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The second generation is involved in and moves away from the real to the virtual

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Abstract
This paper examines the impact of second-generation involvement on the transformation of family businesses from real to virtual in China, using samples from 2015 to 2022. The study finds that family businesses with second-generation involvement are more likely to transform from real to virtual. Further research reveals that this effect is particularly pronounced among second-generation individuals with overseas backgrounds. This study enriches the understanding of the relationship between individual characteristics of second-generation involved and the transformation of family businesses from real to virtual, providing new empirical evidence for Chinese family businesses and their transition from real to virtual.

Keywords: family business, second generation involvement, away from the real to the virtual

1. Introduction

In recent years, the financial industry has increasingly diverged from the development of the real economy, and the issue of enterprises shifting away from the real economy to the virtual sector has become more prominent. However, excessive financialization can lead to problems such as "difficult and expensive financing" for some companies, which may even hinder the sustained forward development of the economy. In recent years, family businesses in China have been at a critical stage of generational succession, with over 80% of private enterprises directly managed by individuals or families. It is undeniable that the involvement of the second generation brings youthful energy to family businesses. Compared to their parents, the second generation often has higher education levels and more innovative ideas and perspectives, which can bring greater innovation and decision-making information to the company. However, this might also accelerate the trend of enterprises shifting away from the real economy to the virtual sector. Given the complex and changing international and domestic situation, studying the relationship between the involvement of the second generation and the shift of family businesses away from the real economy to the virtual sector is of great significance for achieving high-quality and rapid economic growth in China.

Research generally suggests that the next generation of successors is more open-minded, more receptive to new things, and more willing to take risks. Their involvement brings new knowledge to the company, and they are also more eager to increase investment in technological innovation and R&D to prove their value and capabilities. Despite this, existing literature on the impact of second-generation involvement on the financialization of firms remains inconsistent. Some empirical studies find that second-generation involvement accelerates corporate financialization, whereas early research by domestic scholars suggests that the conservatism and independence of the second generation may curb the degree of financialization. Although these views are not entirely consistent, the financialization of the real economy is a serious issue facing China's economic development. Therefore, exploring how second-generation involvement affects the financialization of family businesses is of great significance.

Given this, this paper examines the impact of second-generation involvement on family businesses transitioning from real to virtual sectors from a strategic perspective. It also explores new research on intergenerational succession in Chinese family businesses by considering characteristics such as whether the second-generation participants have overseas study or work backgrounds. The main contributions of this paper are: First, it breaks away from previous studies that focus on management levels and instead approaches the issue from a strategic level, investigating whether second-generation involvement can accelerate the transition of enterprises from real to virtual sectors. Second, based on the perspective of social emotional wealth theory, it analyzes family businesses with second-generation involvement, broadening the research angle on intergenerational succession in family businesses. Finally, it offers insights into organizational structure optimization for family businesses and provides guidance for formulating policies to guide the economy's transition from virtual to real sectors.

2. Theoretical analysis and research hypothesis

a. The second generation is involved in the de-realization of family businesses

Intergenerational succession is one of the most critical matters for family businesses. According to authoritative theories, the success of intergenerational succession largely depends on the success of authority transfer. Here, authority primarily refers to the personal and capability authority of the second generation. This influences whether various management rights can be smoothly implemented when the second generation participates in managing family affairs. However, during the process of intergenerational succession, the second generation often faces the disadvantage of insufficient authority, which puts them under immense pressure to establish legitimate authority.

In the process of intergenerational succession in family businesses, the company also faces drastic changes in both internal and external environments. The entry of the second generation can disrupt the dynamic organizational balance previously established by the company, accompanied by adjustments and changes in positions among new and old employees. At this point, the family business operates through interactions with different stakeholders, and the entry of the second generation will draw their attention and lead to a re-evaluation of the entire family business. Stakeholders will take action based on their own value judgments towards the family business. For the second generation, building functional authority becomes particularly important. They may undertake strategic reforms or joint ventures to enhance the legitimacy of their authority. Zhu Zhenduo *et al.* argue that during the intergenerational succession process in family businesses, the second generation has a strong motivation to promote strategic changes to boost the legitimacy of their authority. Li Xinchun *et al.*, however, point out that in the process of taking over, the second generation seeks new areas of operation to establish the legitimacy of their authority, which is known as joint ventures.Financial activity is likely to be a relatively good and specific strategic change or entrepreneurial option for the second generation of families, for the following reasons:

