potential family successor (Lee and O'Neill, 2003). In our data, however, we have focused on the relationship between incumbents and successors and we define their closeness by using genes shared between them. This echoes studies in this stream of the literature such as Yu et al. (2019), Martinez-Sanchis et al. (2020) and Sharma et al. (2020).

Section 2 summarizes the relevant literature, proposes a theoretical framework and poses a research question. Section 3 describes the sample and research methodology, and Section 4 presents the results. In Section 5, we state our conclusions and identify future research areas.

2. Theoretical framework and research question

Family firm scholars agreed that one of the major differences between family and nonfamily firms is family's desire to transfer business control to the next generation. Generally speaking, a family owner has the incentive to benefit all the family members or to make business decisions on family members' key interests, including their next generations

(Bennedsen *et al.*, 2011; Chua *et al.*, 1999). Family firms prefer to choose successors from their next generations within the family, even if the family candidate is not qualified or professional enough to be the leader of their company (Kets de Vries, 1993). It may not be the best solution to the business, but this allows family owners to minimize the influence of nonfamily shareholders and to retain control under business families (Astrachan *et al.*, 2002; Blanco-Mazagatos *et al.*, 2007).

In an emerging market like China, however, family firms tend to adopt unusual risk-taking behaviors compared to firms in developed countries. The behavioral theory and the SEW perspective may not be fully applied to the Chinese context due to the additional uncertainties facing business families. Previous findings of family firm's risk-taking behaviors in Western countries are not directly applicable to Chinese family firms. In this study we will systematically demonstrate the effects of family succession plans on family firms' reputation risk-taking behaviors using Chinese data.

2.1 Agency theory and family firms SEW

According to agency theory, when there exist information asymmetries, an agency cost is generated in order to avoid or solve related conflicts (Jensen and Meckling, 1976; Chrisman *et al.*, 2004; Cruz *et al.*, 2010). Generally speaking, agency costs impact a firm's decision-making and relations between shareholders and managerial team members. Scholars have summarized two key issues related to agency threats: "moral hazard" and "adverse selection" (Myers, 1977). Reducing agency costs requires reducing information asymmetries. The governance structure of family firms can effectively reduce agency costs and threats. As we know, family firms are usually controlled by a family or a family group that either makes the family a large-block shareholder or the owner-manager (Denis *et al.*, 1999; Amihud and Lev, 1999). This special structure could efficiently reduce information asymmetries, and align their interests and thereby eliminate agency threats (Lubatkin *et al.*, 2005).

Most of the literature provides evidence about family firms' risk-taking behaviors in North America or Europe (De Massis *et al.*, 2012). Within these countries, SEW is a fundamental endowment of family principles (Gómez-Mejía *et al.*, 2007). The potential loss of this endowment increases subjective risk-bearing of family firms. Decision-makers prefer to avoid a loss of SEW even if they have to accept a higher level of risk (Chrisman and Patel, 2012). In Western developed countries, that means that family firms try to preserve their SEW dominant loss averse behavior, and SEW is considered as one of the key elements to encourage family owners to pass their businesses on to the next generation. However, there is a need for research on the impacts of SEW in developing countries or emerging markets.

2.2 Institutional background in China

In North America and Europe, family businesses are meant to benefit multiple generations of a family, and they adopt particular risk-taking behaviors to support these family-centered goals (Chrisman and Patel, 2012). Family firms tend to be more risk averse, but their behaviors may change under some particular circumstances (Chua *et al.*, 1999). In developed countries, controlling families have the clear option of passing their businesses on to the next generations, since the government provides a fair and secure external environment. According to the behavior agency model, family owners will adopt conservative risk preferences. When faced with the need to preserve their SEW, however, family firms may switch from risk-averse strategic decision-making to risk-seeking strategies, as they pursue activities that will preserve and transfer the family legacy (Gómez-Mejía *et al.*, 2010).

The same problem may be interpreted differently in China because of a relatively weak external governance and monitoring system. Since the 1980s, Chinese economy has

transitioned from a traditional, centrally planned to a market-oriented one. Over the past three decades, private firms have re-emerged in China, but ineffective monitoring in China increases the possibility that firms' illegal activities are not necessarily punished (Wang and Qian, 2011; Lin, 2011).

