



Succession Models and Third-Party Facilitation in Family Firms: A Case Study of Guangdong, China

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Abstract: Family firms hold a significant position in China's private sector, especially in Guangdong, where Lingnan culture profoundly influences their operations. This study investigates succession practices in four publicly listed family firms in Guangdong — Vanward, Zhongyeda, Nan, and Country Garden — by analyzing their financial indicators and conducting a textual emotion analysis. The results indicate that third-party facilitation during succession is a common and effective practice, ensuring smoother transitions. Four distinct succession models were identified: tutorial-based, team-oriented, sibling-collaborative, and spousal-inclusive. The study underscores the importance of implementing exit mechanisms to mitigate the risks associated with third-party involvement. These insights contribute to the broader discourse on family business management in China, offering theoretical and practical implications for effective leadership succession in a rapidly evolving business landscape.

Keywords: family firms, primogeniture succession, third-party facilitation, succession models

1. Introduction

Family businesses form the backbone of China's private sector, significantly contributing to the nation's economic expansion and stability. Guangdong Province, characterized by its vibrant Lingnan culture, provides a unique context where traditional succession practices, such as primogeniture, remain prevalent. These practices, favoring the eldest son for leadership transition, are deeply embedded in cultural norms. However, the demands of a modern business environment necessitate innovative approaches to ensure effective and sustainable successions.

The phenomenon of primogeniture succession in Guangdong's family firms is not merely a cultural artifact but also a strategic decision shaped by the province's dynamic socio-economic landscape. Known for its robust entrepreneurial activities and economic dynamism, Guangdong offers an ideal setting to explore the complexities of succession in family firms. This study focuses on four prominent Guangdong-based family firms — Vanward, Zhongyeda, Nan, and Country Garden — to examine their succession practices through a detailed analysis of financial indicators and textual emotion analysis.

Our research identifies four distinct succession models: tutorial-based, team-oriented, sibling-collaborative, and spousal-inclusive. Each model represents diverse strategies and internal dynamics in managing leadership transitions. A significant finding of this study is the crucial role of third-party facilitators in these processes. External consultants, interim managers, and advisory boards have emerged as vital elements in mediating transitions, providing objective guidance, and mitigating intra-family conflicts.

The involvement of third parties in succession planning introduces a layer of professionalism and objectivity, essential for preserving business continuity and achieving long-term strategic goals. However, it also presents risks that need to be managed through well-structured exit mechanisms. These mechanisms are crucial to ensuring that third-party roles remain beneficial and aligned with the firm's objectives.

This study offers a comprehensive analysis of the succession practices in Guangdong's family firms, contributing valuable insights into the broader discourse on family business management in China. By highlighting the interplay between traditional succession practices and modern facilitative roles, this research provides both theoretical contributions and practical implications for family firms navigating the complexities of leadership succession in a rapidly evolving business landscape.

2. Research Design and Methodology

2.1 Event Study Approach

The research design integrates both phenomenon-driven and theory-driven methodologies. Phenomenon-driven research aims to derive theoretical insights from observed phenomena, while theory-driven research seeks to validate and refine existing theories through robust qualitative data exploration. This dual approach is particularly suited for intricate theoretical investigations that lack a well-established framework and defy quantitative analysis.

In this study, we adopt the methodology of Shen et al. (2016) to evaluate the impact of succession, whether full or partial, on corporate value using an event study approach. The event is defined as the complete or partial acquisition of the family firm, with an estimation window set at (-150, -6). Analysis of successor career trajectories, obtained from public data sources such as www.cninfo.com.cn/new/index, reveals that most successors start from lower-level positions within the family firm and undergo a gradual development process. The selected cases align with this pattern, consistent with Hauck & Prügl's (2015) perspective on succession as an ongoing process within family businesses. Successor involvement in firm management evolves over time, with appointments to roles such as general manager or CEO indicating full control. For instance, in cases such as Vanward and Zhongyeda, the announcement of a CEO appointment signifies a pivotal moment, while elevation to positions like Vice General Manager or Vice President in cases such as Nan and Country Garden indicates significant influence despite incomplete control over management affairs.

2.2 Textual Emotion Analyses

To assess the impact of succession on the public image and media feedback of family firms, this study employs textual emotion analysis of financial institution reports and media reports. The texts analyzed include excerpts from disclosed internal financial reports and external media reports. For internal financial texts, we use Chinese texts disclosed by public companies in WinGo Data, processed to calculate a semantic indicator. This indicator is the difference between the frequency of negative words and positive words divided by their sum. A negative value indicates a positive sentiment, and a smaller value implies a more positive sentiment. The value "NaN" is assigned when there are no occurrences of either negative or positive words within the text. Additionally, to complement the semantic indicators, Return on Equity (ROE) before and after succession is incorporated as a measure.

For external media reports, SnowNLP is used to analyze text excerpts. Texts are selected based on relevance and accuracy from sources such as Choice Financial Terminal and Baidu Information, with the validity period set at the time the successor gains partial or full control over the company. The filtering process involves three criteria: the extracted information must primarily focus on the targeted family firm; keywords include the firm's name, successor's name, and stock name; and no more than five pieces of information regarding the same event are considered. A sample of 200 reports on Country Garden, 50 reports on Zhongyeda, 100 reports on Nan, and 100 reports on Vanward is selected. Machine learning techniques conduct emotional analysis on both headlines and contents to capture general emotional tendencies, represented by sentiment polarity values ranging from 0 to 1. Values closer to zero indicate a more negative emotional tendency, values closer to 1 suggest a more positive emotional tendency, and values around 0.5 indicate a neutral emotional tendency. Sentiment values fall into three intervals: negative ($0 < \text{sentiment value} < 0.4$), neutral ($0.4 \leq \text{sentiment value} < 0.6$), and positive ($\text{sentiment value} \geq 0.6$).

