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**Succession in Family Business**  
- Differences between foreign family business and  
Chinese family business


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<b>Abstract</b> <p>In the development of the world's enterprises, family enterprises always have a very important role. And the succession problem is also related with the development of the family business deeply. So the succession problem is always the hot topic among the management scholars. How to deal with succession in family business issues will be directly related to the continuing operations of enterprises. Nowadays, Chinese family businesses enter the peak time of succession. Analysis of the current economic environment and companies' situation, and making a suitable model for Chinese family business is very useful.</p> <p>This thesis consists of five parts. The first part will introduce the main objectives of the thesis. The second part tries to introduce and define the family business. The third part will compare between Foreign family business and Chinese family business. The last part will define succession and discuss the succession situation and problem in China, then will give a suitable succession model and my own suggestions.</p> <p>Own suggestions: Make a succession plan as early as senior can. Build up a team to help developing and training the successor. When senior hands over the business to successor, he or she should let successor go. And sometimes break up the blood succession is also a new way for company's continuity.</p>			
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## 1 INTRODUCTION

As one of the oldest organizational forms of business, family business is the most important forms nowadays. Family business supplies plenty of jobs and creates huge wealth. It is a huge motivation to economic growth in the world. At present, it is time for many family enterprises in China and in the world to face to the succession problem. There is a controversy in the succession problem of family business between western and eastern family businesses. And it is also a hard problem to every family business entrepreneur. Not all family business that is not passed down to the next generation goes on to close their doors, but many do. So this study on succession of the world family business, and this thesis would define the family business firstly, and secondly analyze the difference between the Western family business and the Chinese family business. Then this paper would compare the particular difference between the west and east family businesses, like management, culture, structure and so on. By comparing the developed countries' family business and Chinese family business, we could get much useful experience. It is very helpful to Chinese family business. Because the Chinese family business is still in its infancy stage. At last, we would analyze the succession problem mainly. And after finding the differences, give some suggestions to Chinese family business which face the succession problem at present.

According to some dates, the mean lifetime of Chinese family enterprises is 24 years and it equals to the first entrepreneur's working time. Worldwide, only 30% family business could hand over their business successfully. In essence, the main problem is the succession problem. Chinese family businesses are set up in the 1980's mostly, because at that time Chinese government allowed private persons to run their own business. After 30 years, many Chinese family businesses face the succession problem. Many family businesses' bosses send their children to the developed countries, like Europe, United States, and Australia and so on. But the succession problem can not be solved so easily, and some Chinese family enterprises meet huge problems when they try to hand over their companies. Moreover, there is also a significant difference between Chinese family business and other countries' family business. Chinese government published the one-child policy to control the population in the 1980's; so many entrepreneurs only have one child. In China, the most family businesses belong to small and medium-sized enterprises. In these kinds of enterprises they do not have a

professional manager, and they also do not trust people who do not belong to this family. So it is also very hard to handle the succession problem when their child lacks the ability to take over the family business or their child has no interest in their family business. In short, there are many different situations or conditions in China and the succession must be a complex problem world wide.

## 2 DEFINING A FAMILY BUSINESS

**Family business** as a type of companies, an ancient type; however, it is still a very popular and important type of company in the worldwide. Family business comes in many forms: sole proprietorships, partnerships, limited liability companies, regular corporations, holding companies and even publicly traded, albeit family-controlled companies. (Hisrich 2008, 375)

However, different scholars have different definitions; the family business has a variety of definitions. And the main difference is the degree of ownership and management that family controls. Previously, Chandler said, the founder of the company and his/her family should hold the main ownership, and they keep a very close and personal relationship with the managers, have high voting rights. Especially the family should control the financial matters, resource allocation and human resource management. (Chandler, 1977) We can find in the past decades that scholars think family business should hold the ownership and control the management highly.

As the development of the modern family business, scholars give a more boarder definition. Chakrabarty said a family business is a business in which one or more members of one or more families have a significant ownership interest and significant commitments toward the business' overall well-being. A firm is said to be family-owned if a person is the controlling shareholder; that is, a person (rather than a state, corporation, management trust, or mutual fund) can garner enough shares to assure at least 20% of the voting rights and the highest percentage of voting rights in comparison to other shareholders. (Chakrabarty, 2009) It means one family controls the ownership totally or mainly, but the family does not need to deal with the management issue directly. And this can also be called a family business.

Family business constitutes the whole gamut of enterprises in which an entrepreneur or next- generation CEO and one or more family members have a significant influence on the enterprises via their participation, their ownership control, their strategic management, and so on. Participation refers to the nature of the involvement of family members in the firms, whether as part of management team, board of directors, or shareholders. Control means the rights and responsibilities family members derive

from significant voting ownership and the governance of agency relationship. (Hisrich, 2008, 375)

In this paper, I consider there are three types of family business, the family which control the ownership and management, the family control the ownership but hires a Professional manager to run the company, the third one is the family controls the management. The last type perhaps will not appear in capitalism countries. (Some state-owned enterprises' management team comes from one family in China) So the family business can be separated to two parts, family-owned business and family-controlled business. And here I define that an enterprise belongs to family business when two or more than two members come from one family who owns or controls the operating management rights directly, or the company's leadership and management always succeeds in the family. So if one company is in accordance with one of them, it is a family business. This is my own definition of family business.

In any case, the family business is a proprietorship, partnership, corporation or any form of business association where the voting control is in the hands of a given family.

Nowadays, family businesses are a very important part in every country. The numbers of Family businesses operate in the United States economy range between 17 and 22 million. In the free economic of the world, estimates of the share of all enterprises considered to be family business range between 80% and 98%. And there are many famous, historical, great brands come from family business. For example, Wal-Mart, BMW, Ford Motor, Samsung, LG Electronics, Hermes, Ferragamo, Gap, The New York Times, Lenovo are all family-owned or family-controlled. And there also are millions of smaller and less well-known businesses which, however, are just as successful in their own industrial field.

In many countries, plenty of the largest publicly listed firms are family-owned or family-controlled. In the United States in 2008 the 'Fortune' magazine published the world's top 500 list, there were 40% enterprises family business. In the United States, family firms account for 64% of the gross domestic product or approximately US\$ 6 trillion, 85% of private sector employment, and about 86% of all jobs created in the past decade.(Rebert 2008, 373 ) The most important is that family businesses outper-

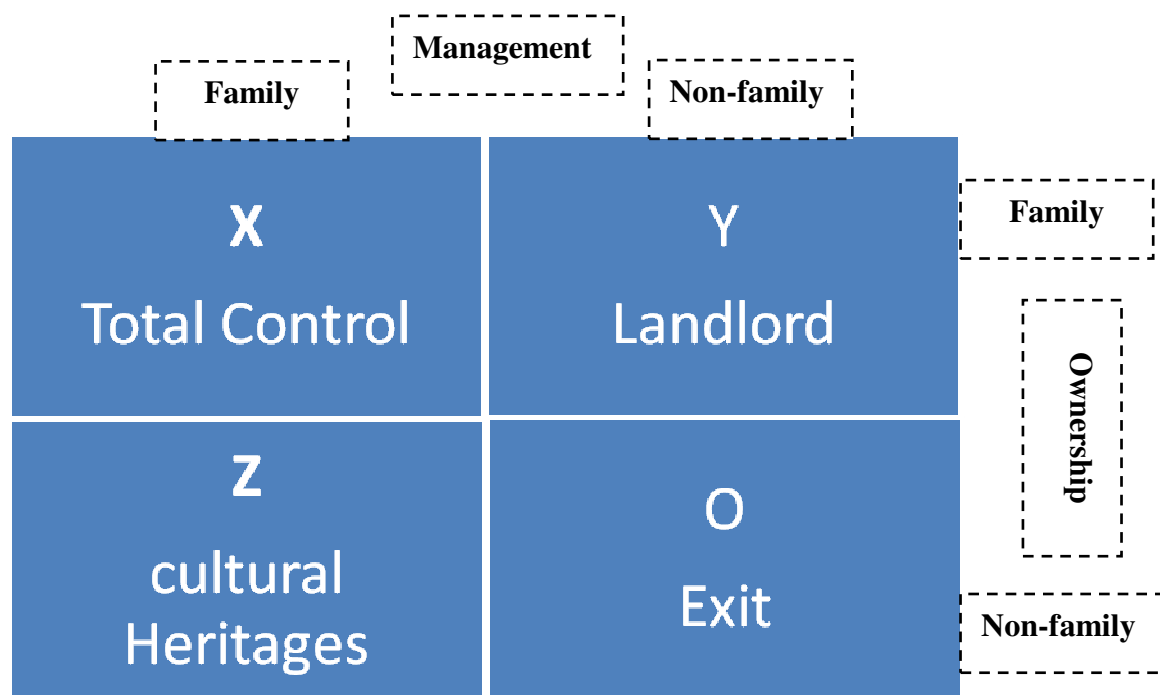


form nonfamily businesses: 6.65% in return on assets(ROA) and 10% in market value. (Oster 1999, 5)

In China, the number of family businesses range between 90% and 99% of nonpublic enterprise. (China has state-own enterprises) Based on some study from 1993 to 2003, the total number of family business in 2003 is 3 million, and the registered capital is 3.5 trillion Yuan. And now this number is larger than six years ago. For example, my hometown-Xiaoshan is famous for family business in China. There are about 99% enterprises which are family businesses. However, it is a small city in China, the population is only about 1.5 million in 2007. Xiaoshan's GDP reached RMB 98.65 billion RMB, and the gross output value of industry is 358.02 billion RMB in 2008. (Xiaoshan government website-[referred 18.11.2009])

## 2.1 Definitional elements

The idea of family influence or control is generally of two kinds: ownership and management. And the figure 1 just shows this relationship in family business.



