A Study on the Re-creation and Succession of Chinese Family Business

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Abstract

Under the background of great changes in China's economic environment, a large number of small and medium-sized family businesses are in urgent need of transformation and upgrading and entering the channel of re-creation. Entrepreneurs are the leading role of market economy, and entrepreneurship is the soul of entrepreneurs. The inheritance and development of entrepreneurship directly affects the sustainable development of family businesses. In this paper, the characteristics and difficulties of the process of re-creation are analyzed from the life cycle of the enterprise. In the specific succession practice of family businesses, the influence of the succession of family businesses is analyzed from the perspective of re-creation in combination with the actual situation, providing reference for further research on the influencing factors of family business’s succession.

Key words: family business, re-creation, succession

1. Introduction

After years of development, the business of the family has been shrinking, also the profits of the family businesses are slowly shrinking. Faced with the transformation challenge of the “new normal” of the economy, family business creators must be sustainable innovation, carry out strategic transformation, start to re-create, and improve Chinese family business’s Gene. Among them, positioning, brand, user, culture, etc. all have a crucial impact on the success of re-create family business. In this paper, the characteristics and difficulties of the process of re-creation are analyzed from the life cycle of the enterprise. In the specific succession practice of family businesses, the influence of the succession of family businesses is analyzed from the perspective of re-creation in combination with the actual situation, providing reference for further research on the influencing factors of family business’s succession.

2. Business life cycle

Business life cycle refers to the process from birth to growth, maturity, decline to death. This is a process that all businesses go through. In this paper, the life cycle of a business is divided into four stages: infancy, growth, maturity and recession. In the operation process of the business, if the coordination relationship is inconsistent in system that among various elements, among the subsystems and between the enterprise and the external environment, the adaptability of the business system to the environment and its own profitability will be weakened. Or loss, businesses will face more operational risks, financial risks, and even become morbid or decline. Therefore, the environment and conditions are critical to the survival and development of the business. Businesses must effectively coordinate and control various influencing factors, that is, effective management. Businesses at different stages of the life cycle are faced with different environments and conditions, and require different management behaviors that are compatible with the characteristics of the business's growth, so as to ensure the effectiveness of management.

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For early-life businesses, due to the lack of experience of creators and the lack of rules and regulations in the business management, the creators play a "one-man show" in the business management and often make mistakes, so they have relatively weak control and viability. At this stage, the business has no management depth and lack of experience, so any mistakes in product design, service, sales or financial planning can be fatal. In fact, whether the business can grow healthily in the initial period depends largely on a series of management behaviors before production and operation. If it's ignored, after the business enters the initial stage, it is difficult to ensure the effectiveness of market development, production equipment, process adjustment, production process control, and capital investment, which will lead to a rapid decline.

In the growth stage, the business grows fastest, and it grows from small to large, and its strength is gradually enhanced. At this stage, the idea of creation begins to show real value. The business not only overcomes the difficulty of cash outlay through family network and other methods, but also increases the sales volume. Not only did businesses survive, but their products or services began to be accepted by the market. However, when the business has a little scale, the success of the business often makes the reputation and prestige of the creator as high as the sky, and the creator starts to feel self-opinionated and dogmatic. At the same time, as the number of business employees increases, communication becomes more difficult, and conflicts and crisis situations of competing for leadership begin to occur. The biggest difficulty, of course, is the lack of capital, technology and managerial talent. After entering the growth period, it is necessary to carefully study the business management strategy, organization, system, etc "hidden factors of production" problem to ensure the investment of certain funds. At this time, the investment of certain management costs will output business performance and avoid huge opportunity cost. Otherwise, the business is likely to deviate from the track of healthy growth.

In the mature period, the growth rate is slow, but it is the harvest period of profit surge. During this period, as several key products of the business successfully occupied the market and even gained a dominant position, the production scale was expanded, the market share was high, and the profitability reached its peak. In short, the mature business is highly aggressive and vigorous, and the innovation and control of business reaches its maximum. However, at this stage, the growth rate of the business slows down, the trust and respect between the original family members in the organizational system begin to lose, the cohesion of the organization and the creativity and risk-taking spirit begins to weaken, so the organizational vitality appears to be insufficient. Business leaders also tend to lose their original innovative qualities in the face of existing achievements and become conservative and stubborn. In the late stage of maturity, businesses that pursue sustainable growth will not be able to obtain the desired growth space and performance from the original business. Generally, new growth points will be sought outside the original business areas, and the profits and advantages of their own resources will be used to invest in new business areas and start diversified operations, so as to achieve the economic effect of the scope and greater growth.

