



**THE IMPACT OF INTERGENERATIONAL INHERITANCE CONFLICTS ON
INNOVATION INVESTMENT OF CHINESE FAMILY BUSINESS**

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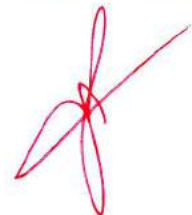
ABSTRACT

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As an important part of Chinese private enterprises, family businesses have entered the peak of generational inheritance. Innovation is the fundamental guarantee for an enterprise's long-term development, but the lack of investment in innovation and the conflicts between generations are the most common major problems faced by most Chinese family businesses. This paper systematically reviewed relevant literature in recent years, and summarized the factors that influence the intergenerational inheritance, intergenerational conflict and innovation investment of Chinese family business. Through literature review, this paper proved the link between the generational inheritance conflicts and the innovation investment of Chinese family businesses, and offered suggestions for improvement. The research carried out in this paper sheds a light on Chinese family businesses that face the dilemma of intergenerational inheritance to better innovate and maintain their long-term competitiveness.

Keywords: Chinese Family Business, Intergenerational Inheritance, Intergenerational Conflict, Innovation Investment



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1. Introduction

1.1 Research Background

Family business is the earliest form of enterprise in the world and plays a vital role in many countries and regions. By the end of 2017, among the private companies listed on China's A-share market, the proportion of family companies increased from 48.9% in 2016 to 55.7% in 2017 (Mukherjee & Uttam, 2018). The development of family business has made significant contributions to the development of China's socio-economy, and family business has become an indispensable part of China's national economy (Li, Sun, Wang, & Ke, 2020).

Innovation is the most distinctive feature of family business. Under the current normal situation of trade frictions between China and the United States, family businesses are affected by two factors of "innovation" and "transformation". Improving independent innovation capacity has gradually become a crucial way to enhance the core competitiveness of family businesses (Hauck & Prügl, 2015). As the innovative strategies implemented progressively in recent years, China has made outstanding achievements in the field of strategic innovation, with the R&D investment and patents ranked second in total around the world (Hector et al., 2019). The investment of innovation in Chinese family businesses has far exceeded that in other types of businesses. Innovation has become the only right way for family enterprises in China to transform (Fang, Lerner, & Wu, 2017).

With more than 40 years of reform and opening-up in China, family businesses have already entered a period of intergenerational transmission. In the next decade, over 3 million entrepreneurs of China's family enterprises will retire, and many family businesses are entering a stage of alternation between the old and the new, so the succession of the family business will become the key point to its growth and development (Mukherjee & Uttam, 2018). However, affected by China's unique "family culture", most of these family businesses established in the reform and opening-up era still continue to use their family-based management model. Compared with family businesses in Western countries, those in China are more inclined to follow the principle of "heir-apparent" to complete the intergenerational inheritance, which indicates that inheritance within the family is still the mainstream in operating family business (Xiang-Yao & Yi-He, 2015).

1.2 Research Problems

Compared with non-family enterprises, how to succeed in intergenerational inheritance is the key to ensuring the business's steady development and prosperity (Ghee, Ibrahim, & Abdul-Halim, 2015). According to the experience of American and European countries, the inheritance process of family businesses often brings a lot of risks. Many family businesses will eventually fall into an irreversible predicament due to poor inheritance, 30% can be passed on to the second generation, while only 15% can successfully continue to the third generation (Alderson, 2015). The life span of a family business is closely related to the inheritance of the business, during which intergenerational conflict is an issue that businesses cannot avoid. Differences in the growth environment, education, personal beliefs and management methods between first generation of entrepreneurs and their

successors eventually lead to many uncoordinated contradictions (Jiong, Yang, & Xiu-Shuai, 2017). Apart from these, there will be conflicts between successors and management department, conflicts between successors and minority shareholders, and conflicts within the successors (Wei-Ning, Yan-Yan, & Yuan, 2018).

