Intergenerational Succession and Corporate Philanthropy: A Stakeholder Perspective

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Data will be available upon request.

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Abstract

Purpose- Based on stakeholder theory, this study aims to examine the impact of family firm succession on corporate philanthropy while considering the potential role of the clan cultural context, industry context, and the stage of succession.

Design/methodology/approach- Data were based on a sample of 7502 firm-year observations from listed family firms in China's A-share markets between 2007 and 2018. Several Tobit models are used for analysing the data. Difference-in-difference regression method and propensity score matching method are used for robustness tests.

Findings- Family firms undergoing succession tend to spend more on corporate philanthropy compared to non-succession counterparts. This effect is more pronounced among polluting industry firms and weaker in regions with strong clan cultures and after the process of succession is complete.

Originality/value-This study sheds new light on the relationship between inter-generational succession and corporate philanthropy. By considering the moderating effect of the clan cultural context, industry context, and the stage of succession, this study further advances the understanding of the role of corporate philanthropy in managing family firm succession.

Keywords: Family firm, Intra-family succession, Corporate philanthropy, Stakeholder theory, Clan culture

Paper type: Research paper

Introduction

Family firms in China, typically founded in the 1980s and 1990s following the country's economic reforms, are currently facing a critical issue: succession. As the first generation of founders approaches retirement age, these firms favour intra-family succession, which involves transferring control to a younger family member (Hidayati et al., 2021). This inter-generational succession is a complex process involving financial, legal, kinship, and social considerations. Challenges arise from conflicting family and business objectives, as well as factors related to the family, firm, industry, and culture (Burton et al., 2022; Hidayati et al., 2021; Kubíček and Machek, 2020; Qiu and Freel, 2020). Furthermore, most family firms in China have not yet completed the transformation from traditional nepotistic family management to professional management, further complicating the succession process (Pan et al., 2018).

To overcome these obstacles, family enterprises might consider intensifying their corporate philanthropy, which refers to voluntary donations to charitable causes (Tencati et al., 2020). Previous research has revealed that family firms engage in corporate philanthropy for various purposes, from demonstrating family values and strengthening stakeholder relationships (Bennedsen et al.; Campopiano et al., 2014; Danco and Ward, 1990) to obtaining tax benefits and generating financial returns (Du, 2015; Gao et al., 2017; Lähdesmäki and Takala, 2012). In the Chinese context, family firms may also adopt corporate philanthropy to shift focus away from environmental wrongdoing (Du, 2015) or to manage political and market uncertainties (Gao et al., 2017). Notably, Pan et al. (2018) and He and Yu

(2019) observed that Chinese family firms utilised corporate philanthropy as a proactive means to facilitate succession.

While substantial progress has been made, prior research has not examined several important factors that could influence the use of corporate philanthropy during family firm succession. Firstly, the presence of a strong clan culture in many regions of China may reduce the need for corporate philanthropy, as family firms can leverage their clan for support during succession. Secondly, family firms in polluting industries may need to increase their philanthropic activities to mitigate the risk of losing social legitimacy during succession. Lastly, the necessity for intense philanthropic efforts may decrease after a successful transition, as the next generation assumes control and navigates the challenges of succession. Therefore, future research should consider these contextual factors, including clan culture, industry characteristics, and the stage of succession, when investigating the role of corporate philanthropy in family firm succession.

To address the gaps identified above, this study aims to examine the impact of family firm succession on corporate philanthropy while considering the potential role of the clan cultural context, industry context, and the stage of succession. Drawing upon the stakeholder theory (Clarkson, 1995), this study develops a set of hypotheses for empirical testing. The authors collected panel data from Chinese family firms between 2007 and 2018 to test the hypotheses. The sample for analysis includes 7502 firm-year observations.

The findings of this study advance the literature on family firms' philanthropic behaviour. The study provides original insights into the complex interplay between culture, tradition, and family firm behaviour in China, by examining the role of clan culture in shaping philanthropic behaviour. This study proposes the family's clan as a key stakeholder group, which has been neglected in previous studies. This work sheds new light on the complex interplay between environmental concerns, stakeholder relationships, and family firm behaviour by considering the pollution level of the industry context. Finally, this study brings to light the importance of taking into account the stage of the succession process when examining the philanthropic behaviour of family firms.

Theoretical Background and Hypotheses

Stakeholder Theory

Stakeholders are individuals or groups that possess vital resources necessary for a firm's survival (García-Sánchez et al., 2021). Stakeholder theory emphasises that companies' focus should not be solely on profit maximisation for shareholders. but also consider the concerns of various other stakeholders, such as clients, staff, vendors, communities, and the public (Clarkson, 1995). Stakeholder theory helps to explain why managers should satisfy the external environment and the different constituents to effectively manage the organisation (Ljunggren, 2011). Engaging with stakeholders is critical for businesses to garner social legitimacy and access to essential resources (Hussain et al., 2018).

Stakeholders can be divided into two groups: external stakeholders, which include governments, suppliers, customers, special interest groups, communities, and society, and internal stakeholders, which consist of shareholders and employees (García-Sánchez et al., 2021). In the context of family-owned businesses, family members are a crucial group of stakeholders as well (Zellweger et al., 2012). This study proposes that in China, this stakeholder group can be expanded to include the clan. This is because clan culture is prevalent in many regions of China, where families are tightly-knit and emphasise loyalty, trust, and support for each other (Fei and Liu, 1982; Greif and Tabellini, 2017; Zhang, 2020). The clan can provide valuable support for family firms, such as a network of relationships and a source of social legitimacy, particularly in regions where clan culture is strong (Greif and Tabellini, 2017; Peng, 2004).

Social legitimacy can be defined as the extent to which an organisation's actions are perceived as appropriate by relevant stakeholders within its operating environment (Suchman, 1995). To gain and maintain social legitimacy, organisations are required to adhere to societal norms (Westhead and Howorth, 2006), and demonstrate their contributions toward social welfare (Zellweger et al., 2012). Family firms operating in polluting industries cause more harm to the environment compared to their counterparts in cleaner industries. As a result, they are at a higher risk of losing legitimacy, which means they need to put in more effort to maintain their legitimacy. By engaging in philanthropic efforts such as donating to environmental causes or funding community programs, they can showcase their commitment to social responsibility and environmental conservation and regain social legitimacy (Du, 2015).