Business in the recession, all aspects of business management may have problems. At this stage, although the business capital is large, the capital debt ratio is also high; although the business scale is large, the burden is also heavy; although the productions are variety, maybe unprofitable or even serious loss; although many regulations, the organizational contradictions are outstanding. Once entering the recession period, the self-protection awareness of employees and businesses continues to increase, the distance form customers is becoming farther, and the behavior that reflects the vitality of the businesses is lost. Also, Internal conflict of business is unceasing; departments focus on internal status battles; employees rarely think about how to take remedial measures to solve the problem. There are only two ways in recession: death or re-creation (transformation). At this stage, businesses should seek strategies actively which suitable for development, and avoid the death fate through such measures as business transformation, reconstruction of organization, updating technical equipment, so as to realize the real re-creation of businesses.

3. Re-creation

After nearly 40 years of development, family businesses have basically completed creation stage and gradually established its position in the national economy. Data show that family businesses now account for more than half of China's GDP, but the developed family businesses are facing the problem of re-creation. Economist MAO Yushi said that only when family businesses have completed re-creation can they really enter to a steady development.

After a successful business, it already has a strong strength, and according to the objective law of development of things, if there is no change, the business will definitely decline. For businesses to continue to develop and achieve higher goals, only through fundamental transformation of businesses can they start to develop on a new platform. At the same time, as international competitors also stepped up their division of China's market, the competition was led to a higher level.
However, problems such as immature property rights system, small production scale, low management level and lack of culture have become serious constraints for the further development of family businesses. How to solve these problems has become the key to the success. Re-creation is the process of internal reform for businesses to seek for further development after achieving rapid growth (Figure 1. The relationship between re-creation and business development). Its essence is a strategic transformation of business at a certain stage of development and a revolutionary transformation in the process of business development. To develop, businesses must carry out re-creation which on the basis of the existing business.

**Figure 1: The relationship between re-creation and business development**

![Diagram showing the relationship between re-creation and business development]

### 3.1 The characteristics of re-creation

Due to the different backgrounds of the two, the environment and conditions of the business are also quite different, so there are obvious differences between creation and re-creation.

When proposing the slogan of "re-creation", many business creators also realized some changes in the environment which after the businesses starting with the goal of "survival". It was also proposed for changes in these environments, but most creators did not realize it. This is one of the important reasons for the failure of these businesses to start their second business. So what are the characteristics of re-creation?

Firstly, re-creation is generally a top-down business reform activity recognized and initiated by creators. The difference between the real performance and the expected performance is the fundamental reason for the creator to initiate re-creation. Generally speaking, the idea of re-creation arises because creators believe that the current allocation of businesses can achieve their expected performance through some improvement, and the improvement of this allocation is within their acceptable range (including the input of capital and personnel). Its core content is that creators require employees to adjust their working status to the original beginning of the business. In addition, creators often set ambitious medium-term goals for businesses, hoping that employees will build them stronger from scratch. Therefore, the first thing to be solved in re-creation is to abandon the past practice of making business successful in the beginning, to create new ideas, and to replace the old model with a new management model. The key to the success of re-creation is to leave the past era of winning with personal qualities and re-establish a management system that relies on the overall quality of business to achieve sustainable development. This change is a process of transformation for everybody in business.

Secondly, the business goals have changed a lot. The purpose of a business start-up is to "seek survival," and the purpose of the re-creation is to "seek development." At the beginning of the establishment of businesses, the main concern of creators is how to obtain social recognition and get a firm foothold as soon as possible. What employees care about is whether the business has a way of life and they can make some money. Therefore, in the early stage of business, it shows a management idea and mode that is eager for quick success and instant benefits. Correspondingly, what businesses need at this time is a management model that can produce immediate benefits.
Businesses are not able to make a long-term development plan, the decision-making behavior, management system, talent mechanism, supervision and control, culture construction and other aspects of the business are all with the changing external environment to get along with a flexible adaptation, although very irregular, but adapt to the need of business to "survive".

When the business has been able to survive and achieved a successful level of the increasing market share, the improvement of brand awareness and the good benefit, it has been exposed to many contradictions and problems that are not adjusted to the business: slow decision-making and mistakes, can not continue to obtain customers, gradually lose the original market share; small groups of various interests struggle fierce in business, lack of coordination and control; brain drain caused frequent disjointed work and important technology information leakage; businesses lack of standardized management system, incentive system, and cohesiveness decline, overstaffed, wasteful.

