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Governance Education and Innovation in Family Businesses: Insights from Leadership Transitions in China

Miao Yu* and Jiaoxiao Du

School of Accountancy, Shandong University of Finance and Economics, Jinan 250014, Shandong, China

ABSTRACT

Intergenerational leadership transitions in family businesses significantly influence corporate innovation, with dual effects emerging during the succession process. Using data from family firms listed on China's SME Board and GEM from 2010 to 2017, this study explores the relationship between management and ownership inheritance and innovation investment. Results reveal a negative impact on innovation during the joint management phase, while innovation improves under the full control of next-generation leaders, highlighting the potential of governance education in shaping sustainable innovation. Governance education provided by the senior generation enhances corporate social responsibility, reduces risk tolerance, and encourages conservative innovation strategies. The study further identifies gender disparities, with male successors often showing stronger negative effects on innovation. Moreover, political connections and market-oriented regions intensify challenges in sustaining innovation during leadership transitions. This research contributes to understanding the mechanisms linking governance education, leadership transitions, and innovation, offering insights for fostering resilience and innovation in family businesses amid generational shifts.

***Corresponding author**

Miao Yu, School of Accountancy, Shandong University of Finance and Economics, Jinan 250014, Shandong, China.

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Introduction

Family businesses are vital drivers of global economic development, contributing significantly to employment, GDP, and innovation. However, intergenerational leadership transitions, a defining feature of family businesses, present complex challenges that can disrupt innovation processes. Innovation, as a key determinant of long-term competitiveness, requires significant investments, vision, and strategic continuity—qualities that may be compromised during generational succession. This paper examines how the inheritance of management control in family businesses influences innovation investment, focusing on the dynamics of leadership transitions and their broader implications.

The intergenerational transfer of control is influenced by dual and often conflicting motivations. On one hand, altruistic motives prioritize the long-term survival and growth of the family enterprise, potentially fostering innovation by reducing agency costs and aligning leadership goals. On the other hand, risk-averse strategies, driven by the desire to preserve family wealth and stability, often result in conservative investment behaviors that inhibit innovation. These opposing tendencies highlight the inherent tension within family business inheritance.

Building on prior research, this study explores how the degree of management control transfer affects corporate innovation. Specifically, it analyzes the joint management period, characterized by shared decision-making between generations, and the eventual transition to full control by next-generation leaders. Findings suggest that incomplete transitions, often marked by intergenerational conflicts and misaligned visions, negatively impact innovation. Conversely, as next-generation leaders assume full control, innovation activities tend to improve, demonstrating the potential for leadership renewal to reinvigorate innovative capacities.

Moreover, cultural and institutional factors significantly moderate these dynamics. Cultural influences, such as the emphasis on preserving social and emotional wealth (SEW) and maintaining family control, shape the successors' strategic priorities. Simultaneously, institutional factors, including governmental support for innovation, market competition, and regulatory environments, create external pressures that further influence innovation outcomes during leadership transitions.

This study contributes to the literature by integrating the interplay of governance, culture, and institutional factors into the analysis of family business inheritance and innovation. It offers actionable insights for family enterprises undergoing succession, emphasizing the importance of fostering complete management control transfer and leveraging supportive cultural and institutional contexts to sustain innovation. By shedding light on the mechanisms driving innovation during intergenerational transitions, this research provides valuable guidance for policymakers and practitioners aiming to enhance the resilience and innovative capacity of family businesses in dynamic and uncertain environments.

Literature Review

Inheritance in Family Businesses

Family businesses are a cornerstone of economic development, particularly in emerging economies like China, where they account for a significant share of private enterprise activity. Intergenerational inheritance, a defining characteristic of these businesses, poses challenges to their sustainability and innovation potential. Rooted in traditional Chinese culture, including clan-based values and "guanxi" (relationship networks), the process of inheritance emphasizes maintaining resource continuity and family control.

In Chinese family firms, kinship frequently dictates power distribution, with leadership roles often reserved for members of nuclear or extended families. This cultural emphasis on blood ties shapes inheritance arrangements, typically centered on the direct transfer of management control to children. Altruistic behaviors by parent-generation leaders, such as resource investment in successors' development and tolerance for early-stage failures, ensure stability and continuity. However, these same behaviors may inhibit innovative decision-making by prioritizing conservative strategies over risk-taking.

The Social Emotional Wealth (SEW) framework provides a valuable lens to understand these dynamics. SEW highlights the prioritization of family-centric goals, such as maintaining control, reducing emotional conflicts, and preserving family legacy, which often influence inheritance decisions. While this approach safeguards socio-emotional assets and aligns with long-term visions of creating "century-old enterprises," it can limit the flexibility required for innovation in dynamic environments.

Family Inheritance and Corporate Innovation

The relationship between family business inheritance and innovation is complex, with competing theories presenting dual perspectives. On one side, proponents argue that inheritance can promote innovation through alignment of long-term goals, reduction of agency conflicts, and successors' broadening perspectives. Successors, particularly those with international education or external work experience, often introduce new ideas and strategies, driving increased R&D investment and innovation performance.

On the other side, inheritance may suppress innovation by fostering risk aversion and stability-focused decision-making. During leadership transitions, the emphasis on preserving family control and SEW often results in conservative approaches that reduce willingness to pursue disruptive innovations. Furthermore, incomplete or conflict-ridden transfers of control can slow decision-making and hinder the firm's responsiveness to market changes, thereby negatively affecting innovation outcomes.

