

Must Eagle Breed Doves: The Joint Effect of The Characteristics of Successors and Predecessors on Generational Shadow

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White Paper

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Introduction and Welcome



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Dear Reader,

Building on a heritage dating back to 1856 of serving business people as they build, grow, and manage the long-term succession of their wealth and business, Credit Suisse has also been serving business families in Asia since 1969. In recent years, we have noticed an increasing number of Asian families start to undergo generational transition, and have been addressing their lifecycle needs with industry-leading advice and thought leadership borne out of practical relevant experience of client issues.

With a holistic view of wealth beyond immediate financial assets, we see that for many business families, the other important aspect of generational transition concerns the family business, which in Asia still represents a majority of the family's total wealth. We recognize that the potential for value creation or destruction is most acute when the predecessor generation approaches the point of "retirement"

and the successor generation begins to be actively involved in the family business. At this point of inflexion, the extent that the predecessor generation continues to exert explicit or implicit authority in the family business may cast a "Generational Shadow" which can disrupt the succession process and affect firm performance.

In Asia, given that the Credit Suisse Research Institute has found that families have direct or indirect shareholdings of at least 20% of almost 1,500 listed companies (excluding Japan and Australia) with market capitalizations exceeding 500 million US dollars, there is slightly over 150 billion dollars of market value at risk in these family-influenced companies. The value at risk for private family businesses is certainly higher than this.

In this context, we are pleased to present this White Paper, an extract of a thesis entitled "Must an Eagle Breed Doves?"

By focusing on a sample of Chinese family-owned businesses in a particular industry, the author adds to the work in this area by adopting a psychological perspective as a basis for analyzing the "Generational Shadow," and draws a number of observations, including the appropriateness of "dovish" attitudes in the successor generation relative to the more aggressive "eagles" of the predecessor generation. Such observations will certainly present food for thought for both the predecessor and the successor generations, as the latter has in many cases received "Best of the West" education and professional initiations and mentorships with a different set of norms.

Whichever side of a generational transition you may sit on, we hope you find this White Paper thought-provoking and helpful as you consider your family business and its future path.

Background

In the last few decades, researchers have paid increasing attention to the succession of leadership and stewardship in family-owned firms, especially how the parent-predecessors pass control and management of the firms to their child-successors. Previous research suggests that a well-established succession plan is critical to the success of the stewardship transition between generations in a family business. However, anecdotal case studies and empirical work have generally shown that only a small proportion of family firms have a well-defined succession plan in place, and in most cases, the parent-predecessors remain heavily involved in the management of the business during the succession stage and even afterwards. In other words, most parent-predecessors of family-owned firms are generally reluctant to completely let go of control in the family firms.

The reluctance of predecessors to give up power has been considered as one of the major obstacles to the success of the transition in family-owned firms. The retired predecessor's excessive and inappropriate involvement in daily operations is termed "Generational Shadow." Generational shadow may disrupt succession and undermine the firm's performance in two major ways. Gradual transfer of control and decision-making in operational and strategic matters from the parent-predecessor to the child-successor allows the latter to be trained and given exposure over time to assume the role. Generational shadow will prevent such learning, which results in inadequate experience and possibly the failure of the firm after succession. Second, even when parent-predecessors have formally retired, they usually continue to retain majority ownership to influence the final and critical decisions. This not only leads to uncertainty among family members and non-family managers about who is in control, but also affects interactions among family members and the overall atmosphere of the company.

The key research questions

Past studies attempted to explain this phenomenon of generational shadow following various theoretical perspectives. Based on the resource-dependence perspective, some have argued that the generational shadow was caused by the firm's inability to attract or develop competent successors due to resource constraints. Drawing from corporate governance and organization politics research, the reason stems from the conflicts among stakeholders of the family-owned firm which force owners to continue to exert influence in the firms. Most studies have taken a psychoanalytical perspective by examining the characteristics of the predecessors and the successors: (1) the presence of successors who are more able and willing to take over the family business (2) the willingness of predecessors to give up control. However, these arguments and empirical findings cannot fully explain the following behavior:

1. Why family firms often do not choose the most capable candidates to be the successor
2. Why predecessors have the tendency to "shadow" the next generation even when their successors have shown extraordinary competence and strong willingness to take over
3. Why predecessors are reluctant to give up power even when they are not the type of persons who are attracted to the experience of power and attention.

To address the key questions, this study draws on the double-bind theory to propose a novel theoretical model to explain the paradoxical behaviors of the parent-predecessor towards their child-successor. The parent-predecessor may at the same time feel gratified and threatened by the fact that their child-successors will take over the control of the business. There are two key characteristics of the child-successors that may induce the paradoxical behaviors of parent-predecessors: (1) successors' willingness to participate in and take over the business, and (2) successors' ability to manage the business.

The following sections will provide a deeper discussion on the research components.



Literature Review

Studies of Family Business

The elements of a family firm include: (1) Keeping the company under family control; (2) Synergistic combination of resources between the family and the family firm; (3) A cross-generational philosophy of values held by the family to create a distinct culture; (4) The pursuit of a family vision. There are many different definitions of family firm in the various literatures on family firms. However, in order to learn more about family firms, it is useful to distinguish the family firm from its counterpart, the non-family firm.

Previous studies suggest that family firms tend to establish more centralized decision-making processes and less formalized control systems than non-family businesses. Family members often link their personal identities with their business for their entire lives, something rarely seen among managers in the non-family business world. Thus, family-member executives treat the failure of the firm as a serious personal and career failure.

Family-owned companies are focused on the preservation of assets and philosophies passed down to them, while non-family firms concentrate more on profitability and return on investment. Furthermore, family businesses emphasize on incremental growth and evolutionary changes, while non-family firms seek explosive growth and revolutionary changes. It has also been mentioned

that leaders of family firms are mostly responsible to family, while chief officers of non-family firms are responsible to stockholders. Conflicts among family members, which are quite common in family firms, often cause the succession process to be more complicated and difficult as compared to the non-family businesses.

Determinants of Successful Transition in a Family Firm's Succession Process

Prior research shows that only 30% of family businesses survive the first succession, and only 10% to 15% of family firms survive to the third generation. Some studies blame the founders of the family firms for not having proper succession plans. Other studies suggest that willingness to succeed and the capability of the successors are key factors in determining successful transitions. There are numerous factors which influence succession in family firms. These can be summarized into three categories:

1. The preparation level of the successors
2. Inter-relationships among other members in the family and in the company
3. Controlling and planning actions

The first category comprises the preparation level of the successors, including required business skills, managerial experience, industry expertise, and willingness to run the family business. The second category covers interpersonal relationships among family members. The major issues discussed most frequently are interpersonal trust and communication. The third category comprises planning and control activities concerning the structure of the succession plans, such as who should participate in their preparation and when they should start preparing. Issues surrounding tax planning, implementation of will, development of family constitution, and family council are included in this category.

Intergenerational Relationship and Conflicts between Predecessors and Successors

Among the three categories above, the second category is the most noteworthy. The primary reason for family business failure is the inability of family members to find an effective way to work together in the best interests of the firm and of the family. Researchers studying conflict theory state that there are two types of conflicts: Cognitive conflicts and affective conflicts. Cognitive conflict is mainly due to disagreement, and affective conflict results from emotional disputes characterized by anger, distrust, envy, and other forms of negative behavior. It is thus unsurprising family conflicts, especially during the post-succession period, often undermine the normal operations of a family business and contribute to the low survival rate of family businesses.



Literature Review

Generational Shadow

As discussed in the previous sections, "generational shadow," one of the main intergenerational conflicts in the post-succession period results from the inappropriate continued presence of the predecessor trying to influence the successor's managerial decision. Generational shadow often cause unexpected interpersonal disruptions and is one of the most serious problems during succession period of a family business.