3. Case Description and Analysis

3.1 Selection of Cases

The cases selected for this study are sourced from the CSMAR Database on Family Firms, encompassing 293 public family firms from Guangdong Province. The selection criteria were as follows: (1) the eldest child designated as the successor, and (2) completion or imminent completion of the succession process. After applying these criteria, 20 firms met the requirements, including Yihua Health Care, China Macro, Shirong Zhaoye, Vatti, Seagull Group, Topray Solar, Nanfeng Corporation, Grandland Group, Janus, Zhongyeda, Zhongshun Group, HiTarget, Feima, Jialong Food, Nan HeungHong Holding, Kingfa Technology, Vanward, and Globe Union Industrial.

By the end of 2018, the control rights of Globe Union Industrial and Key Bridge had changed, leading to their exclusion from the study. A descriptive analysis of the remaining 18 firms revealed the following features:

- (1) Industry Characteristics: 72% of the firms are in the manufacturing sector.
- (2) Firm Scale: 67% of the firms are listed on small and medium enterprise boards.
- (3) Third-Party Intervention: 89% of the firms showed traces of intervention from third parties, primarily siblings.

From these firms, Vanward, Zhongyeda, and Nan were selected to represent the tutor type and sibling collaboration type, while Country Garden was chosen to represent the spouse type due to limited available data for other spouse-type firms. Thus, the final sample cases are Vanward, Zhongyeda, Nan, and Country Garden.

This section of the study establishes a robust methodological framework that integrates both quantitative and qualitative analyses, ensuring a comprehensive understanding of succession dynamics in Guangdong's family firms. The combination of event study approaches with textual emotion analysis provides a nuanced view of the impact of leadership transitions, reflecting both financial performance and public perception.

3.2 Case Description

3.2.1 Vanward

Vanward, established in August 1993, is a prominent manufacturer specializing in water heaters, kitchen appliances, and hot water heating systems. Lu Yucong, the designated successor, possesses an outstanding educational background from Canada. After completing his studies, Lu commenced his career at Vanward in a junior role, quickly advancing to the position of CEO. He joined the Board of Directors following Lu Chuqi's retirement in December 2015. The former CEO, Ye Yuanzhang, assumed the role of Chairman of the Board, continuing to provide invaluable strategic guidance.

Under Ye's mentorship, Lu Yucong has adeptly refined his skills and demonstrated a deep understanding of market dynamics. As CEO, he identified and capitalized on high-end and intelligent trends within the kitchen appliance sector. One of his significant achievements was forging a strategic partnership with Alibaba to bolster e-commerce shortly after his appointment. Additionally, he pioneered the development of Vanward's proprietary cloud-based marketing and service platforms. In manufacturing, Lu Yucong spearheaded the implementation of automated and intelligent production lines, significantly reducing labor costs and enhancing production capacity. These strategic initiatives have positioned Vanward to better meet market demands while improving operational performance.

3.2.2 Zhongyeda

Zhongyeda is a professional distributor of industrial electrical products, primarily engaged in distributing its suppliers' industrial electrical components through an extensive sales network, as well as manufacturing and selling system integration products. Currently owned by Wu Kaixian, the firm saw his eldest son, Wu Senjie, assume the role of general manager in January 2018. Wu Senjie, holding a 10% share in the company, along with his brother Wu Senlin, has been instrumental in integrating new management concepts into the business, guided by his mentor.

Wu Senjie introduced a Manufacturing Execution System (MES) between 2016 and 2017, establishing strategic partnerships with Bosch and ABB. He accelerated the adoption of information and automation technology within Zhongyeda, which positively impacted overall firm performance. Despite these advancements, the company faced challenges with declining ROE, from 7.94% in 2016 to 4.97% in 2017, with a slight recovery to 5.73%. This marginal improvement suggests that while strategic initiatives were implemented, intensified industry competition may have tempered long-term gains.

3.2.3 Nan

Nan, a firm undergoing significant transformation, has witnessed continuous performance declines under its successor's full control. From 2012 to 2017, despite some growth in ROE in 2017 due to profit statement consolidation with TopSec, the company's trajectory indicated underlying instability. The successor introduced his brother-in-law into the company in 2017, marking a pivotal shift toward network security, in line with China's "Made in China 2025" strategy. The acquisition of TopSec, completed over three years, transitioned Nan into a dual-industry firm. However, this move also brought challenges, including unmet market expectations and periodic reductions in shareholdings by the Zheng Family, contributing to a negative sentiment.

3.2.4 Country Garden

Country Garden is a colossal conglomerate primarily engaged in real estate development, with diversified interests in architecture, decoration, property management, hotel development, and education. It ranks among China's top ten real estate enterprises.

Yang Guoqiang, the company's founder, has three daughters. Due to physical limitations, his eldest daughter was deemed unsuitable for succession. Consequently, Yang Guoqiang nurtured his second daughter, Yang Huiyan, as his successor. Demonstrating exceptional performance within the organization, Yang Huiyan ascended from vice chairman of the board to co-chairman in 2018, gaining enhanced control over the family's business affairs. As vice chairman, she ensured consistent company growth and ventured into novel sectors such as agriculture and robotics. Her leadership in the spin-off listing of the company's property management division further attests to her outstanding achievements.