At this point, Family businesses in China are facing the dual challenges of intergenerational inheritance and innovation and upgrading. With the increasingly fierce competition in the international market and the continuous shortening life cycle of product substitution, family businesses must carry out corresponding transformations, upgrades and R&D innovation (Cucculelli, Le Breton-Miller, & Miller, 2016). Maintaining a leading innovation position has already been a significant challenge faced by family businesses in a near future. These differences and contradictions in the inheritance between generations will inevitably impact the innovation and inheritance of the family business. Therefore, the influence of the problems in the process of family business inheritance on business innovation investment cannot be ignored (Carney, Zhao, & Zhu, 2019). In the economic background where opportunities and challenges coexist, it is of great importance for family businesses to know how to maintain innovation and competitiveness, the effect of succession conflict arising in the process of intergenerational inheritance on the company's innovation investment and the further analysis of theoretical basis for this influence.

Therefore, how to maintain corporate innovation and competitiveness in the conflict of generational inheritance, and promote corporate transformation and upgrades are the major problems faced by family businesses.

1.3 Objective of the study

This paper aims to understand the three stages of the intergenerational succession of family business conflicts, and then analyze the changes brought by intergenerational succession conflicts to Chinese family business innovation.

- a. To explore the current situation of Chinese family business and the factors that lead to intergenerational conflicts.
- b. To study the different impacts of intergenerational inheritance conflicts on the innovation investment of Chinese family businesses in the three stages of intergenerational inheritance.
- c. To provide guidance for the family business in the large-scale handover stage to successfully complete the succession and maintain long-term competitiveness.

1.4 Scope of the study

The research focuses on family businesses in China. Mainly because of China's unique "family culture", the manifestation of intergenerational inheritance is more obvious in Chinese family businesses. Through looking up a large number of literature review and theoretical review on intergenerational inheritance, intergenerational

conflicts between owners and successors and innovation investment of family enterprises, the paper establishes a framework for the relationship between intergenerational conflicts and innovation investment of family enterprises from the perspective of three stages. Then, through the theoretical framework, the paper analyzes and discusses the impact of intergenerational conflicts on innovation investment in Chinese family businesses. Finally, according to the results discussed above and the characteristics of the family business, the paper puts forward some suggestions.

1.5 Research Significance

From a theoretical point of view, this paper has made contributions to relevant research on the innovation activities of Chinese family businesses. At present, most of the literature on family business studies the innovation of family business from the aspects of control rights, management rights, ownership structure, etc., but the literature on how intergenerational conflicts in the inheritance process of family businesses affects business innovation decisions is still very scarce (Wei-Ning et al., 2018). Based on previous literatures, the paper makes up for the limitation of theoretical research on the relationship between intergenerational inheritance conflicts and innovation investment in Chinese family enterprises from theoretical analysis. Meanwhile, it also injects new ideas and motivation for further related research of innovation and decision-making in this field.

From a practical point of view, the paper has a guiding effect on how family companies that are currently in the stage of large-scale handover can alleviate intergenerational conflicts and maintain long-term competitiveness. Nowadays, Chinese family businesses have generally entered the peak of generational inheritance and simultaneously face the severe challenge of innovation and transformation. The stable and sustainable development of family business largely depends on the success of family business innovation in the process of intergenerational inheritance (Xiang-Yao & Yi-He, 2015). The paper studies the influence of generational inheritance conflicts on family business innovation investment to provide a theoretical reference for family businesses to seize the appropriate innovation opportunities. Besides, the research in this paper will help resolve the intergenerational conflicts between the owner and successor of family business, improve the relationship between two sides of succession, and promote the smooth inheritance of family business.

