A Conceptual Model of Family Businesses Succession from Corporate Gene Perspective

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Abstract. Based on the concept of a “biological legal person”, this paper puts forward a new definition of family business: family business is a form of biological organization controlled by family genes. Family genes are the decisive factor for its growth and continuation. The process of family business succession can be regarded as the inheritance of genes. The genes of family business succession are a combination of genetic elements having characteristics of structure, stability, heritability, expressiveness and variability. The process of family business succession includes the mechanisms of genetic heredity and variation.

1. Introduction

As a form of organization, family businesses play an important role in the economic and social development of countries all over the world. However, whether it is in the United States which is highly individualistic or in Southeast Asian countries which are more collectively oriented, only 30\% of the family businesses can transfer to the next generation, and only 10\% to 15\% can successfully pass on to the third generation (Birley, 1986). At present, the challenges faced by a large number of Chinese family enterprises are similar to those of American family enterprises in the 1980s. Succession has become a major strategic issue pertaining to the survival and development of family businesses. The existing theories of family business try to provide theoretical guidance on the content elements, succession plan and successor training.

However, the key issue of family business succession is to determine the essence or content elements of succession, which have not achieved satisfactory clarity. This makes it difficult to carry on longitudinal and in-depth study and the role of theory to guide practice is weakened. Therefore, based on corporate gene theory, this paper reinterprets what succession is and the content elements of succession through the concept of corporate genes, proposes that the nature of family business succession is the transmission of genes, and builds a conceptual model of succession in family business which provides new inspiration for the study of succession of family business.

2. Family business from a genetic perspective

The study of family businesses has been going on for more than 40 years, but there are many differing opinions as to the definition of what a family business is and a unified concept is still missing. Chrisman, et al.(1999) summarized these differences as involvement approach and essentialism approach. The scholars holding involvement approach usually adopt an operational definition to reflect the degree of family involvement in the ownership, governance, management and succession. The scholars holding the essentialism approach believe that the mere involvement of family members in business activities is not enough to define a family business, while the unique features that are affected through such involvement are to be considered.
2.1 Family business within the category of involvement

There are four ways to define a family business within the category of involvement: the degree of ownership by the family, the level of management by the family, family involvement, the possibility of succession (Handler, 1992). Ownership and the control derived from it form the basic axis to determine whether a company is a family business or not. Daily and Dollinger (1993) argued that the involvement of family members should be placed in the key positions with decision-making power, and if the core management positions such as the general manager of a company are held by one or more family members, who are closely related to the owner of the company, the company is a family business. Donnelley (1964) pointed out that if there are more than two generations of the same family involved in the management of a company, and the succession can ensure the coupling between the company policies and the target and interests of the family, the company is a family business.

Some definitions combine all aspects of family involvement. For example, if members of the same family or from a few families, in successive generations, have control of an ruling alliance of governance and management, to create and pursue the vision of company, such a business is a family business (Chua et al., 1999). Miller et al. (2003) believed that the main features are that the family has sufficient ownership to determine the composition of the board, and at least one of the chief executives is a member of the family, and the board has the intention to pass on the company to the next generation.

To improve operability, many scholars adopt a quantitative approach, taking into account the specific proportion of ownership of the family, the number of family members involved in management, and the number of generations that have held the business. Typically, Astrachan, Klein, and Smyrnios (2002) present an effective tool for measuring family impact on business -- the F-PEC scale. The F-PEC scale contains three dimensions: power, experience and culture, which can make continuous evaluation of influences on a family business rather than as a strict categorization variable (yes / no).

2.2 Family business within the category of essentialism

The traditional definitions of family business by the different degrees of the family involvement in ownership, governance, management, succession and so on are too fragmented (Chrisman, et al., 2005). These definitions lack a theoretical basis and can not explain why family involvement has a positive effect on the business. Some scholars have tried to explain the reason of family influence on business within the essentialism category. Davis and Tagiuri (1989) discussed the influence of family on business strategic direction. Litz (1995) believed that the family has the intention to control the business. From the perspective of planned behavior theory, Chrisman, et al (1999) explained the positive influence of family on business. Habbershon et al. (2003) argue that family involvement and the internal family interaction brought a rare, inseparable, cooperative resources and capabilities to the business.