In general, the previous generation is characterized as having high level of commitment, management experience and skill, and solid friendships, fostered by many ordeals faced together with employees. These objective facts make the previous generation feel that it is difficult for them to be replaced by the next generation. As long as the previous generations are there, everyone in the organization will look upon them as the true and valid decision-maker, creating difficulty when those in the next generation become the true leaders of the family firm.

However, there is no clear answer as to why the predecessors in family firms rarely make their formal succession

plans clear early on. Many potential causes of a predecessor's unwillingness to plan for complete retirement include the predecessor's strong sense of attachment to the business they built and worked for all their lives, a lack of hobbies and leisure activities, and the dread of aging where retirement reminds entrepreneurs of their own mortality. This study will draw from the double-bind theory to provide a fresh explanation for why parent-predecessors are reluctant to give up power and instead cast a generational shadow over successors

The Double-Bind Phenomenon

The double-bind theory has its roots in the theory of human rivalry. The "borrowed desire phenomenon" is built on the inherent human nature of jealousy and imitation in which people obtain or reinforce their self-sufficiency by discovering someone else with the same desires.

The structure of borrowed desire contains three necessary elements: 1) the object that is desired; 2) the subject who desires the object; and 3) the model who recalls his or her desire of the object due to the appearance of the

subject. In the theory, the model and subject both desire the object; therefore the model's desire of the object is strengthened by the subject's competing for the same object. In other words, the model "borrows", the desire from their imitator (i.e. someone who imitates their desire) to make their own desire for the object stronger. The classic example of borrowed desire can be observed when taking care of children. If we prepare a sufficient number of identical toys in a playroom that are available to the same number of children, the toys rarely end up being distributed evenly without quarrels. The children prefer the toys that are also desired by their playmates, even though all toys are identical. It is obvious that even little children start borrowing desire from others through imitation. The concept of imitation is built into the early stages of childhood personality development. Therefore, the borrowed desire effect not only makes the object of desire more attractive and desirable, but also generates confrontation between the model and its imitator (i.e., the subject).

The ancient Greek philosopher Aristotle stated, "Imitation is nature to man from childhood, one of his advantages over

the lower animals being this, that he is the most imitative creature in the world and learns first from imitation." Parents are the primary models of imitation by human beings. In the family business, it is very common that the child-successor wishes to imitate his or her parent-predecessor, because the parents have usually been the models for the children's learning since babyhood. We have learned from previous academic work that imitation often results in the double-bind phenomenon, which produces conflicts, especially among those who work with other family members in family firms.

Parent-predecessors often seem both proud and apprehensive about involving their children in their business. On the one hand, they may want to share with their children the thing that has been the center of their lives. Usually, passing the stewardship of the family company to the next generation can be a way of ensuring the firm's sustainability, as a last will of the parent-predecessor. On the other hand, predecessors are frequently afraid that their children might destroy the object of their desire. The double bind is exactly the phenomenon in which the model imposes a "contradictory

double imperative" where contradictory messages are conveyed by predecessors to successors during the succession period, such as "Be aggressive, but don't be too aggressive." "Be creative, but don't make any mistakes." "Be a true leader but don't upstage me." This ambivalent and paradoxical attitude from the parent-predecessors toward the child-successors may become more salient when the child-successors show increasingly strong desire and capability to take over the businesses. As we will argue in the next chapter, this double-bind psychological process may be the main underlying determinant of parent-predecessors' generational shadowing behavior.

The Effect of Losing Power on Predecessors

Many scholars define power as the capacity to provide, control, and withhold resources. Previous research demonstrates that possessing power encourages people to influence others, to strengthen their self-perceptions, and even to look down on others. The research also suggests that people who gain more power tend to reward others with positive emotions, and therefore

activate approach-related tendencies. In contrast, people who lose power tend to activate inhibition-related behaviors such as punishment, sensitivity to threats, and constraint of others. Reduced power is also directly linked to increased awareness of threats, negative emotions, control behaviors, and inhibited social manners.

The findings provide a theoretical basis for the relationship among retired predecessors (reduced-power), sense of threat, generational shadow (a kind of inhibition behavior), and intergenerational conflicts in the family-owned business. In the current study, we assume that "reduced-power" parents, who are still in a nominally high position of power, behave and think like individuals who have low power, especially in the relationship with their "increased-power" children. The current study aims to investigate where generational shadows come from by adopting these previous findings in power theory.

Literature Review

The Willingness of the Successor to Assume Stewardship

Previous research shows that not all designated offspring successors are willing to take over the family firm. The successor's interest in the family business and willingness to take over the family firm play a critical role during the succession period. The research also states that if the successor candidate shows no interest and willingness to take over the family business (no matter what the reason), the power transition from one generation to next is unlikely to be successful. The predecessor-owner's satisfaction with the succession process is significantly positively related to the successor's willingness to take over family business. This finding logically aligns with the proposition that the parent-predecessors enjoy borrowing the desire of their child-successors toward the stewardship of the family business

The Capability of Successor

Other than willingness, the competency of the successor in a family business is one of the key factors during the succession period. There are some criteria of capability identified in previous studies such as necessary managerial business skills, knowledge of corporate

governance and a solid psychological predisposition for running a business. Specific variables to measure the capability of the successor of a family firm include the formal educational level of the successor, working experience within and outside the family firm, number of different positions the potential candidate was rotated to within the company, a willingness to return to the family firm, and self-confidence with respect to level of preparation.

However, there are also other factors mentioned by researchers that might also affect the owner-manager's decision to choose a successor beyond the successor's capability. The decision about which children should take over the reins of the family business is often based on factors such as the siblings age or the harmony level of their relationship with other family members, rather than the child's capability or the requirements of the business. In the later chapters, an alternative reason is presented to why family businesses do not choose the most capable candidate as their successor.

The Narcissistic Predecessor

The name "narcissism" originates from Narcissus, a figure in ancient Greek

mythology who fell in love with his own image reflected in a pond. The story ends as a tragedy because Narcissus ultimately perished alone. Many different types of narcissism have been identified, including self-aggrandizement, self-admiration, and a disposition to treat other people as one's accessories.

As a personality characteristic, narcissism has both cognitive and motivational elements. On the cognitive side, narcissists maintain strong confidence in their outstanding qualities (at least they deeply believe this). Narcissists evaluate themselves highly (higher than an objective evaluation might) on many dimensions of their competence, such as intelligence, creativity, charisma, and leadership. On the motivational side, narcissists desire to have their superiority reaffirmed. Paradoxically, the self-admiring narcissist also looks for admiration from others. Some scholars believe that a strong self-image can be derived from one's own achievement, or from the failure of others, while others believe that it must only be generated from others, in the forms of affirmation, applause, and adulation.

Researchers in strategic management and organizational theory have focused on how the personality traits of top

executives influence their organizations. This study will investigate the influence that a predecessor's narcissism has on the relationship between two generations during the succession period of a family business.

Succession Dilemma and Presence of a Seat Warmer

Scholars have advocated that family business leaders consider separating managerial stewardship from ownership because promoting a successor from among family members could lead to many problems if there is no capable heir to take over the family business. Nevertheless, most family businesses still pass succession to the families' offspring instead of finding a capable professional manager to lead the family firm because family firms engage in nepotism while selecting successors.

Common advantages of family firms include sustainability, ethical philosophy and ultimate loyalty. Family firms are the most suitable type of company in changeable environments or societies where non-family members cannot be trusted to act in an accountable and loyal way from the family's point of view. Selecting a family member as the successor is not only preferable in

uncertain circumstances, but also when expertise in the area is idiosyncratic (one can understand more than one could tell about it).