**Figure 1** The ownership-management matrix

Source: Fred Neubauer and Alden G. Lank 1998, The family business, P.7.

In position X, all owners and all top management are family. It always happens in the early stage of a first- generation family business, and it can be called total ownership and management control. In China, many small or medium size family businesses are this kind of highly centralized. In the position Y, no employees of management level are families, but family control 100 percent of the ownership. For example, family members are the members of the board of directors; they are the shareholders of the whole company. The position Z, is an unusual kind. It only happens when the family sold the company; however, the receivers still remain the management team. And the family member in management team is still running the day-to-day work. Position O signifies that the business is no longer family. So, when judging if a company is family business, we should find this family's position.

Thus, we arrive at a working definition of a family business. A family business is a unique synthesis of the following:

1. Ownership control (15% or higher in the case of a publicly-traded, family-controlled business or 50.1% in the case of a privately-held firm) by two or more members of a family or a partnership of families.
2. Strategic influence by family members on the management of the enterprises, whether by being active in management, by continuing to shape the organization's culture, by serving as advisors or board members, or by being active shareholders.
3. Concern for family relationship.
4. The dream of family business continuity across generation. (Hisrich, 2008, 376)

## **2.2 SWOT - analysis of Family business**

During the 1970s Andrews proposed a framework for strategy formulation based on the premise that the final strategy adopted by a company should achieve a 'fit' between its internal capabilities (strengths and weakness) and the external situation (opportunities and threats). This is commonly known as the SWOT analysis. (The Figure 2) An external analysis should highlight the general environment influences that a firm must cope with, for example, the political, economic, social and technological factors (PEST). An internal analysis of a firm should identify those things that the organiza-

tion does particularly well (strengths) and those features that inhibit its ability to fulfill its purposes (weaknesses). For example including organization, personnel, marketing, finance, and so on. (Stuart& Bronwen 2001, 200-201)



**Figure 2:** The SWOT matrix

Source: Stuart Wall and Bronwen Rees 2001, Introduction to International Business, p.201

### 2.2.1 Strengths and weaknesses

**Strengths:** First of all, a family business is founded by family members only, and they have common values, strong commitment, loyalty, stability and also lower cost than other form of companies' employees. One family is likely to share the same ethos and beliefs on how things should be done. This will give this enterprise an extra sense of purpose and pride, family's own culture and a family business competitive edge. In family business when one family wants to build a lasting family enterprise if means they are more likely to put in the extra hours and effort needed to make it a success. It could not be achieved in other kinds of companies. Family members may be more willing to make financial sacrifices for the sake of the business. We may also find family needn't buy employees' liability insurance if they only employ close family members.

Secondly, family business has a flat organization, or a horizontal organization. An Organization may have many levels, in which case their structure is considered tall, or only a few, in which case their structure is considered flat. The underlying assumption behind all these cutbacks is that fewer layers reduce waste and enable people to make better decisions (by moving them closer to the problem at hand), thereby leading to greater profitability. Ford has seventeen layers of management between its CEO and its employee on the factory floor, and GM has as many as twenty-two. However, the more profitable Toyota has only seven. (Jerald, 1997, 506-507)

In family business, the organization is more flat than in other kind of companies obviously. The board of directors could make a common decision or strategy faster, and have a smooth and easy way of internal communication; it means family business has a more efficient organizational behavior. In a family business, the decision-making level often comes from one family, so when they meet some problems, they will meet each other more conveniently, even more they can ignore the complex meeting process, and agree the common value quickly. In the early stage of a family business, the family always holds the ownership and management together. The chairman of the board and the CEO always are the same person, because of this special internal organization structure. It means in the family business, the decision-making level always is the management level, instead of two dependant departments. So when company meets some problem, the family can solve the problem faster.

**Weaknesses:** At the top of the list of weaknesses, family companies are short-lived. Because there is less management personal in the family business, and the founder or owner-manager decides everything in the company, some wrong decisions are unavoidable. For example, succession problem, strategy making, individualism. According to some studies, between two thirds and three quarters of the family business either collapse or are sold by the founding family during the first generation's tenure. Only 5% to 15% companies continue into the third generation in the hands of the descendants of the founder. (Fred & Alden, 1998, 14) The biggest reason that causes this phenomenon is a wrong succession decision.

Why family businesses are so short-lived? Except for the wrong decision making, the second problem is the human resource problem, the lack of a standard organization structure, company culture and being full of internal contradictions of family members and non-family employees in the complex family business.

If a company wants to develop, it must develop or hire some talented person. A Family is only a very small group, it is hard to find a suitable professional person to manage the company, and so a family enterprise should find some talent from outside. It is easy to find a talented person; however, it is difficult to keep talent in family business. Because in family business family members always participate in the management. And they always do not trust non-family employees, so there is no room for talented persons. If the family member does not trust the person who comes from outside, the talented person could never enter the core management level. So this is the reason why some family businesses always develop slowly in their old ways, because they do not have fresh blood in their developing process.

Although family members have a significant positive effect in the development, family business also can be a breeding ground for family problems, jealousy, anger, resentment and so on. There is less reservation about letting feelings out among family members, and family problems can easily spill over into the workplace. The manager of a family business may be hard put turning down relatives as employees regardless of lack of qualifications. Relatives who are allowed into the company may abuse family ties and feel that they can under-perform simply because they are relatives. Some family members, especially the elderly, may find it difficult to retire or quit and let the younger talented members take over. And the non-family employees may think they do not have the equal treatment, and they do not pay enough passion to their work.

### **2.2.2 Opportunities and threats**

**Opportunities:** In different countries or environments, family business has different opportunities. So here I just list some opportunities for family business in China. In 2005, the Chinese government published a policy, where the main idea was to encourage and support privately-run enterprises. It means family businesses can enter the industrial field, more and broaden the entering standard. And the Chinese government

also supports family business to purchase state-owned enterprises in this policy. On the other hand, the Chinese government increased the support in finance, taxes that reduce the cost for small-medium family enterprise. (36 Rules about Non-public Economy-[referred 15.11.2009])

**Threats:** The family business is set up by one family; they control the ownership and management in the primary period. So how to get more funds for support is the hardest threat for a family business's development. The most family business will meet the fund shortage problem, and it can lead to a break up. For example, small-medium family businesses find it hard to get enough trust from the creditors or banks, so they can only get a short time loan or a high rate of interest loan. So the most family businesses get the funds from their own development, and it limits their speed of developing and growing.

### **3 COMPARISON WITH FOREIGN AND CHINESE FAMILY BUSINESS**

#### **3.1 The family business property and its development**

The property system is the core factor in every business. And we can treat it as the family business's ownership and management. The property right determines the development of a family business and the effect of company management. If a company has cleared property rights, the more efficient the company is. However, due to the different culture, the different development level, and countries' policy and so on, there are huge differences between the foreign family businesses and Chinese family businesses.

##### **3.1.1 Property in American family business and its development**

The U.S. family business development has passed three main stages. The first stage is small or medium sizes of family business, the founder holds the ownership and management totally. Second, the American family businesses became bigger, and try to separate the ownership and management, so they hired the managers to run the family

business. Until now, they finish the second stage, separate the ownership and management successfully, and at the same time, the family's share is becoming dispersive.

Before the 1940's, American family business was small size and one man business. The feature of property rights is that one man or woman or one family control the whole company, including the ownership and management. And the shareholders are the founders' relatives, friends or close partners. From the 1940's to the 50 years, as the developed of technology, the entrepreneurs had to expand their capital. So they needed to hire professional managers to manage the company.

After World War 2, along with the development of the American stock market and the national strength, the family's share is becoming dispersive. In 1960's, although many American companies have been controlled in a family, they separated the ownership and the management mostly. At that time, the largest 200 industrial companies in the U.S, the families and individuals who are the manager in family business reduced from 66% in 1929 to 15.5% in 1963, and the manager controlled companies' share rose from 34% by 1929 up to 84.5% in 1963. (Zhang 2006, 10)

### **3.1.2 Property in Japanese family business and its development**

Property also can be divided into three main stages. At the first stage, Japanese family controls all ownership; they undertake the loss and profit totally. And then they try to hire professional managers, separate ownership and management partly. At present, governments publish series of policies to encourage family business to separate ownership and management, and attract a lot of foreign investment. Japan has been the second biggest economy in the world.

In the traditional Japanese family business, they think the family is the company, the company is the family. The ownership is totally concentrated on the family, they control the ownership and management, the chairman and the manager all come from their family. Meanwhile the family members undertake the company's profits and loss totally, and lose connection with their external environment.

As the industry developed, Japanese meet some difficulties and a strong crash from the international companies. From that time, Japanese family businesses try to hire professional managers from the famous western companies. As a Step on the way to professional management, Japanese family business separated the owner and the management slowly. In 1830's, all the family business did not hand over the high management position to their children. At the same time, they learned the experience of western management, changed the forms of the family business, and combined it with sole proprietorship and shareholding system.

Nowadays, the traditional Japanese family business has collapsed. According to the data of Bank of Japan published in 2001, foreign investors invest 14 billion U.S. dollars directly. And the most important Japanese industry is auto industry. Except for Toyota and Honda, all other Japanese Auto manufactures have a relationship with American and European companies, like foreign investments, and technology.

