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Sustainable Development of Chinese Family Businesses: Exploring the Role of Succession Planning in Maintaining Organizational Sustainability from the Perspective of Socioemotional Wealth

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Abstract: Identifying the factors affecting organizational sustainability is a crucial topic in the field of social science and business research. Especially in family businesses, the most crucial issue is how to maintain corporate sustainability across generations. In this regard, succession planning plays a key role in maintaining the sustainable development of family businesses. From the perspective of socioemotional wealth, this study discusses the motivations and consequences of intrafamily succession by measuring the impact of the internal determining factors of succession planning on family business performance. Based on a sample of 281 Chinese family firms, this study uncovers the relationship between succession planning and organizational performance. The core findings of this study include succession planning is positively related to organizational performance in the matter of the successor's training; succession planning has a positive effect on organizational performance in terms of the successor's self-preparation; and succession planning is positively correlated with organizational performance in the aspect of the relationship between the successor and business. By illustrating that the formulation of succession planning is an essential pursuit for family businesses to preserve sustainability and socioemotional wealth, the results reveal ways to facilitate succession planning through internal factors in the family business. This study contributes to organizational sustainable development literature, family business sustainability studies, and succession management research by validating the positive relationship between succession planning and organizational performance, indicating that succession planning is a vital driving force for achieving organizational sustainability.

Keywords: succession planning; intrafamily succession management; sustainable development; organizational sustainability; socioemotional wealth; family business

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1. Introduction

Family business studies have attracted the interest of many researchers [1–4] as family firms play a crucial role in promoting sustainable economic development, emerging innovation, and stable employment [5]. The sustainable development of family businesses is momentous not only for themselves but also for the advancement of the entire economy. A distinctive phenomenon closely related to family firms is intrafamily succession, which is one of the most essential processes in family firms because it is of great significance to the organizational sustainability [6,7]. In essence, the sustainability of a family business requires a proper successor to fill the core position and accomplish the current or future strategic target, but the challenge in achieving the sustainability of family businesses is the lack of succession planning [8–10]. The most significant barrier to succession is the lack of succession planning, and corporate performance decline attributed to the lack of sufficient time and effort to initiate CEO succession [11]. Thus, family firms must consider elaborating on succession planning to transfer the company to the next generation, which has significant implications for family continuity, performance growth, business longevity, and economic sustainable development of the country [12,13]. However, several previous studies have estimated that only 30 percent of family firms can survive to the second generation [14–16]. Although family businesses in many regions have grown to the third or fourth generation, such as the UK, Hong Kong, and Taiwan, family succession is a relatively emerging phenomenon in mainland of China because most family firms in China were only established by founders less than 30 years ago [17]. Based on a Global Family Business Survey Report by Price Waterhouse Coopers in 2021, more than 80% of family businesses in China do not have sound succession planning. This proportion far exceeds the global average, raising concern regarding the sustainability of Chinese family businesses. Thus, many Chinese family businesses urgently need to address the succession issue about how to successfully and smoothly transfer the companies to the next generation [18]. Unfortunately, only a few family business owners are preparing to transfer their firms to the next generation [19]. Indeed, family businesses are challenged by many problems, nonetheless the majority of scholars have demonstrated that the most critical problem in family firms' sustainability is succession, which comes down to the transfer of leadership according to succession planning [2,3,7,20].

Drawing on the perspective of socioemotional wealth (SEW), the objective of this study is to use internal variables to predict the effectiveness of succession planning with regard to organizational performance, thereby eventually keeping the sustainability of family businesses. According to the empirical findings of this study, succession planning is proven to be positively related to organizational performance in the aspects of training of successors, self-preparation of successors, and the relationship between successors and business. Among these 281 samples of family businesses in China, empirical results suggest that those companies that successfully establish succession planning can achieve better organizational performance, such as Rong'an Real Estate Co., Ltd., Weida Machine Co., Ltd., and Yuyue Medical Equipment Co., Ltd. It is indicated that the sustainability of family businesses can be adequately preserved when firms are successfully inherited by the next generation based on the formed succession planning [19].

Succession planning is a complex process that promotes the transfer of ownership or management control from one family member to the next generation [21], which can effectively promote family business performance [10]. According to Ghee et al. [9], the succession experience and relationship between family members significantly impacts business performance, highlighting the importance of communication problems between family members in succession planning. Additionally, Mokhber et al. [11] argue that the relationship between family and business members, as well as preparation level of successors are positively related to organizational performance, which focuses on the factor of successors in succession planning. Moreover, by examining external environmental factors, Jahmurataj et al. [7] demonstrate that knowledge transfer in succession planning and family culture have a positive impact on family business sustainability. Theoretically, most of the previous studies only identified the impact of succession planning on firm performance through the family members' relationship or external factors [19,22,23]. They failed to investigate the influence of internal factors in succession planning on firm performance. Notably, there is less emphasis on the preparation of successors as an essential factor for effective succession planning in many prior studies [9,10]. Moreover, there is still no consensus in the current literature on the relationship between succession planning and organization performance based on different theories, such as agency theory [10], resource-based view theory [7], or upper echelons theory [24]. Given that the current literature disputations on the relationship between succession planning and organization performance are yet inconclusive, this study introduces a new perspective of SEW to provide novel insights into the current literature.