The intergenerational inheritance of family businesses is competitive and time-sensitive (Li Xinchun *et al.*, 2015). Compared with industrial investment, financial investment has the characteristics of strong liquidity and high short-term returns. For the second generation who urgently want to enhance their authority and achieve performance, financial investment is a good choice.In recent years, due to the imperfections in China's financial regulatory system, many real enterprises have begun engaging in financial activities to achieve excess returns in the financial sector. Engaging in financial activities can help the second generation alleviate the pressure of building authority and legitimacy within the family. Compared to financial activities, R&D investment has a longer cycle and carries the risk of investment failure, where funds may be partially or even entirely lost. Therefore, it is difficult to demonstrate the capabilities of the second generation in the short term. If investments fail, it can also lead to dissatisfaction among other employees within the company, further undermining the construction of their authority and legitimacy.Many studies have pointed out that the performance of family businesses tends to decline after intergenerational succession. This means that once the second generation takes over management, no matter what they do, it is difficult for them to surpass the first generation, and a decline in performance is highly likely. If the second generation chooses to invest in financial activities, at least it can boost financial performance, thereby offsetting some of the losses from the decline in overall performance. However, if they do not engage in financial investment, the extent of the decline will be even greater. This shows that financial investment can help the second generation alleviate the pressure of building authority and legitimacy. In summary, this paper proposes Hypothesis 1:

H1：The family businesses in which the second generation is involved are more likely to be detached from reality

b. The second generation has an overseas background and a family business that is detached from the real economy

The high ladder theory posits that demographic characteristics such as individual gender and personal experiences influence the management philosophy of senior corporate executives, which in turn affects the company's final investment decisions. Second-generation individuals with overseas backgrounds have long lived in more developed foreign capital markets, deeply influenced by Western values. Due to the prominent emphasis on freedom and competition in Western individualism, these second-generation individuals are more confident and decisive when expressing their opinions, and their behavior tends to be more aggressive. In contrast, traditional Chinese culture emphasizes collectivism and family business culture based on kinship ties. Influenced by this culture, corporate executives tend to adopt a more conservative approach when making investment decisions to maintain the current stability of the company.

Second-generation individuals with overseas backgrounds have a broader perspective compared to their second-generation counterparts in the home country. Due to their international experiences, these second-generation individuals have a deeper understanding of foreign business customs and operational models, which allows them to make decisions that are not confined to the traditional domestic business practices. Existing research has found that directors with overseas backgrounds exhibit stronger risk tolerance, indicating they may be risk-seeking decision-makers. Financial assets, known for their high risk and high return characteristics, suggest that these second-generation individuals with overseas backgrounds might be more inclined to allocate more financial assets. Therefore, this paper proposes Hypothesis 2:

H2：The second generation's overseas background will make it easier for enterprises to move from the real to the virtual.

3. research design

(一) Data selection and description This paper selects Chinese family businesses from 2015 to 2022 as samples to empirically study the relationship between second-generation involvement and the degree of family businesses moving from real economy to virtual economy. The data sources are mainly from the Guotai An database, supplemented by annual reports of family businesses, media-related reports, and information disclosed on corporate websites. After manual screening and organization, we obtained information on the educational background, overseas experiences, and living conditions of the second-generation actual controllers of family businesses from 2015 to 2022. To reduce the adverse effects of abnormal data on this study, the original data were processed as follows: (1) t-tests were used to remove samples in abnormal trading states such as ST and ST*. (2) Financial industry samples were excluded. (3) Family business samples with missing data were removed, and continuous variables were truncated by 1%.

（二） variable-definition

1. The second generation of the family business is involved

Referring to the study by Xu *et al.*, second-generation involvement is defined as the second generation (including sons, daughters, daughters-in-law, sons-in-law, nephews (daughters), and nieces (daughters)) of the actual controllers of family businesses being the company's chairman, other directors, general manager, or senior executives. If there is second-generation involvement at this point, the variable takes a value of 1; otherwise, it is 0. Additionally, second-generation individuals with overseas backgrounds are recorded as 1, while those who do not meet these conditions are recorded as 0.

2. Family businesses are moving away from the real to the virtual

Measurement of the degree of financialization of enterprises: The financial investment of enterprises Fin_Inv is defined as the ratio of financial assets (including trading financial assets, derivative financial assets, net financial assets available for sale, net interest receivable, and net investment real estate) in the balance sheet of enterprises to total assets at the end of the period.

3. Controlled variable；This paper selects the asset-liability ratio (Lev), the deviation rate of two rights (Dev), the degree of family involvement (IV) and other control variables.

（三） Test model

In order to verify the hypothesis of this paper, a model is constructed（1）：

$$Fin = \alpha 0 + \beta 1 Generation + \gamma Controls + \Sigma Year + \Sigma Industry + \varepsilon$$

Fin is the explained variable, Generation is the second generation of family, and Controls is the control variable selected in this paper. If it is significantly positive, it indicates that family enterprises with second generation involvement are more likely to be detached from reality and virtual, thus verifying hypothesis 1.

