

## A Case Study Successful for Chinese family business

**Fatih YAŞAR**

Department of Management  
Beijing Institute of Technology University-China  
[fyasar27@hotmail.com](mailto:fyasar27@hotmail.com)

**Abstract:** In order to determine the impact of financing to corporate performance, Guangdong Province family owned listed corporation family businesses is selected to describe a sovereign form of economic organization throughout the world in terms of contributions. Because of the coincidence of family business failure and the importance of family business within national and local economies, a large percent of family business literature is allocated to the issue of succession. In mainland China, the family, as the basic social unit, has recently regained its importance in economic activity. Starting from the exacting case of a family business located in Guangdong province, this article reviews the practices that reign in the succession of the management of companies. Following this case study, a questionnaire was drawn up and submitted to 15 family businesses. Chinese companies can continue to endure or not, depends on its ability to carry out bold economic reforms and to what extent the characteristics of Chinese companies and originality play. A survey inquiry is used as the research instrument. The results prove that psychosocial needs are more often associated with the potential successors' intentions to take over family businesses than other factors.

**Keywords:** Condition; Successful; Family business

### Introduction

Family businesses signify a widespread and prophetic form of venture in the economic and social landscape. Some researchers approximation that, today, family-owned businesses comprise over 95% of all business establishments worldwide. Studies in the United States, Canada, Europe, Australia, and overseas countries imply that family firms account for the majority of the businesses and have a major collision on the growth of the national economies. In mainland China, interest in family businesses was first aroused by the success of the big Chinese family companies which are characteristic of the countries of Southeast Asia, and then by the growth of the Chinese private sector, the majority of whose companies are of the family type. (Lank et al, 1994)

Family business is not characterized by either permissible forms or specific size. Some writers desire either the condition of possession or that of management control in order to depict a business as being a family one or not; other definitions are based on both possession and control. Recently a dynamic loom has distinguished the family business, whether it be a simple family workshop or a big visibly quoted company, in terms of the real manage exercised by the founding family. (Stavrou, 1999). This does not necessarily imply majority control of the assets or the require of remedy to managers from outside the family. Its individual attribute is that no other group of shareholders carries greater weight than the family shareholders, and that the appointment of the head of the company depends absolutely on the principal shareholders.

Beyond the question of definition, it is generally agreed that a family business is characterized by the superimposition of a system of enterprise and of a family system in one and the same entity which is both economic and social. In matters of succession, a decision is never taken as the result of purely economic computation, nor is it merely a problem of the passing on of the family legacy. In the context of a China in transition where the power of the state mingles with creature motivations, this method makes it possible both to evade mistakes that would lead to over simplifying complexities and to encumber light on the rich diversity of the real lives of personals and organization. (Chua, 1991)

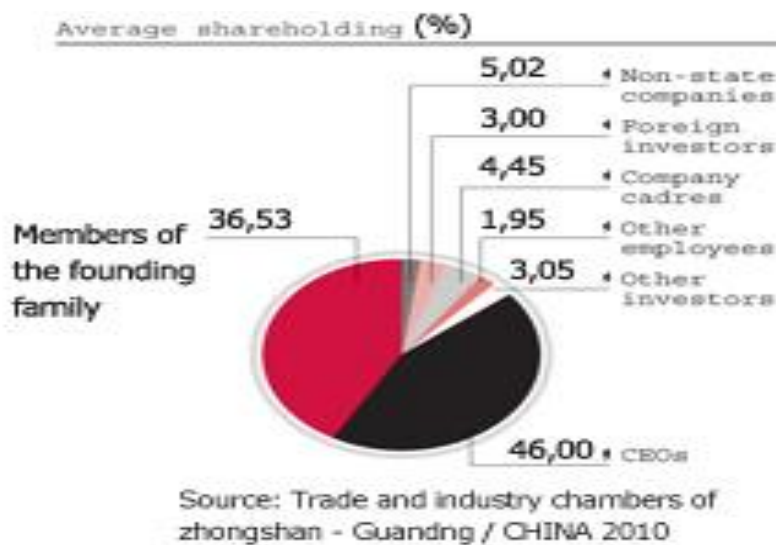
The aim of this article is to donate to the accepting of the present situation of Chinese family businesses, through a focus on the question of succession. In the first part, we introduce a business that has experienced two consecutive succession processes over the last few years. From this we teased out questions which are examined in the second part, in the light of information gathered from 15 family businesses in the province of Guangdong.