Family Firm Succession and Corporate Philanthropy

The process of transferring management and ownership to the succeeding generation is often considered a distinguishing feature of family firms (Chua et al., 1999). The succession process is not only influenced by family dynamics but also by various other stakeholders, such as non-family members, outside board members, and the environment (Le Breton–Miller et al., 2004). It is a multifaceted process that requires careful consideration of various factors, including individual characteristics, business practices, market environments, as well as the emotional and cognitive complexities of family relationships (Lévesque and Subramanian, 2022; Nordqvist et al., 2013). To ensure successful leadership and ownership transfer, a multilevel view is required to consider the needs and expectations of all stakeholders (McKenny et al., 2014), and a combination of well-planned actions must be implemented (Le Breton–Miller et al., 2004).

Family businesses are renowned for placing a high value on their reputation and being more responsive to the needs and expectations of their stakeholders (Berrone et al., 2012). This emphasis on reputation and stakeholder requirements is crucial for maintaining legitimacy and ensuring the long-term success of family firms. Legitimacy is a competitive strategic resource that organisations must acquire from their survival environment through specific methods and means. Higher levels of legitimacy are associated with improved stakeholder relationships and more favourable stakeholder evaluations, both of which often incentivise stakeholders to allocate additional resources to the enterprise (Ashforth and Gibbs, 1990).

For Chinese family businesses, this resource support from stakeholders is particularly important. Since the reform and opening up, Chinese family businesses have only developed over the course of a few decades, resulting in nearly all family business successions currently occurring between the first and second generations. The transition between the first and second generations is often the most challenging, as it coincides with the exit of the founder. Founders are typically the soul of the family business, playing an irreplaceable role in integrating resources, introducing order, and overseeing daily operations. The political connections, bank-enterprise relationships, and business partnerships tied to the founder may be the primary source of the core competitiveness of the family business in its early stages of development. Unfortunately, these intangible resources are difficult to transfer smoothly to family descendants at a low cost (Bennedsen et al., 2015).

The handover between the first and second generations often brings significant challenges to the enterprise due to the loss of these important intangible resources. In such cases, succession family businesses have greater motivation and necessity to help the second generation gain stakeholder support through corporate philanthropy, thereby reducing the uncertainty of succession and facilitating a smooth transition (He and Yu, 2019; Pan et al., 2018; Zientara, 2017). This study argues that corporate philanthropy can improve relationships with at least four categories of stakeholders, including employees, customers, business partners, and government (Gao et al., 2017).

First, for employees working within the family firm, corporate philanthropy may increase their sense of identity and belonging, which means a stronger emotional relationship between the firm and the employees, because they perceive it as virtuous (Berman et al., 1999), which encourages employee cooperation and prosocial behaviour (Schaefer et al., 2019). Family firms with a positive image built by corporate philanthropy can also improve their relations with external entities and become more attractive to talents (Branco and Rodrigues, 2006).

Second, corporate philanthropy can play a consumer-oriented advertising and marketing role or cause-related marketing (Brown et al., 2006). Corporate philanthropy can help to build a positive image for the family firm to win the trust of customers (Sen and Bhattacharya, 2001), enhance customers' purchasing preferences, and ultimately increase sales (Langan and Kumar, 2019).

Third, corporate philanthropy can improve the relationship with business partners which include lenders, investors, and other firms and in times of crisis, corporate philanthropy can mitigate negative corporate images, moral and reputational capital generated by corporate philanthropy (Godfrey, 2005). For example, Chen et al.(2015) find that family firms' high involvement with corporate philanthropy enhances their relationship with banks. In addition, corporate philanthropy can play a significant "signal" effect. A large amount of donation implies that the family firm is running in good condition. The expansion of the scale of charity is a signal of an optimistic future for the family firm to the capital market and potential investors.

Finally, corporate philanthropy is also a strategy to build political connections. corporate philanthropy can work as a way to get attention from the government, and then the family firm can enjoy better protection of private property as well as some concessions in terms of financing, tax, and government subsidies. In China, most of the donations were directed toward charitable organisations affiliated with the government (Zhang et al., 2016), which is a result of local governments encouraging firms to be more socially responsible (Liu et al., 2021). Founders of family firms are inspired to engage more in corporate donations to ensure their successors continue their work successfully (He and Yu, 2019). To summarise, an enhanced corporate philanthropy level serves as a way to strengthen stakeholder relationships for the family firm, which helps to smooth the succession process. Hence, our first hypothesis is:

H1: Family firm philanthropy spending is positively associated with intergenerational succession.

Clan Cultural Context

Clans have historically held a dominant position in the political and economic life in China (Fei and Liu, 1982). A clan is a social structure that follows a hierarchical system based on kinship, comprising patrilineal households that can be traced back to a shared male progenitor (Fei and Liu, 1982; Greif and Tabellini, 2017). The survival and growth of family firms heavily rely on the influence of the controlling family's clan (Peng, 2004; Xiong et al., 2021; Zhang, 2020). The family clan can serve as a valuable resource for family firms, enabling them to mitigate information asymmetry, default risk, and transaction costs, and enhance contract fulfilment (Chuang et al., 2012). Clan culture is characterised by a strong identification with the clan and a high value placed on loyalty to the group, which is beneficial for family firms' operations (Zhang, 2020). In regions where clan culture is prevalent, family firms can rely on their clan networks for emotional, financial, and other forms of support (Greif and Tabellini, 2017; Peng, 2004; Su et al., 2011; Zhang, 2020). The shared identity and solidarity within the clan, based on a common surname, provide a robust safety net and resource pool for family businesses.

Moreover, the operating logic of clan networks is fundamentally different from that of modern market stakeholders. The support provided by clans is rooted in shared identity and traditional obligations, rather than the transactional nature of market relationships. As a result, the advertising and signaling effects of corporate philanthropy may have a limited impact on securing support from within the clan. Therefore, in regions with strong clan cultures, the relationship between intergenerational succession and corporate philanthropy in family firms tends to be weaker. The presence of clan networks and the support they provide can mitigate the need for family firms to take philanthropy as a tool for managing stakeholder relationships during succession periods, as they can rely on the clan for critical resources and legitimacy. Thus,

H2: The influence of intergenerational succession on philanthropy spending in family firms is attenuated in environments characterised by strong clan culture.

Industry Context

Stakeholder theory proposes that diverse stakeholder groups hold distinct expectations and the firm must ensure that it meets the expectations of its stakeholders to maintain its legitimacy (Mitchell et al., 1997). Stakeholders attribute legitimacy to an organisation when they believe that its operations are advantageous to them (Palazzo and Scherer, 2006). Legitimacy is viewed as a social contract between the company and society, and the company must demonstrate that it behaves according to society's norms to maintain the contract alive and continue to operate (Brown and Deegan, 1998).

