
How China's Family Businesses Can Bridge the Generation Gap



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If family businesses are to grow stronger in contemporary China, generations and cultures will have to compromise.

Significant responsibilities but with little control or authority. Uncertain title and no written job description. Little or no company-specific training. Compensation to be determined by a demanding boss who has excessive emotional involvement with the business and seeks to maintain a highly personal relationship with you. Possibilities for future advancement unclear and dependent on senior management's whims or unplanned events.

In return, long hours and a lifetime commitment will be required. You will also need to take extreme care in your interactions with the senior generation, your siblings, cousins, in-laws and maybe a board of directors. In addition, your performance will significantly affect your life, your children's future, your family relationships and your long-term financial well-being.

That's the situation second-generation members of families that run businesses often face.

Luo Zhong is a successful entrepreneur who, with his sister and brother, has built their manufacturing firm based in Ningbo, Zhejiang province, to sales of over 800 million and a staff of 4,000 employees.

He is 58 years old and had always assumed his son and only child would someday succeed him as chief executive and majority shareholder. He sent the boy to the best US schools to prepare him for a business career, but his son is now talking about joining an internet start-up with two of his university friends.

The senior Luo is concerned that his talented son appears uninterested in working with him in the family business.

China has become the world's second-largest economy, with an estimated one-third of this prosperity being driven by entrepreneurial businesses.

Today, however, according to my research, China faces a serious challenge as its first generation of entrepreneurs struggles to create family businesses with the next generation, because of a lack of attention to planning for their children's participation as executives, directors or owners.

In the rest of Asia, Chinese immigrants have built a strong family business legacy. We know therefore that - despite cultural barriers related to respect, communication and hierarchies - family business could represent an important form of economic organisation in China.

So what can Chinese entrepreneurs learn from other family businesses around Asia and the rest of the world?

The central lesson is that while most entrepreneurs are pretty good at business planning, it is planning for the family that tends to be a problem. In creating a new venture, the entrepreneur needs to consider his or her values and vision and then craft plans for strategy, investment and governance. When the business is successful, the decision to keep ownership and perhaps leadership in the family requires additional planning for engaging with family members and supporting the future success of the business and the family.

There are three universal truths that apply to every family business. First, there are no "magic bullet" solutions, because each family's beliefs,

experiences and situation are unique. A process - rather than a prescription - is therefore required to help the family develop a workable plan that meets their needs.

The solution comes from the family working together to explore options and then develop plans.

Second, all family businesses are challenging, because families are about emotions and caring and businesses are about economics and performance - not a likely formula for a successful partnership. Unfortunately those are the facts, and family enterprises around the world have found that planning for these two often-conflicting systems is critical to family harmony and business success.

The best family businesses plan and govern based on logic, but they lead based on passion; they are professionally emotional. I know this advice may appear an oxymoron, but research shows that professionalising the business and family interactions convinces people of the right steps to take: tapping their emotions empowers them to action.

Third, in Confucian cultures, planning for the family and business issues discussed above must provide a bridge between traditional values and modern business thinking. In fact, Confucian thinking, with its emphasis on harmony, relationships and meeting family needs is fully accommodated by a parallel planning process for the business and the family that is driven by family values and vision.

So how does the parallel planning process work in the real world? It is a systematic approach that considers the business' needs and the family's expectations using five key variables: values, vision, strategy, investment and governance.

The critical task of family business planning is to align family and business actions. If the family's values demand that the oldest son be the next chief executive, then the family and business plans should reflect this intention. The son should be exposed to the business during school through internships. He should get outside work experience and then join the firm to progress through a series of challenging work assignments. He should have a strong mentor, and the board should monitor performance and support him in areas demanding improvement.

It is important to remember that the parallel planning process offers no advice on the specific actions required but rather asks each family to start with its values and vision as the critical influence for designing strategy, making investments and creating governance structures.

In Luo Zhong's case, there are no guarantees that his son will be an effective chief executive, but when a family works together to craft plans in parallel for the family and business, it aligns the family and business commitment and purpose. It soon becomes clear why, in general, family firms outperform public companies on a whole range of dimensions.

Our entrepreneur, the senior Luo, would have a very different situation if he had shared his dream for his son to take over the business and then, working with his family, developed options for making it a desirable career option for the younger Luo.

The 21st century is a new era of global opportunity for Chinese entrepreneurs and their families. Overseas Chinese business families have demonstrated the power of the family business model across Asia by planning and professionalising family and business interactions to support harmony, trust and sustained business performance.

Now it is time for China to emulate their example at home.

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