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Family Business in China, Volume 1

A Historical Perspective

Ling Chen · Jian An Zhu ·
Hanqing Fang

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A Historical Perspective

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macmillan

Ling Chen
Zhejiang University
Hangzhou, Zhejiang, China

Jian An Zhu
Zhejiang University City College
Hangzhou, Zhejiang, China

Hanqing Fang
Business and Information Technology
Missouri University of Science
and Technology
Rolla, MO, USA

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This book series has two volumes. This introduction is for Volume 1, which draws more attention to the past of family, family business and business family in China. Volume 2 puts more emphasis on the present and future of family business and business family in China.

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1

Introduction

The history mirrors both thriving and calamity (以史为鉴, 可以知兴替).
—Li, Shimin, Emperor Taizong of Tang (唐太宗李世民, 566–635)

Family Business in China

There is an increasing recognition that family firms are the dominant form of business organization (La Porta et al. 1999). Gersick et al. (1997) estimate that up to 80% of worldwide enterprises are family owned while La Porta et al. (1999) suggest that most of the economies are controlled by a limited number of wealthy families. It is found that 44% of publicly corporations in major European countries (Facccio and Lang 2002) and up to 33% of the S&P 500 in the United States (Anderson and Reeb 2003) are controlled by families.

Just like other economies, family firms are strongly prevalent, if not more so, in China (Sharma and Chua 2013). Unlike other economies, family businesses in China are greatly affected by the derived Confucian

culture, excessive marketization, as well as the seemingly endless institutional supervision by a transitional Chinese government. In fact, the literature largely suggests that the prevalence and prosperity of Chinese family firms are due to many contextual features which include, but are not limited to, information asymmetry (Lu et al. 2013), relational strength (Song and Wang 2013), *guanxi* networks (Dou and Li 2013) and ownership concentration (Deng et al. 2013).

The literature also highlights that the Chinese context provides a valuable yet unique opportunity to study family business for a number of reasons. To begin, business in China is particularly tied to the central role that family plays; hence the substantial influence of family involvement in business might be further pronounced (Liden 2012). This makes family governance as the “default” setting in which entrepreneurs begin their business ventures. This also makes the family business as the most common form to transfer family wealth and social status from one generation to another. In addition, as the Confucian culture strongly supports the value of family ties in maintaining group solidarity and social order (Gupta and Levenburg 2010), family-centered concerns might be given higher priority in affecting business decisions compared to those in Western economies. In addition, family firms in China were often created by the first-generation founders who started the business shortly after the 1978 “Open-up and Reform” (Huang 2008). This generation has reached the age of retirement, and family-centered concerns such as emotional attachment to the original business and intra-family succession might become particularly strong (Pistrui et al. 2001). Finally, as the market competition intensifies, family business leaders often struggle to find a way to develop new products, processes, markets, or sources of supply (Schumpeter 1934), for the purpose of remaining competitive in the market. Thus, family business in China also represents a valuable opportunity to study the importance of market competition on family firm behaviors and performances.

Some might doubt that family businesses might hinder the feasibility of an equitable distribution of wealth that could eventually hinder economic reform. Others, in opposition, claim that the younger generation in control of Chinese family firms tend to be more entrepreneurial compared to the first-generation family leaders, and might even stimulate

economic potential by engaging in more innovative ways of doing business. Today, there is considerable myth and much curiosity concerning knowledge about family business in modern China, as well as a prevailing eagerness to learn about it. In fact, family business theorists, educators, and practitioners could benefit from a thorough investigation of Chinese family business traditions and experiences by taking a closer look at its past history, present status, and future prosperity.

Research Motivation and Theoretical Framework

The most fundamental motivation behind this book series is to develop a theoretical framework that connects the past, the present and the future of family business and business family in China, with an emphasis on unfolding the historical legacy, articulating the current status, and presenting feasible recommendations to family business researchers and practitioners for future challenges.

Given “family” as the most basic economic and social unit in China, also given the interaction between societal forces and family system, we use family sociology as the primary theoretical lens in developing our framework. We also include an anthropological angle highlighting the Confucian norms and values that guide people’s behaviors in China. Finally, given the emphasis on the “past-present-future,” we also include a historical angle in the framework. Thus, our theoretical framework can be best interpreted as an inter-disciplinary approach composed of sociological, anthropological and historic perspectives in studying family business and business family in China.

In the following section, we will discuss sociological studies on family with a focus on its unique features and why applying a sociological perspective in combination with other theoretical lens might expand our understanding of Chinese family business and business family.

Sociological Perspectives in Studying Family

Sociology can be defined as a research discipline of social science with a focus on social activities, social relationships, and social interactions (Calhoun 2002). As a social science, sociology attempts to study social life as a whole, while other social disciplines often emphasize certain aspects of social life (Giddens et al. 1996). For instance, history studies the historical aspects whereas political science studies political aspects. Thus, it is sociology that provides an “overarching” theoretical interpretation that connects all social aspects together and presents a comprehensive picture regarding how our society and our social lives look like (Giddens et al. 1996).

Family has long been a focus in the sociology. In fact, family sociology¹ can be defined as a research area devoted to the study of family as a basic institution in the very center of social life (Scanzoni and Scanzoni 1976). Accordingly, family can be defined as a socially recognized group usually joined by blood, marriage, or adoption that serves as the most basic unit in a society (Chambers 2012). Common assumptions in family sociology include the universality of family, the inevitable variation of family forms, and the necessity of family for integrating individuals into social life (Treas et al. 2017).

