

International Studies in Entrepreneurship

Volume 30

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Henry X. Shi

Entrepreneurship in Family Business

Cases from China

 Springer

Henry X. Shi
New Zealand Asia Institute
The University of Auckland
Auckland
New Zealand

ISSN 1572-1922 ISSN 2197-5884 (electronic)
ISBN 978-3-319-04303-6 ISBN 978-3-319-04304-3 (eBook)
DOI 10.1007/978-3-319-04304-3
Springer Cham Heidelberg New York Dordrecht London

Library of Congress Control Number: 2014931686

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Printed on acid-free paper

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To my loving parents, who do not really understand what I do in this book—neither the contents nor the language, but believe it is something important and worthwhile

Foreword

This is a deceptively ambitious book, as can happen when one starts with a supposedly innocent question. Henry Shi asks how entrepreneurship is expressed in family businesses in China. To answer this question, he embarks on a journey that is both theoretical and empirical. It is a journey worth following, sometimes along paths not well travelled these days.

There are many studies of family business and innovation. We would like to be able to show that family business makes a positive difference, but the findings of many studies are far from conclusive. Some report a positive difference, others report otherwise. A big problem is that many studies have used a binary classification of family and non-family businesses—often with different definitions, moreover—and it may well be that some elements or processes in family businesses are conducive to innovation (or other dependent variables), while some may not be, and the combination might be different according to the context.

To overcome the bluntness of binary classification, researchers have developed the concept of “familiness”—some businesses are more “family” than others. This is a useful advance, as it allows more nuanced exploration. Problems remain, however, and it remains a largely theoretical construct. Presumably, some businesses are extremely “family,” and as we move along a scale, “familiness” eventually disappears. But what is the scale, or scales, and what do we disappear into at the other end of the scale? Some proponents have based their concept on the resource-based view of the firm, proposing unique family resources, but this too remains unoperationalised, and arguably partial.

Here, Dr Shi makes what I see is a bold step, which at the same time attempts to bring together key perspectives on the essence of family business. Based on the existing research, he ascribes to familiness three key dimensions—business objectives, resources, and decision-making—and then he further breaks these down into five subdimensions each, creating a potential for measurement. Second, he creates a polar opposite construct to family-emphasising, which is not “non-family” but purely market-based and driven by instrumental calculation. Adapted from a tradition in sociological research, this then enables him to create scale measures for the subdimensions, which (a) operationalise the concept of familiness overall, and (b) allow him, in principle, to investigate whether certain combinations or weightings of

dimensions or subdimensions have a greater effect on entrepreneurship or innovation.

Having made this big step forward, he then hits another obstacle. “Entrepreneurship,” too, has been mired in definitional problems. For many researchers, moreover, it is associated with starting a business, which is hardly conducive to application to second-generation family businesses. It might have been safer to stick with “innovation” which is a much more travelled route. However, startup-based definitions are often favoured by those wanting to use large-scale data sets. They also introduce a cultural bias, as new startups are more commonly used to bring innovations to market in countries with more active capital and labour markets, while established firm-based innovation is more common in others. There are other definitions of entrepreneurship which build on the notion of opportunity discovery or creation, which are less culture-bound, and allow for the possibility that this can be done through startups *or* established businesses. Here, Dr Shi takes the second route of seeing entrepreneurship as processes of opportunity discovery or (more likely) creation, through organisations—new or existing—with market outcomes.

If there is a “dance,” there has to be a “dancer,” however—someone who perceives and pursues opportunities. “Businesses” don’t do this, strictly speaking, so a further level of analysis has to be introduced, namely that of the entrepreneur, or entrepreneurial team. In this case, it is the successor who is the key decision-maker, or is not. The wisdom of this approach is later demonstrated by the crucial intervening role played by individual-level dynamics, especially related to succession, and relations between the first-generation founder and the second-generation successor. Thus, we have successor-entrepreneurs in established family businesses whose decisions are driven in part by the changing environment, or their interpretations of the changing environment, and their own aspirations, as well as in negotiation with the founder and the founder’s legacy. It may be an actual negotiation or a negotiation in the successor’s head. As can be imagined, this is very important in China, but not necessarily in the ways suggested by cultural stereotypes, as there may be an attempt to diminish the founder’s legacy, as well as to preserve it.

