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Tradition and Adaptation in Chinese Family Enterprises: Facing the challenge of continuity¹

Ivan Lansberg, Ph.D. and Kelin Gersick Ph.D.²

Lansberg Gersick and Associates

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The Chong siblings had long struggled with how to broach the subject of continuity with their eighty-five year old father. Mr. Chong was a remarkably successful entrepreneur, legendary in the Chinese business community, and he was very private about his thoughts on family matters. Nonetheless, on several occasions he had hinted that he was considering breaking up his sprawling conglomerate in Macao, Hong Kong and Singapore into three independent businesses – one for each of his sons – in keeping with the Chinese *Fenjia* tradition.

For years Mr. Chong had tried to balance capital investments in the three primary divisions of the business – hotels, real estate and gaming -- so that it could be split with relative ease when the time came. In conversation with each son individually, he would say, “Better to be the head of a rabbit than the tail of a lion. For the sake of family harmony, you should each be in charge of your own household...” As for Mr. Chong’s two daughters, he said: “Perhaps it would be better for the girls to get their own real estate properties too.” Mr. Chong’s conviction that his children would benefit more from being on their own was buttressed by his bitter experience in business with his older brothers many years ago.

His children however, were hoping for a very different future. The Chong sons had graduate degrees in business from top-tier American universities -- something in which their parents took great pride. They had all worked at their father’s side since adolescence and thought of themselves as a talented and well-tested sibling team. Leveraging off of each others’ personalities and skills, they had come to appreciate the many benefits of staying together as business partners, and aspired to keep the ownership of the family business under a single holding company. The Chong siblings were convinced that competing in a globalized economy called for not just “brains, resiliency and hard work,” as their father had always taught them, but also required “scale.” Now in their forties, they dreamed of building a world-class company that they could someday pass on to their 19 children (some of whom were already working in the family business). As they saw

it, if Mr.Chong's occasional comments on the future truly reflected his intentions, his plan could threaten both the unity of the family and the long-term viability of the enterprise they had built together with him.

Even though the Chong siblings shared a vision among themselves of *their* family enterprise in the future, they were at a loss about how to talk about it with their father. From their education, their reading of contemporary business literature from around the world, and their conversations with friends and colleagues in their generation, they knew that there were critical questions to be answered. How could the architecture of governance be more transparent and consistent with international practices? How could they build a truly collaborative sibling partnership? How should they design the appropriate leadership structure among themselves? And, especially, how could they negotiate a planned succession from their father to their generation in both management and ownership? They discussed these choices with each other, but had no idea how to raise them with the only person who could actually authorize addressing them seriously – their father. Such conversations were antithetical to the traditions and values of the Chong family.

Successful entrepreneurs everywhere in the world are often highly controlling and viewed by their children as larger than life. Indeed, talking about continuity across generations is difficult for most business families in every culture. But for Chinese business families open discussion of these matters often poses a particularly formidable challenge. For thousands of years the Chinese have internalized a hierarchical structure within the family in which fathers are the unquestionable source of authority. A deep commitment to filial piety as a core principle, associated with the ancient teachings of Confucius and Mencius, frames the relationship between fathers and sons as the fundamental link across generations, the center of gravity around which family unity revolves. It is not so much that Chinese fathers are autocratic (though, of course, some can be); it is more that the hierarchical structure of the family reinforces the deeply held sense of life's essential orderliness. It provides the psychological context that orients *both* seniors *and* juniors in finding "their place" in the familial system. For the Chong siblings,

raising the continuity issues directly (as their Western education might have otherwise motivated them to do) would violate their own sense of proper familial process and decorum. Such a discussion might well offend their father, threaten the harmony of the family and raise the possibility of triggering an embarrassing loss of face. And yet they worried that continuing in silence down the current path was not in the family's best long-term interest.

This is the most important continuity dilemma of contemporary Chinese family businesses. Throughout the Pacific Rim there are hundreds of prominent family enterprises that were founded by entrepreneurs of Mr. Chong's generation. Like him, many left the mainland with few possessions in the wake of the Maoist revolution, succeeded beyond their wildest dreams and built successful companies abroad. It is well-documented that Chinese ethnics are the dominant force in every economy in the Far East (most estimates put Chinese families in control of half the largest firms and up to 80% of the midsize enterprises throughout the region). This is the generation that fueled the rise of the so called "bamboo network" that has provided as much as 80% (Weidenbaum & Huges, 1996) of the private overseas investment that has been so critical for the economic resurgence of modern China.

The success of these regional Chinese enterprises has surprised many experts in the West who considered their highly centralized and familial approach to governance and management too rigid, antiquated and impractical. Contrary to their expectations, the familial attributes of high commitment and loyalty, quick and decisive decision-making, easy allocation of capital across internal boundaries, and the use of personal *guanxi* to gain regulatory and market advantages, proved extremely adaptive to the economic environment of the past half century.

And yet, as the Asian financial crisis in the 1980's showed, the Chinese way of organizing family enterprises is also vulnerable -- especially regarding intergenerational continuity. The family companies that survived that turbulent period have adapted, but the approach that has served these enterprises so well to this point may not be as well-

suited to the new set of conditions. The universal challenges to continuity – capital retention, governance, leadership, and family process -- are all converging at this moment in the economic history of the region. In addition, the competitive pressures stemming from globalization and the imminent retirement of the post-revolution founding generation pose a new set of risks, and the solutions to these new demands will have to come not only from the business plan, but from the family process itself.

There are three specific critical challenges that Chinese family enterprises will have to meet and resolve:

1. ***The senior generation “letting go”*** -- managing the retirement of founding patriarchs;
2. ***The junior generation “taking charge”*** -- developing capabilities and harmoniously integrating the next generation of family shareholders/managers; and,
3. ***Governance design*** -- creating governance architecture and family collaboration that is responsive to global standards of accountability and transparency, while maintaining family commitment and investment.

For families like the Chongs, finding answers to each of these challenges will require understanding the general dynamics of family-controlled businesses, as well as the particular cultural orientation of Chinese enterprise, enhancing their innate capacity to adapt to contemporary conditions *in their way*. We will discuss each challenge in turn, analyzing its sources and discussing strategies for responding that apply lessons from experience in family business governance to the cultural realities of this region.

Challenge #1: The Founder’s Departure

There is tremendous variability among cultures and individuals in the ways that the senior generation anticipates and accomplishes a generational transition, but there are

also a limited number of common fundamental tasks. Seniors everywhere must address the transfer of ownership and control of family assets to the next generation, the grooming and selection of those who will have leadership roles in the future, and the design of a governance architecture to sustain the collaboration among family owners. And yet, senior leaders in all cultures experience considerable resistance (both within themselves and from those around them) to working on these transitional tasks. Our experience with the Chairmen of Chinese family enterprises has consistently shown that cultural norms further compound these challenges – leading most to procrastinate (or avoid altogether) taking preventive measures that could enhance the likelihood of continuity.

This is not to suggest that Chinese business patriarchs feel any less responsibility to do something about these continuity tasks for the benefit of their families and their businesses. If anything, the focus on multi-generational obligations and far-horizon goals is stronger in Chinese culture than anywhere else in the world of family enterprise. However, we have found that the culture constrains the seniors' freedom to take proactive steps toward continuity in four ways:

- concerns about *responsibility and authority* place the burden of decision on the father alone;
- concerns about *privacy* limit information-sharing,
- concerns about *fate* limit the active consideration of future scenarios; and
- concerns about *status and face* limit the timing of the transfer of authority.

Isolated responsibility: Contemporary Western approaches to continuity planning call for a prolonged and highly interactive process in which families come together to openly discuss their aspirations and explore the feasibility of various scenarios for the future. This inter-generational method invites the active engagement of offspring and is designed in such a way that the continuity choices that are ultimately made are “owned” by those whose lives they will affect.³

³ While the advice of professionals and the conclusions of research consistently support this high-involvement, collaborative planning process, of course Western families vary widely in how fully they

Such an approach, however, is antithetical to the Chinese cultural norm that leads patriarchs to feel burdened to find the solutions on their own; determining and acting on what's best for their families. Confucian teaching assumes that harmony is best achieved through unwavering confidence in the judgment and wisdom of the leader – not as an expression of power politics, but as an expression of the ideal fulfillment of reciprocal obligations between father and son. The inherent “messiness” and uncertainty of an interactive (Western) approach to the generational transition threatens family harmony and may expose patriarchs to a harmful questioning of their assumptions and preferences. Like players in high stakes game of chess (or mahjong) – fathers are expected to craft a grand strategy themselves, alone.

