

**THE NEW CHINESE ENTREPRENEURS:
HOW THEY VIEW FAMILY BUSINESSES**

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Abstract

This paper compares Chinese and American family businesses on a number of important variables, including succession issues, management of the firm, and relationships within the family. Interviews were conducted in Mainland China with nine Chinese entrepreneurs to determine their experiences with and attitudes towards family businesses in their society. The interviewees were involved in both manufacturing and service businesses, and were almost equally balanced between men and women. Results of the interviews indicated a more negative view than one would expect of the family's role in Chinese business operations. Family businesses were seen as less well managed, less professional and more chaotic than non-family businesses. In addition, none indicated it was important to them to pass the business down to their children, preferring instead that the children make their own decisions about their business careers.

INTRODUCTION

Sixty-five to eighty percent of businesses worldwide can be classified as family businesses (Cruz, 2001). The impact of these businesses on the economies of their respective countries and the overall global marketplace is enormous. Two countries where family businesses have been an integral part of the economic landscape are the United States and China. While family

businesses have a much longer history in China, due to its centuries old culture, the amount of available data and research on family businesses in the United States is more extensive. Given China's new "open policy" regarding business and its historical focus on the family, it is worthwhile to begin to build a base of knowledge on family businesses in China, which can be compared to similar information in other countries, particularly the United States. This paper is a step in that direction.

CHINA: LITERATURE REVIEW

China is a country built on traditions: the use of symbols and rituals to ensure physical and emotional well-being, the belief in balance in one's life which encompasses the forces of yin (woman) and yang (man), a respect for authority based on a cult of personality instead of laws. One of its most respected traditions is a reverence for the family unit (Clayre, 1984, Anthro #342, 1997). This has manifested itself in a variety of ways: a sense of caring and obligation towards one's family that results in the younger generation taking care of the older generation; "ancestor worship" rituals which reflect respect for dead family members; and the desire to carry on one's lineage through the sons in the family.

The closeness of the family unit in China is carried over into the economic life of the country. Family members not only live together but work together in the fields or in the shops. The upside to this is that families have a

guaranteed labor force that is loyal and can be trusted. The downside is that position within the business is not always based on merit and competence, which ultimately impedes growth.

Because of past political and economic constraints within China, a number of Chinese business owners and entrepreneurs have moved offshore, primarily to other parts of Asia, where they have become hugely successful. Almost all of these businesses are family-owned (Weidenbaum, 1996; Cruz, 2001). As an indication of the importance of these companies to the economies where they operate, the Australian Broadcasting Corporation (1999) cites data that show that ethnic Chinese are just 10 percent of the population of Eastern Asia but make up 90% of the area's billionaires.

A report issued by Andersen Consulting and the Economist Intelligence Unit (2000) confirms this by analyzing the influence of Chinese business entities within Asia and concluding that in almost every country the Chinese are a small part of the population but control a large part of the generated revenue. Good examples would be the Philippines and Indonesia where Chinese make up less than 5% of the population but control 50-60% and 73% of the market capital, respectively. And, although offshore, these Chinese business owners have had a tremendous impact on mainland China, accounting for 80% of all outside investment in the economy (Weidenbaum, 1996).

The advent of significant economic reforms in China beginning in 1978-79 has given many Mainland Chinese an incentive to remain within their own country to pursue their economic dreams. Roberts, Prasso and Clifford (1999) report that "government-

owned companies that all but monopolized business a decade ago make up only 47% of the economy today," while "the private sector – not counting farms and the operations of foreign investors – accounts for as much as 40%."

Chinese family businesses in the mainland face the same issues that family businesses face the world over. This paper will focus on three: relationships within the family, succession, and human resource management. These three are deeply intertwined and are driven by how the family interacts with one another.

Family Relationships

A critical element of Chinese family businesses is the desire to sustain and nurture family members. The business is seen as an "iron rice bowl" that guarantees blood relatives a job and financial stability (Anthro #342, 1997).

