



## Protecting the Business from Generational Friction

### The family dynamics that promote smooth transfer to the next generation.

Forty years ago, at the start of the great reforms in China that led to more openness and entrepreneurship, founders would have expected their children to start working on the shop floor and in the office from a very early age. But since the introduction of its one-child policy in 1979, there are far fewer children in business families today. Even though the government has phased out the one-child policy, introducing a two-child policy in 2015, many Chinese owner-managers may have only one child to succeed them in a family business. As a result, the second generation's role is far more critical than to founders outside of China.

Outside the mainland, owners of Asian family businesses have no qualms about raising a brood of children. Well-known names in the region have even gone to the extreme of fathering children with many wives. Casino king Stanley Ho is Macau's wealthiest person and amongst the richest in Asia. He has 17 children, born to his four "wives". In recent years, the 95-year-old ailing tycoon has handed control of his various businesses to several of his children. Not surprisingly, parts of the handover of the Ho family assets have hit legal roadblocks and messy lawsuits.

Most founders on the mainland never have to worry about succession disputes like Ho's because of China's one-child policy. On the other hand, founders need to think far more carefully about long-

term planning and how to teach their children the necessary skills to run a family business.

### The "sea turtles"

As an only child in China, especially one from the provinces, the son or daughter might have dreams of a future that could clash with the expectations of a founder. Why would they want to run a firm in the provinces when they could follow their vision of starting a career in Shanghai or Beijing or overseas?

Traditional Chinese culture has adapted to the one-child policy by offering more choices for women. In the absence of a son, a founder may be more open to having a daughter take over the family business. In addition, founders often have more financial resources to provide greater educational opportunities to their single children.

Following high school graduation, the only child may be rewarded with an all-expense-paid training programme abroad in a field of study related to the family business. China remains the world's leading source of international students; more than 500,000 Chinese students went abroad to study in 2015, and most financed by their families.

But upon their return, the sole heir has often surprised parents by not expressing an immediate desire to succeed them in the family business.

Approximately half of returning Chinese students, termed “sea turtles”, have shown their desire to work in urban areas, such as Beijing, Shanghai, Guangzhou or Shenzhen. Nearly one-third of them have applied for jobs with multinational companies. Aware of the risk that their children may not return to their local business community after studying abroad, many founders have been pushing the Chinese government into developing higher educational institutions to rival the top tier schools abroad.

However, if founders cultivate strong bonds of kinship among extended members of their families, their children would feel less pressure and would be more likely to return home to take over the family business.

### **Grooming the next generation**

Next generation heirs in Chinese family firms are not free riders. Founders are often wise to educate their heirs in the allocation of family resources. By teaching their children how to pool their savings into a common family piggy bank, parents can make the difference between a unified and divided family.

As founders move into their retirement years, the fruits of their hard labour will be reflected in their long-term planning. A clear set of succession guidelines will instil harmony, peace and order in the family household, giving rise to a prosperous business. Nevertheless, founders should fight against the tendency towards one-sidedness and blind conformity whereby family heirs miss out on valuable growth opportunities and innovative ideas.

The single-child policy has left founders with fewer choices for family succession which may explain why so few families in China have undertaken succession planning. Despite these shortcomings, many founders have reserved their precious time and effort to educate and train the next generation to a high degree of professionalism. In so doing, they have given their heirs more incentives and the necessary skills to successfully take over the helm of the family and the business.

**Morten Bennedsen** is the *André and Rosalie Hoffmann Chaired Professor of Family Enterprise at INSEAD and Academic Director of the Wendel International Centre for Family Enterprise*. He is also a contributing faculty member to the **INSEAD Corporate Governance Initiative** and is co-author of the book **The Family Business Map: Assets and Roadblocks in Long-Term Planning**.

**Brian Henry** is an INSEAD Research Fellow.

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