RETHINKING ENTREPRENEURSHIP IN FAMILY BUSINESS

Insights From China

FOLLOWING the realisation that families can have a significant influence on entrepreneurship, and vice versa, the past decade has witnessed a dramatic surge of research into family business and entrepreneurship at their point of intersection. Examination of this dynamic in post-reform China, where family firms are an important source of entrepreneurship, has implications for New Zealand companies that may find themselves competing or collaborating with such firms.

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Understanding how Chinese family business operates will help New Zealand companies to collaborate or compete

LENGTH: 9 min (2336 words)
Entrepreneurship in Chinese family business

IN GENERAL, China’s transitional economy is characterised by weak capital structures, limited legal protection for property rights, and high institutional uncertainty, which creates an environment in which entrepreneurship often develops differently than in more advanced economies.

One notable effect of this pattern is that families have played a central role in almost all aspects of China’s private entrepreneurship. They are the primary – and usually the most durable and stable – source of capital, labour, intelligence, and psychological support. As Xiang Bing and Teng Bingsheng of China’s Cheung Kong Graduate School of Business outlined in their commentary on the growth of Chinese entrepreneurship, family businesses have become a major vehicle of private entrepreneurship, in both quantitative and qualitative terms.

This is a recent phenomenon. Entrepreneurship was historically suppressed in Communist China, and family businesses virtually disappeared from its economy after 1956, when the private sector was eliminated following the establishment of the centrally-planned economic system. Prior to the launch of a series of economic reforms in the late 1970s and early 1980s, private entrepreneurship in China existed on an extremely small scale in the form of an underground black market. For more than two decades, family businesses, like all other non-state enterprises, were considered an ideological and political taboo.

The rebirth of family businesses in China began in 1979, when the central government officially endorsed a policy that acknowledged the contributions of private entrepreneurship to economic development as a supplement to China’s socialist economy. However, due to policy ambiguity and continued distrust of government, family businesses did not prosper until the 1988 Constitutional Amendment finally legalised private enterprises. As many observers have pointed out, government policies in China have been notoriously volatile, and private entrepreneurship is not consistently favoured by the institutional environment, where the legacy of former centrally-planned system often intervenes. In his work on China’s legal reforms, University of British Columbia law specialist Pitman Potter noted that the conservative faction in the Chinese Communist Party still tends to consider private entrepreneurship a potential threat to the party’s legitimacy, ideology, administrative authority, and moral standards. Thus, it is easier and safer for Chinese entrepreneurs to have their business under the family umbrella, and this realisation has resulted in the rise of family businesses and, to an extent, their family orientation.

Interestingly, the Chinese government has not endorsed family orientation as it did family ownership. China’s private sector has sustained dramatic growth, particularly since the 1990s when the central government decided to deepen its market-oriented economic reforms and committed to a socialist market economy. Meanwhile, a government-led teaching of the modern enterprise system, which advocates an increase of market orientation in business management and operations, has expanded from China’s state-owned sector to private SMEs, most of which are family-owned and managed. In effect, the Chinese government explicitly encourages private entrepreneurship while implicitly containing family orientation. This makes China an exciting laboratory for the study of family orientation and entrepreneurship.

Case studies in China

IN 2010 I undertook field research in China to gain insights into the effects of family orientation on entrepreneurship in the context of trans-generational Chinese family businesses.

Case studies were conducted in the eastern Chinese province of Jiangsu, where family business and entrepreneurship have developed strongly and consistently. Given that a large number of local family businesses had completed, or were in the processes of completing, inter-generational succession, my work focused on those that had just entered their second generation. Eight small and medium-sized businesses were chosen, in each of which the founder parents had retired and no longer engaged in the business on a daily or routine basis. The successor owner-managers (SOMs) were key decision-makers and had dominant authority in the businesses, even though some of the retired founders were, at times, still consulted.

To achieve sufficient information, and to ensure the trustworthiness of the data, several methods were used, including semi-structured interviews, personal observations, and document inspections. Information was collected from various sources, including the SOMs, employees from management and non-management positions, SOMs’ family members and relatives who

Figure 1: Family business orientations and entrepreneurship
were either directly or indirectly involved in the businesses, and external stakeholders such as clients and government officials. To provide a common ground for presentation and interpretation of descriptive data and to increase the data's intuitiveness, a scoring system, from 5 to 1, was used to evaluate fifteen criteria. These were: family wealth, values, employment, reputation and social status, and continuation and succession—to capture the firms' business objectives; finance, trust, guanxi networks, knowledge and expertise, and organisational culture—which examined the firms' resources; substitute decision-makers, participation, consultation, implementation, and decision review—with regard to the firms' decision-making. The total scores indicated the overall value orientation of the businesses. Typically, a higher score indicated the firm's emphasis on family values and interests, and therefore its greater family orientation. A lower score suggested that the business was more responsive to market intelligence and values, and hence less family oriented. Entrepreneurship was assessed against the innovation typology outlined by Thomas Robertson in a pioneering 1967 article. Robertson defined three types of innovation by examining their relationship to the firm's existing business, labelling them discontinuous, dynamically continuous and continuous innovations.

Two sets of data—on the firms' value orientation and entrepreneurship—resulted from the fieldwork, and they generated interesting findings. On one hand, the eight Chinese family businesses presented different clusters of value orientation—two were family-oriented, three market-oriented, and three were hybrids combining both orientations. On the other hand, entrepreneurship data indicated three distinct patterns of activities, differing between radical and incremental, and resulting in discontinuous, dynamically continuous, and continuous innovations.