2. Literatures Review

2.1 Chinese Family Business

The family business is an ancient and universal form of corporate organization. Due to different cultural backgrounds and actual situations of various countries, there has been no unified and authoritative definition of family business (Cano-Rubio, Fuentes-Lombardo, & Vallejo-Martos, 2017). The family business's description demonstrated by American business historians mainly emphasizes the close personal relationship between the family and the senior management, the controlling power of the family, and the decision-making power in terms

of financial policy, resource allocation and elder personnel selection (Marín, Hernández, del Valle, & Castillo, 2016). Some scholars define the family business as the degree of influence and control the family exerts on the business and the family business's continuous index. There are some generally recognized models including the overlapping three-circle model, the F-PEC (F-Families, P-Power, E-Experience, C-Culture) and the bull's eye model (Zatta, Cristina, Formigoni, & Mamede, 2020). It can be seen that foreign scholars mainly define family business from family ownership, business rights and whether family members participate in business management and intergenerational inheritance. Although different research focuses of each scholar lead to different definitions of family businesses, these definitions are related to each other essentially.

Chinese family businesses started relatively late, emerging only after the reform and opening-up in 1978. Therefore, the research on the definition of Chinese family business is mainly based on the mature research results of foreign countries (Bennedsen, Fan, Jian, & Yeh, 2015). In the current study of Chinese family businesses, most scholars generally adopt similar criteria. In the annual report of a family business, the actual controller can be traced back to a natural person or a family. The virtual controller's direct or indirect shareholding of listed family companies is greater than the critical shareholding ratio and become the largest shareholder in the company. There are two or more family members serving in the management of the company, and the enterprise is willing to inherit or in the process of inheritance and handover or has completed the legacy and handover (Yu & Cai, 2017). In summary, Chinese scholars define family businesses mainly from natural persons, ownership and management rights held by business and whether a family business controls the business. However, there is no uniform standard for setting the critical value of specific indicators.

2.2 Intergenerational Inheritance

The intergenerational inheritance of family business refers to the process in which the ownership and management power of family businesses are passed from the current actual controller to the next successor. Intergenerational inheritance needs a complex and long process. This process starts when the successor enters the family business and ends when the successor takes over the business, completing the change and transfer of corporate control between two generations (Michel & Kammerlander, 2015). The intergenerational inheritance of family business involves a series of complex activities, such as the founder's formulation of inheritance plans, training of successors, selecting successors, and evaluating inheritance effects after the second generation of succession. This process often takes 3-8 years or even longer including the inheritance of corporate wealth, entrepreneurial spirit, corporate culture and relationship network (Wang, Wang, & Chen, 2018).

There are roughly two modes of family business inheritance: the succession of family members and the external professional managers. Affected by China's unique "family culture", the current generational inheritance of Chinese family businesses is mainly reflected in the development model of "heir-apparent". In order to ensure the smooth succession of the business, the family business uses kinship to select the next generation with the

ability to take over the business, which achieves the purpose of reducing corporate risks and ensuring the sustainable development of enterprises (Jiong et al., 2017).

According to the degree of family successors' involvement in business management, the intergenerational inheritance of Chinese family businesses can be divided into three stages: participating management, joint management and succession management (Xiang-Yao & Yi-He, 2015). The first stage is the initial contact stage where the owner still directly controls the enterprise's operation. The successor enters the family business as a full-time employee and continuously learns the knowledge of business operation and management. The second stage is the co-management stage where owners begin to transfer rights gradually. The successor starts to take the responsibility of enterprise management and participate in part of the enterprise's decision-making. The third stage is the core power transfer stage where the owner has completely transferred the core power to the successor and signs the retirement. The successor formally takes over full control of the enterprise and starts to play a leadership role (Ruosen & Mengqian, 2020).

2.3 Intergenerational Conflict

Intergenerational conflict refers to the contradiction between two generations due to differences in thinking and behavior (De Clercq & Belausteguigoitia, 2015). In the process of family business ownership inheritance, it is a common to have a tense relationship between the owner and the successor. Because of the differences in management concept, education level, and way of doing things between them, the conflicts rise between traditional management & modern management, conventional thinking & business thinking, old inheritance system & cultural reconstruction, and default conservatism & integrated innovation.

Intergenerational conflict in family business is a procedural, long-term and emotional conflict, and the generational conflicts occurred in different stages are also various. In the whole process of intergenerational inheritance, the conflicts specifically embodied in inheritance intention conflict, management cognition conflict and power transfer intention conflict. Only when these previous-stage conflicts are solved can the inheritance step into a new phase (Wei-Ning et al., 2018).