To define a family business through the degree of family involvement is most widely accepted so far. This way of definition has high operability, but what is the fundamental root for the positive influence of the family on the business? Merely examining the degrees and ways of family involvement in ownership, control, management, succession, etc. is not adequate.

There is a hidden premise that the family business is an "economic man" in these various definitions. The "economic man" attribute means that the family business is a profit-maximizing organization, and hence traditional economic and management theories can be used to study family business succession. However, family businesses obviously have family characteristics which make the family business no longer an "economic man". The family is a group consisting of blood and kin relationship which has its biological basis. Therefore, family businesses have biological characteristics, and a family business is naturally a "biological man". Furthermore, family has a cultural norm and a behavioral pattern coming from family inheritance. The members of this group have similar life experiences and cultural experiences. In the process of running the business, family
members will naturally bring some cultural ideas of the family into the business. Therefore, a family business is also a "cultural man". One of the common characteristics of long lasting family businesses is the great attention to social responsibility and the promotion of the common prosperity of the surrounding communities. Hence, a family business is also a "social person" from this point of view. In sum, a family business should be a compound with multiple attributes with "biology" being the basis. Therefore defining family business should also be based on the biological nature.

2.3 Family business and family genes

With the discovery of genetic structure in 80s of last century, genetic science has been developing rapidly, and a new discipline of social biology has emerged. Social biologists, represented by Wilson, an American scholar and Dawkins, a British scholar, believe that the biological evolutionary process, the process of genetic selection and reproduction, also takes place in human society. Sociobiology believes that the fundamental forces that determine biological evolution and human social development are genes. Inspired by this idea, corporate gene theory has emerged in the field of organizational growth research. Corporate gene theory tries to connect biology, anthropology and sociology to discover the essential elements of corporate growth and evolution. Tichy, an American scholar, the representative of corporate gene theory, first put forward the concept of corporate gene, pointing out that the corporation, like an organism, has its own genes, which determine the heterogeneity of the corporation, and the evolution of genes is the evolution of corporation (Tichy, Cohen 1998). Nelson and Winter (2002) the representative of evolutionary economics defines an enterprise as a hierarchical structure composed of organizational routines which are regular and predictable behavior patterns. They believe that routines play a genetically similar role in an organization, carrying out the function of transferring skills and information, and having acquired heredity of learning effect. Ken Baskin points out that corporate DNA is a database of programs and structured information (Baskin, 2000).

Therefore, in light of the corporate gene theory, this paper believes that genes determine the growth of family business. Moreover, in human economic history, many family businesses have endured after many generations and show strong vitality. The life of family business is longer than average corporations, and it is more reasonable to compare the family business to the living biological creature. With regard to organizational characteristics, family business is a form of organization based on blood relationship and economic relations. Blood relationship based on biological genes is one of the essential characteristics of family business. Naturally, it is rational and feasible to apply corporate gene theory in the study of family business. This paper puts forward the new definition of family business: family business is a kind of organizational form controlled by family genes. Using family genes to explain family business behavior provides a theoretical foundation for studying the family influence on business, and can fundamentally explain why family involvement has a positive impact.

3. Genetic succession of family business

3.1 Connotation and elements of family business succession

In a broad sense, family business succession refers to the transfer of leadership from the founder and owner to the successor (family member or non-family professional manager) (Beckhard, Burke, 1983). In a narrow sense succession usually refers to the transfer of leadership from one family member to another. Because of the particularity of the family members, most scholars have studied the narrow sense of succession. "Leadership" can be subdivided into two dimensions: ownership and management (Barry, 1975). Most scholars believe that family business succession is the transfer of management control (Sharma et al., 2001, Massis et al., 2008). However, the succession (or continuity) of family firms should be a multidimensional concept, which means one or several essential and unique core elements are preserved and some elements are sacrificed. In addition to ownership and management, mission and values (Drozdow, 1998), implicit knowledge (Cabrera
Suarez, 2001), network and social capital (Steier, 2001) and innovation spirit (Litz, Kleysen, 2001) and so on should be incorporated into the elements of the succession system.