Alone, that is, but not unwatched. Typically, there is an extraordinary sense of history, legacy, and obligation weighing on the alternatives considered by the senior generation. In Chinese families the patriarch's continuity and succession choices are sometimes judged not just on how they will affect the business or the next generation but also on how his forbearers would approve of his intentions, priorities and actions. Hence, culture raises the stakes by framing critical continuity decisions against the backdrop of perceived ancestral endorsement. In conversations with a Chinese patriarch on the impact of various estate allocation scenarios on the relationship among his children, he remarked “My kids? I'm not worried about my kids; I'm worried about what my *ancestors* will think...”

Privacy: Many Chinese patriarchs rose to power and wealth against the backdrop of a hostile environment. They have survived revolutions, confiscations, nationalizations, and repeated migrations to communities that were (and are) often unwelcoming and ultimately envious of their success. In the Philippines, Malaysia, Indonesia, Thailand, and throughout the region, the lesson of history is that indigenous populations will react to the

adopt it. In this example, as in all of the generalizations in this paper, highlighting inter-cultural differences does not mean that there is not also plenty of intra-cultural variation as well.

success of Chinese family businesses with apprehension and, ultimately, with violence – economic and personal. These experiences have taught them to tightly control information about their wealth and business operations. Typically they pride themselves in being the only ones who fully understand “the big picture.” They are the ones who have seen opportunities that others have missed, have forged the business deals, and created the essential personal relationships with government officials, bankers, partners, suppliers, customers and with loyal employees. Only they know the extent of the family’s holding, and where the accounts are locked away. They have learned by necessity to maintain a low profile (most live significantly below their means.) Inviting others, even intimate family members, into their decision-making process about such high stake choices is difficult indeed.

This does not mean that Chinese patriarchs don’t fundamentally trust family members. Most of them know and greatly appreciate the talents and education of their children. They just do not have a psychological template for engaging in a cross-generational dialog. Caught “between a rock and a hard place” on these decisions, many retreat to isolation. –If they craft solutions at all, they do so in secrecy.

One very particular complication of the privacy issue is in estate planning. Many of the prominent business families from Hong Kong actively sought dual nationalities in western countries when the territory’s sovereignty was transferred to the PRC in 1997. It has also been a common practice in the past to move assets offshore, distributing accounts in financial institutions in several countries. Some of these founders assume that, as in the past, these arrangements are essentially private. But the situation has changed dramatically in the past decade. The greatly enhanced tracking and information-sharing across countries in a post-9/11 world has led to an aggressive approach by many tax authorities, especially in the United States. As a result, many families are shocked by the estate tax liabilities they incur in foreign jurisdictions at the death of their founding patriarchs, many of whom continued to hold financial and business assets personally until the end. This is particularly common among those whose children studied abroad and acquired dual nationalities (or residencies) in the US,

Canada, Australia and the UK. The consequences for continuity of a false assumption of “privacy” can pose a significant threat..

Finally, the preoccupation with privacy also can interfere with leaders seeking the kind of professional help that they need. Chinese families tend to represent a family style described as *rigidly enmeshed*.⁴ Individuals in Chinese families are tightly interconnected to each other within a rigid hierarchy of authority, while the boundary separating the family from the outside world is typically quite impermeable. This is especially true when there are differences of opinion, or even slightly varying agendas. In a Western family such disagreements are seen as a natural and inevitable process, but in the Chinese context they are experienced as embarrassing failures of harmony when they become visible to outsiders. Succession planning inevitably raises the possibility of competing points of view and conflict. This makes it very difficult for Chinese business families to seek external help at the time of succession. Discussing common dilemmas with other business families or bringing in professional help on intimate matters of family process are never easy for Chinese parents. Hence when repressed feelings can no longer be contained, they can reverberate intensely within the family, sometimes prompting lasting, painful (though frequently unspoken) resentments and cut-offs

Fate: Working on the orderly transfer of ownership requires that business families come to terms with the leader’s aging, and his mortality. In Chinese culture, however, the very act of planning for the redistribution of ownership and control in the aftermath of a leader’s departure, is viewed as an unlucky tempting of fate. In more traditional Chinese business families, discussions about inheritance, wills, trusts and succession are thought to weaken the will of the seniors to remain fully engaged with life and are feared to provoke their untimely demise

How can you consider a range of scenarios and options if just imagining the future is seen as hastening its arrival? As a result, the “planning” conversations often take on a surreal quality of subtle hints and coded messages about the intentions of parents, without any

⁴ Olson et. al 1989, *The Circumplex Model: Systematic Assessment and Treatment of Families*. The Haworth Press, New York

opportunity to test out what is actually being proposed or whether the listener has heard the message accurately. We have encountered a tremendous number of adult offspring whose anxiety about fulfilling their responsibilities is not centered on their willingness, but rather on their confusion about the plan. The fear of tempting fate makes the most central question of continuity, “What will happen after you are gone?,” out of bounds.

The concerns about tempting fate are not limited to the death of the seniors. It is telling that in traditional Chinese families, children are rarely praised directly by their parents for fear that doing so would “go to their heads” and bring bad them luck. If praise is expressed at all, it is done so or subtly and in code or through indirect comments to others such as close friends and relatives. Often the younger generation misses the signals or assumes a much lower level of approval and pride than the parents actually feel. Indeed, filial piety is sustained by the children’s never ending efforts to please their continuously underwhelmed parents.

Face: In addition, specific planning for the aftermath of a senior leader’s control over his wealth makes explicit the assumption that he is not indispensable to the future of the family or the business, and may thus evoke an embarrassing loss of face. This is particularly so with regards to the control of their operating businesses. Chinese business owners do not typically retire from the organizations they build. Instead they hold on to the Chairman role right up to the end of their lives, reinforcing the notion that they are personally irreplaceable, and that estate and succession planning are integrally connected with their death and are thus to be avoided. It is hardly coincidental then, that Chinese families are often caught unprepared when the father’s death finally does occurs. Often the spouse and heirs are left to make fundamental inheritance and succession decisions under duress. We have also encountered many prominent Chinese business families that have faced considerable legal entanglements at the death of the patriarchs with the children of other “wives” who were not recognized in their wills and seek a share of the inheritance.

Preserving the face-saving myth of indispensability and irreplaceability can be very draining for business families engaged in continuity planning. The concept of leadership discussed above -- as moral, legitimate, and singularly personified -- puts enormous pressure on individual wisdom and correctness. Like entrepreneurs everywhere, those who become extraordinarily successful often grow increasingly detached from the strategic and organizational realities facing their enterprises as time goes by. While some founders struggle to keep up with complexity, many privately feel that their ability to make decisions that are well-informed gradually decreases. These entrepreneurs can become forced to act as if they know more about the operational details of their family businesses, the new technologies that lead their industries, and the specific realities of current markets and key players, than they in fact do.

How elder Chinese entrepreneurs and their families cope with this paradox is a major determinant of their chances for successful continuity. Those seniors who fear loss of face most, protect their discretionary authority at all costs, becoming increasingly autocratic instead of more participative. They accelerate their demonstration of undiminished power with more and more arbitrariness, daring the system to challenge them.

There are other seniors who find a strategy to protect their role and reputation while stepping aside enough to allow new leaders to focus on the operating specifics. They create an implicit collusion to honor the form of respect while in fact sharing responsibility and discretion. It is in some ways a form of the Tao tradition of controlling the process by not controlling it. These founders gradually withdraw from decision-making and create a leadership vacuum that their children are, mostly implicitly, expected to fill. The children maintain a deferential stance towards their father by actively seeking his opinion and wisdom, even in those instances when they feel better informed than him. The father, in turn, goes through the motions of reflecting on the issues, questioning and testing his children's values, priorities, and reasoning, but gradually refraining from deciding for them. In this way everyone works to sustain the reciprocal face-saving. The founder is continuously given credit for decisions that the

children are quietly shaping, and the founder discreetly basks in the glory of his children's accomplishments as he withdraws his direct influence and redirects the focus of his considerable authority away from the family enterprise and onto other pursuits like philanthropy and, in some cases, political involvement⁵.

In one multi-billion construction conglomerate that we studied, the founder's son and CEO of the company – an MIT graduate with degrees in both engineering and management -- would regularly meet with his father in private to explain how the strategy for their main business was driven by state-of-the-art computerized building technologies. Under the pretence of “getting his approval”, the son in fact quietly coached the Chairman so he could participate in board discussions and save face, masking any gaps in his understanding of the business. The independent directors, in turn, would regularly praise the 87-year-old Chairman on his business acumen: “It's amazing that you are so current on the latest building and construction trends!” one of them commented.

