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A Research of the Effects of Entrepreneurs' Cognition Style on the Choice of Leader Successor in Chinese Family Business

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ABSTRACT

Nowadays, one of the biggest challenges Chinese family enterprises face is the corporate succession. Most first-generation entrepreneurs in China that started their business after Reform and Opening-up thirty years ago have been in their sixties. And the second generation, in their thirties, has begun to appear on the economic stage. Family enterprises in China are experiencing an intensive period of succession.

How should a family enterprise choose its successor? Which factors affect the successor selection? And how does leadership succession influence the development of a family enterprise? Such questions have a profound significance to Chinese management practice and related theory. Successor selection in family enterprises involves multi-dimensional factors including individual ability, the smoothness of the transition, principal-agent issues and etc. The previous studies has been extensive but characterized by inconsistent findings and debates about causes and effects, which does not benefit the development of theories and also confuses management practitioners.

From the perspective of leaders' cognition, and based on CEO's bounded rationality, this study applies the upper echelons theory and the theory of planned behavior to investigate thoroughly what influences the cognitive style of Chinese family enterprise leaders exert in successor selection. Under the guidance of qualitative case analysis, this study mainly applies exploratory case analysis, supplemented with Logic Models and Cross-case Analysis, to analyze the four family enterprises as selected samples. According to the logic of "leader's cognitive style → identification and assessment of the reference factors in successor selection → successor type selection → corporate performance", this study explores how leaders' cognitive style influences successor selection in family enterprises and corporate development with the deductive analysis method. Besides, this study also explores the relation between leaders' cognitive style and the successor origin types. This paper proves the theoretical proposition through data collection and statistical analysis, and illustrates the phenomena identified in individual cases and their causes.

This study applies a mixed research design with a combination of a diachronic analysis in the main case and a comparative analysis in other cases. Among the multiple case study, within-case analysis and cross-case analysis are used to research the four representative family enterprises in China selected as the study sample. The case study is based on data from field note, archives, interviews, observation, participant observation and physical evidence. With a triangular measurement, different sources of evidence will be used to complement and verify, so as to improve the effectiveness, and reliability of the research conclusion.

Through a thorough discussion and cross-case analysis on the process of successor selection in four cases, a theoretic framework of how leader's cognitive styles influence the successor selection in family enterprises is developed. The core content and the core discovery of this study include the following aspects:

First of all, this study analyzes the process of successor selection in family enterprises in China and identifies the reference factors that affect the successor selection in Chinese family enterprises. Through case analysis and literature review, this paper proposes several factors that affect the successor selection in Chinese family enterprises, including the successor's individual ability, the smoothness of the transition, the principal-agent costs, social emotional factors and situational factors.

Secondly, based on case study and theoretical analysis, this paper identifies the relationship between various reference factors in successor selection and different successor origin types. Since successor selection in family enterprises is a complicated process of decision-making, which involves various factors and every factor varies considerably in its influence on the successor origin type, the conclusions of previous studies on successor selection failed to reach the consensus. We believe it is not sufficient to discuss the successor selection from one single factor. Rather, we need to systematically and comprehensively assess every factor's influence, which is related with leaders' identification and assessment of various factors.

Thirdly, this paper proposes and proves that corporate leaders' cognitive style will affect the successor origin types in family enterprises. It is found that whether leaders of family enterprises presented thinking cognition or feeling cognition, systematic cognition or intuitive cognition in decision-making will affect their identification and assessment of reference factors in successor selection of family enterprises in China, which further influences their choices of successor origin types. Specifically, leaders who have a high level of thinking cognition and systematic cognition tend to give more weight on individual ability and situational factor when they are identifying and assessing reference factors; while leaders who have a high level of feeling cognition and intuitive cognition tend to identify the significance of emotional factor and give it more weight in their assessment. In the meantime, leaders who put much value on emotional factor prefer heirs and inside company directors to outside professional managers.

Fourthly, this paper illustrates the influence of successor selection on the development of family enterprises based on the study on the main case. Most family enterprises will experience a decline or fluctuation in performance in leadership succession period, while in the main case of this study, the CEO succession brought about a remarkable improvement in corporate performance. And the family enterprise was acquired by foreign investment with a large amount of money in the end—an acquisition legend in the domestic pharmaceutical industry. By exploring the causes of the improvement in corporate performance after the

CEO's succession, we found that his identity—as a son-in-law of the family enterprise leader—played a critical part. His academic experience equipped him with creativity, learning ability, a good reputation, authority, and diversified social network resources; while his identity as a son-in-law had a positive effect on his tenure stability, the inheritance of implicit knowledge and of authority. Therefore, after his succession, he was able to succeed in innovation and reform, in maintaining and obtaining heterogeneous resources necessary to corporate development, and in implementing the strategy effectively, so as to promote the rapid development of the enterprise.

Fifthly, this paper proposes a dynamic influence model of leaders' managerial cognition on successor selection in family enterprises. Besides, this paper not only summarizes how leaders' managerial cognitive styles affect the identification and assessment of reference factors in successor selection, and influence successor origin type selection, but also combines it with the influence of corporate development. This paper points out that corporate development after the successor selection provides a feedback for leaders' managerial cognition. When the corporate sees a rapid development in its performance after the successor selection, leader's identification and assessment of reference factors in this successor selection will be strengthened; while when the successor selection fails, leader's identification and assessment of reference factors in successor selection will change in another direction.

This study identifies not only the influence factors of successor selection in family enterprises, but also the influences that corporate leaders' cognitive styles exert on choosing the successor origin types. Related studies help to develop the theories of successor selection and corporate development in the field of family enterprise governance, and provide management practice with some inspiration.

Keywords: family business; leader succession; leader's cognition style; successor origin

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