It's worth noting that the revolution of Japanese family business's property rights is conservative. We can find that although the family quit the management level a long time ago, they do not want to give up the ownership. Moreover, the family in order to keep the family reputation and influence has ruled that their children or later generation should hold and keep their shares, no matter what happens. (Zhang 2006, 11)

### **3.1.3 Property in Chinese family business and its development**

China has experienced rapid economic, political and social development over more than two decades, and now China has been one of the fastest-growing economic in the world. The death of Great Chairman Mao (Mao Zedong, the first chairman of The People's Republic of China) in 1976 heralded the beginning of a period of economic reform led by Deng Xiaoping. During this period China adopted an 'open door' policy for encouraging trade and technology transfer. And the recognized time of the new period of Chinese family business build up is 1978. So in these less than three decades, Chinese family business has been built.

Because Chinese family business only has thirty years history, the founder is the owner, manager and even some entrepreneurs are the manager of the operating, and the



sales department. From 1980's, the founder set up same size family companies, and the couples or the brothers controlled the ownership and management totally. Most of them came from the village, they relied on hundreds Yuan and set up their own firms. The basic features are poor management level, poor equipment, lack of technology, and completed law system. For example, my father set up his business by 300 Yuan in 1988, and my mother and father is the only manager in company. In the first year, there are only 5 workers and three machines to produce. (Zhang 2006, 7-8) At that moment, Chinese family businesses' development is like this mostly.

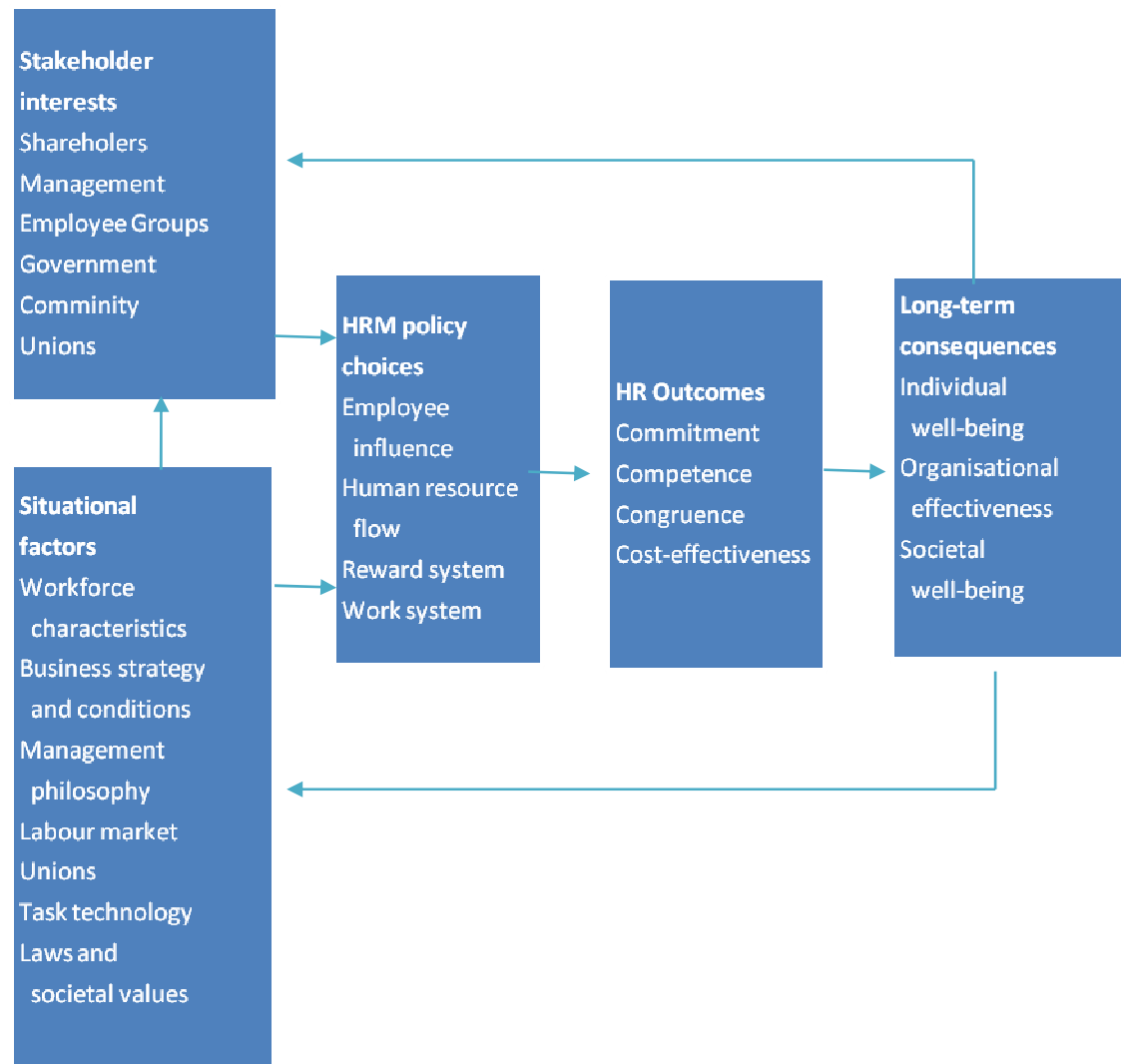
In 1990s', Chinese family business developed faster. Chinese family company which built up in the pervious decade wants to expand their capital, so some friends and relatives participate in their business, and allocate the shares. And Deng Xiaoping announced to encourage and support privately-run enterprises; make the privately-run which includes family business, developing healthily. When 21<sup>st</sup> century enters, China joins in the WTO, enters the international market. Although there are some threats, most enterprises get the chance of development. Many family businesses learn the western family business, hire some professional manager; try to separate the ownership and management.

According to a survey about Wenzhou (a city famous with family business) family business, they concluded three features; first, the biggest shareholder is the founder. The average share rate is 61.20%. Second, the most shareholders have a close relationship with the founder or the owner-manager. Third, the most shares are made up of money, only a very small part made up of technology, management and so on. (Ma 2004, 12-15) And it is also the same in my father's group; our family controls the whole group company's ownership, my father occupies 51.9% of the shares, my mother and I occupy the rest of them.

However, it is different in Japanese family business, they only want to keep the family strength, the most Chinese family business's founder or owner-manager wants their children to succeed their business, including ownership and management. Even more, when the family business sets up a series of strategy, family members also participate in this decision. It all limits the reform of family business in the long-term. Chinese family companies also have a long way to innovate.

### 3.2 HRM in family business

Human resource management, there are a lot of different definitions of its meaning. Waston suggest that a ‘rather messy situation currently exists whereby the term HRM is used in confusing variety of ways’. (Waston 2002, 369) In its broad sense HRM can be used as a generic term to describe any approach to managing people.



**Figure 3** The map of the HRM territory

Source: Beer et al. (1984: 16) at Harvard University.

Figure 4's author Beer recognizes that there are a variety of stakeholders in the corporation, which include shareholders, various groups of employees, the government and the community. The model recognizes the legitimate interests of the various groups,

and assumes that the creation of HRM strategies will have to reflect these interests and fuse them as much as possible into the human resource strategy and ultimately into the business strategy. (Julie & Tim, 2007, 8)

Like other kinds of companies, HR in family business should deal with the employees' problems, recruitment, selection, employment relationships, rewards and performance management and so on. The second one is the family members. In a family business there are also many family members who participate in the company's management in the business starting period. At the same time, they have a very close relationship with the founder or the owner-manager of the family business, so it is harder for the HR department to deal with inner differences in a fair way. What's more, the relation between family members and non-family employees is also a hard problem. It relates fair, non-family employee activity and passion, efficiency and so on. It is so complicated. So how to deal with the human resource management is so important in family business.

Family participation as managers and/or owners of a business can strengthen the company because family members are often loyal and dedicated to the family enterprise. However, family participation as managers and/or owners of a business can present unique problems because the dynamics of the family system and the dynamics of the business systems are often not in balance.

There are greater differences in how countries organize employment and manage the employment relationship. National employment systems vary in the extent to which workers are able to organize and act collectively to influence their terms and conditions of employment, how far they are involved in decision making within the enterprise, the level of protection they enjoy against job loss, the way jobs are designed and work is organized, and in many other ways.

### **3.2.1 HRM in the American family business**

The American employment system reflects the ideologies of individualism and egalitarianism, often summarized as 'getting ahead through individual effort and enterprise' that are central to the idea of America. Individualism is diffused throughout the Amer-

ican economy and civil society. Individual private property rights are seen to be the foundation of democracy, creating a strong presumption against state regulation. (Julie & Tim, 2007, 565)

In the 1980s, the American corporation had developed an employment system that featured the element of an internal labor market. There were tightly specified job descriptions and working methods; job security provisions; internal training and promotion for core workers; seniority rules to govern lay-offs and promotions; pay linked to the job rather than to individual or company performance; company-financed pensions and health insurance. An internalized system developed partly in response to trade union pressure to provide secure jobs with predicated earning, opportunities to increase earning over the time spent in the company's employment, and social benefits in the absence of a developed welfare state. (Julie & Tim, 2007 579)

In the American family business, motivation of employee is based on efficiency. The foundation of this method is fair, whoever you are, and the main target is improving the efficiency. In other words, people who have the ability can be promotion; on the contrary he or she would be demoted. America family companies pay close attention to their employees; they think the employees are a very important part which constitutes a long-term growth in companies.