Chen Chong, the husband of Yang Huiyan, provides essential support. He initially worked at Country Garden and later became the general manager of Chuangyuan Investment, pioneering a new business segment for the family enterprise. In 2014,

Chen left Country Garden to become the general manager at Foshan Chuangyuan Investment, encouraging founder Yang Guoqiang to venture into the energy industry. Holding 10% of Foshan Chuangyuan Investment's shares, Chen successfully directed the company into the coal-oil conversion business within a year of its establishment. Foshan Chuangyuan has since signed contracts in Laoyang (Liaoning Province), Tongliao (Inner Mongolia), and Zhaotong (Yunnan Province). Chen now serves as a non-executive director at Country Garden. His father, Chen Hua, previously the director of the poverty alleviation office in Heilongjiang Province, is now a vice president at Country Garden. His mother, Zhao Yinghua, holds a senior management position at a hotel management company affiliated with Country Garden and co-founded Guangdong Doudou Investment with Chen Chong.

3.3 Evaluation and Analysis of Succession Effects

3.3.1 Measurement of the Succession Effect

The evaluation of the succession effect is a fundamental prerequisite for enhancing the quality of succession (Du & Jia, 2007). Previous research has defined succession failure as either the departure of the successor from the company or the company's bankruptcy (Sharma, 2004). However, it is important to recognize that the absence of failed successions does not necessarily imply successful succession effects. In selecting a suitable measure to evaluate succession effects, this paper adopts Ivan Lansberg's perspective: relying solely on profit and loss as an indicator would introduce bias.

Family firms are essentially economic organizations where profit and loss are objective facts and common occurrences. Given that numerous factors influence an organization's financial performance, both at macro and micro levels, attributing family firm failures solely to succession would be unjustified. Instead, sustainability should serve as a significant indicator when evaluating succession effects in family firms.

To assess the successor's performance post-transition, this study analyzes several metrics, including Return on Equity (ROE), semantic tendencies observed in financial and news reports, and textual emotions. ROE and financial reports offer insights into the successor's management performance, while news reports provide valuable social feedback on their management style. The table1 below presents the timeframes and company details necessary for the event study and textual emotion analysis:

Table 1. Timetable of the family firm's

	Vanward	Zhongyeda	Nan	Country Garden
Founded at	1993	2000	1985	1992
Industry	manufacturing	wholesale and retail	manufacturing	real estate
Type	public	public	public	public
Successor	Lu Yucong	Wu Senjie	Zheng Hanwu	Yang Huiyan
Position Held When Succeeded	CEO	Vice General Manager	General Manager	Vice Chairman
Announcement Date	2015.12.22	2016.4.30	2011.8.9	2012.3.28
Zero Day of Trading	2015.12.22	2016.5.3	2011.8.9	2012.3.28
Analyzed Duration	2016-2017	2016-2017	2012-2017	2012-2017
Tenure of Office	2015.12.21-	2016.4.29-2018.1.8	2011.8.6-2017.3.28	2012.3.27-2018.3.1
Position Update	CEO	General Manager	Chairman of Board	Co-Chairman of Board
Secondary Date	media reports(103) official website financial reports	media reports(50) official website financial reports	media reports(104) official website financial reports	media reports(103) official website financial reports

3.3.2 Semantic Tendencies of ROE and Financial Reports

Firstly, Vanward's performance improved significantly under the full control of the successor. The firm's ROE increased from 11.82% in 2015 to 15.01% in 2016. Although there was a slight drop in ROE from 2016 to 2017, it remained higher than the period from 2012 to 2015. The semantic analysis of financial reports aligns with these ROE figures, showing a negative trend from 2016 to 2017 but still surpassing the levels observed during 2012 to 2015. Leveraging his overseas education background, Lu Yucong has demonstrated greater innovation compared to his father, successfully translating his management concepts into the family business with guidance from his mentor, Ye Yuanzhang. During the period from 2016 to 2017, Lu introduced a Manufacturing Execution System (MES) into the business, established strategic partnerships with Bosch and ABB, and accelerated the adoption of information and automation technology within the family business. These initiatives have positively impacted overall firm performance.

Secondly, Zhongyeda's performance has been unsatisfactory since the successor took full control, as it remains trapped in the previous slump. The ROE declined from 7.94% in 2016 to 4.97% in 2017, with a marginal increase to 5.73% in 2017. However, this slight improvement in ROE does not exhibit significant positive semantic tendencies. A possible explanation is that due to intensified competition within the electric industry, this upward trend may only be temporary.

Thirdly, over the five years following the successor's complete control, Nan's performance experienced a continuous decline, indicating significant future instabilities that warrant close observation. Despite a notable increase in the company's ROE in 2017, there is an underlying negative semantic tendency. This case is distinct because the successor has not reversed the company's declining trend. From 2012 to 2017, the company consistently contracted. In 2017, while retaining his position as chairman, the successor introduced his brother-in-law into the company. The substantial growth observed in 2017 can be attributed to the consolidation of profit statements with TopSec. The negative semantic tendency arises from unresolved issues within the company and further instability brought about by its merger with TopSec.

Fourthly, under the successor's full control, Country Garden has consistently maintained a commendable ROE. Notably, in 2017, the company achieved an impressive ROE of 31.82%. As the managing director and vice chairman, Yang Huiyan has been responsible for strategic planning within the organization. She successfully orchestrated the spin-off listing of the property management business, earning significant recognition from the board. Consequently, she was nominated as co-chairman with complete authority over strategic investments and new business development.

