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Family Kinship and Actual Controller's Reduction

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Abstract

Based on the theory of social emotional wealth, this paper takes the actual controller's reduction of Chinese A-share family companies from 2005 to 2018 as samples. The article subdivides several kinds of kinship of family companies into alienation and closeness, which contributes to explore influence of reducing behavior and its moderating factors. The empirical findings show that the actual controller reduction of family companies with alienated relationships is significantly higher than that of close ones. That is, the more distant the family members are, the more likely the actual controller of the company is to choose large-scale reductions for short-term financial wealth. In addition, the further findings are that if family members are involved in the management, the difference between the scale of the reduction of the alienated family business and the close relationship of the family business will be reduced; and when the enterprise is in financial trouble, the difference will be further amplified. This research not only promotes the cross-integration of family business and the large shareholder's reduction, but also provides guidance and reference for how family business can improve governance mechanism and optimize shareholding structure.

Keywords

Family Kinship, Major Shareholders' Reduction, Scale of Reduction, Family Members Involving in Management, Financial Distress

1. Introduction

Nowadays, shareholders' behavior of reducing holdings has become a blowout trend in China. As of the end of December 2019, a total of 1710 A-share listed companies have issued shareholding reduction announcements, with a total net shareholding reduction of 393.769 billion yuan, doubled year-on-year and close

to the historical peak in 2015. In this paper, we further sort out the cases of family businesses and find that the reduction of actual controllers in family firms presents the typical characteristics of high-level holdings reduction and concentrated holdings reduction in details with data analysis. For example, Jiang Rensheng, the actual controller of Zhifei Company, reduced the company's shares by 2.05% in 2019, and the total turnover was 1.595 billion yuan. The actual controller of Juli Rigging, Yang Zi and other four people (brothers and sisters), reduced their shareholding even more dramatically (a total of 29 reductions during 2013-2018, and the cumulative ratio of shareholding reduction reached 40.19%, corresponding to a turnover of 2.437 billion yuan). They claimed that the high-profile reduction was to supplement liquidity and improve the company's performance. What's more, Li Mantie and other four people (married couple, father-son relationship), the actual controllers of Ledman Optoelectronics Company, underwent 10 reductions from 2014 to 2018, with a cumulative reduction of 540 million yuan. This behavior impaired investors' confidence, making the company questioned in exaggerating of core technology advantages through media reports and overestimating the market value, thus realizing purpose of reducing the stock price. However, behaviors of family shareholders' reductions actually make them sacrifice their part of rights of control. Therefore, it is significantly meaningful to work out what can explain family shareholders' behaviors of extensive reductions.

The theory of social emotional wealth (SEW[1]) is an important theoretical background in this paper. SEW is expressed as a unique emotional connection between family members and enterprises; that is, family members tend to achieve non-economic goals such as inter-generational inheritance, emotional attachment, and family social identity. Building on social emotional wealth theory (SEW), the actual family controller has the dual identities of both business leader and family leader, and his behavioral decisions can reflect the interests and emotional wealth of the entire family. Gomez-Mejia et al. (2007) emphasize that SEW is a crucial factor influencing the strategic decision-making of a family business, and family SEW is closely related to corporate control. If the family makes behaviors that damage corporate control (such as reduction of holdings), family SEW will decrease. As is rationally known, different family relationships (close or distant) may have different degrees of SEW. Thus, the factors affecting the reduction of the family's actual controllers should be considered with an additional layer of family member relationships. Some scholars have confirmed empirically that different family relationships such as husband and wife relationship, father-son relationship, siblings, etc. can have differential impacts on family business behavior decisions and governance structures (Wang, Xu, & Wang, 2014; Yu & Liu, 2017). This paper refines family kinship into the close type (couple type, father-son type) and alienated type (brother type, other kinship type), and specifically studies how family members' relationship affects the

[1]SEW is the abbreviation of Social Emotional Wealth, that is, social emotional wealth.

actual controllers' reduction scale.

What's more, according to the theory of relationship embedding, social relations play a vital role in the activities of economic entities (Jin & Fu, 2005). Considering that family members often participate in family firm's management, this character can be a moderating factor. When family members with different close relationships are embedded in the company, especially when they hold senior positions as directors and supervisors to participate in the management of the company, it is bound to have an impact on corporate decision-making. So does the moderating variable (Management) promote or inhibit the impact of family ties on the reduction of actual controller holdings? Furthermore, since shareholding reduction can help obtain cash flow quickly, is family controller's choice of reduction related to the company's capital status? In other words, if the company is in financial distress, will the family actual controller give up larger scale of shareholdings to relieve the company (such as the case of Juli Rigging above)? In view of this, this article will further examine the two moderating factors of family members' participation in corporate management and corporate facing financial distress.