Thirdly, Changes in the environment. After China's entry into WTO, the domestic market has been further opened, and family businesses should not only compete with domestic businesses but also multinational companies. To strengthen management, improve control capabilities and cultivate core competitiveness, family businesses must be re-creation which in order to make major breakthroughs in management, culture, and system. In the re-creation, businesses must rely on the analysis and planning of decision-making institutions to determine the development direction and strategy, so that businesses can change from a subjective, perceptive, quick-witted decision-making model to an objective, rational, and long-term decision-making model.

3.2 The focus and difficulty of re-creation

The essence of re-creation is a strategic adjustment of the business, which is a revolutionary change in its development process. It will help the business to become a modern enterprise that truly meets the requirements of the market economy. This is also the focus and difficulty of re-creation. At the same time, the re-creation will promote the management upgrade of family businesses.

Firstly, what needs to change is the situation of "fighting the world" depending on some people with special talent. Some people have special abilities that can be effective for a certain period of time, such as certain skills. As the product is improved or updated, this skill is likely to be eliminated. In addition, it is very dangerous to maintain the destiny of business on someone, and if this person leaves, it will cause huge losses to business. To achieve stable development, it must be established a complete set of talents use, evaluation, incentive mechanism and a reasonable talent structure. The key to the success of business is people. If the talent team is not perfect, the development of business will be hindered. Therefore, businesses should put skills into the organization, not one or some people in the organization.

Secondly, what is to be changed is the management mode that encourages and constrains all aspects of business’s work through human relations. As the number of employees in family businesses keeps increasing and the business scale keeps expanding, a large number of non-family and friends employees enter business, and the range of encourages and constrains by human favor becomes smaller. Therefore, the influence of human favor on family business will gradually decline. With the development of business, there will be contradictions in various interests between the new and old employees, resulting in a decline in cohesiveness and low enthusiasm for work. The struggles of different interest groups in business have made it difficult to coordinate work between departments and even internal affairs. The normal operation of businesses has been seriously disrupted, and some people even betray businesses. In the face of such a situation, the re-creation must change the existing internal management mechanism of business, re-clarify the responsibilities, powers and interests of all departments, formulate strict regulations, establish an internal assessment system, incentive system, fulfill the duties, powers, responsibilities by clear distinctions, and form a scientific and standardized management mechanism.

Thirdly, poor communication is often a very important reason for the failure of the re-creation in family business. Psychological research shows that people tend to be skeptical and fearful about things they don't know, so they are psychologically and emotionally resistant. In the process of re-creation, if the internal communication is not smooth, employees do not know why the business should be re-created, where the re-creation will lead business and their fate in the re-creation. All of these will cause employees to panic and confusion about the re-creation, and further generate various resistances so that increasing the resistance of the re-creation. In the re-creation, business creators must attach great importance to the establishment of various formal or informal communication channels, because they are crucial for the initiation, maintenance, cost reduction and achievement consolidation of the re-creation.
Communication channels should play the following roles: publicize and explain the necessity and importance of re-creation to employees, and create an appropriate sense of crisis in their thinking; the creator shows the employee the confidence and determination of the re-creation; in order to fully mobilize the potential energy of employees, it should be beneficial for employees to participate in business re-creation.

Fourthly, corporate culture is the habit formed by family employees' recognition of common goals and giving such recognition, including thinking habit, institutional habit and behavior habit. The charm of corporate culture is that its identity and habit are consistent with the inner psychological expectations of employees, which is based on the personality and connotation of corporate culture. Corporate culture with personality and connotation is a people-oriented strategic planning and behavior norm, it can make employees know their work is related to the development of family business through tangible or silent language. Although the role of the creator's personal culture in corporate culture is undeniable, this role is only positive for corporate culture when it is based on downplaying personal influence and strengthening organizational will. Therefore, family businesses must establish a corporate culture with individuality to make business more cohesive.

Fifthly, it is necessary to cultivate the core competitiveness of family businesses and enhance their brand and reputation. From the very beginning, even in the period of rapid expansion, family businesses in China have certain problems in imitating other products, and insufficient attention to brand and reputation. The realization of re-creation requires family business to build its own good brand, reputation and cultivate its core competitiveness to occupy a wider market and win public support. To sum up, although there are many new challenges in the re-creation, great changes have taken place compared with the very beginning of business. The current core team members are more experienced than the beginning of the business, have better ability to fight in the market; the current financial ability is stronger than the beginning, allowing to find more opportunities in the market and provide adequate support; the current creator has a deeper understanding of the industry and a clearer orientation of the enterprise in the future; the current stability of business is more stable than that of the beginning, and the risk resistance is better.