The semantic tendencies observed in Table 2 highlight the nuanced relationship between financial performance and the tone of financial reports. For Vanward, the improvement in ROE from 2015 to 2016 is reflected in the relatively stable semantic tendencies, which only show a slight negative shift from 2016 to 2017. Zhongyeda's declining ROE is mirrored by persistently negative semantic tendencies, indicating ongoing challenges. Nan's fluctuating ROE, particularly the increase in 2017, does not offset the overall negative semantic trend, suggesting underlying issues. Country Garden's high and stable ROE aligns with positive semantic tendencies, underscoring consistent strategic successes.

Table 2. The semantic tendencies of financial reports and ROE (2008-2017)

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Vanward	ROE(%)	25.04	38.08	38.25	14.96	9.71	10.31	10.51	11.82	15.01	13.92
	Semantic Tendencies	-0.28	-0.32	-0.36	-0.35	-0.31	-0.23	-0.22	-0.23	-0.35	-0.35
Zhongyeda	ROE(%)	33.08	28.17	13.43	10.47	10.42	9.07	9.85	7.94	4.97	5.73
	Semantic Tendencies			-0.35	-0.50	-0.52	-0.48	-0.41	-0.45	-0.42	-0.38
Nan	ROE(%)	18.15	12.56	10.32	8.31	5.63	2.93	3.00	3.18	1.92	6.27
	Semantic Tendencies			-0.35	-0.44	-0.34	-0.39	-0.29	-0.34	-0.35	-0.29
Country Garden	ROE(%)	7.2	10.94	18.66	21.61	20.59	20.89	20.33	15.21	17.01	31.82
	Semantic Tendencies										

3.3.3 Textual Analysis of News Excerpts

Firstly, public media reports on Vanward tend to exhibit a positive inclination. A crucial factor facilitating the seamless succession at Vanward is its unwavering commitment to its core business. By upholding his father's emphasis on household gas appliances, Lu Yucong, the successor, has not only maintained stable domestic sales but also achieved overseas expansion and enhanced the brand image. Additionally, Lu Yucong's appointment as the vice chairman of the Foshan Young Entrepreneur Association and his recognition as one of the 'Top Ten Influencers of the Year 2016' further solidify his standing within the industry. However, with an increasing influx of home appliance companies entering the market, kitchen appliance brands are bound to encounter heightened competition, with some already being forced out of contention.

Secondly, Zhongyeda's media representation is balanced between positive and negative reports. On the positive side, Zhongyeda's active participation in philanthropic events and its focus on new energy charging piles and vehicles have cultivated a positive brand image among local companies in Shantou. On the negative side, due to limited market coverage and minimal marketing efforts, there have been reports criticizing deferred R&D activities, limited market applicability, and a pessimistic outlook for the future.

Thirdly, public media reports on Nan are predominantly positive. Nan primarily focuses on the production and distribution of wire and cables, as well as the R&D, manufacturing, and sales of PVC cable materials. The acquisition of

TopSec marks Nan's entry into the network security industry, establishing it as a dual-industry firm specializing in advanced manufacturing and information technology, aligning with China's "Made in China 2025" strategy. Currently, the network security business is the primary driver of profits for Nan. However, it is worth noting that this acquisition took three years to complete. Given that the cable business is characterized by high revenue but low profitability, market expectations have not been entirely met. Additionally, negative reports have surfaced due to periodic reductions in shareholdings by the Zheng Family.

Fourthly, public media reports on Country Garden are predominantly positive. The media reports collected for this study span from 2013 to 2018, coinciding with the flourishing phase of the domestic real estate industry. As a leading player in second and third-tier cities, Country Garden experienced rapid expansion and emerged as a prominent blue-chip stock in Hong Kong's stock market. Under the stewardship of Yang Huiyan, the successor, a diversified development strategy has been actively promoted. During her tenure as chairperson, significant emphasis has been placed on philanthropy, facilitating the successful initial public offerings of both Country Garden Services and Bright Scholar. Furthermore, with frequent endorsements by the successor towards the Phoenix Selection and construction robotics industries, financial institutions have assigned an "outperform" rating to Country Garden. However, multiple accidents have exposed potential safety hazards associated with such rapid expansion efforts, and instances of false advertising and inadequate handling of public relations have generated negative publicity for the company.

Figure 1, depicting the textual analysis of news reports, shows the distribution of positive, neutral, and negative sentiments across the four companies. This table demonstrates the sentiment distribution in news reports, indicating the general media perception and its potential impact on the companies' public image and investor confidence.