The empirical results show that, for the actual controllers of distantly-connected family firms, the ratio and frequency of reduction are higher than those of closely-connected family firms. Expansion studies conclude that with the increase in the remoteness of family members, the actual controllers may pay more attention to short-term financial wealth and tend to reduce more. In addition, the participation of family members in corporate management and corporate financial distress play a significant role in regulating the relationship between family members and the reduction of holdings by actual controllers.

The contributions of this article are as follows: Firstly, it grasps the research hot spot of major shareholders' reduction of holdings, focuses on the phenomenon of family major shareholders (actual controllers) reducing holdings in reality and explores the influencing factor of family business relationships. It proves that the close family business and the distant family business have different effects on the scale of reduction of the actual controller. Secondly, the theory of SEW is often applied to the research of family business financing, R&D investment, social responsibility, etc. Based on this theoretical perspective, this article successfully explains the differences in the reduction behavior of the actual controllers of the family business, which not only broadens the scope of theory of SEW but provides a new explanation theory for major shareholders' reductions. Finally, from the perspectives of family members' participation in business management and financial distress, this article explores the two moderating factors and provides guidance and reference for family businesses in optimizing the ownership structure, enhancing corporate value, and improving corporate performance.

The remainder of this study proceeds as follows. Section 2 is literature review. Section 3 is theoretical analysis and hypothesis. Section 4 is the research design. Section 5 is empirical analysis. Section 6 and 7 is respectively robustness test and

conclusion.

2. Literature Review

2.1. Family Firms and SEW Theory

At present, most studies define family businesses from some factors such as corporate ownership, management rights, inter-generational inheritance rights, and actual controllers. Some scholars believe that a family business should be directly or indirectly controlled by a family (Miller et al., 2007). Moreover, the control and ownership of the family business should be passed on to the next generation through generations (Huang & Lin, 2010). The theme of this article is to study the behavior of reducing holdings in actual controllers of family firms. Therefore, the sample selection and definition of family business are based on the perspective of the actual controller, that is, the actual controller of the enterprise is a natural person or a family, and directly or indirectly holds shares to become the largest shareholder of the listed company (He, Lian, & Zhang, 2013; Yan & Ye, 2014; Deng, He, & Xiao, 2016).

Early literature mostly explained the behavioral decision-making of family businesses from the perspectives of agency theory, stewardship theory, and resource-based view. The emergence of social emotional wealth theory (SEW) provided powerful theoretical basis for research on family firms' governance structure and behaviors based on kinship. Therefore, some focus on the relationship between the economic behavior of family business to pursue financial wealth (FW) and the non-economic behavior of protecting family emotional wealth (SEW) (Chen & Chen, 2014; Cai, Shen, & Liu, 2016). For example, Chang & Zhang (2017) studied the impact of SEW on family business financing and investment decisions, and found that family businesses are not willing to sacrifice SEW too much in order to balance economic benefits and social emotional wealth, and they prefer internal financing and lower levels of debt financing. Gomez-Mejia et al. (2018) believe that when the business performance of the family business does not reach the expected level, family members will give priority to various measures to improve the FW to make the family business run better. SEW and FW are not just a contradiction between one and the other, i.e. they may have a mutually reinforcing relationship. Others focus on family business governance and its influence on the different family firms' behaviors (Wang, Xu, & Wang, 2014; Deng, He, & Xiao, 2016). For example, Yu & Liu (2017) deconstructed the six types of kinship such as parent-child relationship and husband-wife relationship and so on into two dimensions: "distant relatives or close relatives" and "core members or in-laws", and summarized the specific path of family business governance. Shan & Song (2019) used the 2008-2017 Chinese A-share family business as a sample to empirically study the relationship between company performance, kinship and CEO changes, and found that kinship can alleviate the sensitivity of family business CEO changes to corporate performance.

2.2. Influencing Factors of Reduction

Research on influence factors of reduction of major shareholders (including executives) has been conducted theoretically, such as control structure, tunneling behavior of major shareholders, corporate performance, and nature of equity (Cao & Zhao, 2010; Chen & Wu, 2013; Lu, Zhang, & Liu, 2017).