The family firm faces the "succession dilemma" when the offspring of the family firm are poorly qualified, which is a detriment to the company's profitability and sustainability. However, if family firms appoint non-family members to be the incumbent, this situation simultaneously generates concern about the appropriation risk.

Family firms could temporarily appoint non-family managers to take charge of the business when its offspring are not sufficiently competent. Once the offspring are sufficiently mature and capable, there is less need to appoint an outside member as successor. In such a case, family firms can adopt the "seat-warmer" strategy during the succession period. The "seat-warmer" is an appointed agent who temporarily serves as the executive before a suitably qualified offspring successor is available. Family firms can resolve the dilemma by following the seat-warmer strategy when they face the succession dilemma, especially when their businesses are highly idiosyncratic but their offspring are poorly qualified.

Several of the studies mentioned above have proven the effectiveness of the "seat-warmer" strategy during the succession period of a family-owned business while the offspring successor's capabilities are relatively low. However, there has not yet been much research discussing the benefit of the "seat-warmer" strategy when the successor's capabilities are high. This study endeavors to demonstrate that the "seat-warmer" strategy is not only effective during the "succession dilemma," but can also be beneficial to a family firm with strong, capable offspring successor candidates during the succession period.

Hypothesis 1

Willingness-Generational Shadow

H1: There is a U-shaped relationship between the willingness of the child-successor to take over the family business and the generational shadow of the parent-predecessor.

In a family business, protecting the benefit of the family is the responsibility of every generation, including parents and children. If the successor shows limited willingness to take over the family firm, the predecessor may worry about potential failure in the future. In this situation, the predecessor will try to overshadow the operations of the business. As the willingness of the successor grows, the parent-predecessors are happy and flattered to see their children willing and able to take over the family business that they have devoted most of their life to, and take it as a symbol of affirmation by their beloved children. Hence, the predecessor interferes less in the decisions and operations of the business because they do not worry about having no successor to the family business.

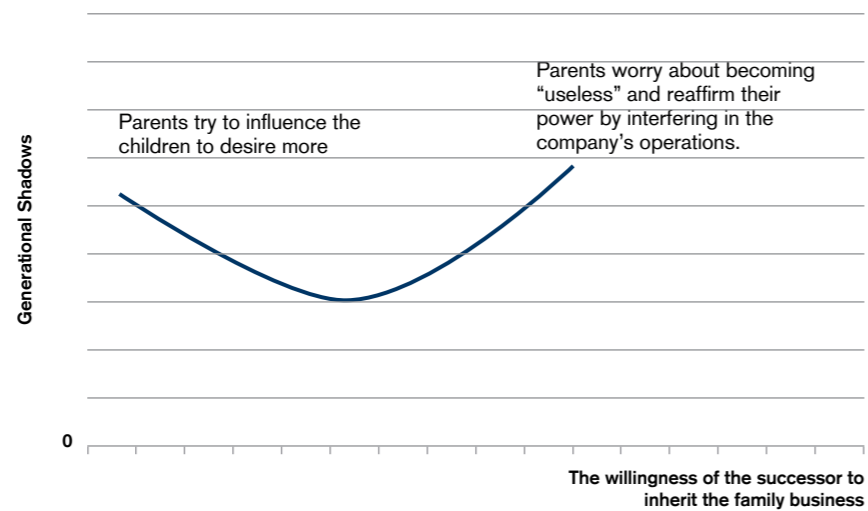


Figure 1. The Expected Result of Hypothesis 1

However, if the predecessor finds the desire of succession shown by the successor to be too great, the predecessor may act defensively toward the successor. According to the double bind theory, although predecessors expect successors to desire what they desire, they may at the same time worry about the object being appropriated by the successor. Once predecessors are anxious about being replaced completely, they will try to reaffirm their prominent authority by challenging their successor's decisions. Such challenging behavior during the succession period often manifests itself in the form of frequent interference in the decisions and operations of the business.

The test results confirmed Hypothesis 1 and show the perceived generational shadow. The simple slope test confirms the curve-linear relationship between perceived willingness and perceived generational shadow. See Figure 2. See Appendix for statistical analysis results.

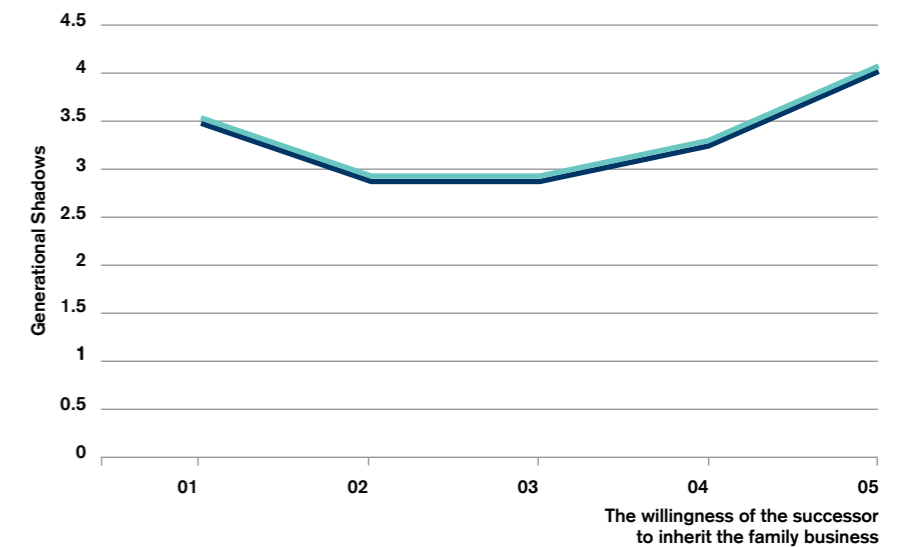


Figure 2. Willingness-Generational Shadow

Hypothesis 2

Capability-Generational Shadow

H2: There is a U-shaped relationship between the capability of the child-successor and the generational shadow of the parent-predecessor.

Family businesses have operationalized the capability of successors in terms of their industry experience, managerial skills, knowledge of the profession, and attitudinal predisposition to take charge of the business. In addition to the successor's willingness, capabilities come into play when predecessors try to decide whether or not they should give up power to the successor. As the capability of the child successor increases, the parent-predecessor will feel gratified as the successor is more likely to imitate him/her and to further develop the business. Hence, the parent-predecessor is more willing to give up more power and generational shadowing is reduced.

However, if the child-successors become too capable, the parent-predecessors are likely to feel threatened and exhibit more inhibitive behaviors towards successors such as generational shadowing. In line with the double-bind theory, although the parent-predecessors feel gratified when their child-predecessor is able to take over,

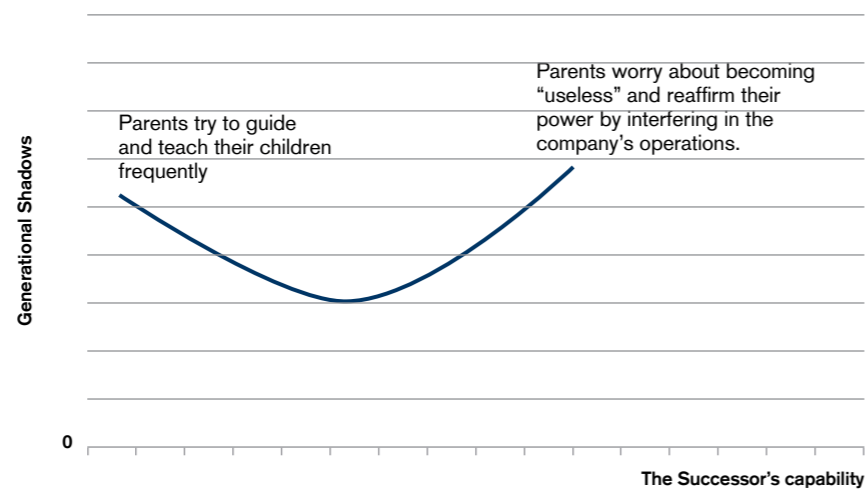


Figure 3. The Expected Result of Hypothesis 2

they may at the same time feel anxious about the possibility that the competent successor would force them to give up power. Such anxiety may grow to the extent that the predecessor is driven to take defensive actions against the successor.

