

# Corporate Governance in Family-Owned Businesses: Balancing Tradition and Innovation for Long-term Growth in China

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**Abstract:** This study explores corporate governance in family-owned businesses (FOBs) in China, focusing on balancing traditional governance structures and adopting modern, innovation-driven practices to ensure long-term growth and sustainability. As China's economy becomes increasingly globalized and competitive, family businesses face challenges maintaining familial control while adapting to changing market dynamics. Through qualitative research, including semi-structured interviews and document analysis, this study examines Chinese family businesses' governance practices, succession planning, and decision-making processes. The findings reveal that while many family businesses rely on traditional governance models rooted in family control and Confucian values, there is a growing shift toward professionalization and integrating external governance practices. The research highlights the importance of balancing tradition with innovation, particularly in leadership succession, governance structure, and strategic planning. The study offers practical insights for family business owners seeking to optimize their governance practices for long-term success, emphasizing the need for professional management, clear succession planning, and a strategic approach to innovation.

**Keywords:** Family-owned businesses, Corporate governance, Tradition and innovation, Succession planning, China's economy

## 1. Introduction

Corporate governance is essential in determining enterprises' strategies, management practices, and long-term viability. In family-owned companies (FOBs), particularly in growing markets like China, governance frameworks frequently integrate traditional familial values with modern commercial methodologies. These enterprises constitute a substantial segment of China's economy, with familial ownership prevailing as the predominant model across multiple industries, including manufacturing, retail, and technology. As these enterprises pursue expansion and confront the problems of globalisation, technological progress, and heightened competition, reconciling tradition with innovation emerges as a fundamental subject for achieving enduring success.

Family-owned enterprises in China encounter distinct governance issues, particularly amid swift economic transformations and an increasing focus on corporate transparency and accountability. In contrast to non-family businesses, family-owned businesses (FOBs) frequently depend significantly on familial governance, which may hinder the professionalisation of management and complicate decision-making procedures. This position is exacerbated by the rising demands for corporate governance improvements, influenced by domestic rules and international expectations. The continuous evolution of the Chinese economy, marked by the transition from state-owned enterprises (SOEs) to increasingly privatised, market-oriented institutions, has intensified the emphasis on governance practices within the private sector, particularly foreign-owned businesses (FOBs).

Family enterprises are distinguished by the intergenerational succession of authority, which introduces supplementary governance issues. Family enterprises generally exhibit more stability and resilience during economic instability; nonetheless, they frequently have a propensity for conservatism and an aversion to dramatic change. This may contradict the necessity for innovation and flexibility to market conditions. Thus, the function of corporate governance in reconciling tradition and innovation is essential for securing long-term growth and sustainability.

This study examines how foreign-owned businesses in China manage corporate governance difficulties while reconciling traditional values with the need for innovation. The results will elucidate how family enterprises implement governance structures that preserve familial authority while promoting professional management, strategic innovation, and sustainable growth.

### 1.1 Research Gap and Significance

Corporate governance in family-owned businesses (FOBs) has been the subject of considerable academic attention in various global contexts. However, there needs to be more research gap in understanding how family-owned businesses in China navigate the balance between traditional governance models and the need for modernization and innovation. The dynamics of corporate governance in Chinese family businesses are distinct, largely due to the country's unique socio-cultural, economic, and political environment, which includes Confucian values, family-centric decision-making, and rapid economic transformation. While research on family businesses in Western contexts, such as the United States and Europe, has offered insights into governance practices, the influence of culture, governance structures, and innovation in Chinese family businesses remains under-explored. Specifically, how Chinese family businesses balance their deep-rooted traditions with the increasing pressure to professionalise and innovate in response to the challenges of globalisation and technological advancements has not been sufficiently investigated.

This research gap is significant for several reasons. First, China has become one of the largest and most dynamic economies globally, and the family-owned business sector plays a crucial role in its economic landscape. Understanding how these businesses manage corporate governance and foster long-term growth is essential for improving the competitiveness and sustainability of Chinese family businesses, particularly as they expand in the global market. Second, the governance practices of Chinese family businesses are shaped by a complex interplay of traditional family values, a lack of formalised structures, and the evolving demands of modern business practices. Exploring how family businesses in China address governance challenges—such as leadership succession, professionalisation, and innovation can contribute to broader discussions on governance frameworks in emerging economies.