American family business concerns their employees in many details, for example, the work place conditions, high payback when employees pay a lot of passion and energy, insurance of their children and life insurance. In 2008, Google has become the world's best employer. The Google culture has a significant influence on the human resource management. Google not only pays attention to their employees, but also has concern about the employees' family and friends. When there is a new movie release, Google would rent the whole movie for their employees, and the employee also can watch the movies with their friends and family.

In American family business, many companies hire professional managers, and managers have a significant effect in business decisions, and also a very important part in the companies. It means the entrepreneur wants to give more power to the employees

who are not include in the family, and give more opportunities for their employees. (Zhang 2004, 14)

### **3.2.2 HRM in the Japanese family business**

There are a lot of famous Japanese family businesses which manufactured according to the lean production, like Toyota, Nissan, Mitsubishi and many other famous car brands. They combined the high quality and low cost perfectly, and these all were related with the famous Japanese Human Resource Management.

In Japanese family business, they use a lifetime employment system, seniority-based payment and promotion system and Enterprise unionism in human resource management. These three key structural features of the employment system, often refereed to as its 'three pillars', have underpinned welfare corporatism in Japan. (Julie & Tim, 2007, 572)

When large Japanese family businesses hire someone, these workers have usually remained with the companies until retirement. If some company wants to hire some new employee, they will not dismiss the employees who worked for company several years. Some firms even set up new subsidiary companies to absorb redundant employees. However, the lifetime employment system is not the same with the company hire and conclude the contract for its employee's whole life. It means when a family business hires staff, you should be responsible for you employee no matter what happens. And it also concerns financial crises. For example, in this round of financial crises, European and American automobile manufacture dismiss a large amount of their employees. However, Japanese manufactures do not dismiss their staff; they would rather reduce the output to control the costs. The president of Japan's Mitsubishi Corporation, Minoru Makiyara, is a company man both by birth and marriage; his father spent his life with Mitsubishi; his wife is the great granddaughter of the firm's founder. He joined the company in 1956, only aged 26. Some media even said, you could hardly find a better example of 'company man', that besuited creature who trades solid loyalty for lifetime security, than Minoru Makiyara. (Julie & Tim, 2007, 565)

So the employees in Japanese family business think this company is their whole life, and they are very loyal. They want to put their effort totally to their companies. Meanwhile, these companies fear that dismissals would damage their reputation and make it harder for them to recruit high quality university graduates in the future. What's more, the Japanese government has a perfect law, legal restrictions that make dismissals difficult to defend in the courts. Just because of this, Japanese family business has a steady human resource and united corporate culture.

The Japanese family business's salary and promotion system is a seniority-based pay and promotion system. This system has a huge difference to the job related payment and promotion system. Instead of an employee's loyalty and contribution, the determining factors are age and length of service. Basic salaries are agreed for employees in different age and annual salary increases also related to seniority, with longer-serving workers receiving larger increases. This not only enhances the stability of the human resource structure, but also enhances the family atmosphere within the enterprise. With the development of the Japanese family business, lifetime employment system and seniority-order payment system have become more perfect. In the 1990s' the Japanese family business add the ability of work to the seniority-order payment system, and a new kind of payment system has been formed. On the other hand, how ability is determined is often vague. (Julie & Tim, 2007, 572-574)

Japanese union organization is based around individual enterprises. E.G. Toyota or Nissan have their own enterprise unions. These enterprise unions do coordinate their wage bargaining activity on a sectoral and national basis through the annual pay bargaining round, the 'spring wage offensive'. (Julie & Tim, 2007, 573) However, the enterprise-based unions make it easier for management level and union to work together to resolve problems.

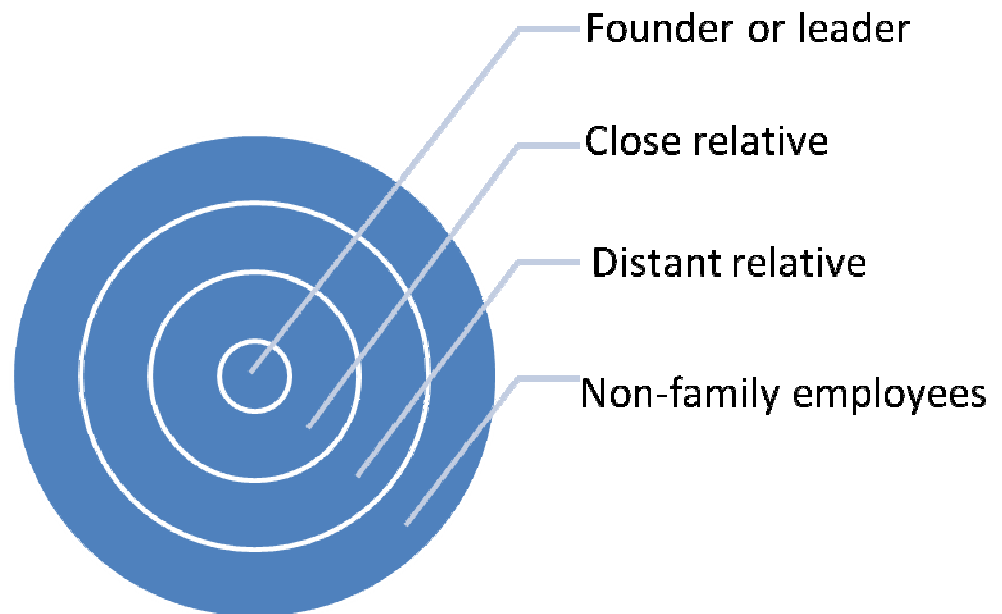
In addition, Japanese family businesses implement a kind of application system. This application system starts from upper management level to the lower employee level and then back from the lower employee level to the decision maker. In general, the decision maker tells the decision to their employees, and the employee consider if this decision is necessary, and then the employees send the feedback to the deciders. So in

Japanese family business, every employee considers they are one part of the companies, and they should be responsible for their 'home'.

### **3.2.3 HRM in the Chinese family business**

Chinese family business has the shortest developing period in these three countries. So in Chinese family business, lots of family members participate in the management. For example, in one of my father's enterprises, there are about 9 higher level managers, including chairman of group, general manager, two deputy general managers, and five main department managers. In these positions, my father is the chairman of the whole group; my mother is the general manager, and two uncles are the managers of supply and marketing. It nearly occupies 50% of the higher level managers. Some other Chinese family businesses have a more serious problem that family members participate in management level.

Influencing by the traditional Chinese culture- Confucian, founders or owner-managers always use emotion to deal with human resources management. It means being unfair to some employees, some non-family employee who has a lot of talent would not be consider as important as family members. Traditional Chinese culture effects the human resource management of Chinese family business deeply, "family-ism" dominant family business. At the same time, they also trust someone who is close to their family. See the Figure 4, the family member and relative occupy the core part in Small-medium Chinese family businesses.



**Figure 4** Small-medium Chinese family business's Employees

China has 5000 years old; there is a lot of traditional and special culture from ancient. Chinese are very care about the concept of the family and the emotion between siblings. Why so many Chinese family businesses hire so many family members, because founders think they are the boss, they are rich than his or her sibling, they have responsibility of caring about his sibling. They need to give their sibling a great job, and to take care their sibling in working and so on.

In the Chinese family business, there is always a lack of democracy. The founder or the founder's children are the chairman of the director and manager; they control the ownership and management together. So they decide an employee's position by their relationship, not the ability. In the human resource management, they emphasize the kinship. It is impossible for a non-family employee to enter the higher management level. In the recruitment, they also like to hire their relatives, friends, someone who come from their hometown and so on.

In the whole development of Chinese history, whether ancient or latter-day, Chinese always put the human emotion in the first place; Like the Chinese ancient dynasty, the emperors also use the royalty members in some important positions. They do not trust others and think the whole world belongs to their family. This kind of special mental its still influences current people. They ignore the human resource management core,



being fair and objective. So in the most Chinese family business, non-family employee do not put all their effort in their working, because they do not think it is a fair environment. And it causes Chinese family business to be like a heap of loose sand, having lack of cohesion, creativity and endurance. (Zhang 2004, 16)

Nowadays, Chinese family business is still looking for the HRM with Chinese characteristics methods. Like employment contracts, surplus labor, social insurance, labor market concerns, recruitment, selection, training, reward system, employee relations and so on. For Chinese family business, they should consider the problem of how to deal with incapable family members in the higher management level. After this, Chinese family business should deal with human resources more fairly and objectively, create a fair environment for every employee.

### **3.3 Summary**

Through comparing with foreign family businesses (American, Japanese) and Chinese family businesses, we can find some important visions worth to think over. The most important vision is that Chinese family business should set up a modern enterprise system, separate ownership and management. Chinese family business should break up the 'small family', attract more intelligent external employees to participate in the family business. That would bring new idea and new blood to company developing.

Now, Chinese family business is the most outstanding part of Chinese economy. Although Chinese family businesses develop so fast, there are still plenty of problems in the family or the family business. If Chinese family businesses want to develop faster or longer, they should notice the property and the HRM problem. For example, clear the property, keep and promote the talents, and dismiss the incapable family members and so on.