This is a sophisticated and complex dance, and it must be managed with subtlety. In particular, it needs to overcome the dangers of slow pacing and inadequate

⁵ At this point in history, there is also a particular opportunity for a special kind of status for the senior leaders of ethnic-Chinese family businesses throughout Asia and around the world. Many successful Chinese founders who have built enterprises abroad have been successfully wooed by the government to reinvest in the Mainland. For these founders, the opening up of China has meant an opportunity to vindicate themselves by returning triumphantly to their towns and villages of origin. Reconnecting with relatives (many who are now linked with the local and national authorities) offers the opportunity to rebuild familial and *guangxi* networks. From a succession standpoint, China's resurgence has also opened the possibility for founders to redeploy their considerable entrepreneurial skills in new business and philanthropic ventures as they gradually curtail their involvement with the family enterprises they built abroad. However, many founders soon discover that doing business in China is often harder work than they are willing to do at this late juncture in their lives. Typically, they turn over operational responsibilities for Chinese ventures rapidly to their children – some of whom may relocate to the Mainland, re-learning Mandarin and the local dialect of the canton their family comes from. The founders do frequently retain the lead role in highly visible philanthropic and community activities in China – proudly displaying in their offices their photographs with government dignitaries. They work to rebuild ancestral shrines, open up schools, hospitals, and museums, and use their newly found influence with the authorities to lobby for the building of much needed infrastructure in their respective regions. In recognition for their contributions they have monuments, streets and plazas named after them. In this way, the new China provides these founders with a high-status arena in which to honorably and productively stay engaged, and recapture their ancestral identification.

communication. On average, business families anywhere who are not facing a crisis of a leader's death or sudden incapacity take at least five years from when they start thinking about continuity and succession to the moment they implement an agreed-upon plan. However, this transition in Chinese families can take significantly longer. Because Chinese founders tend to retain the role of Chairman right up to their death, the next generation often move well into middle age with limited authority. The transfer of leadership and the division of the ownership can be convoluted, characterized by near-paralysis punctuated with occasional moments of movement. Accepting the gradual pace of generational change can be a source of frustration for the next generation – particularly for those educated in the West.

In addition, much of the process is kept ambiguous (sometimes unnervingly so for the juniors). There are symbolic markers of transition that have proven important in other regions of the world: a public commitment to a generational transfer of leadership; an explicit process for “taking charge”; timetables with formal announcements; and ceremonial transfers of titles. These rituals are less common here because of all four of the cultural themes: isolated responsibility, privacy, fate, and face. If any communication about the succession process occurs between the founder and his heirs, it tends to happen obliquely. The founder might, for instance, make an indirect allusion to a concern he's having. If he's feeling that his children are not taking him into account sufficiently, the founder might make it known through his wife that that he's considering a controversial stance on an issue likely to capture his children's attention (e.g., Mr. Chong threatening to split up the family company). Or, he might make a passing allusion to a friend whose children ignored their father and made poor business decisions that threatened the family's prosperity and harmony. The children, in turn, would likely respond reassuringly and convey that they would, of course, honor their father's wishes and recommendations. Hence, to communicate effectively on these matters in a Chinese family requires not just active listening but also the capacity to appropriately decode and interpret indirect (often metaphorical) messages designed to avoid direct confrontation.

In this way, families can accomplish a gradual or delayed succession. The children maintain a deferential stance towards their father by actively seeking his opinion and wisdom – even in those instances when they are more central to the decision making process of the business than he is. It is important to note that in most cases the children go along with this process not because they are “oppressed” by autocratic fathers (though some certainly are), but because they are *themselves* invested in honoring everyone’s place the hierarchy and in so doing sustaining the structure that links them to their ancestors, their parents and each other. In families where the rising generation accepts this approach, their deference does not spring from resentful obedience but from a subordination of self that stems from loyalty and devotion to family. These families can accomplish successful transitions if the founders do their part by gradually but deliberately minimizing their influence on decisions and weaning their children to trust their own judgment. Though this gradual succession “dance” usually unfolds “under wraps”, it does facilitates the functional passing of leadership responsibilities while shrouding the transfer of authority across generations with an element of grace and dignity.

Challenge #2: Integrating the next generation

As with the Chongs, the next generation of owners in leading Chinese business families is typically made up of highly educated sons and daughters. Many were sent at an early age to boarding schools abroad and then on to colleges and graduate programs in Australia, Europe, Canada and the United States. As a result, they feel themselves to be truly bi-cultural individuals. As such, they often struggle (particularly during their twenties and early thirties) to integrate a Western self, imbued with notions of self-determination and independence, with their more subordinate, respectful, and familial Chinese identities.

The bi-cultural personal histories of these successors create an intriguing complication in the generational transitions in Chinese enterprises. For one thing, cultures lay out very different propositions about how young adults should go about choosing their path in life.

For Westerners, the developmental work of this stage centers on defining a “Dream” – an imagined possibility for the person one aspires to become and for the life one desires.⁶ This vision sets a context for defining priorities, and imbues fundamental choices with a sense of purpose, excitement and vitality. At all levels, from mundane decisions about college courses, styles of dress or recreation, and hobbies, to significant choices of career, where and how to live, marriage and children, the task of young adulthood is one of discovery, exploration, and increasing focus on voluntary selections from a range of alternatives. Even in business families where continuity of family leadership is a priority in the minds of both generations, the contemporary Western family typically expresses a value of non-coercion and free choice. The “Dream” belongs to the individual.

In contrast, for the Chinese the developmental focus is less on defining a vision for one’s life and more on finding one’s “place” in a structured web of interdependent relationships and obligations. From this vantage point, life’s journey consists not of proactively crafting an authentic self on the basis of personal experience and aspirations, but rather on finding where in a predetermined set of possibilities one can find a sense of integration and harmony. If for Westerners the process of identity formation unfolds from inside the self out onto the world (“Who am I and what do I want?”), for the Chinese, it goes in reverse, from the outer world back into the self (How do I fit and fulfill my obligations honorably?)⁷.

Many sons and daughters of prominent Chinese entrepreneurs are caught between these two definitions of authenticity as they go about making fundamental life choices at the gateway of adulthood. Some manage to attain an adaptive synthesis that offers an

⁶ Levinson *et. al.*, 1978, 1996

. The iconic model of nobility through reverence is the classic story of Shun, the first great leader discussed by Mencius. Although Shun was denied and attacked repeatedly by his father and brother, he never wavered in his filial piety, and in the end he triumphed. ‘Once the Blind Man [Shun’s father] was pleased, the pattern for the relationship between father and son in the Empire was set. This is the supreme achievement of a dutiful son.’ Modern successor generations may take a skeptical stance to such ancient lessons, but these parables are deeply embedded in the value system and expectations of the culture nonetheless.

integrated outlook. Many others become extraordinarily adept at compartmentalizing their lives, calling forth their “Chinese self” or their “Western self” depending on where they are and whom they are with. For most, the tensions and contradictions between the two cultures are never quite resolved and can be an ongoing source of stress.

Consider the case of a young woman from a prominent Chinese family that settled in the Philippines. Her grandfather built a substantial real estate and investment business which was passed on to her father and two uncles after his death. Her father, being the youngest of the three brothers, was sent to boarding school in the United States where he completed his education and lived for a long time, returning home after the grandfather’s death. Her uncles, in contrast, stayed in Manila and were raised in a more traditional Chinese manner. Following in her father’s footsteps, the young woman studied in the U.S., earning a BA from Columbia and an MBA from Wharton. She also worked for five years at a prominent private bank in New York, quickly rising to the upper levels of management before returning to the family business in Manila. When we met her she told us, “Most of the time I feel schizoid. When I’m working with my father I can speak my mind and engage fully just like I did at my job at the bank. With my uncles, however, I revert to my Chinese compliant self. The problem is that the three of them are my bosses and continuously negotiating my place to get the work done is exhausting...”