Chen & Wu (2013) believe that obtaining high returns is the motivation for major shareholders to reduce their holdings. The worse the company's profitability and asset quality presents, the larger the reduction ratio is. Zhang & Liu (2014) empirically found that the tunneling behavior of private controllers is directly proportional to their reduction and its ratio, while state-controlled listed companies is not significant. Gao et al. (2016) continued the empirical analysis from the degree of equity concentration and the degree of equity checks and balances. They found that the more shares held by the largest shareholders relative to the second largest shareholders, the higher degree of equity balance is, that makes more shareholders tend to reduce their holdings. Zhang & Zhang (2018) analyzed from the perspective of company performance, taking the reduction of major shareholders of listed companies on the Shenzhen Stock Exchange as a sample, and concluded that high returns on net assets bring good profitability, thus major shareholders decreasingly reduce holdings. However, if financial risk becomes larger, major shareholders may extensively reduce their holdings. Unfortunately, there are few literatures especially about family controller's reduction in the current literature, and the analysis of the influence factors is rarely mentioned. This urgently needs to be supplemented and improved.

3. Theoretical Analysis and Hypothesis

3.1. Family Member Relationship and Actual Controller Reduction

There may be disagreement in goals and interests between families with different relationships, and sometimes even cause conflicts within the family (Barnes & Hershon, 2010). We take into account that the closeness or alienation of family members has different effects on family identity and emotional dependence, which may affect the behavioral decision-making of the family business. We take whether family members come from the same family as a standard, and group family member relationships into the closely related (couple type, father-son type) and loosely related (brother type, other kinship types) to examine the difference in family business reduction behaviors.

Previous studies have found that close or loose family members will make family businesses have differences in altruism, family cohesion, and internal conflicts, resulting in difference in their degree of emphasis on SEW (Wang, Xu, & Wang, 2014; Belenzon, Patacconi, & Zarutskie, 2016). For example, couple and father-son companies pay more attention to maintaining the SEW of the family, pursuing the long-term goals of the companies, and hope to pass the business smoothly to the next generation (Zellweger et al., 2012). Therefore, the two generations of family business leaders probably differ in their strategic orien-

tation and investment intensity on innovation (Xu & Zhao, 2019). Different genetic relationships also have different effects on the structure of asset allocation and performance of family businesses (Cheng, Yu, & Jiao, 2019). According to the classification of family businesses in this article, the actual controllers of closely-connected family businesses have the same interest goals as the family, with greater family cohesion, stronger altruism, and fewer internal conflicts. Out of the protection of the family SEW, they tend to choose smaller scale of reductions, maintain the control structure of the actual controller, and focus on the long-term development of the company rather than short-term financial wealth. As in the case of Juli Rigging (sibling relationship type) and Lehman Optoelectronics (couple, father-son relationship type), the latter has a closer family relationship and more consistent emphasis on family SEW, so the frequency and proportion of its actual controller's reduction are slightly lower.

On the other hand, due to the lack of closeness between loose family businesses, their identity of SEW is not very strong. Each small family is likely to conflict with the whole family's long-term goals when pursuing their own economic interests, and some family members may even compete for the right of control of the family business. Therefore, faced with the decision to reduce holdings, the actual controller of a distantly-connected family enterprise may be inclined to selfishly choose a larger reduction scale in order to satisfy the individual pursuit for maximization of short-term financial wealth. However, this decision will cause SEW loss for the entire family. Based on this, we propose hypothesis 1:

H1: Compared with closely-connected ones, the scale of actual controllers' reduction in loose family businesses is larger.

3.2. Two Moderating Factors Affecting the Scale of Reduction of the Actual Controller

Relational embedding theory (Granovetter, 1985) proposes to incorporate social relations into economic behavior analysis, and its network relations have a certain influence on organizational behavior decision-making. Then, if family members are embedded in the corporate organization, will their participation in management promote or hinder the actual controller's reduction of holdings? When the enterprise is in financial trouble, will the controller increase the reduction to save the company's performance? The following will discuss the moderating effects of family members' participation in management and the financial difficulties faced by enterprises on the reduction of actual controllers' holdings.

- Family members participate in management

It has been pointed out in the literature that family enterprises generally choose family members for important management positions and do not employ professional managers (Liang, Wang, & Cui, 2013). From the perspective of agency theory, the separation of ownership and management rights by employ-

ing professional managers in family enterprises will increase the first kind of agency cost between owners and managers. And if professional managers use the information advantage of insiders to seek personal interests, it will lead to the loss of shareholders' interests. Jiang, Yang, & Wang (2019) found that the degree of family members participating in business management is negatively correlated with economic goals, and positively correlated with family sew goals. Family members holding important positions in the enterprise can make the ownership and management rights unify, and the enterprise can reduce the supervision cost of the management. When family members participate in business management, especially when they are in important management positions such as CEO, family enterprises have longer-term corporate goals, such as lower IPO underpricing rate (Weng, Wang, & Lv, 2014), higher R&D Investment (Yan & Ye, 2014) and larger social charity donation (Cai, Shen, & Liu, 2016). Due to the reduction of social emotional wealth constraints, family members of in laws and distant relatives are more likely to allocate current assets for better business performance (Cheng, Yu, & Jiao, 2019). The reduction sends the signal that "the stock is overvalued" or "the company's performance is poor", causing the panic of the original circulating shareholders in the secondary market. As a result, stock price falls rapidly and the whole market shows a strong negative effect (Liao, Liu, & Li, 2008; Xie & Wang, 2019).