In order to find answers to these questions, and in conjunction with the Centre for Research into Family Enterprise in Guangdong we conducted a survey of a sample of 15 family businesses, between June and December 2009. These businesses share the following characteristics: their capital is private; they are large

companies resolute to professionalize their managerial team; the head of the company is around fifty or sixty years old, so that succession is not far off; they are manufacturing companies.

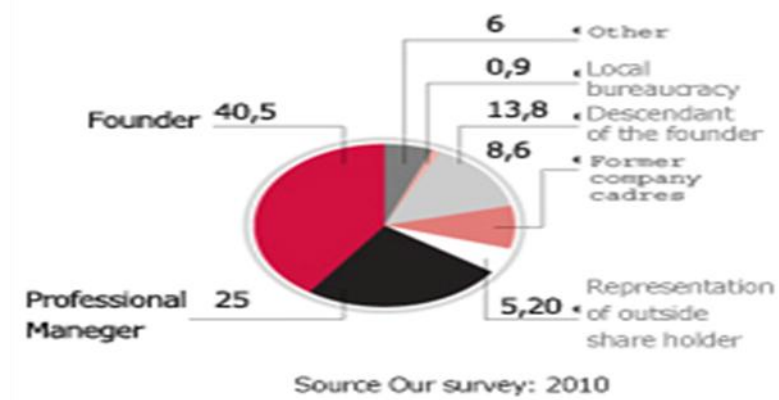
In the survey, we made two unexpected discoveries. We had initially believed that a number of private companies, after over twenty years of growth, were in the process of transferring power from one generation to another or had already experienced a transfer of power. In reality, for a majority of private companies, succession is not a required solicitude because of the youth of both the entrepreneur and the company. Among the fifteen companies, only two had a change of principal manager, seven had not been resisted with the question of succession, and six did not give any answers. In this way our survey, which had expected the observation of practices, reveals only opinions on the question of succession. Secondly, we initially sought to meet with twenty large private companies in the same sector in Jiangmen, but the preponderance of small and medium-size private companies only made it possible for us to identify 13 companies in the area, to which we later added four companies situated in the environs of (two in Zhongshan, two in Xiaolan).

These 15 companies are family businesses in the strict sense because of the sovereign presence of the founding family in their capital: 36.53% of the shares belong to the business leader officers and 46% of the shares are held by other members of the founding family (see Figure 1). As the chairman managerial officer is, most often, also the head of the family, the founding families control these companies.



**Figure 1:** Shareholding of chinese firms

From the management point of view managerial functions are approved out by the founders (in 40.5% of cases) and their children (13.8%), for a total of 54.3% of positions (see Figure 2). Family control at managerial level is apparent, even if it does not exclude the arrival of outside talent (25% of executives are professional managers recruited from outside). The data collected on the capital, the turnover and the number of employees shows that these are large companies (see Table 1).



**Figure 2:** Executive for the companies

Number of companies out of 15 who replied		Average	Minimum	Maximum
01	Total capital (in thousands of yuan)	101,319	22,634	181,117
02	Total turnover (in thousands of yuan)	145,204	16,800	550,000
03	Number of employees	1001	258	2,500

**Table 1:** Size of Companies in our Survey  
Source Our survey:2010

## Research Design and Methodology

### Data Collection

At the time of this study, the common of family businesses were still under the control of their founder. 88.2% of the founders were ripened between 40 and 50. The transfer of power between generations is for that reason not yet a major preoccupation. However, 82.4% of the founders (14 out of 17) admitted that they have already begun to look for their successors.

### The exacting case of the FSJ Lighting Company

The story of the FSJ Lighting company is strictly united to that of its founder, Cai Shusong, once the director of a state enterprise (the lighting factory in Zhongshan) and secretary of the enterprise's Party Committee. In May 1998, at the age of 63, he retired and began a second career in Zhongshan. He borrowed 90,000 Yuan and became a sales representative for a locality and enterprise at Jiangmen. In 1999, he set up his own company, FSJ Lighting, with an initial investment of 100,000 Yuan, which produced a component for Lighting equipment.

The company was registered at the Chamber of Commerce and Industry as a communal enterprise. From the outset, although this official status, FSJ Lighting was defectors a private company owned and managed by the Cai family. All the management jobs were detained by members of the family or by close friends. In 2001, FSJ Lighting relinquished its status as a collective enterprise and became a public limited company with private capital. In 2003, in accordance with company law, FSJ Lighting was modernized and established a board of directors and a supervisory board. In 2002, it became a shareholding company. In 2005, FSJ Lighting opened its capital to four institutional shareholders, to the harmony of 21 million Yuan, and then equipped its submission for a citation on the stock market. In 2006, the company had total capital of 132 million Yuan, an annual proceeds of 86 million and profits of 21 million. It employs close to a thousand employees.