Right from the start of their careers, the very decision to enter the family enterprise after spending their formative years in the West, often feels momentous to this bi-cultural next generation. Beyond the normal anxieties associated with being the boss’s offspring, when Chinese heirs return they also fear surrendering the freedom and independence that they had gained while living away from the powerful gravitational pull of their families. Following the completion of their education many find employment and stay abroad for a few years. The most talented have access to entry positions with considerable authority in prominent companies abroad. This gives them the opportunity to make their families proud and repay the investment in their development by beginning their career in a foreign or multinational concern of high status. And yet the allure of doing their duty by following in their father’s footsteps, becoming contributors to a mayor enterprise that is

owned by their families, and reconnecting with their familial and cultural roots, is for many stronger than their need for autonomy and self-determination. Some parents exert considerable direct pressure on them to return home; others say little, but convey the strong message that exploration and “portfolio enhancing” are fine to a point, but then the obligation on the young adult to keep his or her part of the reciprocal bargain, by returning to contribute to the collective future of the family, is paramount and absolute.

Negotiating their return to the family business is seldom easy for Chinese heirs. Their starting positions are often more ambiguous than the professional roles they held with their prior employers, or the opportunities offered by recruiters to their business school classmates. If they worked in an international public company, they were treated professionally, held accountable, and rewarded on their merits for accomplishing measurable goals. Once in the family business, they are operating under the long shadow of their parents where their titles and responsibilities are seldom clear and where there is little reliable feedback on their performance. Younger siblings, or those who are returning after some years away, often have to deal with the accumulated authority of older or longer-tenured siblings, which is sometimes even more complicated than the aging father.

Over and over, these returning heirs experience the tension between their two selves. Their Western experience encourages them to advocate professionalizing their family business by importing the know-how they’ve learned, but the Chinese protocol tells them to “know their place” in the hierarchy and emphasizes staying within the bounds of their specific work assignment, offering commentary and suggestions only when requested, and patiently waiting for increased responsibility. In business school they practiced over and over the skills of brainstorming and group decision making; in the family company they are encouraged to do their own job as well as possible and expect others to do theirs, without interference. The Western process for making asset allocation, risk assessment, and senior human resource decisions is imbedded in formal, “objective” systems based on extensive data analysis and decision models. In their own family companies, these young successors may feel there is too much reliance on the personal judgment and instincts of individual leaders (especially their father and older siblings).

The cultural tension also emerges in the style and perks of leadership and organizational status. For example, many Chinese entrepreneurs adhere rigorously to the Confucian value of frugality. For them, keeping production costs down is an imperative, and unnecessary elaboration is seen as wasteful and even shameful. Their offices and factories are modest relative to those of their foreign competitors of comparable size. They resist hiring expensive consultants and executives from the outside and much prefer promoting (less expensive) employees whom they have molded over years from within. Their offspring, on the other hand, have been exposed to a world of more economic comfort. This affects both their lifestyles and their strategic orientation. They are more relaxed about publicly enjoying the benefits and even luxuries they can afford, and they are eager to take risks and use capital to invest in opportunities with significant upside potential.

In most of these families, it is unlikely that these differing points of view will be discussed directly, except perhaps between the father and the senior successor after many years of apprenticeship. Until then, the conversations will be “between the lines:” criticism of offspring as spendthrifts with wild, highly risky proposals; pointed questions about specific projects; discussions of the performance of non-family managers; or philosophical and conceptual talks about the economy or other companies in the industry. The sons will make general arguments about risk assessment and the value of top-tier professional services, and the father will talk about moral values of shoulder-to-the-grindstone persistence, the folly of ostentation, and the need to be protected against disasters which lurk at every turn. Meanwhile, traditional strategies are continued without modification and frustration may build in the maturing junior generation.

As another example, business-educated younger family members have been lectured intensely about human resource management concepts: pay for performance, merit systems, supervision and coaching. Traditional Chinese family companies are less likely to rely on managerial tools like formal strategic human resource plans or regular performance appraisals. Data, when it is gathered, is seen as valuable as a confirmation of

personal judgment. Furthermore, the efforts of the younger generation to implement more objective HR procedures will be seen as a threat to the personal loyalty system and the network of trust and commitment that hold the senior ranks together. Suggesting that decisions about the careers of rising managers should be made “by the numbers” instead of by the leader can be seen as a direct challenge to the father’s competence and control.

Finally, the boundary between the successors’ personal life and the welfare of the company will be much more blurred without the buffer of geographic distance. This is another characteristic of the *enmeshed* family style. To some extent individuals are expected to subordinate their emotional life and their identities to the wellbeing of the family group. Members feel collectively responsible for their family -- its accomplishments and problems. The parents may feel unrestrained in having opinions and voicing expectations about where the offspring live, how they live, whom they associate with, how much they spend, and whether and when they marry and to whom – all in the context of what is in the best interests of family success and stature. The parents’ assumption that they should have unlimited access to the details of their adult offspring’s personal lives, and that their point of view should be heeded, might have been accepted without resistance in a traditional family, but it is a serious irritant to the globally “emancipated” and returned daughter or son.

In our work with Chinese families across East Asia, we have seen numerous cases of these younger generation leaders feeling considerable pressure, looking for ways to resolve their bi-cultural contradictions and use their broadened experience for the benefit of the company and their own lives. On the one hand, these young scions can’t argue with success. But, on the other, they quickly realize that many traditional practices need to evolve and change if these enterprises are to sustain their competitive position in global markets. Very often it is the founder’s children who become the catalysts that spur the evolution of these businesses. Some Chinese fathers very much welcome their children’s professional expertise and take pride in their capacity to make improvements in the enterprise they built. Others, however, are zealous guardians of their approach to business and tend to resist any suggestions for improvements, particularly if they are

experienced as inappropriate intrusions or as face-compromising criticisms. Since the family business is indisputably the founder's domain, finding an optimal path to deploy their expertise so that it is embraced and blessed by their father, is often a challenge for Chinese sons and daughters. How they build their relationships with their father's most trusted non-family employees and, especially, how they collaborate with their brothers and sisters, often determines their ability to win the founder's support and bring about effective change.

In addition to the inter-generational dilemmas, the within-generation dynamics of the younger group are extremely complicated. Sibling bonds in Chinese families follow a well-defined hierarchy based on birth order and gender, with first born sons at the top and lastborn daughters at the bottom. First sons, as they are typically referred to, have considerable privileges. They are often given advantageous treatment when it comes to inheritance, educational opportunities, and career possibilities in the family enterprise. In many Chinese families, first born sons are automatically expected to be the father's successor in the enterprise. Primogeniture cuts both ways, however. Along with enhanced family status, privileges and rewards, first born sons also have considerable obligations to the family. In the absence of their fathers, oldest sons are typically assumed to be the responsible for their mother and siblings, even when this comes at considerable cost to them.

For those later-born siblings who have been educated in the West, it has become increasingly difficult to accept of primogeniture (rather than merit or equality) for determining the distributions of authority, rewards, opportunities and burdens. As firstborns go about assuming the mantle of family leadership, challenges to their authority from younger brothers and sisters may come as a rude awakening. They need to learn new ways of renegotiating their roles if there are to sustain the support of siblings and future generations. As the sad story of the Kwok family of Hong Kong's Sun Hung Kai Properties suggests, the political struggles among the heirs of the great Chinese business families are often masked while the patriarch is still around. However, long-

repressed rivalries can (and do) emerge in full force – even years later -- when the siblings take control of the enterprise in his absence.

The challenge of asserting themselves in new roles in reconfigured family and organizational hierarchies is particularly complex for daughters. While women can, and under certain conditions do, exert considerable influence in Chinese family enterprises⁸, this is unquestionably a male-dominated world. In his account of the five cardinal relationships Confucius views wives as always subordinate to their husbands (“A husband sings, the wife hums along”) and daughters are not even discussed in any detail, since they were expected to primarily serve their husbands’ families after marriage. Every Chinese woman has been told relentlessly about the “three obediences” -- to her father as a daughter, to her husband as a wife, and to her oldest son as a widow. In discussion, many families we have met reject these ideas as antiquated, and the daughters embark on paths of education and self-development with an expectation of open possibilities. Nevertheless, the outcomes are overwhelmingly in favor of male succession. This is also true with regard to inheritance. Though harder to justify on traditional grounds today, most Chinese families we have met continue to bequeath wealth and, especially, stock and control in operating businesses, in ways that favor sons over daughters. Clearly, it is possible to simultaneously take a modern perspective on the current relevance of these enduring norms, while at the same time feeling the pull of their judgmental, pervasive expectations.

