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# **Intergenerational succession and internationalisation strategy of family SMEs: Evidence from China**

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# Background

- Internationalisation is an important, yet difficult strategic activity for SMEs.
- There has been much interest in the internationalisation of *family* SMEs, but to date the fundamental processes which drive family business internationalisation are inadequately understood.
- In family firms, underlying relational dynamics are reflected in discernable intergenerational succession patterns.
- Yet, despite succession being *the* most important challenge that family firms will face, few studies have looked at how succession influences SME internationalisation.

# Internationalisation

- Defined as the process of increasing a firm's involvement in foreign markets.
- Uppsala Model highlights “state” and “change” aspects driven by resources and capabilities, e.g., human and social capital, networking, coordinating, learning, etc. (Johanson & Vahlne, 1977; Vahlne & Johanson, 2017).
- On a firm-level, resources and capabilities reflect a “commitment” to internationalisation. However, the micro foundations of this commitment is understudied (Prashantham & Floyd, 2012)



## Internationalisation in family firms

- SMEs face constraints on the resources and capabilities required for internationalisation (George, Wiklund, & Zahra, 2005; Lu & Beamish, 2001; Swoboda, Meierer, Foscht, & Morschett, 2011).
- Family ownership is a known determinant of firm internationalisation (Pukall & Calabrò, 2014), e.g., family ownership affects a firm's resources and capabilities, their internationalisation strategies and pathways. But conclusions are mixed.
- How “succession” – a key feature of the family firm experience – affects internationalisation is still poorly understood.



## Succession in family firms

- Succession is a process, not an event. It occurs over time and across the business and family systems (Le Breton-Miller, Miller, & Steier, 2004).
- Underlying family dynamics influence (and are reflected by) the manner in which the succession process occurs, i.e., succession patterns (Miller, Steier, & Le Breton-Miller, 2003).
- How do these underlying succession patterns affect family firm internationalisation?

