

The Influence of Intergenerational Inheritance of Family Enterprises on Enterprise Performance Under the New Economic Form

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ABSTRACT

Nowadays, family enterprises in China are developing rapidly, making great contributions to China's economic growth, increasing employment, stabilizing people's livelihood and other aspects. However, there is also such a phenomenon: whenever the family business is passed on from generation to generation, the performance of the family business will always change to different degrees. After the reform and opening up, the large number of family enterprises is the key to promote the rapid development of China's economy. However, the continuous development of new economic business forms requires us not to consider the intergenerational inheritance of family enterprises with traditional thinking methods. On the basis of the existing literature, this paper discusses the intergenerational inheritance mode and content of family enterprises under the new economic form are the factors affecting the performance of the enterprise. To improve enterprise performance under the new economic form, in addition to the inheritance of explicit knowledge, we should also pay attention to the inheritance of implicit knowledge, focusing on the innovative spirit and ability of the inheritors, so that family enterprises can adapt to the development of the new economic form and improve enterprise performance.

Keywords: *New economic form, family business, intergenerational inheritance, enterprise performance*

1. INTRODUCTION

Family business is an ancient form of enterprise organization in China, but "from clogs to clogs is only three generations" has always been a big problem for family business in China. In China, the family system and family culture have a very far-reaching history and influence, and still exist in the society as an economic form up to now. According to the statistical data of the Report on The Development of Chinese Family Enterprises released by the Family Research Group of the China Society of Private Economy in 2011, 85.4% of private enterprises adopt the governance mode of family control, and family enterprises have made significant contributions to China's economic development. It has become an indispensable force in China's economy in terms of creating jobs, contributing taxes and promoting economic growth.

Although family business has existed for a long time, the theoretical research on family business in economics,

management and other social disciplines started relatively late. The earliest can be traced back to the 1950s, when Family Business Review (FBR), a professional journal on family business research, was established. However, the researches at that time were only made by individual scholars, and were still in a relatively scattered research system without forming a system. It was not until the last 20 or 30 years that a large number of literatures on family enterprises emerged and made new progress gradually. For example, the proposal of social emotional wealth deepened the theoretical research on family enterprises. At present, China's family enterprises are also in the transition period, the generation of founders gradually quit the enterprise, family enterprises will face the problem of intergenerational inheritance. At the same time, a lot of changes have taken place in the current economic form of enterprises. In the new economic form supported by information technology and oriented to knowledge innovation, it has become an urgent problem for family enterprises to choose the

inheritance mode and what inheritance is needed to improve the performance of enterprises and make their businesses last forever. This paper provides feasible suggestions on how to realize intergenerational inheritance for family enterprises in the important stage of intergenerational inheritance under the new economic form.

2. THEORETICAL BASIS

2.1. Agency theory

The principal-agent theory emerged in the 1930s. American economists Berle and Means put forward that principal-agent relationship is generated on the basis of the separation of ownership and management rights caused by the development of social specialization. The owner who is limited by time, energy and ability entrusts a professional operator to operate as an agent, and the principal-agent relationship is formed between the two. However, because the principal and the agent have inconsistent goals, information asymmetry, unequal responsibilities, incomplete contracts and other situations, "adverse selection" and "moral hazard" occur, which makes the agent may harm the interests of the principal.

2.2. Social emotional wealth theory

Gómez-Mejía et al. first proposed the concept of social emotional wealth, and believed that social emotional wealth is the concentrated embodiment of the family's non-economic goals. Gómez-Mejía et al. (2007) discussed the theory of social emotional wealth and believed that the definition and content of the theory covered a wide range. Therefore, in order to avoid conceptual contradiction, the definition and dimension of social emotional wealth were divided and summarized as follows: One is the extremely rich emotional orientation, the other is the corporate cultural value inherited by the family, and the third is altruism. Later, Berrone et al. subdivided social emotional wealth into five dimensions: family control and influence, family members' recognition of the enterprise, close social relations, emotional attachment, and the intention of cross-generational inheritance. On this basis, Miller et al. further divided Restricted and Extended social emotional wealth into two categories according to the influence of social emotional wealth on corporate stakeholders. Restricted type belongs to the type of short-term influence of non-economic interests. In this type, the family will pay more attention to the control of the enterprise, leading to the conservative enterprise strategy, and ultimately damage the enterprise performance and the long-term social emotional wealth of the family. While the extended type belongs to the long-term oriented influence type, paying more attention to the interests of family members and other stakeholders. Dou