⁸ Most of the daughters we encountered in our interviews were disadvantaged in their access to positions of leadership and in their inheritance of stock ownership, irrespective of their education and their professional merit. However, there were a few cases in which daughters had emerged as anointed successors in their family enterprises. Typically, this was in families where the next generation was either made up exclusively of daughters or the sons had serious health or psychological impairments which effectively ruled them out as potential successor candidates. Only in one “co-preneurial” family enterprise, in which the mother along with the father was very active in management and regarded by all as an equal founding partner, did we encounter daughters who had equal status with their brothers as heirs and successors. The research available confirms the prevalence of a strong gender bias in Chinese families across the board. There is, however, some research that suggests that the status of daughters under the one child policy has been elevated recently in Chinese urban centers (Fong, 2002).

One consequence is that the daughters who are ambitious need to spend a great deal of effort managing the mixed messages and conflicting levels of encouragement that they receive from their parents and their environment. At one session with a group of potential successors from several families from across the Chinese diaspora, the most animated conversation was among a group of daughters, sharing their strategies for managing legitimacy issues with their fathers. Some advocated quiet acquiescence, avoidance of conflict at all costs, and fulfilling the role of “good and loyal daughter” in all situations. Others felt that it was essential to have strong opinions, be completely prepared to defend even the smallest detail, and never give in, as the only way to generate any meaningful authority. Whatever the strategy, all of the daughters agreed that they felt that their status was never secure, and that no matter what they had accomplished, they were always one step away from their fathers deciding to make them subordinate to a brother (even one less experienced or competent), a cousin, a non-family manager, or to liquidate.

Challenge #3: The Chinese Orientation to Governance

The field of organizational science has always been primarily interested in management – the operational control of enterprises. However, over recent decades researchers and advisors have taken the issues facing owners more seriously, and a body of knowledge about governance has gradually accumulated. Governance is concerned with all of the ways that the interests of owners are reflected and implemented in the organizational system. In widely-held publicly traded companies, the core concerns of governance have always been shareholder rights, the operations of the board, and role boundaries between the board and the CEO. Those of us who focus on family-owned and family-controlled companies, whether privately held or publicly traded, in addition to these generic issues, have also needed to pay attention to a larger set of structures, policies, and procedures. These include wealth transfer and estate planning, family representation across branches and generations, family philanthropy and family office services, succession planning, leadership development in the family shareholder group, and career management for

family participants. (The recognition of the central importance of all these issues to the client families has been the core theme of our partnership with the Private Bank.)

In general, the purpose of governance is to formalize the involvement of key stakeholders in the decision-making process at the apex of a family enterprise. It is not enough to create boards and rules for today's owners, because family ownership is inherently always in motion. Individuals age, families grow, people marry (and divorce), have children, and die. As the cast of characters changes continuously, intelligent governance designs include organizational structures and processes that can anticipate, adapt, and manage the relationships among owners and managers across time and generations.

Some cultures embrace family governance easily, because it fits with their basic norms about appropriate relationships between individuals and organizations. Those cultures that endorse representation, debate, shared responsibility, and legislative processes find it natural to apply those values to the oversight of business operations by an ownership group. For others, there is a mismatch, as there is with the core concepts of parental authority and responsibility in traditional Chinese culture. All families, and in particular Chinese families, start from a position of *personalized* control. Governance is inherently about *institutionalizing* control. This creates the core challenge of continuity for Chinese business families: finding a way to move from centralized control, strict generational hierarchy, individual compartmentalized responsibilities, and "need-to-know" restrictions on the flow of information through the family, to a formal governance system that institutionalizes inclusiveness, collaboration and transparency among key stakeholders.

While acknowledging culture as a factor in governance, it is also important not to over-emphasize it. In many ways the problems facing these overseas Chinese family businesses are generic. In every culture, continuity across generations in family enterprise requires solving a number of inter-related core dilemmas, and meeting four critical needs:

- 1) Capital (attracting resources for growth and retaining family investment);

- 2) Governance structure (designating legitimate stakeholders, board development, and defining appropriate shareholder participation):
- 3) Leadership (choosing a future model of individual or shared control, and managing the careers of potential leaders); and
- 4) Family identity, values, and process (preserving the legacy of family ownership that accepts the collective Dream and honors the inter-dependence of generations and branches).

However, the common strategies for responding to these challenges are not universal. Western family businesses have developed mechanisms that would be difficult to graft on to the unique cultural milieu of Chinese families. For example, around the world in various forms, a Family Council is often regarded as a key governance structure that helps business families respond to each of the four essential needs. In a Council, families formalize their discussions and decision-making about family issues that emerge from joint business ownership, including career planning for the next generation, family employment, conflicts of interests, life style and liquidity needs, inclusion of in-laws, and succession. For a Family Council to work effectively, family members need to acquire the capacity to communicate openly and directly and manage the inevitable differences that emerge whenever stakeholders attempt to collaborate in resolving complex issues. In fact, a collaborative process is seen as both a precursor to effective Family Councils and a valued by-product of their ongoing work. Families in those cultures that embrace Councils are seeking some level of empowerment of the younger generation and more open sharing of information, both personal and business-related, because they believe that will enhance the long-term viability of both their family and their enterprise.

Similarly, most Western family enterprises of substantial size and complexity professionalize their board of directors. The ideal design calls for grooming a core of highly skilled family directors through rigorous vetting and carefully monitored performance, and then carefully selecting a quorum (ultimately a majority) of senior independent directors – all in accordance with best practices in Western corporate governance. The board then becomes the voice of ownership in overseeing and leading

management, and the ultimate authority in guiding the enterprise according to the integration of business practice and family values and goals.

How appropriate would these Western solutions be to the Chongs? Would Mr. Chong see open discussion of goals and differences in a Family Council as a pathway to collaboration and commitment, or as an invitation to chaos and conflict? How could filial piety and the prescribed hierarchy of birth order, gender, and generation be preserved in a Council environment of group equality? Would Mr. Chong be comfortable opening his judgment to deliberation and review by a board? In a culture in which the boundaries of the family are carefully guarded, in which all family members are responsible for sustaining the family's stature and face in the community, how could the inclusion of external members and the potential exposure of family issues be embraced? Is there any way that the siblings could suggest and argue for these structures without feeling inappropriately challenging and disrespectful?

But importing these generic structures is not the only option. If the conflict between cultural norms and global standards of practice is an impediment, it can also be a stimulus for creativity. While the typical Western solutions to continuity challenges cannot be easily adapted to fit Chinese cultural parameters, it is also true that historically many Chinese business families have found other ways of responding to changing conditions without shedding their cultural identity and heritage. Ironically, many features of Chinese culture deemed by Westerners to be impediments to development have actually turned out to work in service of survival and growth. The emphasis on education and training, the extremely high levels of effort, the moral obligations on leaders, even the wariness of "outsiders" and the extremely high gradient of trust (earned only after long service and supported by a network of interlocking mutual obligations), are adaptations of centuries-old Confucian principles that serve very well in contemporary business organizations. In addition, sometimes more specific cultural quirks can have unexpected strategic utility. For instance, there is the Chinese conviction that "good luck," a prime determinant of success or failure, can be enhanced through meticulous attention to proper rituals. This stimulates a continuous scanning of opportunities in the external

environment that may actually improve a family's fortune. Indeed, Chinese entrepreneurial families are renowned for being master tacticians who are particularly responsive to market needs⁹.

The best way to move from general concepts to applications is to consider the implications of Chinese family structure and process for specific governance components. There are five governance structures that are most common in major enterprise families around the world. Each of them requires a "Chinese adaptation" for implementation and success.

Family Assembly and Family Council

A Family Assembly refers to a meeting of all adult members of a family. It usually takes place annually, and includes governance, educational, and recreational activities. When ownership is widely dispersed among family members, the Family Assembly can incorporate an annual Shareholders' Meeting. In cases where only a segment of the family are owners, it is important to distinguish between these two events. The Family Assembly rarely attempts to resolve detailed operational issues, although it may discuss fundamental questions such as values, liquidity, growth and risk, major acquisitions and divestitures or even the overall performance of the company. The purpose of the Family Assembly is to strengthen the broad family's identification with, and commitment to, the enterprise. Therefore, the process of a classic Family Assembly is designed to achieve maximum participation, encouraging all family members, especially those not directly involved in the business enterprise, to learn about operations, to get their questions directly answered, and to state an opinion if they have one.

The Family Council is like the executive committee or board of the Family Assembly. In large families, it is usually elected at the Assembly, and represents different branches and generations (in small families, the whole group acts as both Assembly and Council). It typically meets quarterly or even monthly, and manages the affairs of the family in the

⁹ Harrison & Huntington, 2000.

same way that the board manages the affairs of the operating company. The Council is designed to be intensely collaborative, made up of individuals with complementary skills and from all levels and branches of the family.