## 4 SUCCESSION

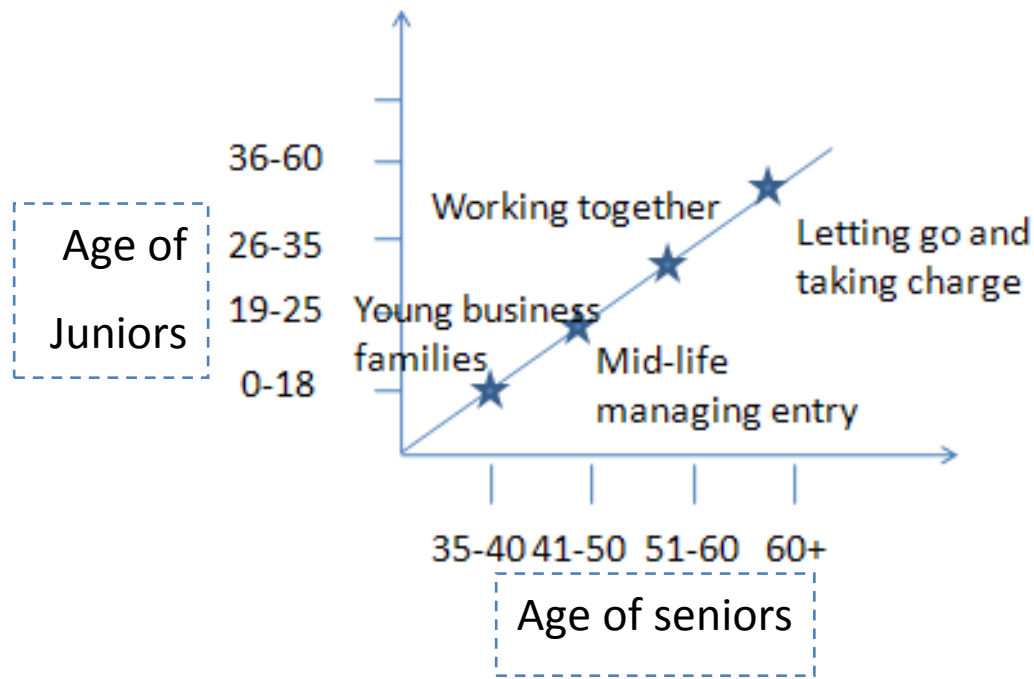
Family businesses are unique in the extent to which succession planning assumes a key and very strategic role in the life of the ongoing concern. Building a successful business takes an enormous amount of energy, talent, hard work and some luck. Every successful business is a small miracle, in a way. Family businesses that are successfully passed down from one generation to another and continue to thrive represent an even greater achievement. Based on many studies, only 30% of family businesses could hand over their business successfully, and less than 10% of family businesses could succeed to the third generation. In the world, there are a lot of words to describe this phenomenon. In Portugal, they said the first generation is rich farmer, second generation is lordly son and the third generation is poor grandson. In China, it said that the first generation is starting business, the second generation protects and keeps the business, the third generation is going to bankrupt. And the Germans concluded it in three words, creativity, succession and destruction.

Succession mainly falls into two major forms: First, family members (sons or daughters) succeed the business. The second choice is to hire some talent from external society. This paper mainly discusses how family businesses' next generation succeeds the business.

In the history, there are lots of successful companies. However, when the founder hands over the company to the next generations, the companies go down the wind or even bankrupt. There are thousands of reasons why organizations fail, but in family-owned or family controlled companies, the most causal reason is incompetent or unprepared successors, unclear succession plans, a tired strategy that is unable to contain competitors, or family rivalries and bids for power. Therefore a succession process is the key to the family business' survival. (Julie & Tim, 2007, 376)

Succession is not an event; it is a hard and long process that takes several years. The Succession process looks very much like a relay race; just it looks like a very long time game. The founder is like the first athlete, no matter how excellent performance he or she has done, he or she can not finish the race by themselves. So they need to hand over the 'stick' on the right time. The toughest management challenge that an

owner will ever face is orchestrating his or her own departure from the family enterprise. And the finest testimony to an owner's career is how well the business succeeds once he or she is gone. (Mark 1997, 32)



**Figure 5** The four developmental stages of family business

In the four developmental stages of family business, during the first period- young family business, one family is working hard building a company. The parents are usually between 35 and 40 years old and their children are 18 or under. The parents' main job is building a strong, lasting company and conveying to children the challenges and joys of working in a family business.

In the Mid-life managing entry stage, the children are in college or about to graduate and are ready to do some serious thinking about their future careers. As we will see, they are full of book learning and eager to demonstrate, to themselves and others, that they are capable adults. Their parents are usually 41 to 50, having established their leadership in the business, they are questioning their dreams. They are asking whether it has all been worth it, whether the business payoff has been worth the sacrifices.

In the working together phase, the parents are between fifty a sixty years old. When they passed the mid-life managing entry, and know the answer clearly. They are now

truly able to do the mentoring needed to prepare their offspring for leadership. The working together stage may be the last opportunity the parents will have to instill in their children the skills, values, and attitudes which are necessary for family business continuity. And the children-young successor should realize that the time for experimenting is mostly over. They need to be a leader and build up leadership by themselves in their family business.

The last stage is letting go, the final test for seniors. Will they finally step aside and let their successors, who by this time may be in their forties and waiting anxiously in the wings, take command of the company? And many experts think this is the most difficult of all because our society tends to celebrate youth and achievement and pay little homage to the seniors. And it is the same to the juniors, they do not have any opportunity of making a mistake, and they have a lot of pressure from the society and family. (Chen Yunyun 2005, 16-18)

#### **4.1 The overview of world family business succession**

The low survival rate of family business is well known, in any country. As a result, a family business that lacks multigenerational leadership and vision can hardly be positioned to retain the competitive advantages that made it successful in a previous, often more entrepreneurial, generation. Less than 30 percent of family business last into the second generation and only 10 percent make it to the third. Yet some of the world's greatest companies have managed to reinvent the miracle in every generation. The family owners of these enterprises overcome numerous obstacles- wars and depressions, natural catastrophes, adverse shifts in markets, the sudden deaths of key leaders- in order to continue building on what their forebears have bequeathed to them. For example, European companies: BMW, IKEA, BERETTA, and LEGO; Japanese companies such as Matsushita, Kikkoman Crop; United States such as S.C. Johnson & Son, Cargill and Bechtel Group. (Ivan, 1999, 1)

So the world family business's succession has a significant difference between each country. Different countries have different culture, economic development level, company law, tradition concepts and so on. Like western countries (American and European countries) have a long history of the family business, and some great family

businesses have more than four generations and they have separated with the ownership and management. However, Chinese family businesses only have less than three decades of developing history, and most family businesses are meeting the succession first time. And most Chinese family businesses are the small-medium size companies. So this part will introduce and analyses the main difference between foreign and Chinese family business succession.

#### **4.1.1 American and European family businesses succession**

American and European family business goes through a long period, the family has an abundant experience on succession. And they recognize it is important to separate the ownership and management. And the most big family businesses choose to hire professional CEOs to manage the business, and family controls the ownership. It is the modern enterprise system.

The second method is to separate the family property in average to the successors. This kind of succession method can reduce the conflict of next generation, and also can keep the family property in a large part. Like a Swedish family company IKEA, the founder separates the family business to three parts in average, and handed over those parts to his three children. He made sure the family business can be continued mostly. In a word, American and European family businesses focus on the efficiency, family values and rules. At the same time, American and European family businesses break the traditional thought, not only handing over the business to sons, but also to daughters.

However, there are also some differences between American family business and European family business. Compared with American family business, European family business has more tradition in succession. It relates with European has a long history somehow. Some studies show that European family business would rather give up the opportunity of growing, than give up the control. In European countries, there is a European family business organization- Les Henokiens, which consists of a big and historical family business. In this organisation, people exchange the experience of family business, and even exchange the successors. It lets the successors get more managing experience which comes from other families. In the ownership, European

family business is also centralized highly, some family businesses reach 70%. It is higher than in the American family business. (Zhang 2006, 19-20)

#### **4.1.2 japanese family business succession**

In Japan, there are three kinds of family business succession mainly. The first one is that the eldest son takes over the business. Their parents hand over the business to their eldest son, and the eldest son leads his sibling or cousins to run the business. Not like in other Asian counties, hand over the business to their children in average. This kind of succession method keeps the family property centralized, and also keeps the reputation of family and the peace of family members.

Secondly, a Japanese family will hand over the business to a non-family member. A Japanese family is comprised of family members, workers, and employees and so on. In general, the family senior will hand over to the eldest son; however, the eldest son is not the only senior son, they include adopted children or daughter's husband who lives in the female's family. Adopted children or daughter's husband who lives in female's family are very common. This kind of succession breaks the traditional family succession, and trusts non-family members.

The third method is handing over the business to a non-family member who is selected from professional managers. The Japanese family focus on their family name's reputation, not only the continuity in family. For example, Toyota is not controlled by the Toyota family. However, Toyota think they get the most satisfaction. Because the whole world knows Toyota. Under this thought, Japanese family would like to loose the control of the family business. (Zhang 2006, 20)

#### **4.1.3 Chinese family business succession**

The succession in Chinese family businesses is quite complicated, and does not have a steady succession method; however, it is also simpler than in other countries. According to some family business studies in China, only less than 30% family business will choose to hire a professional manager when their children are unwilling or incapable of taking charge of the family business. It means the parents want to hand over the

business to their children, including the management and ownership, they do not want non-family members participate in the family business, and this phenomenon will continue and last a long time.

There is the old Chinese saying, ‘sons take over father’s business’. This is the most common succession method in China. Table 2 lists some big Chinese family businesses which have already taken charge. For example, The fourth biggest family company in China, Wanxiang which have been gone public in China, and USA, the operating income more than 40 billion yuan(equal to 4 billion euro), the founder Lu Guanqiu sent his son to America, and his son got the bachelor and master degree in America, and went back to his father’s company. During the Last several years, Lu Guanqiu hands over the business to his son. At the same time, Lu Guanqiu appoints as the vice-president his daughter’s husband Ni Pin who graduated from Zhejiang University, and got double MBA degree in China and in United States.