Junsheng, Zhang Lingli and Wang Ning (2014) read and analyzed a lot of literatures related to social emotional wealth theory, and reclassified the traditional dimensions of social emotional wealth. The influence of intergenerational inheritance on family business performance. They found that family business governance is often influenced by social emotional wealth, which has a positive or negative impact on corporate performance.

2.3. Theory of technological innovation

R&D(research and development) and innovation are the key factors to promote technological progress and economic growth. Focusing on enterprises' technological innovation activities is conducive to improving enterprises' performance and promoting economic growth. Enterprise innovation also plays a positive role in improving product quality, which is conducive to occupying the market and forming its own unique competitive advantage. No innovation means stagnation or even regression, so innovation is the only way for enterprises to develop. Technological innovation is not only a systematic project with long periodicity, but also characterized by risk and openness. Technological innovation includes a series of processes, such as decision-making, management, production and market development, and requires the cooperation of various internal departments and external resources of an enterprise. Periodicity means that technological innovation is closely related to the economic cycle, and r&d innovation is characterized by a long cycle and a long period of return on investment. Risk refers to the enterprise innovation is affected by many factors, has a high degree of uncertainty, high risk level. Openness means that technological innovation achievements can be shared and the cooperation and progress of the whole industry as well as the upstream and downstream industry chains can be realized. If an enterprise wants to maintain its competitive advantage in the market, it needs to fully integrate external resources with its own resources, seek advantages and avoid disadvantages, develop for the better, and promote the development of enterprise innovation activities.

3. THE INFLUENCE OF INTERGENERATIONAL INHERITANCE ON FAMILY BUSINESS PERFORMANCE.

3.1. The influence of the pattern of intergenerational inheritance on enterprise performance

Huang Rui believes that intergenerational inheritance means that the old members of a family business hand over important positions to the next generation of new members (Huang Rui, 2009). However, the

intergenerational inheritance of family enterprises is faced with many problems, such as power struggle between successors, conflicts between successors and employees, or weak succession willingness of the second generation or its successors, which are very unfavorable to the performance growth of family enterprises.

Traditionally, most people think that intergenerational inheritance is inheriting the father's business or "internal digestion" of family members. In addition to inheriting the father's business, there is another way called external inheritance, that is, hiring professional managers. External inheritance is gradually accepted by more and more people, which is an important trend of future development (Gao Minghua, 2004). Under the background of the continuous development of new business forms, it is very helpful to introduce professional managers to be responsible for the operation and management of enterprises for development and transformation. There are also many cases of private enterprises in China introducing professional managers (Table 1). Yang Xueru (2012) believes that equity ownership can promote the entrepreneurship of professional managers and effectively promote the innovative development of family enterprises. However, professional managers will encounter many difficulties in management, and ownership is the biggest difficulty, which is also the reason for family businesses to seek successors. Therefore, the successors should be talented ownership owners (Chen Ling & Ying Lifan, 2003).

However, professional managers will encounter many difficulties in management, and ownership is the biggest difficulty, which is also the reason for family businesses to seek successors. Therefore, the successors should be talented ownership owners (Chen Ling & Ying Lifan, 2003). Professional managers simply stand in their own position and strive to maximize their own interests, while family business members stand in the position of the whole enterprise to obtain the honor and interests of the family. Such inconsistency of interest goals between them inevitably leads to conflicts and contradictions in the process of getting along (Li Xinchun, 2002; Jing Suqi, 2004). Anderson and Reeb (2003) further found in their empirical study that the corporate performance of professional managers as CEOs was lower than that of family members as CEOs. Handler also proposed that process satisfaction and performance comparison before and after inheritance can be used as evaluation criteria to judge whether family business inheritance is successful (Handler, 1990). As a matter of fact, the trust of family enterprises to hire professional managers is still not enough, and the members of family enterprises and professional managers are also on guard against and contain each other.