The cultural and institutional contexts in which family businesses operate further shape these dynamics. For instance, professionalization of management—replacing family members with external executives—has been shown to enhance innovation by prioritizing performance over tradition. Similarly, institutional factors such as governmental support for innovation, regulatory frameworks, and competitive market pressures can either amplify or mitigate the innovation challenges associated with inheritance. However, the impact of these moderating factors during fully completed management transitions remains underexplored, particularly in emerging economies like China.

Research Gap

Despite growing interest in the intersection of inheritance and innovation, significant gaps remain in the literature. First, existing studies predominantly examine cases involving distant relatives or external successors, overlooking the dynamics of direct intergenerational transfers within nuclear families. Second, the influence of successors' business philosophies—shaped by governance education and leadership training—on innovation has received limited attention. Third, the moderating roles of cultural (e.g., SEW preservation) and institutional (e.g., government innovation policies) factors remain underexplored, particularly in contexts characterized by incomplete or gradual leadership transitions.

This Study Addresses these Gaps by Investigating the Effect of Family Business Inheritance on Innovation Investment, with a Focus on:

- The Degree of Management Control Transfer (Joint Management vs. Full Control by Successors).
- The Moderating Effects Of Cultural Factors, such as SEW and Familial Altruism.
- The Institutional Influences of Government Policies, Market Competition, and Regulatory Environments.

By integrating these perspectives, this paper contributes to understanding the interplay between governance, culture, and institutional contexts in shaping the innovation trajectory of family businesses amid generational transitions.

Hypotheses

Inheritance and Innovation in Family Businesses

Altruistic Behavior under Paternalism

Enterprise development relies heavily on innovation, yet innovation often entails significant risks of failure. In family businesses, influenced by Confucian cultural traditions, maintaining family stability and wealth inheritance is prioritized, which can sometimes suppress entrepreneurial spirit and risk-taking behavior. Hungarian economist János Kornai introduced the concept of paternalism in 1983, defining it as altruistic behavior undertaken by individuals or organizations with the intent of benefiting others. This behavior is evident in family businesses, as exemplified by practices like Fangtai Group's "three years of guidance, three years of support, and three years of observation," which demonstrate care and preparation for the next generation.

In the pursuit of establishing "century-old enterprises," family business incumbents often make strategic adjustments during the inheritance period, such as provisions for asset impairment or earnings management, to pave the way for successors and enhance their credibility. While these actions may secure the foundation for future innovation, they can also inhibit immediate innovation investments due to risk aversion and resource allocation for transition preparedness. Moreover, successors often defer to parental guidance out of respect, further delaying innovation activities until the transition is complete.

Thus, altruistic behaviors driven by paternalistic motives during the inheritance period may reduce innovation investment, focusing instead on ensuring a stable handover.

Based on These Observations, the Following Hypotheses are Proposed:

H1: Family Business Inheritance Inhibits Corporate Innovation Investment.

H2a: The Inhibitory Effect of Family Business Inheritance on

Corporate Innovation Investment Diminishes or Disappears after the Inheritance is Complete.

H2b: The Inhibitory Effect of Family Business Inheritance on Corporate Innovation Investment Persists even after the Inheritance is Complete.

Socioemotional Wealth

From the perspective of socioemotional wealth (SEW), family business inheritance reinforces the family's control and influence while addressing emotional ties between parents and children. For the incumbent, the inheritance process not only ensures continuity of family control but also fulfills their social responsibilities towards their children.

During the inheritance phase, family businesses tend to prioritize stability and long-term control, avoiding high-risk innovation projects that could jeopardize family wealth or socioemotional assets. External professionals, often required for innovation, may be perceived as threats to family control, further discouraging innovation investments. Additionally, the emphasis on maintaining internal employment within the family can result in suboptimal resource allocation, as successors may lack the expertise necessary for innovation. This conservatism leads to a preference for low-risk, routine activities over ambitious innovation projects.

Therefore, the need to safeguard socioemotional wealth and ensure smooth intergenerational transfer may lead family businesses to adopt a risk-averse approach, limiting innovation investments.

Successor Gender and Corporate Innovation

Gender differences in successors significantly influence family business decisions. Historically, the preference for male successors has been prevalent, with sons often being groomed for leadership roles, while daughters are typically provided with non-operational assets. Despite the gradual alleviation of traditional gender biases under policies like China's "one-child policy," expectations for sons remain higher. Sons are often expected to demonstrate greater independence and risk-taking abilities, aligning with the goal of building long-lasting enterprises.

In contrast, daughters are frequently prepared for stable roles, focusing on risk-averse strategies. If a daughter inherits the family business, it is common for professional managers to be hired to oversee operations, resulting in a focus on ownership rather than active management. Consequently, businesses with male successors are more likely to exhibit stronger risk aversion and reduced innovation investments, as resources are reserved to ensure a smooth transition.

H3: The inhibitory effect of family business inheritance on corporate innovation investment is more significant when the successor is male.

Political Connections and Innovation

Political connections serve as critical social assets for family businesses, influencing their strategic decisions and innovation investments. Incumbents often prioritize passing on these connections to their children to maintain the business's competitive advantages. However, successors typically inherit these connections without contributing new political resources, which may shift the focus of the business toward political rent-seeking rather than innovation.

While political connections can provide financial benefits such as tax advantages, government subsidies, and favorable loans, they may also reduce the incentive to engage in high-risk innovation. Instead, family businesses with strong political ties may prioritize maintaining control and stable operations to preserve socioemotional wealth, further discouraging innovation investments.

H4: Family business inheritance with political connections has a more significant inhibitory effect on corporate innovation investment.