There is great deal of anxiety when family members are seen to challenge the founder's core business. In general, capable successors carry more creative ideas and bring change resulting in heightened irritation of the retiring or retired predecessor. Consequently, the predecessor may be motivated to regain power from the successor and cast a generational shadow over the successor.

The test results in Figure 4 show that the perceived capability is significantly related to the perceived generational shadow. The simple slope test further confirms that there is a relationship between perceived successor's capability and perceived generational shadow. Hypothesis 2 is supported. See Appendix for statistical analysis results.

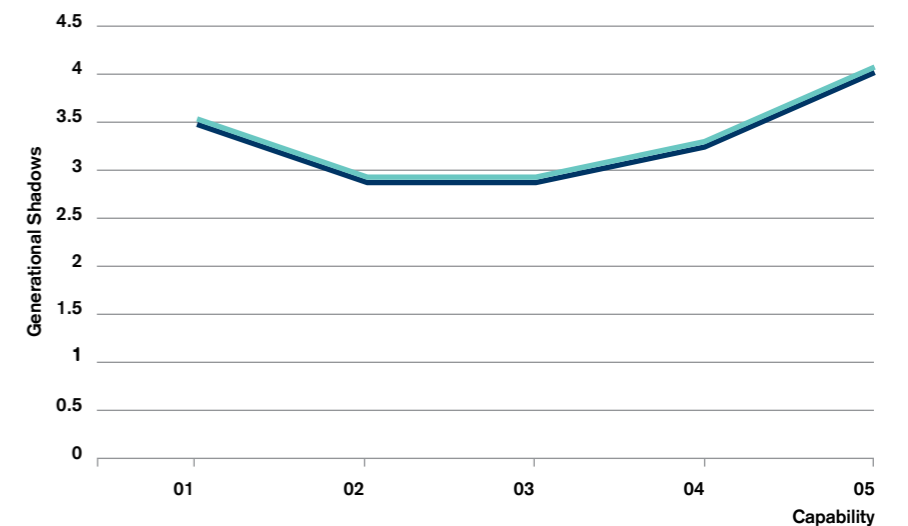


Figure 4. Capability-Generation Shadow

Hypothesis 3&4

Willingness/Capability

Generational Shadow moderated by Narcissism

H3: The U-shape relationship between the successor's willingness to take over the family business and generational shadow from predecessor will be stronger if the predecessor is more narcissistic.

H4: The U-shaped relationship between the perceived capability of the successor and generational shadows from the predecessor will be stronger if the predecessor is more narcissistic.

The personality characteristics of a leader can determine the operational outcome of a business. Numerous studies have found significant relationships between a CEO's personality traits and a company's operational performance. The leader's personality has significant effects on the success of transition in a family business.

Narcissism is among many characteristics that might be the determining factors influencing succession in family firms. With characteristics of higher self-esteem and high self-importance, extremely narcissistic predecessors require extraordinary attention and respect from their successors, heirs, and offspring. Therefore, it is predicted that narcissistic predecessors will borrow more desire from their successors and severely resent their successors once they feel they are being replaced, because narcissists always enjoy being flattered by others.

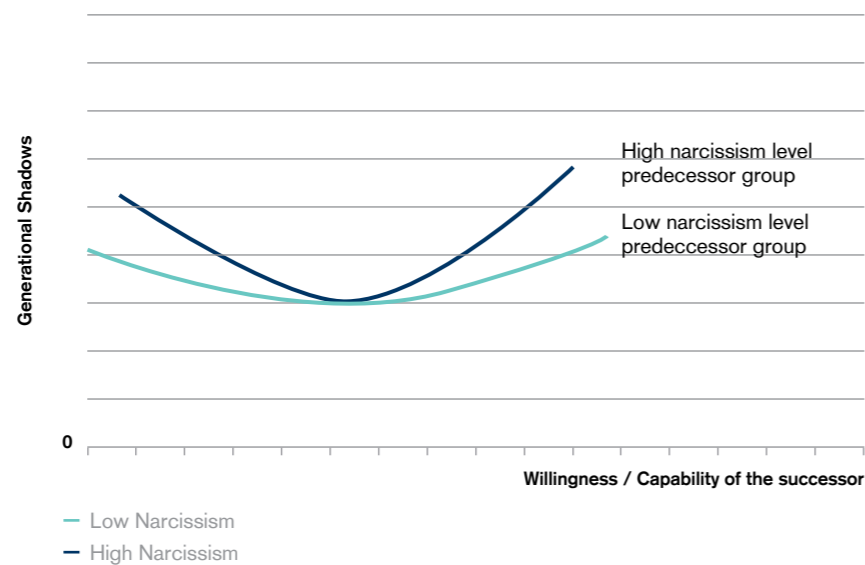


FIGURE 5. The Expected Result of Hypothesis 3&4

Such behavior requires external reaffirmation and to gain such recognition, narcissists will often pursue challenges or difficult assignments that are highly visible to their target audiences. The behavior of being highly visible in the operation of a business is

a form of casting generational shadow over the successor in the family business. As a result, it is predicted that the narcissistic predecessor experiences a more serious double bind during the post-succession period of a family-owned business.

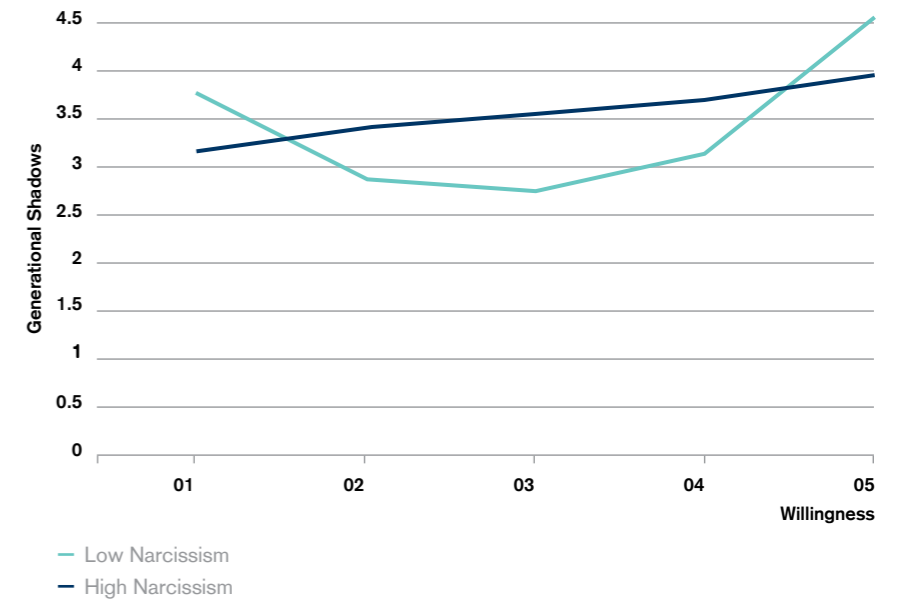


Figure 6. Willingness-Generational-Shadow moderated by Narcissism

Findings in Figure 6 confirm the assumption that the overall generational shadow level is higher in the narcissistic group, because narcissists are more dominating. However, the results suggest that the curvilinear relationship is stronger in the group of lower-level narcissistic predecessors than the higher-level narcissistic predecessors. This can be explained by the fact that narcissists, being overly engaged with their ego, do not pay much attention to others, including the desires of their successors.