In theory, there are a lack of studies based on evidence from China to investigate the effect of different internal factors of succession planning on organizational performance by emphasizing successors' training, self-preparation, and the relationship with business. Thus, we aim to fill this research gap by providing more empirical evidence on this issue from the perspective of SEW. Therefore, this study contributes to the literature in several aspects. Firstly, through examining the effect of CEO succession planning on organizational performance, this study contributes to interpreting the divergence in previous studies based on the evidence from Chinese family businesses. Especially from the perspective of SEW, this study further supports and extends prior studies using agency theory to elucidate that there exists a positive relationship between succession planning and firm performance. Furthermore, this study demonstrates how to initiate CEO succession planning by highlighting the importance of training, self-preparation, and interpersonal relationships of successors, providing a more comprehensive view to understand the role of successors in succession planning. In addition, our findings contribute to the existing literature on family business and organizational sustainable development by underlining that CEO succession planning is an essential driving force for achieving organizational sustainability.

2. Theoretical Background and Hypotheses

2.1. Family Businesses and Socioemotional Wealth

Family businesses are the dominant source of advancement in the national and global economy and provide considerable employment opportunities in developed and developing countries [5]. The characteristics of family businesses lie in the distinctive ownership structure, governance model, and succession management that materially influence the goals, strategies, and manners in which they were formulated, designed, and implemented [25]. In a sense, the uniqueness of a family business refers to the overlap and interaction between two entities, namely family and business [16]. According to Berrone et al. [26], continuing the family business and transferring it to the next generation is an essential SEW of the family business. Implementing this collective goal can secure the realization of a family goal, especially regarding the collective intention of succession planning [27]. Consequently, this collective intention motivates the succession planning process and thus ultimately promotes the sustainability of family businesses [26,28,29]. In this regard, the SEW perspective highlights that family businesses have the collective goal of ensuring their sustainability and longevity through intrafamily succession [30]. Based on the SEW perspective, the intention to pursue intrafamily succession is a fundamental attribute of the essence of a family firm [4,31]. To successfully facilitate the succession process, family businesses need to plan it comprehensively [32], but only a few owners have made proper preparations to transfer their firms to the next generation [1].

The SEW perspective mainly focuses on non-economic factors that impact family businesses' decision making and behavioral approaches [30,31]. The SEW perspective incorporates shared family aspirations, such as the intention to transfer the company to the next generation, facilitation of employment to family members, and maintenance of favorable social status and reputation [27]. The fundamental concept of the SEW perspective is that family owners tend to perceive the potential gains or losses of SEW as their primary frame of reference in the management of family businesses [30], which is particularly suitable for interpreting the succession issue in the family business [31,33]. Hence, the family tends to make a specific strategic choice to pursue SEW, such as family owners making succession planning to appoint a family successor CEO, thereby maintaining the sustainability of their family business [34]. According to Berrone et al. [34], the SEW perspective comprises five dimensions: renewing family bonds through dynastic succession, family control and influence, family members' identification with the company, binding social bonds, and emotional attachment.

This study particularly highlights the dimension of renewing family bonds through dynastic succession because it supports the notion that family businesses have inherent demands to pursue SEW through intrafamily succession [31,34]. Several previous studies prove that the critical target for family firms is to maintain the business for future generations [16,35], and numerous family firms manifest longer-term succession planning horizons [36]. Since the identity of family members is closely linked to the family company, the multiple dimensions of SEW may drive family owners to guide company behavior by influencing governance, management, strategies, and risk response [30]. In a sense, the family will take measures to avoid SEW losses when they are under threat, even at the expense of economic losses [31]. Hence, a firm's control drives relevant managerial methods to boost the family's SEW [33].

2.2. Internal Factors in Succession Planning

Succession planning is a deliberate and formal process that promotes the transition of management control and ownership from the incumbent to the next generation [21]. In this regard, there are two intrinsic roles for succession planning: one is achieving subsequent positive organizational performance and ultimate sustainability of the firms [32], and the other is the satisfaction of stakeholders with the succession process [37]. It has been widely proven that succession planning is the most crucial issue for family firms and has great strategic significance [22,38]. Thus, effective succession planning must achieve three objectives: transferring assets, passing leadership control, and facilitating family sustainability [14]. As the core factor in the failure of family firms is the lack of succession planning, a well-planned succession process allows family firms to reinvent themselves in response to fierce competition and to develop new energy for growth, diversification, and professionalization. Accordingly, there are three essential internal factors in ensuring effective succession planning, including training of successors, self-preparation of successors, and the relationship between successors and business [11,12,14].