Marketization and Innovation

The degree of marketization influences resource allocation, competitive dynamics, and innovation incentives. In regions with low marketization, resources are often skewed towards state-owned enterprises, weakening private property rights protection and discouraging private enterprises from pursuing innovation. Family businesses in these areas may prioritize stability and risk aversion over long-term innovation investments.

Conversely, in highly marketized regions, family businesses face stronger competition and stricter regulatory oversight. Although these conditions may encourage innovation to maintain competitiveness, they also require higher initial resource investments and entail greater risks. Consequently, family businesses may adopt a cautious approach, focusing on capital accumulation and resource preparation for successors.

H5: The inheritance of family businesses in regions with a high degree of marketization inhibits corporate innovation investment more significantly.

Research Design

Sample Selection and Data Sources

This study selects Chinese A-share companies listed on the SME Board and the ChiNext (GEM) from 2010 to 2017 as samples. Financial and insurance companies, ST and *ST companies, those with an asset-liability ratio greater than 1, and companies with missing data were excluded. The reason for choosing the SME Board and ChiNext is that most companies listed on the main board are state-owned or have strong government backgrounds, whereas the SME Board and ChiNext primarily include private companies with simpler backgrounds, making them more suitable for research on family businesses. The characteristics of family businesses are less likely to be affected by government management. After the filtering process, a total of 7,790 observations were obtained. Additionally, the 1% winsorization method was used to handle extreme values of the variables.

We define a private enterprise whose actual controller is a natural person as a family business, and family business inheritance is defined as the succession of leadership from the incumbent parents to their children. This study specifically examines the inheritance of management rights in the relationship between the actual controller (chairman or general manager) and other members of the board, supervisory board, or senior management. The actual controller of the company is a father-son or father-daughter relationship, but the inheritance of ownership, such as by the younger generation, is not included in this study if it does not take place during the sample period. Furthermore, following prior studies, inheritance is considered complete when the actual controller's child (son or daughter) serves as the chairman or replaces the parent to become the actual controller [1]. At this point, regardless of whether they hold a position in the company, the inheritance process is considered to be completed. For example, in the case of CapitaLand Investment (002072), Wu Jie took over from his father Wu Lianmo and became the actual controller, but he did not serve on the board, supervisory board, or management. In this case, the inheritance process is still considered complete.

Data were manually collected from the company's prospectus, annual reports, and appointment announcements. If the relationship could not be clearly determined, verification was conducted through Baidu search. Financial data, individual stock, and market return data were obtained from the CSMAR database, while corporate governance data was sourced from the CNRDS platform.

Variable Definition

Enterprise Innovation Input

This study focuses on the decision-making of family businesses, specifically whether they are willing to innovate. Therefore, the company's R&D investment is used as a measure of innovation input, instead of the number of patent applications as a measure of innovation output. More investment in R&D indicates more investment in innovation. Following, innovation input is measured by the ratio of R&D expenses to revenue (lnrd), and the logarithm of R&D expenses plus one (rdps) is used to test the robustness [2,3].

Family Business Inheritance

If the actual controller, chairman, or general manager has a father-son, mother-son, father-daughter, or mother-daughter relationship with a member of the board, supervisory board, or senior management, but the child does not serve as the chairman and does not replace the parent as the actual controller, the variable "family inheritance" (fsm) is recorded as 1, otherwise 0 [4].

To examine whether the gender of the children impacts innovation investment, this study establishes two additional variables: "male inheritance" (fsm_son) and "female inheritance" (fsm_girl). If the actual controller, chairman, or general manager has a father-son or mother-son relationship with another actual controller, board member, supervisory board member, or senior manager, then fsm_son is set to 1, otherwise 0. If there is a father-daughter or mother-daughter relationship, then fsm_girl is set to 1, otherwise 0.

Additionally, following the practices of, the determination of whether the successor has entered the second-generation autonomy stage is based on whether the child serves as the chairman or replaces the parent as the actual controller, i.e., if the inheritance is complete [5,6]. The succession variable is set to true when the child acts as the chairman or replaces the parent to become the actual controller, meaning the inheritance is complete and the second generation has fully taken over. The succession is then recorded as 1, otherwise 0

Political Connections

Based on the research of, this study defines a company as having political connections if the general manager or chairman of the family business is or was a government official, a member of the CPPCC, or a representative of the National People's Congress [7]. Otherwise, the company is considered not to have political connections.

Degree of Marketization

Following, the marketization degree is classified according to the marketization index for each year. If the marketization index of a region is higher than the national median, the region is classified as having a high degree of marketization; otherwise, it is considered to have a low degree of marketization [8].

Control Variables

According to existing research, a higher debt ratio may lead to increased attention from creditors. To repay creditors' principal on time, companies may reduce high-risk innovation investments. A higher shareholding ratio of the largest shareholder (top1) means that the family's share is larger. This may lead to the family's control over the company and a reduced willingness to invest in innovation to avoid the risk of technological hollowing out. Institutional investors' holdings will significantly increase a company's innovation investment to ensure the sustainable development of the company.