As such, the narcissist's behaviors and decisions would not be easily influenced by others compared to the lower-level narcissist. Therefore, the curvilinear relationship between the successor's willingness and the predecessor's shadow behavior is weaker for the higher-level group of narcissist. The results deviate from hypothesis 3 where the U-shaped relationship is stronger if the predecessor is more narcissistic. See Appendix for statistical analysis results. Using the same explanation, the curvilinear relationship between

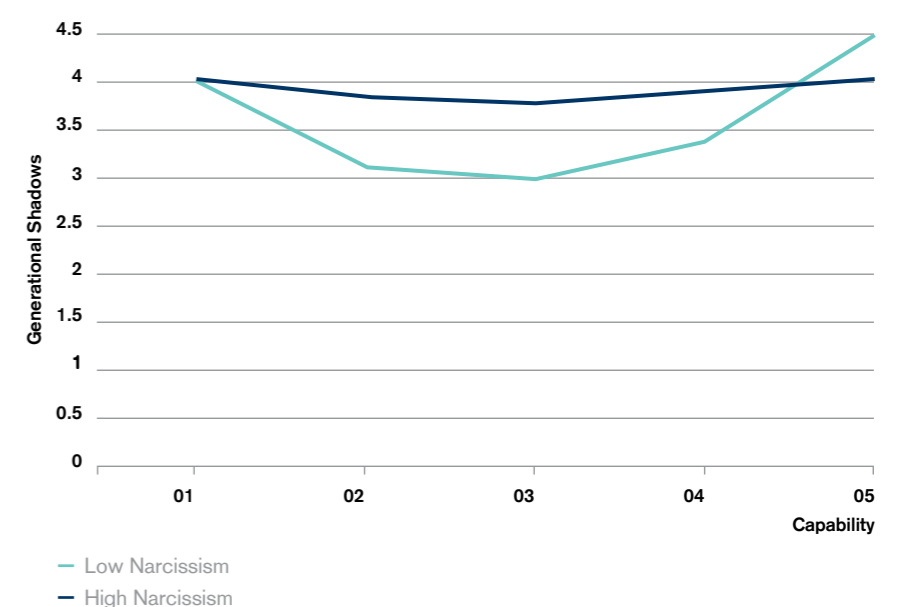


FIGURE 7. Capability-Generational Shadow moderated by Narcissism

the successor's capability and the predecessor's shadow is also weaker when the predecessor has stronger narcissistic tendencies as illustrated in Figure 7. The results do not support hypothesis 4. See Appendix for statistical analysis results.

Hypothesis 5&6

Willingness/Capability-Generational Shadow moderated by “Seat-warmer”

H5: The existence of a seat-warmer in a family business moderates the relationship between the successor’s willingness to take over the family business and the generational shadow, such that this U-shaped relationship is weaker in the presence of a seat-warmer than in the absence of seat-warmer.

H6: The existence of the seat-warmer in a family business moderates the relationship between the successor’s competence and the generational shadow, such that this U-shaped relationship is weaker in the presence of a seat-warmer than in the absence of a seat-warmer.

A family encounters a “succession dilemma” when the offspring are not sufficiently capable of carrying on the business. The seat-warmer strategy involves selecting an agent temporarily and replacing that agent sooner or later when a suitable or qualified heir is ready to take the stewardship back.

From the successor's point of view, the continuous involvement of the retiring predecessor could be considered normal guidance or a certain kind of safeguard to protect the entire family’s best interest in the presence of a non-family member executive who controls the operations, or at least part of operations, of their family firm. At the same time, the successor may treat the same involvement behavior above as excessive and inappropriate interference towards the successor if there is no seat-warmer executive in the family firm.

With the presence of the seat-warmer in a family firm, the predecessor’s inhibition behavior caused by losing power may shift, at least in part, from the successor toward the non-family executive. The

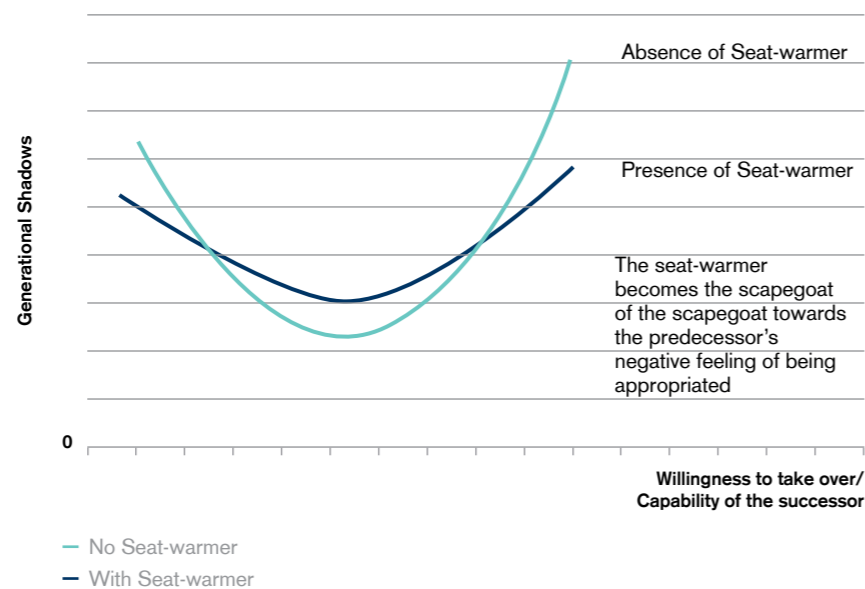


Figure 8. The Expected Result of Hypothesis 5&6

two sides (predecessor and successor) both may make the non-family executive into a victim who can be blamed for some extraneous problems during the succession period in the family business. From the successors’ perspective, the presence of a non-family member executive gives them good reason to

rationalize that the involvement of the predecessor is in the best interests of the whole family instead of “casting a shadow.”

Taken together, we expect that the presence of the “seat-warmer” may mitigate the double bind effect of

willingness and capability on generational shadow.

Findings shown in Figure 9 do not support hypothesis 5 in that the presence of a seat-warmer will moderate the main effect between the successor’s capability and generational shadows. However, the results support hypothesis 5 in that the presence of a seat-warmer does indeed ease the relationship between the successor’s willingness to inherit and generational shadow.

The statistical analysis test also proved that the interaction term of the squared capability and seat-warmer is not significant for generational shadow. Therefore, hypothesis 6 is not supported.

See Appendix for statistical results.