The owners of a family firm in China may not have a strong intention to transfer control to their kids. From an institutional perspective, political ties are one of the most important types of social ties in an under-developed (but formal) institutional environment. Peng and Luo (2000) argue that political connections result in advantages when accessing additional resources. But it is extremely hard for family firms to form such connections with the Chinese government and to obtain resources. As a result, family firms often need to bribe government officials. These bribes increase operating expenses and damage business ethics. Such practices not only incur substantial cost to the firm, they also lower the ethical standards of businesses. Firms may need to spend large amounts of energy and money to maintain a good relationship with the government. According to the altruism perspective, if a family firm in an emerging market like China struggles to succeed in the current generation, the owners will not want to subject the next generation to the same difficult path. Instead, they will sell their company and cash out, leaving the money to their successors.

2.3 The effects of altruism on earnings management

In this study, we ask a research question related to the reputation risk-taking behaviors, as proxied by earnings management of Chinese family firms with intentions for succession. A family firm with a high intention for trans-generational control through intra-family succession might have higher R&D investment costs because they would need to pursue projects with a longer time horizon (Chrisman and Patel, 2012). We assume that if a firm has a family CEO or board Chair with at least one other family member serving in the management team, it is more likely that this firm will have family succession in its future. In this situation, family firms' decision-making may be driven by the desire to preserve their SEW rather than by economic rationality.

However, according to agency theory, a family firm's decision-makers may be more risk-averse than their nonfamily counterparts (McConaughy et al., 2001; Basu et al., 2009). Thus, family founders invest most of their wealth in their business so that they are tied into a single asset, whereas shareholders might invest in multiple enterprises and distribute their risk across different assets. In addition, family firms are almost always small-and-medium-sized enterprises, and their risk-taking behavior is more conservative than that of big, wealthy enterprises (Mishra and McConaughy, 1999). However, the results of empirical studies examining risk-taking behaviors are inconsistent (Chrisman and Patel, 2012). In this study, we focus on reputation risk-taking behaviors for family firms that have succession plans in China. When family firms have family members in their top management team, we expect that they intend to transfer ownership within the family. In particular, therefore, we investigate Chinese family firms' engaging in earnings management when there is a family successor.

Many studies have examined the motivations for earnings management, one of which is related to lower financing cost (Dechow et al., 1996). Firms manipulate their financial statements to smooth the volatility of their performance, since positive financial accounting information encourages investors to buy stocks and this increases the value of the stock of present shareholders. However, it is risky to manipulate earnings (Jeggi et al., 2009) because it is illegal, and if earnings management is detected, the firm's value will decrease. In addition, the reliability of the firm's future financial reports will be doubted and the reputation of its management will be damaged. Family firms desire to protect their SEW. Their family's reputation is so important that they may sacrifice some economic returns to protect their reputation.

Family owners seek to keep and protect their business reputation, as it will benefit successors. The closer the incumbent–successor relationship, the more the owner will care about damage to the reputation caused by earnings management. We predict that family firms are more likely to engage in earnings management than nonfamily firms due to higher levels of family involvement in corporate governance of family firms (Benkel *et al.*, 2006; Cornett *et al.*, 2008). Family founders usually act as a firm's CEO and/or board chair (Daily and Dollinger, 1992) and it is less likely that there will be an outside blockholder if firms are owned and managed by the founding family.

We also know that external monitoring is ineffective in China. Firms that manipulate their earnings in financial and accounting reports are unlikely to be caught, and thus the chance that earnings management will damage their reputation is very low. During family firms' succession transitions, owners may put more efforts to maintain business performance and attract investors to ensure that the new leader will have the capability to retain good performance after they take over the company. In addition to ineffective external monitoring system, there is a lack of internal or external audit systems in family firms as well. Few family businesses have internal audit committees, and those that do probably have at least one family member as a committee member. In general, family firms do not want to release too much information to the public and they do not welcome external members. Also, when family firms intend to transfer control to the next generation, they try to mitigate this negative effect by manipulating their financial reports and attracting investors. Therefore, we ask a single research question in this study: *In Chinese family firms, does a closer incumbent–successor relationship increase the likelihood of earnings management?*

3. Empirical analysis and findings

Our dataset consists of hand-collected information about succession intentions for 232 family firms that were listed on Chinese stock markets in the period 2006–2011. Following the methods of Chrisman and Patel (2012), we extract from annual reports information about the personal characteristics of both incumbents and potential successors. Other data were extracted from the CSMAR database published by GuoTaiAn. There are a total of 2,073 observations in our sample.