The purpose of the Family Assembly and Family Council – a unified family -- is completely consistent with traditional Chinese commitment to family togetherness; but the process is not. That does not mean that discussion of issues of common interest regarding business oversight in Chinese families is rare. In fact, a common complaint in Chinese business families is that everything seems to revolve around the business – all conversations, plans, and schedules – without relief. But actual decision-making is much more likely to be handled in one-to-one conversations, rather than in a group setting. The roots of reciprocal connection are deep. Three of the five “key relationships” in Confucian teachings are intra-familial: husband-wife, parent-child, and older sibling-younger sibling. But the directives for the appropriate behavior in each of these relationships is one-to-one—a guide to mutual obligations and responsibilities in a pair of individuals of unequal power. The family unit, extended families including in-laws, or even the siblings as a group are not specifically discussed, or even referred to. There are no traditional cultural prescriptions for how family members ought to relate *as a group*.

Consequently, it is hard for many senior generation Chinese family leaders to even imagine getting the entire family together to actually discuss and deliberate on a matter of general family concern. It would be like expecting a military group made up of representatives from all ranks – from five star generals to foot soldiers -- to come together as a unified collaborative team and solve problems of military strategy –too many layers of status, risking a violation appropriate rituals, and ultimately chaos.

When the family does sit together, the process of the discussion is characteristically one-way. For all the reasons discussed above, parental wisdom is usually unchallenged in the group setting. The flow of information is upward, with juniors relating their data to the group, but the flow of interpretation, decision-making, and assignments is downward. It has been remarkable to us how consistent this pattern of discussion is in Chinese families

of a wide range of sizes, locations, levels of education, and business types. In the daily business operation, a younger-generation executive may have considerable discretion, but there is no format for importing that authority into the family group. Even in those cases where, in individual interviews, there was a high degree of disclosure, objective criticism, and creativity, when the family sat together the traditional pattern of strongly hierarchical interaction was prevalent.

Chinese families are certainly not unique in this tendency. All families are non-democratic in some way – giving more attention to some individuals than others, based on age, gender, personal style, birth order, or some other determinant of status. Hierarchies have benefits in efficiency and in setting standards. But an effective Family Assembly or Family Council requires enhancing a family's ability to go beyond its characteristic hierarchies and make use of talents, ideas, and points of view from its broader membership. The Family Council is built on a belief that preparation for the future, increasing the probability of successful continuity, makes worthwhile the increased confusion that can result from a blurring of authority and giving the younger generation a strong voice. Can that trade-off be seen as a good idea in this cultural context?

Those Chinese business families that have adopted some form of Family Assembly or Family Council suggest that the answer to that question can be “yes,” if proper care is taken in the implementation plan. The classic designs for the Family Assembly and Council need modification, particularly regarding the justification given for their existence and the timetable of implementation. In particular, our research and experience suggest the following:

1. Start by relying on the parents to structure and implement the Council. In most cultures, the structure of the Council emerges from a general family discussion, led by family members other than those who are the leaders of the business. This maximizes the “buy in” of all sectors of the family, and sets the tone from the beginning of a flatter authority hierarchy. In Chinese families, however, that

design process would put too much pressure on the loss-of-control fears of the parents at the beginning. Here it is better if the parents see the Council as a developmental tool for their offspring that they as parents are designing and implementing. In this way the training/mentoring aspects of the Council are highlighted, and the democratizing aspects are played down and given a chance to evolve..

The implementation of this process needs to be very subtle. The parents can take the lead in authorizing the structure, and in declaring its purposes. A preference for procedural rules and decorum can be exploited to draft a very specific operating manual for the Council, with carefully delineated responsibilities and entitlements. Compared to Councils in other cultures, the discussion at the beginning can be more formal, with points of view presented sequentially, for example, in a specific order of status, instead of in the general brainstorming style of exuberance and inspiration. Gradually, as the family's comfort with discussion increases, younger and lower-status family members can be given specific requests for presentations and comment, and the interaction may become more relaxed.

2. Build the agendas gradually. The key here is to give the Council a chance to have some small, anxiety-reducing successes early in its life, before tackling more threatening and potentially divisive topics. In particular, using early meetings to review and codify the family history or statement of values, for example, would give the parents a chance to direct the family's attention to discussion topics that they feel are important and that give them a chance to be "parental." The family needs some experience in seeing that everybody can make a contribution. That is done best on topics that will not be seen by the parents as criticism. It is important not to carry this idea too far, however. If discussions about critical dilemmas are put off for too long, the younger generations will lose any faith that the Council is anything different from their typical family conversations. Timing is all-important.

3. Provide opportunities for subgroups, particularly generations, to meet separately.

We have found it very useful in traditional hierarchical families, including Chinese families, to legitimize meetings of the sibling or cousin group without their parents present. This has to be carefully introduced, to avoid a reaction as if it is breeding revolution. Again, it can be presented as supporting the parents' agenda of developing their offspring's capacities and readiness to shoulder the responsibility of family leadership at some distant future time. It may be useful for the parents to charge the group with a specific task or topic for discussion, to reassure them that the meetings are taking place under their mandate. However, just the process of getting the younger generation together in a room to talk about the family and the enterprise can have enormous energy-releasing benefits, as a pressure valve for frustration and a positive enhancement of the cousin network.

4. If on-site consultation is not possible, provide behind-the-scenes coaching.

Learning the skills of open discussion across generations and collaborative decision-making is not easy anywhere in the world. Most families benefit from a facilitator as they start their Family Council. It can be very helpful, if the family has a relationship with a skilled professional that permits that person to sit in on meetings.. That seems unlikely in most Chinese families. Therefore, the best way to help them over the rough spots is for trusted advisors to offer coaching between meetings, directly with the leaders of either generation, in private.

Board of Directors

The gap between trends in the West and traditional Chinese family business practice is largest regarding the role of the board. There has been an increasing focus on transparency, board authority, minority and public shareholder rights, and strict division between management and ownership in European and United States corporations over the past decade, but it has been slow to penetrate Asian corporate structures. In particular in family-controlled companies, boards, if they have any role at all, have remained as support and advisory resources. There is evidence that this is changing, spurred by the growth in the requirements for international capital and the somewhat enhanced

willingness of investors to demand greater compliance on the part of Chinese and overseas Chinese firms with standard governance practices¹⁰.. Nevertheless, the concept of an independent, empowered, governing board of directors – a structure that generates ambivalence in first and second-generation family business owners worldwide – is a particularly tough sell in Chinese family enterprises.

To begin with, creating a board of directors raises again the issue of privacy, both within the family and, in particular, with outsiders. We discussed earlier the lessons that Chinese families have learned about too much visibility through their painful experiences in foreign lands. Therefore, inviting non-family members into positions of intimate knowledge and oversight of the enterprise seems like the height of folly.

Even if a board does not include any outsiders, it runs counter to the concept of personal control. The Confucian ideal of the virtuous and worthy leader, the *junzi*, is one of individual responsibility. There is a deep assumption that systems rise or fall on the basis of the nobility, morality, skill, and overall goodness of the leader¹¹. In fact, classical philosophers warned specifically of the danger when a ruler shares authority with ministers.¹² Why would a skilled leader need a board? Wouldn't the process of submitting decisions, intentions, strategies, and judgments to a group for ratification or review be a sign of a lack of confidence? If the leader is weak or wrong, the results will be available for all soon enough, and then the system can respond.

Finally, boards are expensive. If they do not add value, what justifies their cost, in the face of the concept of frugality?

¹⁰ Wai-Chung Yeung 2004.

¹¹ The representation and evolution of this idea through the Communist era is a fascinating and complex theme that is far beyond our scope here, but it can be said that the idea of the Confucian *ren* seems to have endured the ideology of collectivism remarkably intact.

¹² For example, Han Fei: "Though Wang Liang and Zao Fu were skilled charioteers, if you let them hold the reins together and drive they would not be able to manage the horses. How then can the lord share authority with his ministers and still manage the government?" *Hanfeizi* 35, *Outer Congeries of Sayings: Lower Right Series #6*)

All of these are reasonable questions, raised by family business owners everywhere, but particularly pertinent in Chinese enterprises. Yet the evidence for the benefits of an independent board of directors is strong and compelling. The oversight, strategic, and fiscal management advantages of a good board are well-documented. In family companies, in addition, the usefulness of a well-constructed board to assist with the governance and continuity tasks should be emphasized. In particular, the evolution described above from personalized to institutionalized control is much easier with a board in place. What can increase the likelihood of the successful implementation of an appropriate board in a Chinese family enterprise?