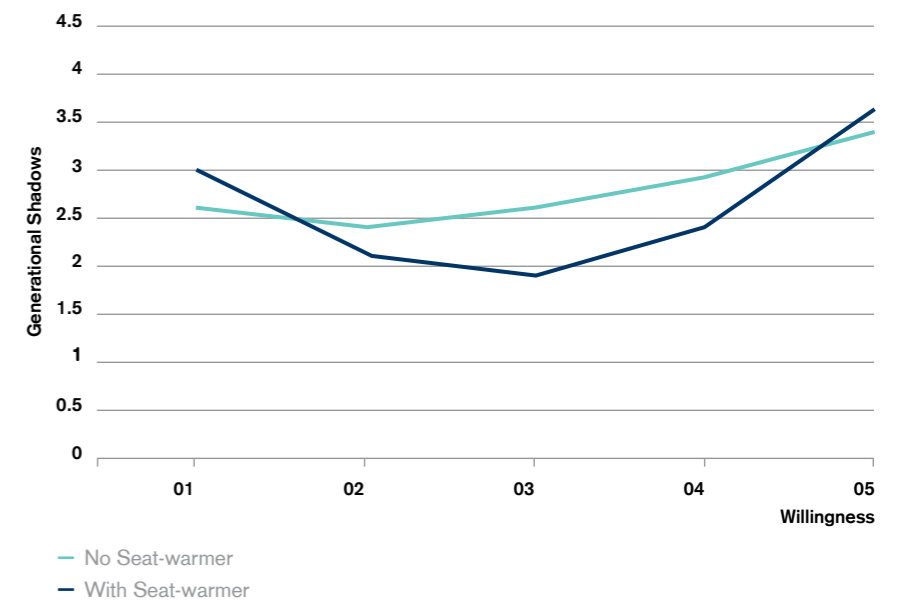


Figure 9. Willingness-Generational Shadow moderated by Seat-Warmer

Discussions

Theoretical Implications

First, this study contributes to the family business succession literature by adopting a psychological perspective. Unlike most prior research into succession in family firms, the research paper offers an alternative point of view on social interaction behavior between the two generations in the field of family business succession.

Second, the current work will enrich the understanding of the concept of “generational shadows.” Scholars have described a kind of intergenerational conflict in the post-succession period by using different terms such as “generational shadows;” or “shadow emperor,” which all resulted from the inappropriate continued presence of the predecessor trying to influence the successor’s managerial decisions. Although researchers are aware of the fact that the generational shadow phenomenon is one of the most serious problems during the family business succession period, there is very limited academic research into where the generational shadows come from and what factors might cause them. The desire for the family business is the critical factor causing the predecessor’s inappropriate behavior of casting a generational shadow. It has been suggested that the predecessor’s inappropriate inhibition behavior (generational shadow) is derived from the fear of losing power, while retiring predecessors sense their successor’s desire for the stewardship of the family firm.

Third, the previous literature claims that the business decision-maker’s capability is the most important factor in determining the performance of the business. Successors may explore or downsize the business to match their capability. However, researchers in the field of family business have found that the priority for a family business in choosing a successor is

usually a consideration other than the successor’s capability. In this study we found that there is a significant U-shaped relationship between the successor’s capability and the generational shadow, which implies that the group of most capable successor candidates may experience a higher level of intergenerational conflict with their parents-predecessors. With a view to reducing internal conflicts between family members within a family firm, the predecessor may choose a candidate who is not the most capable, because failure to manage conflicts between generations contributes to the low survival rate of family businesses. It is thus a possible explanation of why family firms do not choose the most capable candidates to be the successor.

Lastly, this study deepens the understanding of how the predecessor’s personality influences the succession process during the succession period. Prior research argues that the leader’s personality is related to the success of the stewardship transition. We found the distinct trait of the narcissism level of the predecessor of the family firm significantly moderates the two main effects in the current study. This finding validates the previous literature, indicating that the predecessor’s extraordinary behavior resulting from his or her personality plays a significant role in the transition process in a family firm.

Practical Implications

Researchers have identified that a family business might encounter an agency paradox when the offspring successor does not have the ability required to run the business. The “seat-warmer” strategy was introduced. Although several pieces of academic work have demonstrated the effectiveness of the “seat-warmer” strategy during the succession period of a family-owned business when the offspring successor’s capabilities are relatively low, this

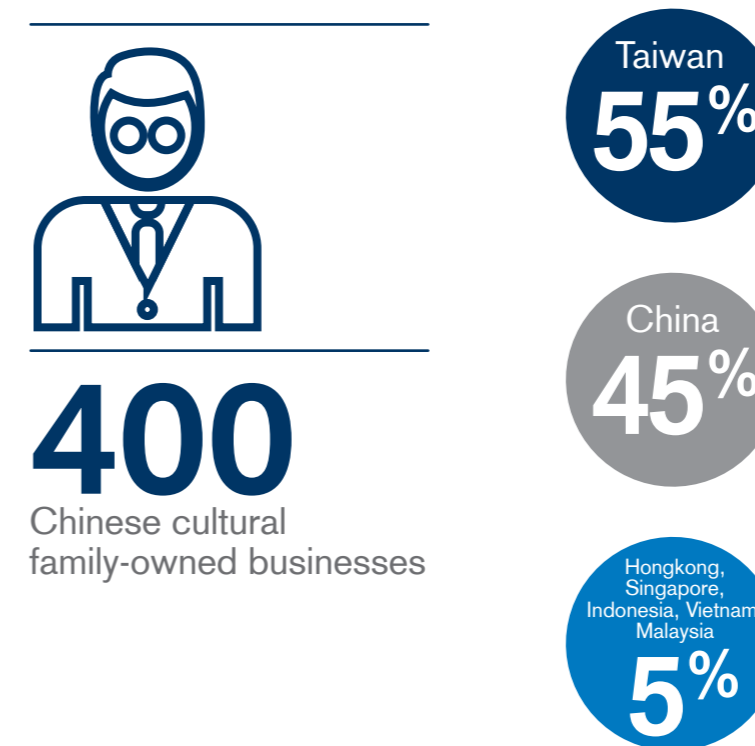
research paper strongly recommends and encourages family firms to apply the “seat-warmer” strategy during the succession period regardless of the capabilities of the succession candidates as a managerial approach. Intergenerational conflicts are generally reduced, no matter the degree of successors’ capabilities, if family firms take the “seat-warmer” strategy. The appointed non-family executive can play the role of a temporary agent for the predecessor or a mentor for the future successor, or both.

Another implication is in regard to the successor’s appropriate behavior and attitude during the succession period. Perceived family harmony includes mutual respect, trust, and understanding among family members, as well as the presence of open lines of communication. These family relationship elements are critical to successful succession in family firms. Thus, the research proposes that successors in family firms should cautiously control their excessively aggressive attitude and behavior in order not to irritate other family members, including their parent-predecessors. From the result of the findings, neither the successor’s overabundant desire for stewardship nor his or her overly high level of capability are helpful in gaining more affirmation or recognition from the predecessors. After realizing that desire for power is the root cause of the conflicts, a successful heir should pay sufficient attention to take care of his or her incumbent’s sense of security. Offspring should present their desire for stewardship of the family firms adequately, not overtly displaying the superego and not over-promoting their individual capability. One of the Chinese books of wisdom, the Shang Shu, states that “Overabundance causes damage; humbleness leads to success.” Successors in family firms should consider putting this piece of wisdom into practice.

Sample and Procedure

The following resources may provide additional information to expand upon the topics discussed throughout the paper.

The data collected for this research paper is from 400 Chinese cultural family-owned businesses; of this number, 55% of the samples are Taiwanese family firms, 40% are Mainland China family firms, and 5% are from other overseas Chinese family firms (i.e. Hong Kong, Singapore, Indonesia, Vietnam, and Malaysia). The current study focuses on succession from predecessors to successors; this means that businesses in the survey had to have been founded at least 10 years before the potential successor joined the company.



Appendix

Limitations

Despite the research paper's results, which correlate with the study's contributions to theory and practice, it has limitations, and also opens opportunities for future research. First, most of the sample used came from the same industry, and with a background of Chinese cultural ownership. Therefore, it is not proper to state firmly whether our findings and results apply to all family firms, especially those of a non-Chinese cultural background. Second, conclusions cannot be drawn about causality from this study. A longitudinal design measuring the independent and dependent variables with time lag would be necessary to confirm the causal relationships inferred from this study. Third, although ten variables were controlled for in the study, there may still be some variables that might be critical to consider – this being part of a more general limitation of any regression model. Fourth, during the interviews with some survey samples, there were some predecessors who argued that their interference behaviors with respect to the next generation (generational shadow) were “kinds of safety mechanisms” similar to the “brake function of a car.” They recognized the capability of their successors, but were still worried about other aspects such as experience in the industry, lack of sufficient resource backup, and uncertainty of the external investment climate.