In the first initial contact stage of the family business inheritance process, intergenerational conflict is mainly manifested as the conflict of inheritance intention. Influenced by higher education and family entrepreneurship, successors tend to be reluctant to work with their parents or start their own businesses. The family business's successor is unwilling to take over the parent's business for these reasons, which leads to intergenerational conflicts between the two sides (Ghee et al., 2015).

In the second co-management stage of the family business inheritance process, intergenerational conflict is mainly manifested as cognitive management conflict. Due to the differences in education level, growth environment, life experience, etc. between the two generations, owners and successors' management methods are different. Opinions from both sides often fail to reach an agreement, or even become more and more serious. At

this stage, the task conflict and relationship conflict between the owner and the inheritor in the joint management work is cognitive management conflicts (Caputo & Zarone, 2019).

In the third core power transfer stage of family business succession, the intergenerational conflict is mainly manifested as the conflict of intention to hand over the power. Business owners regard their family businesses as their own children and put in hard work and effort to cultivate and develop their businesses, so they are often unwilling to give up absolute control of the business. The owner's attachment to corporate emotions and rights has exacerbated the intergenerational conflict between the two sides (Rui-Jun, 2016).

2.4 Innovation Investment

Innovation must be supported by innovation investment to create new products, technologies and services. Innovation investment refers to the creation and innovation of all levels by investing in various resources to produce more competitive products for market demand, mainly including the investment of capital and innovative personnel. Innovation content includes technological innovation, management innovation, and strategic innovation (Diéguez-Soto, Manzaneque, & Rojo-Ramírez, 2016). At present, Chinese family businesses are at the peak of intergenerational transmission. In the overlapping background of transformation & upgrading and intergenerational inheritance, innovation investment becomes one of the most important driving factors for family enterprises to maintain the long-term development. Innovation activities require a large number of human resources and financial resources, but family enterprises often lack professional human resources and sufficient financial resources. Therefore, family businesses mainly rely on external human resources and financial resources to carry out innovation investment activities (Huang, Lyu, & Zhu, 2018).

Innovation investment has also been affected by various factors in the family business. The external factors of family business include the macro environment, government policy and industry development. A favorable legal and political environment is conducive to family businesses to increase their investment in innovation. The internal factors of family business include the senior management team, corporate strategy, internal incentives and family control (Madanoglu, Altinay, & Wang, 2016).

Innovation investment has the characteristics of high uncertainty and intertemporal revenue and expenditure. Innovation investment, and it involves a lot of risks (Chen, 2018). Meanwhile, its return cycle also has great uncertainty. Therefore, any uncertain factors that affect the income may lead to the change of family businesses' innovation investment, especially in the form of family businesses where owners have the largest controlling share. Because of the controller's special identity, they will pursue the benefit behavior closely related to this identity to eventually affect the degree of innovation investment in family businesses (Roed, 2016).

2.5 Past research

During the past two or three decades, as a form of corporate organization with universal significance, family businesses have received the academic community's attention. Chinese academic circles have gradually separated family businesses from the study of private enterprises and have begun to look at Chinese family businesses from an objective and developmental perspective. The research shows that if family businesses can deal with intergenerational inheritance, family businesses will be more competitive than non-family businesses under certain conditions (Carney et al., 2019). However, scholars from various countries have not reached a consistent conclusion on the research of the relationship between intergenerational inheritance and innovation investment.

Based on the comparison of the differences in the family business's investment of innovation at each stage, it was found that compared with the joint management stage, the successor in the autonomy stage is more conducive to the increase of the family business's innovation investment. The realization of the family business's control objectives has the effect of enhancing the innovation investment of the enterprise in the autonomy stage of the successor (Yong & Xin-chun, 2018). From the perspective of social-emotional wealth theory, it was found that the family business's inheritance stage provides a special time frame for the pursuit of innovation activities. In this time frame, the holding family can deal with all issues and conflicts related to inheritance, so that the positive attitude of the inheritors can be reflected in innovative activities (Hauck & Prügl, 2015).