**Table 1** Some big Chinese family business’s succession model

0	Company’s name	0	Founder	0	Successor	0	Relationship
1	Wanxiang Group	1	Lu Guanqiu	1	Lu Weiding	1	Father and son
2	Hongdou Group	2	Zhou Haijiang	2	Zhou Yaoting	2	Father and son
3	Galanz Group	3	Liang Xiaozhao	3	Liang Qingde	3	Father and son
4	Haixin Group	4	Li Haicang	4	Li Zhaohui	4	Father and son
5	Fotile Group	5	Mao Lixiang	5	Mao Zhongqun	5	Father and son

Source: Chen Yunyun 2005, Research on Chinese family business succession, Capital University of Economic and Business, p.24

Some family companies turn to non-family management. They hire a professional CEO to run the business. One typical company is JiYi group. The founder hires an external CEO, and dismisses thirty family members who are in the managing team. However, it is not as effective as we imaged. So now, this company plans to return to the period of family management. Nowadays, more and more Chinese family businesses are trying to separate the management and the ownership.

## 4.2 The cause of succession problem in China

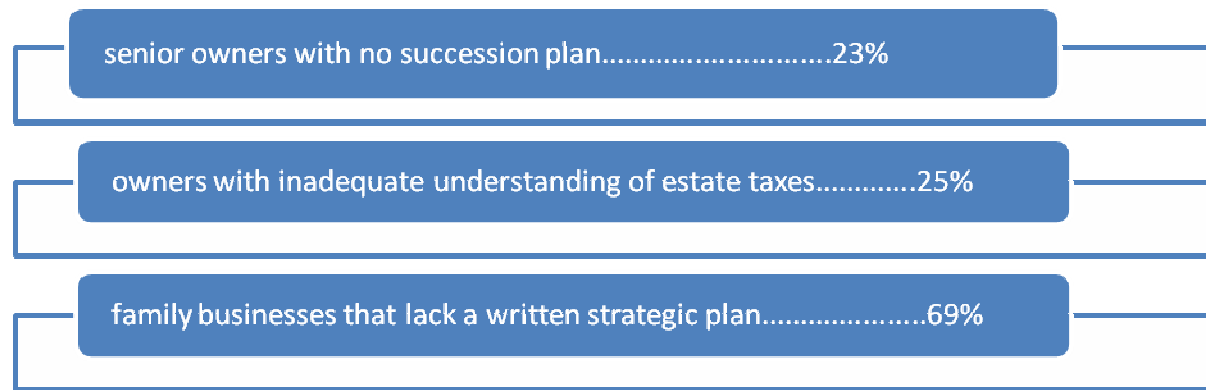
In China, due to the short history of family business, most families do not have the experience and they need to seek their own way because of different culture than in foreign countries.

Nowadays, people called the next successor of family business ‘the wealthy second generation’ In China, it sounds good, however, actually they are not such good words. Some wealthy second generation needn’t to work, but they can buy anything they want, they can play day an night. Based on the latest survey, more than 80% of founders or owner-managers think their next successors can not replace or take charge successfully in China. Although ‘the wealthy second generation’ gets an excellent education mostly, they lacks of hard experience. They grew up in a rich family; they didn’t pass a hard startup period like their parents. When they graduate from the university or come back from a foreign country, they face the succession problem directly. However, most of them can not take over easily.

And the main cause of succession problem in China is lack of succession plan, the ability of successors, internal and external pressure, special culture and lack of trust between each other. (Chen 2005, 16)

Lack of a right succession plan is the main reason why one family business cannot continue. Many families ignore the succession plan, they think they only need to train the successors and hand over the business to the successors at last. It is totally wrong. Succession is a very complex process, it may take several years to make a plan. It includes family discussions, collecting information, evaluating, and so on. Many family business owner-managers are 60 years old, and they just begin to consider the succession.





**Table 2** Poor succession planning

Source: the 1997 American Family Business survey of 3,033 family businesses, conducted by the Arthur Andersen Center for family business and MassMutual-the blue Chip Company.

The reason why many owner-managers do not want to draw up the succession plan is that: When an owner-manager starts to plan the succession plan, it means they would hand over the authority and power, it means one generation is already past. No one wants to admit they are old and they should retire when they are in the developing period. A famous Chinese family business entrepreneur said, drawing up the succession plan positively, is like preparing my funeral positively. So it is the main cause of succession problem in China.

The problem of successors is mainly separated into two forms, the incapable successor and the unprepared successor. In the Chinese history, the son gets the family possession from his father is very normal, and other people can not replace this position, whatever the ability of his son. And another Chinese characteristic is the one-child policy in 1980s. This policy time is close to the family business building up time. Many family business owner-managers only have one child, so they only want to hand over the business to their only child, they do not have another choice.

Many Chinese family businesses are small-medium companies, they are still in the developing time, and do not have a strong competence in their circles. Any wrong decision will lead to bankruptcy. Most of family business's children have a great education. However, it does not mean they have the ability to manage and lead the whole company. So the successors should be familiar with the company's development, and

have a high ability of leadership and professional knowledge. It can not be the natural, it needs their parents' training and their own effort. So the family should have a vision, and have a direction to train the successor. If they hand over the company to incapable or unprepared successors, it would prevent the developing of the company, and what's more, he or she may end up the company.

The third main problem is internal and external pressure. In the process of succession, it meets a lot of pressure. First, the pressure comes from the family business management level. Many high management levels have a very close relationship with the founder or the owner-manager. If the founder or owner-manager hands over the business to the successor, the relationship with the senior managers would change. At the same time, these senior managers may lose a huge influence in the company. They do not want this kind of change happening.

Second problem from internal and external, the pressure comes from other owners. Many family businesses operate like a joint stock company, they sell the stocks to the relatives or their friends or give them as a present. The founder or owner-manager hopes that his friends or relatives they can participate with more effort in the management. So this owner hopes their stock could keep or raise the value in the future. The successor has a lot of pressure when he is taking charge of the company.

Third problem from internal and external, the external pressure comes from the customers, suppliers and creditors. Many customers, suppliers and creditors trust the founder or owner-manager, because they cooperate with each other a long time and maybe they also have a good personal relationship. If the successor takes charge of the company, the external environment would worry about the successor's ability or the method of their working. It maybe totally different with their parents, so the successor will meet some problems when dealing with the customers, suppliers and creditors.

The last problem is lack of trust between each other. Some company would rather hand over the business to their incapable successors than hire a professional manager. Why they take such a huge risk? Because they think the professional managers can not be trusted, and maybe they will make the company worse. One of the most famous economists in China Lang Xianping, he suggested the Chinese government should

help society build up a trust system by laws. In his study, he insists that the reason why Chinese family business can not separate ownership and management is that Chinese society lacks of trust between each other. And on the other hand, China also lacks professional managers who have an excellent professional knowledge and abundant experience.

### **4.3 Building a suitable succession model for China**

Although Chinese family business has a short development history and lack of experience in the succession problem, many family businesses will meet the succession in these several years. And some companies go downhill because of the succession problem. So building up a suitable succession model with Chinese characteristics is necessary. One person's life is so short, if he or she wants to continue the family business, he or she must build a suitable succession model. It takes a long time, so parents should plan it as early as they can. It including making a succession plan, developing the successors, transferring the ownership control and taking share and letting go.

#### **4.3.1 Make a succession plan**

Succession is a process that must be deliberately planned and managed. it begins with a specific strategy that makes sense for the family and for the business. and it is developed with a specific type of leadership and ownership structure in mind. Succession planning has three objectives: to efficiently and fairly distribute assets from older to younger generations; to pass control of the business in a way that will ensure effective business leadership; and to maintain and promote family harmony. (Mark, 1997, 5)

Consultant Ivan Lansberg recommends 12 basic steps in creating a plan, which will guide the leader in forging a consensus, choosing a successor team, and developing a clear vision of the future. However, the process may take five years or more. An early step is to get key stakeholders to agree that they will do everything necessary to assure success. (Mark, 1997, 13)

Task one: decide whether you want to continue family ownership. this is the most basic decision when a founder needs to plan the succession. for most families, the business is an important vehicle for family connectedness- the primary hub around which family life revolves. even the family business is the sign of a family, it means family strength, family influence, and family culture. However, a family also should consider the current environment, they should consider the family companies' future, and their children's future and interesting. if the whole family agree to continue the family business, they must make a positive choice.(From Task one to Task 12, MARK, 1997, 13-17)

Task two: assess whether the family can withstand the stresses that continuity planning inevitably generates. It is not enough for the family to decide that it wants to stay in the business. The members also have to understand that the planning process will at times be painful, and that when it is finished, not everyone may be satisfied by the result. The succession is very hard to get a agreement in a family, it involves such concerns as aging, death, and inheritance, and so on.

Task three: get the owner-manager(s) to agree to actively manage the development of a continuity plan and the transition in leadership to the next generation. It is often those without power in a business who call on consultants for help with succession. Without the support of the principal owner-managers, however, the process is usually doomed to fail. And the owner-managers not only agree with letting go, but also agree to actively manage the design and implementation.

Task four: consult and actively involve other major stakeholders in the process. The succession will influence every stakeholder, the family business may turn better or worse. So stakeholders will refuse to implement the succession plan, and it will be a big trouble on the way. Their support will be necessary for carrying out the plan They should be informed about what the planning entails, the frequency and format of the meeting, items on the agenda, and so on.