Moreover, as Chinese family businesses increasingly engage with international markets, understanding the tension between tradition and innovation in governance is pivotal. Many family businesses in China are undergoing transitions in governance to stay competitive, yet they need support from older generations who are invested in maintaining traditional methods. This tension between preserving family values and embracing modernization poses a significant challenge for ensuring long-term business sustainability. Additionally, the lack of robust governance mechanisms in many Chinese family businesses has led to transparency, accountability, and succession planning issues, which could undermine long-term growth prospects.

By filling this research gap, this study contributes to the growing literature on corporate governance in family-owned businesses by providing insights specific to the Chinese context. It aims to expand our understanding of how family businesses balance tradition and innovation, providing practical recommendations for Chinese family businesses to navigate governance challenges and enhance their sustainability. This research also has broader implications for scholars and policymakers interested in promoting effective governance practices in family-owned businesses, particularly in emerging economies like China.

### 1.2 Research Objectives

This study has four primary research objectives:

- To analyse the corporate governance structures of family-owned businesses in China, with a focus on how these structures balance traditional family values and modern business practices.
- To examine the role of innovation in the governance strategies of Chinese family-owned businesses and explore how these businesses adapt to competitive and regulatory pressures in the Chinese market.

### 1.3 Research Questions

This study has two primary research questions:

- How do corporate governance structures in Chinese family-owned businesses balance the preservation of traditional family values with the need for innovation and professional management?
- What are the key challenges and opportunities faced by Chinese family-owned businesses in adopting modern corporate governance practices while maintaining family control?

## 2. Literature Review

The literature on corporate governance in family-owned businesses (FOBs) encompasses three critical domains: the structure and dynamics of family enterprises, governance difficulties specific to family firms, and the function of corporate governance in promoting long-term sustainability. An analysis of current research uncovers diverse viewpoints, particularly highlighting the conflicts between traditional and contemporary governance techniques inside Chinese family enterprises.

## **2.1 Governance Structures in Family-Owned Enterprises**

Unique governance systems characterise family firms in contrast to publicly listed corporations, as ownership and management are generally centralised within the family. Fama and Jensen (1983) assert that the defining trait of family enterprises is the concentration of influence within the family, resulting in both advantageous and detrimental consequences. This specialisation facilitates expedited decision-making, fosters long-term commitment, and cultivates a robust corporate culture. Conversely, it may lead to insufficient professionalisation, challenges in succession planning, and possible conflicts of interest, especially when family members occupy managerial roles without appropriate qualifications (Eddleston & Kellermanns, 2007). In Chinese family-owned enterprises, conventional family governance frameworks frequently emphasise the authority of the patriarch or elder family members in decision-making processes. These traditions are fundamentally grounded in Confucian principles prioritising hierarchy, loyalty, and familial cohesion. Chen et al. (2015) indicate that Chinese family enterprises generally exhibit lower transparency in their governance frameworks than their Western counterparts, impeding their capacity to secure external investment or adhere to international governance norms.

## **2.2 Governance Challenges in Family-Owned Enterprises**

A significant problem for family enterprises is reconciling family governance with implementing professional management. Family enterprises frequently encounter governance challenges, including nepotism, succession disputes, and insufficient accountability, which can jeopardise their performance and sustainability (Sharma et al., 2003). Family-owned enterprises may need help in decision-making processes swayed by familial dynamics rather than professional acumen. Succession planning is a critical issue for numerous family enterprises, especially when the subsequent generation lacks the necessary skills or inclination to operate the business competently (Miller & Le Breton-Miller, 2006). Chinese family-owned enterprises face an additional barrier due to the social emphasis on preserving family control, which may hinder the implementation of formal governance frameworks like independent boards or external management. Consequently, numerous family enterprises in China may need more governance structures to facilitate seamless leadership transfers or address performance challenges impartially (Peng & Jiang, 2010).