15	14	13	12	11	10	9	8
Perceived generational shadow	Seat-warmer (0=No, 1=Yes)	Predecessor's narcissism level	Perceived capability of successor	Perceived willingness to take over	Successor's submissiveness	Successor's working tenure in the family firms	Successor's working tenure
3.2093	0.51	3.3052	3.2926	3.4889	2.7571	7.869	9.97
0.78121	0.502	0.69446	0.73313	0.82204	0.49129	5.7541	4.928
-.226**	0.07	0.094	.225**	.282**	0.065	.296**	.354**
0.087	0.09	0.138	0.046	0.082	-0.117	0.056	0.021
.168**	.163*	0.156	0.108	0.124	-.161*	0.028	0.011
-0.068	-0.005	-0.087	-0.07	0.034	0.138	-0.063	-0.062
-.192*	-0.011	.173*	.361**	.292**	-0.115	.518**	.714**
0.028	-0.156	0.001	-0.116	-0.083	.260**	-0.059	-0.008
-.329**	-0.015	0.073	.411**	.288**	-0.136	.633**	.927**
-.364**	-0.043	0.018	.417**	.296**	-0.088	.672**	1
-.250**	-0.026	0.098	.352**	.250**	-0.112	1	
-0.01	-0.089	0.004	-0.131	-0.127	1		
0.079	0.037	0.067	.449**	1			
-0.057	0.016	0.072	1				
.346**	-0.031	1					
-.213**	1						
1							

Table 1

*p < .05

**p < .01

***p < .001

Table 1 Findings

- Perceived willingness of successor to take over the family business was modestly related to predecessor's age ($r = .292, p < .01$), to the successor's age ($r = .288, p < .01$), to the successor's total working tenure ($r = .296, p < .01$), and to the successor's tenure with the family business ($r = .250, p < .01$)
- Successor's perceived capability appears to be related to the successor's age ($r = .411, p < .01$) and the successor's total working tenure ($r = .417, p < .01$)
- It was more strongly related to the perceived willingness of the successor to take over the family business ($r = .449, p < .01$).
- Perceived generational shadow was related to the company's age ($r = -.226, p < .01$) and successor's total working experience ($r = -.364, p < .01$).

7	6	5	4	3	2	1	Variable
Successor age	Successor gender (0=male, 1=female)	Predecessor age	Predecessor gender (0=male, 1=female)	How many other succession candidates	Company's size (how many employees)	Company's age	
33.91	0.23	62.99	0.14	1.92	1617.61	27.81	means
4.893	0.419	5.448	0.349	1.264	5244.415	7.771	SD
.422**	-0.67	.569**	-0.008	.183*	.183*	1	1
0.098	-0.09	.221**	-0.071	0.147	1		2
0.073	0.055	0.116	-0.034	1			3
-0.079	.221**	-.196*	1				4
.824**	-0.014	1					5
-0.023	1						6
1							7
							8
							9
							10
							11
							12
							13
							14
							15

Appendix

Hypothesis Testing

Before testing the hypotheses, we conducted CFAs to examine the measurement model, which is composed of four variables: generational shadow, narcissism, willingness to take over the business, and capability. The results show that the four-factor model fitted the data better (CFI = .97, IFI = .97, TLI = .95, NFI = .94, RMSEA = .08) than the one-factor model did (CFI = .28, IFI = .29, TLI = .12, NFI = .28, RMSEA = .35). These results supported the discriminant validity of the four variables.

Hypothesis 1 findings

- In Step 2, the perceived willingness of the successor to take over the family firm is positively related to the perceived generational shadow ($\beta = .177, P < .01$).
- In Step 3, the quadratic term of willingness is significantly related to the generational shadow ($\beta = .233, P < .001$), suggesting a non-linear relationship between willingness and generational shadow.
- When the level of willingness is low, the simple slope of the regression curve for generational shadow is negative ($\beta = -.271, p < .05$). When

the level of willingness is medium, the simple slope of the regression curve becomes positive ($\beta = .194, p < .01$). And, when the level of willingness is high, the simple slope of the regression curve for generational shadow remains positive ($\beta = .658, p < .001$).

- The simple slope tests further confirmed that there is a curve-linear relationship between perceived successor's capability and perceived generational shadow. This curvilinear relationship is plotted in Figure 2. Hypothesis 1 is supported.

Hypothesis 2 Findings

- In Step 2, the perceived capability is not significantly related to the perceived generational shadow ($\beta = .054, P > .05$).
- However, the quadratic term of capability (Step 3) is significantly related to the generational shadow ($\beta = .174, P < .01$), suggesting that there is a non-linear relationship between the successor's perceived capability and generational shadow
- When the level of capability was low, the simple slope of the regression curve for generational shadow was negative ($\beta = -.289, p < .05$). When the level of capability was medium, the simple slope of the regression curve became positive

($\beta = .054, p > .05$). And, when the level of capability was high, the simple slope of the regression curve for generational shadow remained positive and significant ($\beta = .411, p < .01$). Hypothesis 2 is supported.

Hypothesis 3 Findings

- As shown in table 2, the interaction term of willingness squared and narcissism is significant for generational shadow ($\beta = -1.95, \Delta R^2 = .036, p < .01$)
- The results in table 4 below, show that, in the case of low narcissism, the simple slope of the regression curve for perceived generational

shadow is negative at a very low willingness level ($\beta = -1.419, p < .001$); it remained negative at the low willingness level ($\beta = -.605, p < .01$). At the medium willingness level, the slope became positive ($\beta = .210, p < .01$), and remained positive at the high willingness level ($\beta = 1.025, p < .001$) as well as at the very high willingness level ($\beta = 1.84, p < .001$).

- We found the U-shaped curvilinear relationship was weaker in the high narcissism group than in the low narcissism group. This result was different from our original prediction. Hypothesis 3 was not supported

Credibility	Entry		Final		Change of explained variance
	β	SE	β	SE	
Step 1 : Company Age	.023*	.010	-.027**	.008	
Company Size	1.268E-5	.000	8.993E-6	.000	
Candidates Number	.133**	.049	.117**	.043	
Predecessor Gender	-.119	.178	-.200	.156	
Predecessor Age	.040	.022	.030	.020	
Successor Gender	.092	.151	.058	.132	
Successor Age	-.043	.041	-.030	.035	
Successor total experience	-.037	.034	-.041	.030	
Successor family firm tenure	.003	.014	-.010	.012	
Successor submissiveness	.042	.128	.078	.112	$\Delta R^2 = .210$
Step 2 : Willingness	.177**	.062	.196**	.056	$\Delta R^2 = .043$
Step 3 : Willingness squared	.233***	.064	.212***	.059	$\Delta R^2 = .065$
Step 4 : Narcissism (NAR)	.235***	.054	.435***	.086	$\Delta R^2 = .082$
Step 5 : Willingness x NAR	.012	.053	-.015	.053	$\Delta R^2 = .000$
Step 6 : Willingness squared x NAR	-.195**	.066	-.195**	.066	$\Delta R^2 = .036$

