

# Successful Strategies for Transferring a Family Business from One Generation to the Next

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## ABSTRACT

Family businesses make a significant contribution to China's GDP, providing jobs and opportunities for many to showcase themselves. However, family businesses must face several challenges, one of the most important of which is succession. My research is a qualitative study of the strategies used by different business families to pass the family business from one generation to the next. The findings support previous research that most family businesses deplete the company's resources during the succession process, resulting in failure of the succession and bankruptcy of the company. Succession fails for many reasons, such as lack of preparation. My data shows that the enthusiasm of the successor is more important than the education. Effective communication, establishing long-term goals and clear governance rules, and being well prepared also play an important role in avoiding succession failure. The findings of this work have practical and theoretical implications.

## Introduction & Literature Review

In 2015, 86% of the Chinese market were private enterprises (that is, except for "solely state-owned" and "state-controlled", other types of enterprises are private enterprises as long as they have no state-owned capital), most of which are family-owned enterprises (FTI Consulting, 2015). 2018). Statistics show that only 30% of families can transition to the second generation, while less than 14% of family businesses can transition to the third generation (Venter, Boshoff, Maas, 2005). Professor Fan of the Chinese University of Hong Kong has stated that most companies lose 60% of their value in the process of inheritance from the first generation to the second generation (FTI Consulting, 2018).

One reason why family businesses fail in the succession process may be that the family lacks the ability or willingness to participate in the success process. The transfer of knowledge from one generation to the next is important for the effective management of a business, and the second generation must add new knowledge and provide a new management or sales perspective to the family business (Barroso Martinez, Sanguino Galvan, Banegil Palacios, 2013). Most family businesses fail because of a lack of trust between generations or because of inconsistent goals across generations (FTI Consulting, 2018). Sometimes family businesses fail due to unclear and inconsistent succession planning. But it can also fail due to incompetence, lack of preparation, rivalry between families, and lack of training for successors (Ahmad & Yaseen, 2018; Miller, Steier, & Le Breton-Miller, 2003). Other reasons for failure include lack of successors, lack of interest in successors, lack of academic training, problems with outside investors, poor governance policies, and even a pernicious judicial system (Ahmad, Omar, & Quoquab, 2020; Bjuggren & Sund, 2001 ; Bloemen-Bekx, Van Gils, Lambrechts, & Sharma, 2021; De Massis, Chua, & Chrisman, 2008; Lee, Lim & Lim, 2003; Royer, Simons, Boyd, & Alannah, 2008; , 2017). More importantly, replicating and demonstrating the same leadership style and loyalty as the leader is often a challenge for the second generation. Failing to do so means the family business has lost a significant asset that made the company so successful in the first place (FTI Consulting, 2018).

Since family business owners represent essential human capital in the business, active participation in any of these roles can be a key determinant of business intergenerational continuity. According to the Women in Family Business (Feliu & Lansberg, 2022) article: “The ability to promote a more inclusive family business is to enable more women to take on relevant roles in business, family or ownership, possibly on certain dimensions Improve the competitiveness of enterprises among their peers.” Of course, education and training are very helpful in helping them collaborate effectively in consortia. For young daughters, having a female ancestor who can recognize or celebrate business leaders in their presence can inspire and influence their desire to be involved in the family business. By actively participating as owners of any kind, women can influence narratives about gender roles and inclusivity in their families, and their families and the global community create greater value for them (Fliu and Lansberg, 2022).

The successor's interest and willingness to take over the family business plays a very important role in the successful transition of the business from one generation to the next (Dumas, Dupuis, Richer and St. Cyr, 1995; Stavrou, 1999). The reason for managers' reluctance to give up the business may be doubt and anxiety about the successor's ability to control the business (Goldberg & Wooldridge, 1993). Therefore, trust in the competence of the successor is an important determinant of effective succession (Dickinson, 2000; Donckels & Lambrecht, 1999). The more the successor's personal needs and career interests are aligned with the opportunities offered by the family business, the more willing the successor is to take over the family business from the previous generation (Carlock & Ward, 2001). The quality of the relationship between the outgoing leader and the successor is a key factor in the success of the succession process (Brockhaus, 2004, p. 169). High-quality relationships are characterized by a high degree of trust, mutual support, openness and honesty about all information and events, careful communication of all issues, and a willingness to acknowledge each other's hard-earned achievements (Neubauer & Lank, 1998).

