Reuters: Dying out? China's young shun family firms

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REUTERS

Dai Yintao, 21, is the only son of the millionaire owner of Chinese real estate, pharmaceutical and mining companies. He has no interest in taking over his father's business, opting instead to work on a building site in Guiyang in Guizhou province, arriving each day in a Porsche.

"I work here because I don't want to take money from my father," Dai says. "Freedom means everything."

As China's first-generation entrepreneurs hit retirement age, more than 3 million private businesses will have to deal with succession issues in the next 3-8 years, according to data from the Chinese Academy of Social Sciences.

This is not unique to China, of course, but it poses particular risks in a country where there are few professional managers, and families are reluctant to hire outsiders anyway for fear they will take control of the business. Domestic acquisitions and private equity involvement are also rare, giving first-generation owners fewer exit options.

Wealth research firm Wealth-X estimates the value of China's first-generation entrepreneurial businesses at $611 billion, so any succession crisis could severely dent a key growth engine of the world's second-biggest economy.

"If all companies in a country experience a succession problem in the same time period, that could pose a systemic risk to the country," said Joseph Fan, finance professor at the Chinese University of Hong Kong, who has studied the issue. "Succession issues poorly managed could hurt the national economy."

BETTER OPPORTUNITIES

Most mainland Chinese couples have only one child, and many of those have been educated overseas and now have little interest in taking over the family business, preferring other – potentially more glamorous – career opportunities.

"The next generation often sees opportunities that are better than coming back to the family business, so continuity is one of the issues," said Roger King, director of the Tanoto Center for Asian Family Business and Entrepreneurship Studies at Hong Kong University of Science and Technology.

Han Lulu, 29, who studied fashion in Canada and Italy, wasn't initially interested in getting involved in her father's Shanghai restaurant chain, but realised she could put her skills to work in the food business – designing plates.

"Only in the past two years, I began to think that food and fashion are both tied to lifestyle, so I felt less detached from the food business," said Han, who graduated from the Istituto Marangoni in Milan. However, she said she's still not ready to take over the family firm, which employs more than 500 people at seven restaurants.

GENERATIONAL SHIFT

China's sweeping economic reforms over the past three decades have triggered huge social and economic change, offering today's generation opportunities that were not open to their parents.

"The changes in society ... between the first and second generation in terms of values and lifestyles, are very dramatic," said Jean Lee, director of the Kaifeng Family Heritage Center at the Chinese European International Business School. "In traditional industries, many companies may face the challenge of closing now because no one wants to take over."

Family-run firms are crucial to China's economy, making up nearly 40 percent of the 762 listed private firms in the A-share market. In places such as the southeastern manufacturing belt of Zhejiang province, home to the city of Wenzhou, these businesses churn out everything from shoes and t-shirts to spectacles and cigarette lighters.

China has more than 10 million private companies that account for about 60 percent of gross domestic product. At the end of 2011, more than 80 percent of private firms were classified as family businesses, according to the All-China Federation of Industry and Commerce.

That importance to China's economy means the generational handover of family businesses will be closely watched by investors and politicians. A chief concern among academics is that professional management will not be an option for some time.

"China's professional market is also first generation. There's no mature market for professional managers and no proper incentive system to recruit, retain, promote and compensate provisional managers," said Fan at the Chinese University of Hong Kong.

BROADCASTS

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For now, Liu Fang is among the luckier ones. Her son, Gong Chen, took over the family's Fangzi Beauty Salon business, which has 56 salons across China, after working there for eight years when he returned from studying in London.

"In the beginning, I just wanted to help my parents, but later a sense of responsibility grew inside me," he said.

Source: Reuters