1. Benchmarking with other, larger firms with well-functioning boards. In general, direct observation of the progress of other families is one of the most powerful stimulants to change in family governance. However, it is not easy to engineer standard one-to-one benchmarking in Chinese family firms, because concerns of privacy trump the benefits of seeing that one's family is not unique. It is better to play on the very strong interest in practical education. Case studies, research on boards, advice of recognized experts, testimony of those peers who are willing to speak at conferences, and encouragement from financial advisors, investors, bankers, and lawyers may have some influence on reluctant seniors. Of course, there is nothing more persuasive than the enthusiastic endorsement of an admired peer from an older or larger firm, who sings the praises of how he has used his board to the company's and the family's advantage. Any effort to create those situations is worthwhile; and once they begin to happen in the network, they can create a chain reaction of implementation.
2. Begin with a personal advisory group for the senior leader. This runs counter to the common advice in the west, which focuses on the liability and authority confusion that can accompany any "pseudo-board" solution. However, this may be an essential interim step for opening the door to advice-seeking. The concept of trusted advisors is well-established in Chinese culture, although it is a complicated role and the stories of warning and betrayal are almost as common as

the ones of sacrifice and loyalty.¹³ Given the bias against outsiders, it may well be necessary in Chinese families to start with what the leader is willing to try, and then expanding from there as the advantages become apparent. The first step can be in suggesting a regular schedule of meetings with one or more personal advisors. Then, when the opportunity presents itself in the form of a particular dilemma or crisis, one can suggest a private meeting with the group of advisors to discuss that specific issue. If that goes well, when any pressure builds from financial sources to consider a true board, the leader may be open to the idea to “finesse” the issue by simply formalizing the small group of advisors he already trusts.

3. Consider a parallel mentoring/training advisory group for the juniors. If the task is framed as assisting with supervision, training, and mentoring, there may be an acceptance of the rising generation leaders having their own advisors. If the senior eventually implements a board, these advisors can be included, or gradually added. If the seniors never create a board, this group will be ready to evolve into a board when the juniors rise to leadership. We have encountered some parents who have no interest in empowering any oversight group for themselves, but see the benefit in having professionals and experienced outsiders help their children work together and avoid mistakes. This can be an integrated solution, working well with the “next-generation” meetings of the Family Council mentioned above, and the career development functions described below. It can also work to institutionalize the role of the godparents, to formalize the expectations of mentoring by individuals who are trusted by the parents but also

¹³ For example, at the end of the 18th century, the figure of Heshen emerged as the archetypal “wicked minister” – a grand counselor as a young man, rising rapidly to become chief advisor to the aging emperor Jiaqing. As the ruler lost his awareness and control of daily affairs of state, it left room for the advisor to become corrupt. A year after the Emperor died his successor allowed Heshen to commit suicide and all his ill-gotten wealth was confiscated¹³. Heshen became an iconic legend of the “non-family” advisor who is given too much influence without oversight at the transitional juncture when an old leader’s faculties and judgment are waning. However, it should be noted that there is an alternative view of Heshen in which he was such a competent, honest and successful administrator that he elicited envy and jealousy of the emperor. Since it was the emperor who dictated the history of these events it is possible that Heshen was in fact scapegoated.

have a long-standing personal relationship with individuals in the rising generation.

There are three other governance structures that are more particular and less common. While only a small percentage of contemporary Chinese family businesses may consider them today, they may become more widespread in future generations.

Career Development Committee

Overseeing the career development of the rising generation is a governance challenge everywhere, including in Chinese business families. First, a leader with more than one offspring in management may worry about how to compare them, or that choosing one over the others will lead to serious resentment and alienation of those not selected. Second, if there are two or more parental leaders in the senior generation, each may be very concerned with protecting the opportunities for his/her offspring, particularly the chance to be the next CEO or Chairman. They may worry that the playing field will not be level, that evaluations will be biased, or that the more powerful parent may guarantee the triumph of his child over his nephews and nieces. The cultural bias in the West emphasizes equal opportunity and open competition (at least in theory, even if it often is bypassed in practice). As a result, and to try to keep potential competition and conflict between branches from threatening the enterprise, Western business families often look for external reviews, strict guidelines and criteria for choosing leaders, and committees or boards with authority to advise the family in deciding on the advancement of younger generation successor candidates.

On one hand, emphasizing performance, track record over time, and extensive education and training is completely congruent with Chinese cultural norms as well. One of the strongest themes in the development of the next generation in Chinese business families is the assumption that upward career movement is a gradual process, relying on accumulated experience and judgment. This emphasis on education and apprenticeship is well-suited to the careful assessment of next-generation candidates using patient

timetables. This is in stark contrast to the premature empowerment and too-fast promotions that sometimes undermine transitions in other cultures.

However, Chinese business families face their own challenges in managing the career advancement of the younger generation. As we discussed earlier, in recent decades there has been a move away from using gender and birth order as the pre-determinants of the ultimate role that each individual should play within the sibling group. But the traditional view that each offspring has a destined role to play, discernable by the parent at an early age, remains very powerful in Chinese business families. This can lead to early judgments being made about the ultimate place of each offspring which may or may not actually be the best allocation of the family's human capital.

In addition, there is ambivalence in Chinese business families about parental oversight of the next generation. The juniors are expected to observe closely and absorb the wisdom of the seniors. But there is a deep (and psychologically sophisticated) concern about direct parental supervision. Mencius in particular was pessimistic about the effectiveness of direct parental involvement. ("Why does a gentleman not take on the teaching of his own sons? Because in the nature of things, it will not work. A teacher necessarily resorts to correction, and if correction produces no effect, he will end by losing his temper. When this happens, father and son will hurt each other instead. ... To do so will estrange them, and there is nothing more inauspicious than estrangement between father and son... In antiquity people taught one another's sons." Book IV, A, pp. 84-85).

In the U.S and Latin America, and increasingly in Europe, a popular solution to the problems of politics, objectivity, and timing for overseeing the careers of the rising generation is some form of a Career Development Committee. This group is most commonly made up of a combination of non-family directors from the board, senior human resource professional from the company, and sometimes family advisors or trusted peers and associates. In the most dramatic cases, the responsibility and authority for guiding the education, outside experiences, and advancement of family members is

turned over to this committee. In other cases, they have a more modest role as advisors to the Family Council or, in large cousin systems, as a liaison between the family and senior human resource executives.

This is not a likely structure for most Chinese family businesses. When it can work, it might be linked to the development of a board. The dilemma here is that even if the parents agree that other senior voices would be better suited to instruct the offspring, they are unlikely to encourage or permit any guidance that deviates from enculturation, indoctrination, and control. The delegated task would be to guide the junior in his understanding of the correct path, rather than in encouraging exploration. The Committee would have to be subtly skilled in openly performing the tasks of training and assessment, while at the same time encouraging self-awareness and the search for a “best fit” solution for role and authority within the rising generation as a whole.

Family Philanthropic Foundation

There are no concepts more central to traditional Chinese culture than *jen* and *yi*, and together they are the core foundation of philanthropy. However, institutionalized philanthropy has traditionally been an American phenomenon. Creating private organizations to manage a family’s charitable giving is much more common in the United States than in most other regions. In Latin America, foundations have existed more as wealth transfer tools, with philanthropy channeled through the Church. In Europe, there is a strong tradition of public-sector responsibility for social welfare, which took the place of the *noblesse oblige* of the aristocracy (although in recent decades, foundation-based philanthropy has grown dramatically in Europe, spurred by tax law changes).

In China, of course, the Communist era made significant organized private philanthropy irrelevant. For the overseas Chinese, their ethnic minority status would have made visible philanthropic extravagance a two-edged sword. In some cases, it could create goodwill, but there was always the risk of highlighting economic disparities with the indigenous populations. As a result, charitable giving has typically been handled informally, within the local Chinese community.