Training of Successors. One of the challenges for leaders in maintaining the sustainable development of a company is to formulate successful succession planning [10]. To avoid such a succession crisis, a responsible founder should initiate succession planning to arrange for successors to engage in specific enterprise training, mentoring, and exercising projects, which can help successors acquire a systematic understanding of the entire operation process of the company [15]. Notably, it is necessary for successors to receive top-down training on the company's internal employee regulations, hierarchical system, organizational structure, and operational process. Previous research also delineates that training of successors can strengthen their decision-making talents and multi-problem-solving skills to tackle dilemmas, tension, and pressure [9]. In family business, the successors can gain specialized mentoring from the incumbents, family members, and leaders. The success or failure of succession planning in family business relies on how well such programs are carried out eventually [12]. As part of corporate sustainable development efforts, training of successors in succession planning is a favorable procedure for transferring leadership in family businesses [13].

Self-preparation of Successors. Effective succession planning prompts the successors to possess distinct knowledge and compelling competencies, ensuring they can successfully deal with various difficulties and challenges after undertaking the leadership [7]. According to Morris et al. [14], the self-preparation of successors in succession planning indicates to what extent the successors have been prepared for taking over the enterprise, including sufficient working experience, exceptional management talents, necessary business skills, and rich knowledge of company running. In this regard, Mokhber et al. [11] delineate that whether a family business can achieve sustainable development depends on the successor's capability to utilize the specialized knowledge obtained in university to manage and operate various company business activities. In addition, successors are also encouraged to acquire some working experiences outside their family firm, which serves as a salient intangible asset to guide future work [12,15]. Furthermore, it is paramount for successors to equip themselves with prominent marketing and sales skills, thereby better sustaining and running the family business [39]. To facilitate the smoothness of transferring the leadership to the next generation, successors are expected to participate in the family business as early as possible to ensure the optimal succession process [12].

Relationship between Successors and Business. To facilitate the effectiveness of succession planning, the successors are expected to maintain a good relationship with all aspects of the business, including the incumbents, family members, employers, consumers, suppliers, and other stakeholders [8]. Keeping a good relationship between successors and business is a vital determinant for achieving harmony in the next generation of the company because it can ensure the smooth transition of management and ownership [12]. Notably, family businesses are characterized by a strong sense of belonging, identification, commitment, and reliability within the organization [9,40], and thus successors must pay much attention to support and respect the mutual trust, beliefs, and faiths of each other commencing from the early stages of their succession. Establishing a good relationship with business benefits the next generation of successors to understand and perceive how to leverage and consolidate various resources and talents. Consequently, successors are more likely to smoothly implement management decisions, daily work, and operation affairs [41].

2.3. Succession Planning and Firm Performance

2.3.1. Training of Successors

One of the owners' challenges in sustaining and further developing a family business is to commence succession planning [15]. Succession planning includes top managers and several other elements, such as necessary procedures for successful succession, legal and financial scruples, psychological factors, leadership cultivation, and exit strategies [42]. In this regard, succession planning involves the family business identifying the number of successors, expatiating the criteria, and appointing the successor, which may be followed by communicating the succession decision to the potential successor, training the successor, and formulating a strategy for post-succession [9]. To smoothly transfer ownership or management control from an incumbent to the next generation based on succession planning, several factors related to succession planning fall into three critical categories: including training of successors, self-preparation of successors, and the relationship between successors and family [14,21].

It is critical for family businesses to develop succession planning and provide relevant training and mentoring to successors [39]. Indeed, the successors' levels of training and mentoring play an essential role in developing succession planning, which has a positive effect on firm performance [43]. Put differently, succession planning aims to identify the proper candidates and train them to be competent for a successful transition, which eventually maintains better firm performance [12]. Meanwhile, succession planning will positively influence firm performance if succession planning contains adequate training and mentoring programs, as the successors have received the necessary guidance before taking over the company [9]. Baek and Cho [44] found a positive relationship between succession planning and firm performance because succession planning can provide potential successors with relevant training and mentoring related to management and ownership transfer. Conversely, successors are more likely to make inferior decisions in managing a business without relevant management training [45], leading to poor firm performance [46]. The significance of socioemotional wealth for the family business is grounded in the SEW perspective, underlining that the family business has an internal demand to pursue socioemotional wealth through intrafamily succession [27]. Therefore, we believe that training of successors based on succession planning is beneficial to firm performance, and propose the following hypothesis:

H1. *Succession planning in terms of successors' training is positively associated with firm performance.*

2.3.2. Self-Preparation of Successors

The ideal condition of the succession process in the family business is that the second generation smoothly and successfully takes over the enterprise without dramatic performance decline, and specialized knowledge and intangible assets can be transferred to the second generation [22]. In this regard, self-preparation levels of successors refer to the extent to which successors hold professional skills, managerial capabilities, business knowledge, or relevant working experience [9]. By making adequate self-preparation before inheriting the company, successors can equip themselves with material work experience, specialized knowledge, educational background, and leadership skills that can help them have excellent competencies to manage the company and achieve better firm performance [9]. From the SEW perspective, the formulation of succession planning is a vital process for family businesses, as succession planning can help family businesses select well-prepared family successors to maintain the family's socioemotional wealth [34]. According to Mokhber et al. [11], the self-preparation level of successors positively affects performance in the family business. In essence, the development of succession planning has significant implications for a company's decision-making process and performance [26]. Thus, we propose that firm performance will be boosted if successors make full self-preparation based on succession planning before the actual takeover:

H2. *Succession planning in terms of successors' self-preparation is positively associated with firm performance.*

2.3.3. Relationship between Successors and Business

CEO succession is an essential event in various types of organizations [20], and studies have shown that the lack of CEO succession planning is the main reason for the closure of family businesses [12]. Intrinsically, succession is not just a single transition of a baton as it contains various levels of the time-consuming process, which means that succession planning should start at a very early stage in the life of a successor [11]. Succession poses a significant challenge to family businesses, especially in maintaining a company's sustainability [47]. In order to ensure the smooth transfer of the company to the next generation, successors should establish a good relationship with the business based on succession planning. According to Qi et al. [41], family business owners can expedite the development of a company's probability by formulating succession planning to ensure that potential successors maintain a favorable relationship with the business. Thus, successors are more likely to be respected and supported by incumbents, stakeholders, and family members, ultimately facilitating firm performance [8]. According to the SEW perspective, succession planning contributes to family firms' performance, as it can equip the family business with fresh energy and vitality to cope with fierce industry competition [33]. Hence, we assume that succession planning can advance firm performance when there is a harmonious relationship between successors and the business:

H3. *Succession planning in terms of the relationship between successors and business is positively associated with firm performance.*

3. Methods

3.1. Data and Sample

To quote a feasible definition of family businesses and consider the situation in China, this study defines family businesses according to Tagiuri and Davis [48], who state that a family business should have at least two family members involved in the company's top management team. This definition was chosen because it reflects the essential characteristics of the family business in which it contains elements of ownership and management and can fully expose the representative attributes of Chinese family businesses. Consequently, the populations of this study are Chinese family firms listed on A shares of the Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) because Chinese firms are typically listed on A shares and the market capitalization of A shares accounts for 99% of the total market capitalization on the SSE and SZSE. Accordingly, the statistical data of Chinese listed family businesses were derived from the official statistical outcomes of the China Stock Market and Accounting Research Database (CSMAR), which is a dependable database widely used in many prior studies [49], and contains the module of Chinese listed family firms in Company Research Series. Based on data from the family firms' module of the CSMAR, the population of Chinese listed family businesses as of 31 December 2020 was 1423. Due to the COVID-19 epidemic and movement restriction policies in China since 2021, it was difficult for us to collect more recent data. Moreover, most Chinese family businesses were not able to disclose their annual reports at that time, or the reports had a significant missing value. Hence, to ensure the integrity and reliability of the data, we selected to collect the archival data as of 31 December 2020. To fulfill the research objectives, the target population of this study is specified as Chinese listed family firms that are currently engaging in succession planning or have already completed succession planning to involve the next generation in the company. Similarly, CSMAR disclosed that the number of Chinese listed family firms already taken over by the next generation in 2020 was 345. As these companies intuitively reflect the actual situation of succession planning in Chinese family businesses, these 345 family firms act as the sample of this study.

This is a quantitative study that uses numerical data to test hypotheses and theories. Both primary and secondary data are used in this study because the primary data on succession planning can better reflect its specific situation, and secondary data on firm performance is more accurate. Thus, data on succession planning were collected from the survey questionnaire. The data collection period was from March to September 2021, including the regular questionnaire distributions and follow-up procedure. Based on the primary data collection results, secondary data on firm performance were collected from CSMAR accordingly in October and November 2021. The questionnaire design follows an extensive literature review with the measurement of each question on a five-point Likert scale, focusing on respondents' attitudes and opinions on the situation of succession planning in the company. Before distributing the questionnaire, each questionnaire was encoded with a unique code to connect it with a relative family business, which aimed to help us link and align the primary data to the corresponding secondary data to reflect the actual situation of a particular family business. To test our hypotheses, the questionnaires were sent to the directors or senior managers of 345 family firms because these respondents comprehensively perceived the specifics of succession planning in their company. After two rounds of follow-ups, 281 valid questionnaires were returned.

3.2. Measures

Succession planning in this study was measured by three factors, covering the training of successors, self-preparation of successors, and the relationship between successors and business [11,12,14,39]. Specifically, the scales of training of successors were developed from the studies of Noe [50] and Venter et al. [51], focusing on the importance that respondents place on the next generation's job training through mentoring projects or workshops based on succession planning. In addition, the scales of self-preparation of successors were developed from the research of Buang et al. [12] and Venter et al. [51], which highlight the degree to which participants attach importance to preparation made by the successors before inheriting the company, such as the preparation of successors on their knowledge, skills, capabilities, and experiences. Furthermore, the scales of the relationship between successors and business were developed by Venter et al. [51], which underscore the extent to which respondents value the importance of maintaining a favorable relationship between successors and business, such as relationships with incumbents, family members, suppliers, or customers.