With the continuous development of new business forms, enterprises are facing more and more complex problems, and it is difficult to cope with the complex

situation faced by the head of the enterprise only by one person. Therefore, more and more head of family enterprises have established their own consulting team to assist family members in the operation and management of the enterprise in the way of "team assistance". Mou Nengjie (2013) believes that team building should be emphasized in the intergenerational transmission process of family businesses. Zhang Lei (2011) believes that adopting the operation and management mode of modern enterprises and establishing management teams are not only requirements for enterprise development, but also requirements for adapting to the external new economic form. It is also widely used in the United States. For example, Hilton Established a consultant team composed of company veterans and lawyers to assist enterprise managers in making decisions. At present, Chinese family enterprises are also trying to establish such a system. For example, Lee Kum Kee has established a family committee. Huawei has adopted the team management mode of "rotating chairman", and New Hope has introduced professional managers into the management, which makes the succession process of successors more smooth.

Table 1 Cases of Chinese private enterprises introducing professional managers

enterprise	founder	successor	category
Midea	He Xiangjian	FangHongbo	Professional manager
GOME	HuangGuangyu	Chen Xiao	Professional manager
New huadu	Chen Fashu	Tang Jun	Professional manager
JuneYao	Wang Junyao	Huang Hui	Professional manager

3.2. The influence of the content of intergenerational inheritance on enterprise performance

The most basic content of intergenerational transmission is the transmission of power, including ownership, management and control. There are three levels of intergenerational inheritance. The first layer is the superficial inheritance of wealth, the further layer is the transmission of power, and the deepest level is the inheritance of family business (Li Lei, 2003). Inheritance of ownership can achieve inheritance of assets and

wealth, while inheritance of management rights and control rights enables the second-generation successors to have considerable independent decision-making rights and promote the transfer of family wealth (Liang Qiang et al., 2016).

Some scholars believe that in addition to inheriting equity and other assets, the inheritance of spiritual wealth is also indispensable for family enterprises to improve corporate performance and achieve strategic development goals, and more importantly, whether their successors will pass on excellent entrepreneurship and corporate culture. Intergenerational inheritance is not only the superficial transfer of the position of enterprise manager to the next generation, but also the vision, knowledge, ability and interpersonal relationship required by this position (Lansberg, 1989). In addition to the dimension of power, Dou Junsheng and Jia Shenghua put forward the intergenerational transmission elements of family enterprises such as entrepreneurship, entrepreneur authority and entrepreneur social capital from the dimension of hidden resources (Dou Junsheng et al., 2006).

Foreign scholars also put forward that there are two types of knowledge that can be transferred through generational inheritance in family enterprises, namely explicit knowledge and implicit knowledge (Polanyi, 1967). Tacit knowledge seems invisible, but it is deeply reflected in various behaviors, rules and procedures, cultural values and other aspects, which can be reflected from the spiritual core of enterprise culture and the ability and way of work implementation (Nonaka&Takeuchi, 1996). Davenport and Prusak also emphasized the importance of the transmission of tacit knowledge in the intergenerational transmission of family enterprises. The tacit knowledge of first-generation entrepreneurs is of great value, and the intergenerational transmission of key tacit knowledge can greatly create and improve efficiency, and play a significant role in enterprise performance (Davenport&Prusak, 1998). If a family enterprise fails to pass on tacit knowledge well, it will lose a great competitive advantage in the future in the long run, which is not conducive to the long-term development of the enterprise (Sharma, 2003). With the continuous development of new economic forms, family businesses are also extending to information services, medicine and biology. Therefore, in the context of the continuous development of new economic forms and upgrading of industrial structure, the intergenerational inheritance of family enterprises should also consider the innovation ability of enterprises. The development of new economic forms of business requires innovation, new technological support and new modes of development so as to find new focal points for economic development. This puts forward new requirements for enterprises' innovation ability. However, for family enterprises, innovation is the severe challenge they face. The inheritance of such innovative spirit is also

crucial for family enterprises. Lei Hui and Liu Peng (2013) found that managers with high educational background can bring advantages and improve the technological innovation level of enterprises. Wang Xueli et al. (2013) found that managers with experience in production and output pay more attention to innovation, which is conducive to the improvement of enterprise performance.

