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Changes in Financing Constraints During Intergenerational Succession in Family Businesses - The Case of New Hope

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Abstract. As Chinese family enterprises are entering a peak period of intergenerational succession, changes in financing constraints have important practical and theoretical significance for sustainable development. Taking New Hope Group as an example, and using literature analysis, case study, and exploratory comparative analysis, this paper examines how intergenerational succession affects financing constraints in family businesses. The results show a U-shaped pattern during succession. Financing constraints are relatively low before succession, but rise sharply during succession because the founder's implicit guarantee weakens, external stakeholders lack sufficient confidence in the successor, and the firm pursues expansion that increases capital demand. As governance is modernized, risk-taking becomes more prudent, and positive signals are sent to the market, trust is gradually rebuilt and financing constraints ease. Intergenerational succession is therefore not only a transfer of control, but also a reconstruction of governance and external trust. Professionalized management, gradual adjustment of risk-taking strategies, and the joint role of institutions and performance are key to easing financing constraints and supporting long-term development.

Keywords: Intergenerational succession, Financing constraints, Family business, Corporate governance, U-shaped curve

1. Introduction

This paper takes New Hope Group as the research object, and from the perspective of changes in financing constraints during the process of intergenerational succession of family businesses to analyze the effect of the process of intergenerational succession of family businesses on the changes in financing constraints, and to provide guidance for the management of financing constraints [1-3]. This paper adopts the literature analysis, case study and comparative analysis methods, and attempts to use a combination of theory and practice to conduct a systematic analysis of the above issues, so as to provide some reference for the completion of intergenerational succession in family businesses.

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2. Related concepts and theoretical foundations

2.1. Related concepts

Family business is generally defined as a form of business organization in which one or more family members control ownership and management rights of the business and have influence or control over corporate decision-making [1]. In business research, family business is typically defined in terms of ownership structure, control rights, and involvement of family members [2]. A company is usually considered a family business if its de facto owner can be traced back to a natural person or to a family and members of this family have a management role in the company. Intergenerational succession is the transfer of the rights of ownership and management of a family business from a founder to their successor. The process involves changes of corporate leadership, governance, strategy, culture, etc. It is often a long-term process comprising several sequential stages, namely successor cultivation, joint management and, ultimately, succession, when the successor finally takes charge of the management. Financing constraints are situations in which a firm's potential investment and business activities are restricted by the lack of funds. This is the case when the firm has limited access to the external capital market or the cost of capital is too high. Since financing constraints generally arise from information asymmetry, credit risk and institutional weaknesses in the capital market, financing constraints are likely to be more binding for family businesses given their tendency to not disclose much information and lower levels of governance in the capital market [3].

2.2. Theoretical foundations

This paper relies mainly on principal-agent theory, socioemotional wealth theory, and signaling theory [4]. The principal-agent theory suggests that in separating ownership rights and managerial rights of the organization, the principals and agents of the company might have conflicting interests with asymmetric information resulting in agency costs. As family owners and managers often overlap, family firms are known to have relatively low agency costs. However, during an intergenerational succession, the domain of trust between successors and shareholders is likely to change, which raises agency costs and cost of capital for the firm [5]. Socioemotional wealth theory indicates that, in addition to economic benefits resulting from business transactions, family firms are also concerned with other non-economic goals such as family reputation, family control and family values. Thus, when family firms develop and invest in their firms, they focus more on business control stability and long-term development rather than on short-term profit maximization. When information is asymmetric, the issuing company can signal the outside investors through actions such as increasing the level of information disclosure, establishing better corporate governance, and improving the performance of corporate social responsibility [6, 7]. According to signaling theory, these actions are considered to positively signal the company's soundness to financial institutions and investors, thereby improving the company's ability to secure financing. A common theme is that in an intergenerational succession of family firms, successors typically must signal their trustworthiness to external stakeholders to improve corporate governance and corporate reputation, which can play an important role in relaxing financing constraints [6].