Some scholars found the negative effect between the generational inheritance of family businesses and R&D innovation. The empirical research found that when the successors participate in management and joint management, most of them focus on learning and pay little attention to enterprise innovation and R&D. In the receiving management stage, the successor will increase the proportion of R&D investment in order to improve market competitiveness (Xu, Yuan, Jiang, & Chan, 2015). Through empirical research on family companies listed on the Shanghai and Shenzhen A-share main-boards, it was found that the successor's willingness to control will hurt the corporate R&D team. Although the inheritance will have a positive effect (Hang, Kushins, & Zhou, 2016). It can be seen that domestic and foreign research literature has not reached a consistent conclusion on the various effects of family business intergenerational inheritance on enterprises.

3. Finding and Conclusion

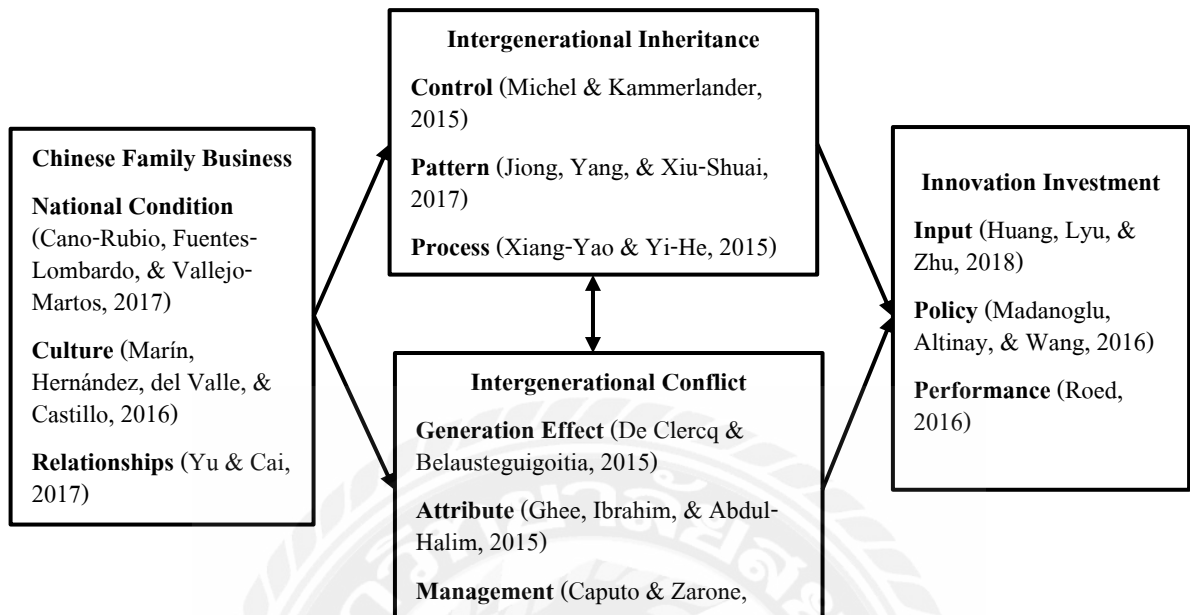


Figure 1: Model used as a guideline for this research

Innovation funding plays an important position in strategic renewal and sustainable competitive advantage of family enterprises, which is the embodiment of the core competitiveness of enterprises. Nowadays, Chinese family businesses have entered the peak of intergenerational inheritance, and the impact of intergenerational inheritance on R&D investment of family businesses cannot be ignored. The following findings are obtained through the literary analysis of family business intergenerational inheritance conflict and innovation investment.

In the first preliminary contact stage of the family business inheritance process, intergenerational inheritance conflict has little impact on family business's innovation investment, and they only clash with their owners over the will of inheritance. To make the inheritor a qualified successor, the owners should mainly give them opportunities to learn (Xu et al., 2015). The successor has not yet touched the core decision-making power, so the conflict of inheritance intention does not have effect on innovation investment.