We also construct three variables to characterize the relationship between an incumbent and each potential successor. The first is a dummy variable (FSdum) with a value of one if there is a father–child relationship, and zero otherwise. The second is a continuous variable (Altruism) which evaluates the closeness of the incumbent–successor relationship. It measures the percentage of genes shared by the two people. For instance, in a father–child relationship, the two people share 50% of their genes, and therefore we set the value of the variable Altruism as 0.5. If the two people of interest are siblings, they share 25% of their genes, and therefore we give the variable Altruism a value of 0.25. If, for example, these two people are bio-uncle and bio-nephew, we code the variable as 0.125. For robustness tests, we also construct a third variable, which is a dummy (Succession) with a value of one if the incumbent-successor relationship is any of those categorized in the continuous variable Relationship, and zero otherwise. This dummy variable Succession measures the family's intention for succession.

The focus of this study is the effect of altruism on the reputation risk-taking behaviors of family firms with succession plans; risk of reputation damage is proxied by earnings management (Jaggi *et al.*, 2009). Hence, we adopt the dependent variable discretionary accruals (DAM), a proxy for earnings management calculated on the basis of the modified Jones model (Dechow *et al.*, 1995). Following Dechow *et al.* (1995), we first calculate the total accruals (TAs) as follows:

$$TA_t = \frac{\Delta CA_t - \Delta CL_t - \Delta Cash_t + \Delta STD_t - Dep_t}{A_{t-1}}$$

where ΔCA_t is the change in current assets, ΔCL_t is the change in current liabilities, $\Delta Cash_t$ is the change in cash and cash equivalents, ΔSTD_t is the change in debt included in current liabilities, which we use as a measure of net short-term borrowing in our dataset; and Dep_t measures depreciation and amortization. Based on the new Chinese accounting standard, a business is not required to disclose a depreciation fee on their balance sheet. We use a proxy of 5% of firms' fixed assets to measure depreciation and amortization expenses. Finally, A_{t-1} is one year-lagged total assets. Then we estimate α_1, α_2 and α_3, as generated by the following regression (Dechow *et al.*, 1995):

$$TA_t = \alpha_1 \left(\frac{1}{A_t - 1}\right) + \alpha_2(\Delta REV_t) + \alpha_3(PPE_t) + v_t,$$

where TA_t and A_t are as in the previous calculation, and ΔREV_t measures the change in revenues in year t. PPE_t is the gross property plant and equipment in year t. Both ΔREV_t and PPE_t are scaled by total assets in year $t-1$. v_t is the residual.

We predict the ordinary least squares (OLS) estimator α_1, α_2 and α_3 as the firm-specific parameter and then calculate the nondiscretionary accruals (NDAs), as follows (Dechow *et al.*, 1995):

$$NDA_t = \alpha_1 \left(\frac{1}{A_t - 1}\right) + \alpha_2(\Delta REV_t - \Delta REC_t) + \alpha_3(PPE_t),$$

where ΔREC_t is the change in net receivables in year t scaled by total assets in year $t-1$. Finally, we calculate the discretionary accruals (DAM) using total accruals minus nondiscretionary accruals in the modified Jones model.

Following the methods from the previous studies (Chrisman and Patel, 2012; Dorsman *et al.*, 2003; Li *et al.*, 2012), we adopt control variables such as age of the incumbent (Age), age of the firm (firmage), the natural logarithm of a firm's total operation revenues (firmsize), the natural logarithm of the total number of employees (employee), the return on assets (ROAs), Tobin's Q calculated by the market-to-book ratio, the percentage of ownership owned by the chairman of the board (ownership), the natural logarithm of the total number of shareholders (totSH) and a dummy variable ChairCEO which is equal to one if a firm's chairman of the board also acts as the CEO and zero otherwise. We also include two additional control variables for the analysis of earnings management. The first is the natural logarithm of total cash flow (TotCF), and the second is capital intensity (CapInt), which is equal to fixed assets scaled by total assets.

As we focus on the effect of altruism on family firms' reputation risk-taking behaviors during their succession process, we first assess the potential sample selection biases related to family firms' succession decisions. To do so, we adopt a Probit model with a dummy variable (succession) that measures family succession as the dependent variable, and age of the incumbent (Age) as the instrumental variable. This choice of instrumental variable is consistent with previous studies of family firm; when an incumbent of a family firm is closer to retirement age, it is more likely for that person to consider trans-generational succession (Zellewege *et al.*, 2012). Then, we compute the Inverse Mills Ratio (invmills) from this Probit model and include it in the main regressions with DAM as the dependent variable. The Probit model in the first stage of analysis is as follows:

$$Succession = a_1 Age + c_1 Control\ Variable + \varepsilon,$$

and the OLS regressions in the second stage are

$$\text{DAM} = a_3 \text{Altruism/FSdum} + b_3 \text{Invmills} + c_3 \text{Control Variable} + \varepsilon_3$$

Table 1 presents the descriptive statistics and correlations. The average amount of discretionary accruals is 0.412. Sons and daughters are considered potential successors by 11.9% of the family firms' incumbents, and the average degree of altruism is 0.083. To save space, we do not repeat the information presented in Table 1.