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3. Background of the new hope intergenerational succession case

3.1. Business overview and industry overview

New Hope Group Co., Ltd. was founded in 1982 by Mr. Liu Yonghao. It is one of the largest agribusiness and animal husbandry corporations in China and evergreen among Chinese private enterprises. After 40 years of development, New Hope has transformed from a small quail farm to a large group with businesses in modern agriculture and the food processing industry, finance and investment, environmental resources, animal health and nutrition, and commodity trading and retail. Its major listed subsidiary is New Hope Liuhe Co., Ltd., listed on the Shenzhen Stock Exchange in 1998.

New Hope has an extremely important position in the industry. The New Hope Group is known as "father of feed" in the feed industry as it is one of the founders of China's feed industry. It ranks among the world's top tier in both feed production and sales. As an agricultural and food production enterprise, New Hope is a vertically integrated company that has built complete industrial chains across feed, breeding, meat product processing, and terminal retail business. As a typical model of agricultural industrialization, New Hope's business varies rapidly with natural and economic cycles such as the so-called "pig cycle", giving rise to large fluctuations in product prices and industry profits. Strongly cyclical industries, particularly in downturns when cash and debt capacity is scarce, will be more dependent on outside financing. The cyclical pattern of those constraints thus provides a natural way of testing the change in financing constraints over the cycle [7].

3.2. Intergenerational succession process

New Hope's intergenerational succession is one of the longest-sighted and most transparent in family business history. It went through three successive stages: from "helping her get into the saddle", to "seeing her through part of the journey", to "completely letting go".

Stage one: initial cultivation and training (2002-2011) In 2002 Liu Yonghao placed his daughter Liu Chang to work for the New Hope Group. From the production line to the management of companies such as New Hope Dairy and real estate, she was finally able to gain understanding of the business and prepare for succession. During this time, Liu Yonghao was the absolute core of the enterprise, fully controlling the company's direction and external resources.

The second phase was the joint operation and handover phase from 2011 to 2025, beginning with Liu Chang joining the New Hope board of directors in 2011 to prepare for the succession. In 2013, in a continuing institutional optimization, Liu Yonghao handed over the chairmanship of New Hope Liuhe to Liu Chang. Liu Yonghao made Liu Chang the Chair of the Board and the Executive President of New Hope Liuhe. Liu Yonghao also invited the well-known scholar Chen Chunhua to be Co-Chair of the Board and the Chief Executive Officer of New Hope Liuhe. The use of hybrid governance was also to compensate for Liu Chang's lack of operational management experience and calculated vision, and to involve external forces in the transformation of the enterprise toward modernized governance. It was during this time that Liu Chang had changed from a "learner" to a "leader", fully taking over the company's management after Chen Chunhua's resignation in 2016.

The third stage was a stage of full takeover and independent leadership 2025 until now. Liu Yonghao formally resigned from the board of New Hope Liuhe in 2025, and had no positions in the company. This marked the end of more than twenty years of the second generation passing the business along to the next generation. Liu Chang was given complete control of the business, and

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her core group of executives was added to the new board, ushering in a new period of second generation of leadership.

3.3. Key decisions and governance changes during the succession period

Transition to a protein supply chain service provider. Following her leadership, Liu Chang helped the company transition from a feed-centric business model to a protein supply chain service provider of meat, eggs and milk. In order to support the plan, a large amount of capital expenditure was incurred. Throughout the undulating upward trend of the pig cycle from 2017 to 2020, the company adopted a highly proactive hog breeding expansion strategy, and the number of hogs slaughtered continued to exceed the relatively high level of 8 million head.

Besides the modernization of governance, such as de-familyization and professionalization of governance, Liu Chang also believed that in the face of severe capital market competition, identity was not as important as systems, and had devoted herself to the modernizing reform of corporate governance. Details were as follows:

After the reorganization, Chen Chunhua and independent and professional directors such as hog industry expert Tao Yuling and finance expert Yang Fang joined the board of directors, greatly lowering the average age of the board of directors and improving the level of professionalism. A trend of declining family shareholding ratios, more professional independent directors, and more diversified incentive methods was formed.

The most important aspect of the management incentive system was the establishment of the partner system. More than 60 partner enterprises have been incubated in the New Hope system, and more than 400 partners have joined the system, which has greatly stimulated the internal innovation vitality.

Since the industry's downtrend, lean management has claimed that management creates dividends through digital transformation and advanced cost management to improve internal operating efficiency within the organization.

