The influence of cultural attributes on intergenerational succession in the Chinese-Australian family business

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ABSTRACT
Research on succession in family business has been traditionally concentrated on planning and strategies in terms of management, ownership and governance. There is an increasing concern on the family influence on the process of succession. This paper discusses the role that the family culture plays in sustaining a family’s commitment to its business. In particular, the family business is a prominent form of organisation among the ethnic Chinese expatriate business families. Since the 1980s, under the business migration programme, the increase of Chinese migrants has contributed significantly to the cultural landscape of Australian. This paper chooses Chinese-Australian family businesses to explore their cultural characteristics as a strong family influence on the practices of passing on the business to the next generation.

Keywords: Chinese Entrepreneurship, Intergenerational Succession, Family Business

The family business is a unique business organisation that integrates a business system with a fundamentally different family framework (Aldrich & Cliff 2003; Fletcher 2002; Tracey 2001). Research studies have generated a considerable information on the succession of family business, focusing on the key factors of development of successors (e.g. Ibrahim et al. 2004; Morris, Williams & Nel 1996; Steier 2001), suggesting operational practices in the succession planning (e.g. Dunemann & Barrett 2004; Scholes, Westhead & Burrows 2008), and assessing multigenerational involvement (e.g. Miller, Steier & Breton-Miller 2006; Sonfield & Lussier 2004). However, little research appears to have been conducted on the cultural dimension in the process of handing over family businesses to next generation. In addition, there is a lack of empirical evidence about the relationship between cultural variables and the succession process.

Asian emigration in Australia has reached a considerable level in the last two decades. Particularly, the introduction of economic business migration policies, targeting skilled and entrepreneurial groups, has attracted a number of Chinese migrants to pursue economic opportunities and seek a better lifestyle and
living environment in Australia (Murphy 1993). In this paper, choosing Chinese family business aims to present a representative snapshot of the situation of family businesses in Australia, and more importantly, to illustrate the influence of the family’s values and cultural characteristics on the business practices. Given the strongly family-centred nature of the Chinese culture (Bond & Hwang 1986), we might expect that the Chinese family dynamics have an impact on the process of succession.

This paper highlights the influence of cultural dynamics when succession occurs in Chinese-Australian family businesses. It begins with an understanding of the phenomenon of family business. A framework that introduces the influence of the family component in the succession process is then discussed. Next, it presents the features of Chinese culture, which is particularly important for understanding the specific cultural impacts on family businesses, in particular, describing Chinese family businesses in the Australian context. Finally, we conclude by proposing the further research intentions to explore how the characteristics of entrepreneurs’ family dimension can influence the processes and outcomes involved in intergenerational succession.

FAMILY BUSINESS

Family business consists of separate and distinct yet overlapping domains: the business and the family (Poza 2007). The interaction of these two systems can make a complicated phenomenon. From a conventional view, a business system is organised to achieve specific goals, driven by profitability, and characterised by competitiveness (Poza 2007; Tracey 2001). A family system is bound by traditional responsibilities and values, and characterised by family culture and ethnicity (Barrett et al. 2005; Birley, Ng & Godfrey 1999). Meshing one system with the other inevitably forces family businesses to face many challenges, because the family’s values, biases and internal relationship will influence the
business’s operating style, decision making process and future prospects relative to sustainability (Aldrich & Cliff 2003; Olson et al. 2003; Poza 2007).

Researchers have not established a consensus as to what is a family business (Chua, Chrisman & Sharma 1999; Littunen & Hyrsky 2000). Part of the reason for this is that the study of family business is a relatively young field of academic enquiry. Since the 1980s, numerous studies have been carried out that attempt to identify family business (Sharma 2006). Among the various practice-based articles and case studies, the continuing interest in defining family business was either observing the features of particular samples (Daily & Thompson 1994) or distinguishing from nonfamily businesses (Littunen & Hyrsky 2000), but failed to identify important variables and their interactions, leading to a proper conceptual framework. Therefore, it should not be surprising that there is ‘no widely accepted definition of a family business’ (Littunen & Hyrsky 2000, p. 41).