The hierarchical and paternalistic nature of Chinese families is carried over into the business, ensuring less bureaucracy and quicker decision-making (Weidenbaum, 1996). Organizationally, family status and generational deference are critical to how the business operates (Andersen Consulting and EIU, 2000). A sense of well being infuses the organization because it is felt that one can trust the family to look out for the best interests of each other and, by extension, the business.

The sense of responsibility that the patriarch feels towards the family is also felt by younger generations towards the founder. King, Ashley-Cotleur, Brazeal (2001) found that Asian-Americans working in family businesses felt they had an obligation to continue the business. Weidenbaum (1996) cites

examples of second generation children giving up careers in medicine, architecture, banking and the law when they were called home to run the business upon the incapacitation of the company CEO.

Succession

Because decision-making is so tightly held in Chinese family businesses, the transferal of the business from one generation to the next can be a period of anxiety and turmoil (Anthro #342, 1997). Traditionally, business control is passed to the eldest son, but many times a number of heirs will be involved in the ownership of the assets. The question of who can best run the company or who has the most interest in the company are not as important as status within the family. Consequently, “the reigns (of power can) fall into the hands of an inept family member” (Anthro #342, 1997).

Redding (1999) states that succession is a critical time because “it is the first sign of the breakdown of the organization’s traditional glue.” He indicates that by the time the third generation takes over, the central forces, which held the organization together, have weakened. Consequently, the business will often break up into smaller pieces, and begin to rebuild. In fact, large Chinese family businesses are many times a collection of numerous SMEs that are centralized by the family unit. It is assumed that this tendency is exacerbated by a lack of management depth, expertise and competence in successive generations.

Human Resource Management

The strong familial bond within Chinese businesses tends to adversely impact those employees who are not part

of the family unit. The opportunity for these employees to grow and develop is seriously hampered by the fact that top level positions within the company are reserved for family members (Andersen Consulting and EIU, 2000). This unwillingness to make personnel decisions “based on merit and the good of the company . . . severely hurts the efficiency and labor potential of the company.” (Anthro #342, 1997) Further, information is not readily shared outside the family. The company patriarch tends to keep a great deal of information in his head, making it difficult for non family employees to participate in decision-making (Redding, 1999). As a result, the very best employees tend to leave.

In a study of offshore Chinese businesses, Andersen Consulting and the Economist Intelligence Unit (EUI) (2000) indicate that “centralization and a rigid hierarchical approach . . . have tended to make Chinese family businesses inflexible and discouraged those lower in the organization from taking responsibility.” In order to compete in the global economy, the report argues that these firms must decentralize decision-making, invest more heavily in human resources and provide opportunities for non-family members to rise to the management level. The authors stress that “Chinese family businesses must develop and implement professional, performance based human resource management practices” to replace the “traditional rigid hierarchies and emphasis on personal relationships that are ill-equipped to deal with an environment of accelerating competition and increasing complexity. . .” Even some Chinese businessmen recognize the need for change in how family businesses hire

and promote employees. Richard Eu Yeeming, the CEO of a major Asian holding company, states in an interview with the South China Morning Post Ltd that “if you want to grow the business, you have got to look for professional management.” (Hui Yuk-min, 2000, p. 3)

UNITED STATES: LITERATURE REVIEW

Family businesses are a fact of everyday business life in the US, and a major factor in the United States economy. The following statistics are commonly found in most of the family business literature (Shanker & Astrachan, 1995; Ibrahim & Ellis, 1994; Andersen 1995). They are:

- A large percentage of America's wealth lies with family owned businesses. These family firms have been estimated to make up over 90% of the business enterprises in North America. Family businesses account for 78% of all new job creation, 60% of the nation's employment, and 50% of the GDP.
- Nearly 35% of Fortune 500 companies are family firms.
- Only 30% of family businesses survive when they are passed to the second generation and only 12% will still be viable into the third generation.

Similar to the Chinese, family firms in the United States deal with issues related to family relationships, succession, and human resource management.