As society has developed and people's living standards have improved, environmental issues have become more prominent (Yang et al., 2022). Polluting family firms may face losing their social legitimacy due to the negative externalities generated by their polluting activities (Du, 2015). To counteract this, polluting family firms may use corporate philanthropy as a form of crisis management to "whitewash" their image. Corporate philanthropy has been identified in the literature as a means of reducing negative assessments of corporate misconduct and diverting public attention from corporate wrongdoing (Chen et al., 2008; Godfrey, 2005; Koehn and Ueng, 2010). In addition, corporate philanthropy can strengthen the relationship between the family firm and the government, leading to more lenient penalties when environmental pollution occurs. This reduces the risk of a business crisis and enhances the confidence of creditors and investors in the family firm (Gao et al., 2017).

Overall, family firms operating in highly polluting industries are at a greater risk of losing social legitimacy compared to their counterparts in cleaner industries. To maintain social legitimacy during succession, they must increase their philanthropic activities to demonstrate their dedication to environmental preservation. Thus,

H3: The influence of intergenerational succession on philanthropy spending in family firms is heightened in polluting industries.

The Succession Stage

The process of family firm succession often starts with identifying potential successors, developing them, and culminates in transferring power to the successor. At the early stages of intergenerational succession in family firms, successors may encounter social legitimacy challenges stemming from their lack of experience. There is extensive literature focusing on succession planning (Le Breton–Miller et al., 2004; Lévesque and Subramanian, 2022). Studies have shown that, in contrast to their predecessors, novice successors may encounter difficulties internalising organisational customs, regulations, and guiding principles (Mumford et al., 2000). The successors may be viewed as young, immature, and inexperienced, resulting in a lack of legitimacy (He and Yu, 2019). Consequently, the successors may encounter difficulty establishing their authority to run the business (Liu et al., 2023). In this context, corporate philanthropy represents a crucial strategic tool to pave the way for succession (He and Yu, 2019), as it can help garner stakeholder support and mitigate unfavourable factors that may challenge the legitimacy of the successor.

However, after the second generation assumes the core position, the philanthropic behaviour aimed at passing on the family business decreases. Corporate philanthropy is no longer as critical in gaining legitimacy since the successors have already established their own authority and power base within the organisation. Moreover, the successors may prioritise other goals, such as growth and expansion, over corporate philanthropy or the focus of corporate philanthropy may shift from passing on the family business to other causes that align with the family's values and interests. Hence, we propose:

H4: The influence of intergenerational succession on philanthropy spending in family firms is heightened before the completion of the succession process.

Figure 1 summarises our hypotheses in a conceptual model.

(Figure 1 about here)

Methods

Sample

Our sample includes all private sector firms listed in China's A-share markets from 2007 to 2018, acquired from the China Stock Market and Accounting Research (CSMAR) database. Following previous works (Anderson et al., 2003; Chua et al., 1999), this study defines family businesses as companies that meet both of the following conditions: (1) The founder of the company or their family members are the ultimate controllers of the company, and (2) members of the board of directors include at least one family member. The sample excludes the following: (1) firms belonging to the financial, banking, and insurance industries; (2) firms facing financial distress (labelled as ST or ST* firms by the stock exchanges), and (3) firms with incomplete financial information required for the analysis. Our final sample for analysis includes 7502 firm-year observations.

Regression Models

The dependent variables in our analysis are left-censored, which can lead to biased and unreliable results if use an OLS model. To overcome this limitation, this study uses a Tobit model for regression, as utilised in previous studies (Fang et al., 2016; Yang et al., 2020).

To test hypothesis H1 that family firms with generational succession donate more than their counterparts, this study conducts a Tobit regression to compare corporate philanthropy between different kinds of family firms using the following model:

$$CP_{i,t} = \alpha_0 + \alpha_1 Succession_{i,t-1} + \sum \alpha_j Control_{i,t-1} + \mu \mathrm{Province_i} + \gamma \mathrm{Industry_i} + \tau \mathrm{Year_t} + \varepsilon_{i,t} \qquad (1)$$

Where the dependent variable $CP_{i,t}$ represents the corporate philanthropy of firm i in year t. This study applies two indicators to measure the level of corporate philanthropy: (1) the amount of cash donation divided by total assets (Donation) and (2) the natural log of cash donation value plus one (logDonation). Succession is a dummy variable. It takes the value 1 if there is at least one family second-generation member among the board of directors as of the end of financial year t-1. To identify whether there is any heir entering the board, the authors manually collect and cross-check information on second-generation family member(s) from IPO prospectuses, annual reports, and information online. α_0 is the regression intercept and $\varepsilon_{i,t}$ is the error.

$Control_{i,t-1}$ denotes a set of control variables. Specifically, this study controls (1) return on assets (ROA) and Tobin's Q ratio;(2) the firm size, which is measured by the log of total assets(Size) and market capitalisation (Mktcap) ; (3) financial leverage ratio (Lev) and cash holding (Cash) ; (4) other receivables (Othrec), a key indicator of controlling shareholder tunnelling in China; (5) firm growth (Grow); (6) dividend level (Div) ; (7) corporate governance aspects including the board size (Board) and the independence of the board (Indep);(8) the chairman's age (Age), education degree (Degree) and Gender (Gender) . Table 1 provides detailed descriptions of these variables.

(Table 1 about here)

To mitigate endogeneity concerns due to reverse causality, the independent variables in these models are lagged by 1 year. Furthermore, this study controls for industry, province, and year-fixed effects in these models to decrease endogeneity concerns associated with unobservable heterogeneity.

When testing hypotheses H2 and H3 on potential moderation effects of the firm being affected by clan culture or being in polluting industries, this study uses two alternative model specifications with interaction terms as Eqs. (2) and (3):

$$CP_{i,t} = \beta_0 + \beta_1 Succession_{i,t-1} + \beta_2 Succession_{i,t-1} * Clan_{i,t-1} + \beta_3 Clan_{i,t-1} + \sum\beta_j Control_{i,t-1} + \mu \mathrm{Province}_{\mathrm{i}} + \gamma \mathrm{Industry}_{\mathrm{i}} + \tau \mathrm{Year}_{\mathrm{t}} + \varepsilon_{i,t} \quad (2)$$

$$CP_{i,t} = \beta_0 + \beta_1 Succession_{i,t-1} + \beta_2 Succession_{i,t-1} * Pollution_{i,t-1} + \beta_3 Pollution_{i,t-1} + \sum\beta_j Control_{i,t-1} + \mu \mathrm{Province}_{\mathrm{i}} + \gamma \mathrm{Industry}_{\mathrm{i}} + \tau \mathrm{Year}_{\mathrm{t}} + \varepsilon_{i,t} \quad (3)$$

"Clan" in Eq.(2) represents clan culture. Following Greif and Tabellini (2017), this study uses the number of genealogical volumes to measure clan culture level. This study manually collects the genealogical data of each province from the Ming Dynasty to 1990 and uses the number of genealogical volumes owned by every million people in 1990 to measure the extent of clan culture in the province where the family firm is located. The reason for using the 1990 figure as the denominator is to rule out the effect of the mass migration of labour in China that started in 1992. To avoid the possible collinearity problem, the variables used for calculating the interaction terms in Eqs. (2) and (3) are centralised.

