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Are Family Firms Really More Long-Term Oriented? Evidence from China

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Authors' contributions

This work was carried out in collaboration by authors LS, QL and YL. Author LS designed the study, performed the statistical analysis and wrote the first draft of the manuscript. Author QL did the literature review and author YL managed the analyses of the study. All authors read and approved the final manuscript

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ABSTRACT

Long-term orientation is often regarded as the reason why family firms excel non-family firms. However, there are very few empirical studies. This article examined whether and when family firms were more long-term oriented, employing 1980 firms from Chinese Private Enterprise Survey. The results show that family ownership does not necessarily lead to firm long-term oriented behaviors. Only in those family firms with succession intention and greater family control intention, family ownership could significantly promote more long-term oriented investments.

Keywords: Family firm; long-term orientation; family succession intention.

1. INTRODUCTION

Since the reform and opening up, China has experienced exponential economic growth and will continue to play a significant role in global economy. The increasing number of Chinese firms on the Fortune 500 list, from 12 companies in 2001 to 100 in 2014, further implied the growing importance of Chinese enterprises. Undoubtedly, entrepreneurship, especially in

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family forms, is a key driving force behind the transformation for China to become the second largest economy worldwide. While many western scholars have recognized the importance of family firms, large part of family firms in emerging economies, such as China are under-researched. There is great urgency for us to expand our knowledge on family firms, the most important and prevalent actor in Chinese economy.

In general, firms are easily controlled and owned by families during the start-up stage. But large numbers of firms in China are still controlled by family even after long-term growth and would be fear of losing family control. While family entrepreneurs in Chinese context are mostly influenced by Confucian doctrine, they are still heterogeneous units. For a long time, scholars have been working hard to find out the advantages and performance implications of family influence, but coming to very mixed results. So are the comparative studies between family and non-family firms. However, long-term orientation and belief in sustainable development and trans-generational succession of family firms are widely recognized [1]. In addition, more and more scholars begin to care more about the socio-emotional wealth of family firms rather than just pursing economic goals. Departing from the traditional focus on short-term financial performance, this study attempts to explore whether family ownership promotes long-term oriented behaviors, and how family intention on control and succession influences this relationship.

The debates on short-term and long-term can date back to 1990s. [2] concluded the managerial short-termism as the basic reasons why U.S. corporations lost their competitive advantage to foreign firms, especially those from Germany and Japan. These two countries have been always regarded as having long-term orientation tradition while American managers pay too much attention to short-term benefits and don't want to invest for long-term development. Just one simple example, Freudenberg, a multinational family firm from Germany, explicitly incorporates the long-term orientation in its guiding principles. It reads as "*After more than 160 years, the Freudenberg Group is and will remain a wholly owned family enterprise. We strongly believe that our long term business orientation is a major strength that benefits our customers and partners*".

It draws much more implications for Chinese family firms, in an institutional transformation age. As the market economy develops, thousands of entrepreneurs rushed into the investment tide driven by the fast-growth wealth and seeming easy-to-get benefits, ignoring or exiting original industries. Moreover, the release of Chinese Growth Enterprise Monitor Board (GEMB, *chuangyeban* in Chinese) further promoted this trend. Hundreds of entrepreneurs came to be millionaires or billionaires after IPO (Initial Public Offering) on GEMB and became confused of the future development. Even in family firms, the descendent of entrepreneurs prefer financial investment to prior industrial operation, which will be eventually harmful to the sustainable development of the firm and even the whole economy.

We want to explore two questions in this article: (1) Are family firms really more long-term oriented (or pursing long-term oriented behaviors)? (2) What kind of family firms may perform more long-term oriented behaviors rather than short-term? Although many studies have attributed the superior performance advantages of family firms to the strong long-term orientation, the empirical examination especially large-scale quantitative studies are rare. This study tested the influence of family related factors on the temporal choice in a Chinese family firm context, using the database of the 9th Chinese Private Enterprises Survey to draw more insights for family business research and practice in the emerging economy.

2. LITERATURE REVIEW AND HYPOTHESES

As mentioned, economic short-termism has trigged great debate in America. It is the economic short-termism that is considered to be the important reason why American firms fall behind [3]. The short-termism (inter-tempral choice) in Laverty's work is defined as "*the course of action that is best in the short term is not the same course of action that is best over the long run*". While long-term orientation is corresponded to short-termism, meaning "*the tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period*" [4]. [5] even incorporated the long-term orientation as a dimension of organizational culture. The F-PEC scale developed by [6] also includes the measurement of future and long-term orientation, such as future support and long-term participation. There are still other ways to express the long-term orientation, including extended time horizon [7], long-term financial goals [1] and sustainable development [8].