This paper argues that the short-term reduction of the actual controller sends a negative signal to the capital market, such as poor business performance, which is not conducive to the long-term development of enterprises. When family members hold senior positions of directors and supervisors in business management, they will attach importance to the negative effects brought about by the reduction of large family shareholders, weigh the interests of the family and the enterprise, pay more attention to the SEW of the enterprise and take practical actions to protect it, so it may inhibit the scale of the actual controllers' reduction of the family firm.

H2: When a family member is involved in the management, the difference in the reduction scale between the loose family business and the closely related family business will be reduced.

- Financial distress

Many studies have shown that when faced with financial difficulties, enterprises will actively or passively adjust their corporate governance structure or business strategies. The measures taken by enterprises to "think hard and change" may turn a crisis into an opportunity, improve the overall efficiency of the organization and enhance the competitiveness of enterprises (Zheng, Lin, & Zhang, 2013; Wu, 2019). Yang (2018) concludes from the empirical research that there is a significant relationship between the probability of a listed company getting into financial difficulties and the ultimate controller's behavior, that is, the actual controller's behavior will significantly affect the company's performance and daily operation. Gomez-Mejia et al. (2018) do a research on family

enterprise's mergers and acquisitions and finds that whether performance is lower than expected can be thought as a "fear factor" of a family business. The survival ability is a necessary prerequisite for a family to consider any SEW and FW, which will inhibit the family firm's preference for SEW.

Therefore, we guess that when the level of family enterprises performance appears low or in other words, when there is a financial crisis, the enterprise urgently needs to improve its financial situation, so its actual controller's willingness to reduce holdings will increase. Even if SEW would be damaged by a reduction, the family firm would still choose to reduce its stake because the priority is to get capital to save the company and survive. loose family business attaches less importance to SEW than close family business, so the actual controller can tolerate the sacrifice of more SEW, which will not only reduce the holding but also increase the scale of the reduction. On the other hand, when the enterprise performance reaches or exceeds the expected level, the actual controller of the enterprise will form such an expectation or judgment: the current enterprise performance is good, compared with the FW achieved by the reduction, the family SEW will lose a lot. Therefore, the actual controller has no strong motivation to reduce the holdings.

To sum up, this paper argues that close-knit family businesses come from the same family and pay more attention to the protection of family businesses. In contrast, for a loose family firm, SEW is less pursued and protected, so it is more likely to be reduced in case of a financial crisis. Therefore, we proposes hypothesis 3:

H3: When an enterprise encounters a financial crisis, the difference of reduction scale increases obviously between the loose family enterprise and the closely related family enterprise.

4. Research Design

4.1. Data and Sample Selection

This article selects the data of the actual controller reduction of A-share private listed companies from January 1, 2005 to December 31, 2018 as the research sample. The family business and the actual controllers holdings data and other data from CSMAR database and RESSET database. The personal relationship data of actual family controllers are sorted out manually according to the IPO bulletin board, company annual report, Baidu search engine and other tools.

According to the statistical data, the actual controller's reduction transaction appears more concentrated and continuous. Based on the practice of Yi et al. (2017), this paper deals with the primary sample as follows: 1) Combine multiple stock reduction transactions conducted by the actual controller of the same listed company within 30 days into one round of trading; 2) Exclude Samples with the cumulative reduction ratio less than 5‰ of the company's total share capital within 30 days. 3) Samples of unsuccessful reduction and incomplete reduction are excluded; 4) Samples of the financial industry and samples with

missing data are excluded. Finally, 866 rounds of short selling samples were obtained. At the same time, in this paper, the relationship between the actual controllers of all samples are divided into relationships, parent-child relationships, brothers and other related relations four categories, are underweight rounds of 138, 118, 114 and 496, and corresponding relation of close family businesses (husband and wife, father and son) and distant enterprises (brothers, and other relative relational) are underweight rounds of 256 and 610.