Since the late 1970s, China has undergone huge changes, economically and socially. Changes which unfolded over a period of a hundred years or more elsewhere have occurred in just two or three decades. China is what might be called a compressed developer. The founding generation may have grown up with first-hand experience of hunger and rural deprivation, and the turmoil associated with war, revolution, the Great Leap Forward and Cultural Revolution. The successor generation will only know fragments of this, but will have grown up in the midst of rapid urbanisation, marketisation, and the flowering of new business, including that of their parents. The gulf between their respective experiences with production technologies, quality requirements, accounting standards and other business processes may well be large. The parents’ success may have allowed the successors to receive the university education their parents could never aspire to, perhaps abroad. Thus, the potential for intergenerational value-based conflict,

changing skill sets, and perceptions of environmental change—not to mention the reality—create an extraordinary “laboratory” in which the need for entrepreneurship is immediate, but the potential for intergenerational tension is also very significant. If we want to observe these dynamics in family business, there is no better place to do it.

Of course, family business in China, especially in Jiangsu and the hinterlands of Shanghai, is of great interest in its own right. There are many studies on the foreign direct invested businesses in the Pearl River Delta further south, and state-owned enterprises in the north, and throughout China, but surprisingly little is still known about the domestic private sector, especially family businesses, which nonetheless make a huge contribution to the economy. And there is probably no better place to study these than Jiangsu, which has rapidly emerged as one of the wealthiest provinces in China on the basis of private family enterprise, with particular strengths in light manufacturing. Thus, we have at the same time a superb laboratory for looking at family business dynamics, and a great window into the dynamics which are transforming China and in turn the global economy.

It is in this setting that we encounter eight family businesses, and with the help of the 15 subdimensions, start to penetrate cultural stereotypes to see how these fit together to create different degrees of familiness, and hence diversity. We further explore entrepreneurship. Reassuringly, for those familiar with the concepts of continuous and radical innovation and their supposed links to varieties of capitalism or market coordination, we see that businesses with high levels of familiness engage in opportunity creation which produces continuous innovation. But in a significant twist, we don't find that the most market-oriented businesses create the most radical innovations (radical, that is, in relation to existing products or processes of the business). The reason for this twist is to be found in deeper probing of family business dynamics, and the author is to be commended for this sense-making.

Perhaps the question was not so innocent after all. It certainly is ambitious, and the journey is well worth taking, even though—or perhaps especially because—it moves against the current of much survey-based research which tightly specifies what is meant by family business, by entrepreneurship or innovation, which tightly controls context (or even isolates it in a “sterile” laboratory), and systematically eliminates “noise” through ever-more statistical rigorous tests, until the object of study eventually disappears, like sand sifted through fingers. On the other hand, the study is not ethnographic, either, but it taps a rich empirical vein to shed light on theoretical issues which are central in family business studies, and it helps us to understand entrepreneurship in a very important setting, a real-life laboratory of China's compressed development.

Acknowledgments

First and foremost, I would like to thank all the participants of this research in the business and government organisations that I visited, for their generosity in sharing with me their time, experiences, thoughts and insights. It is their assistance that has injected life to research of this nature. They deserve my utmost respect and appreciation, although their names have to remain in confidence.

I am extremely grateful to Professor Hugh Whittaker for his numerous valuable comments throughout the duration of this project, and Dr Christine Woods for her consistent support and advice. Thanks are due especially to Sir Owen Glenn and Professor Barry Spicer, who provided tremendous support for this research, financially and intellectually. Many thanks, too, to Zoltan Acs, David Audretsch, Justin Craig, Léo Dana and Deborah Shepherd for their feedback and encouragement. There are many others who have knowingly or unknowingly helped me through this project, including Judy Bonny, Julia Boyle, Xin Chen, Charles Johnston, Michelle Kilkolly-Proffit, Gaia Marchisio, Yoshifumi Nakata, Torsten Schmidts, Susan Sum, Paul Woodfield—I owe them much and it is a shame that I am unable to list all of them.

The University of Auckland Business School and Education New Zealand funded the fieldwork of this research, and are gratefully acknowledged. Also acknowledged is New Zealand Asia Institute, where I have been Research Associate and gained useful insights and skills from its research activities.

Finally, my special thanks go to Rita, Melson, Aurick and Noelle for all their patience, understanding and support.

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