Table 2: Results of the hierarchical multilevel analyses

*p < .05

**p < .01

***p < .001

Credibility	Entry		Final		Change of explained variance
	β	SE	β	SE	
Step 1 : Company Age	-.023*	.010	-.020*	.009	
Company Size	1.268E-5	.000	9.667E-6	.000	
Candidates Number	.133**	.049	.115*	.046	
Predecessor Gender	-.119	.178	-.106	.163	
Predecessor Age	.040	.022	.027	.021	
Successor Gender	.092	.151	.076	.139	
Successor Age	-.043	.041	-.036	.037	
Successor total experience	-.037	.034	-.038	.032	
Successor family firm tenure	.003	.014	-.004	.013	
Successor submissiveness	.042	.128	-.033	.119	$\Delta R^2 = .210$
Step 2 : Capability	.054	.067	.078	.062	$\Delta R^2 = .042$
Step 3 : Capability squared	.174**	.062	.186**	.061	$\Delta R^2 = .086$
Step 4 : Narcissism (NAR)	.241***	.057	.366***	.087	$\Delta R^2 = .004$
Step 5 : Capability x NAR	-.050	.054	-.073	.055	$\Delta R^2 = .019$
Step 6 : Capability squared x NAR	-.127*	.063	-.127*	.0633	

Table 3: Results of the hierarchical multilevel analyses

*p < .05

**p < .01

***p < .001

Appendix

Tests of Simple Slopes

Moderate Value Narcissim	Predictor Value Willingness	Generational Shadow	
		B	SE
High	Very Low	.112	.361
High	Low	.146	.189
High	Medium	.181*	.075
High	High	.215	.201
High	Very High	.249	.374
Low	Very Low	-1.419***	.344
Low	Low	-.605**	.177
Low	Medium	.210**	.078
Low	High	1.025***	.206
Low	Very High	1.84***	.376

Table 4: Test of Simple Slopes (Narcissism-Willingness-Generational Shadow)

*p < .05 **p < .01 ***p < .001

Tests of Simple Slopes

Moderate Value Narcissim	Predictor Value Willingness	Generational Shadow	
		B	SE
High	Very Low	-.230	.313
High	Low	-.113	.173
High	Medium	.005	.079
High	High	.123	.165
High	Very High	.241	.305
Low	Very Low	-1.101**	.382
Low	Low	-.475*	.194
Low	Medium	.151	.087
Low	High	.776**	.236
Low	Very High	.714**	.256

Table 5: Test of Simple Slope (Narcissism-Capability-Generational Shadow)

*p < .05 **p < .01 ***p < .001

Hypothesis 4 Findings

- As shown in Table 3, the interaction term of the squared capability and narcissism was significant for generational shadow ($\beta = -.127$, $\Delta R^2 = .019$, $p < .05$).
- The results (See Table 5) show that in the case of low narcissism, the simple slope of the regression curve for perceived generational shadow is negative at a very low capability level ($\beta = -1.101$, $p < .01$); it remains negative at the low capability level ($\beta = -.475$, $p < .05$). At the medium capability level, the slope becomes positive ($\beta = .151$, n.s), and remains positive at the high capability level ($\beta = .776$, $p < .01$) as well as at the very high capability level ($\beta = .714$, $p < .01$).
- This result is also different from our original prediction. Therefore, Hypothesis 4 was not supported.

Hypothesis 5 Findings

- As shown in Table 6 below, the interaction term of the squared willingness and seat-warmer is significant for generational shadow ($\beta = .118$, $\Delta R^2 = .017$, $p < .05$).
- The results (See Table 7) show that in the case of high seat-warmer, the simple slope of the regression curve for perceived generational shadow is negative at the very low willingness level ($\beta = -1.210$, $p < .001$); it remained negative at the low willingness level ($\beta = -.510$, $p < .01$). At the medium willingness level, the slope becomes positive ($\beta = .19$, $p < .05$), and remains positive at the high willingness level ($\beta = .89$, $p < .001$) as well as at the very high willingness level ($\beta = 1.59$, $p < .001$). These findings rejected Hypothesis 5.

- To facilitate interpretation of the quadratic-by-linear interaction effect, Table 7 illustrates that the "seat-warmer" strategy moderates the curvilinear relationship between the successor's perceived willingness and perceived generational shadow. Overall, the perceived generational shadow is lower in cases with the seat-warmer strategy than in the counterpart cases without applying the seat-warmer strategy.

Credibility

	β	SE	β	SE	Change of explained variance
Step 1 : Company Age	-.022*	.010	-.026**	.009	
Company Size	1.022E-5	.000	1.390E-5	.000	
Candidates Number	.116*	.047	.137**	.042	
Predecessor Gender	-.103	.178	-.214	.160	
Predecessor Age	.041	.022	.036	.020	
Successor Gender	.058	.149	-0.31	.135	
Successor Age	-.044	.041	-.024	.036	
Successor total experience	-.037	.034	-.062	.031	
Successor family firm tenure	.002	.014	.003	.012	
Successor submissiveness	.032	.128	.111	.114	$\Delta R^2 = .200$
Step 2 : Willingness	.168**	.052	.207***	.057	$\Delta R^2 = .039$
Step 3 : Willingness squared	.232***	.065	.231***	.061	$\Delta R^2 = .064$
Step 4 : Narcissism (SW)	-.222***	.053	-.337***	.078	$\Delta R^2 = .077$
Step 5 : Willingness x SW	-.030	.054	-.016	.054	$\Delta R^2 = .001$
Step 6 : Willingness squared x SW	.118*	.060	.118**	.060	$\Delta R^2 = .017$

Table 6: Results of the hierarchical multilevel analyses

*p < .05 **p < .01 ***p < .001

Appendix

Tests of Simple Slopes

Moderate Value Narcissim	Predictor Value Willingness	Generational Shadow	
		B	SE
High	Very Low	-1.210***	.333
High	Low	-.510**	.173
High	Medium	.19*	.078
High	High	.89***	.198
High	Very High	1.590***	.36
Low	Very Low	-.229	.348
Low	Low	-.003	.184
Low	Medium	.223**	.078
Low	High	.449*	.194
Low	Very High	.675	.359

Table 7: Test of Simple Slope ("Seat-warmer"-Willingness-Generational Shadow)

*p < .05 **p < .01 ***p < .001

Hypothesis 6 findings

- As shown in Table 8 below, the interaction term of the squared capability and seat-warmer is not significant for generational shadow ($\beta = -.04$, $\Delta R^2 = .002$, n.s). Therefore, the hypothesis 6 was not supported.

Credibility

	β	SE	β	SE	Change of explained variance
Step 1 : Company Age	-.022*	.010	-.019*	.009	
Company Size	1.268E-5	.000	1.367E-5	.000	
Candidates Number	.116*	.047	.145**	.045	
Predecessor Gender	-.103	.178	-.092	.165	
Predecessor Age	.041	.022	.037	.021	
Successor Gender	.058	.149	-.072	.143	
Successor Age	-.044	.041	-.033	.038	
Successor total experience	-.037	.034	-.042	.032	
Successor family firm tenure	.002	.014	-.006	.013	
Successor submissiveness	.032	.128	-.038	.119	$\Delta R^2 = .200$
Step 2 : Capitability	.061	.067	.066	.062	$\Delta R^2 = .005$
Step 3 : Capitability squared	.175**	.062	.202**	.060	$\Delta R^2 = .043$
Step 4 : Sear-warmer (SW)	-.221***	.056	-.187*	.081	$\Delta R^2 = .076$
Step 5 : Capitability x SW	-.082	.056	-.086	.057	$\Delta R^2 = .010$
Step 6 : Capitability squared x SW	-.040	.060	-.040	.0603	$\Delta R^2 = .002$

Table 8: Results of the hierarchical multilevel analyses

*p < .05 **p < .01 ***p < .001

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