"Pollution" in Eq. (3) is a dummy variable assigned 1 if the family firm is in the highly polluting industry of year t, and 0 if otherwise. According to the criteria published by the China Securities Regulatory Commission, this study regards the mining industry, textile industry, clothing industry, fur industry, bio-medicine industry, petrochemical industry, plastic industry, paper making and printing industry, electricity, gas and water industry, food and beverage industry as highly polluting industries.

When testing H4, this study divides family firms with second-generation involvement into two categories. One is family firms with the core position of chairman or CEO held by the second generation, which is considered to have been taken over by the second generation. Under this circumstance, SucCharge takes 1, otherwise 0. The other is the family firms have not been taken over by the second generation, with the second generation only holding non-core positions such as deputy general manager or director and under this circumstance, the value of FounCharge is 1; otherwise 0. This study puts the dummy variables SucCharge and FounCharge into the model to obtain the model (4).

$$CP_{i,t} = \beta_0 + \beta_1 SucCharge_{\mathrm{t-1}} + \beta_2 FounCharge_{\mathrm{t-1}} + \beta_j \sum \beta_j Control_{i,t-1} + \mu\mathrm{Province_i} + \gamma\mathrm{Industry_i} + \tau\mathrm{Year_t} + \varepsilon_{i,t} \quad (4)$$

Results

An overview of the variables' statistics is reported in Table 2. This study winsorises all continuous variables at 1% in both tails to mitigate extreme values. 25.1% of the 7502 firm-year observations have family second-generation members as directors and are identified as family firms undergoing succession.

(Table 2 about here)

Panel A of Table 3 shows the difference in mean and difference in median Donation by family firms of different types. Family firms undergoing succession have a larger mean and median of Donation. Panel B of Table 3 shows the difference in mean and difference in median of logDonation by different types of family firms. Also, family firms undergoing generational succession have a larger mean and median of logDonation.

(Table 3 about here)

Baseline Findings

The regression results are presented in Table 4. In this table, the dependent variable is Donation. Model (1) shows that Succession has a positive effect on Donation, which is statistically significant at the 1% level (coefficient=0.004), meaning that succession makes the family firms spend more on Corporate Corporate philanthropy. This result is consistent with that of the univariate test and supports H1.

(Table 4 about here)

Model(2) shows that the interaction term Succession_Clan is statistically significant and negative (coefficient=-0.002), suggesting that the effect of generational succession on family firms' corporate philanthropy is weaker if the family firm is in a province where the clan culture is stronger. Thus, H2 is supported. For the robustness of the results, we also use the gender ratio of provincial birth populations (male/female) as a proxy variable for clan culture, denoted as Clan2. This choice stems from the patriarchal nature of clan culture, where only male offspring can "carry on the family line (inherit the surname)." Hence, regions with stronger clan culture tend to exhibit a stronger male preference, potentially leading to imbalanced gender ratios in official population data due to practices such as gender-selective abortions and underreporting of female births. The regression results are presented in Appendix A1.

Model (3) shows the interaction term Succession_Pollution is statistically significant and positive (coefficient=0.011), suggesting that the effect of generational succession on family firms' corporate philanthropy is stronger if the firm is in a highly polluting industry. Therefore, H3 is supported.

This study adds all variables including the two interaction terms in Model(5) and the results indicate that the coefficients of Succession, Succession_Clan and Succession_Pollution, are still statistically significant with the same sign as the results above.

In Model(4), SucCharge is not statistically significant, but FounCharge is significantly positive. The difference between the two is significant, passing the difference test (F=3.03*). This result suggests that H4 is supported.

The dependent variable in Table 5 is logDonation and the other testing strategies are the same. Again, in Models (1) to (3), the results indicate that the coefficients of Succession, Succession_Clan and Succession_Pollution are 0.065, -0.030 and 0.128 respectively, which are all statistically significant, supporting H1-H3. Also, the difference in the two coefficients of SucCharge and FounCharge passes the significant difference test (F=6.07**), supporting H4.

(Table 5 about here)

Robustness Tests

DID Approach

At the firm level, both succession and donation are endogenous decisions. To further enhance empirical identification and mitigate endogeneity concerns, this study now conducts a difference-in-differences (DID) test by considering the lifting of the one-child policy in 2011 as an exogenous shock, i.e., a natural experiment. Prior to 2011, China implemented a family planning policy that has resulted in many entrepreneurs having only one offspring, which limits their options when it comes to choosing a capable heir to take over the business. The lifting of the one-child limit in 2011 is undoubtedly good news for family enterprises that have not yet achieved intergenerational inheritance but hope to carry out the handover within the family. In line with our argument, after the relaxation of the one-child limit, family businesses that have not yet implemented intergenerational transmission may increase the level of corporate philanthropy to enlist stakeholder support for the family firms, so that their children can take over the business more smoothly with fuller legitimacy and more abundant social resources.

In particular, this study assigns family firms that have not implemented succession during the observation period as the experimental/treatment group (Treat = 1), and those that have implemented succession are assigned as the control group (treat = 0). This study creates another dummy variable Post, assigned 1 for post-policy years starting from 2011, and 0 if otherwise. Figure 2 plotted using the median values of donations by firms in the treatment group and the control group illustrates a parallel trend of the treatment group and the control group donations before 2011, with the family firms undergoing succession donating consistently more than their counterparts that are not involved in succession. In the post-policy period, the amount of donations by the two groups does not appear substantially different.

(Figure 2 about here)

Table 6 shows the results of the DID regression. The variable of interest in the model is the interaction term Post* Treat which gives the treatment effect of the policy reform. Its coefficient is significantly positive, indicating that family firms without generational succession have indeed improved the level of corporate philanthropy after 2011. This finding strongly supports our hypothesis H1. Also, we report OLS regressions in Appendix A2 which demonstrate highly consistent results.