At the same time, members of the next generation must have their own thinking, and try to influence the decision. They should not keep in the silence about important matters.

Task five: set up appropriate forums for reaching consensus on key issues. At least three structures should be developed: a family council for discussion of family issues, a board of directors to deal with ownership and policy issues, a succession task force to elaborate the strategic aspects of the plan and assist in the training of the successors if the family does not already have one.

The family council is the place to discuss such matters as the wishes and needs of individual members, the values they share, and whether they want to perpetuate the firm, like the family's board. Board of directors' role is to design policies that protect the family's wishes, values and ownership. The mission of the succession task force is to develop a five-year strategic plan for the business and to define the qualities needed in future leaders who will carry out that plan.

Task six, develop a clear vision for the future of the business that all key family members can enthusiastically share and that spell out the role each will play. The role of family members can be defined by picturing three circles, representing family, ownership, and management, which interest in places. Each member participates in one or more of the circles. And the owner-managers are usually the leader in the family members.

Family members have to be able to visualize what their company is going to look like five years from now, how their roles are going to change, and what these shifts in power and influence imply for both the family and the business. A vision requires much more than being able to imagine various future alternatives, however. It involves getting the family to define the hopes and dreams that they share for the business.

Task seven: choose a successor and other candidates for the future top management team, and plan a course of training for each. After developing a strategic vision, the next question becomes: what kind of leadership is needed to successfully perform under this? The management task force should make a list of the managerial, technical, and personal skills they consider critical for the next generation. Then the task force should identify potential candidates for the top leadership positions.

The key here is to design effective training and work experience so that those identified as having leadership ability can acquire the skills they need and have opportunities to prove their mettle.

Task eight: the successors build authority both in the family and in the business. The parents transfer the power and authority to the successor. Power refers to a person's capacity to influence the behaviour of others. Authority means a person's right to influence others. It is totally different. Successors in family business often get jobs that give them power before they have earned the authority that comes with perceived competence in the eyes of employees. Owner-managers can help successors gain authority by publicly supporting them and communicating trust in their ability.

However, the successors must earn respect by themselves, through their educational experience, their performance inside and outside of the company, and supporting from their employees by heart.

Task nine: design an estate plan that specifies how ownership of the enterprise will eventually be distributed among members of the next generation. In a lot of families, the business owner plans his estate with lawyers, the family members get the detail of the estate plan only after the owner's death. And it may cause a lot of guessing from the other family members, and also will meet some disharmony between the family members because of the capital distribution.

Discussing the plan with the beneficiaries ahead of time gives parents the opportunity to explain their reasons for dividing up the estate in a particular way. In some cases, they may decide to alter the plan after these discussions in order to ensure future family harmony.

Task ten: make sure family members understand the rights and responsibilities that come with the various roles they will assume. While much attention is given to the management training of successors other family members are usually less well prepared for their ownership roles. For example, people who own stock but do not participate in the business are often frustrated by their lack of influence. Family stake-

holders should be able to ask well-informed questions of management about the financial state of the business, provided they go through appropriate channels.

Task eleven: inform important stakeholders- customers, suppliers, and creditors- about the firm's continuity plan. The objective here is to reduce any uncertainty about the future of the business. Family firms tend to be overly secretive, not realizing the extent of their dependence on the external environment. The most succession plans will only be known in the inside of the company or family. Obviously, outside like customers, supplies and creditors do not need to know about the whole internal details of the succession plan. However, it needs to inform the outside the main part of the firm's continuity plan.

Task twelve: develop a contingency succession plan, just in case. Implementing a continuity plan may take five or more years. So in this five years, there maybe have some accidents, like the ownership maybe die unexpectedly. There is a true story about a very famous family business called Junyao in China. Junyao is the top100 private companies in China, and the operating income is more than four billion yuan, about four hundred million euro. Unfortunately, the owner-manager and the founder died unexpectedly because of cancer, when he was only 38 years old in 2004. However, everything comes too fast, so his only son takes over the company only 17 years old. In the next several years, the company has a huge draw back.

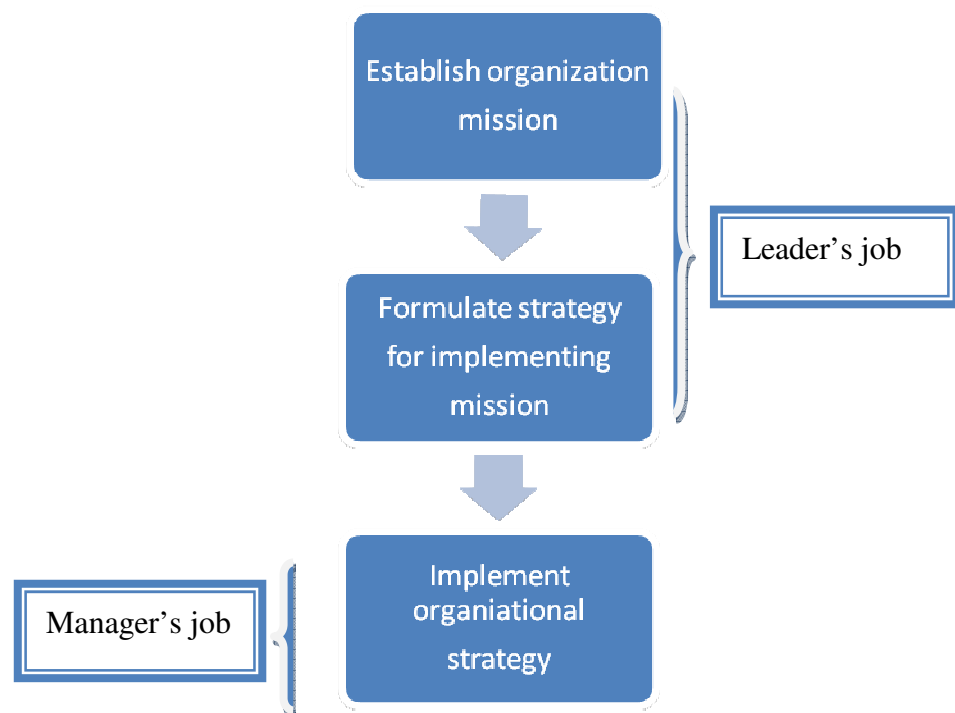
So it is important to think about the worst situation, and to spell out what would happen in the event of such development. Like the continuity plan itself, the emergency plan should address ownership, management, and family considerations. (MARK, 1997, 13-17)

In a word, a successful continuity plan should be clear. The plan should be strategic, it must be based on a thorough analysis of the future market and the growth prospects of the business. Likewise, the plan should be comprehensive; it must acknowledge the complex interaction of family, ownership, and management issues. At these twelve basics, the plan should also be feasible. The family must consider the current environment.

### 4.3.2 Develop the successor

Children who have grown up with an understanding of the family business since childhood may have the best chance to learn how to make it their own. Developing successors is not only training the sons or daughters who are still studying but also including the children who already are employed by the family company. In the developing process, the senior should introduce and teach how to deal with the customers, suppliers, creditors and regulators. What's more, parents should train the successors be a leader.

Leader, an individual whose primary function is to create the essential purpose of an organization and the strategy for attaining it. Leadership is the process whereby one individual influences other group members toward the attainment of defined group or organizational goals. (Jerald 1997, 433-435) The parent should train the successor to be a leader, not only a manager. The job of a manager is to implement that vision. He or she is the means of achieving the end, the vision created by the leader. The successor should have the ability of establishing direction by creating a vision for the future, not only implement the senior's strategy or their vision.



**Figure 6** Leader and managers: distinguishing their roles

Source: Julie Beardwell and Tim Claydon 2007, Human Resource Management, Pearson education limited, Spain, p.434



Developing successors can be divided into two periods. The first period is before the children enter the company and get some particular education. Most parents will choose to let their children enter a famous university to get some management knowledge, special knowledge and some basic knowledge. And in the holiday, let their children do some training in other companies or their own family company, learn some advantages from other companies or become familiar with the family business.

However, these kinds of things are only what the parents want their children to do. It may be not the children's own minds. So building up the interest of their children is a core. Many entrepreneurs ignore some details; however it will influence their children deeply. For example, parents may always appear to overwork or be overstressed at home when they finished their working, or full-mouthed of the business. Too often, parents show only the frustration and tension of their work, how can their children find the real joys or the real interest from business? This kind of behaviour would even make their children scary about the business. If parents want to hand over their business to their children, they should spark interest in their younger children.

Every child may be more likely to lead the business someday if he or she is exposed early to its rewards and satisfaction. First of all, the leaders should begin by expressing the fun and joys that come from the real business, like they can bring their children to the office, and provide a role model. Every person want to do their own thing, not be controlled by others, and the children are also the same. They also have their own minds. So parents could give a real job and require performing up to real standards. Only in this way, children will treat this job in the family business as an entitlement, a form of welfare that is bound to have hire effects on their future attitudes.

The second period is when children enter the company. If the children are interested in their family business, then the senior should mentor their children. Mentoring the young sons or daughters of a family business is treated much too casually by too many owners. Entrepreneurs who hope their children will one day enter the business and lead it into the future should begin education early on. One successful mentoring requires a long warm-up; it can not be a two weeks or two months survey course in Daddy's business after which the kids become executive vice-president. It must take a long time; and what is to be learned? A lot. Not just the vice-president for marketing,

finance, and production, the firm's auditors, bankers and attorneys, perhaps an outside consultant who has the right background and works well with young people.