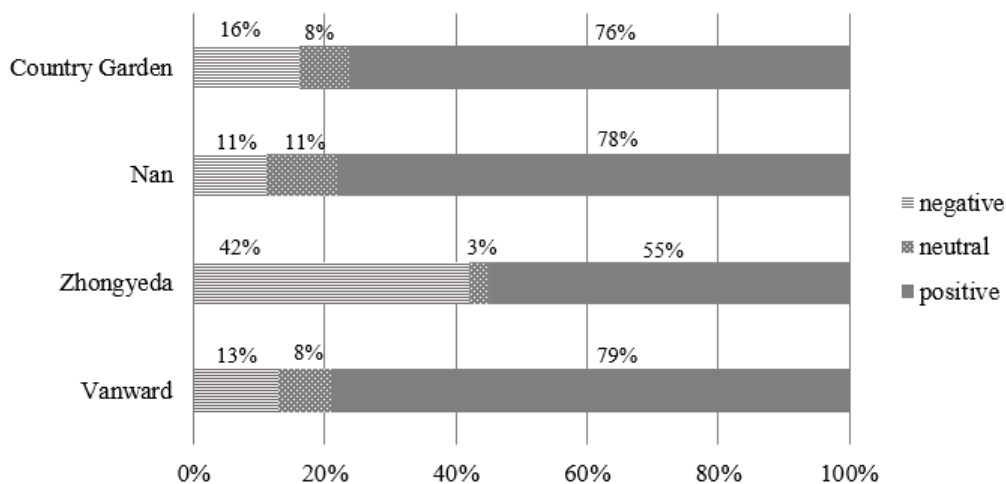


Figure 1. textual analysis on new reports

Based on the comprehensive analysis of ROE, semantic tendencies, and textual emotions, it can be concluded that the management of the four companies following succession has not adversely affected the continuity of these family businesses. On the contrary, several firms have exhibited commendable performance. Therefore, the succession outcomes observed in these four case studies are generally favorable. This indicates that well-managed successions, supported by strategic planning and robust leadership, can maintain or even enhance the performance and stability of family-owned enterprises.

4. Smooth Primogeniture Succession Models for Family Firms

4.1 Features, Pros and Cons of Third Parties

Succession in family firms is a complex and multifaceted process often requiring the involvement of third parties to facilitate a seamless transition of leadership. This paper categorizes succession models into four distinct types based on the nature of the third party involved: tutor, team, sibling, and spousal.

In the context of kinship dynamics, siblings and spouses generally hold an inherent advantage over tutors and teams. However, the complexity of the third party's departure process varies significantly. The exit of a spouse is particularly intricate due to the multifaceted interests stemming from their close relationship with the successor. Conversely, tutors, who are often appointed through thorough deliberations and garner substantial trust from the family, face a more complex exit

process compared to teams. This complexity is visually represented in Figure 2, which delineates the distribution of these third parties in succession scenarios.

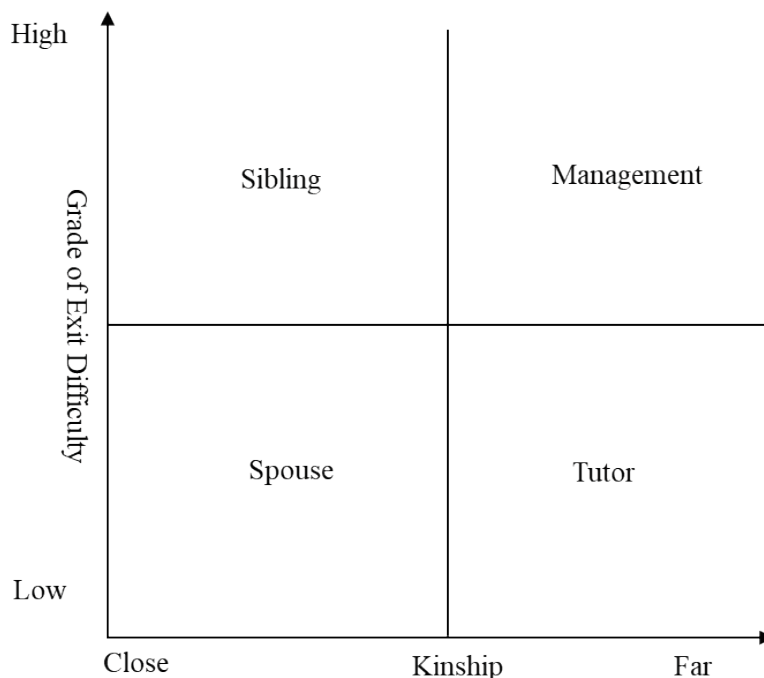


Figure 2. distribution of third parties

4.1.1 Tutor-Supported Succession

For tutors to be effective in succession, they must earn the trust of the family firm's owner, becoming an integral part of the family business. According to Luo Hui (2016), effective tutors exhibit three critical characteristics: broad and structured knowledge, extensive industry experience, and exceptional communication and coordination skills. These attributes enable tutors to adeptly handle succession-related ethical issues, including sibling rivalries, generational gaps, and family dissensions.

Conflicts between the current owner and the successor are almost inevitable due to the existing authority held by the owner (Handler, 1994). As the successor demonstrates competence, the owner may feel a diminished sense of importance (Grote, 2003), leading to reluctance in relinquishing authority. In these scenarios, tutors play a pivotal role in mediating and coordinating (Luo Hui, 2016). They assist successors who may lack business management experience and coordinate the interests of various stakeholders, including senior founding members, family members, and non-family shareholders. Trust in the first-generation owner by senior founding members does not automatically transfer to the successor, and grooming a successor consumes firm resources, potentially causing resistance. Appointing a senior founding member as the tutor can ensure successful coordination and smooth succession (Luo Hui, 2016). However, excessive trust and unrestricted power granted to the tutor can lead to an imbalance of power within the firm.

4.1.2 Team-Supported Succession

Team-supported succession focuses on the integration and cooperation of two management teams. According to Zhang et al. (2017), the successor's supporting team typically includes talents identified by the successor, senior founding members endorsing the successor, and senior professional managers introduced into the firm. Building a new management team is a significant test of the successor's competence and people management skills. A successful new team affirms the successor's authority. While the old management team naturally trusts the current owner, trust in the successor is not guaranteed. Succession involves shifting, adapting, and consolidating authority (Osnes, 2011). Successful integration of the new and old teams establishes the successor's authority; failure to do so can lead to conflicts and a deadlock in the succession process.