Taking all factors into account, this study includes the following control variables: company size (size), debt ratio (lev), return on assets (ROA), shareholding ratio of the largest shareholder (top1), whether the chairman and general manager hold dual positions (dual), proportion of independent directors (duli), management shareholding ratio (mngmh), institutional investor shareholding ratio (inshare), and the company's age (age)

Empirical Models

The Regression Model of this Study is as Follows:

$$Lnrd_{i,t} = \alpha_0 + \alpha_1 fsm_{i,t} + \alpha_2 \sum control_{i,t} + u_{i,t} \quad (1)$$

$$Lnrd_{i,t} = v_0 + v_1 succession_{i,t} + v_2 \sum control_{i,t} + u_{i,t} \quad (2)$$

In this study, the ordinary least squares method was used to perform multiple linear regression on the model. α_0 and v_0 are the constant terms of model (1) and model (2) respectively. $\sum control_{i,t}$ are the control variables for the three models. ui,t is the residual term. $Lnrd_{i,t}$ is the explained variable, which represents the current innovation investment of the enterprise, measured by the ratio of R&D expenses to revenue. Fsm is the explanatory variable of model (1), which measures the inheritance of enterprises, and the expected α1 is significantly negative. succession is the explanatory variable of model (2), which measures the completion of family inheritance. If the children become the chairman of the board or succeed their parents as the actual controllers, the expected v1 is significantly negative. To test Hypothesis 3, the gender difference of the heirs, the variable fsm_son and the variable fsm_girl was used to replace the fsm in the model (1) as the explanatory variable, and the expected α1 was still negative. In the expected control variable, the asset-liability ratio lev coefficient is negative; the top1 coefficient of the largest shareholder's shareholding ratio is negative; the institutional investor's shareholding coefficient inshare is positive.

The model controlled for firm fixed effects and annual fixed effects, and clustered the standard errors of the regression coefficients at the firm level.

Empirical Results and Analysis

Descriptive Statistical Analysis

Table 2 reports the descriptive statistical results of the relevant variables of the sample companies. The average value of R&D investment in operating income is 25.600, the median is 4, and the minimum value is 0.110, indicating that the R&D investment of family enterprises in my country is about 5 times the operating income, and there is a big gap between different enterprises. About 21.3% of the enterprises have family inheritance, of which nearly 80% are male heirs, and only 4% of all family business samples are female heirs. It is more common among enterprises, but about 79.3% are not currently completed. And most of them are inherited by male offspring, accounting for about 77.5%. The proportion of female inheritance is very small, only 3.7% of the whole sample.

Table 2: Variables Description Statistic

Variables	Observations	Mean	sd	Minimum	Median	Maximum Value
lnrd	7790	5.36	4.52	0.11	4	25.60
fsm	7790	0.21	0.41	0	0	1
fsm _son	7790	0.17	0.38	0	0	1
fsm _girl	7790	0.04	0.20	0	0	1
successi	7790	0.06	0.23	0	0	1
size	7790	21.40	0.88	19.60	21.30	23.90
lev	7790	0.32	0.18	0.05	0.30	0.79
roa	7790	0.06	0.07	-1.32	0.06	0.96
top1	7790	0.34	0.14	0.10	0.32	0.70
mngmh	7790	030	0.22	0	0.31	0.68
dual	7790	0.58	0.50	0	1	1
inshare	7790	0.19	0.18	0	0.13	1.52
age	7790	2.53	0.41	0.70	2.59	3.65

Table 3: Shows the Correlation Coefficients of the Main Variables

The Pearson and Spearman correlation coefficients of lnrd and fsm are significantly negatively correlated at the 1% level, -0.126 and -0.124, respectively, but the Pearson and Spearman correlation coefficients of lnrd and succession are no longer significantly negatively correlated, with good consistency. It shows that corporate inheritance reduces R&D investment, but R&D investment no longer decreases significantly after the inheritance. This correlation result is in line with the hypotheses H1 and H2a of this paper. The correlation coefficients between the explanatory variables in this paper are all less than 0.500, indicating that the model (1) and model (3) constructed in this paper do not have multicollinearity problems.

Table 3: Correlation Coefficients

	Lnrd	fsm	Succession	Size	lev	roa	Top1	mngmh	Dual	Duli	Inshare	Age
lnrd	1	-0.100***	-0.060	-0.200***	-0.300***	0.090***	-0.100***	0.200***	-0.090***	0.070***	-0.020	-0.002
fsm	-0.100***	1	0.4***	0.07***	-0.02	-0.040***	0.060***	-0.040***	0.100***	-0.060***	-0.009	0.040***
succession	-0.050	0.400***	1	0.07***	0.02*	-0.080***	-0.020*	-0.050***	-0.006	0.009	0.020	0.030**
size	-0.200***	0.070***	0.07***	1	0. 5***	-0.100***	-0.040***	-0.200***	0.080***	-0.050***	0.200***	0.100***
lev	-0.300***	-0.010	0.04***	0.5***	1	-0.400***	-0.030**	-0.200***	0.050***	-0.020	0.100***	0.100***
roa	0.030	-0.030***	-0.06***	-0.09***	-0.3***	1	0.100***	0.200***	-0.050***	-0.009	0.030**	-0.040***
top1	-0.100***	0.070***	-0.02	-0.02*	-0.006	0.100***	1	0.001	-0.090***	0.080***	0.010	-0.100***
mngmh	0.100***	-0.030***	-0.06***	-0.2***	-0.2***	0.200***	-0.020	1	-0.090***	0.080***	-0.200***	-0.050***
dual	-0.080***	0.100***	0.010	0.090***	0.050***	-0.050***	-0.070***	-0.080***	1	-0.100***	0.020*	0.020*
duli	0.070***	-0.070***	0.020*	-0.050***	-0.020	-0.020	0.070***	0.070***	-0.100***	1	-0.030**	-0.004
inshare	-0.050***	0.008	0.010	0.200***	0.100***	0.020*	0.090***	-0.300***	0.010	-0.020*	1	0.040***
age	-0.030***	0.040***	0.020*	0.100***	0.100***	-0.050***	-0.100***	-0.080***	0.020**	0.004	0.050***	1

Note: The lower left Corner is the Pearson Correlation Coefficient, and the Upper Right Corner is the Spearman Correlation Coefficient; *** means Significant at 1% Level, ** means Significant at 5% level, * means Significant at 10% Level, the same below.