Family business literature argues that family firms are more long-term oriented than non-family firms [9,10], and performing better than non-family firms on a range of indicators, such as profitability [11], efficiency [12] and sales growth [13]. [14] ascribes family firms' long-term orientation to transgenerational succession, longer term CEO tenure [10], as well as the popularity of family firms in the performance lagging industry. In reality, family firms have to find a balance between short-term performance and long-term orientated behaviors. That involves the inter-temporal or multi-temporal decision making. Inter-temporal choice often need weigh the short-term and long-term benefits. Some scholars believe that firms should take actions to obtain long-term value [15], however, some level of short-term performance is often the prerequisite to survive [16]. For the family business, the trade-off between short-term and long-term seems an eternal topic.

Anderson [1] pointed out that family shareholders have a longer investment horizon in relation to the other shareholders and they may prefer to invest in long-term projects. Based on this, compared to other types of shareholders, family shareholders have more patient capital, and are more willing to consider some investment decisions with non-short-term results. It is believed that family ownership is an important driving force for the family preference to long-term investment in the time domain, as family owners are more likely to act as stewards rather than agents [17,18]. Compared to non-family business, family business executives also tend to have a longer tenure [14]. From the long-term orientation test of the family business in his doctoral thesis, [19] found that only when the family members serve as chairman or CEO, will the family business invest more in long-term projects than non-family businesses and long-term investment projects in the family firms are less affected by changes in cash. Based on this, family firms bear the objectives from the controlling family and from the business world simultaneously. When controlling a firm, the family is no longer a simple shareholder or manager. In this case, family and business are combined, or business has been part of the family. The family has been a symbol of the firm and what the firm does could be closely related with the family's reputation and image.

Recent years, socio-emotional wealth (SEW) theory has emerged and developed as a homegrown theory in family business research field. More and more scholars realized the necessary transformation from pure financial to non-financial aspects of family firms. We try to extend SEW model in family firms by investigating the long-term oriented behaviors. [9] propose that what controlling families concern is preserving their socio-emotional wealth, which means "*non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence and the perpetuation of the family dynasty*." Family firms always strive to nonfinancial goals such as longevity, family prosperity and family harmony. In case of family ownership, we argue that family owners are not passive shareholders, but active stewards of the family and would invest more in long-term projects, like innovation and talent cultivation to obtain better long-term performance. Therefore, we propose that:

Hypothesis 1: Family ownership is positively related to a firm's long-term orientation.

Additionally, many family firms dream to build a family dynasty by passing the business to the descendants and in control of the family for generations [20]. [21] also pointed out that family intention to control and succession was one important reason why family firms behaved different from non-family firms. When the family controls a firm, the enterprise will be no longer a freely traded asset, but a symbol of family wealth and status. Family control is regarded as the precondition for family continuity [22]. Previous studies on family business may focus more on the governance and performance benefits, the family entrepreneurial values need more exploration. As it noted, family control is the foundation for family entrepreneurship and trans-generational development [23]. However, family succession research indicates that lack of capable family decedents or losing entrepreneurship spirit may lead to family business failure. It also happens that family firms may choose to exit the market by selling out when they could not find proper family members to succeed or manage. Thus, we argue that family intention could influence the relationship between family ownership and long-term orientation. When the family have strong intention to control the firm or succession to the next generation, family owners tend to make more decisions considering for the long-term benefits. So, we present that:

Hypothesis 2: Family intention will strengthen the relationship between family ownership and firm long-term orientation. Specifically, the higher the family intention on succession and control, the positive relationship between family ownership and long-term orientation will be stronger.

3. METHODOLOGY

3.1 Samples and Data Collection

Family business is prevalent in Chinese publicly-listed firms and private-owned enterprises. But family control levels and approaches are diverse. Different from previous studies mostly focusing on publicly-listed firms, our dataset is from the Chinese Private Enterprises Survey in 2010, which has been used for research publications on Journal of Business Venturing, etc. [24]. The survey is conducted jointly by the United Front Work Department of the Central Committee of the Communist Party of China, the All China Industry and Commerce Federation, the China Society of Private Economy at the Chinese Academy of Social Sciences, and China State Administration for Industry & Commerce. To achieve a balanced representation across all regions and industries in China, the survey used the multi-stage stratified random sampling method and selected 4900 private firms, which accounted for 0.55% of nationally registered private enterprises in 2009, distributing among different regions and industries.