4.1.3 Sibling-Supported Succession

In sibling-supported succession, shared objectives and family values underpin coordination. Primogeniture succession predetermines the successor, and siblings are often educated in different directions, reducing disputes. The fundamental

reason siblings support the successor is shared family honor. With common goals and values, siblings and the successor are more likely to make concessions for the sake of the family business. From the owner's perspective, transferring power to the successor is reassuring only if siblings are harmonious, as family peace is crucial for the firm's development. However, if siblings become adversaries, conflicts of interest are inevitable.

4.1.4 Spouse-Supported Succession

In spouse-supported succession, the nuclear family serves broader family interests. This model typically involves a spouse who either brings substantial capital into the marriage, forming a powerful alliance, or possesses exceptional competence, aiding both the successor and the business. Danes et al. (2009) define "family capital" as the sum of human, social, and financial capital within the family. Spousal contributions to the family and business are key to this capital. At the nuclear family level, the spouse ensures family stability; at the business level, the spouse, through capital support or a core role in the firm, is integral to business development. Thus, the spouse is crucial in linking the nuclear family to the family business, compensating for the successor's deficiencies, and maintaining stability. However, interference from the spouse's family and potential benefits transferred to their original family can harm the successor's family interests, necessitating restrictions by the successor.

This detailed analysis emphasizes the varying dynamics and complexities of different succession models in family firms, highlighting the importance of strategic planning and relationship management for successful succession.

4.2 Exit Risks and Exit Mechanism

The integration of third parties into family firm management can bolster and secure the succession model. However, whether these third parties act as tutors, form teams, comprise siblings, or involve spouses, conflicts of interest may arise between the successors and these external entities. If these conflicts escalate beyond resolution, the risk of abnormal exits by third parties increases, potentially leading to the collapse of the succession framework. This scenario exposes the firm to various risks, including internal fragmentation, the divulgence of confidential information, and temporary vacancies in pivotal positions. Therefore, it is imperative to establish a mature exit mechanism to manage abnormal third-party exits.

4.2.1 Succession Supported by Tutors and Management Teams

In successions supported by tutors and newly formed management teams, trust-based relationships are fundamental. Senior board members often serve as tutors to successors, or seasoned professional managers integrate into the core management team. In these scenarios, family ownership of the firm's shares remains predominant, while tutors and professional managers typically do not hold significant equity stakes. Should a tutor or senior manager exit the firm, the primary risks involve the exposure of internal information and short-term vacancies in critical positions.

To mitigate the risk of internal information exposure, an internal supervision and accountability mechanism must be implemented. Overreliance on third parties poses substantial risks, necessitating robust internal supervision to uphold checks and balances. For example, an audit committee reporting directly to the board chair can detect irregularities and hold tutors accountable. A well-structured internal supervision mechanism can also increase the costs of wrongdoing by senior managers, thereby mitigating risks to the firm. To address risks associated with short-term vacancies, a comprehensive framework for internal training and promotion should be established, ensuring timely talent reinforcement when core positions become vacant.

4.2.2 Succession Involving Siblings and Spouses

In successions reliant on siblings and spouses, the framework pivots on kinship bonds. Siblings and spouses are regarded as pivotal based on kinship measurements by He & Lian (2009) and the 27 types of kinship delineated by Wang et al. (2014). Nonetheless, conflicts between siblings and spouses, such as adversarial relationships or acrimonious divorces, are not uncommon. Under primogeniture succession, even if the successor holds a majority stake, the firm risks fragmentation if dissatisfied siblings or spouses align with external shareholders. While familial culture and values are revered, informal methods of reinforcing these values, such as familial gatherings and commemorations, often prove inadequate in shielding the firm from conflicts. Thus, instituting a formalized, institutionalized mechanism is imperative.

To prevent equity erosion stemming from conflicts between siblings and spouses, an internal equity exchange mechanism must be established, outlining clear terms and pricing for equity transactions. Additionally, both binding and non-binding contracts should be leveraged to mitigate disputes arising from abnormal exits. Binding contracts may include prenuptial agreements, equity distribution agreements, and family constitutions, while non-binding contracts encompass visions, manifestos, and familial by-laws. Consideration should also be given to familial organizational structures such as family meetings, councils, committees, and offices.

Luo Hui's (2016) book, "Tutors in Family Succession," introduces the concept of a succession triangle, wherein the tutor serves as the third party, forming a stable triangular dynamic with the owner and the successor. Case studies discussed herein

underscore that family firms often incorporate various third parties during succession, encompassing tutors, management teams, siblings, and spouses.

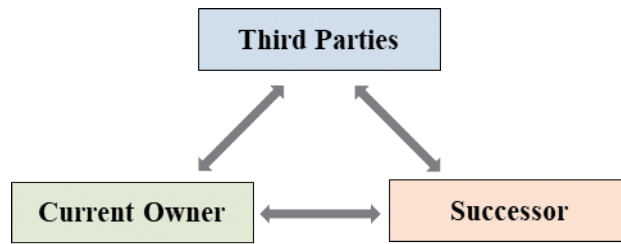


Figure 3. the Succession Triangle

Figure 4 (Succession Model - Tutor) illustrates the role of tutors in providing guidance and stability, emphasizing trust and mentorship. Figure 5 (Succession Model - Team) highlights the integration of professional managers, focusing on collaboration and shared management responsibilities. Figure 6 (Succession Model - Sibling) and Figure 7 (Succession Model - Spouse) depict kinship-based models, where familial bonds and equity arrangements are crucial in maintaining firm stability and mitigating conflicts.