Inheritance and Innovation Input of Family Business

Univariate Analysis

Table 3 shows the correlation coefficients of the main variables. The Pearson and Spearman correlation coefficients of lnrd and fsm are significantly negatively correlated at the 1% level, -0.126 and -0.124, respectively, but the Pearson and Spearman correlation coefficients of lnrd and succession are no longer significantly negatively correlated, with good consistency. It shows that corporate inheritance reduces R&D investment, but R&D investment no longer decreases significantly after the inheritance. This correlation result is in line with the hypotheses H1 and H2a of this paper. The correlation coefficients between the explanatory variables in this paper are all less than 0.500, indicating that the model (1) and model (3) constructed in this paper do not have multicollinearity problems.

Table 4: Univariate Analysis

Innovation	lnrd	rdps
fsm=1 business mean	4.269	17.356
fsm =0 business mean	5.656	17.420
T value test	- 1.387*** (-10.633)	-0.064** (-2.091)

Regression Analysis

After the stationarity test, this paper finds that the data is stable, and the OLS analysis model can be used to obtain the results.

The regression results are shown in Table 5. At the level of 1%, family business inheritance is negatively correlated with the proportion of R&D investment in operating income, which will reduce the proportion of R&D investment by 14.7% (t=-3.110). After the inheritance of the family business is over, and the children replace their parents as the actual controller or chairman, the inhibitory effect of family inheritance on the proportion of R&D investment is no longer significant (t = -1.370). The asset-liability ratio lev and the shareholding ratio of the largest shareholder TOP1 also have a significant inhibitory effect on the proportion of R&D investment at the level of 1% (t = -1.490, t = -1.700), which confirms the reasoning process. It can be seen that, both in the statistical sense and in the economic sense, family business inheritance has a significant negative relationship with innovation investment, and hypothesis H1 is tested. But after the family inheritance is complete, this inhibitory effect no longer exists. From this, it can be concluded that the inhibitory effect of family business inheritance on innovation investment stems from the altruistic behavior of the fathers out of paternalism, and the management after the succession of the younger generation sets the stage. After the inheritance is over, this inhibitory effect is no longer significant.

Table 5: Family Inheritaget and Innovation Investment

	lnrd	lnrd	lnrd	lnrd
fsm	-0.147*** (-3.110)			
fsm _son fsm _girl		-0.108*** (-2.110)	-0.219** (-1.950)	
succession				-0.484 (-1.370)
size	-0.125	-0.130	-0.141	-0.136
	(-1.060)	(-1.100)	(-1.190)	(-1.160)
	-7.065***	-7.041***	-6.967***	-6.980***
	(-10.260)	(-10.230)	(-10.160)	(-4.910)
	-7.069***	-7.069***	-7.049***	-7.148***
	(-4.850)	(-4.840)	(-4.840)	(-4.910)
	-2.089***	-2.131***	-2.219***	-2.264***
	(-2.990)	(-3.050)	(-3.180)	(-3.230)
	0.615	0.612	0.617	0.596
	(1.380)	(1.370)	(1.390)	(1.340)
	-0.379**	-0.396**	-0.434**	-0.447**
	(-2.110)	(-2.200)	(-2.420)	(-2.490)
	3.340**	3.450**	3.586**	3.702**
	(2.080)	(2.150)	(2.230)	(2.300)
	1.179***	1.191***	1.190***	1.204***
	(3.560)	(3.610)	(3.590)	(3.650)
	-0.627**	-0.630**	-0.643**	-0.642**
	(-2.290)	(-2.300)	(-2.350)	(-2.350)
	10.307***	10.410***	10.691***	10.606***
year industry	(3.930) YES YES	(3.960) YES YES	(4.090) YES YES	(4.070) YES YES
N	7790	7790	7790	7790
R^2	0.359	0.358	0.357	0.357

Note: The t Values in Parentheses are Corrected for Heteroscedasticity, the same below.

Second-Generation Gender and Corporate Innovation Investment

Table 5 shows that male inheritance will reduce the ratio of R&D investment to operating income by 10.8% at the level of 5% (t=-2.140), while female inheritance will reduce the proportion of R&D investment by only 21.9% at the level of 10% (t=-1.950). In terms of statistical significance and economic significance, the inhibitory effect of family business inheritance on corporate innovation investment has nothing to do with the gender of offspring, but the inhibitory effect of male offspring on innovation investment is more significant. This shows that although men and women are equal, there are still differences between men and women. Entrepreneurs

have different gender-based trainings for their children. Compared with daughters, they have higher expectations for their sons and prefer their sons to build a "hundred-year enterprise", so H3 is supported.

Political Affiliation Group Test

Table 6 is the T-test of the mean difference analysis of political connections and family business inheritance. The family business inheritance trend with political connections is more significant (t=7.450, significant at the 1% level), which verifies that family businesses regard political resources as a family business inferences on asset continuation. The group regression results are shown in Table 7. For family businesses with political connections, family inheritance inhibits the proportion of R&D investment in operating income more significantly. For companies with political connections, the coefficient of family inheritance was significantly negative at the 1% level (t=-3.380), while for companies without political connections, the coefficient was only significantly negative at the 5% level (t=-2.570). On average, compared with companies without political connections, the inhibitory effect of politically connected family business succession on innovation investment is about 72.1%, which is greater than the inhibitory effect of family business succession without political connection on innovation investment, which is about 58.5%, which supports Hypothesis H4.