# Conceptual framework

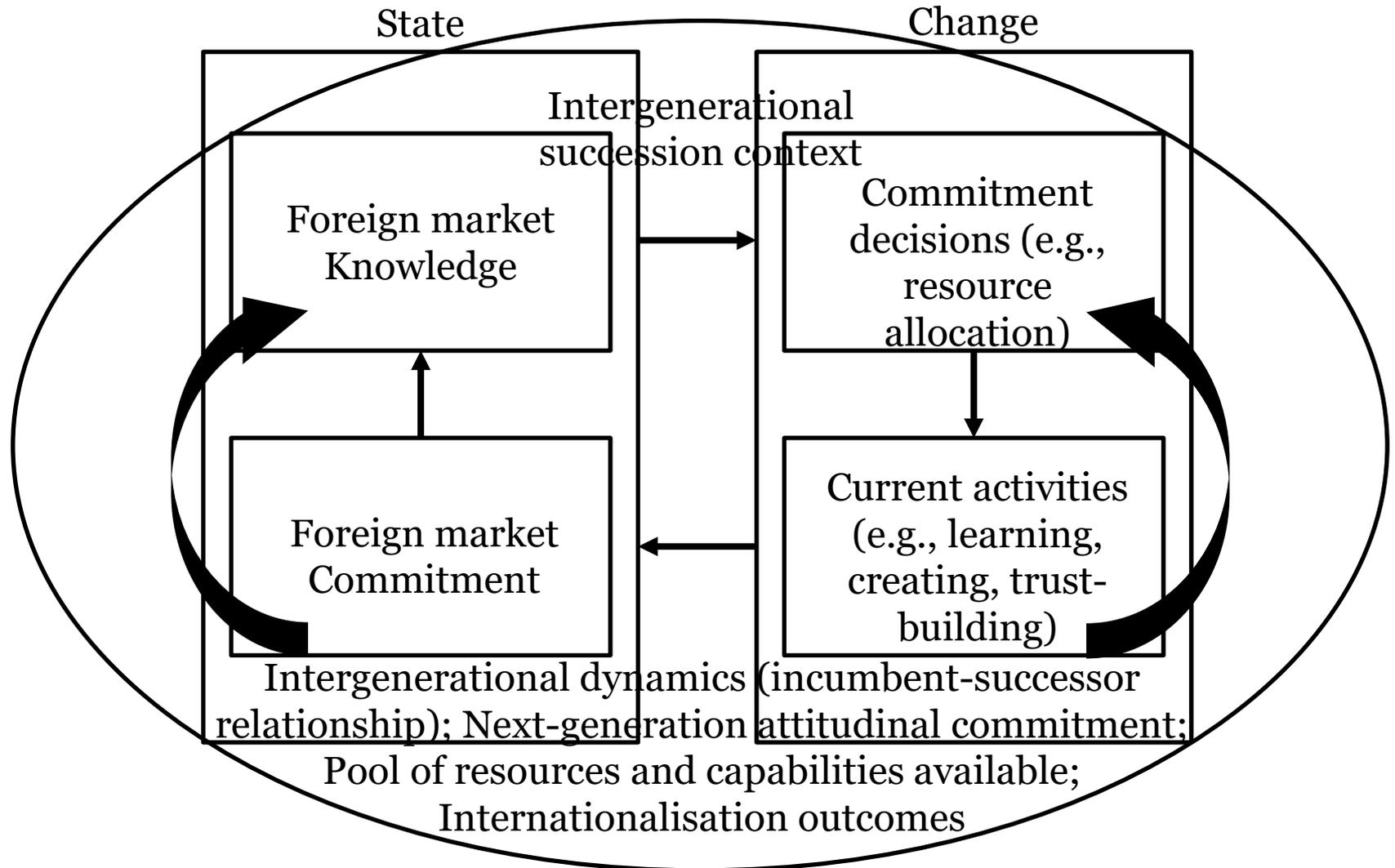


Figure 1: The basic mechanism of internationalisation (Johanson & Vahlne, 1977)

# China: A research context

- Distinct social and cultural conditions
  - respecting parents, elders, and ancestors
  - primacy of social harmony and hierarchal relations
  - honouring “family” as basic unit of society, rather than the individual
  - cultural norm of primogeniture influences succession in Chinese family firms
- Unique economic conditions
  - private sector officially non-existent until economic reforms introducing market principles
  - majority of Chinese family firms have yet to experience a succession event, or have only transitioned from the 1<sup>st</sup> to the 2<sup>nd</sup> generation
  - a succession “crisis” highlighting contrasts between generations

# Research question

*How do different succession patterns influence the internationalisation of Chinese family SMEs?*

# A qualitative, case study approach

Case ID	Est.	Main business	Workforce	SOM characteristics				Founder left for...
				Gender	Age	Birth Order	Siblings	
CEU98	1998	Chemical manufacturing	150	M	35	1 <sup>st</sup>	1 younger sister	Other business
CUS95	1995	Chemical manufacturing	120	M	34	1 <sup>st</sup>	1 younger brother	Health
EUS02	2002	Electronics manufacturing	250	M	28	2 <sup>nd</sup>	1 elder brother	Retirement
FEU91	1991	Footwear manufacturing	80	M	38	1 <sup>st</sup>	1 younger sister	Retirement
FUS95	1995	Footwear manufacturing	60	M	33	1 <sup>st</sup>	Nil	Retirement
MEA83	1983	Machinery manufacturing	90	F	32	3 <sup>rd</sup>	2 elder sisters	Retirement
MEA94	1994	Machinery manufacturing	120	M	30	1 <sup>st</sup>	Nil	Other business
MUS90	1990	Machinery manufacturing	70	M	36	1 <sup>st</sup>	1 younger brother	Retirement
MUS95	1995	Machinery manufacturing	160	M	27	3 <sup>rd</sup>	1 elder brother & 1 elder sister	Retirement
TEU92	1992	Textile manufacturing	180	M	31	1 <sup>st</sup>	1 younger brother	Health
TUS90	1990	Textile manufacturing	110	F	28	1 <sup>st</sup>	Nil	Other business

Note: SOM = second-generation owner-managers; All case firms located in the eastern province of Jiangsu (one of the first industrialised regions of China).

## Semi-structured interviews

Case ID	Interviewee 1	Interviewee 2	Interviewee 3	Interviewee 4
CEU98	SOM	Deputy manager (SOM's uncle)	Export manager (SOM's brother-in-law)	----
CUS95	SOM	Line manager	Export manager (SOM's cousin)	----
EUS02	SOM	Line manager	Founder's contact in local government	----
FEU91	SOM	Founder	SOM's business partner	----
FUS95	SOM	Founder	Export manager	----
MEA83	SOM	Line manager (SOM's brother-in-law)	SOM's business partner	SOM's contact in local government
MEA94	SOM	Founder	Line manager	A frontline employee
MUS90	SOM	Founder	Deputy manager (SOM's brother)	----
MUS95	SOM	Founder	Marketing manager (SOM's brother)	External relations manager (SOM's mother)
TEU92	SOM	Deputy manager	Line manager	----
TUS90	SOM	Founder	Deputy manager	A frontline employee

Note: SOM = second-generation owner-managers; 37 interview in total were conducted.

