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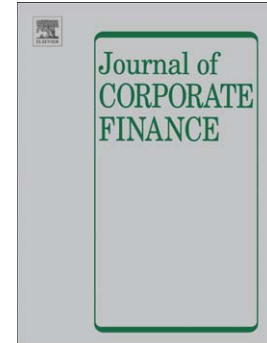
Family control and corporate cash holdings: Evidence from China

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Family control and corporate cash holdings: Evidence from China[☆]Qigui Liu^a, Tianpei Luo^a, Gary Gang Tian^{a,*}^a *School of Accounting, Economics and Finance, University of Wollongong***ABSTRACT**

This study examines the effect of family control on the cash holding policy in China. We find that family firms with excess control rights tend to have high cash holdings that are tunneled rather than being invested or paid to shareholders. We further show that the incentive for controlling families to hold cash and for tunneling is exacerbated by the agency conflict between controlling and minority shareholders, i.e., it is weakened after the Chinese Non-tradable share (NTS) reform and strengthened by the presence of multiple large shareholders who probably play no monitoring role in Chinese family firms. Furthermore, family firms' incentive to hold cash for tunneling is influenced by the unique characteristics of Chinese firms in the following ways: the incentive is stronger when the family founder has one child and face family succession problem, and when the founder has political connections and directly involves in firm's management; while it is weakened by family founder's social interpersonal trust with other entrepreneurs through their membership of Chambers of Commerce. Overall, we argue that family firms in China tend to hold high levels of cash for tunneling, which harms firm value, while the severe controlling-minority shareholder agency conflicts and unique Chinese family characteristics only make this situation worse.

Keywords: Cash holdings, family firms, Excess control rights, Family succession**JEL Classification:** G30, G32, G38

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