On the other hand, return on asset (ROA) is taken into account in this study to measure organization performance. To realize this purpose, ROA was calculated by dividing the net profits after tax by total assets to reflect the profitability of the company [10], which is consistent with the measurement of CSMAR. To further capture the relationship between succession planning and firm performance, we also incorporate the return on equity (ROE) and Tobins Q into the assessment of firm performance. In this regard, the ROE calculation method is to divide the net profits after tax by shareholder equity. Besides, Tobins Q was computed by dividing market value by total assets, which can reflect the market's recognition and evaluation of the firm's performance. In line with the study of Motwani et al. [39], this study also includes firm size and firm age as control variables to reduce the possibility of bias in the model. These two variables were considered as the control variables in this study since factors regarding the company's nature and scale may directly or indirectly influence the firm's performance. Accordingly, firm size was gauged by the natural logarithm of the total assets, and firm age was measured by a dummy variable (1 = less than 10 years, 2 = 10 to 20 years, 3 = 21 to 30 years, 4 = more than 30 years). We summarized the following regression model to analyze the relationship between various succession planning variables and firm performance:

$$\textit{Firm performance (ROA)} = \beta_0 + \beta_1\,\textit{(Training of successor)} + \beta_2\,\textit{(Self-preparation of successors)} + \beta_3\,\textit{(Relationship between successors and business)} + \Sigma\beta_i\,\textit{(Firm size)} + \Sigma\beta_i\,\textit{(Firm age)} + \varepsilon$$

$$\textit{Firm performance (ROE)} = \beta_0 + \beta_1\,\textit{(Training of successor)} + \beta_2\,\textit{(Self-preparation of successors)} + \beta_3\,\textit{(Relationship between successors and business)} + \Sigma\beta_i\,\textit{(Firm size)} + \Sigma\beta_i\,\textit{(Firm age)} + \varepsilon$$

$$\textit{Firm performance (Tobins Q)} = \beta_0 + \beta_1\,\textit{(Training of successor)} + \beta_2\,\textit{(Self-preparation of successors)} + \beta_3\,\textit{(Relationship between successors and business)} + \Sigma\beta_i\,\textit{(Firm size)} + \Sigma\beta_i\,\textit{(Firm age)} + \varepsilon$$

4. Data Analysis Results

4.1. Respondent Characteristics

The descriptive analysis for respondent characteristics primarily reveals the background information about the respondents who participate in this study. The characteristics investigated include gender, educational level, job position, and working years in the current family business. In this regard, 281 respondents completed the valid questionnaire. Table 1 indicates that 57.7% of the respondents are male and 42.3% are female. Additionally, the highest education level of the respondent is a doctorate with 9.3%, followed by a master's degree with 38.1%, and a bachelor's degree with 44.1%. The lower education level of the respondent is a diploma and high school, accounting for 6.4% and 2.1%, respectively. Hence, it means most respondents of this study were well-educated.

Table 1. Descriptive statistics of respondents' profile.

Demographic Characteristics	Frequency (n = 281)	Percentage (%)
Gender		
Male	162	57.7
Female	119	42.3
Total	281	100
Educational level		
High school	6	2.1
Diploma	18	6.4
Bachelor's degree	124	44.1
Master	107	38.1
Doctorate	26	9.3
Total	281	100
Job position		
Manager	151	53.7
CEO	33	11.7
Director	79	28.2
Chairman	18	6.4
Total	281	100

Table 1. *Cont.*

Demographic Characteristics	Frequency (n = 281)	Percentage (%)
Years of working		
Less than 5 years	26	9.2
5–10 years	61	21.7
11–20 years	130	46.3
More than 20 years	64	22.8
Total	281	100

Additionally, Table 1 presents the job position of the respondents, which accounts for 53.7% of managers and 28.2% of directors, followed by 11.7% of CEOs and 6.4% of chairpersons of the board. Thus, it demonstrates that most of the respondents hold a management position at least so that they have the adequate cognition about company's decisions on succession planning. Moreover, Table 1 shows that 46.3% of respondents have been working in the current family business for more than ten years, 22.8% of respondents have more than twenty years of working experience in the current family business, and 9.2%, as well as 21.7% respondents have working experience of fewer than five years and five to ten years in the current family business. Therefore, it manifests that most respondents have a rich understanding and knowledge about the company's situation and features because they have been working here for many years.