Table 6: Univariate Analysis

Inheritance	Child
Politically Connected	0.259
No Political Connection	0.187
T Value Test	0.072*** (7.450)

Table 7: Politically Related Test

	lnrd	lnrd
	No Political Connection	Politically Connected
child	-0.585**	-0.721***
	(-2.570)	(-3.380)
size	-0.040	-0.230
	(-0.280)	(-1.420)
lev	-7.886***	-5.491***
	(-8.790)	(-6.680)
roa	-8.594***	-5.014*
	(-5.110)	(-1.950)
top1	-2.113**	-2.596***
	(-2.290)	(-3.230)
mngmh	1.489***	-1.049*
	(2.740)	(-1.740)
dual	-0.446**	-0.100
	(-1.980)	(-0.440)
duli	2.964	3.594**
inshare	(1.410) 1.001**	(1.960) 1.616***
age	(2.530) -0.791**	(3.350) -0.339
	(-2.160)	(-1.100)
_cons	7.487**	10.785***
	(2.240)	(3.080)
year	YES	YES
industry	YES	YES
N	4336	3454
R^2	0.357	0.366

Group Test of Marketization Degree

According to the regression results as shown in Table 8, in regions with a high degree of marketization, the inhibitory effect of family business inheritance on the ratio of R&D investment to operating income is more obvious at the 1% level (t=-4.710). Specifically, for family businesses in areas with a high degree of marketization, family inheritance will reduce innovation investment by about 1.1 times, while family inheritance in areas with a low degree of marketization has no significant relationship with corporate innovation investment. This result supports Hypothesis H5.

Table 8: Degree of Marketization Test

	lnrd	lnrd
	Low Degree of Marketization	High Degree of Marketization
child	-0.130	-1.064***
	(-0.470)	(-4.710)
size	-0.140	-0.117
	(-0.740)	(-0.730)
lev	-6.082***	-7.214***
	(-6.180)	(-7.230)
roa	-8.443***	-7.397***
	(-3.140)	(-4.110)
top1	-2.715***	-1.532
	(-2.740)	(-1.570)
mngmh	-0.324	1.331**
	(-0.500)	(2.340)
dual	-0.630**	-0.177
	(-2.240)	(-0.740)
duli	6.883***	1.572
	(2.910)	(0.720)
inshare	0.928*	1.254***
	(1.680)	(3.070)
age	-0.423	-0.842**
	(-1.120)	(-2.200)
_cons	5.269	8.609***
year	(1.320)	(2.620)
industry	YES	YES
	YES	YES
N	3888	3902
R^2	0.353	0.371

Further Analysis

Family Business Inheritance and Charitable Donations

According to the stakeholder theory, family businesses will consider the attitudes of stakeholders more in the process of inheritance [9], making decisions not driven by economic logic, inevitably deploying more non-market strategies, and fulfilling more social responsibility behaviors. even accept the loss of economic benefits brought by it [10]. The incumbents of the

father's generation will pass on management rights to their children and assist and support them.It is the social responsibility of parents to take care of their children, and it is also the social responsibility of managers to fulfill the growth of employees.

Regarding corporate social responsibility, it mainly focuses on charitable donations [11] that can help companies maintain their reputation and enhance their image [12]. For family businesses that carry on an inheritance, the development of the company is closely related to the family's own property and reputation and may take the initiative to make charitable donations to maintain relations with the government. In a sense, this is also a "political contribution" made by private entrepreneurs to establish political relations [13]. At present, studies have shown that family business inheritance can improve the level of charitable donations [11]. During this period, paternalism pushed parents to sacrifice cash flow and short-term performance to win the recognition of the company from stakeholders such as the government, social media, and consumers through charitable donations. Establishing political connections [13], maintaining a good reputation for the family, gaining high social prestige, and consolidating existing resources are the preliminaries for the operation after the inheritance is over. The second generation participates in charity in addition to gaining the recognition of stakeholders and enhancing their own right to speak; it can also strengthen their sense of admiration for their parents and family identity. Going further, it can help them to have a deeper understanding of the meaning and identity of wealth, learn how to build a value bond and a bridge of communication with others, and continue to build a "century-old enterprise".

Referring to Dai Yiyi et al. [13], the charitable donation data in this study comes from the "non-operating expenditures and external donations" subject of corporate financial statements, and the specific number plus 1 is used to take the logarithm in the regression. The specific results are shown in Table 9. At the 5% level, a family business inheritance is significantly linked to charitable donations, and the amount spent on donations went up by 31.7% (t=2.250).

Insufficient Inheritance and Investment of Family Businesses

According to the above analysis, the incumbent's paternalism in the inheritance stage of the family business promotes a more stable management style and more conservative investment. The funds of enterprises are more commonly used in charitable donations for the purpose of maintaining social relations, political rent-seeking, or talent and technical reserves for the purpose of sustainable operation. This lays a solid foundation for the independent growth and development of the second generation after the inheritance, which may lead to the problem of insufficient investment during this period. Learn from [14] to determine the degree of underinvestment at enterprises. The expected investment expenditure estimation model is as follows:

$$Inew_t = \beta_0 + \beta_1 Inew_{t-1} + \beta_2 Growth_{t-1} + \beta_3 Lev_{t-1} + \beta_4 Cash_{t-1} + \beta_5 Size_{t-1} + \beta_6 Age_{t-1} + \beta_7 Ret_{t-1} + \sum Year + \sum Ind + \varepsilon \quad (4)$$

