

“How Does a Rich Family Stay Rich for More than Three Generations?” -----On the Effective Inheritance of Chinese Family Enterprises

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Abstract. As the generation of entrepreneurs gets older and older, the inheritance of family businesses which takes up half of China's businesses becomes increasingly important. Based on the present situation of family business inheritance in China, this paper analyzes the merits and demerits of the existing inheritance mode in China, and puts forward some measures for the effective inheritance of Chinese family business.

Introduction

Haixin Group, which is known as the second largest private iron and steel enterprise in China, applied for restructuring and bankruptcy in 2014. Zhaohui Li, the so called "rich second generation" lost the billionaire family property, which made the fatalism of rich only three generations burn with enthusiasm again. European and American family companies such as Rockefeller and Wal-Mart have flourished and become stronger, while Chinese family companies have often been short-lived, continuing the curse of "rich but three generations". Many family businesses in China were established after the Chinese economic reform and opening-up. Now these enterprises have entered in the stage of the new superseding the old. Succession in inheritance is a necessary condition for the sustainable development of the family business and the essential condition of be century-old shops. They could shake off the jinx only through this way.

The Present Situation of Chinese Family Enterprises

The Unique Characteristics of the Family Business

Compared with the perfect management system in European and American countries, Chinese family business has strong individual color. Behind a successful enterprise, there must be an outstanding business owner. The business owner makes all the decisions of the enterprise and all risks of the enterprise are borne by the owner and the subordinates only execute orders and complete orders. But the enterprise owner itself may not have the high-quality, sometimes they stress code of brotherhood, which is very easy to be affected by other human factors, such as the family affection, the face and so on. They do not like to handles affairs according to the established rule and system, thus often causing the management to be confused and causing the system to be remained on formality as well.

Nothing's Gonna Stop the Footstep of Time.

As is shown in the Chinese family business inheritance report in 2015, in a sample of 839 family-controlled enterprises, as many as 40 percent of business owner were over 51 years old, With the average age of the founders of Chinese listed companies being 55.5 years by calculating. From the age structure, the majority of family business owners in our country have stepped into old age. This also indicates that in the next 5 to 10 years, there will be a large number of a change of generation of business owners in our family business.

The Prospect of Enterprise Inheritance is Unknown

The enterprise generation is getting older, but the second generation is still not ready to inherit his

father's business. Unlike the enterprise generation who were hard working and have experienced great social changes, the second generation grew up with living a good life and in an easy environment, certainly they didn't experienced the hardships of starting a business. They do not know that life isn't easy. According to the 2015 Chinese family business inheritance report, Parents have a high willingness to handle over the power, but the second generation of interest in succession is not high. Only 31% of the total samples of the second generation indicated that they were willing to take over the enterprise, 14% said they were not willing to take over the shift, and 45% were not clear about the attitude of succession.

The Impact of National Economic Transformation

China's economy is changing from a state-led, manufacturing-oriented model to a new model of being driven by consumer demand and service industry. Traditional industries are becoming less competitive, and new technologies and new business models are emerging in large numbers. The manufacturing-based family firms are also facing transformation or upgrading after experiencing a boom. As the Chinese saying goes, starting a business is easier than keeping one's business, so the succession of second generation are facing no small challenge, at least not as simple as those of their parents.

The Inheritance Mode of Chinese Family Business and the Analysis of Its Merits and Demerits

Inherited His Father's Business

In addition to the son, other members of the family such as husband and wife, brothers can also take over the business. According to the traditional thoughts of Chinese people, all their hard work is for the family and their children. Naturally, they want to pass on the enterprises they have created as their ancestral property to the next generation, so that the family's reputation and wealth can be continued and then develop them to a higher stage. Therefore, inheriting father's business is the mainstream mode of Chinese family business inheritance. Inheriting father's business has remarkable advantages. First of all, the advantage is the trust based on blood relationship. Its cost is much lower. Secondly, the corporate culture of the family business is often influenced greatly by the characteristics of the core person such as the founder; while the offspring could inherit the characteristics of their parents to a certain extent, and they are more correspond to the corporate culture, which can ensure the sustainable development of enterprises. The disadvantage of inheriting father's business is its complexity. Employee relationship is complex, and human relationship is also complex. It is easy to arouse emotional disputes, resulting in internal conflict and inefficiency. If the successor is wrongly chosen, there will be a new black sheep. Country Garden, Hope Group and other enterprises have completed the power transfer to the second generation, but the actual power is still in the enterprise generation, so there will be power disputes between these two generations.