4. The re-creation and succession of family business

The gap of inter-generational succession is one of the important reasons that the average life of family business is short. The handover of the scepter has become a key obstacle for the sustainable development of the family business. The most vulnerable time of family business is when the power transfer from generation to generation. In order to ensure the smooth transfer of power of family business, the cultivation and selection of entrepreneurs is of vital importance, which directly relates to the survival of family business.

The entrepreneurial spirit brings about the strength of family business. The discussion of "one generation creating business, two generations keeping business, three generations losing business" should be put into perspective. The second generation successor should face family business with an entrepreneurial spirit and mentality, rather than simply keeping business, and would it be better to keep business with an aggressive posture? And having a mindset of re-creation, whether it's a first-generation creator, a second-generation successor, or family business, all benefit.

4.1 From the perspective of creator

From the experience of family businesses, it is not only conducive to the healthy growth of business, to the development of the second-generation successor's various work, but also to the liberation of the creator from the daily affairs of family business and the improvement of the life quality.

Due to the limitation of creators’ knowledge structure, the depth and breadth of their views are affected. Especially with the further development of China's reform and opening up, they are no longer faced with their competitors of the same age, there are many domestic creators much smaller than them, and even in many fields, there are competitions from international large multinational companies. And because of new technologies and ideas, traditional frameworks and conventional thinking have become a major obstacle to their innovation. If family business cannot grasp the opportunity to apply the innovative knowledge, it will certainly affect the development, and the serious consequences may be directly eliminated by the competitors. This will also lead to the destruction of the reputation of creators.

Creators can learn about their successors by participating in the re-creation. In the process of re-creation together, the creator can find shortcomings of the successor in the process of practice and urge him to correct them. More experience can be passed on to the successor through such a teaching process.
At the same time, in the process, the creator and the successor have established mutual trust, communication has become more open, and values have been shared. When the creator has a full understanding of his successor, he can formulate a more effective and controllable succession plan based on the actual situation of the successor, guide family business to successfully complete the succession process, and further promote the benign development of family business.

Creators set up an example for their successors to start a business through the process of re-creation, and send them a message full of crisis. At the same time, it is also possible to set an example for other elders in family business through the gradual decentralization of the process of re-creation, so that they also realize that it is time for the business to let new leaders take over, reducing the psychological impact of the real implementation stage and winning wider support.

4.2 From the perspective of successor

In fact, the succession of family business can be understood as the process of adjusting and changing the roles between the two generations of the family. It takes a long time and careful arrangement. And it takes more than ten years for the leaders of GM companies to train. DuPont even needs twenty years. Even China’s Fotile has been in the process of succession for more than ten years. In other words, the most important part of the succession process is the cultivation of the second generation.

Through the cultivation of the successor by the re-creation, firstly, it can improve the recognition of successors to family business. The recognition of successors to their family businesses can explain why some of them are reluctant to take over, or even the phenomenon of "selling off businesses". When creators start a business, due to historical conditions and their own characteristics, they often choose industries that are located in remote or labor intensive. Young successors are generally highly educated and accustomed to living in big cities. That is to say, family businesses are not attractive to them. However, through the choice of re-creation, the creators and successors can make a more suitable plan in the choice of location and industry, so as to stimulate the successor willingness of succession.

Secondly, it can help to cultivate entrepreneurship of successors. Entrepreneurship is one of the most scarce resources of family business. The realization of inter-generational transmission of entrepreneurship is directly related to the success or failure of family business. Management guru Peter Drucker concluded that entrepreneurs are innovators, people who take risks for profits; they are people who can explore new markets, guide new demands, and create new customers; they are a group of people who are original and distinctive. Here the distinctive mainly means that the entrepreneur is a professional expert with high quality, high ability and outstanding achievements. The biggest gap between creators and successors is in the spirit. The re-creation of business is a way to stimulate the entrepreneurial potential of successors, awakening the dragon in their minds.

Thirdly, it help successors to establish their own core team. With the development of society, the influence of individuals on society, organization and environment has become smaller and smaller. People who want to realize their value must put themselves in the team, and the higher they stand, the greater the depth and breadth of support they need. The second generation successor of the family business is the same. If the family business is to get better and more stable development, it must have a team with the same heart and ability to advance together. Through the process of re-creation, the second generation successor is beneficial to contact and understand how to use various talents. And establish a common belief in the common work, which helps form a core group for its use. With the support of such a core team, the second generation successor can successfully carry out all the work in family business.