4.2. Model Strategy and Variable Definitions

In order to verify hypothesis 1, the influence of heterogeneity of family members on the behavior of actual controllers, the model 1 constructed in this paper is as follows:

$$\text{R_ratio}/\text{R_fre} = \alpha_0 + \alpha_1 \text{Fam_type} + \sum \alpha_i \text{control}_i + \varepsilon \tag{1}$$

Among them, learning from the practice of Yi et al. (2017), the reduction ratio (R_ratio) and the reduction frequency (R_fre) are used to measure the size of the reduction. R_ratio is the ratio of the sum of the number of shares held by the actual controller of an enterprise in a certain round of shareholding reduction transactions to the company's outstanding shares, and the frequency of shareholding (R_fre) is the sum of the number of times the actual controller has reduced shares in a certain round of shareholding reduction transactions. Fam_type is a dummy variable about the close relationship between family members, Fam_type = 1 is a family business with distant relationship, Fam_type = 0 is a family business with close relationship, and control is a related control variable (the same below).

In order to test hypothesis 2, that is, the moderating effect of family members participating in business management, this paper adds the interaction term of Fam_type*Manage on the basis of model (1) to construct model (2):

$$\begin{aligned}\text{R_ratio}/\text{R_fre} = {} & \beta_0 + \beta_1 \text{Fam_type} + \beta_2 \text{Manage} \\ & + \beta_3 \text{Fam_type} * \text{Manage} + \sum \beta_i \text{control}_i + \varepsilon\end{aligned} \tag{2}$$

Among them, Manage is a dummy variable for family members to participate in management, referring to the practice of Weng, Wang & Lv (2014), when two or more family members are in the family business who hold important positions (directors and supervisors), it means that family members participate for enterprise management, the variable Manage takes the value 1, otherwise Manage = 0.

In order to test the hypothesis 3, that is, the moderating effect of financial distress, this paper adds the Fam_type*FD interaction term on the basis of model (1) to construct model (3):

$$\begin{aligned}\text{R_ratio}/\text{R_fre} = {} & \gamma_0 + \gamma_1 \text{Fam_type} + \gamma_2 \text{FD} \\ & + \gamma_3 \text{Fam_type} * \text{FD} + \sum \gamma_i \text{control}_i + \varepsilon\end{aligned} \tag{3}$$

Among them, FD is a dummy variable of corporate financial distress. This article draws on the practice of Kolev, Wiseman & Gomez-Mejia (2017). If the

company's net profit is negative, it means the company is in financial distress, so FD = 1, otherwise FD = 0. Other control variables and their measures are shown in Table 1.

Table 1. Variable definitions.

Variable type	Name	Symbol	Definition
Explained variable	Reduction ratio	R_ratio	The ratio of the total number of shares held by the actual controller to the company's outstanding shares (%).
	Reduction frequency	R_fre	The sum of the number of times the actual controller reduces holdings.
Explanatory variables	Family membership	Fam_type	Dummy variable, the value of the alienation type is 1, otherwise it is 0.
	Family members in management	Manage	Dummy variable, if two or more family members participate in the management of the family business, the value is 1, otherwise it is 0.
	Financial distress	FD	Dummy variable, if the company's net profit is negative, the value is 1, otherwise it is 0.
	Whether the chairman and CEO is the same person	Sameflag	Dummy variable, if the two are the same person, the value is 1, otherwise it is 0.
Control variable	Return on assets	ROA	Total corporate net profit/total corporate assets.
	Book-to-market ratio	BM	Total assets/market value.
	Debt ratio	Debt_ratio	Total corporate liabilities/total corporate assets.
	Institutional shareholding ratio	Ins_ratio	Number of shares held by institutional investors/total shares (%).
	Independent director ratio	Ind_ratio	Number of independent directors/total number of directors.
	Shareholding ratio of the top five shareholders	H5_ratio	Number of shares held by the top five shareholders/total number of shares.
	Stock circulation ratio	Cir_ratio	Number of shares outstanding/total shares.
	Tobin' q	Tb_q	Market value/(total assets—net intangible assets—net goodwill).
	Owned sector	Bkflag	Dummy variable, the main board is 0, the entrepreneurial sector is 1, medium the small business sector is −1.
	Firm size	Size	The natural log of a company's total assets.
	Listing years	Life	The number of years since the company went public.
	Industry	Industry	Industry dummy variable.
	Year	Year	Year dummy variable.

5. Empirical Analysis

5.1. Descriptive Statistics

Table 2 reports descriptive statistical results of the main variables. The average R_ratio of the actual controllers in a family business is 2.808%, and the average R_fre is about 1.967 times in each round. It can be seen from this that the large and frequent reduction of the actual controllers in a family business is not completely random, but is more likely to be concentrated and premeditated by the actual controllers. Family members' participation in family management accounts for 33.3% of the total sample, indicating that family members' participation in business management has become the norm of family business. At the same time, we find that 23.0% of family businesses reduce their holdings when they encounter financial crisis (FD), but difference in the scale of reduction of different family businesses when they fall into financial crisis needs further verification below.