Among them, the predicted value of the explained variable Inewt is determined by the company's growth, asset-liability ratio, scale, and other factors, and the residual E obtained from the regression is a part of the inefficient investment of the enterprise. A negative residual indicates that the investment is underinv, and the absolute value is taken during regression. Inewt is the new investment in year t, which is equal to "cash paid for the acquisition and construction of fixed assets, intangible assets, and other long-term assets" in the cash flow statement in year t minus "cash recovered from disposal of fixed assets, intangible assets, and other long-term assets" to total assets at the beginning of the year. Growtht-1 is equal to the tq value at the end of year t-1, ret is the rate of return on the stock, and the age of the enterprise is calculated according to the age of establishment. The specific results are shown in Table 9. Family business inheritance is significantly positively correlated with underinvestment, increasing by 0.5% at the 1% level (t=2.750).

$$tq = \frac{\begin{array}{c}(\text{price per share} \times \text{number of tradable shares} \\ + \text{net assets per share} \times \text{number of non} \\ -\text{tradable shares} + \text{book value of liabilities})\end{array}}{\text{book value of total assets}}$$

Inheritance and Risk-Taking Level of Family Business

In the process of family inheritance, the fathers, out of paternalism, are more inclined to help their children consolidate their leadership positions and accumulate assets needed for continuous operation. Therefore, business investment during this period is more cautious, the risk aversion orientation is more prominent, and the level of risk taking is possibly lower. This paper uses the asset-liability ratio (lev), that is, the proportion of total liabilities to total assets, to measure the level of risk-taking of enterprises. The results are shown in Table 9. Family business inheritance is significantly negatively correlated with the level of risk taking, and it decreases by 2.30% at the 1% level (t=-2.920).

Table 9: Further Analysis

	Donation	Underinv	lev
fsm	0.317**	0.005***	-0.023***
	(2.250)	(2.750)	(-2.920)
size	1.374***	0.007***	0.084***
	(16.250)	(3.060)	(21.140)
lev	-0.511	-0.004	-
	(-1.100)	(-0.510)	-
roa	3.867***	0.011	-0.772***
	(2.750)	(0.430)	(-13.590)
top1	0.137	0.011*	0.028
	(0.270)	(1.700)	(1.110)
mngmh	1.141***	0.014***	-0.044***
	(3.790)	(3.230)	(-2.850)
dual	0.078	-0.003	-0.001
	(0.600)	(-1.580)	(-0.030)
duli	-2.559**	-0.028	0.012
	(-2.130)	(-1.580)	(0.220)
_cons	-17.887***	-0.150***	-1.128***
Year Industry	(-8.470) YES YES	(-2.790) YES YES	(-13.480) YES YES
N	7790	7790	7790
R^2	0.109	0.100	0.375

Robustness Test

Propensity Score Matching (PSM) Test

To control for endogeneity issues, this study uses propensity score matching (PSM) to screen out non-legacy firms that are similar to legacy firms. First, a logit regression model was used to estimate the propensity score for each firm. Selecting the indicators of

enterprise scale, asset-liability ratio, shareholding ratio of the largest shareholder, return on assets, Tobin's Q value, and sales revenue growth rate, and matching non-inheritance companies for each family inheritance company through the nearest neighbor matching method, 2966 observations were obtained. The matching results are shown in Table 10. The results verify Hypothesis 1. Family business inheritance still significantly reduces innovation investment at the 1% level.

Table 10: PSM and Heckman Test

	lnrd	lnrd
fsm	-0.735***	-0.670***
IMR	(-3.830) - -	(-3.820) 4.127 (1.450)
size	-0.176	-0.103
size	(-1.390)	(-0.870)
lev	-6.018***	-6.733***
	(-8.400)	(-9.310)
roa	-7.440***	-7.676***
	(-3.300)	(-4.200)
top1	-0.827	1.266
mngmh	(-1.210) -0.009 (-0.980)	(0.520) 0.449 (1.000)
duli	2.761	3.655**
dual	(1.560) -0.282	(2.220) -0.363**
inshare age	(-1.320) 0.841* (1.680) -0.323 (1.480)	(-2.000) 1.069*** (3.690) -0.594** (-2.180)
_cons	8.801***	2.434
	(2.980)	(0.670)
year industry	YES YES	YES YES
N	2966	7790
R^2	0.288	0.367

Heckman Test

Considering that not all family businesses in the sample carry out inheritance, it is impossible to observe the influence of family business inheritance on their innovation investment for enterprises that do not carry out inheritance. In order to solve this problem of sample selection bias, this paper uses the Heckman two-stage method to re-test the samples. In the first stage, this paper uses the largest shareholder's shareholding ratio, return on assets, market value, and company net profit to predict whether the company will choose relatives to participate. The inverse Mills ratio obtained in the first stage is added to the second stage regression again. After considering the problem of sample selection bias, the results are shown in Table 10, and the main conclusions still hold.

Sensitive Test

In order to further explore the sensitivity of the conclusions to the extreme values of the data, this paper uses the median that is not sensitive to extreme values to perform regression. At the 5% significance level, it is still significantly negatively correlated with innovation investment, and the proportion of R&D investment has dropped by 34.7%, 30.5%, and 36.4% respectively. It shows that even when extreme data values are taken out of the equation, the conclusions of this paper still hold up.