(Table 6 about here)

Matching Sample Regressions

The propensity score matching (PSM) approach is used to choose a sample of matched non-succession family companies that resemble similar features of successor companies. Using a matched sample as a robustness test mitigates potential sample selection bias as differences in donation activities may be driven by firm features other than succession. This study uses all control variables and the logit model to estimate the possibility of a family firm having generational succession and the matching method is kernel matching. This study re-estimates Eqs. (1) to (4) using the matched samples. The results are presented in Table 7 and Table 8. Our conclusions remain robust.

(Table 7 about here)

(Table 8 about here)

CP and stakeholder support

To further reinforce our argument that corporate philanthropy can facilitate family businesses in enhancing stakeholder relationships, we investigate the relationship between corporate philanthropy and three key variables: government subsidies, financing constraints, and the proportion of fund holdings. In Table 9 regressions, Subsidy, Constraint, and FunPro denote government subsidies, financing constraints, and the proportion of mutual fund holdings, respectively. We employ the natural logarithm of the government subsidy amount plus 1 as a proxy for government subsidies and the WW index (Whited and Wu, 2006) to quantify corporate financing constraints. The regression results yield the following insights:

First, the positive correlation between corporate philanthropy and government subsidies corroborates that family businesses leverage corporate philanthropy to forge closer government relationships, engaging in reciprocal exchanges with the government and securing government support (Zhang et al., 2016). Second, the negative relationship between corporate philanthropy and financial constraints suggests that family businesses can reduce financing constraints by garnering support from banks and other financial institutions through corporate philanthropy. This finding may be attributed to the fact that higher corporate philanthropy levels often reflect the robust operating conditions of enterprises and signal closer government relationships. Such enterprises typically exhibit lower default and bankruptcy risks, thereby increasing banks' willingness to extend loans to these family businesses (Chen et al., 2015). Third, the positive link between corporate philanthropy and the proportion of mutual fund holdings indicates that family businesses engaging in corporate philanthropy are favored by institutional investors. This may be ascribed to the signalling effect of higher corporate philanthropy levels, which demonstrate the family business's commitment to social responsibility.

Overall, these findings strengthen our central argument and contribute to a more comprehensive understanding of the complex interplay between succession, corporate philanthropy, and stakeholder support in the context of family businesses.

(Table 9 about here)

Conclusions and Discussion

Drawing on stakeholder theory, this study contends that corporate philanthropy can help family firms undergoing succession to win support and social legitimacy from various stakeholders, enabling a smooth transition during the disruptive period of succession. The empirical results confirm that family firms undergoing succession tend to spend more on corporate philanthropy compared to their counterparts not involved in succession. The results further demonstrate that the use of corporate philanthropy for family firm succession depends on several contextual factors, including the clan cultural context, industry context, and the stage of succession. Specifically, the influence of succession on corporate philanthropy is weaker in the context of strong clan culture, stronger in industries with high pollution levels, and diminished in later stages of the succession process.

By incorporating the contextual factors such as culture, industry and succession stage into our analysis, this study thus contributes to the growing body of literature on family firm succession and corporate social responsibility and provides valuable insights for practitioners and policymakers seeking to support successful succession in family businesses.

Theoretical Contributions

This study makes three significant contributions to the literature. First, it proposes that family firms can strategically employ corporate philanthropy during intergenerational succession, a critical and challenging process (Chua et al., 1999; Le Breton-Miller et al., 2004). During this transition, family firms face various risks and uncertainties, such as the potential loss of key stakeholder relationships, reputational damage, and the erosion of social legitimacy (He and Yu, 2019; Pan et al., 2018). These challenges can be particularly acute when the successor is perceived as lacking experience, credibility, or the necessary skills to lead the organisation effectively (Zientara, 2017).

By strategically engaging in philanthropic activities, family firms can build and maintain positive relationships with key stakeholders (Gao et al., 2017). These relationships provide valuable resources, such as access to information, networks, and support, which are particularly important during the succession process (Du, 2015; Liu et al., 2021). Moreover, engaging in philanthropic activities allows family firms to build a reservoir of goodwill and reputational capital (Godfrey, 2005). This goodwill serves as a form of "insurance" for the family firm, helping to maintain stakeholder trust and support in the face of challenges or uncertainties (Chen et al., 2008; Koehn and Ueng, 2010).

Whilst previous studies have explored the connection between family firm succession and corporate philanthropy in China (He and Yu, 2019; Pan et al., 2018), this study examines corporate philanthropy as a strategic tool for managing stakeholder relationships during the succession process, rather than simply being a means to build political connections (He and Yu, 2019) or engage in social outreach (Pan et al., 2018). Thus, this study provides a new lens through which to examine the relationship between family firm succession and corporate philanthropy.

Second, the study extends the stakeholder theory’s relevance beyond the well-studied stakeholders of employees, customers, suppliers, communities, and society (Clarkson, 1995) to include the family clan. The family clan is an important stakeholder group for the survival and growth of family firms (Greif and Tabellini, 2017; Peng, 2004; Su et al., 2011; Xiong et al., 2021; Zhang, 2020), which has been neglected in prior studies on family firm succession and corporate philanthropy. By incorporating this cultural factor, we expand stakeholder theory and develop a better understanding of family firms' strategic decision-making. The results suggest that a strong clan culture can provide an alternative support system during succession, potentially reducing reliance on corporate philanthropy to secure stakeholder support and legitimacy. This novel perspective offers an advanced understanding of family firm succession and corporate social responsibility.

Third, our study shows that the influence of succession on corporate philanthropy is not uniform across all industries. Rather, it is influenced by the specific context in which the firm operates. Past research has noted that family firms invest more in environmental protection during succession (Yang et al., 2022), and polluting firms often use corporate philanthropy for crisis management and to improve their image (Chen et al., 2008; Godfrey, 2005; Koehn and Ueng, 2010), the connection between succession, pollution levels, and corporate philanthropy is not well understood. Our study addresses this gap by demonstrating that family firms undergoing succession in highly polluting industries tend to allocate more funds to philanthropic efforts compared to those in cleaner industries. This can help them to offset any negative perceptions of the firm and improve its social legitimacy.