### The founder's family

Cai shusong set up his company at the age of 63 and gave up direct management of it four years later. When asked about his ambitions for FSJ Lighting, his first desire was that the company preserve its technological guide over its competitors, develop itself sustainably and contribute to local development. These ambitions are evidence that, distant from the creation of personal and family assets, self-realization is a major factor in his consumerist motivation.

Cai shusong is one of those private entrepreneurs who previously had been cadres in state enterprises. He belongs to the proficient elites who made a good living before, and who set up private companies in the same sector as that in which they were employed by the state. They are differentiated from entrepreneurs driven by dearth, because of their reasonably high incomes. Their professional experience sets them apart from the administrative elites who went into business in order to capitalize on their power at the time of the transition from the planned system to the market system. Cai shusong so belongs to the group of private entrepreneurs who most closely resemble the Schumpeterian entrepreneur They often have a long-term strategy which gives priority to the growth of the company.

Cai shusong has two children: Cai Chen (39), his daughter, Cai Xiao (31). Cai Chen, who graduated from university in 1986, initially looked after the maintenance of the equipment in a state enterprise, the electric controls factory in Guzhen. In 1998, he left the company to go into his own Lighting business. In 1999, he joined FSJ Lighting and became dependable for product design. The same year, Cai Xiao came into the family business with the job of supervising the establishment of the factory. Cai Xiao, who formerly worked in a public bank, recently submissive in order to join FSJ Lighting. At the time of our research, Cai shusong was president of the

supervisory board, Cai Chen and Cai Xiao were respectively president and vice-president of the board of directors, and was preparing the enterprise's listing on the stock market.

### Two transfers of power for company

Over the course of the last ten years, FSJ Lighting has qualified two successive succession processes. The first C.E.O. officer of FSJ Lighting was Cai shusong. The job of president of the board at that time was held by his wife. From 2002 beyond, Cai shusong began the transfer of power to the second generation, appointing his son, Cai Chen, C.E.O. officer, and taking over the job of president of the board from his wife. The string process was completed in 2003 when Cai shusong reconciled the presidency of the board, which he entrusted to Cai Chen.

This initial succession was carried out by the founder Cai shusong, who decided to give up the direct management because of his age and the inadequacy of his knowledge in the face of rapid technological developments.

The second succession was made necessary by the company's extension strategy. In 2004, after the modification of the company's legal status, when it became a shareholding company, its development led it to take on "risk capital" to the tune of 21 million Yuan, and to arrange a request for a listing on the stock market. In order to comply with the criteria of the Chinese Securities Regulation Commission, the company determined to split the positions detained by Cai Chen. In order to do this it recruited an outside professional manager, Mr. Yuan, who became C.E.O. officer.

The first transfer of power was a result of the withdrawal of the head of the company because of his age. If we consider that the main task of a family running a family business is to produce managers with the necessary competencies (comprehension and know-how), the distance between two transfers of power within the family will be at least twenty-five years in the case of a nuclear family. This distance can be shorter in the case of an absolute family, which has the possibility of interesting sons-in-law or cousins into the company. Thus the structure of the family (the number of children, the accessibility and impetus of probable successors, etc) influences the regularity of successions.

Factors exterior to the company also come into the computation. The technological environment anxiety the renewal of competencies in order to adapt to sectoral evolution. The evolution of the capital structure can expose the company to new shareholders. These factors can contribute to the renewal of the guidance of the company, even if they do not supply directly to the engagement of the successor.

Even after the arrival of a C.E.O. officer who was not part of the family circle, the Cai family, at the time of our consultation with Cai shusong, still held 53% of the shares, while four financial institutions held 34%, and the other directors 13%.

The management team is currently made up of 11 people, of whom three are members of the You family (Cai shusong and his son). Three are former company cadres who now supervise general business, finance and technology.

As well as the chairman executive officer, three deputy directors have been actuated from outside the company, and an consultative position has been commended to a former state employee, who was previously the head of the local commission for foreign economic and commercial relations (Sorenson, ,2006). Although this progression has led to a diminish in the control of the founding family, the Cai family still holds a common of the capital.