In the second co-management stage of the family business inheritance process, intergenerational inheritance conflicts negatively impact family business innovation investment. In the joint management stage, the inheritance process of the family business is no longer very stable. Due to the conflict of management cognition, successors have a strong need for the recognition of family members, board of directors and other senior management teams, so they are more inclined to achieve short-term economic goals to prove their self-worth (Ruosen & Mengqian, 2020). However, innovation investment is highly uncertain, which often makes them choose to reduce the innovation investment of family businesses. By reducing innovation input and operating financial profits, companies can temporarily gain short-term benefits (Sciascia, Nordqvist, Mazzola, & De Massis, 2015). Therefore, the short-sighted behavior of the successor has an adverse effect on innovation investment.

In the third core power transfer stage of the family business inheritance process, intergenerational inheritance conflicts positively impact family business innovation investment. In the final stage of the inheritance, after fully responsible for the management decisions of the company, the successor becomes the actual controller of the family business. Based on the previous corporate management experience accumulated through participating in the joint management, the conflict of willingness to hand over power has less impact on the successor (Yong & Xin-chun, 2018). At this time, the interests of the successor are essentially consistent with those of other family managers in the company, so the conflicts and frictions between them are greatly reduced (Hauck & Prügl, 2015). Therefore, family businesses will have more opportunities to focus on their own development and increase their investment in innovation to enhance market competitiveness.

In conclusion, there is a certain correlation between family business intergenerational conflict and business innovation investment, and intergenerational inheritance conflicts at different stages have different effects on family business innovation. In the initial contact stage, the intergenerational conflict has almost no effect on the innovation investment of family enterprises; in the co-management stage, the intergenerational conflict has a negative impact on innovation investment; in the core power transfer stage, the intergenerational conflict has a positive impact on innovation investment.

4. Recommendation

At present, a large number of family businesses in China are dealing with the urgent need for transformation and upgrading. Guiding these companies to invest in innovation not only requires them to break the family's control over ownership and management, but also encourages family businesses to pass on from generation to generation and guide entrepreneurs to establish long-term innovation strategic orientation.

First of all, the owner and the successor should enhance the communication and understanding to form a harmonious inheritance atmosphere. In management process, even if the owner hand over his authority when the enterprise is running well, there will be inevitable conflicts between the two generations. China is a country that pays attention to "family culture", and the consensus among its members is critical. Good communication and motivation are positive ways to deal with the conflicts (Hamilton, Cruz, & Jack, 2017). If the family business hopes to win the success of intergenerational inheritance when facing conflicts, management communication is of great necessity.

Secondly, the owner should make a succession plan in advance to cultivate and exercise the successor's ability. There is no doubt that the inheritors of enterprises have a significant influence on the development of corporations. In order to increase the R&D investment of family enterprises and drive the innovation power of enterprises, the owners should allow their successors to participate in the business operation and to learn the corporate culture in advance (Ghee et al., 2015). In this way, the inheritors have the opportunity to know their

enterprises as much as possible, which will stimulate their interest, cultivate their abilities and minimize the conflicts between generations.

Finally, the family business should cultivate innovative talents and create an innovative culture. It found that the level of innovation is relatively low in the family business under common management, which seriously affect the transformation, upgrading and sustainable development of family businesses (Miller, Wright, Breton-Miller, & Scholes, 2015). Therefore, family businesses can introduce external scientific and technological talents to enhance enterprise innovation investment and promote the construction of enterprise R&D team as planned. This can not only ensure the family's control over the strategic direction of the enterprise, but also make use of the external professional human resources to enhance the innovation ability of the enterprise.

Family business intergenerational inheritance conflict will lead to changes in corporate innovation investment, and there are some differences in the role of innovation investment in different stages of the inheritance process. This study illustrates the important role of family successors in the process of intergenerational inheritance from the perspective of innovation investment. Besides, the research conclusions and recommendations have certain enlightenment on how Chinese family companies, which are currently in the stage of large-scale handover, can successfully complete the inheritance and maintain long-term competitiveness.

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