The connotation and elements of family business succession have gradually extended from the original ownership or managerial power to social capital, culture, knowledge, spirit, values and so on. With the elements of succession becoming more and more complex, the essence of succession is yet to be pinned down. The core of family business succession needs to be understood from analyzing family business itself. In light of the definition of family business mentioned above, the core of family business is the genes; therefore, the process of family business succession is dominated by family genes.

3.2 Successive genes of family business

Since the determinant of the growth of family enterprises is the genes, they naturally constitute the content of succession which is a key stage in the growth of family business. Family business succession is the succession of genes. A biological gene is a fragment of a large molecule of DNA, consisting of a double helix formed of four bases. The main view of corporate gene theory is that genes are the essential elements that determine the growth of an enterprise and corporate genes have similar structures like DNA, but there are different opinions about which elements make up the double helix and four bases. Similarly, there are several essential elements in family business genes, which should be inherited in the process of succession.

Based on the above analyses, this study defines the genes of succession of a family business as a combination of hereditary factors that can determine the viability and development of family business. The succession gene of a family business has a structure composed of hereditary elements. First, each element of the family business genes can play an independent and lasting role and can be transferred between generations. Secondly, the genes as a structure have certain stability, which guarantee the implementation of genetic function. Thirdly, the genes of family business succession have the feature of expression. The genes of family business succession are the key factor in determining the survival and development of family enterprises. They are hidden and difficult to observe, but can be expressed through external business behavior. Finally, during the passing down of genetic information to the next generation, there could be variability and innovation in accordance with the changes of environment. The structure, stability, heritability, expressiveness and variability of the genes of family business succession determine the viability and development of family business and affect its heterogeneity. In other words, family businesses are different in the mode of survival and development, which are determined by genes.

4. A conceptual model of genetic succession of family business

Family, enterprise life cycle and ownership structure form the units of analysis from the viewpoint of system theory; the role, cognition and emotion of the incumbent and successor serve as the units of analysis from the perspective of social psychology; in this study the basic unit of analysis is the gene, which is microscopic and abstract. The process of genetic succession of a family business is shown in figure 1.1. The succession genes will be first identified and then the paper will explore the mechanism of genetic heredity and variation of in the inter-generation succession.
Biological genes were discovered by comparing the similarities and differences of genetic traits between parents and the offspring. Similarly, the successive genes of a family business can be found from observing and studying the external behavior of different generations in the business. After the several generations, the characteristics of successive genes are more stable. The behavioral characteristics of family leaders in business operation activities are the most notable.

In the biological reproduction process, the genes controlling organism characteristics are passed on. As a "biological legal person", the succession process of a family business is similar to a biological reproduction process. The genes that control the traits of the family business will be transferred from the incumbent to the successor.

In the process of biological reproduction, genes should be stable to retain existing characteristics while also mutate to form new characteristics to facilitate biological evolution. Family business genes need to be transferred steadily, and should also be allowed to change according to the external environment. The stable succession of family business genes ensures that the traits of family business are retained. The variation of family business genes in succession can guarantee the emergence of new characteristics for the renewal of family enterprises and sustainable development. And, more remarkable, considering the subjective activity of human-self, heredity and variation of the genes of the family business is more complicated than biological genes.

5. Summary

Family business is a “biological legal person”, and genes are the decisive factor for its growth. Family business is a form of organization controlled by family genes. Based on the genetic nature of family business, the process of family business succession can be regarded as the inheritance of genes. The successive genes of family business are composed of many elements, which are transferred together.
The transference of family genes as a whole describes the nature of succession better. And the whole succession of genetic elements provides a comprehensive perspective for the study of succession and helps to bridge the differences in the research of the connotation of succession.

References