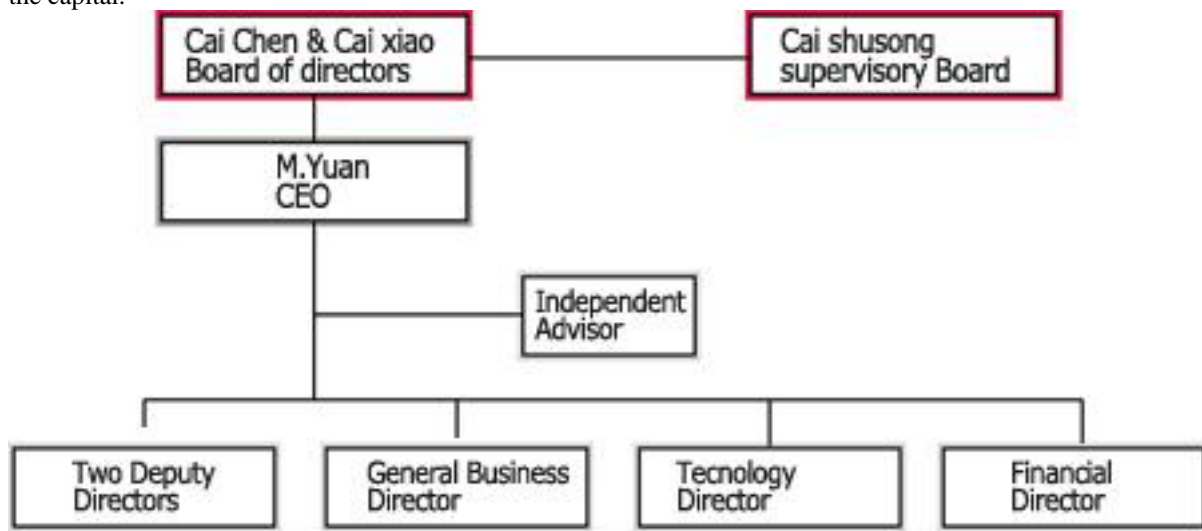


Table 2: FSJ Lighting Company Organization

## Results

In China, the development of the private sector goes back less than twenty years, most businesses are family ones and are always dash by their founders. The two successions pragmatic in the case of the FSJ Lighting company incited us to formulate the following questions:

Is the actual of talent from outside the family merely an illusion in the case of China ?

Will the growth of companies lead to the opening up of their capital and what effect will this have on the succession process ?

Is the charming into anxiety by a family industrialist of the constancy, the spirit of commitment and the professional competence of his successor a widespread occurrence?

Is it absolutely necessary for a manager recruited from outside the family to establish personal relationships with the executives of the company which recruits him ?

The sample was classified to fsj lighting undergoing transition from the main reason is linked to the founder himself. The physical reject due to age (28.9%) is the major reason, while a acquainted of the limitations of his aptitude in the face of technical fruition ranks second (28.3%). Some also refer to the external environment in a situation where growth no longer allows the founder, despite his aptitude, to organize his company alone. A require of management facility within the company obliges him to judge a transfer of power (5.9%). Lastly, outside investors may command a change of guidance, but the manipulate they effort remains limited (5.9%).

The reason may recline in the closed scenery of the capital the family businesses in this survey mainly rely on self-financing (90%) or on bank loans (69.4%) for finance. Whatever the reasons for this, the closed scenery of the capital of these companies and the very restricted collision of outside investors on the alternative of C.E.O., lead us to consider that the FSJ Lighting company is a very exacting case. Its choice to seek a stock market listing must be seen as an progress in the personal preferences of positive members of the family. In other words, the choice of certain family businesses to become bigger and more “modern”, with the help of the financial markets, is more the result of exacting personal decisions than a law of the development of family businesses.

Therefore, the objective reject of the founder and the progress in the technical environment are the two main factors that lead to succession charming place, while the direct pressure exerted by outside investors is trivial. The role played by the second generation at this phase of the succession must also be noted. To the question “Do your children wish to work and progress in your company?” 76.5% of the founders give a positive reply, but none of them envisage giving up their power only because of their children's wish to share more in the business.

## The principle for Choosing a Successor

In spite of the children's wish to share power with their parents does not automatically allow them to succeed to the job of C.E.O., 88 % of founders want their children to be able to work in the company. In order to recognize them, three categories of individuality were listed in the questionnaire. We asked the founders to list them in declining order of importance, and then calculated their respective levels of importance (see Table 3)

Constancy (50.4%), guidance aptitude (50%) and the spirit of commitment (43.8%) are the most appreciated qualities. Occurrence (26.1%) and university training ((19.5%) are also deemed important. Also mentioned is the network of professional contacts (15.8%). If one compares the level of importance of the three categories, “character traits” come first (28.8%), “abilities” follow (at 17.5%), while “other qualities” come last (2.6%). In the choice of a successor, moral qualities and technical competence are the two main criteria taken into account by the founders. However, morality seems more important than competence in the eyes of the majority of founders.