Notable contributions have been made by many academics in the definition of family business. A set of common characteristics has been outlined. First, whether more than 50 per cent of share capital (ownership control) is owned by a single dominant family (Westhead et al. 2002). Second, whether family members form part of the management as executive or other managers, as board members or as shareholders (Poza 2007). Third, whether members of an ‘emotional kinship group’ perceive the presence of the family in business (Westhead et al. 2002). Fourth, whether the business intends to achieve an inter-generational ownership transition across generations (Neubauer & Lank 1998). For example, in the KPMG and FBA Survey of Family Business Needs 2007 (Glassop, Hagel & Waddell 2007), the key variables used to describe the equity of respondent firms as family businesses include “ownership by family”, “management by family”, “family involvement” and “potential generational
transfer”. It has been recognised that ownership, management and involvement within a family are necessary to define a family business. However, Chua, Chrisman and Sharma (1999) advocated the intentional dimension must also be addressed in the definition of family business. They defined:

A family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families (Chua et al., 1999, p.25).

According to the above definition, a family business not only describes a business operated by certain family, but also gives prominence to the motives of the family that drive the business. To intend and behave in a manner that ensures the business is controlled by a family and sustained across generations, the succession process seems to be a natural phrase in the development of family business. The following section discusses the influential variables on the succession process.

SUCCESSION IN FAMILY BUSINESS

As family businesses evolve and transfer across generations, the process of succession experiences a variety of challenges in terms of overlapping and interacting management, ownership and family. From the perspective of management, process can be developed in terms of the determination of managerial structures and responsibilities (Brockhaus 2004; Morris, Williams & Nel 1996). From the perspective of ownership, transfer of property involves selecting of a successor in terms of the consideration of family members’ competencies and commitment (Chrisman, Chua & Sharma 1998; Ibrahim et al. 2004). Research on the transfer of ownership control, managerial power and leadership has focused on
accessibility and credibility of the successor and stressed how to prove his/her capacities to predecessors and other family members (Neubauer & Lank 1998; Olson et al. 2003). The notion of efficient and rational decision making in the business often leads researchers to ignore ‘how the family dynamics of the owners influence managerial behaviour’ (Lansberg, Perrow & Rogolsky 1988, p.4). The impact of family component in the transfer process is discussed as follows.

During transfer, it is important not only to recognise the reciprocal relationship between the family and business, but also to take into account the extent and manner of family influence on the process. Astrachan, Klein and Smyrnios (2006) assess the extent of family influence via the measurement of three dimensions: power, experience and culture (F-PEC) scale. This model provides an operational measurement in the empirical studies and reliable comparisons across different investigations concerning the degree of family involvement (Klein, Astrachan & Smyrinios 2005). In relation to succession, those variables could be adopted to examine the extent of ownership and management control, as well as different expectations of family members. The following presents a detailed discussion of these three dimensions.

Firstly, the power dimension refers to the extent of a family’s ownership, governance and management involvement (Astrachan, Klein & Smyrinios 2006). Family influence through ownership can be driven from significant voting or percentage of share capital held by a family (Poza 2007). The extent of influence can be measured by the involvement of family members, whether as part of the management team, as board members, or as shareholders (Astrachan, Klein & Smyrinios 2006).

When the founders intentionally pass on the baton, they attempt to ensure continuity of family control of the firm and hand over their leadership roles to the next generation (Dunemann & Barrett 2004; Poza
During the power transition, the founder might change their role of a ‘sole operator’ to ‘monarch’ to ‘delegater’ to ‘consultant’, while the potential successor might move from having ‘no role’ to ‘helper’ to ‘manager’ to ‘leader’ (Handler 1990). When control is shifted, the process can suffer from the “shadow” of the founder. To some extent, its impact makes a complicated interpersonal relationship between the predecessor, the successor and other members of the family (Neubauer & Lank 1998). The power dimension lies in illustrating a ‘mutual adjustment’ of the transfer of responsibilities and authority between the current and next generation (Lambrecht 2005; Steier 2001).

Secondly, the experience dimension refers to the generation in charge, which means the number of generations of the owning family involved in the business succession (Astrachan, Klein & Smyrinios 2006). Researchers generally agree that family businesses consider the availability of family members for generational transfer in the first place so as to keep the business in the family (Lea 1991; Litz 1995; Miller, Steier & Breton-Miller 2006; Neubauer & Lank 1998; Olson et al. 2003).

To take over the business, the potential successors are nurtured and prepared to acquire the desirable entrepreneurial attitude and abilities, including the leadership skills, management skills, as well as tacit knowledge from the unique experience of the predecessor (Ibrahim et al. 2004; Poza 2007). However, Chrisman, Chu, and Sharma (1998) claimed integrity and commitment seem to be more important to the selection and success of a successor than technical skills. Therefore, it is imperative to understand family members’ intentions for joining the business in order to make better decisions. According to Sharma and Irving’s research (2005), first, there are successors with affective commitment, who ‘want to’ work within the context of family business; second, there are successors with normative commitment who experience a sense of duty and obligation toward the family where they ‘ought to’
remain with the business; third, there are successors with calculative commitment who ‘have to’ hold
the family business in order to ensure their claim to the accumulated investments is retained; finally,
there are successors with imperative commitment who ‘need to’ work within the family business, due to
lack of alternative options. The experience dimension not only underlines the competencies of the
successor, but also their commitments to the business before plans are made for them to join.