## **2.3 Corporate Governance and Innovation in Family Enterprises**

Innovation is essential for the sustainability and expansion of family enterprises, especially in a swiftly evolving global environment. In the Chinese context, the government's emphasis on innovation-driven growth has generated a robust incentive for enterprises to embrace new technology, business models, and governance methods. Family enterprises frequently encounter opposition to change because of established power dynamics and conventional management methodologies (Zhang & Ma, 2021). Studies on innovation in family enterprises indicate that although familial ownership might offer stability and a long-term perspective, it may impede innovation when family members favour tradition over transformation (Westhead et al., 2001). In China, where family enterprises are frequently intertwined with local communities and the national economy, the challenge is to modify governance frameworks to foster innovation while preserving familial values. Incorporating external boards, professional management, and innovation-oriented governance methods can improve the competitiveness of family enterprises in global marketplaces while maintaining their fundamental values.

## **2.4 Governance and Succession in Chinese Family Enterprises**

Succession planning continues to be a crucial concern for Chinese family enterprises, as numerous family organisations grapple with transferring leadership to the subsequent generation. Lu and Xu (2022) indicate that succession planning in Chinese family enterprises is frequently informal and unstructured, depending on family members instead of professional managers to oversee the business. The absence of formal succession planning may lead to disputes among family members and disrupt leadership continuity, thus compromising firm performance. Recently, certain Chinese family enterprises have acknowledged the significance of professionalising their governance frameworks to enhance succession procedures. This entails the establishment of external advisory boards or the appointment of non-family executives to oversee daily operations, so offering new insights and mitigating the hazards linked to nepotism (Li & Tang, 2019). The conflict between tradition and innovation in succession planning continues to be a significant subject for additional investigation.

## **2.5 Conclusion and Research Directions**

The literature on corporate governance in family-owned enterprises highlights the intricacy of reconciling tradition with innovation. Chinese family enterprises have the issue of modifying governance procedures to harmonise with their cultural values and the requirements of a contemporary, innovation-oriented economy. Future research may investigate the evolution of governance structures in Chinese family enterprises to integrate professional management and innovation-oriented practices while preserving the values supporting these organisations for centuries.

### 3. Research Method

The research methodology section delineates the strategy employed to examine corporate governance in family-owned businesses (FOBs) in China, specifically focussing on the equilibrium between tradition and innovation for sustainable growth. This study will utilise a qualitative research design to examine the intricacies and subtleties of governance procedures in family enterprises. The study will employ qualitative methodologies to obtain comprehensive insights into the viewpoints of principal players in Chinese family enterprises, encompassing owners, managers, and external consultants.

#### 3.1 Research Design

This study employs a qualitative research approach to examine the underlying dynamics, experiences, and views of family company owners and managers in China. This methodology is ideal for examining governance practices since it facilitates a comprehensive knowledge of the subjective elements that affect decision-making and governance frameworks in family-owned businesses. The research will utilise a multiple-case study design to examine the junction between tradition and innovation in governance. This approach facilitates a thorough comparison of various family-owned enterprises, allowing the researcher to discern similarities and distinctions in governance frameworks and how these organisations respond to the pressures of globalisation and innovation.

#### 3.2 Population and Sample

The research population comprises family-owned enterprises spanning diverse industries in China, including manufacturing, retail, technology, and services. The sample will be intentionally chosen to encompass various family businesses, reflecting variations in size, industry, governance arrangements, and developmental stages. The sample will consist of small, medium, and large family enterprises, emphasising those that retain traditional family control or have transitioned to include professional management and contemporary governance approaches. To obtain broad perspectives, businesses will be chosen from both urban and rural areas, representing the diversity of family-owned enterprises in China. The sample will comprise 10-15 family enterprises, chosen through purposive sampling to guarantee the representation of businesses managing the equilibrium between maintaining traditional governance models and embracing innovation-oriented governance initiatives. This sampling method facilitates a comprehensive knowledge of the variations in governance structures and practices among diverse family company types.

#### 3.3 Instrumentation

This study will utilise semi-structured interviews and document analysis as the principal methods for data collection. Semi-structured interviews will be performed with major stakeholders in each family enterprise, including owners, senior executives, external advisers, and board members or consultants. The interviews will examine the existing governance structures, decision-making processes, reconciling tradition with innovation issues, and the techniques utilised to guarantee sustainable growth. The interview guide will concentrate on subjects such as familial participation in management, succession planning, the significance of innovation in governance, and the incorporation of professional management methods. The semi-structured style facilitates flexibility, permitting the researcher to investigate emerging themes further in replies. Alongside interviews, document analysis will examine secondary data sources, such as corporate governance charters, annual reports, and public remarks from family business proprietors and executives. This will furnish further background and authenticate the qualitative data acquired from interviews, facilitating a more thorough comprehension of governance processes in Chinese family enterprises. Collectively, these methodologies will offer a comprehensive and intricate perspective on how family enterprises in China reconcile tradition with innovation in their governance frameworks.