The substance given to constancy and proficiency is differentiated according to the kind of dependability taken on. Where the post of C.E.O., the most important in day-to-day management, is concerned, opportunistic behavior is the most destructive to the interests of the family. Where the manager's constancy and strength of commitment are the most important criteria, the selection of a successor always remains subjective, although the objective aspect of the selection procedure which is partly based on an assessment of competence through university training and acquired experience. Similar assessments are made in other parts of the world. Both in developed countries, such as Canada, and developing countries, such as India, constancy and the spirit of commitment are deemed to be the most important qualities by company heads (Levitas,,2005).

An ordinary succession coupled to the age of individuals is at variance with a succession brought about by the development of the company. The preference of the founder's eldest son differs from the recruitment of a professional from outside the family.(Habberson,1999) Is such a development indication of a essential change in the criteria used by Cai shusong in the choice of his successor ? During our interview Cai shusong described the preferred career shape in the following terms a proficient person with professional experience and a wide

network of social contacts. When we asked him to assess the advantages and disadvantages of different modes of selecting a successor (see Table 3), he expressed the opinion that the introduction into the company of a professional manager favored the strengthening of management and innovation prospective; the disadvantage was a require of knowledge of the decent virtues and the real competence of the person concerned. However if the favored successor was already a company cadre, Cai shusong would be more certain, thanks to direct knowledge of the competence and moral qualities of the person; the hazard was of annoying clash and slowing innovation. to him, choosing a relation was a guarantee of constancy and easy communication.

The essential problem of a succession is the assessment of the reliability of the successor, who is asked to supply management proficiency, but also certain principles and stroke taken in agreement with the family interest. The way in which these qualities are assessed is therefore imperative. In the case of FSJ Lighting, Cai shusong, the founder, first chose his eldest son, Cai Chen. A university graduate, initially guilty for product development, he participated in the foundation of the company. His capability is renowned by his family and by the workers. As Cai shusong sees it, Cai Chen is the answer to his prospect: he has the ability to entrust himself, constancy to the family's interests and mastery of the necessary technical and management comprehension. The family connection is not the definitive reason for Cai shusong 's choice, but it permitted him to detect him closely, to evaluate him and even to guide him. In this logic, the incidence of an ideal successor within the family is the reason sooner than the result of Cai shusong`s conclusion to turn over power only four years after the enterprise of the company.

While the first succession was a deliberate move undertaken by the founder, the second succession was prompted by outside forces. In the wake of its modify of condition in 2002, FSJ Lighting took on board new investors from outside. The resolution to seek a citation on the stock market led Cai Chen. to divide the two posts he held although this separation was not obligatory. This unexpected development did not permit Cai shusong easily to examine, assess or guide a new successor within the family. The need to assign a successor once again arose at a time when there was no potentially proficient person available within the family. Cai shusong thus found himself in a predicament: the alias of an incompetent virtual threatens the survival of the company, while the conscription of a manager outside the family increases the risk of misappropriation, especially in the deficiency of a legal system capable of settling likely conflicts.

Finally, Cai shusong chose Cai, who had worked for several years in Hong Kong and was previously the director of a condition venture in Zhongshan. The two men had met in 2002, in the course of business debate, and became friends. In 2002, Cai submissive from his company for personal reasons. Cai shusong then invited him to work at FSJ Lighting. In spite of other offers from big companies, Yuan received Cai's invitation because of their friendly relationship. Cai's professional knowledge in the sector testified to his proficiency, which was also confirmed by Cai shusong 's direct examination in their formal and informal correlation. However, just as decadence did not assurance that Cai Chen would automatically become the successor, Yuan's professional proficiency was not enough to convince Cai shusong to place administrative power in outside hands. Mutual trust, the result of a close personal association, played an important role in controlling the risk of misappropriation and allowed Cai to resolve the problem of his succession. The second succession, although carried through outside the family is still observe persona.

