

**STUDY OF NON-FAMILY EXECUTIVES IN CHINESE
FAMILY FIRMS**

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Abstract

85% of new family businesses failed during the first five year business running and only 30% of the rest survivals can transfer to the second generation of the business founders. In order to overcome the potential threat for family businesses, many owners of family business tried to employ nonfamily executives. Although a couple of reasons motivate those owners to employ nonfamily executives, there are also a number of constraints that prevent the decision. This situation becomes more complex within Chinese family business context, which is greatly influenced by Chinese culture, social norms, and other environmental factors. Thus, this study tries to explore the influential factors on Chinese family businesses employing nonfamily executives. The research conceptual framework is built based on previous studies. Three driving factors, including solving managerial and financing problems, lack of successor, and avoid internal conflict and make organisational change, are used to test the driving factors on Chinese family businesses. And six constraints, including high cost, conflict, internal resistance, incomplete labour market, poor capability, and low trust, are used to test the constraints of Chinese family businesses. In order to reach the research objectives, this study uses telephone interview to collect data from 16 respondents. 12 respondents are owner manager or shareholders of Chinese family businesses and 4 respondents are nonfamily managers. After qualitative data analysis of collected information from telephone interview, solving managerial and financing problems and lack of successor are identified as main driving factors, while high related cost, low efficient labor market, lack of trust, and few qualified nonfamily candidate are considered by interviewees as main constraint factors that hesitate Chinese family firms to employ nonfamily executives. Among those factors, solving managerial and financing problem are considered as the most important driving factor while lack of trust are considered as the most important constraints. This study also finds some hidden influential factors such as size and complexity of family firm and type of family business. But those factors need further study to testify.

Key words: family business, nonfamily executive, driving factor, constraint, management professionalism, corporate governance

Table of content

Acknowledgement	2
Abstract	3
Chapter 1: Introduction	6
1.1 Research background	6
1.2 Aim and objectives.....	8
1.3 Research method.....	9
1.4 Structure of thesis	10
Chapter 2: Literature Review.....	12
2.1 Scope and concept	12
2.2 Characteristic of family business.....	12
2.3 Corporate governance in family business.....	15
2.4 Agency theory and family governance	17
2.5 The drivers and constraints of employing nonfamily executives in family firms.....	19
2.5.1 Drivers of choosing nonfamily executive.....	19
2.5.2 Constraints of choosing nonfamily executive	21
2.6 Family firms in China.....	22
2.6.1 Characteristic of Chinese family firm	22
2.6.2 Nonfamily executives in Chinese family firm.....	22
2.7 Conceptual model development	23
Chapter 3: Methodology	25

3.1 Research philosophy	25
3.2 The purpose of the research	26
3.3 Research strategy	27
3.4 Data acquisition	28
3.4.1 Secondary Data Acquisition	28
3.4.2 Primary Data Acquisition	28
3.5 Data analysis methods	30
3.6 Reliability and Validity	30
3.7 Ethics consideration.....	31
Chapter 4. Analysis and finding.....	33
4.1 Driving factors	33
4.2 Constraint factors.....	36
Chapter 5. Discussion	41
Chapter 6 Conclusion, limitation, and implication.....	47
6.1 Conclusion	47
6.2 Limitations and future research	48
6.3 Research implication.....	49
Reference	52
Appendix 1 Interview questions	57
Appendix 2 Interviewee profile	59
Appendix 3 The systems theory model of family business	60

Chapter 1: Introduction

1.1 Research background

Family business is the most fundamental business mode because most entrepreneurial firms might become family-owned business when spouse and children of the founder join the business as shareholders or employees. According to Poza (2007), 90% of all incorporated businesses in the United States are family controlled companies and the total number of such type of business reaches approximately 17 million. The significance of family business is not only due to its large proportion in business world but also the performance of family business. Due to the uniqueness of family business, a set of competitive advantages could be obtained on the basis of resource based view, e.g. rapid respond to market and strategic focus on niches (Habbershon et al, 2003). Hence, those family owned businesses usually have better performance than nonfamily controlled business at the same size. However, it doesn't mean each family owned firm can perform well during the growing process. Based on Poza (2007), about 85% of new family businesses failed during the first five year business running and only 30% of the rest survivals can transfer to the second generation of the business founders. And the situation gets worse when the owner transitions between the second and third generations or the third and fourth generations.