The results from the Probit model in the first stage of our analysis are summarized in Column (1) of Table 2, and those from the OLS regressions in the second stage are presented in Columns (2) and (3). The variable Age is significantly (at the 1% level) and positively associated with the variable succession, indicating that when an incumbent in a family firm gets older, that person is more likely to have potential successors. The coefficients on both Altruism and FSdum are insignificant in those with DAM.

Our finding about the effects of altruism on earnings management indicate that family firms with potential successors engage in as much earnings management as those without potential successors. In other words, although the SEW perspective predicts that family firms with succession plans may care more about their reputation (Berrone *et al.*, 2012), their risk-taking behaviors with respect to potential reputation damage are not affected by altruism, perhaps because of the ineffective monitoring mechanisms and weak public governance system in China. Even if firms are caught engaging in earnings management, the penalty is likely to be relatively small. During the transition period of family firm succession, incumbents are less concerned about reputation damage and more concerned about their firm's short-term performance.

4. Conclusions and suggestions for future research

Unlike previous studies of different risk-taking behaviors between family and nonfamily firms, this study examines how altruism affects family firms' reputation risk-taking behaviors during the succession process. As it is hard to collect personal information about relationships between incumbents and potential successors in family firms, a sample of Chinese listed firms serves as a natural test. Our hand-collected data on the relationships between incumbents and potential successors are used as proxies for the degree of altruism that exists between family members. This is one of the first studies to quantify altruism and to investigate how it affects risk-taking behaviors when family businesses are in the succession process.

The finding shows that in China, altruism does not affect earnings management behavior. This suggests that when public governance mechanisms are relatively ineffective, the risk-taking behaviors of family firms differ from the behavior common in developed countries; thus, the SEW perspective may not fully apply in such economies. This study significantly adds to the entrepreneurial finance and family business management literature by connecting altruism and various categories of risk-taking behavior in family firms. The findings can be generalized to other jurisdictions with relatively weak business and institutional environments. These findings also have important policy implications for governments of transitional economies. Taken together, we believe our finding adds value to the entrepreneurial finance and family business management literature in extending our insights about the effect of family succession on firms' reputation risk-taking behaviors in emerging markets.

Given that our findings are based on Chinese family firms, and given that China has some unique public policies (e.g. the one child policy) which will affect family firms' succession intentions in a political way, we must be cautious about generalizing our results. Therefore, future research is needed which tests this effect using data from other counties with emerging

	N	Mean	S.D.	DAM	FSdum	Altruism	Firmsize	Employee	ROA	TobinsQ	Firmage	Age	Ownership	TotSH	ChairCEO	CapInt
DAM	2,064	0.412	1.139	1												
FSdum	2,073	0.119	0.323	−0.025	1											
Altruism	2,073	0.083	0.170	−0.023	0.903***	1										
Firmsize	1,942	21.231	1.328	−0.236***	0.117***	0.121***	1									
Employee	1,928	6.954	1.502	−0.215***	0.121***	0.107***	0.654***	1								
ROA	1,942	0.017	0.667	0.001	0.009	0.006	0.041*	0.014	1							
TobinsQ	2,073	3.192	4.320	0.258***	−0.052**	−0.044*	−0.474***	−0.292***	−0.127***	1						
Firmage	1,942	15.483	3.645	0.097***	−0.138***	−0.142***	−0.183***	−0.237***	−0.043*	0.114***	1					
Age	1,957	53.659	9.067	−0.103***	0.343***	0.337***	0.268***	0.186***	0.024	−0.124***	−0.141***	1				
Ownership	1,867	21.082	14.110	0.073***	−0.013	0.006	0.141***	−0.046**	−0.010	−0.021	−0.008	0.029	1			
TotSH	1,942	10.372	0.843	−0.178***	0.099***	0.082***	0.593***	0.404***	0.020	−0.248***	−0.034	0.185***	−0.186***	1		
ChairCEO	1,921	0.407	0.491	−0.032	0.128***	0.144***	0.125***	0.148***	−0.007	−0.049*	−0.171***	0.084***	0.054**	0.069***	1	
CapInt	1,942	0.246	0.183	−0.013	0.002	−0.012	−0.126***	0.121***	−0.129***	0.066***	−0.083***	0.013	−0.232***	0.083***	−0.019	1
TotCF	1,184	17.933	2.170	−0.238***	0.079***	0.068***	0.708***	0.417***	0.054***	−0.348***	−0.160***	0.177***	0.124***	0.360***	0.086***	−0.216***