Airborne Professional Manager

Foreign monks give better sermons. Importing talents from outside can bring more advanced management concepts, more advanced management tools, and broader relationships for enterprises. In particular, when enterprises encounter difficulties or its development hit a wall, professional managers can often inject new blood, stimulate new motivation for the enterprises and rejuvenate enterprises. However, professional managers are prone to lead to trust crisis and agency crisis. When managers dissatisfied with the patriarchal system of the family business and do not agree with the business owners' values, there may have countermeasures and lead to problems of control. Many people are shocked by competition for power of the Gome. This is unacceptable to the Chinese to give up their own enterprises. This model is currently adopted by the Midea, but whether it will continue depends on the will of Jianfeng He.

Internal Training

Training from internal employees is a good option. Because they are old employees, they identify with the existing corporate culture and they are very familiar with the history of business development, current strengths, weaknesses, and development goals, which can help them to enter the management role faster. They have years of experience in the enterprise. It can help him to build enough authority and win everyone's conviction from the aspects of ability, performance, and connection. Therefore, his succession is conducive to enhancing the cohesion and centripetal force of enterprises. It is helpful to arouse the enthusiasm of employees, and conducive to the stability and development of enterprises as well.

Measures for Effective Inheritance of Chinese Family Business

As is shown in the research of United States, 70 percent of family businesses fail to reach the next generation, 88 percent of family businesses fail to reach the third generation, and only 3 percent are still running after the fourth generation. According to the domestic research, the average life expectancy of private enterprises in China is only 3.5 years. Therefore, the effective inheritance is the best way to escape from the curse of rich only three generations.

Value Inheritance, Come Down in One Continuous Line

The enterprise is the performance of the entrepreneur's disposition, and the Chinese family enterprise is very greatly influenced by entrepreneur. The entrepreneur determines the destiny of enterprise, and creates the corporate culture. It shows the spirit value of the founder and enterpriser and the enterprise. Trades leads like to trade the knife, if the second generation cannot continue the spiritual value of their father's generation. It will become water without a source, and a tree without roots. It will get weaker and weaker and cause the failure of culture finally. Therefore, the inheritance of the enterprise is the inheriting of the spiritual value. The inheritance of the enterprise culture should come down in one continuous line. It can continue to develop on this basis. Such as the American Rockefeller family, and the Ford family, they set up a family values to determine the path that has been to be taken and all generations have gone down this road.

Make a Plan for Inheritance and Train it as Soon as Possible

Research shows that lack of succession planning is one of the main reasons why many family businesses can't survive. Preparedness ensures success and unpreparedness spells failure, the selection and cultivation of successors should be as early as possible and sooner rather than later. In order to let their descendants take on the responsibility, many people choose to train their successor since their childhood time, such as Li Ka-shing. Different from the meaning of the existence of enterprise generation to the enterprise, the smooth inheriting of second generation must not only have the excellent work ability, but also can handle the relations between the parties properly. Therefore, sufficient time is reserved for the necessary training of successor, so as to ensure that the successor is prepared for the management of the enterprise and that the succession is smooth and orderly. GE's Welch took seven years to choose his successor. Peter Brabeck of Nestlé said he started training successors from his first day in office.

Training Management Teams and Assist Each Other

It is not enough for large enterprises to only rely on the wisdom of entrepreneurs. It is necessary to set up business teams, establish and improve modern enterprise management systems, and manage enterprises by perfecting the commissioned-agent system, staff participation, so as to achieve real team cooperation. Avoid the tragedy of enterprise's ending up with failure due to the mistakes of entrepreneurs.

Appoint People by Abilities, Concerns on Trust.

When the children cannot inherit the enterprise, we should change the idea of son inheriting the father's business and let the right person be in charge. Enterprises know clearly that the core of

sustainable development of family enterprises is to establish reasonable modern management system, to abandon rule of man, to carry out rules by law and to clarify the relationship between all parties. This is an international trend. But the search and training of professional managers should be a long-term project, the successor selection should exam after a long time, and support with trust, but also ensured by the suitable enterprises system

It is not important of how the family business inherits and chooses who to inherit, but we should focus on the enterprises system that applied in the selection of successor, thus carrying on the inheritance. There are many modes of inheritance, and each family business should not insist on inheriting father's business, they should find the appropriate model to complete the inheritance.

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