Finally, the culture dimension is characterised as the overlap of family and business values (Astrachan,
Klein & Smyrinios 2006), which demonstrates ‘what the family and their business regard as important’
(Koiranen 2002, p.185). Those values can be embedded in individual’s attitudes, opinions and
behaviours in terms of communication styles, problem solving and leadership roles (Altinay 2008).
Therefore, a family business culture is not only formed by family’s values, but also sustained by
family’s commitment to its business (Aronoff 2004; Denison, Lief & Ward 2004).

As Poza (2007) suggests, family values and emotional attachment to family assets can interfere with the
succession process. The founder establishes the core vision and values as the fundamental fabric in
family business (Altinay 2008; Poza 2007). The offspring learn about these values implicitly or
explicitly by observing how the predecessor deals with business and then model the examples and
support the shared assumptions and values in order to develop their commitment to the business
(Lambrecht 2005). The potential successor could be expected and shaped by family values to pursue the
family business, by strongly influence of the founder; however, they create their own perceptions and
internalize the values to response a given phenomenon (Miller, Steier & Breton-Miller 2006). The
cultural dimension passes the strong family’s values on to next generation, but the different perceptions
might result in different behavioural intentions and even conflict between two generations.
Although the values and practices of business are established by the family members’ shared values, it is also attributed to the family’s cultural characteristics, especially for Chinese families. The following section discusses how the values of Chinese families are rooted in the nature of Chinese culture in order to form a set of special business practices.

CHINESE CULTURE IN BUSINESS

Studies on culture provide insights to different means of dealing with the world and its challenges over time that exhibit different behaviour compared within the different social-cultural environment. According to Hofstede (2001, p.9), culture is defined as ‘the collective programming of the mind that distinguishes the members of one group or category of people from another’. For example, the way a culture approaches and handles business practices may serve as an illustration of how different cultural values not only influence the interpretations and perceptions of an individual or group, but also lead to different behaviours and outcomes. Understanding the values of an individual or an organisation, the cultural effects can be observed by symbols, heroes, rituals, and visions that are created by the founder and then shared by members in the organisation (Altinay 2008; Denison, Lief & Ward 2004).

In the Chinese culture, there is a unique set of values which guide managerial belief and actions in business practices and relationships. First, the virtue of pervasiveness and persistence are highlighted. These values encourage people to pursue long-term benefits while suffering short-term loss (Yao 2002). Specially, it is important for the establishment of long-term business relationships (Hofstede 2001). In a family business, such long-term orientation leads to the intention of continuity in business across generations. Collins (2002) also claimed that the sustainability of Chinese family business was attributed to the virtue of thrift and perseverance.
Second, the family orientation has been identified as the most prominent social norm in Chinese culture (Qian, Razzaque & Keng 2007; Yao 2002). Collins (2002) indicated that building a business were primarily for economic comfort and security for its family. For example, a business was set up in order to keep the family members in employment (Ho & Coughlan 1997). In addition, the next generation is expected to engage in family business and take the driver seat and extend the lifecycle of the family business (Yao 2002). As a result, they might experience a sense of duty and obligation toward the family in order to remain with the business in the family.

Third, Chinese culture respects hierarchies which assign social order in the role relationship (Yao 2002). Redding (1990) identified paternalism as key influences that dominate views of business approaches. In a family business, it appears to be an autocratic and paternalistic management style (Hofstede 2001). There is a distinct status of the father-figure, who centralises the power of decision-making (Redding 1990). Therefore, the established authority tends to be stable and long lasting in the Chinese family business.

Furthermore, Chinese culture highlights the strength of interpersonal relations (Redding 1990). In a business context, a personal relationship guarantees the reliability of business exchanges, which is more important than organisational affiliations or transactional standards (Yao 2002). Specifically, a family can be viewed as ‘a set of concentric circles of contact’ (Qian, Razzaque & Keng 2007, p.215). Therefore, it is not unusual to find that most family businesses engage extensively in nepotism (Collins 2002). Family members have preferred to reply on their contacts to get things done, because they believe ‘a man not thoroughly embedded in a network of kinship cannot be completely trusted … money has no past, no future, and no obligations [rather] relatives do’ (Wolf 1968, p.23). In the
succession process, family members and relatives are often chosen to succeed the ownership and obtain senior management positions (Hofstede 2001). This is based on trusting only those in the immediate or extended family in order to keep the business in the family (Yao 2002).