Finally, previous research has mainly focused on analysing the strategic decision-making and performance of family businesses before and after a change in leadership (Baek and Cho, 2017; Dudek and Pawłowska, 2022), this study theories that the stage of the succession process can impact the relationship between succession and corporate philanthropy in family firms. Family firms have a greater need to engage in strategic philanthropic activities during the early stages of succession. This is because novice successors may face legitimacy challenges due to their lack of experience, and corporate philanthropy can help them establish their authority and gain stakeholder support (He and Yu, 2019; Liu et al., 2023; Mumford et al., 2000). As the succession process progresses and successors gain more experience and power, the need for corporate philanthropy as a legitimacy-building tool may diminish. The successors may prioritise other goals such as growth and expansion over corporate philanthropy. This theoretical contribution highlights the dynamic nature of the succession process and how it can shape family firm behaviour and decision-making over time.

Practical Implications

The findings of this study offer valuable insights and practical implications for family firms, managers, and policymakers navigating the complex landscape of intergenerational succession and corporate philanthropy in China and other emerging markets with similar social and cultural backgrounds.

First, the study argues that family firms strategically utilise corporate philanthropy to facilitate smooth intergenerational succession, particularly in the early stages before the successor assumes formal control. The empirical findings demonstrate a positive association between intergenerational succession and philanthropy spending during this critical period. This suggests that family firms should actively engage in philanthropic activities, increase visibility, and foster positive stakeholder relationships to garner support, preserve socio-emotional wealth, and protect family-specific intangible assets. Examples include successors sponsoring charitable events and making philanthropic donations under their leadership.

Second, the empirical results suggest that the influence of succession on philanthropy spending is attenuated in regions with strong clan culture, underscoring the continued importance of clan networks in the Chinese market. Family firms operating in such regions should strategically leverage support from clan networks to facilitate succession. However, policymakers should work towards improving modern market systems and ensuring family businesses across different clan backgrounds have fair access to support and assistance from formal institutions, without relying on pre-modern social networks based on personal identity. As formal market systems develop, family businesses should be prepared to adapt their strategies and leverage the opportunities provided by formal institutions.

Third, the empirical findings indicate that the influence of intergenerational succession on philanthropy spending is heightened in polluting industries, suggesting that corporate philanthropy may be used to improve stakeholder relations and potentially mask environmental misconduct. Regulatory bodies should closely monitor whether corporate philanthropy is being used as a means to evade punishment or engage in grey transactions and strengthen disclosure rules for companies operating in polluting industries. With increasing public awareness of environmental issues and intensified media scrutiny, family firms should demonstrate a genuine commitment to responsible business practices and avoid using corporate philanthropy solely to mitigate past negative actions, so that they can ensure smooth succession, and safeguard their legacy for future generations.

Limitations and Further Research

This study has limitations, and future research can expand its scope by considering additional factors. First, it does not examine firms' succession performance resulting from corporate philanthropy, which deserves focused attention. Future studies could test whether family firms that use corporate philanthropy during succession experience better inheritance performance. Second, while this study examines clan culture in the Chinese context, exploring similar dynamics in other countries with extended family networks and clan-based traditions would be interesting. Expanding the geographic scope and conducting comparative analyses may yield more revealing findings. Finally, this study examined three moderators of the relationship between succession and corporate philanthropy. However, other boundary conditions, such as successors' social capital and competence, and family firms' industry status, could moderate this link. Future studies can explore these factors to provide a more comprehensive understanding of the complex dynamics between succession and corporate philanthropy in family firms.

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Table 1. Variable definitions

Variables	Symbols	Definitions
Dependent variables	Donation(%)	Amount of cash donation divided by total assets
	logDonation	Natural log of cash donation value plus one
	SucCharge	A dummy variable assigned 1 if the second generation holds the core position of chairman or CEO
	FounCharge	A dummy variable assigned 1 if the second generation doesn't hold the core position of chairman or CEO
Explanatory variables	Succession	A dummy variable assigned 1 if there is at least one family second-generation member on the board of directors, otherwise 0
	Pollution	A dummy variable assigned 1 if the family firm is in a highly polluting industry, otherwise 0
	Clan	Natural log of genealogical volumes owned by every million people in 1990
	ROA	Return on assets; net income divided by total assets
	Grow	Growth rate of the operating income
	Lev	Ratio of liabilities to assets
	Size	Natural log of total assets
	Tobin	Tobin Q
	Cash	Ratio of cash to total assets
	Board	Number of board members
	Ind	Ratio of independent directors to all directors
	Othrec	Ratio of other receivables to assets
	Div	Ratio of dividend to assets
	Mktcap	Natural log of Market capitalisation
	Age	Natural log of the chairman's age
	Degree	Chairman's education: below college degree equal to 1; College degree equal to 2; Bachelor degree equal to 3; Master degree is 4; PhD equal to 5.
	Gender	Chairman's Gender: equal to 1 for male, otherwise 0

Table 2. An overview of the variables

variable	N	mean	sd	min	p50	max
Donation（%）	7502	0.026	0.048	0	0.008	0.302
logDonation	7502	0.490	0.682	0	0.199	5.882
Succession	7502	0.251	0.433	0	0	1
Size	7502	7.874	1.020	5.685	7.761	10.94
Cash	7502	0.216	0.157	0.015	0.168	0.754
Grow	7502	0.223	0.374	-0.592	0.161	2.158
Othrec	7502	0.036	0.122	0	0.007	1.115
Tobin	7502	3.066	2.024	0.951	2.454	13.21
Lev	7502	0.183	0.159	0.007	0.135	0.709
Mktcap	7502	8.607	0.863	6.780	8.575	10.88
ROA	7502	0.075	0.058	-0.177	0.068	0.269
Div	7502	0.672	1.830	0	0.232	42.16
Board	7502	8.309	1.427	5	9	12
Indep	7502	0.375	0.052	0.333	0.333	0.571
Gender	7502	0.942	0.234	0	1	1
Degree	7502	3.154	0.951	1	3	5
Age	7502	3.938	0.153	3.178	3.932	4.454

Table 3. Univariate analysis: corporate philanthropy

Panel A		Donation			Donation		
	N	Mean	Difference	t-test	Median	Difference	Wilcoxon-test
Succession=1	1881	0.0284	0.0030	2.3635***	0.0094	0.0021	12.9313***
Succession=0	5621	0.0254			0.0073		
Panel B		logDonation			logDonation		
	N	Mean	Difference	t-test	Median	Difference	Wilcoxon-test
Succession=1	1881	0.5559	0.1812	4.8729***	0.2624	0.0760	18.3933***
Succession=0	5621	0.4676			0.1864		

Notes: *,**and *** indicate respectively the differences are statistically significant at 10%, 5% and 1% levels, based on two-tailed tests.