Table 11: Median Regression Test

	lnrd	lnrd	lnrd
fsm	-0.347***		
fsm _son fsm _girl	(-3.710)	-0.305*** (-3.010)	-0.364** (-1.960)
size	-0.181***	-0.204***	-0.204***
	(-3.250)	(-3.660)	(-3.680)
lev	-3.415***	-3.305***	-3.286***
	(-12.360)	(-11.990)	(-11.980)
roa	-1.088	-1.053	-1.030
	(-1.600)	(-1.550)	(-1.520)
top1	-1.408***	-1.444***	-1.468***
	(-4.730)	(-4.860)	(-4.960)
mngmh	0.240	0.210	0.248
	(1.290)	(1.130)	(1.340)
dual	-0.143*	-0.147*	-0.177**
	(-1.850)	(-1.900)	(-2.310)
duli	2.230***	2.397***	2.470***
	(3.100)	(3.35)0	(3.460)
inshare	0.479**	0.524**	0.523**
	(2.060)	(2.260)	(2.260)
age	-0.130	-0.145	-0.151
_cons	8.480***	8.935***	8.864***
	(6.06)	(6.40)	(6.38)
year industry	(-2.03) YES YES	(-0.92)i YES YES	(-0.82) YES YES
N	7790	7790	7790
R^2	0.167	0.162	0.165

Using Other Measures of Innovation Input

Using the logarithm of R&D expenses plus 1 to replace the ratio of R&D investment to operating income to measure innovation investment for tests. Table 4 shows that the mean of innovation investment in family-owned businesses is significantly lower (t = -2.091, 5%). Table 12 shows that family inheritance is negative with R&D investment at the level of 1%, with investment decreasing by 13.3% (t=-2.970). However, after total takeover, the relationship no longer exists, meaning that the reduction in innovation investment brought about by the inheritance of the family business is the foundation for the follow-up operation of the successor and is the construction of a 'century-enterprise' under the paternalism. From both statistical and economic perspectives, family business inheritance has a significant negative relationship with innovation investment, and inheritance to males is more significant. But in the long run, the negative relationship will disappear, validating H_1, H_{2a}, and H_3.

Table 12: Replacement Variable Test

	rdps	rdps	rdps	rdps
fsm	-0.133***			
	(-2.970)			
fsm_son		-0.097**		
		(-2.040)		
fsm_girl			-0.206*	
			(-1.870)	
succession				-0.079
				(-1.350)
size	0.816***	0.820***	0.818***	0.655***
	(34.940)	(33.090)	(33.080)	(18.380)
lev	-0.124	-0.180	-0.170	-0.406**
	(-0.940)	(-1.310)	(-1.230)	(-2.520)
roa	1.782***	1.631***	1.639***	-0.476*
	(4.980)	(4.220)	(4.190)	(-1.680)
top1	-0.201	-0.248*	-0.254**	-0.063
	(-1.600)	(-1.910)	(-1.990)	(-0.330)
mngmh	-0.029	0.013	0.011	-0.241**
	(-0.360)	(0.160)	(0.140)	(-2.050)
dual	-0.038	-0.037	-0.041	-0.010
	(-1.260)	(-1.180)	(-1.330)	(-0.230)
duli	-0.245	-0.183	-0.174	-0.108
	(-0.890)	(-0.650)	(-0.620	(-0.290)
inshare		0.229***	0.226***	0.039
		(2.960)	(2.920)	(0.370)
age		-0.018	-0.020	-0.034
		(-0.380)	(-0.410)	(-0.450)
_cons	-1.026**	-0.512	-0.453	2.383***
	(-2.030)	(-0.920)	(-0.820)	(3.200)
year		YES	YES	YES
industry		YES	YES	YES
N	7790	7790	7790	7790
R^2	0.540	0.541	0.541	0.356

Conclusion

Drawing on the framework of paternalism, altruism, and social-emotional wealth (SEW), this study examines how family business inheritance influences corporate innovation investment, using data from family enterprises listed on the Chinese SME Board and GEM from 2010 to 2017. The findings reveal that family business inheritance during the transition phase significantly inhibits corporate innovation investment, accompanied by higher levels of charitable donations, underinvestment, and lower risk-taking. However, the inhibitory effect is not directly associated with the gender of the successor. Furthermore, the negative impact of inheritance on innovation investment is more pronounced in family firms with political connections or those located in highly marketized regions.

From a business philosophy perspective, the study contributes to the literature in several ways:

Unlike previous studies based primarily on agency theory, this research integrates perspectives from paternal altruism and SEW to investigate the motivations underlying family business inheritance and its effects on innovation. By emphasizing the interplay between inheritance intentions and management styles, the study provides fresh insights into the gradual transfer of corporate control and its implications for innovation performance.

By incorporating the time dimension, the study distinguishes between ongoing and completed inheritance phases. It highlights that the short-term decline in innovation investment during the transition phase can be interpreted as altruistic actions by parents to ensure long-term sustainability. This approach shifts the focus from immediate outcomes to a long-term view of corporate strategy, offering valuable insights for policymakers and business leaders.

The study explores the cultural and institutional factors influencing family inheritance. While the stronger inhibitory effect for male heirs does not necessarily reflect a gender preference, it underscores the varying expectations and upbringing shaped by traditional norms. Similarly, political ties or kinship-based governance do not merely signal conservatism but reflect strategic foresight aimed at ensuring business continuity and growth. These

findings contribute to a nuanced understanding of family business decisions, suggesting pathways for achieving mutually beneficial outcomes for businesses and stakeholders.

This research has certain limitations. It primarily focuses on the perspective of the incumbent generation (parents), neglecting the views and agency of the successors. Additionally, the bidirectional causal relationship between innovation investment and family inheritance remains unexplored. Future studies could address these gaps to provide a more holistic understanding of the dynamics of family business inheritance and innovation.

In summary, this study provides empirical and theoretical insights into the complex relationship between family inheritance and corporate innovation. It emphasizes the importance of balancing short-term trade-offs and long-term strategic goals, shedding light on critical factors that shape family business transitions and their innovation trajectories.

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