However, because the pig cycle entered a deep downward stage in 2021, and because of the consequences brought by earlier aggressive expansion, New Hope suffered huge losses for three consecutive years. Faced with the crisis, Liu Chang decisively changed strategy from aggressive expansion to steady survival. Decisions made included halting expansions, repairing the balance sheet, and a "slimming-down" plan. As examples, 51% of shares in the poultry business entity were transferred to China Animal Husbandry Group. Additionally, more of the shares in the seven pig farm project companies were transferred to China Animal Husbandry Group, returning up to RMB 1.3 billion in funding. As a result, the risk appetite of the successor during the crisis period was reduced considerably.

4. Dynamic changes in New Hope's financing constraints

4.1. Before succession (~2011): period of low financing constraints

In the hands of its founder, Liu Yonghao, New Hope's financing constraints were at their lowest. Liu Yonghao, as the founder and spiritual leader of the enterprise, had a very high personal reputation and a lot of social capital in the financial system. The long-term trust relationship he established with the government, banks and other financial institutions has become an "implicit guarantee" for the enterprise's financing. Even though New Hope was not a listed company at that time, it still had a relatively equal position in the credit market, since it could take advantage of the credit offered by

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the banks indirectly, and also by refinancing with equity and bonds via the platform of a listed company. Even if the company's information disclosure and governance structure were not able to form a complete system, the personal reputation and entrepreneurial talent of the company's managers were able to replace the shortcomings in its institutional environment, and financial institutions believed its creditworthiness was in excess of the company's financial statements. Thus, the overall cost of financing was reasonable, financing was relatively easy to obtain, and the company's asset-liability ratio remained relatively healthy for the industry.

4.2. During succession (2013-2024): period of strengthened and fluctuating financing constraints

Among the different challenges associated with succession, financing became a visible issue as the process gained momentum, and was at its peak during the late succession period (2021-2024).

Financing pressure and uncertainty over new chairperson Liu Chang's abilities plagued the company and the market throughout its transition and expansion between 2013 and 2020. Although the introduction of professional managers like Chen Chunhua in the company's operational decisions has eased the issue, the weakness of the founder's "implicit guarantee" weakened as the founder gradually retreated. The enterprise and the capital market had information asymmetry. At that time, independent directors and other institutional factors had not yet formed a system of mutual trust between the enterprise and the capital market. However, Liu Chang's planned adjustment and rapid expansion required a lot of funds. From 2017 to 2020, the aggressive expansion continued to increase the company's financial leverage ratio, and the company's dependence on internal and external financial resources continued to increase, which will bring about the pressure of financing constraints.

The operating situation during the 2021-2024 crisis is tighter. After 2021, under the double influence of the industry's severe winter and the excessive expansion in the previous year, New Hope's operations fell into difficulties, and its cumulative losses exceeded RMB 15 billion for three consecutive years. Financial constraints became acute during this time.

The huge loss would greatly reduce the net assets of the enterprise, which in turn would reduce its credit rating, and financial institutions were more reluctant to provide credit. The asset-liability ratio went from the previous 68.02% to 72.28%, and it had already reached the warning line of the industry safety line of 74.03% at the end of the first quarter of 2024. At the same time, it could not raise new debt financing. Financing was made costlier, increases in operating risk led investors and creditors to demand higher risk premiums, which increased interest rates on new financing and reduced the ability to issue bonds. External equity and debt were insufficient for the company's operations, which could only be supplemented by short-term borrowing or loans from related parties. This would place additional pressure on short-term debt repayment and lead to a relatively poor structure. Liu Yonghao's personal credit could no longer be directly translated into convenient financing channels for the company. As information asymmetry weakened, the trust vacuum during the crisis demanded that the company provide proof of its ability to repay its debt by its strength.

The succession stage is divided into 3 periods: the period of easing financing constraints, the period of establishing a long-term mechanism, and the information age. Features include relatively modernized information and positive market signals.

However, when Liu Yonghao fully withdrew from the board of directors, New Hope entered the post-succession era in 2025. Capital market fluctuations were minimal, with only a slight decline in stock price, which shows that the market has formed stable expectations for Liu Chang's team and

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their management capabilities. However, as of the second half of 2024, there are indications that financing constraints are loosening.