As Figure 1 illustrates, when the two sets of data were combined and compared, an even more interesting picture emerged with regard to the relationship between family orientation and entrepreneurship. Towards the family orientation pole, the two businesses appeared to be the most incremental entrepreneurial players, focusing on strengthening existing business with continuous innovations. This was consistent with the classic view of family business, which asserts that family orientation is associated with innovation of a less radical
Figure 2: Founder-successor impacts on innovation

The family, the generation, and the legacy

CERTAIN FACTORS must have nuanced the effects of family orientation on entrepreneurship in the second-generation Chinese family businesses. Such nuances affected the SOMs’ attitudes and behaviours, and subtly changed the firms’ value orientations in entrepreneurial processes. Given the trans-generational nature of family business, and the central role of individual owner-managers in small to medium-sized family businesses, an individual-level analysis was then carried out to uncover these intergenerational subtleties.

The first insight was that the SOM’s previous experiences, particularly those related to succession, were relevant to his or her ability and motivation to undertake entrepreneurial and innovative activities. Those who were explicitly designated as prospective successors, and therefore who received purposefully programmed successor training from the founders, appeared to be more capable of maintaining the existing business, and more willing to do so than their counterparts whose successions were unplanned, and who were not systematically trained as prospective successors. This mirrors the argument put forward by John Ward, director of the Kellogg School of Management’s Centre for Family Enterprises, that succession planning is an effective way to sustain established family businesses. In a similar vein, Spanish researchers Ercilia García-Alvarez, Jordi López-Sintas, and Pilar Gonzalvo view successor designation and training as an intergenerational socialisation process, through which the first-generation ideology and legacy is gradually transferred to, and internalised by, the second-generation SOM. He or she, in turn, unconsciously prioritises continuous business growth over radical change.

Second, the founder-successor relationship was found to have a significant impact on the successor’s perception of, and attitudes towards, the existing business, which in turn influenced the firm’s entrepreneurial and innovative activities. Indeed, as depicted in Figure 2, with an agreeable and engaged founder-successor relationship, the successor was more likely to accept the founder’s direct or indirect ongoing involvement in the business after succession, with a preference for strengthening the existing business. This resulted in continuous or dynamically continuous innovations. On the other hand, less friendly founder-successor relationships contributed to the successor’s resistance against the founder’s legacy and a desire to either completely or significantly change the exiting business and its practices. With an unfriendly and disagreeable, or even hostile, founder-successor relationship, the founder’s ongoing involvement in the second-generation business became unlikely. The successor’s desire to change, and the absence of the founder’s ongoing involvement, enabled the successor to pursue an entrepreneurial opportunity that had little or no relevance to the existing business. This resulted in discontinuous innovation.

SOMs of the three least family-oriented businesses were all designated by their respective founders as prospective successors and received comprehensive successor training. They had collaborative relationships with their founders, and generally embraced the founder’s ongoing involvement in the businesses after succession. Although...
this involvement differed in form and intensity across these businesses, it contributed to the effective continuity of the first-generation legacy in the second-generation businesses, which in turn subtly directed the SOMs to a general focus on the existing business when entrepreneurial opportunities were created and exploited.

On the other hand, SOMs of the three businesses with a hybrid combination of family orientation and market orientation had not been considered as prospective successors, nor had they been provided with successor training. Being free of the founder’s designation and training enabled them to develop business abilities that were not necessarily relevant to the existing business. Coupled with an indifferent or disagreeable relationship with the founders, these SOMs excluded the founders from ongoing involvement in their businesses, either intentionally or subconsciously. It was the first-generation legacy per se that was rejected. The minimisation of the first-generation legacy in these businesses virtually freed the SOMs from the founder’s influence or interference, and they did not have to bear major ongoing commitments to their respective founders, through the existing business, which enabled more radical entrepreneurial thinking and behaviours.

Conclusions

TWO MAJOR conclusions can be drawn from the research. First, entrepreneurship in small to medium-sized family businesses is not simply a firm-level undertaking. As the family system and the business system are interactive and the owner-manager plays a critical role in both systems, attention needs to be paid to both the business context and the family context, as well as to an individual level. To deepen our knowledge about entrepreneurship in family businesses, a dual-level approach is necessary.

Second, in successive-generation family businesses, the effects of family orientation on entrepreneurship are nuanced by the successor’s perception of, and reaction to, the preceding generation’s legacy. Recognition and embracing of the preceding generation’s legacy typically turns the firm’s entrepreneurial processes towards existing business, resulting in continuous, or dynamically continuous, innovations. Rejection of the preceding-generation legacy inclines the business to radical entrepreneurial processes, increasing the likelihood of discontinuous innovations. In order to uncover the way in which family orientation influences entrepreneurship in successive-generation family businesses, it is necessary to adopt a cross-generational perspective.

How entrepreneurship is influenced by family-owned businesses is a work in progress, with many questions yet to be answered. However, insights from various socio-economic environments are helpful in generating a holistic understanding of entrepreneurship in family business. In this sense, China can shed light on family businesses in New Zealand. At a pragmatic level, it is important that we obtain knowledge about Chinese family businesses, which are increasingly competitive in both domestic and overseas markets, and may become either partners or competitors of New Zealand companies in China or elsewhere.

KEY TAKE-OUTS

- Family business is a fuzzy concept, with no commonly accepted definition. Beside family ownership, it is the extent to which the business adopts a family orientation in its management that determines the nature of the business.
- The influence of family orientation on entrepreneurship is not necessarily negative, though intergenerational subtleties can significantly affect innovation.
- Chinese family businesses have become a major entrepreneurial cluster in China’s private economy. Understanding the way they operate will help New Zealand businesses collaborate or compete with them.