4.2. Organizational Characteristics

The descriptive analysis for organizational characteristics primarily introduces the background information about these 281 family firms in this survey that have already involved the second generation in their company. From the analysis results in Table 2, 54.45% of family firms have been established for more than 20 years, and 40.93% have been established for more than ten years. Moreover, 3.91% of family firms have been found over 30 years, and the rest of 0.71% has been set between 1 to 10 years. Thus, most family firms in this survey have a long history, which means they are representative and typical in studying the succession planning issue. Besides, 52.31% of family firms have been listed on the stock exchange market for about 1 to ten years, and 37.72% have been listed for about 11 to 20 years. The remaining 9.97% of family firms have been listed for around 21 to 30 years. Hence, most companies in this survey have been active in the stock exchange market for many years. Furthermore, 40.57% of the family firms are in the manufacturing sector, 19.21% are in the industrial sector, and 8.9% are in the technology sector. The remaining 8.54%, 7.12%, 2.49%, and 2.49% of the family firms are in the pharmaceutical, services, properties, and construction sectors, which indicates that the sample adequately represents the population. Therefore, the conclusion is that most of the survey respondents come from family manufacturing firms.

Table 2. Descriptive statistics of organizational profile.

Demographic Characteristics	Frequency	Percentage
Years of establishment		
Less than 10 years	2	0.71%
10–20 yeas	115	40.93%
21–30 years	153	54.45%
More than 30 years	11	3.91%
Total	281	100%

Table 2. *Cont.*

Demographic Characteristics	Frequency		Percentage	
Years of listing				
Less than 10 years	147		52.31%	
10–20 yeas	106		37.72%	
21–30 years	28		9.97%	
Total	281		100%	
Industry	Sample	Population	Sample	Population
Manufacturing	114	545	40.57%	38.30%
Industrial	54	323	19.21%	22.70%
Properties	7	31	2.49%	2.18%
Construction	7	35	2.49%	2.46%
Services	20	152	7.12%	10.68%
Technology	25	209	8.90%	14.68%
Pharmaceutical	24	93	8.54%	6.54%
others	30	35	10.68%	2.46%
Total	281	1423	100%	100%

4.3. Reliability and Validity Analysis

The descriptive statistics and correlation analysis results are shown in Table 3, providing fundamental support for the proposed hypotheses of this study. Taking the results of ROA as an example, the relationship between training of successors and firm performance is shown as positive ($\beta = 0.295$, $p < 0.01$); there is a positive relationship between self-preparation of successors and organizational performance ($\beta = 0.259$, $p < 0.01$); and the relationship between successors and business is positively related to organizational performance ($\beta = 0.271$, $p < 0.01$). In addition, the results in Table 3 also indicate that multicollinearity is not an issue in this study because the correlation coefficients of all independent variables are relatively low, and computed VIF is lower than a threshold of 10 [52].

Table 3. Descriptive statistics and correlation analysis.

Variables	Mean	S.D.	1	2	3	4	5	6	7	8
1 Firm size	22.09	0.99	1							
2 Firm age	2.63	0.58	0.031	1						
3 Training of successors	3.08	1.33	0.022	0.075	1					
4 Self-preparation of successors	3.13	1.28	−0.068	0.099	0.407	1				
5 Relationship between successors and business	3.16	1.31	−0.033	0.013	0.451	0.638	1			
6 Firm performance (ROA)	0.05	0.13	0.100	0.089	0.295 **	0.259 **	0.271 **	1		
7 Firm performance (ROE)	0.08	0.16	0.059	0.050	0.407 **	0.359 **	0.386 **	0.554 **	1	
8 Firm performance (Tobins Q)	2.28	2.68	−0.012	0.062	0.350 **	0.296 **	0.351 **	0.420 **	0.567 **	1

** Correlation is significant at the 0.01 level (two-tailed).

To assess the validity of the scales, the results in Table 4 show that the factor loadings for all items are greater than 0.5, indicating that the factor loading of each item is in a group of the construct. Furthermore, we also conducted a validity analysis by testing the Kaiser–Meyer–Olkin (KMO) indicator to determine whether sampling adequacy is appropriate for conducting the reliability analysis. According to Kaiser [53], a KMO above 0.90 is considered marvelous, above 0.80 as meritorious, and above 0.70 as middling. As shown in Table 4, the index of KMO is 0.973 with a p value of 0.000, demonstrating that all 30 items meet the marvelous standard for conducting reliability analysis. Accordingly, the results of the reliability analysis in Table 5 show that the value of Cronbach's alpha of training of successor, self-preparation of successors, and relationship between successors and business are 0.980, 0.979, and 0.949, respectively, which indicates that all the measurement items are reliable and consistent.

Table 4. Validity analysis.

Kaiser–Meyer–Olkin Measure of Sampling Adequacy		0.973
Bartlett's Test of Sphericity		
Approx.Chi-Square		10,455.653
df		435
Sig		0.000
Variables	**Items**	**Loading**
Training of successor	TOS1	0.908
	TOS2	0.914
	TOS3	0.857
	TOS4	0.928
	TOS5	0.906
	TOS6	0.867
	TOS7	0.876
	TOS8	0.911
	TOS9	0.849
	TOS10	0.904
	TOS11	0.912
	TOS12	0.882
Self-preparation of successors	SPOS1	0.878
	SPOS2	0.880
	SPOS3	0.852
	SPOS4	0.906
	SPOS5	0.886
	SPOS6	0.862
	SPOS7	0.915
	SPOS8	0.827
	SPOS9	0.892
	SPOS10	0.887
	SPOS11	0.902
	SPOS12	0.906
	SPOS13	0.816
Relationship between successors and business	RSB1	0.891
	RSB2	0.833
	RSB3	0.831
	RSB4	0.839
	RSB5	0.919

Table 5. Reliability analysis.