There a couple of reasons that result in the failure of those family businesses. One primary reason might be the overlap of family, management, and ownership, which is considered as the key characteristics to distinguish family business from others. Klein & Bell (2007) pointed family owned firms are usually managed by their owners or members from the owning family. According to Tagiuri & Davis (1996), those owners and family members often take different responsibilities to manage the family firms and Gallo & Sveen (1991) believed the most significant decisions of family business were usually made by family owners and members as managers. Based on Welch (2005), the sustaining growth of any modes of business largely relied on firm's executives with management capabilities matching the business environment, culture, organization, as well as strategies of the firms'. However, when the expansion of family business, owner managers usually found the lack of management talents in the family usually constrained the further development of family business. For example, owner managers might feel he/she lacks business skills such as marketing, human resource management, or operation management, especially when the family firms start to involve in more complex business environment. At the same time, the other family members who have management position might also lack of related business skills. Besides, during the process of leadership succession, a qualified owner manager or founder might transfer the position to next generations who are not capable to run family business in appropriate ways. Hence, the most popular causes relate to failure of family business are lack of management capability of owner manager and management talents in the family (Sharma et al, 2004).

In order to overcome the potential threat on management capability, many owners of family business tried to develop management professionalization to their business. According to Dyer (1989), there are two basic ways to conduct the professionalization

of management. One is to train family members in current working position or encourage family members to work in other companies to gain management capability and experience. But the most popular way of management professionalization is to direct hire nonfamily professional managers to bring family business with more formal style of management and decision making. Schulze et al (2003) pointed there were a number of benefits for family business to employ nonfamily managers as management executives, based on the viewpoint of principal-agent theory. For example, the most accepted benefit of nonfamily managers is that such outside executive could bring management expertise and enhance management quality of family business, which is not easily found within family members. Meanwhile, nonfamily managers usually could avoid complex interpersonal conflicts and issues in the owning family (Schulze et al, 2003). Besides, experienced nonfamily managers usually have strong and programmatic long term strategic insight and decision making, and they can change the norms and value of business operation as well. Hence, the significance and proportion of hiring nonfamily executives within family firms' management seem to be greatly enhancing. According to Klein & Bell (2007), 20% of U.S. family firms hired nonfamily CEO and nonfamily CFOs are more welcomed for family business owners. There is also a tendency that the proportion of nonfamily managers in top executives has a positive connection with the size and found year of the family firms.

However, many problems occurred during the introducing of nonfamily executives in family business and those issues made owners of family business hesitate to hire nonfamily executives. According to Block (2011), the primary problem is the conflict between business owners and nonfamily executives on the goal and views of a firm. Founders or business owners usually have specific vision of the business and make decisions based on their own instinct. But nonfamily executives usually make decisions logically and rationally based on the analysis of business. Meanwhile, Schein (1983) pointed owners and nonfamily managers behaved very differently for analysing problems, viewing authority, and internal relationship. The conflict between underlying value of family (owner) and the value of nonfamily managers usually results in further organisational problems such as employee uncertainty and confusion, dragging decision making, and unclear strategic goal (Dyer, 1989). Another frequently accused issue of nonfamily executives is the cost issue. According to the traditional agency theory, the CEO salaries usually enhanced significantly when a nonfamily or non-owner executive takes this position (Schulze et al, 2003). Based on the research of Block (2011), family CEOs usually get much lower compensation than nonfamily CEOs who work in family business. Although some researches pointed the different compensation would lead to better business performance, other scholars doubted this viewpoint with a number of empirical evidences.

The situation in China family business is much more complex. According to Wah (2001), Chinese family firms were significantly influenced by Chinese traditional culture and shared common characteristics in terms of business operation. In Chinese society, which is influenced by Confucianism, the family is the core element of all social relationships (Bond & Hwang, 1986). This shared value determined the distinguished business mode of Chinese family: familism and three aspects of familism could be described as nepotism, paternalism, and family ownership (Wong, 1985). In such type of family firms, majority of key position were occupied by family members. Although some key positions were also held by nonfamily members, those

managers were still close to the family and trusted. As a result, besides considering the cost and conflict issues, the decision making process usually involve a number of Chinese cultural factors such as Guanxi, Face, Renqing, or trust when Chinese family owners concern with hiring a nonfamily executive. Meanwhile, other Chinese situational factors also influence the decision of hiring a nonfamily executive. For example, many researchers found it was hard to find suitable professional managers in labour market. There are several reasons that lead to the lack of suitable nonfamily manager. Cai & Park (2013) pointed there were not enough qualified professional managers, who have both strong management capability and experience, could be found in the market. Zhu (2013) believed the Chinese labour market mechanism for senior manager is incomplete. Family firms usually failed to get detailed information from labour market.