Sharma also believes that the inheritance of family businesses is more about the inheritance of intangible assets on managers than the inheritance of power and position, and the transmission of tacit knowledge is an important criterion to judge the success of intergenerational inheritance (Sharma, 2004).

The relationship between the intergenerational inheritance and enterprise performance can be roughly divided into two views:

First, intergenerational inheritance is positively correlated with enterprise performance, and intergenerational inheritance is conducive to the improvement of family enterprise performance. Intergenerational inheritance in a scientific and stable institutional arrangement and planning, a good institutional arrangement has a positive impact on enterprise performance (Avila et al, 2003; Motwaniet ah, 2006). Therefore, some scholars selected family enterprises in Zhejiang Province as study cases, analyzed their inheritance system arrangements and plans, and condensed relevant suggestions (Wang Chengbin, 2013). Moreover, the first-generation founders of family businesses usually support the second-generation successors who take office at the beginning to ensure the success of inheritance (Zhu Zhenduo, 2018). Moreover, ensuring management control rights of family enterprises also plays a positive role in improving enterprise performance (Peng Baiying, 2013). In addition, intergenerational inheritance will lead to great changes in the leadership of enterprises, and the renewal and reorganization of the leadership have positive impacts on enterprise performance in the early stage. In order to ensure that intergenerational inheritance always plays a positive role in enterprise performance, a harmonious and friendly relationship needs to be maintained between the founder of the first generation and the successor of the second generation (Li Weining, 2015). The harmonious relationship between the founder and the successor can help the successor meet some difficulties in the early stage of taking office and quickly adapt to the management position, which is conducive to the improvement of enterprise performance. In intergenerational inheritance, in addition to the influence of the internal member relationship of the family business, the external environment, such as the supervision of competitors, consumers, the government and the public media, is also beneficial to the inheritance (Zhao Jing, 2018).

The second view is that intergenerational inheritance plays a negative role in improving corporate performance. First, the intergenerational inheritance of enterprises causes great changes in the leadership level. In order to make the new management level adapt to the old staff and system, this process of mutual integration is bound to increase investment in management costs, thus adversely affecting the performance of enterprises (Kang, 2014; Wan Lunlai, 2017). Dou and Li believe that due to the profound and long influence of Traditional Chinese culture, intergenerational transmission is also deeply affected, which costs a lot and is not conducive to its operation, thus negatively affecting enterprise performance (Dou&Li, 2013). Second, it is due to the successor is usually affected by the original strategy, direction and strategy for the future is still in use in office leader strategy, short-sighted, and don't want to change, in the current or future market conditions change, did not realize that don't work for the original strategy, leading to decline in performance (Liu Jing, 2017). Third, compared with the founders of the enterprise generation, the negative effect of the successor on the enterprise performance is more significant. Because of the short-sighted behavior of the second-generation successors, most of them only pay attention to short-term benefits. In order to consolidate their newly acquired managerial position, they will generally adopt the previous strategy for stable development, and lack innovation consciousness. In the long run, it will be very harmful to enterprise operation and performance (Cheng Chen, 2018).

4. CONCLUSION

At present, the inheritance of family enterprises in China is still dominated by family members, so it is difficult to introduce professional managers in a comprehensive way in a short period of time. Moreover, the professional manager market in China is not perfect, and the introduction of professional managers will bring certain risks to enterprises in a certain period of time. Therefore, the selection of successors in family enterprises is still dominated by family members, and professional managers are introduced to cooperate with family members to manage the enterprise. In the new economy, the selection of family business successors should be "meritocracy", and the inheritance effect evaluation of family business should be emphasized. Besides the inheritance of explicit knowledge, the inheritance of tacit knowledge should also be emphasized. In the new economic form, the innovative spirit and ability of family business inheritors should be especially considered. Considering the inheritance appeal and dynamic environment of the enterprise, this has strong practical significance for the enterprise.

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