5.2. T Test Analysis

As can be seen from Table 3, the T-test preliminarily analyzes whether there is a significant difference in the reduction scale (R_ratio, R_fre) of the actual controllers in family enterprises with distant and close relationships, and whether the two moderating factors will respectively have an impact on the reduction scale of the actual controllers. From Table 3, R_ratio and R_fre of the distant relationship type actual controllers respectively increased by 0.362% (significant at the 5% level) and 0.341 (significant at the 1% level), and distant relationship type scale of family enterprises holdings by the actual controller is significantly higher than close relationship one. Compared with family members that did not participate in the management of family enterprises, when family members participate in the management of family enterprises, the reduction of actual controllers is obviously smaller. In addition, financial difficulties make the family enterprises reduce significantly more, we preliminarily verify the hypothesis 2 and hypothesis 3, but the conclusion still needs to be further analysis of regression.

5.3. Regression Results

5.3.1. Family Member Relationship and Actual Controller Reduction

Table 4 shows the empirical results of model 1. In columns (1) and (2), the coefficients of family member relationship (Fam_type) are 0.376 (significant at the 10% level) and 0.324 (significant at the 1% level), which means that in the distant relationship type, actual controllers has larger scale of reduction. This suggests that the relationship between family members will significantly influence the actual controller's behavior. Based on the analysis of the reasons, the members of a close-knit family business come from the same family and have the same interest target. The interests of the family are the interests of the whole family. They pay more attention to the long-term stable development of the busi-

ness. The estranged family business consists of at least two different families whose members may focus on maximizing the interests of their respective families. This is likely to be in contradiction with the social emotional wealth of the whole family. The actual controller pays more attention to the accumulation of short-term financial wealth instead of SEW, which was reflected in a larger reduction ratio and a higher reduction frequency.

Table 2. Descriptive statistical results.

Variable	Mean value	Standard deviation	min	max
Fam_type	0.704	0.457	0.000	1.000
R_ratio	2.808	2.467	0.502	29.990
R_fre	1.967	1.734	1.000	24.000
Manage	0.333	0.471	0.000	1.000
FD	0.230	0.421	0.000	1.000
ROA	0.043	0.075	−0.777	0.377
Sameflag	0.385	0.487	0.000	1.000
Debt_ratio	0.327	0.173	0.021	0.916
Cir_ratio	0.659	0.153	0.211	1.000
Ins_ratio	7.577	7.456	0.001	44.708
Ind_ratio	0.382	0.061	0.250	0.667
H5_ratio	0.485	0.126	0.198	0.840
BM	0.365	0.181	0.048	1.386
Size	21.482	0.814	19.290	25.472
Life	1.748	0.290	0.693	3.135

Table 3. T test results of the reduction scale of the actual controller of a family business.

Variable	Fam_type			Manage			FD		
Group	T value (1)	T value (2)	mean differences (1)-(2)	T value (3)	T value (4)	mean differences (3)-(4)	T value (5)	T value (6)	mean differences (5)-(6)
R_ratio	2.915	2.553	0.362**	2.168	3.127	−0.959***	3.241	2.674	0.567***
R_fre	2.067	1.726	0.341***	1.649	2.124	−0.475***	2.216	1.890	0.326***

Note: ***, ** and * represent significant at the 1%, 5% and 10% levels respectively, the same below.

Table 4. The regression result of the behavior of the actual controller of the family business.

	R_ratio	R_fre
	(1)	(2)
Fam_type	0.376*	0.324***
	(0.212)	(0.125)
Life	−1.096**	−0.621*
	(0.458)	(0.320)

Continued

Size	−0.062	0.090
	(0.125)	(0.097)
Cir_ratio	0.998*	0.205
	(0.540)	(0.413)
BM	−1.465*	1.258
	(0.864)	(0.866)
Tb_q	−0.113***	0.077*
	(0.043)	(0.040)
Ind_ratio	3.878***	−1.089
	(1.318)	(0.857)
Constant	3.216	−1.202
	(3.157)	(2.370)
Year, Industry	control	control
R-squared	0.110	0.097

Note: ***, ** and * represent significant at the 1%, 5% and 10% levels respectively, the same below.