Historically, family sociology is generally concerned with the formation, maintenance, growth, and dissolution of family structure and kinship ties (Huber and Spitze 1988). Much of work presented families in structure and process as in the roles of parents and the process of parenting, various types such as nuclear and extended families, internal dynamics such as tensions in the family system, or basic life processes such as division of household labor. Some of the classic topics in family sociology include role differentiation among family members; family size, age and ethnicity; diversity of family forms; interaction among family members and its economic and social influences; social class and social mobility; the effect of social change on the family; among others.

¹ Sociology of family, sociological study on family, and family sociology are interchangeably used in this book.

New topics are certainly emerging, and research continues to investigate the new social trends aligned with family system. The recent development of family sociology expanded to incorporate a variety of topics related to gender, sexuality, intimacy, cross-culture, emotion, and anything that can be conceptualized to be family-related (Huber and Spitze 1988). Today, family sociology grows to become one of the largest research fields in sociology with a wide range of topics. Also, family sociology has a historical focus in its orientation to changes, trends, and patterns in social changes and social reforms. While a review of the historical development of family sociology is beyond the scope of the book, it is important to recognize four definitive features of family sociology.

To begin, family sociology treats the family as “*dependent variable*” in terms of its connections with various social causes, and “*independent variable*” in terms of its connections with various social outcomes. This means, family sociology not only explores various antecedents that might affect the basic formation and variation in the family system, also it explores the social consequences of changes and variations in the family system (Bales and Parsons 2014). For instance, several family studies in the middle of twentieth century focused on the impact of the Depression on family structure, the migration of families from the country to the city aligned with the industrialization in the United States, and the rise of single-parent families (Furstenberg 1966; Greenfield 1961). At the same time, family sociologists also recognize the power of family system in affecting social matters, and relevant topics here include the economic, political, and social consequences stemming from the changing role of woman, the changing structure of the family, as well as the changing form of marriage (Kanter 1977).

The second feature is the “*openness*” of family sociology aligned with other research disciplines. In fact, given the width of coverage in the sociology, it is not surprising that family sociology has often been combined with other sociology disciplines in explaining a variety of different topics such as poverty, crime, social inequality, and other at the societal level (Becker and Rau 1993). In this kind of interdisciplinary studies, family is often used as the basic unit of analysis, and a variety of different social phenomenon was interpreted as either causing or being caused by

dynamics in the family system. For instance, in their book “*The Polish Peasant in Europe and America*,” Thomas and Znaniecki (1918) used the family as the “unit of analysis” in explaining the process of urbanization and industrialization as well as the migration of Polish peasants from rural to urban areas. In addition, research disciplines that go beyond sociology also adopt certain concepts from family sociology, such as the idea of family labor differentiation in family economics (Becker 1981). Nonetheless, such a feature might also stem from the fact that, earlier family sociology studies were often empirically driven and descriptive in nature (Esping-Andersen 2000; Tudor 2013; Warshay 1971).

Third, family sociology often features a “*bottom-up*” approach in which researchers emphasize the aggregative effect of lower-level actives such as family structure on higher-level social phenomenon such as economic development, social reform, social mobility and migration (Klein and White 1996). In this regard, family sociology is *born as* a multilevel research area. As an example, one of the most classic focuses in family sociology is how the formation of the family as well as interactions among family member would affect the family’s social class, defined as social stratification in which people are grouped into a set of hierarchical social categories based upon income, wealth, social status, and derived power (Jencks et al. 1972). Such a focus is often coupled with inquires on the mobility of the family within or between layers or tiers in the hierarchy of social stratification as well as overall inequality in the society.

In final, family sociology has the focus on *comparative studies* in its very heart (Glaser 1965). Indeed, a large number of family sociology studies were comparative within and between cultures, economies, communities, or even between past and present (Gauthier 1998). Some studies even compare families by race, geography, income, and occupation in one single economy or community (Huber and Spitze 1988). For the purpose of this book, we will make a comparison of family business in China with family business in Western context.

Theoretical Framework in the Book

As mentioned above, this book applies an interdisciplinary approach where we use the family sociology as the primary theoretical lens in combination with anthropological and historical perspectives. The anthropological perspective is included because family system and consequently family business and business family in China are often affected by traditional rituals and customs rooted in Confucian values and norms. The focus on anthropology helps address some “soft” issues such as religiosity, tradition, rituals, or culture in family business and business family. The historical perspective implies that what is present stems from the past, while what is future stems from the present. The inclusion of a historical perspective highlights the importance of cultural and economic legacy as well as certain historical moments such as the up and down of “One-Child Policy” in affecting family formation and structure in China, which eventually contribute to the heterogeneity of the behaviors and performances in Chinese family firms.

Figure 1.1 summarizes our theoretical framework. Before we explain all dimensions included, it is important to note that such a theoretical framework is carefully chosen for several reasons. First, to follow the tradition of family sociology, family system is located at the very center of the model. That means, it is the family system that adapts to the changes in the external context, also it is the formation and variation in the family system that contribute to idiosyncratic yet heterogeneous behaviors and performances in family firms. Second, we choose to emphasize four definitive features of family system in China, which independently or interactively differentiate Chinese family system from those in the Western context. We will further discuss these four features in the following section. Third, according to the model, the influences of external context on family business can be divided into two distinctive paths. That means, not only external context might *directly* affect family business which has been well documented in the family business literature (Wright et al. 2014), there is also an *indirect* effect mediated by the family system.