There is considerable evidence that, in some instances of successful inheritance, the heir is usually well prepared (Weinstein, 1999). Ward (1987) pointed out that any related, effective development of successor is an important feature of the survival of the enterprise during the transition period of succession. It is not only the satisfaction of various stakeholders with the succession process that determines successful succession (Hume, 1999).

We still need to understand more about the effectiveness of successful strategies in Asian family businesses, especially when successors are female. Intending to contribute to this understanding, I carried out a qualitative study of the data to see how different businesses and CEOs in China view their family business, what their strategies for succession are, and to evaluate the impact of these strategies on business longevity. My research also explores whether the gender of successors to family business influence the type and impact of strategies used.

## Methodology

I use qualitative methods for collection and analysis of data. I interviewed 5 people, 4 of them were potential successors, 1 was the owner of family businesses. These semi-structured interviews were conducted using telephonic conversations, due to the busy schedules of the business owner and the successors, as well as to comply with COVID-19 safety regulations. The informants were selected based on convenience sampling within my direct network. The data collected through these interviews was anonymised, to ensure confidentiality.

I also used secondary data to analyse and support the observations from the analysis of primary data. This secondary data was identified using keyword searches on Google, for news articles and opinion pieces. For the data from secondary sources, I carried out content analysis to draw observations to support and triangulate interview data. Drawing on elements from grounded theory, data analysis was carried out using coding to identify themes of interest in the responses of the interview informants. I constructed a data table (see table 1) using the outcomes of the coding, to organise and label the emerging observations from the data analysis. Further iterations of going between data and theory helped me evaluate the theoretical framework (see figure 1) proposed by Nave et al. (2022), and to further our understanding about family business succession in China.

## Analysis & Findings

From my interview, several of the successors were willing to inherit the family's business and the others either did not want to or were not sure they wished to inherit the family business. Successors who wanted to inherit said if they were to inherit the family's estate, they thought they should prepare themselves for the job by needing an in-depth understanding of the products sold by the company and the market situation of the products, and then do a lot of market research and research. Understand the general direction of the company in the future and look for the technology and talents that are lacking in the company. Spend some time at the grassroots level of the company so that it can get a general understanding of the operation of the company as a whole. They need to familiarise themselves with the family business and how it operates. Also, study management in business to carry out plans and operations for the company. Successors who don't want to inherit said that "I am not willing to inherit my family's business in the future as the industry that it is in does not interest me. If the business was in an industry that I am passionate about, I would be more than willing to inherit it."

The boss was told that if the child can take over the company and carry it forward, then handing over the company to the child will be a very good choice. But if the child is not competent, your company needs to find a competent and experienced person to take over the company. Of course, the absolute requirement for a child to inherit the company is not academic qualifications or experience. The absolute requirement is that he must have enthusiasm, and he must continue to carry forward this career in his heart. From the secondary data, the factors related to the successor that could directly influence succession are the willingness of the successor to take over the business; the preparation level of the successor; and the relationship between the manager and successor. Antecedent factors that can influence these successor-related factors, with returns from the business; belief in the ability and intentions of the successor; personal needs adjustment; and family harmony.

## Results & Discussion

The theoretical framework of Nave et al. (2022) describes the succession strategy of the family business. The first is social-emotional wealth and corporate governance, including clear governance systems and robust inheritance. The founding CEO greatly influences the company's strategic choices, the founder's leadership style, and the issues a new generation faces in establishing an identity. In my interview, the second interview with the boss of the company once said, "The company has a very clear management system, and it actually operates in the company." There is also the legacy of the first and third interviews. "I need to be familiar with the family business and how it works," the interviewer said. "It gives a general idea of how the whole company works."

The results of this study are in agreement with some parts of the theoretical framework that underlies Nave et al.'s (2022) family business succession strategy ideas. A clear governance system and robust succession planning also allow for the appointment of persons who are seriously committed to the sustainable development of the family business (Yacob, 2012).