The financial situation gradually improved, with the asset-liability ratio decreasing from 74.03% at the end of the first quarter of 2024 to 70.85% at the end of the third quarter that year through asset disposal, ceasing expansion, and lean management. In 2024, the net profit excluding non-recurring items returned to positive and the internal cash generation of the business returned to a normal level, improving the debt serviceability and refinancing base.

The recovery of the capital market is attributed to the decisive decisions, rational judgment and professional operations of Liu Chang's team, and the market's recognition of the signals of the continuing modernization of the governance structure. The enterprise has shifted from an aggressive strategy to a conservative and wise strategy, increased its risk bearing capacity, and gained recognition from institutional long-term investors.

The effects of the expansion of the enterprise's long-term financing mechanism became apparent through the strengthening of equity financing possibilities, the strengthening of internal cash flow via lean management, and a reduction of information asymmetry via a more standardized, transparent communication with the capital market. The financing structure operated in the direction of diversification and institutionalized financing channels in order to deal with cyclical business fluctuations.

4.3. Comparison of the three stages of change

It can be clearly seen that, in terms of financing constraints, in the stages before, during, and after New Hope's intergenerational succession, the trend is U-shaped, that is, low-high-low. In the pre-succession stage, in which the company's founder was Liu Yonghao, there was still information asymmetry, but the level was not as strong as before. However, with the implicit personal reputation guarantee of New Hope chairman Liu Yonghao, the company's financing was relatively easy and not expensive. During the handover and transformation period in the course of succession, the founder's implicit guarantee effect weakened, the market still lacked sufficient judgment about the successor, and the need for external financing was huge due to the following planned expansion, and the industry crisis in 2021-2024 and the effects of previous expansion were still present. All this led to the lowest level of external financing, the highest cost of external financing, and a further deterioration in the external financing structure of non-state-owned enterprises, and a peak in financing constraints. During the full takeover period after the succession, Liu Chang's team rebuilt confidence in the capital market through effective governance modernization, correction of business errors, handling of crises, and management of the company's financial situation. Financing transitioned from relying on the founder's personal credit to being supported by institutionalized market confidence.

5. Driving forces and mechanisms of financing constraint changes

5.1. Internal driving factors

To implement Liu Chang's de-familyization corporate governance reform, in addition to professional and independent directors, a partnership system, internal control and information disclosure system were proposed, which directly responded to the capital market's focus on the "black-box operation" of family firms in the era of the family business boom. This replacement of personalized "trust" by an institutionalized "transparent box", and the reduction in agency costs

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resulting from the reduction of information asymmetry, created the conditions for family firms to access low-cost, broad-based external capital [8].

Relative risk-taking of the successor is the mechanism that causes financing constraints [9]. Liu Chang's decision-making behavior shows this pattern because she adopted a high-risk expansion strategy during the period from 2017 to 2020. Increased demand for financing, and thus for leverage, allowed expansion to temporarily support market-value growth, but also sowed the seeds for a much deeper bout of financing constraints. During the adjustment stage, Liu Chang took steps to protect the enterprise from risk through the following decisions: to suspend expansion, sell enterprises, and adjust the financial statements of enterprises. This reduction in risk-taking avoided excessive dependence on debt financing, shifted the enterprise's goal from expansion to survival, reduced the pressure on the financing demand side and laid the financial foundation for the later improvement of the financing environment.

With the addition of Liu Chang's new strategy, management and mechanism of management, and the new equity financing mechanism opened up by the partnership mechanism, the enterprise relies less on debt financing. Not only does lean management, digital transformation, and other management concepts help improve internal management and cash flow generation capability, but it also improves the endogenous financing ability of the enterprise, fundamentally improving the enterprise's financing situation and making an important contribution to improving the enterprise's long-term value creation ability and capital market stability.

5.2. External driving factors

The only external factor affecting New Hope's financing constraint is the pig cycle. Between 2017 and 2020, New Hope benefitted from an expansionary pig cycle where the general economic conditions were favorable and New Hope was able to generate cash flows for corporate expansion. In the later downward cycle (2021-2024), financing constraints were further tightened, and large losses resulted in a rapid deterioration in financial ratios, bringing to the fore the downside risks. The sharp drop in the availability of external financing after the downward cycle is due to the interaction of industry cycles and corporate strategies [9].