Relationship Issues

The reasons many people strive to run their own businesses range from exercising an entrepreneurial spirit, to achieving a desired flexibility. The driving spirit that has led many people to start their own business has also compelled many of the their family members to join them in the family business. While the close relationships of the members involved in the business create a degree of resilience uncommon to those that do not employ family members, there are also unique problems. The source of resilience often comes from the family members' commitment, shared vision and fighting spirit that help them ride out crises and make sacrifices for the overall good of the business. The problems arise when the interpersonal family relationships cloud the family members ability to make objective assessments about the business needs. Some of the issues are related to responsibility and/or role confusion, communication problems and nepotism (Ibrahim & Ellis, 1994).

Relationship issues among family members can make family members and non-family members feel very uncomfortable working in the business. If these issues are not dealt with, there can be irreparable damage for the family and the business (Ward, 1996). Relationship issues can be between parents and children, among siblings, or non-family members with family members. The problems can be a simple miscommunication between people or they can be related to authority issues. Any number of complex issues that occur within the family system can be dragged into the business. When family issues are layered on top of business related issues, the myriad of

problems that can develop can be overwhelming for any family business to deal with on their own.

Family firms often need help to see outside of their own circle. They overlook the important issues necessary for a business to succeed because they are too occupied with the “noise” of complex family issues. However, it is the complexity of the family system that often creates a certain centric view. When these family firms fail to draw on information that is external to the business and their experience, they can inadvertently stunt the growth of a business. It is often necessary to draw on the objective opinions and resources available outside of their immediate circle – something owners often have difficulty doing. The ultimate challenge that the family firm faces is how to successfully leverage the strengths that the passionate, concerned family members provide while at the same time responding to the external environment and growing the business in a professional way (King, Solomon and Fernald, 2001).

Succession Issues

Succession issues in family businesses have often been the major impediment to the survival of the family firm. Based on a survey by Arthur Andersen (1995), two-thirds of the business owners want their businesses to be transferred, either with a sale or as a gift, to the family’s next generation. However, most entrepreneurs fail to prepare the future generation to take over the business.

If there is any succession planning, it is usually delayed until it is too late to be of any real help. The founding members often have an idea of what they expect to happen in their head

when they die or retire, but it is never communicated in an appropriate manner. They often delay discussing the issues related to naming their predecessor because of their own inability to relinquish control. Formalizing a succession plan is the first step in “letting go” - a difficult concept for the entrepreneur or founding member of the firm (Ibrahim and Ellis, 1994).

Another aspect to the succession process is that an entrepreneur’s choice of a new leader may have more to do with the needs of the family than selecting the most capable successor. If the family wants to keep the management under its control, an owner-manager may select his or her child to manage the business rather than a non-family member who may be more capable (Goldberg & Wooldridge, 1993). In addition, an entrepreneur’s selection as to which of the children should take over the leadership role is often based on non-relevant factors, such as the siblings’ age, birth order, gender, or the quality of their relationships with other family members, rather than the ability of the child or the needs of the business (Ibrahim and Ellis, 1994).

Human Resources Issues

Since strategic management in human resources has proven important for businesses in general, researchers in small and medium sized businesses have begun to examine whether differences exist between family and non-family businesses in the management of their human resources. For example, Welsch found that when a family business made a decision regarding their personnel, they were more likely to be influenced by family values and personality issues than by a standardized set of

performance criteria (Welsch 1996). Other researchers in family business suggest that the family's values and culture create more complexity in the strategic planning of human resources than in human resources planning of a non-family business (Dyer & Gibb, 1988; Ibrahim & Ellis, 1994; Ward, 1996).

Astrachan and Kolenko (1996) have suggested that family businesses may suffer from a limited organizational capability as a result of inadequacies and/or complexity in the planning of human resources. They argue that improper management of personnel may be one of the main reasons for the failure rate in these businesses. In a recent study involving family businesses, they found several human resource management practices that were significantly correlated to improved organizational performance. Their research, along with others, supports the proposition that in order to increase the capability of family firms, it is necessary to implement a strategy for their human resources.

PURPOSE

The purpose of this study is to compare family businesses in China and the United States to determine how Chinese entrepreneurs view the role of the family in the current Chinese business environment; specific issues of family relationships, succession planning, and human resource management in both countries were examined. To accomplish this objective, a survey was designed and administered to nine Chinese entrepreneurs, with follow up questions to flesh out certain responses. This is an exploratory theory-building study; hence we will not test hypotheses. Rather we are developing

an initial theory as to the differences that emerge through the research.