Table 1. Coding

Exhibiting interest in entrepreneurial activity

Representative Quotes	First Order Codes	Second Order Codes
Yes, I'm willing to inherit my family's property in the future. (Interview 1)	Exhibiting interest in entrepreneurial ac-	
Yes, [I] most definitely [want to inherit the family business]. (Interview 3)		
... less than half of the would-be second generation of family business leaders are willing to take up the reins. (Source 2)	Lack of or low interest in entrepreneurial activity	Entrepreneurial intention of potential successors
Only 21% of family business in China have succession plans ... (Source 3)		
I am not willing to inherit my family's business in the future as the industry that it is in does not interest me. (Interview 4)		
Sure, if I have nothing else to do in life if not, I'll just have small shares. (Interview 5)		
In my expert opinion, it is more than six in 10 children of business owners who are unwilling to take on the family business. (Sourced 1)		
... found that 82 percent of surveyed heirs said they were reluctant to take over the family business. (Source 2)	Successors self-identifying gaps in knowledge	Successors' existing business knowledge and knowledge acquisition strategies
... more than 80 % of second-generation family members do not want to take over the family business. (Source 3)		
I would need to familiarize myself with the family business and how it operates. (Interview 3)		
If I'm going to inherit the family's estate, I think I would need an in-depth understanding of the products sold by the company and the market situation of the products, and then do a lot of market research. (Interview 1)		
I also think that it is a good choice to spend some time at the grassroots level of the company because it can get a general understanding of the operation of the company as a whole. (Interview 1)		
But before this, it is best to go outside to experience other companies, have some work experience, and then come back to the company to experience it will be better. (Interview 2)		
Keep up with latest market trends and be better than the other competitors in the market by having better services or prices. (Interview 5)		
[I want to] understand the general direction of the company in the future and look for the technology and talents that are lacking in the company. (Interview 1)		
I would also advertise our product to target markets internationally to expand the business. (Interview 3)		
... the next step in this development is to have leaders. Then sell it to the child, or hand it over to the company's employees, or find a capable person to inherit and manage the company. The condition of its pre-existing decision is who can help the company create more benefits. The company's resource is limited, and if the company's resource is used up, then it does not exist. (Interview 2)		
To be able to use the system to make the company have an effect, instead of simply handing it over to the employees for management, he must have the system [...], cooperate with it. (Interview 2)	Expectations for successor performance	
It is vital going forward that rules are document and agreed on. Communicating these updates to family members is crucial to prevent the chance of disputes. (Source 2)	Intergenerational communication	
[Successor should] be able to use the system to make the company have an effect, instead of simply handing it over to the employees for management, he must have the system to cooperate with it. (Interview 2)	Expectations for successor performance	
... he can let others see his work ability in the actual work. (Interview 2)		
If the child wants to inherit the company, it does not mean that the child can inherit if he wants to. First of all, he must have this idea and this willingness, and then go to various departments of the company to learn and experience. (Interview 2)	Role of current head in creating succession plan	
The ability he possesses, education is of course an important ability. However, this is not an absolute requirement for succession to the company. The absolute requirement is that he must have enthusiasm, and he wants to continue to carry forward this cause in his heart. Of course, he needs to have the ability, and this ability is [analyzed] through constant testing, and he can let others see his work ability in the actual work. [Then] he has the conditions to inherit and manage the company. (Interview 2)	Expectations for successor performance	