Capital market expectations and evaluations are the barometer of a firm's financing environment [10]. At succession onset, the market adopted a wait-and-see attitude toward the successor. During a crisis, the market's way of voting with its feet aggravated the financing situation. However, after the successful handling of the crisis by the managerial team led by Liu Chang and its subsequent improvement of governance capability, market expectations began to improve and the stock price stabilized strongly after Liu Yonghao retired in 2025. Consequently, the evaluation by external stakeholders of an enterprise is constantly readjusted in relation to its actual performance and governance signals.

The company, like all private enterprises, has been affected by the state's financial policies. In recent years, the state has adopted a large number of plans to support the development of private enterprises and ease the difficulty and high cost of financing. In addition, the capital market attaches increasing importance to the environmental, social and governance standards, and the governance modernization, green agricultural development, rural revitalization and other efforts of New Hope are in line with the policy orientation and development trend of capital markets, which makes it easier for New Hope to obtain favorable financing terms.

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5.3. Explanation of the process

As a result of the above analysis, the exact transmission mechanisms of intergenerational succession on the financial constraints can be summarized as follows.

It involves four main components: optimizing governance, transmitting signal, restoring trust, and alleviating constraints.

Governance optimization is the basic prerequisite. In other words, the intergenerational succession of an enterprise means that it transfers from "founder-authority governance" to "modern professional governance" [11]. For instance, reforming the governance structure, through the independent director system, the partnership system and the information disclosure system, is the most direct means to reduce internal agency cost and alleviate information asymmetry.

Signal transmission is the bridge. When the founder's reputation, as an implicit signal, weakens to the point that the enterprise can no longer communicate effectively with the market, it must switch to communicating using explicit signals [12]. The three signals are the professional composition of the boards, flexibility in calculated realignment and crisis management, and good financial and environmental, social and governance performance.

The core is the reconstruction of trust, from the capital market's trust in the founder as a person to trust in the enterprise, its institutions and management team. Such a trust relationship can only be established in the case where positive signals are sent by the market and stable expectations are built in the successor team.

In particular, this results in an easing of the enterprise's financing constraints which has the effect of an increase in the availability of finance, lower cost of finance and an improved financial structure.

This intermediary role of the risk tolerance level runs as follows: The successor's planned actions define the risk tolerance of the enterprise which in turn defines, and decides on, the extent of the enterprise's new financing needs, and subsequently the financing constraints. The case of the New Hope venture suggests that risk-taking that is excessively high will result in more fragile financing constraints, while risk-taking that is too low often relinquishes an existing opportunity. Provided trust is created at the outset, taking calculated risks moderately and reasonably is the way for the firm to obtain sustainable financing ability.

6. Conclusion

This paper will use the case of New Hope Group to investigate the intergenerational succession and financing constraint of family enterprises. It also finds that the corporate financing constraints during intergenerational succession of family business show a U-shaped curve, which is caused by the modernization of enterprise governance, the risk attitude of successors, and the signaling mechanism. In the succession stage of the founding family, the implicit guarantee of the founding family gradually weakens. The business ability of the successor is not recognized by the market. The capital pressure brought by calculated expansion will aggravate the financing constraints. In the later stage of the succession, the de-familyization governance reform, shift of risk preference from aggressive to wise, and innovation of management mechanism will make the enterprise reduce the information asymmetry and agency costs better, rebuild the trust of the capital market, and gradually eliminate long-term financing constraints.

This paper provides a theoretical explanation of the entire intergenerational succession process, explores how the internal mechanism changes financing constraints, performs an analysis of the family business governance and corporate finance literature, as well as providing practical guidance

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for family businesses that are still listed as being in the intergenerational succession stage, and providing policy implications for improving the financing environment of private enterprises. However, there are limitations to the universality of its conclusions, as a single case study is utilized. Subsequent research could incorporate more than one enterprise across different industries for further quantitative and cross-case research, in hopes of discovering more influencing factors and improving the relevant theory.

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