# Identifying intergenerational succession patterns

Pattern type	Case ID	Successor selection	Successor development	Management transfer	Ownership transfer
<b>Evolutionary</b>	CEU98 CUS95 FEU91 MUS95 TUS90	<ul style="list-style-type: none"> <li>Initiated by incumbent</li> <li>Primogeniture principle embraced</li> <li>Decision at incumbent's sole and full discretion</li> </ul>	<ul style="list-style-type: none"> <li>Incumbent driven</li> <li>Events designed purposefully for successor's capabilities related to existing business</li> </ul>	<ul style="list-style-type: none"> <li>Management authority progressively transferred as on-job training and rotation proceeds</li> <li>Under incumbent's close supervision</li> </ul>	<ul style="list-style-type: none"> <li>Occurs when management transfer completes</li> <li>Concludes succession process</li> </ul>
<b>Co-evolutionary</b>	EUS02 FUS95 TEU92	<ul style="list-style-type: none"> <li>Self-nominated candidature open to all children of incumbent</li> <li>Selection based on candidate's motivation and merit</li> <li>Intergenerational reconciliations</li> </ul>	<ul style="list-style-type: none"> <li>Guided and facilitated by incumbent</li> <li>Events mostly successor's own choice</li> <li>Often involves both external and internal experiences</li> <li>Builds up a wide range of successor capability</li> </ul>	<ul style="list-style-type: none"> <li>Progressively transferred through on-job rotation</li> <li>Jointly decided by incumbent and successor</li> <li>Incumbent allows successor initiative and autonomy</li> </ul>	<ul style="list-style-type: none"> <li>Occurs prior to management transfer completes</li> <li>Subject to judgement on successor's readiness</li> </ul>
<b>Revolutionary</b>	MEA83 MEA94 MUS90	<ul style="list-style-type: none"> <li>Self-given exclusive candidature by successor</li> <li>Often conflicts between successor and incumbent and/or incumbent chosen candidate</li> </ul>	<ul style="list-style-type: none"> <li>Self-generated and self-implemented by successor</li> <li>Successor capabilities mostly distant from existing business</li> </ul>	<ul style="list-style-type: none"> <li>Wrested by successor rather than transferred from incumbent</li> <li>Rapid and complete</li> </ul>	<ul style="list-style-type: none"> <li>Incumbent forced to transfer ownership once successor's sole candidature established</li> </ul>

## Relating succession to internationalisation

Once the three succession patterns were identified, we linked them to various aspects of the internationalisation process. Specifically...

- The *attitudinal commitment* of the next generation
- The *pool of resources* available for internationalisation
- The firm's *capabilities* and *extent of international involvement*

Propositions relating to each aspect were then developed.



## Key assumptions and definitions

- The next generation's *attitudinal commitment* is defined as a favorable disposition towards internationalisation, and is an antecedent to behavioural commitment.
- Firms utilise their internal *pool of resources* for international business activities, e.g., networks, financial capital, experience/expertise, etc.
- Internationalisation *capabilities* are developed by combining commitment and resources, e.g., networking, creating, learning, etc.
- The *extent of international involvement* has three dimensions:
  1. Foreign market entry method - From simple (e.g., indirect exporting) to complex (e.g., foreign subsidiaries).
  2. Market scope - Number of countries or regions sold to.
  3. Product scope - From single standard product to multiple customised products.