To sum up, these distinctive features of Chinese family business stem from traditional Chinese culture. Despite the cultural influence, the characteristics of those families are also shaped by the external environment. The next section describes the features of Chinese family business in Australia context.

**CHINESE-AUSTRALIAN FAMILY BUSINESS**

In Australia, the family business sector is a significant proportion of the economic landscape. It is estimated that, in 2002, approximately 67% of Australian businesses were family owned and/or controlled and had an estimated wealth of $3.6 trillion (Smyrinios & Walker 2003). The ethnic Chinese expatriate business families become a significant part of economic communities in Australia (Murphy 1993). For example, one third of all laundries in Melbourne were established by Chinese immigrants (Collins 2002). Running cafes and restaurants all over the metropolitan and rural areas are the typical snapshots of the Chinese business in Australia (Lever-Tracy et al. 1991).

Since the 1980s, the introduction of economic business migration polices has attracted not only many Chinese migrants highly educated and trained with a variety of skills, but a fair number of quite wealthy people (Pe-Pua et al. 1996). To maximize their opportunities to be actively incorporated into Australia’s economy, a number of immigrants establish their own businesses as a result of ‘pull’ and ‘push’ factors (Amit & Mueller 1996). For example, ethnic niche markets can be regarded as a ‘pull’ factor, in particular in Chinese market gardeners (e.g. fruit and vegetable distribution, or grocer shops) (Collins
In contrast, starting one’s own business might not be a preferred choice, but a consequence of limited options. As noted by Ip (1993, p.70), ‘occupational downgrading has been a widespread problem as many professional qualified recent Asian migrants have turned to small business’. In other words, the migrants are pushed to start a small family business, due to unemployment or underemployment.

The studies of Chinese family businesses in Australian indicate they appear to be successful in terms of profitability and sustainability (Collins 2002; Lever-Tracy et al. 1991). Those family businesses are characterised as flexible, responsive and eminently equipped to establish connections to resources and accumulate them in order to meet the demands of fast changing consumer markets (Collins 2003). The family involvement was found to be a critical resource to access to information, business networks, employment recruitment and knowledge about business practices and markets (Collins et al. 1997; Kee 1994). Although the resources based on family are necessary to enable business to survive in the market, the resources benefited from ethnic networks provide sufficient conditions to gain sustainable competitive advantages (Chaganti & Greene 2002).

In spite of economic adaptation among Chinese families, they generally experience difficulty with acculturation in Australian society. The Australian culture places emphasis on individualism and egalitarianism (Westwood & Posner 1997). In contrast, the common beliefs in Chinese culture stress collectivism, a family orientation, and a sense of vertical order (Hofstede 2001; Qian, Razzaque & Keng 2007; Westwood & Posner 1997; Yao 2002). The adaptation of Chinese family business in Australian is attributed to the blending of Chinese values and Western practices (Chen 1997; Collins 2002; Kee 1994). However, the deeply ingrained cultural norms of Chinese businesses would limit the
applicability of Western-style business solutions (Collins 2003). Increasing evidence suggests that integration between the second generation Chinese and the indigenous community facilitate bridging the entrepreneurial links between the East and the West, due to their ability of proficiency in the English language and the greater access to a revered Western educational system (Chen 1997; Collins 2002). Meanwhile, studies also show that the second generations have more opportunity to branch out into other businesses and professions, rather than their own family business (Dhaliwal & Kangis 2006). Therefore, family business owners should consider the availability of potential successors in the next generations in order to develop a proactive approach to their succession.

CONCLUSION

In a family business, it is common to see that family members work in and share ownership of, commitment to, and responsibility for their business. This form of business considers a business as an expression of the family’s values and a primary means of achieving the founder’s vision. In other words, family interests and values are an integral part of the goals and strategies of a family business. Therefore, in examining matters in family business, considering family attitudes and values is necessary. In terms of the succession process, the importance of the family influence is increasingly being recognised. This paper contributes to knowledge pertaining to the influence and involvement of family through applying a family perspective in investigating family characteristics to the study of succession in Chinese-Australian family business. For further research, we propose an empirical study to explore these cultural variables and their impact on succession process. In addition, as the Chinese migrants are growing rapidly, it is worthy to study these immigrant entrepreneurs and their impacts on the sustainable development of family businesses in the Australia.
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