In order to verify hypothesis 2, this paper constructs a model（2）：

$$Fin = \alpha 0 + \beta 1 Oversea + \gamma Controls + \Sigma Year + \Sigma Industry + \varepsilon$$

In model (2), the explanatory variable is the second generation with overseas background (Over), and the other explanatory variables and control variables are consistent with model (1). If hypothesis (2) is proved, it requires that is significantly positive in model (2)

4. Empirical results

（一） Descriptive statistics and correlation analysis

Table 1: Descriptive statistics

variable	N	mean	sd	min	max
Fin	**2668**	**0.0408**	**0.0673**	**0**	**0.344**
G2	2668	0.306	0.461	0	1
Oversea	2668	0.140	0.347	0	1
Lev	2668	0.385	0.175	0.0618	0.830
Dev	2668	0.821	0.256	0.104	1
IV	2668	0.144	0.0664	0.0500	0.357
BS	2668	8.038	1.417	4	14
FIM	2668	0.173	0.147	0	0.600
Inde	2668	0.381	0.0496	0.333	0.500

The descriptive statistics of all variables are shown in Table 1. From the descriptive statistics of the variables, it can be seen that the degree of family businesses shifting from real to virtual assets is approximately 4.08%, meaning that financial assets held by family businesses account for about 4.08% of all assets; the mean value of G2 is 0.306, with a standard deviation of 0.461, indicating that in the corresponding observation years of family businesses, about 30% of enterprises have second-generation involvement, and there are certain differences; the mean value of variable Oversea is 14%, indicating that among the selected Chinese family businesses, about 14% of the second generation have overseas experience.

The correlation relationships among the variables are shown in Table 3. As can be seen from Table 2, there is a significant positive correlation between second-generation involvement and the transformation of family businesses from real to virtual sectors. This means that family businesses with second-generation involvement are more likely to transform from real to virtual sectors. There is also a significant positive correlation between the overseas background of the second generation and the degree of transformation of family businesses from real to virtual sectors. Additionally, the absolute values of the correlation coefficients for the main variables are all less than 0.7, indicating that the possibility of multicollinearity is relatively low.

Table 2: shows the correlation between variables

	1	2	3	4	5	6	7	8	9
Fin	1								
G2	0.053***	1							
Oversea	0.041**	0.608***	1						
Lev	-0.144***	0.006	0.018	1					
Dev	0.029	-0.134***	-0.097***	-0.148***	1				
IV	-0.022	0.114***	0.035*	-0.064***	-0.008	1			
BS	-0.108***	0.019	-0.028	-0.004	-0.060***	0.004	1		
FIM	0.060***	0.079***	0.028	-0.093***	0.127***	0.636***	-0.051***	1	
Inde	0.059***	-0.077***	-0.010	-0.012	0.042**	-0.087***	-0.629***	0.044**	1

Note: ***,**,* represent significance at the 1%,5% and 10% levels, respectively.（二） Regression results and analysis

Table 3: The regression results of second-generation involvement and the return of family enterprises from real to virtual

	(1)
	Fin
G2	0.008***
	(2.944)
Lev	-0.055***
	(-7.455)
Dev	-0.001
	(-0.274)
IV	-0.108***
	(-4.268)
BS	-0.006***
	(-4.995)
FIM	0.048***
	(4.194)
Inde	-0.039
	(-1.169)
_cons	0.130***
	(5.990)
N	2668
R^2	0.044

Note: ***, **, and * represent significance at the 1%,5%, and 10% levels, respectively

Table 3 shows the test results of second-generation involvement and the transformation of family businesses from real to virtual. As can be seen from the table, the involvement of the second generation significantly promotes the degree of transformation of family businesses from real to virtual, supporting Hypothesis 1. This indicates that while the second generation's involvement helps maintain and enhance the social wealth and status of family businesses, it also deepens their transformation from real to virtual.

Table 4: Results of the second generation's overseas background involvement and the return of family enterprises from real to virtual

	(1)
	Fin
Oversea	0.008**
	(2.070)
Lev	-0.055***
	(-7.481)
Dev	-0.002
	(-0.475)
IV	-0.105***
	(-4.124)
BS	-0.006***
	(-5.001)
FIM	0.049***
	(4.257)
Inde	-0.044
	(-1.323)
_cons	0.133***
	(6.182)
N	2668
R^2	0.042

Table 4 shows the impact of second-generation individuals with overseas backgrounds on the transformation of family businesses from tangible to intangible. As indicated in the table, the coefficient for involvement by second-generation individuals with overseas backgrounds is significantly positive, supporting Hypothesis 2. This suggests that second-generation individuals with overseas experience help foster diverse innovative thinking and broaden their horizons, which are then reflected in the management of family businesses.

5. Research conclusions and discussion

This paper uses Chinese family businesses from 2015 to 2022 as research samples to explore whether the involvement of second-generation members deepens the degree of family businesses' disconnection from the real economy and their virtualization. It examines the impact of second-generation members with overseas experience on the management of family businesses and their disconnection from the real economy. The study finds that the involvement of second-generation members indeed deepens the disconnection, and their overseas background further exacerbates this trend. Theoretically, this paper enriches the understanding of how the heterogeneity of second-generation heirs affects the disconnection from the real economy in family businesses. Practically, it provides new governance insights for intergenerational succession in family businesses.

For family businesses, the first-generation founders must consider that due to the second generation's overseas experiences, their risk preferences may change significantly. Therefore, they should combine the management characteristics of their own company and discuss more reasonable asset management methods with the second-generation heirs. Additionally, it is important to take into account the emotional need of the second-generation heirs to gain recognition from family members. Before appointing them to key positions, they should be given ample opportunities for internal corporate training to earn the approval of senior family members and internal employees.

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