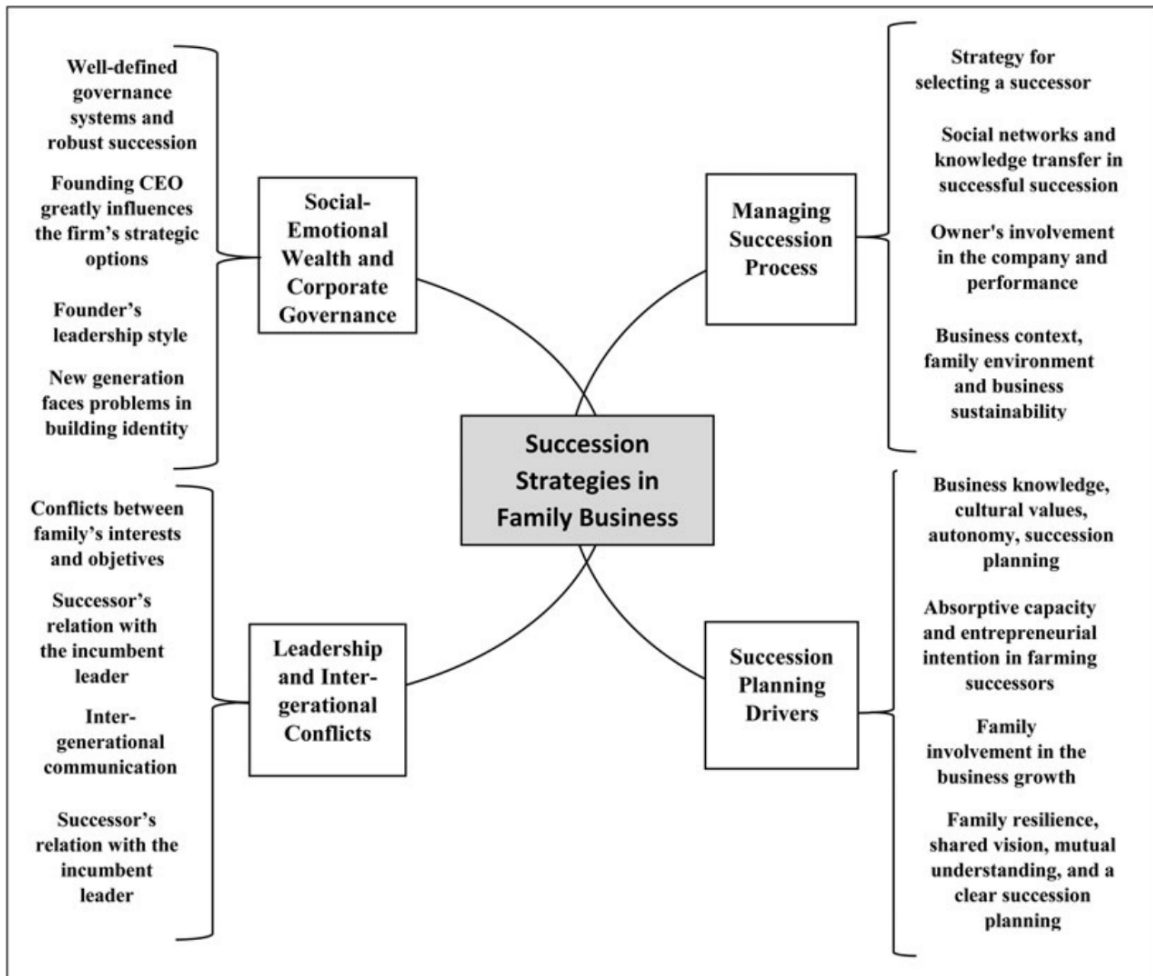


Figure 1 - Theoretical Framework, from Nave et al., 2022

Then there are succession planning drivers, business knowledge, cultural values, autonomy, succession planning. The successor of the third interview said, "I also had to study business management in order to execute planning and operations for the company." The successor of the first interview said "I need to have a deep understanding of the products the company sells and the market for the products, and then do A lot of market research. To understand the general direction of the company's future, to find the technology and talent that the company lacks." And the successor of the fourth interview said "I believe I still need to go to college, at least get a degree in a related field of study, because the business environment is constantly changing. In addition, the university broadens my horizons through lectures and fellow students. "This generation's involvement in decision-making and strategy is critical in preparing for leadership roles and retaining organisational knowledge (Ling, Baldrige & Craig, 2012). It is also important to prepare ahead of time to discuss transition and succession planning in detail in order to outline the roles of each family member (FTI Consulting, 2018). There is ample evidence that in successful transitions, heirs are often well prepared (Morris et al., 1997, p. 386; Weinstein, 1999, p. 2). In fact, succession development is one of the most important characteristics associated with firms that can survive generational transitions (Ward, 1987).

My data indicates that female successors are helpful and cooperative in family businesses, although more data and deeper analysis is required to draw conclusions regarding female successors in Chinese family businesses. A possible extrapolation, for instance, can be that having more women in relevant roles in business, family and ownership may enhance the competitiveness of enterprises in multiple dimensions (Neus Feliu,Ivan Lansberg, 2022).

## Limitations & Conclusion

With regards to the limitations of this study, there is a need to empirically test the findings from my study to make them more robust. The data collected is also not universally representative, so there may be some limitations to generalisability as well. Businesses like family businesses that go through a difficult succession period are the most likely to fail in the process, and it is very important to understand and be clear about the succession strategy. Research has found that many factors can lead to success or failure at the same time. For example, if there is no clear succession plan in the succession process, there is a chance of succession failure, but if there is a clear succession plan, there is a chance of succession. In the future, if the company faces the succession stage, preparing in advance or understanding which factors will affect the success and failure rate of succession can effectively prevent the loss that the succession may bring to the company.

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