Note(s): The variable DAM is a proxy for earnings management. FSdum is a dummy variable with a value of one if there is a father–child relationship, and zero otherwise, and Altruism is a continuous variable which evaluates the closeness of the incumbent–successor relationship. Firmsize is the natural logarithm of a firm's total operation revenues, and Employee is the natural logarithm of the total number of employees. ROA measures return on assets, and Tobin'sQ is the market-to-book ratio. Firmage is age of the firm, and Age is the age of incumbent. Ownership measures the percentage of ownership owned by the chairman of the board, and TotSH is the natural logarithm of the total number of shareholders. ChairCEO is a dummy variable which is equal to one if a firm's chairman of the board also acts as the CEO and zero otherwise. TotCF is the natural logarithm of total cash flow, and CapInt measures capital intensity which is equal to fixed assets scaled by total assets. *$p < 0.10$, **$p < 0.05$, ***$p < 0.01$

	Succession (1)	DAM (2)	(3)
Altruism		0.153 (0.138)	
FSdum			0.109 (0.071)
Invmills		0.145* (0.084)	0.154* (0.086)
Firmsize	0.019 (0.036)	−0.022 (0.081)	−0.021 (0.081)
Employee		−0.089** (0.036)	−0.090** (0.036)
ROA		0.061 (0.073)	0.060 (0.073)
TobinsQ		0.061*** (0.019)	0.061*** (0.019)
Firmage		0.008 (0.008)	0.008 (0.008)
Ownership	−0.002 (0.003)	0.005** (0.002)	0.005** (0.002)
TotSH	−0.076 (0.054)	0.027 (0.080)	0.026 (0.080)
ChairCEO	0.301*** (0.071)	−0.024 (0.059)	−0.022 (0.059)
TotCF		−0.010 (0.021)	−0.010 (0.021)
CapInt		−0.124 (0.260)	−0.127 (0.259)
Age	0.053*** (0.004)		
Year/Ind		Yes	Yes
Constant	−3.360*** (0.604)	0.800 (1.193)	0.788 (1.191)
Observations	1757	1,006	1,006
Pseudo R-sq	0.1006		
LR Chi-sq	189.61***		
Adj R-sq		0.178	0.179
F test		4.695***	4.673***

Note(s): The variable Succession is a dummy variable that measures family succession, and DAM is a proxy for earnings management. FSdum is a dummy variable with a value of one if there is a father–child relationship, and zero otherwise, and Altruism is a continuous variable which evaluates the closeness of the incumbent-successor relationship. Firmsize is the natural logarithm of a firm's total operation revenues, and Employee is the natural logarithm of the total number of employees. ROA measures return on assets, and Tobin'sQ is the market-to-book ratio. Firmage is age of the firm, and Age is the age of incumbent. Ownership measures the percentage of ownership owned by the chairman of the board, and TotSH is the natural logarithm of the total number of shareholders. ChairCEO is a dummy variable which is equal to one if a firm's chairman of the board also acts as the CEO and zero otherwise. TotCF is the natural logarithm of total cash flow, and CapInt measures capital intensity which is equal to fixed assets scaled by total assets. *$p < 0.10$, **$p < 0.05$, ***$p < 0.01$

Table 2.
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markets. Future research is also needed to assess cultural and historical factors that may influence firms' intentions regarding succession.

Another limitation in our paper is that familial altruism may become much more complicated when multiple siblings are involved in family succession, especially when more than one potential successor has been part of the top management team. There are two issues here. First, it may be difficult for family owners to be fair when they have to decide between one of their children and their siblings. Second, we should differentiate between parental altruism and reciprocal altruism in future research.

This study also points to several other future research directions. First, hand-collected data describing the relationships between incumbents and potential successors in family firms in developed countries would allow a comparative study to be conducted in an international setting. Second, this study could be extended to other aspects of the SEW perspective and behavioral agency theory. Doing so would be a significant theoretical contribution to both family business management and entrepreneurial finance research. Third, other risk-taking behaviors of family firms may also be considered along this line of research on the impacts of family altruism. For instance, studies may focus on other types of reputation risk, bankruptcy risk, business risk rooted in innovation such as research and development and so on. Last but not least, it would be interesting to investigate how stock

markets react to listed family firms' succession plans in an international setting. An event study that identified the reactions of external investors would help family firms in their decision-making processes.

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