Thus professional capability and personal individuality are matching. While confidence in a person's aptitude to correctly manage the family patrimony can be recognized on the basis of indirect information such as status, experience and professional occurrence, information on personal qualities is more difficult to obtain.(Lee,2006) Moreover, the improbability produced by the difference in the available information is improved when the legal system is incapable to penalize opportunistic behavior effectively. In this sense, the trust born of personal interaction mainly determines the choice of a successor. But the importance given to personal relationships does not mean that an industrialist will have shade reliance in his children and an absolute doubt of strangers. Trust is a subjective judgment, but it is not resistant to reason. The criteria used by Cai shusong. first to choose You Yuan and then Cai are of three kinds: competency, moral qualities and a assure to act according to the family interest. Cai Chen 's only advantage in comparison with Yuan is that he had a cherished relationship with his father since birth, while Yuan had to build a relationship with Cai shusong in order to set up common trust. Trust, based on a long relationship, is also a sign of the lively scenery of a family venture which can carry in people from outside the family.

<b>Advantages</b>		<b>Disadvantages</b>
<b>Professional manager</b>	<b>Strengthening Management capabilities</b>	<b>Uncertainty about his real compeer</b>
	<b>Innovation</b>	<b>Uncertainty about loyalty and moral values</b>
<b>Employee already in the company</b>	<b>Ease of integration</b>	<b>Danger of a power struggle</b>
	<b>Certainty about his personal qualities</b>	<b>Slowing of reform and innovation</b>
<b>Member Of the family</b>	<b>Loyalty</b>	
	<b>Ease communication with the founder</b>	

**Table 3:** Cai shusong's Perspective on the Choice of a Successor

## Implications and Suggestions

Researchers in family business area all agree that case of the FSJ Lighting Company, the survey agreed out reveals that in Chinese family businesses, the reasons for succession, the criteria of selection of the successor and the order of favorite amid the various candidates all match with practices in other parts of the world. In the course of the development of their venture, the founders do not be tentative to praise functional jobs to capable third parties who are not members of the family sphere. However, it is to be expected that the succession to the job of C.E.O. officer will usually be the result of the projected deduction of the head of the company. Anxious to defend his patrimony, an industrialist in China, as elsewhere, while taking into account technical ability and management abilities, assesses above all the honesty and constancy of his potential successor. Trust, in the widest sense of the word, is a significant factor. As a result, the capitalist prefers to designate a competent member of his family.

It is when such a successor is not available at the time of succession that the individuality of China's case becomes more marked; this is not allied to literary specificities, but to the institutional context. The immature status of institutions and the desolation of traditional social organization limit the role of institutional trust in economic co-operation. In contemporary China, trust is usually produced by personal relationships. Social networks are brought into action in order to control the risks in the face of indecision.

The case of the FSJ Lighting Company and the opinions we have gathered show the industrialist resorting to his network of interaction when his successor is being chosen. Depending on the degree of confidence of the relationship, he first seeks an applicant among "the members of his family" then among "those close to him", and may finally resort to "strangers". The widespread description of "zijiren", which includes all those deemed dependable and division common values, makes it likely for a family business to get away the dilemma of succession and to develop even if there is a require of available professional managers. The survey did not make it possible to answer all the questions arising from the case of the FSJ Lighting company. Our sample was limited, and could not resolve how representative it is of the common of private companies, which in reality are small in size. Moreover, the question of succession remains open. Further surveys will afford wider understanding and perceptive of this area of business in China.

## References

- A. R. Lank, R. Owens, J. Martinez, H. Reidel, F. deVisscher, and M. Bruel, "The state of family business in various countries around the world", *The Family Business Network Newsletter*, May, pp.3-7,1994. *Business Review*, vol.4, no.4, pp.161-189, 1991.
- E. Stavrou, "Succession in family businesses: exploring the effects of demographic factors on offspring intentions to take over and take over the business", *Journal of Small Business Management*, vol.37, no.3, pp.43-61, 1999.
- Habbershon, T. G. and Williams, M. (1999). 'A resource-based framework for assessing the strategic advantages of family firms'. *Family Business Review*, 12, 1-25.
- J. Yan and R. Sorenson, "The effect of Confucian values on succession in family business", *Family Business Review*, vol.19, no.3, pp.235-250, 2006.
- Lee, J. (2006). 'Family firm performance: further evidence'. *Family Business Review*, p. 19, 103-14.

T. T. Chua, "Approaches to succession in East Asian business organizations", Family Trade and Industry Chambers of Guangdong- China (2010). 'Founding families control'.

Wu, S., Levitas, E. and Priem, R. L. (2005). 'CEO tenure and company invention under differing levels of technological dynamism'. *Academy of Management Journal*, 48, 859–73