**Figure 7 7-Cs: behaviours contributing to successor performance**

Source: Randel S. Carlock and John L. Ward 2001, strategic planning for the family business, PALGRAVE, New York, United States p.113

It is unlikely that any successor will possess all these behaviours or characteristics. So the seniors or parents should consider the family's core values and the current business situation to select the successors. And it also the improving direction for the successors, the successor should improve what the family business needed, and get the support and accept from the family members. (Randel & John 2001, 113)

Creating a visionary company requires focusing not just on profits but on institution-building. Lasting success in business depends not so much on great product ideas or charismatic leadership as on dedication to 'core values and a sense of purpose beyond making money that guide and inspires people throughout the organization.' (Mark, 1997, 53)

Actually, the most important is successors. He or she is the new generation and new leader about the future of the business. The ultimate destiny of the company lies in their hands.

### **4.3.3 Transferring Control and Ownership**

Handing over a business is not just a matter of choosing the new leader. It includes transferring control and ownership of the company. The particular ownership structures chosen will affect the investment of all shareholders, especially family members. Without significant ownership, successor's policies may be challenged by the former leader, and they may be unable to gain the confidence of suppliers or clients. Experts who have examined numerous succession agree that a successors can not run the company effectively without significant ownership. (MARK, 1997, 85)

The older generation should transfer at least 30 percent of its ownership. This would recognize the importance of the next generation as substantial, which has important implications for bankers, suppliers, and customers. When the primary owner-managers of a family business retire there are two separate periods, retirement from running the business and retirement from ownership and control. As long as the ownership remains with the older generation, the reality is that the new managers are subject to comment and intrusion into the business by the previous managers, or even just implicit constraints. As a minimum, 30 percent of ownership should be transferred to the next generation, so that any search of the company records shows that current managers own at least a substantial portion of the business. (MARK, 1997, 86-87)

### **4.3.4 Taking charge and Letting go**

Taking charge part is for the successor and letting go part is for the parents who want to hand over the family business. When Successors take charge of the family business, he or she is the leader in this company, and he or she should establish authority, make sibling teams work, and get the supporting from the employees and respect from the other family members.

As Chapter 4.3.1 mentioned, power is different with authority. The successors want to establish authority, he must demonstrate achievement at real jobs, pick a highly competent executive, and solicit advice. Understanding power – its uses and abuses- is one of the most formidable challenges that face aspiring successors as they rise to positions of authority in family companies. The relatively sheltered upbringing that

wealthy business families provide their children does not always prepare them for the harsh demands of effective leadership. (Mark, 1997, 101)

Being a leader means allocating resources in ways that will inevitably displease some who do not get all they want. It means hiring and firing employees, and disciplining those whose performance or behaviour falls short of the leader's expectations. It means having the power to set the direction of the business even when other strong leaders are fiercely opposed. (Mark, 1997, 102)



**Figure 8** Factors in leadership

The biggest challenge is creating a personal vision. Even when successors pass all the tests and demonstrate exceptional competence, they may not have done enough to establish their claim to leadership. True leaders offer a personal vision of the future that inspires employees and shareholders and gives the company a meaningful direction. And the vision articulated by the successors builds on the foundation of the family's vision and values that profoundly influence the company's culture, strategy, choice of products and relationships with key or important stakeholders. (Ivan 1999, 206)

However, at this stage of succession process many young successors ignore creating a personal vision, they focus their efforts on establishing authority. It is not a good start for the successors. As a leader, they must walk steps ahead of their employees or followers, at least a few steps. Developing and articulating a vision is not an easy process, it takes a lot of time and effort. Because the vision should convey both respect for what has come before and the expectation of an exciting change in the future.

When successors are in the process of taking charge, they must take every opportunity to inform the critical stakeholders- the family, the shareholders, the senior managers' key employees of the direction they intend to take. The successors should make the case with conviction and passion for why this direction or vision makes sense and why it will carry the company to new heights of accomplishment. On the contrary, people will see it as an artifice and will be sceptical of the successor's authenticity as a leader. This is one of the fundamental reasons why the previous leadership cannot just hand a vision of the future to the new leadership.

In both sibling and cousin companies, successors often have to function as members of a team. While this is particularly true of those companies in which most or all sibling and cousins will be directly involved with the management of the business, collaboration is also essential in those systems in which some of the sibling or cousin owners choose not to go into the business. Sibling or cousin parents continue to confront situations in which their individual aspirations have to be subordinated to the collective effort. (Ivan 1999, 209)

The question is how to make an effective sibling team? So it needs their parents help, their parents should share a commitment to a family vision and value. It includes a vision of the future that generates excitement and vitality in their working relationship. However, it may be only loosely connected with specific performance goals or targets in the business, and it may never even be articulated by any member of group. The common vision should include the family's culture, values, identity, and tradition. It offers the possibility of both collaboration among the sibling and their fulfilment as individuals. By embracing the common vision, members of the sibling team feel that their involvement with others will stretch them and enhance their growth.

As the juniors rise to positions of major responsibility in the family business, the seniors become increasingly aware that their tenure as the leader is aware to a close. They should care about that the junior whether can run the family business and family successfully. For senior, they have a lot of excuses which look like reasonable. However, if only they make a succession plan and want to continue the family business, they should let go. It is more beneficial to the family business' continuity.

For seniors, the passage of a successful business from one generation to another can be a joyful experience and exceptional glory in which seniors and juniors share a sense of joint accomplishment and look forward to a satisfying future for their company and their families. The senior should make a fixed retirement age which is good for the next generations development and family business continuity. Typically, family companies do not have a mandatory retirement age- at least not one that applies to executive from the family. However, the lack of a fixed retirement age in family businesses also makes the succession process more vulnerable to the darker side of the entrepreneurial personality.

A generation change threatens to deprive some spouses, for example, of prerogatives and functions in the company that they may have enjoyed for years. These roles may includes anything from running a part of the business or managing the company's finances to helping employees with their family problems and organizing social activities for clients. Consciously or not, spouses may support the owner's opposition to planning their departure for a number of reasons, not just for loyalty. (Rosenblatt& Johnson 1985, 75)

Whether or not succession planning will occur depend, in the final analysis, on the will and courage of the senior leaders. While other stakeholders in the family business may resist planning, it will go forward if the senior provides the leadership.

#### **4.4 Some own suggestions for Chinese family business**

According to comparison between with foreign family businesses and Chinese family businesses succession, we can find two obvious differences; the first one is foreign

family businesses (American, European and Japanese) have already separated ownership and management. The second one, level of socialization has become higher and higher. These two main differences lead to the American, European, Japanese families decreasing their participation, and more non-family members are one part of family business. They hold the company's stock, so they will influence the succession more or less.

Whatever American, European and Japanese family businesses, many family businesses have a hundred years old history. They have been passed several generations. So they have already made standard rules that make sure the succession successfully. However, the most Chinese family businesses do not have any experience of succession, so the succession problem becomes urgent and outstanding.

Chinese family businesses only have less than thirty years of age, and most of them are small-medium size companies. Added that the traditional Chinese culture influences the people deeply, so a Chinese family emphasizes the blood relation in succession. Son or daughter taking over the family business is the natural choice; however, this kind of succession has a lot of weaknesses. Because of the special Chinese one-child policy, it means the founder or their parents does not have any other choice if they only want to hand over the business to their child. If Chinese family business's leaders want to continue the business successfully, they should develop and train the successor. Some European family business would make up a team (including teachers, lawyers, public relation official and experienced employees) to help the successors grow up and reduce the risk. Chinese family business also can follow this method to train and develop successors.

The other important part is the family's culture and rule. Many Chinese family businesses build up by founder's emotion. They manage the company based on the relationship, not according to performance or other fair management. So Chinese family business lacks some talented non-family members, and it limits their longer growth. It means Chinese family businesses should learn some experience from foreign family businesses, especially American, European and Japanese family businesses. Chinese family business can set up a more open policy, not only keep the family glory and

pride, but also raise the non-family employees' confidence and loyalty. In a word, the basic idea is to break up the blood in succession problem.

The third part is that one successful succession needs plenty of factors. For founder, the final company's mission is developing as long as it can. So sometimes the founder needs to quit in a right time, do not occupy the position when successor taking charge. It is not good for successor's growing. After hand over the business to young successor, training and developing next generation to be a talented successor are more proud and important. In the succession problem, they need to make a succession plan as early as they can, and develop his or her successors, build a suitable policy to rule, and take charge, let go. After the succession, founder should trust his or her successor, not always disturb the successor's plans or strategy. This is the only way to keep the company developing longer and bigger.



## 5 CONCLUSION

This is my first time of study an issue so deeply, and reading so many theory books. I am so pleased that I have learned so much family business's knowledge and even how to fix the problem in the process. I got the different opinions through reading different countries' books and materials. And the different dates make me think more overall. I am enjoying it, which I can use my own imagination and creativeness to finish my favorites.

Family business is a most interesting issue for me, and it is also a hot topic in China nowadays. And my father also run a family business; maybe I will take charge of the business from my father, so it is also necessary for me to learn and concern some family business's development, the succession issues and the latest news about the world or Chinese economic circumstances.

This paper starts with defining family business, and clears what the family business is. At the same time, I give my own definition of family business, which company accord with one of them, it is a family business. First, Two or more than two members come from one family who own or control the operating management rights directly. Second, the company's leadership and management always succeed in the family. Then this paper compared with foreign family business and Chinese family business, and mainly in two parts: property and HRM. The last part is the main part- succession. Explain the succession problem, analysis the necessity of building a suitable succession model in China, are a logical succession model and some my own opinions.

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