The survey was based on questionnaire and interviews in necessary. Local employees of All China Federation of Industry and Commerce and China State Administration for Industry & Commerce directly conducted the survey. The entrepreneurs or owners of the selected private firms were required to fill the questionnaire. Finally, 4614 valid questionnaires were returned, with an overall response rate of 94.16%. The survey time span is from 2008 to 2009 and covered 31 regions and 19 industries.

3.2 Measurement

3.2.1 Dependent variable

3.2.1.1 Long-term orientation

Based on the classifications and measurements from [8] and [19], we measured long-term orientation in a behavioral perspective, using firm long-term investments in R&D and employee training. Two variables were represented in the form of proportion of sales revenues. We constructed a principle component (LTO_PCA) and computed the mean value (LTO_MEAN) for the cross test of long-term orientation.

3.2.2 Independent variables

3.2.2.1 Family ownership

Family ownership is the most widely used variable reflecting family influence and also regarded as a proxy for SEW [25,26]. In this study, we define the family business as those that the entrepreneur and his/her family own at least 50% ownership of the firm. The survey provided relevant information for us to identify family firm. There were two questions on this: (1) What's your equity ownership of the firm? (2) What's your family member's equity ownership of the firm? We combined the two questions to present family ownership and only included those firms with family ownership higher than 50%.

3.2.3 Moderators

3.2.3.1 Family intention

Family intention includes succession intention and control intention, indicating the connecting intensity between the family and the firm. We measured family succession intention by asking "How do you think about the succession issue of the firm?" and coded into a dummy variable according to the answer (1 for family succession intention, and 0 for family succession intention). The scale for family control intention was adapted from the 5-Liket scale developed by [27] and [28], by asking entrepreneurs about their opinions on the following five items, including "*Family should own more than 50% to control the firm", "Firm's key strategic decision should be made by family members", "Firm's key management position should be controlled by family members", "Family members involve in the business helps firm development" and "It's an obligation for me to provide work opportunities for my family members".*

3.2.4 Control variables

According to previous studie，this study included the entrepreneur, firm and industry level characteristics that may affect business inter-temporal choice decisions in the model as control variables. Firm characteristics like firm age, firm size in term of employee number, previous year performance measured in return on sales (ROS).

We also controlled for entrepreneurs' age, gender and human capital reflected by education level. Industry is coded into 18 dummies in regression models.

Table 1 provided the detailed information for all variable definitions.

4. RESULTS

4.1 Descriptive Statistics

Table 2 presents the descriptive statistics of the key variables. In our survey of Chinese private enterprises, 87.95 percent are classified as family business, indicating the prevalence of family firms in China. Due to the missing data for our key variables, only 1980 family firms are included in our final analysis. As to the long-term orientation behavior, a firm averagely invests 0.8% of its yearly revenues on R&D programs and employee training. In terms of the family firm context, family ownership is rather high, the mean value reaching 91% and 68.99% of family firms are wholly owned by a family. In 1980 family firms, only 489 firms showed explicit intentions for succession, while family firm owners differed in their intentions for family control. Even though most family owners expressed the importance of family ownership control and family responsibility, they did not seem to advocate family management. Most of our sample firms are entrepreneurial firms and has operated for about 9.16 years on average. We also report the entrepreneur characteristics of the firm. The mean age of CEO is 45.87, most entrepreneurs are lack of University education and only 13.48% are female. It shows that Chinese entrepreneurs are still male dominated and driven by people with few school education.

4.2 Regression Analysis and Hypotheses Testing

Table 3 and Table 4 report OLS regression results for the family influence and firm long-term orientation. Table 3 used the principle component of long-term orientation (LTO_PC) as the dependent variable and Table 4 for mean computed long-term orientation (LTO_MEAN). Model 1 only included control variables as the basic model. Model 2 added family ownership variable to test hypothesis 1. Model 3 and 4 further incorporated the interaction effect of family intention one by one to test hypothesis 2. Although not reported, all the models controlled for the industry effect.

4.2.1 Direct effects

Hypothesis 1 predicts that family ownership is positively related with firm's long-term orientation. In model 2, the coefficient estimation between family ownership and long-term orientation is positive but insignificant (β=0.126, t=0.93, in Table 2 and β=0.002, t= 0.52, in Table 3). Thus Hypothesis 1 is not supported.