# The next generation's attitudinal commitment

- **Evolutionary successors – low commitment**

- *“There’s no need to grow too fast, not because we can’t, but you know sometimes being too aggressive is not a good thing... the opportunity cost could be very high... after all it is not our main market.” (CEU98 SOM)*
- *“This move [internationalisation] was not only for business and market return, but more importantly, it created a project for him [the SOM] to develop and practise knowledge and capabilities that are necessary for leading and managing a business.” (TUS90 founder)*

- **Co-evolutionary successors – high commitment**

- *“He [the SOM] had his own ideas about where to grow... yes, mostly challenging, but achievable, like exporting... he was right, we’d have the challenge sooner or later... it was easier to take the challenge when the business was in a good shape... continue if succeeded, otherwise, we could easily draw back.” (FUS95 founder)*
- *“My father was supportive, and I was able to do what I wanted within the existing business framework, even if it was not closely related to existing business.” (EUS02 SOM)*

- **Revolutionary successors – high commitment**

- *“No business is easy... my father put excessive emphasis on maintaining... it’s just impossible because the world changes... to me growing [into foreign markets] is a most effective way to maintain.” (MEA94 SOM)*
- *“Now that I am the owner, I am the first and only responsible person for business exploration and operations... their page has been turned over, and it is a new chapter now... and they [the father and brother] don’t understand foreign business, so it is truly my business... the road in front of us [to sustain exporting] is clear.” (MUS90 SOM)*

# Proposition 1

*Succession patterns affect attitudinal commitment of the next generation towards internationalisation.*

*Specifically, compared to the evolutionary succession pattern, co-evolutionary and revolutionary succession patterns are more likely to be associated with higher levels of attitudinal commitment to internationalisation by the next generation.*

# The pool of available resources

- **Evolutionary firms – narrow pool**

- *“Everything was set up [by me], and it is a top-up to our existing [domestic] operations without extra investment.”* (FEU91 founder)
- *“All is set up and fine-tuned to the best state, and we just follow the procedure.”* (CEU98 deputy manager – SOM’s uncle)
- *“Having too many business streams [and markets] can create extra costs to the firm, making the business too complicated... now it is just right.”* (TUS90 founder)

- **Co-evolutionary firms – wide pool**

- *“Through my external employment prior to succession, I had a friend who knew someone working for a big trading company in Shanghai... and my former manager provided useful information as well.”* (FUS95 SOM)
- *“When her [wife’s] aunt knew we produced [this product], she mentioned that she knew a trading company who specialised in exporting something sounding similar... that was exactly what we produced... my membership in the local chamber of commerce helped, which linked me to the government assistance, in addition to that provided by my father.”* (TEU92 SOM)

- **Revolutionary firms – narrow pool**

- *“It wouldn’t make any sense if I still use his [the founder’s] resources... I just don’t want my father and sister to be around my business.”* (MEA83 SOM)
- *“When I offered to help, he [the SOM] didn’t refuse, but he went around all offers that I have made... I told him that my former business partners might be able to help, and he didn’t contact them.”* (MEA94 founder)
- *“Ideally, I wish I could export more products to more foreign customers, but at the moment, we have to rely on the agent.”* (MUS90 SOM)

## Proposition 2

*Succession patterns affect the pool of resources available for internationalisation.*

*Specifically, compared to evolutionary and revolutionary succession patterns, the co-evolutionary succession pattern is more likely to be associated with a greater/wider pool of resources available for internationalisation.*

# Capability learning and extent of international involvement

- **Evolutionary successors – low international involvement**

- *“It was actually quite simple... the customer provided samples and asked us to replicate, and if they were happy with our replicates, they place an order through the agent... it doesn't really incur much more costs to us.” (TUS90 SOM)*
- *“It's an easy job for him [the SOM], and we have had all that we needed – capital, personnel, equipment, technology... the agent is my business partner for many years, I only need to produce the right quantity and quality, and on time, he'll then handle everything else... just going ahead is enough... if it required extra input, I might need further considerations.” (MUS95 founder)*

- **Co-evolutionary successors – high international involvement**

- *“Our main job is to coordinate with all parties involved in export, including the agent. Communicating with the customers is a daily routine, so the firm recently recruited a university graduate who majored in accounting and English... in fact, we are encouraged to learn English, and the company pays for us if we enrol in after-hour business English courses.” (FUS95 export manager)*
- *“We have developed authentic feelings [from the trade fairs] about what is trendy out there [in the foreign markets]...” (EUS02 SOM)*

- **Revolutionary successors – low international involvement**

- *“Ideally, I wish I could export more products to more foreign customers, but at the moment, we have to rely on the agent.” (MUS90 SOM)*
- *“Having this one customer is not enough, this is just the start... we need to stabilise this relationship and move on to add more... I'm sure it will happen, but at the moment it's not happening.” (MEA94 SOM)*