### 4. Findings and Discussions

The findings and discussion section delineates the research outcomes on corporate governance in family-owned businesses (FOBs) in China, emphasising the conflict between tradition and innovation for sustainable growth. The results, derived from qualitative data obtained via semi-structured interviews and document analysis, underscore significant insights into the governance procedures of Chinese family enterprises. The findings are categorised into multiple themes, each representing the principal domains of governance, innovation, and tradition identified in the data. The discussion section will situate these findings within the overarching theoretical framework of family business governance.

#### 4.1 Conventional Family Governance Frameworks

This study reveals that numerous family-owned enterprises in China predominantly depend on conventional governance frameworks. In these enterprises, decision-making is predominantly centralised within the family, frequently with the patriarch or senior family members exerting considerable influence over strategic choices. This hierarchical framework

is fundamentally based on Confucian principles, which prioritise loyalty, reverence for authority, and the significance of familial cohesion. Numerous family business proprietors articulated a profound inclination to uphold this conventional governance structure, as it guarantees that control remains within the family, safeguarding the business's legacy and values.

This governance approach also poses issues. Although it cultivates a robust sense of loyalty and stability, it may also result in inefficient decision-making since business choices are frequently influenced by familial ties and informal arrangements rather than objective evaluation or professional acumen. Numerous interviewees observed that this centralisation of authority may occasionally lead to conflicts of interest, wherein family members in leadership favour personal or familial interests over organisational growth or sustainability. Consequently, family-owned enterprises in China that follow traditional governance frameworks frequently need help adjusting to evolving market dynamics or securing external investment.

## 4.2 The Transition to Professionalism and Innovation

A significant discovery is the steady transition of several Chinese family-owned enterprises towards more professional governance frameworks. This shift has been especially evident in medium and large enterprises, where family proprietors progressively integrate non-family experts into managerial and decision-making positions. This transition is driven by the necessity for enhanced transparency, accountability, and skill to manage the intricacies of a globalised business landscape. Numerous interviewed organisations have implemented external advisory boards or independent directors to offer novel insights on governance and strategy, enhancing their credibility with investors, regulators, and other stakeholders.

Family enterprises that have embraced professionalisation are also inclined to implement governance methods that prioritise innovation. These enterprises acknowledge the necessity for continual innovation to sustain competitiveness in a swiftly evolving market, especially in sectors like technology and manufacturing. An essential element of this innovation is the implementation of contemporary governance methods, encompassing explicit succession planning, structured decision-making procedures, and incorporating technology into governance and operations. Some family enterprises have adopted digital tools to monitor governance procedures, enhance decision-making efficiency, and facilitate communication across management tiers. These enterprises prioritise strategic planning, with skilled managers significantly contributing to growth via innovation and market expansion.

The shift to professional governance presents several obstacles. Certain proprietors of family enterprises voiced apprehensions regarding the loss of authority and the possible erosion of familial principles as they incorporate non-familial executives. Moreover, ceding power can be challenging, especially for older generations who may have established the firm from its inception. Notwithstanding these hurdles, the transition to professional governance has emerged as a vital element in China's enduring growth and sustainability of family-owned enterprises.

## 4.3 Succession Planning and Leadership Transition

A prominent subject identified in the research is the significance of succession planning in family-owned enterprises. Succession planning is a significant concern for Chinese family enterprises, as it directly influences the continuity and future prosperity of the business. Many family enterprises in China need formal succession strategies, depending instead on informal familial connections to dictate leadership transfers. This can generate uncertainty and conflict, especially when numerous family members compete for power, or the subsequent generation is not equipped to assume the organisation's leadership.

The results indicate that enterprises with well-defined, organised succession plans are more prone to achieve seamless leadership transitions and sustain stability throughout times of change. Professional governance frameworks, including external advisory boards or independent directors, were seen as essential in assisting family enterprises with succession challenges. External advisers offer unbiased counsel and assist in management professionalisation, facilitating the shift from familial control to varied leadership. Organisations that have effectively strategised for succession are more adept at confronting the problems posed by leadership transitions, which can represent a substantial risk to the viability of family-owned businesses.