Table 1. Variable definitions

Concepts	Variables	Definitions
Long-term orientation	LTO_PC	Principle component for ratio of firm investment in R&D and employee training on sales.
	LTO_MEAN	Mean value for ratio of firm investment in R&D and employee training on sales.
Family ownership	FO	The proportion of family holdings.
Family control intention	FINT	Liket scales on 5 items.
Family succession intention	SUC	A binary variable, 1 indicates with family succession intention.
Firm age	Firmage	The difference between the year 2010 and the founding year.
Firm size	LNEMP	The nature log of firm employee numbers.
Firm previous performance	ROS	Return on sales in year 2008.
Industry	IND	Industry was coded into 19 binary variables, according to National Statistics Classification.
Market development	Marindex	Market development index, from Fan and Wang(2013).
Entrepreneur age	Age	The difference between the year 2010 and the entrepreneur's born year.
Entrepreneur gender	Gender	A binary variable, 1 indicates male.
Entrepreneur human capital	EDU	Entrepreneur's education level, 1=primary school, 2=junior middle school, 3=senior middle school, 4=junior college, 5=undergraduate, 6= master.

Table 2. Descriptive Statistics

	LTO_PC	FO	SUC	FINT	Firmage	LNEMP	Age	Gender	EDU	ROS	Marindex
LTO_PC	1.00										
FO	0.00	1.00									
SUC	0.04	0.08	1.00								
FINT	-0.03	0.13	0.21	1.00							
Firmage	0.00	0.05	0.13	0.01	1.00						
LNEMP	0.03	-0.06	0.05	-0.13	0.25	1.00					
Age	0.00	-0.04	0.25	0.06	0.24	0.21	1.00				
Gender	-0.03	0.01	0.03	-0.01	0.07	0.08	0.05	1.00			
EDU	-0.09	0.08	0.16	0.14	-0.02	-0.20	0.17	0.02	1.00		
ROS	0.22	-0.01	0.03	-0.01	0.01	0.04	0.02	0.01	-0.02	1.00	
Marindex	-0.06	0.00	0.04	0.00	0.12	0.08	0.06	0.06	0.03	-0.01	1.00
Mean	-0.05	0.91	0.25	2.93	9.16	3.86	45.87	0.87	3.21	0.00	8.63
STD.DEV.	1.06	15.96	0.43	0.91	4.59	1.52	8.70	0.34	1.09	0.90	2.20
MIN	-0.45	50.00	0.00	1.00	2.00	0.69	21.00	0.00	1.00	-1.84	0.38
MAX	10.42	100.00	1.00	5.00	21.00	9.19	93.00	1.00	6.00	37.79	11.80

Note: N=1980

4.2.2 Moderating effects

To test for the moderating effect of family intention, we constructed two interaction variables, *family ownership*family succession intention (Foxsuc), family ownership*family control intention (Foxint)*. Hypothesis 2 argues that family ownership promotes more long-term oriented behavior when family control and family succession intention are higher. In model 3, the coefficient for the interaction term (*Foxsuc*) is positive and significant (β=0.462, t=1.75, in Table 2; β=0.011, t=1.91, in Table 3), indicating family succession intention strengthens the positive effect of family ownership on firm long-term orientation. The coefficient for interaction term (*Foxint*) in model 4 is also positive and significant (β=0.004, t=2.72, in Table 2; β=0.000, t=3.17, in Table 3), indicating that the positive moderating effect of family control intention is also supported. Thus Hypothesis 2 is supported.

The results for the control variables are worthwhile to note. Most of the control variables are not significantly correlated with firm long-term orientation, except for entrepreneur education, firm previous performance and market development. Our results show that entrepreneur education and market development are negatively related to firm long-term orientation and firm previous performance is positively related to firm long-term orientation. The direct effect of moderators on long-term orientation also seems interesting. While family control intention may restrain firm long-term orientation, but helps strengthen the effect of family ownership on long-term investment.