DATA COLLECTION

Sample

The researchers administered a questionnaire in Shanghai, China to 9 entrepreneurial business owners who volunteered to participate. All of the businesses were in different industries. There were four women and five men. Of the four women, three worked with their husbands and one worked by herself. The age of the participants were from the middle thirties to middle forties. The ownership of the businesses ranged from being fully owned by one entrepreneur to being jointed owned with other investors, including the Chinese government.

Measures

The "Chinese Entrepreneurial Survey" consisted of 47 questions. The survey questions could be divided into seven different areas. For this paper, we will analyze the responses related to the operation of family businesses, particularly as they relate to succession planning, human resource management and relationship issues. Twelve questions addressed these issues and specifically looked at:

- The importance of the family unit to the growth of the Chinese economy
- Attitudes towards family businesses compared to non-family businesses
- A comparison of family and non-family businesses in various human resource areas
- Problems working with family members
- Attitudes towards hiring professional managers
- Factors important to deciding on a successor for the business

RESULTS

The questions related to the importance and value of family members in Chinese business enterprises showed a surprising trend towards devaluing the importance of the family to business success. Responses to all questions in this category scored on the negative end of the scale. Only one of the nine respondents indicated they were in a family business and none felt it was important that they pass on the business to their children. When given a list of factors that the respondents considered in deciding who took over the business, the fact that the successor was a family member was unimportant (average ranking was 4.3, with 5 being the least important). It was interesting that all of the participants ranked capability of the successor as number one and education as number 2 for this question.

Asked how important the family is in the growth of the Chinese economy, five respondents indicated that it was only somewhat important, while two indicated it was not important at all. Only two considered the family to be very important to the overall economic health of the nation. None of the respondents indicated they had gotten money from their families to start the business, relying primarily on personal savings.

Using a five point Likert scale, respondents were asked to compare family businesses to non-family businesses on a number of variables. Respondents indicated that family businesses were:

- less well managed (3.44 with 1 being better managed)

- less professional (3.44 with 1 being more professional)
- less responsive (2.55 with 1 being less responsive)
- less permanent (3.44 with 1 being more permanent)
- less profitable (2.75 with 1 being less profitable), and
- more chaotic (2.38 with 1 being more chaotic).

Six of eight respondents indicated that there are problems working with family members in a business. When asked to elaborate, respondents primarily cited management issues such as fairness to other employees, complications because of the personal nature of the relationships, and general difficulties in running a business that had family members involved.

Six of nine respondents said they hired professional managers to help operate the business. The response was consistent with their desire to hire employees based on capability and education.

CONCLUSION

This study is an ongoing line of research conducted by the authors on the importance of culture in business operations and consumer attitudes towards business.

Surprisingly, results of the interviews conducted with nine Chinese entrepreneurs indicated a more negative view than one would expect of the family's role in Chinese business operations. Family businesses were seen as less well managed, less professional and more chaotic than non-family businesses. In addition, none indicated it was important to them to pass the business down to their children, preferring instead that the children make

their own decisions about their business careers.

Although the respondents had many of the same problems with relationship issues as the U.S. entrepreneurs when it came to employing family members, the lack of desire by these respondents to transfer the business to the next generation was quite different. We believe there are two factors that may be influencing their attitude.

First, it has only been ten years since China has opened its doors to allow for entrepreneurship in their country. For many individuals, this is the first experience they have had in owning their own business. They have no experience with the joys of being involved in long-term family businesses.

In addition, they have lived in a country where their freedom has been given to them and taken away from them. As a result, we believe many of these entrepreneurs are more interested in growing their business in the most efficient and professional manner in order to make their money in the short term.

As China continues to enable SMEs to grow in the future, the attitudes in China may change as many of these young entrepreneurs feel more secure in leaving their business as a legacy to the family. However, for now, these respondents have serious reservations about the role of the family in China's business future.

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