5.3.2. Two Moderating Factors

Table 5 shows the regression results of two moderating factors (Manage & FD) according to model 2 and model 3. In order to verify the moderating effects of hypothesis 2 and 3 on family members' participation in management (Manage) and enterprise financial dilemma (FD), the interaction terms of Fam_type*Manage and Fam_type*FD were added in the main regression respectively, and the results are shown as follows. First, in columns (1) and (2), the coefficients of the interaction terms (Fam_type*Manage) are −0.700 (significant at the 10% level) and −0.661 (significant at the 1% level), respectively, and the coefficients are significantly negative, indicating that the participation of family members in management can mitigate or inhibit the actual scale of human reduction in the estranged family business. Hypothesis 2 has been verified.

Second, in Column (3), the interaction term coefficient of 0.651 is significantly positive at the 10% level. In Column (4), the interaction coefficient of 0.649 is significantly positive at the level of 5%, which indicates that when the family business encounters financial crisis, the actual controller of estranged family business will be promoted to increase and reduce the scale of holdings. Hypothesis 3 is verified.

5.3.3 Extended Research

Table 6 reports the extended regression results of Fam_loose on R_ratio and R_fre. The variable Fam_type is replaced by Fam_loose, which means Fam_loose was further used as the explanatory variable to assign values of 1, 2, 3, and 4 respectively to husband and wife type, father and son type, brother type and other

related family enterprises. The larger the value is, the greater the alienation of family members will be.

Table 5. Moderating effects: family members involving in management and financial distress.

	R_ratio (1)	R_fre (2)	R_ratio (3)	R_fre (4)
Fam_type	0.325	0.426**		
	(0.336)	(0.191)		
Manage	−0.585	−0.048		
	(0.368)	(0.183)		
Fam_type*Manage	−0.700*	−0.661***		
	(0.383)	(0.241)		
Fam_type			0.116	0.349**
			(0.252)	(0.143)
FD			−0.615*	−0.328
			(0.319)	(0.231)
Fam_type*FD			0.651*	0.649**
			(0.371)	(0.261)
Life	−1.375***	−0.666*	−1.342***	−0.734**
	(0.454)	(0.349)	(0.436)	(0.368)
H5_ratio	−1.083	−0.551	−1.851***	−1.830***
	(0.692)	(0.640)	(0.649)	(0.618)
Ind_ratio	2.877**	−1.427*	3.487***	−0.783
	(1.337)	(0.864)	(1.341)	(0.825)
ROA	−0.265	0.597*	−0.092	0.087
	(0.477)	(0.311)	(0.133)	(0.075)
Sameflag	0.236	−0.357***	0.329*	−0.262**
	(0.174)	(0.117)	(0.180)	(0.112)
Cir_ratio	0.0643	0.0656	0.530	−0.245
	(0.497)	(0.482)	(0.508)	(0.285)
Constant	3.398***	1.734*	5.097	−0.122
	(1.068)	(0.983)	(3.133)	(1.905)
Year, Industry	control	control	control	control
R-squared	0.148	0.111	0.114	0.108

Note: ***, ** and * represent significant at the 1%, 5% and 10% levels respectively, the same below.

Table 6. Extended regression results.

	R_ratio	R_fre	R_ratio	R_fre	R_ratio	R_fre
	(1)	(2)	(3)	(4)	(5)	(6)
Fam_loose	0.144*	0.126**	0.094	0.161**	0.049	0.170***
	(0.086)	(0.049)	(0.133)	(0.074)	(0.107)	(0.061)
Manage			−0.465	0.270		
			(0.536)	(0.282)		
Fam_loose*Manage			−0.202	−0.266***		
			(0.139)	(0.093)		
FD					−0.997*	−0.779**
					(0.519)	(0.339)
Fam_loose*FD					0.260*	0.300***
					(0.150)	(0.102)
Life	−1.049**	−0.567	−1.531***	−0.769**	−1.384***	−0.719*
	(0.439)	(0.361)	(0.535)	(0.361)	(0.517)	(0.367)
Ind_ratio	3.406**	−0.819	2.990**	−1.320	3.692***	−0.996
	(1.377)	(0.848)	(1.345)	(0.858)	(1.381)	(0.835)
Sameflag	0.355*	−0.277**	0.248	−0.352***	0.322*	−0.287***
	(0.185)	(0.115)	(0.178)	(0.115)	(0.186)	(0.109)
Debt_ratio	0.676	−0.315	0.081	−0.121	0.142	−0.026
	(0.509)	(0.302)	(0.408)	(0.287)	(0.417)	(0.282)
Tb_q	−0.061**	0.029				
	(0.030)	(0.031)				
Size	−0.206	0.156*				
	(0.146)	(0.092)				
ROA			−0.881	1.198	−1.792	0.573
			(1.204)	(0.991)	(1.351)	(0.988)
H5_ratio			−1.086	−0.638	−1.705**	−0.820
			(0.686)	(0.624)	(0.701)	(0.613)
Cir_ratio			0.032	0.085	0.027	0.119
			(0.493)	(0.487)	(0.516)	(0.492)
Bkflag			−0.116	−0.085	−0.040	−0.024
			(0.114)	(0.063)	(0.114)	(0.060)
Constant	6.499*	−2.357	3.488***	1.525	3.299***	1.305
	(3.519)	(2.275)	(1.275)	(1.096)	(1.131)	(1.095)
Year, Industry	control	control	control	control	control	control
R-squared	0.113	0.099	0.149	0.114	0.116	0.100