Variables	**Cronbach's Alpha**	**Number of Items**
Training of successors	0.980	12
Self-preparation of successors	0.979	13
Relationship between successors and business	0.949	5

4.4. Regression Analysis

To test our hypotheses, Tables 6–8 show the results of the regression equations linking succession planning and firm performance based on ROA, ROE, and Tobins Q, respectively. The F value of the model is significant at the 0.1% level, and the highest R square of the overall model is 23.3%, denoting that this model is reliable and valid for interpreting the effect of succession planning on firm performance.

Table 6. Regression analysis based on ROA.

Dependent Variables: ROA	Model 1	Model 2	Model 3	Model 4
Firm size	0.098	0.092	0.106	0.105
Firm age	0.086	0.064	0.052	0.059
Training of successors		0.288 ***		
Self-preparation of successors			0.172 **	
Relationship between successors and business				0.121 *
R square	0.017	0.100	0.124	0.132
F	2.456	10.227 ***	9.780 ***	8.373 ***
Number of observations	281	281	281	281

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$ (two-tailed).

Table 7. Regression analysis based on ROE.

Dependent Variables: ROE	Model 1	Model 2	Model 3	Model 4
Firm size	0.057	0.049	0.068	0.068
Firm age	0.048	0.18	0.001	0.012
Training of successors		0.405 ***		
Self-preparation of successors			0.238 ***	
Relationship between successors and business				0.178 *
R square	0.006	0.169	0.215	0.233
F	0.810	18.741 ***	18.932 ***	16.672 ***
Number of observations	281	281	281	281

* $p < 0.05$; *** $p < 0.001$ (two-tailed).

Table 8. Regression analysis based on Tobins Q.

Dependent Variables: Tobins Q	Model 1	Model 2	Model 3	Model 4
Firm size	−0.014	−0.021	−0.006	−0.007
Firm age	0.063	0.037	0.024	0.036
Training of successors		0.348 ***		
Self-preparation of successors			0.182 **	
Relationship between successors and business				0.202 **
R square	0.004	0.124	0.152	0.174
F	0.567	13.114 ***	12.328 ***	11.581 ***
Number of observations	281	281	281	281

** $p < 0.01$; *** $p < 0.001$ (two-tailed).

Based on the regression analysis results in model 2 of Table 6, training of successors is found to have a positive (β = 0.288, $p < 0.001$) relationship with firm performance in terms of ROA. Moreover, model 2 of Table 7 signifies that the training of successors is positively (β = 0.405, $p < 0.001$) related to firm performance in terms of ROE. In addition, the positive relationship (β = 0.348, $p < 0.001$) between the training of successors and firm performance in terms of Tonbins Q is also supported by the results in model 2 of Table 8. Therefore, these analysis results allow us to accept Hypothesis 1. These significant results support the findings of Aremu and Lawal [43], who claim that succession planning has a positive effect on firm performance and longevity because succession planning can provide potential successors with relevant mentoring related to management.

Furthermore, the relationship between self-preparation of successors and firm performance is significantly positive in terms of ROA (β = 0.172, $p < 0.01$), ROE (β = 0.238, $p < 0.001$), and Tobins Q (β = 0.182, $p < 0.01$), signifying that Hypothesis 2 is accepted. Concerning the positive effect of successors' self-preparation on corporate financial performance, the results of this study confirm and expand the studies of Boyd et al. [22] and Mokhber et al. [11], demonstrating that higher education levels of successors are conducive to knowledge transfer in family business succession. By emphasizing the importance of successors' self-preparation for the success of succession planning, this study refines that succession planning in terms of successors' skills, experience and knowledge enhances organizational performance. Consequently, succession planning requires successors to obtain different knowledge, skills, and competencies related to business and industry, which will help them successfully handle many challenges and difficulties when they take charge of managing the company [7].

In addition, the regression results also show that the relationship between successors and business is positively associated with organizational performance in terms of ROA ($\beta = 0.121$, $p < 0.05$), ROE ($\beta = 0.178$, $p < 0.05$), and Tobins Q ($\beta = 0.202$, $p < 0.01$), supporting Hypothesis 3 of this study. Consistent with Ghee et al. [9] and Jahmurataj et al. [7], when successors keep good relationships with a business, they are more likely to smoothly advance their management measures and operational arrangements because the relevant procedures are supported by staff, suppliers, and other family members, thereby contributing to boosting superior firm performance.