4.3 From the perspective of family business

For family businesses, the succession is not just about power, but about whether they can achieve sustainable development as an organization.

The way of succession by re-creation is a precautionary move. Through the process, the power transfer is gradual and smooth. For example, the China's family business “TDG group” adopts the gradual and smooth succession method. Since the father and son re-create business together, the control of family business was always in the father and son from the beginning to the end. Therefore, it can be predicted that the succession problem of the second generation will not become a problem for a long time, or at least the impact will not be fatal.
The second-generation successors are conducive to the introduction of new blood to the organization when forming their own core team. The competitiveness of modern businesses increasingly depends on human resources rather than capital. The competition among businesses is also reflected in the competition among talents. Due to the characteristics of traditional culture and current manager in China, the leader or members of family business do not trust outsiders, and most of the management positions are controlled by family members. To solve this problem, it is necessary for the business owner to get out of the narrow closed thinking and to incorporate his business employment mechanism into the modern talent competition mechanism. Do not doubt the use of talents, recruit talents from all over the world, and inject new blood into the development of family businesses. The living environment, experience, education and vision of the second-generation successors have been greatly improved compared with those of the first-generation creators. Therefore, the implementation process is more conducive to breaking away from the constraints of traditional culture.

It is conducive to the innovation of organizational culture and the establishment of a learning organization. Culture enables members to have a sense of identity with the organization and inspires members to have a sense of commitment beyond their own beliefs and values. It also makes the members know how to get along with each other and realize the integration in the organization, and improve external adaptability of the organization. Learning organization is the trend of future business development. Only when family business becomes a learning organization can it ensure continuous innovation and have the ability to quickly adapt to the market. A successful family business in the future is a learning business, and the essence of a learning organization is a learning organizational culture. Organizational learning focuses on the improvement of organizational group intelligence, not only the learning of organizational members. It focuses more on teamwork to promote the growth of the organization and strengthen its ability to innovate. Second generation successor in such a process, can properly handle the irrationality in the traditional family ethics, such as kinship, marriage, the concept of geopolitics and friendship, sets up the "people-oriented, caring, respecting, and using people" humanistic ideas. And it can be designed with a rich corporate culture of multilevel participation in management, diversified incentive measures, management personnel sharing decision-making power, and providing employees with opportunities for further study, so as to better motivate employees' enthusiasm, creativity and inspire their potential.

Some family businesses can become competitive large companies and groups through re-creation. After the survival of the market, the surviving family businesses have a process of great differentiation and reorganization, and will be further sublimated and improved. Family businesses will gradually change the situation of small, chaotic and poor, and develop from small scale, low technology and backward management to modern enterprises with large scale, high technology and modern management. According to the survey data, 11.8% of the family businesses chose two or more main industries and 3.7% chose two main industries, indicating that the main industries of family businesses have the trend of diversification.

With the development of the re-creation, family businesses, while learning from experience and innovative development, will establish its product brand and corporate image, from supporting production and low-cost competition to businesses that focus on brand and image, and realize the transformation of business strategy. Chinese family businesses already have these capabilities, and also there is a need for them. All of these help to change the image of "made in China" in the world. Family businesses will assume more social responsibilities. As the strength of the business continues to increase, business philosophy improves, and the business environment changes, family businesses are bound to have the ability and needs to do charity.

5. Conclusions

Re-creation is no longer for survival, but for an ecological creation. Establishing a modern knowledge industry and carrying out scientific knowledge operations are the core links of re-creation. Family businesses can promote the internalization of the spirit of "loving fight will win", and integrate it into the management, to form a personalized corporate culture of entrepreneurship. The individual spirit of struggle is transformed into the corporate spirit of struggle. The corporate culture is built on the corporate spirit of struggle, and further refined and transformed in a scientific way according to the characteristics of the development of times, so as to finally establish a personalized corporate culture system.

Based on the above research on the influence of re-creation on family business succession, it can be found that the influence is particularly obvious in the aspects of inheritance plan, successor cultivation, power transfer, organizational change, business innovation and corporate culture.
Especially for the second generation successors, re-creation is both a crisis challenge and a success opportunity, and it requires successors to complete the mission successfully through "creative succession". The entrepreneurial intention is the original embodiment of the entrepreneurial spirit. The entrepreneurial intention is the fundamental basis and starting point of all entrepreneurial activities. It is also the key to the entrepreneurial spirit. So the succession of entrepreneurial spirit is more important than the succession of ownership and control right.

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