Note: ***, ** and * represent significant at the 1%, 5% and 10% levels respectively, the same below.

The specific regression results are shown in Table 6. As can be seen from columns (1) and (2), the regression coefficients are 0.144 (significant at 10% level) and 0.126 (significant at 5% level) respectively, both of which are significantly positive, indicating that the more estranged the family member relationship is, the higher the reduction scale of the actual controller of the family business will be; The coefficient of the interaction item (Fam_loose*Manage) in column (3) and column (4) is negative, indicating that family members' participation in management plays a negative regulating role in the relationship between the two. The coefficient of the interaction term (Fam_loose*FD) of column (5) and column (6) is significantly positive. Financial distress will promote the actual controller of estranged family business to increase and reduce the scale of holdings. The more estranged the family members are, the lower the altruism and cohesion of the family will be, and the greater the possibility of internal conflicts will be. Therefore, the more emphasis will be placed on short-term gains, and the more likely the actual controllers will be to reduce their holdings on a large scale. This is consistent with the core idea of this paper, which further verifies the subject content of this paper.

6. Robustness Test

In order to make the results more reliable, this paper adopts a variety of robustness tests: 1) According to whether the actual controllers are from the same family, the family member relationships are divided into tight relationships (husband and wife, father and son) and distant relationships (brother and others). Considering the blood relationship, this paper also adds the brotherly type to the closely related family enterprises, and carries out regression again, and the results were still significant. 2) The scale of reduction is measured by the market value, which is the logarithm of the sum of the market value of reduction of each senior executive in each round of trading. As an indicator of the scale of reduction, it is substituted into the model for regression, and the regression result is still significant. 3) On the basis of the variable whether the enterprise is in financial distress, the influence of the degree of financial distress of the enterprise is considered, and the loss degree of the enterprise is used to indicate the degree of financial distress of the enterprise (FD1), that is, if the net profit of the enterprise is less than 0, then FD1 = −net profit/total assets; If the net profit is greater than 0, then FD1 = 0. Replace FD with FD1 for another regression, and the result is still robust.

7. Conclusion

This paper explains how family kinship influences the behavior of reduction of family firm's actual controllers and explores the regulating effect of family members' participation in management and financial distress. Empirical research conclusion is that compared with closely-connected family businesses, the actual controllers of distantly-connected family businesses are more likely to focus on

short-term financial wealth and choose a larger-scale reduction in holdings, which is manifested in a larger reduction ratio and higher frequency of reductions. Secondly, the participation of family members in business management has an inhibitory effect on the reduction scale of the actual controllers of estranged family businesses. Thirdly, the financial crisis promotes the actual controller of estranged family business to increase the proportion and frequency of reductions. Correspondingly, we also get some enlightenment from this research.

First, based on the family's unique social emotional wealth, for the listed family business group, family businesses of different relationship types will inevitably cause differences in behavior due to the degree of social emotional wealth. If the control right of a family business is in the hands of a family, a close family is formed, and its family members are better able to combine the SEW of the family with their own interests and goals, and often produce stronger cohesion and more altruistic tendencies. And there are fewer internal conflicts to realize the long-term stable development of the family business.

Second, family members' participation in management can reduce the investment and financing risks caused by the blind pursuit of financial wealth like extensive reduction. When enterprises choose close members who are more consistent with the family goals, their behavioral decisions are more in line with the long-term development requirements of enterprises. However, in the process of family enterprises' transformation to modern enterprises, higher requirements are put forward for the professional quality of family members involved in management, which means that cultivating capable family members to manage is necessary.

Third, in this paper, the actual control behavior of the family enterprise is an important reflection of weighing the relationship between the two goals (SEW & FW). It can be used as an important theoretically analytical path to distinguish some different behavioral decisions between family and non-family enterprises in following studies.

In the future, what remains to be further explored is whether other characters can affect family firm's reduction. After all, family kinship is just one way to clarify and describe family firms.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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