# Internationalisation drivers and outcomes

Succession pattern	Case ID	Initiator of intlsn	Motivation for internationalisation	Breadth of firm resources	Extent of international involvement		
					Entry method	Market scope	Product scope
<b>Evolutionary</b>	CEU98	Founder	Increasing revenue, optimising production/capacity, enhancing existing business relationships, successor development	Narrow	Indirect exporting	2: EU	Single, standardised
	CUS95	Founder	Increasing revenue, economy of scale, successor development	Narrow	Indirect exporting	1: US	Single, standardised
	FEU91	Founder	Improving financial fluidity, accessing government incentives, successor development	Narrow	Indirect exporting	1: EU	Single, standardised
	MUS95	Founder	Increasing revenue, economy of scale, successor development	Narrow	Indirect exporting	1: US	Single, standardised
	TUS90	Founder	Firm growth, increasing revenue, accessing government incentives, successor development	Narrow	Indirect exporting	1: US	Multiple, customised
<b>Co-evolutionary</b>	EUS02	SOM & founder	Firm growth, increasing revenue, gaining market share, accessing government incentives, R&D	Broad	Direct & indirect exporting	5: EU, Asia, US	Multiple, standardised & customised
	FUS95	SOM & founder	Firm growth, increasing revenue, gaining market share, accessing government incentives, building business relationships	Broad	Direct & indirect exporting	4: US, Asia, EU	Multiple, standardised & customised
	TEU92	SOM & founder	Increasing revenue, accessing government incentives, optimising production/capacity, building business relationships	Broad	Indirect exporting	3: EU	Multiple, customised
<b>Revolutionary</b>	MEA83	SOM	Firm rebranding, business renewal, improving financial fluidity, building business relationships	Narrow	Indirect exporting	1: Asia	Single, standardised
	MEA94	SOM	Firm rebranding, business renewal, increasing sales volume, building business relationships, accelerating succession	Narrow	Direct exporting	1: Asia	Single, standardised
	MUS90	SOM	Firm rebranding, business renewal, increasing sales volume, building business relationships	Narrow	Indirect exporting	1: US	Single, standardised

## Proposition 3

*Through their effect on the attitudinal commitment to and the pool of resources for internationalisation, succession patterns have an effect on the firm's capability learning and development, and the resultant extent of international involvement.*

*Specifically, compared to evolutionary and revolutionary succession patterns, the co-evolutionary succession pattern is likely to be associated with a greater extent of international involvement.*

# Discussion



- **P1: Succession patterns affect attitudinal commitment of the next generation towards internationalisation.**
  - Co-evolutionary and revolutionary > evolutionary succession pattern
- **P2: Succession patterns affect the pool of resources available for internationalisation.**
  - Co-evolutionary > evolutionary and revolutionary succession pattern
- **P3: Succession patterns have an effect on the firm's capability learning and development, and the resultant extent of international involvement.**
  - Co-evolutionary > revolutionary > evolutionary succession pattern

# Contribution and implications

- For scholars ...
  - Delve deeper into the links between intergenerational succession and family firm internationalisation. The relationship is much more complex than previously considered.
  - Examine the role of the individual decision maker, i.e., the micro foundations of the Uppsala Model.
  - Move beyond existing succession typologies, which focus predominantly on Anglo-Saxon families and firms, to better understand intergenerational succession and internationalisation in the Chinese family business context, e.g., is the evolutionary pattern unique?

# Contribution and implications

- For family business owners...
  - Owner-managers need a balanced view of the firm's past, present, and future, in order to nurture capability learning which can help the firm engage in more sophisticated international business activities.
  - It is important to assess the potential generational gaps, i.e., working together and establishing a collaborative relationship between incumbent and successor are key drivers of international business success.

# Contribution and implications

- For policy-makers...
  - While the Chinese government advocates a “modern enterprise system” (where private firms are encouraged to be more market-oriented), policy-makers should recognise that intergenerational family dynamics can greatly affect a firm’s ability to internationalise.
  - Policies that foster better relationships can therefore benefit domestic firms’ strategic position, leading to success in foreign markets.

## Limitations and future research

- Generalisation limitations – a focus on Chinese family SMEs that experienced two significant events for the first time
  - Are the three patterns and their effects similar in other contexts?
  - Considering other institutional environments
  - Future explorations into SMEs at more advanced internationalisation stages
- Large scale investigations using mixed methods
  - More patterns (within those internationalised or not)?
  - From exploratory to hypotheses building and testing

# Thank you!

Your questions and comments are welcome.

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