In recent years, however, some sophisticated Chinese business families have developed more American-style philanthropic foundations. In part this is undoubtedly the influence of overseas-educated younger-generation members, who have seen the active family philanthropy of their Western peers. In part, also, organized philanthropy is very congruent with the Chinese concepts of virtue and honor. It may also be true that new models of continuity and inheritance have the unexpected consequence of not needing as many family leaders as the old coparcenary system required. If more families experiment with keeping the enterprise together, instead of making each son the head of a smaller group, the unified business has fewer top positions. Founders may feel a need for more governance structures within the extended family, like a foundation, that provide leadership and status opportunities for rising-generation “branch leaders” who are not in senior positions in the business. A foundation can also create additional executive opportunities for daughters in those families that are not ready to admit women to senior ranks in the business, but cannot exclude their talented and ambitious daughters from leadership altogether. Finally, organized philanthropy can help with generational succession, by giving outgoing Chairmen a new formal role outside of business operations that serves to protect their stature.

The role of organized, institutionalized family philanthropy is a concept that is just emerging in these leading enterprise families. It will undoubtedly be of increasing importance in the next decades, as the economic success of the families becomes more stable and secure, global visibility and transparency for business leaders increases, and new avenues are needed for corporate “image management.” Assuming that the lessons from other parts of the world are useful, it is likely that this issue will be driven by well-educated next generation family members who do not fit into the business executive roles.

Family Office

Although there are many different definitions and forms of family offices around the world, they are characteristically some version of a professional services center to coordinate such family requirements as estate planning, insurance, tax planning and

preparation, trust administration and legal services, investment management, family staffing, philanthropy, and security. The range of services depends on the size of the family, the complexity of the enterprise, the level of financial management that the family requires, and the family's interest in collective governance.

Traditionally, prominent Chinese families have family office services (particularly investment management, trust and tax planning, property management, and insurance) buried in the structure of their operating businesses. This is gradually changing in two ways. First, as globalization advances, IPOs and joint ventures have forced many families to formalize the boundary between shareholders and operations, which means taking these family-only services off the corporation's books. Also, as the frequency of multinationals buying-out traditional family enterprises throughout Asia is on the rise, many Chinese business families are finding themselves very suddenly with large amounts of liquid wealth. For many families the transition from being "owner managers" of an operating business to being owners of liquid assets is emotionally difficult. This is particularly so for the Chinese families whose identities, social standing and skill sets are all tied to the business that made them wealthy. The primary motivation of Chinese families is to excel through their own entrepreneurial drive. The growth and preservation of passive wealth remains for the most part a cultural anomaly.

For families that sell their business, or have a "liquidity event" of some sort, there are four basic choices:

1. Out-source family office services to an institution that they trust. In fact, some private banks in the region (like HSBC) have moved to respond to this emergent need by establishing integrated family office services that coordinate traditional trust and wealth advisory services with consulting on family governance and continuity.
2. Establish a private family office by hiring a staff and customizing the new structure to fit the family's needs. In some cases family members formerly employed in the operating business become actively involved in the management and oversight of the office and it gradually evolves into a new "family enterprise"

focused on investment, portfolio management and servicing the family's various needs.

3. Join with other families to develop a multi-family family office. Typically this is done in an effort to lower overhead costs of having a single office when several families who know each other well come upon wealth at about the same time.
4. Re-deploy the liquid wealth into new operating ventures (either through the launching of new start-ups, taking up significant positions in private equity opportunities or through outright acquisitions of existing businesses).

Our experience suggests that the trend will be for Chinese families to adopt some combination of these alternatives. After the sale of the family business, founding patriarchs are most likely to pursue institutional outsourcing. Many felt at home directing the operating company, but do not have the same confidence in their wealth management expertise (or that of their children) and feel more comfortable entrusting their money to private bankers with whom they have long-standing relationships. Keeping their wealth with an institution that caters to their needs allows these patriarchs to retain ultimate control over their assets in the aftermath of the business' sale. To encourage younger generation members to follow the same path, many private banks have developed educational programs deliberately aimed at capturing and retaining the relationships with the next generation in client families.

However, as we have suggested, the next generation of Chinese families is often made up of well educated, savvy investors with excellent financial skills, and many of them are eager to gain more control over their economic destiny. Some have worked at top investment firms prior to joining the family company. For them, leading a family office that not only coordinates a diversified investment portfolio but also includes operating businesses (which some family members can run), offers enhanced risk management and more flexibility and options for involvement than the traditional family business ever did. Developing a new catalogue of services to this sector, which includes traditional wealth management products and services but goes well beyond them to support the entrepreneurial impulses of this new generation, will be an important challenge for financial institutions in the next decades.

Summary

We have posited three challenges that contemporary Chinese family businesses must confront and resolve if they are to enhance their chances of successful continuity.

1. The senior generation “letting go” -- managing the retirement of founding patriarchs;
2. The junior generation “taking charge” -- the harmonious integration of the next generation of family shareholders/managers; and,
3. Governance design -- creating governance architecture and family collaboration that is responsive to global standards of accountability and transparency, while maintaining family commitment and investment.

On one hand, these are universal dilemmas facing family enterprise worldwide. But looked at in more detail, these particular challenges activate some of the most fundamental characteristics of Chinese family culture in ways that provide both advantages and impediments to family leaders as they guide their systems through generational transitions into the future.

Most specifically, the powerful norms of filial piety and inter-generational mutual obligations are the most significant cultural theme, pervading all aspects of family process and having an impact on every component of family enterprise governance. The roots of devotion to parents (*xiao*) are both deep and broad -- as described by Mencius “When one does not please one’s parents, one cannot be a man; when one is not obedient to one’s parents, one cannot be a son.” But Western observers would be badly mistaken to interpret this norm as only legitimizing oppressive, authoritarian fathers and their trapped, obedient sons. Filial devotion is one side of a highly structured set of mutual obligations. “The father is to be compassionate, the son filial, the elder brother kind and the younger brother respectful, the husband just and the wife obedient, the old person

gracious and the young compliant, the ruler benevolent and the minister loyal.”¹⁴ “When there are correct households then all under heaven is fixed.”¹⁵

This is without doubt a system of hierarchy, and such a steep gradient of authority can certainly be oppressive and stifling. But it is also a system of reciprocity and mutual obligation. In each family, the determination of whether traditional culture is a platform for orderly transition or a breeding ground for resentment and under-performance will depend on the wisdom of family leaders. For many of the father/leaders we have met, there is no dilemma – they intend to stay in control until the last possible day, regardless of their children’s capabilities or ages. They like the authority and the rewards of power, and they can turn to tradition and culture as a justification. Even the most thoughtful Chinese patriarch, concerned about long-term continuity and respectful of the skills and education of the next generation, may be reluctant to consider stepping aside while he is still active, competent, and healthy. To “retire” can be experienced as a withdrawal from the paternal obligations, and an abandonment of the family.

And yet, the world is changing rapidly, and founders and senior leaders cannot wall out the impact of an evolving global culture. In the end, it is almost certain that the historical capabilities of Chinese families to read the environment accurately and adapt to requirements for survival will rise to this challenge as well, and the form of family business will evolve. In fact, we have seen significant change in just the last decade. We have met with some families that have regular family meetings. Some have adopted family councils and are actively experimenting with writing a family charter or a constitution that formalizes the aspirations, norms and agreements governing the relationship among shareholders. The very engagement of so many families in the variety of services the Private Bank has offered, for benchmarking, next-generation development and governance design, is strong evidence that the awareness of these challenges is growing. In addition, a small vanguard of creative family leaders has

¹⁴ Record of Rites 9, Evolution of Rites, p. 126.

¹⁵ Book of Changes 37, Jia Ren: Commentary on the Decision, p. 159.

emerged, and they will be closely watched by their peers. We have witnessed other regions of world in which early adopters of these concepts have served as powerful change agents by modeling for others innovative governance solutions that have worked in service of continuity.

But it will be a gradual process. The cultural constraints are ancient and powerful, and have stood for thousands of years through revolution, counter-revolution, and extreme social upheaval. Realistically, the seeds of these changes will be planted with the senior generation today, but in many cases they will not bear fruit until after a broad generational transition. It is difficult for the rising generation to alter the manner in which their children are incorporated into the family enterprise while their fathers are still in control. Succeeding generations (those who are now in their 50's or younger) in prominent Chinese business families have had unprecedented direct exposure to Western norms. As this generation reaches middle age and begins addressing the mentoring of their own sons and daughters, it is likely that they will engage their children in different ways, and on different timetables, than their fathers. Indeed, the "baby boomers" in the Chinese business families we met, hoped for (and many had) closer and less ritualized relationships with their offspring. Inevitably, as the process in the Chinese family changes, the procedures of governance in the business will change as well.

If so, then all of our efforts and theirs will be well worth the inherent risks, since what a family does (or fails to do) to enhance the likelihood of continuity has great implications for the lives of all who depend on the sustainability of the enterprise.

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