These graphs provide a visual framework to understand the distinct dynamics and risks associated with each succession model. By closely examining these models, the paper proposes refined strategies to enhance the robustness of family firm succession planning, ensuring long-term sustainability and minimizing exit risks.

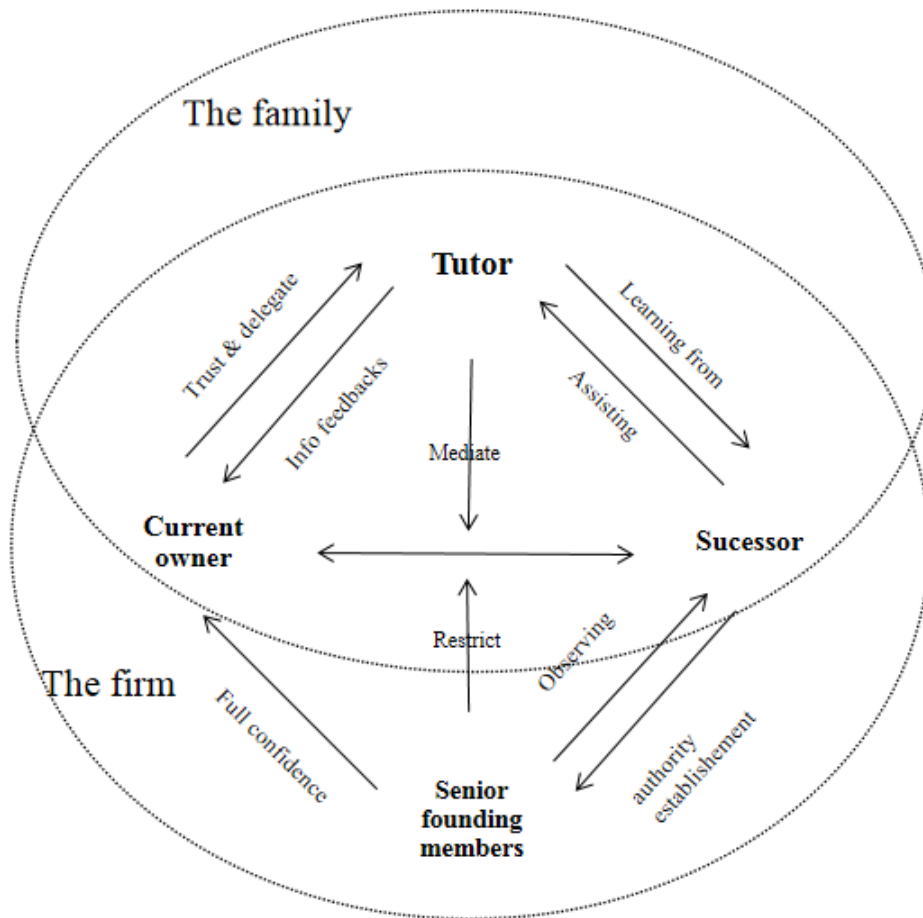


Figure 4. Succession model - tutor

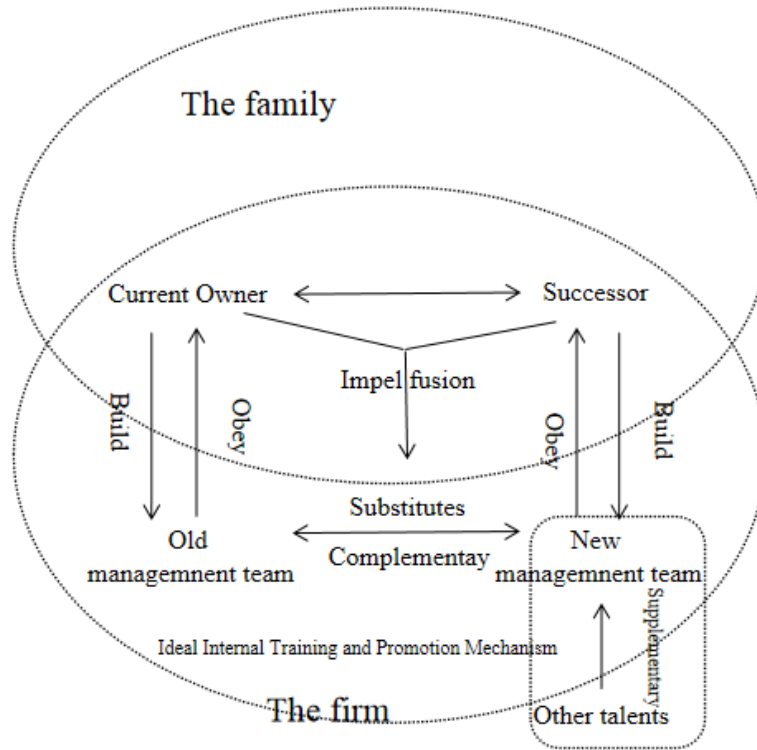


Figure 5. Succession model - team

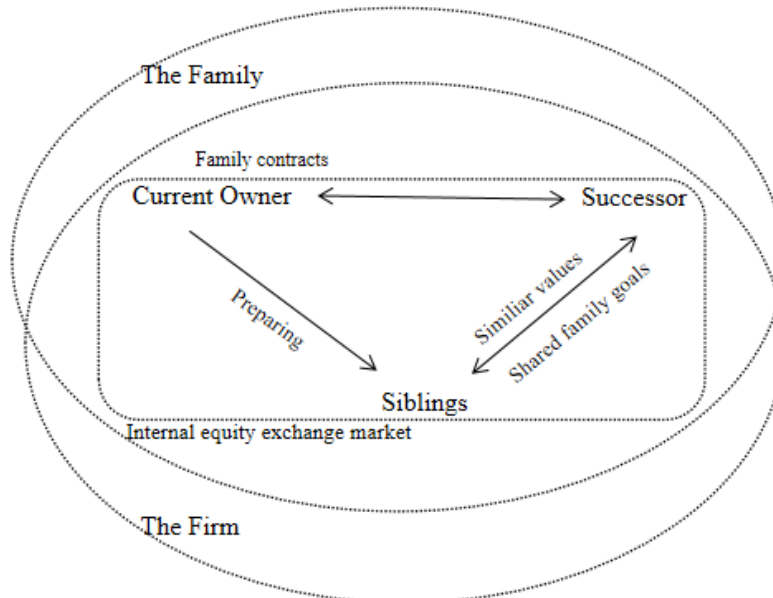


Figure 6. Succession model - sibling

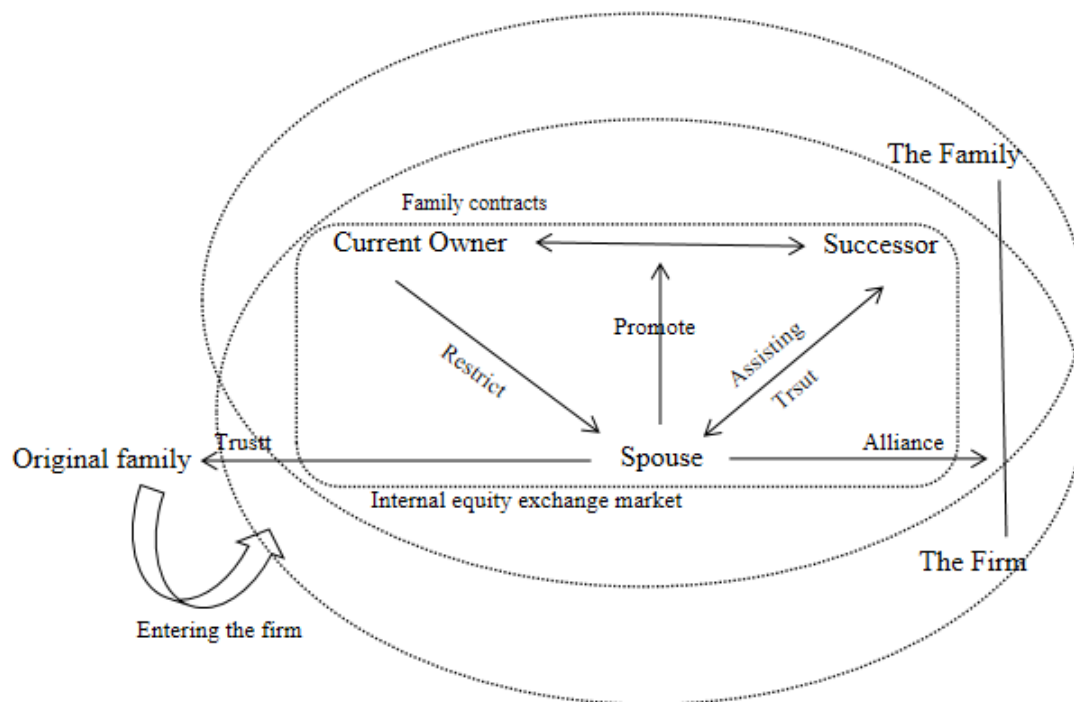


Figure 7. Succession model - spouse

5. Conclusions and Suggestions

5.1 Research Findings

This study provides a comprehensive analysis of the succession effects in four publicly listed family firms: Vanward, Zhongyeda, Nan, and Country Garden. By integrating financial indicators with textual emotion analysis, our research reveals that management transitions following succession do not disrupt the continuity of family businesses; rather, they often result in favorable outcomes. This research advances the methodology by combining Return on Equity (ROE) analysis with semantic tendencies in financial reports and emotion analysis in news reports, surpassing previous studies that predominantly relied on financial metrics alone.

These findings highlight that strategic succession planning, coupled with robust financial and emotional analysis, can significantly contribute to the positive performance and sustainability of family firms. This approach provides a nuanced understanding of how succession impacts various facets of family businesses, emphasizing the importance of comprehensive planning and analysis in achieving successful transitions.

5.2 Suggestions

To enhance the effectiveness of succession planning and mitigate potential risks, we propose the following suggestions:

(1) **Integration of Professional Management:** Given the current lack of a well-established professional management system in China, many family firms are compelled to adhere to primogeniture succession. As these enterprises evolve, it is crucial to integrate professional managers into the business. Developing policies and regulations for professional managers will provide family firms with a broader range of succession options, ensuring that they can adapt to changing circumstances and maintain their competitive edge.

(2) **Mitigating Exit Risks:** For family firms that adhere to primogeniture succession, it is essential to carefully consider exit risks when introducing third parties into the firm. Designing an appropriate exit mechanism that includes internal supervision, checks and balances, and family contracts is vital. Policies should be enacted to guide family businesses in enhancing their internal regulations and transitioning from informal management practices to formalized systems. The overarching goal is to enable family firms to achieve seamless successions while mitigating internal conflicts and ensuring long-term stability.

By implementing these suggestions, family firms can better navigate the complexities of succession planning, thereby safeguarding their legacy and ensuring sustained growth and success. The integration of professional managers and the establishment of robust exit mechanisms will provide a more resilient framework for family businesses, allowing them to thrive in an increasingly competitive environment.

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