Table 4. Generational succession and corporate philanthropy: Donation

	(1)	(2)	(3)	(4)	(5)
		Donation			
Succession	0.004***	0.008***	0.001		0.005*
	(0.001)	(0.003)	(0.002)		(0.003)
Succession_Clan		-0.002**			-0.002*
		(0.001)			(0.001)
Clan		-0.012***			-0.012***
		(0.004)			(0.004)
Succession_Pollution			0.011***		0.011***
			(0.003)		(0.003)
Pollution			-0.029**		-0.028**
			(0.011)		(0.011)
SucCharge				-0.001	
				(0.004)	
FounCharge				0.005***	
				(0.002)	
Size	0.019***	0.019***	0.019***	0.019***	0.019***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Cash	-0.009**	-0.009**	-0.009**	-0.009**	-0.009**
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Grow	-0.002	-0.002	-0.002	-0.002	-0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Othrec	-0.013***	-0.013***	-0.013***	-0.013***	-0.013***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Tobin	0.005***	0.005***	0.005***	0.005***	0.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Lev	-0.069***	-0.070***	-0.069***	-0.069***	-0.069***
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Mktcap	-0.017***	-0.017***	-0.017***	-0.017***	-0.017***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
ROA	0.091***	0.091***	0.091***	0.091***	0.091***
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Div	0.001**	0.001**	0.001**	0.001**	0.001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Board	0.001**	0.001**	0.001**	0.001**	0.001**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Indep	0.035**	0.035**	0.034**	0.035**	0.034**
	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Gender	-0.001	-0.001	-0.001	-0.001	-0.000
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Degree	-0.000	-0.000	-0.001	-0.000	-0.000

	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Age	0.009**	0.010**	0.009**	0.006	0.010**
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Fixed-effects	Yes	Yes	Yes	Yes	Yes
_cons	-0.031	0.013	-0.029	-0.020	0.016
	(0.022)	(0.026)	(0.022)	(0.023)	(0.026)
N	7502	7502	7502	7502	7502
r2_p	-0.065	-0.065	-0.066	-0.065	-0.066
Marginal Effect					
Succession	0.002***				
	(0.001)				
Succession_Clan		-0.009**			
		(0.004)			
Succession_Pollution			0.005***		
			（0.001）		

Notes: *,**and *** indicate respectively statistical significance at 10%, 5% and 1% levels, based on two-tailed tests（the same below）.

Table 5. Generational succession and corporate philanthropy：logDonation

	(1)	(2) logDonation	(3)	(4)	(5)
Succession	0.065***	0.138***	0.030		0.101***
	(0.017)	(0.031)	(0.020)		(0.033)
Succession_Clan		-0.030***			-0.029***
		(0.011)			(0.011)
Clan		-0.250***			-0.249***
		(0.049)			(0.049)
Succession_Pollution			0.128***		0.125***
			(0.034)		(0.034)
Pollution			-0.226		-0.215
			(0.144)		(0.144)
SucCharge				-0.034	
				(0.044)	
FounCharge				0.083***	
				(0.019)	
Size	0.362***	0.364***	0.363***	0.363***	0.365***
	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)
Cash	-0.084	-0.084	-0.086	-0.087	-0.086
	(0.054)	(0.054)	(0.054)	(0.054)	(0.054)
Grow	-0.025	-0.025	-0.025	-0.025	-0.024
	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)
Othrec	-0.116*	-0.119**	-0.118**	-0.112*	-0.121**
	(0.060)	(0.060)	(0.060)	(0.060)	(0.060)
Tobin	0.039***	0.039***	0.039***	0.039***	0.040***
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Lev	-0.455***	-0.467***	-0.449***	-0.458***	-0.461***
	(0.145)	(0.145)	(0.145)	(0.145)	(0.145)
Mktcap	-0.030	-0.033	-0.032	-0.032	-0.035
	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)
ROA	0.740***	0.748***	0.735***	0.740***	0.743***
	(0.155)	(0.155)	(0.155)	(0.155)	(0.154)
Div	0.064***	0.064***	0.064***	0.064***	0.064***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Board	0.013*	0.012*	0.013*	0.013*	0.012*
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Indep	0.340**	0.336*	0.330*	0.335*	0.326*
	(0.173)	(0.172)	(0.172)	(0.173)	(0.172)
Gender	0.017	0.020	0.019	0.014	0.022
	(0.031)	(0.031)	(0.031)	(0.031)	(0.031)
Degree	0.011	0.012	0.011	0.012	0.011

	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Age	0.039	0.046	0.037	-0.013	0.044
	(0.051)	(0.051)	(0.051)	(0.055)	(0.051)
Fixed-effects	Yes	Yes	Yes	Yes	Yes
_cons	-2.641***	-1.710***	-2.612***	-2.431***	-1.683***
	(0.272)	(0.323)	(0.272)	(0.285)	(0.323)
N	7502	7502	7502	7502	7502
r2_p	0.193	0.193	0.194	0.193	0.194
Marginal Effect					
Succession	0.036***				
	(0.01)				
Succession_Clan		-0.017***			
		(0.006)			
Succession_Pollution			0.07***		
			（0.019）		

Table 6. Generational succession and corporate philanthropy: DID approach

	(1) Donation	(2) logDonation
Post_Treat	0.011***	0.071*
	(0.003)	(0.037)
Treat	-0.015***	-0.137***
	(0.003)	(0.035)
Post	-0.009*	-0.080
	(0.005)	(0.056)
Control Variables	Yes	Yes
Fixed-effects	Yes	Yes
_cons	-0.006	-2.371***
	(0.021)	(0.247)
r2_p	-0.068	0.200

Table 7. Generational succession and corporate philanthropy in matched samples: Donation

	(1)	(2)	(3)	(4)	(5)
		Donation			
Succession	0.004***	0.009***	0.001		0.005**
	(0.001)	(0.003)	(0.002)		(0.003)
Succession_Clan		-0.002**			-0.002**
		(0.001)			(0.001)
Clan		-0.013***			-0.013***
		(0.004)			(0.004)
Succession_Pollution			0.011***		0.011***
			(0.003)		(0.003)
Pollution			-0.030**		-0.030**
			(0.012)		(0.012)
SucCharge				-0.002	
				(0.004)	
FounCharge				0.005***	
				(0.002)	
Control Variables	Yes	Yes	Yes	Yes	Yes
Fixed-effects	Yes	Yes	Yes	Yes	Yes
N	7308	7308	7308	7308	7308
r2_p	-0.065	-0.065	-0.066	-0.065	-0.066