Table 3. OLS Regression of long-term orientation on family ownership (LTO_PC as dependent variable)

	Model 1	Model 2	Model 3	Model 4
Firmage	-0.003	-0.004	-0.004	-0.003
	(-0.58)	(-0.63)	(-0.79)	(-0.56)
LNEMP	0.020	0.021	0.021	0.018
	(1.11)	(1.15)	(1.14)	(0.98)
Age	0.001	0.001	-0.000	0.001
	(0.45)	(0.49)	(-0.01)	(0.44)
Gender	-0.044	-0.045	-0.047	-0.045
	(-0.50)	(-0.51)	(-0.54)	(-0.51)
EDU	-0.049^{**}	-0.050^{**}	-0.056^{**}	-0.048^{**}
	(-2.15)	(-2.21)	(-2.58)	(-2.10)
ROS	0.262^{***}	0.262^{***}	0.259^{***}	0.263^{***}
	(10.21)	(10.42)	(10.40)	(10.66)
Marindex	-0.031^{***}	-0.031^{***}	-0.031^{**}	-0.031^{***}
	(-2.58)	(-2.58)	(-2.57)	(-2.63)
FO		0.126	0.011	0.142
		(0.93)	(0.07)	(1.08)
SUC			-0.299	
			(-1.30)	
Foxsuc			0.462^{*}	
			(1.75)	
FINT				-0.046^{*}
				(-1.84)
Foxint				0.004^{***}
				(2.72)
_CONS	0.511^{**}	0.398^{*}	0.572^{**}	0.519^{**}
	(2.22)	(1.69)	(2.36)	(2.10)
Adjusted R^2	0.087	0.087	0.089	0.088
F Value	7.142^{***}	7.117^{***}	7.085^{***}	7.391^{***}

t statistics in parentheses
* *p < 0.1,* ** *p < 0.05,* *** *p < 0.01*

Table 4. OLS Regression of long-term orientation on family ownership (LTO_MEAN as dependent variable)

	Model 1	Model 2	Model 3	Model 4
Firmage	-0.000	-0.000	-0.000	-0.000
	(-0.33)	(-0.36)	(-0.45)	(-0.27)
Lnemp	0.001	0.001	0.001	0.001
	(1.59)	(1.61)	(1.60)	(1.45)
Age	0.000	0.000	0.000	0.000
	(0.97)	(1.00)	(0.65)	(0.91)
Gender	-0.002	-0.002	-0.002	-0.002
	(-0.91)	(-0.91)	(-0.94)	(-0.91)
EDU	-0.002***	-0.002***	-0.002***	-0.002***
	(-2.91)	(-2.97)	(-3.25)	(-2.90)
ROS	0.006***	0.006***	0.006***	0.006***
	(8.01)	(8.09)	(8.02)	(8.28)
Marindex	-0.000	-0.000	-0.000	-0.000
	(-1.05)	(-1.05)	(-1.02)	(-1.13)
FO		0.002	-0.001	0.002
		(0.52)	(-0.20)	(0.65)
SUC			-0.009*	
			(-1.66)	
Foxsuc			0.011*	
			(1.91)	
FINT				-0.001*
				(-1.91)
Foxint				0.000***
				(3.17)
_CONS	0.017***	0.015***	0.019***	0.019***
	(3.30)	(2.97)	(3.51)	(3.31)
Adjusted R^2	0.081	0.081	0.082	0.084
F Value	6.085***	6.071***	6.091***	6.246***

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

5. CONCLUSIONS

Our study provides evidence on family firm heterogeneity in China. Although family firms are the dominant form of Chinese private enterprises, they may differ in governance, entrepreneurship and strategic behaviors. We empirically tested the characteristics of family firms who showed more long-term orientation, using the 9th Chinese Private Enterprise Survey. The regression results indicate that family ownership may not be the sufficient conditions for long-term orientation. Family ownership is positively related to long-term orientation, but insignificant. Thus, Hypothesis 1 is not supported. Further moderating effect examination showed that only in those family firms with succession intention and strong family control intention, family ownership would promote more long-term oriented investments. Hypothesis 2 is supported. This study implies that family firms do not perform the same long-term orientation. The essence relies on family intention, both in succession and control. In reality, not all family firms expect to pass the business to the next generation and keep control in the enlarged family. Even some family firms are planning to exit for the wicked institutional environment or the lack of proper descendents. Thus, we identify with the family firm heterogeneity proposal and suggest exploring more on the essence of family business, rather just the external structure. Extant studies care much on the tangible forms of family involvement, such as family ownership, family management and family boarders. But what really matters may be intangible family socio-emotions, such as intention on family control and family succession, etc. That also may be the reason why family business performance studies have not reach an agreement. In future research, family business scholars should investigate more relations between the essence of family influence and firm strategic behaviors.

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COMPETING INTERESTS

Authors have declared that no competing interests exist.

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