5. Discussions

5.1. Theoretical Implications

Previous studies about the relationship between succession planning and firm performance are typically based on the perspective of business administration or strategic management, such as upper echelons theory [24], resource-based view theory [7], and agency theory [10]. However, these studies fail to consider that emotional wealth and social wealth are essential properties of family businesses and play a key role in driving intrafamily succession. They ignore that the pursuit of SEW in family businesses is a primary determinant in developing succession planning, which can ultimately advance the firm's performance and longevity. The SEW, from the perspective of behavioral psychology, highlights that family businesses are more likely to make decisions to pursue SEW, such as the inherent pursuit of arranging the next generation to inherit the company based on succession planning [31]. By highlighting the formulating CEO succession planning and cultivating suitable successors that are inherent demands for family businesses to pursue SEW, this study focuses on investigating the importance of establishing succession planning by gauging the role of the internal factors of succession planning on firm performance. Hence, this study contributes to the current literature by demonstrating a positive relationship between succession planning and firm performance from a new perspective of SEW. Furthermore, by introducing three internal factors of succession planning, this study complements previous studies that only investigate the relationship between succession planning and firm performance in terms of family members' relationships or external factors.

Regarding the assessment of succession planning, the crucial measurement in previous studies is a firm's longevity based on profitability growth only [10]. In this light, prior studies have generally evaluated whether succession planning is successful according to relevant organizational performance, but the findings are inconsistent [9,11,13,23,25]. By measuring the effect of succession planning on firm performance based on evidence from Chinese family businesses, this study provides more empirical proof to interpret the divergence of succession planning impact in previous studies. Notably, this study comprehensively measures the relationship between succession planning and organizational performance in terms of ROA, ROE, and Tobins Q, emphasizing the effect of succession planning on corporate profitability and considering the relationship between succession planning and firm performance in the view of market value.

5.2. Practical Implications

In the scenario of China, beginning in the early 1980s, market-oriented reform and opening-up produced a new generation of founder-managed enterprises [54]. Four decades later, most first-generation entrepreneurs in China are currently contemplating retirement and planning the future of the firms they have founded [54]. Because of the current circumstances, including the personal characteristics of these first-generation entrepreneurs, such as age, health status, and knowledge structure, as well as environmental factors, such as digital industry innovation, changing consumer needs, and the popularity of e-commerce, these founders have to accelerate the relevant succession planning process to transfer their authority [55]. As a result, the next generation of family firms is strongly preferred to assume leadership, since the family-centered governance model is profoundly institutionalized in Chinese cultures [54]. In essence, succession is not just about the inheritance of power but also about whether family firms can achieve sustainable development after they are inherited by the second generation [41] Hence, family firms must formulate succession planning to ensure that the next generation smoothly takes over management and ownership [13]. Although succession planning has salient advantages, family firms frequently postpone this material process, which harms the sustainability of family firms [12,16,34].

Therefore, the practical implication of this study is to uncover the critical internal factors in succession planning and their effect on firm performance, enlightening enterprises' founders, owners, leaders, and entrepreneurs to understand how to perform succession management and initiate succession planning. Particularly, this study suggests that family businesses should attach great importance to successors' training, self-preparation, and interpersonal relationships with the business to ensure the success of succession planning and the enhancement of firm performance. Meanwhile, findings on these factors can also encourage the next generation of families to become more active, thereby having more opportunities to be selected as potential successors. In addition, this study is also beneficial to Chinese government policymakers since our findings could be a valuable reference for introducing new policies that encourage family businesses to formulate, develop, or disclose succession planning.

5.3. Limitations and Future Research

The primary limitation of this study is that the process of data collection was conducted during the COVID-19 epidemic, impeding us from reaching more respondents and acquiring more recent data. On the other hand, we mainly discuss the direct relationship between succession planning and firm performance without considering other mediators or moderators. To further enrich the existing literature, therefore, we suggest that future studies should consider exploring certain moderators to enhance this association between successor's training, self-preparation, and interpersonal relationship with firm performance, such as the role of incumbent or family governance.

6. Conclusions

Nowadays, it is a world characterized by rapid changes and unforeseeable global threats. Family businesses and subsequent generations face many unprecedented challenges, especially business bankruptcy and performance losses resulting from a lack of CEO succession planning. Thus, both the founders and the next generations of the company are responsible for driving growth to secure the sustainability of the business and family. In response to the existing issues in modern family businesses, this study sheds light on the importance of succession planning as a stimulus for advancing firm performance based on evidence from family businesses in China. We found that the training of successors, self-preparation of successors, and the relationship between successors and business are positively associated with organizational performance in terms of ROA, ROA and Tobins Q, indicating that developing succession planning is an inherent pursuit for family businesses to maintain socioemotional wealth and sustainability. Given that succession planning plays an essential role in the life cycle of family firms, the findings of this study are conducive to guiding them on how to successfully formulate succession planning to transfer the management and ownership to the next generations. Succession planning is believed to play a vital role in maintaining the corporate sustainable development and boosting firm performance, and our study provides some instructive perceptions on how family businesses take specific actions to make these implications work.

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