Table 8. Generational succession and corporate philanthropy in matched samples: logDonation

	(1)	(2)	(3)	(4)	(5)
		logDoation			
Succession	0.067***	0.143***	0.032		0.105***
	(0.018)	(0.032)	(0.020)		(0.033)
Succession_Clan		-0.031***			-0.030***
		(0.011)			(0.011)
Clan		-0.266***			-0.265***
		(0.050)			(0.050)
Succession_Pollution			0.128***		0.125***
			(0.035)		(0.035)
Pollution			-0.244*		-0.233
			(0.148)		(0.148)
SucCharge				-0.033	
				(0.044)	
FounCharge				0.086***	
				(0.019)	
Control Variables	Yes	Yes	Yes	Yes	Yes
Fixed-effects	Yes	Yes	Yes	Yes	Yes
N	7308	7308	7308	7308	7308
r2_p	0.187	0.187	0.187	0.187	0.188

Table 9. CP and stakeholder support

Panel A Donation as the independent variable			
	Subsidy	Constraint	FunPro
Donation	1.038**	-0.029*	9.037***
	(0.514)	(0.016)	(1.630)
Control variables	Yes	Yes	Yes
Fixed-effects	Yes	Yes	Yes

Panel B logDonation as independent variable			
	Subsidy	Constraint	FunPro
logDonation	0.168***	-0.004***	0.815***
	(0.045)	(0.001)	(0.139)
Control variables	Yes	Yes	Yes
Fixed-effects	Yes	Yes	Yes

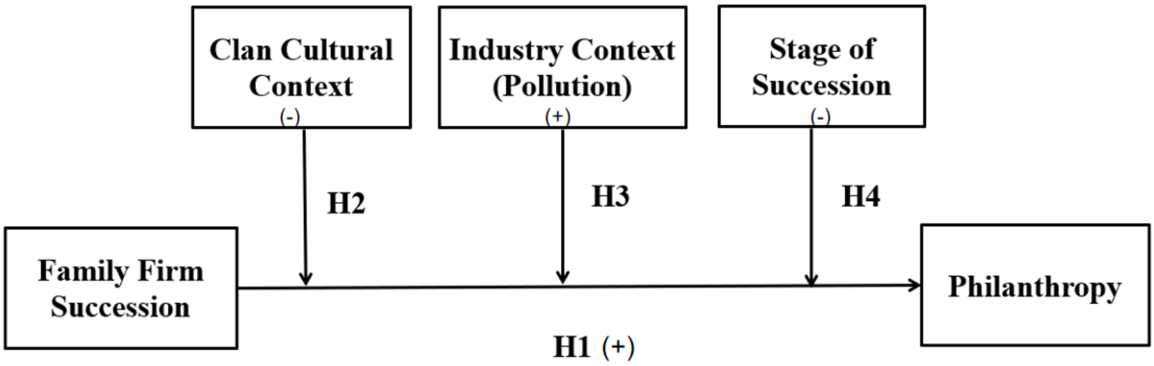

Figure 1. Conceptual model

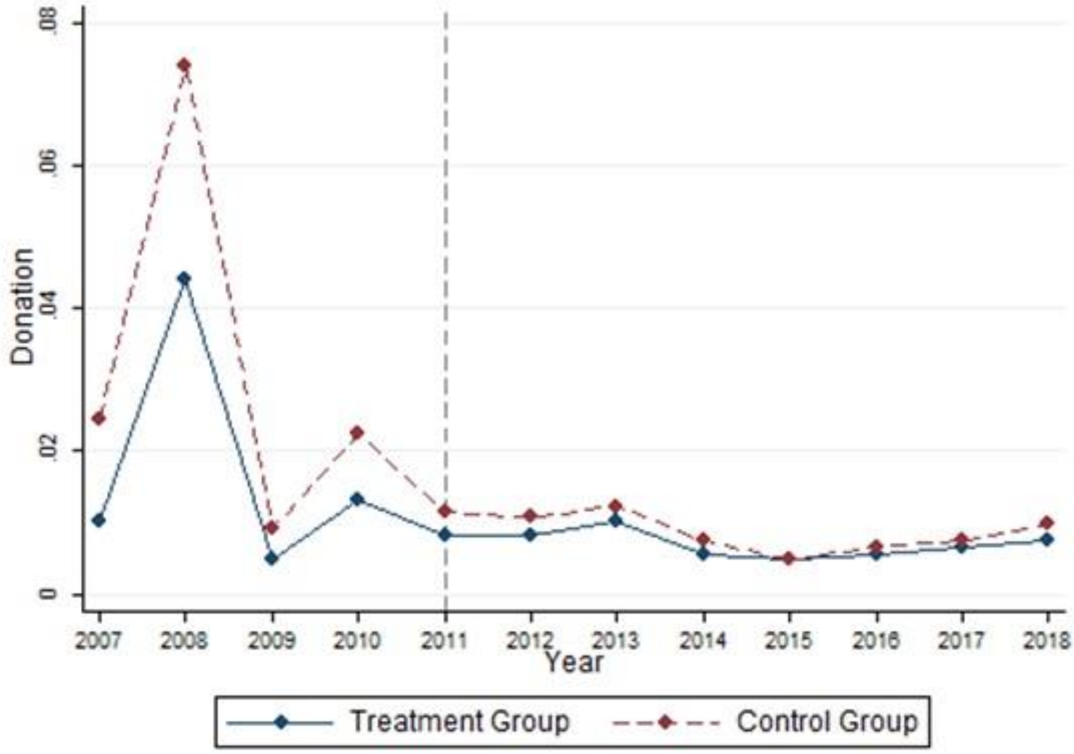

Figure 2. Parallel trend

Appendix A1 Alternative Clan Culture Proxy

	(1) Donation	(2) logDonation
Succession_Clan2	-0.048**	-0.865***
	(0.022)	（0.282）
Succession	0.004***	0.067***
	（0.001）	(0.017)
Clan2	0.205	4.205
	（1.064）	（3.806）
Control variables	Yes	Yes
Fixed-effects	Yes	Yes

Notes: *,**and *** indicate respectively statistical significance at 10%, 5% and 1% levels, based on two-tailed tests（the same below）.

Appendix A2 Linear DID Method Robustness Test

	(1) Donation	(2) logDonation
Post_Treat	0.011***	0.068**
	(0.004)	(0.033)
Treat	-0.014***	-0.127***
	(0.004)	(0.031)
Post	-0.023***	-0.292***
	(0.005)	(0.046)
Control variables	Yes	Yes
Fixed-effects	Yes	Yes