## 4.4 Harmonising Tradition and Innovation

This research primarily focused on the equilibrium between conventional governance methods and the necessity for innovation in family-owned enterprises. The findings indicate that traditional values significantly influence the governance structures of Chinese family enterprises. However, there is an increasing acknowledgement of the necessity for innovation to maintain competitiveness in a swiftly changing business landscape. Family business proprietors often articulated a commitment to safeguarding their familial tradition and values while concurrently recognising the necessity of incorporating contemporary governance techniques to secure the enterprise's enduring viability.

The interplay between tradition and innovation is especially apparent in the corporate governance strategies of family firms. Many family firms exert significant familial control over strategic decisions, depending on family members to uphold the company's culture and vision. Conversely, these enterprises progressively implement external governance approaches, including independent boards or professional management, to enhance operational efficiency and

competitiveness. Businesses that have effectively achieved this equilibrium perceive governance as a dynamic process, adapting to the evolving requirements of the enterprise and the market.

Research demonstrates that family-owned enterprises adopting a hybrid governance model, which integrates traditional family leadership with professional management and contemporary governance procedures, are more favourably positioned for sustained success. These enterprises successfully maintain their familial values while adjusting to the requirements of a globalised and innovation-oriented industry.

## 5. Conclusion

This study examines corporate governance in family-owned businesses (FOBs) in China, emphasising the balance between established governance methods and the necessity for innovation to secure long-term prosperity. The study indicated that numerous Chinese family enterprises persist in utilising conventional governance frameworks, marked by robust familial dominance and hierarchical decision-making, frequently rooted in Confucian principles. As the business landscape becomes more globalised and competitive, there is a rising trend towards professionalisation, with numerous family enterprises integrating non-family professionals into management and embracing contemporary governance practices to improve transparency, efficiency, and innovation. The findings indicate that successful family enterprises in China effectively balance preserving family values and legacy with the governance procedures essential for promoting growth, adaptation, and sustainability. Effective succession planning, established governance frameworks, and incorporating innovation are crucial for managing the intricacies of leadership transitions and achieving sustained success in a dynamic business environment.

### 5.1 Implementation

This report indicates various solutions for family-owned enterprises in China to enhance corporate governance and achieve sustainable growth. Family enterprises ought to contemplate the professionalisation of their governance by integrating non-family experts into decision-making positions. This can improve openness, accountability, and operational efficiency. Furthermore, enterprises ought to prioritise the formulation of formal succession plans that equip the forthcoming generation for leadership positions and mitigate potential leadership disputes. By implementing this approach, family enterprises can provide seamless transitions and mitigate the risks linked to leadership alterations.

Furthermore, sustaining equilibrium between conventional governance frameworks and innovation methodologies is essential for corporate sustainability. Family enterprises should include contemporary governance instruments, including digital technologies and strategic planning frameworks while maintaining their fundamental family principles. Ultimately, cultivating an innovative culture within governance frameworks is crucial for sustaining competitiveness in the global marketplace. By adopting these methods, family-owned enterprises can enhance their governance structures and prepare for sustained success.

### 5.2 Future Research

This study offers significant insights into the governance processes of family-owned enterprises in China; nonetheless, numerous aspects require additional investigation. Future studies may concentrate on comparative studies across various countries or regions to investigate how cultural, economic, and regulatory disparities affect family company governance. Comparing Chinese family enterprises with those in other regions of Asia or the West may reveal similarities and distinctive governance systems. Furthermore, as digital transformation increasingly permeates corporate operations, additional research may investigate how technology alters family enterprises' governance frameworks and decision-making procedures. Longitudinal research may yield significant insights into the enduring effects of various governance strategies on corporate success and resilience.

Additionally, investigating the role of women in the governance and leadership of family businesses may yield a more nuanced comprehension of gender dynamics and their influence on decision-making and business results. Finally, investigating governance in family enterprises with external investors presents a compelling research opportunity, as it may elucidate the impact of foreign finance on governance procedures and familial control. Future research directions will enhance the understanding of family company governance and provide significant insights for practitioners aiming to optimise governance systems for enduring success.

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### Conflict of Interest

The authors declare no conflicts of interest

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