The complex business environment in China makes family firms face a dilemma. On the one hand, family firms face great challenges in terms of management when they try to expand. On the other hand, various factors constrain Chinese family firms attempt to introduce nonfamily executive in order to professionalize their management. Therefore, it is very worthwhile to investigate which factors motivate Chinese family business owners to hire a nonfamily executive and which constraints influence the attempts to introduce those nonfamily managers. Although there are plenty of literatures that focus on the topic of Chinese family business research, very a few literatures concern with the influential factors on hiring nonfamily managers under Chinese context. Instead, those literatures focus on the business mode, the corporate governance and competitive advantage, succession, leadership, as well as cultural influence. Even for the literatures that research on nonfamily managers in Chinese family firm, they usually focus on very limited aspects of influential factors such as payment system or cultural issues. Few researches investigate the influential factors of hiring nonfamily executives in Chinese family firms from a comprehensive perspective. In order to fill this gap, this thesis would like to identify what are the main determinants (driving forces) and key obstacles in the adoption of professional managers in Chinese family firms, which would provide theoretical and practical implications for both academic research and Chinese family firms.

1.2 Aim and objectives

According to the research background, the main of this thesis is to explore what critical factors influence Chinese family firms to employ nonfamily executives, from both motivation perspective and constrain perspective.

There are a number of previous studies that focus on the driving factors and constraint factors toward employing nonfamily executives in family firms. Based on Stewart & Hitt (2012), employing of nonfamily executives was the simplest way to deal with both capital constraint and managerial constraint. According to Klein & Bell (2007), another common reason of employing nonfamily executive was due to the family firm's problem of having no successor in general or no family member who is willing, qualified, or accepted. Finally, the nonfamily executives were employed in order to avoid interpersonal conflicts and problems in the family owned firm (Klein & Bell, 2007). Based on McConaughy (2000), the larger sized and more complicated family firms, the greater strategic change for a higher level of management capability and

professionalized knowledge are demanded.

At the same time, other scholars focus on the constraints of employing nonfamily managers in family business firms. From the survey of McConaughy (2000), the nonfamily compensation practices have arisen greatly over the past decades and the difference between family executives and nonfamily executives' compensation has become much larger. He points that high related cost has become the primary constraint for family firms to employ nonfamily executives. Another constraint of employing a nonfamily executive was the conflict between family firm owner and nonfamily executive on the objective and views on the firm (Block, 2011). Besides the conflict between family and nonfamily managers, other scholars further explored the constraints from the family firm's internal perspective. Chua et al. (2003) argued that the interpersonal relationship within family firms was a constraint for employing nonfamily executives. Meanwhile, family members who take important role in family business management might contradict the introducing of nonfamily executives due to the lost of authority and business career. In addition, Eddleston et al. (2010) believed lack of trust was a major constraint to introduce new nonfamily executives.

In addition, some researches mainly focused on the constraints of employing nonfamily executives within the context of Chinese family business firms. They also identify some main constraints such as low trust, high payment, and low efficiency of labour market. However, few of studies can cover all relevant influential factors that impact on the choosing nonfamily executives within the context of Chinese family business firms. Based on the findings of those studies, this thesis would like to examine whether those research findings are still valid within Chinese family business firms. Therefore, in order to reach this research aim, several research objectives are developed as follow:

- (1) To identify whether the driving forces, including solving management and financing problems, lack of qualified successors, and avoid internal conflict and make organizational change, can motivate Chinese family business owner to employee nonfamily executives.
- (2) To identify whether the constraints, including high cost, conflict between owner and nonfamily manager, internal resistance, incomplete labour market, low capability of candidate, and lack of trust, still block Chinese family business owner to employee nonfamily executives.
- (3) To discuss the reasons behind those influential factors that affect Chinese family realizing management professionalization.

1.3 Research method

In order to achieve the research aim and objectives, proper research method should be critically evaluated and selected. Based on the nature of this research, which aims to find out the influential factors that affect family business owner's decision on hiring nonfamily executives, this research belong to phenomenology research philosophy. Since qualitative research focus on the topic of why and how of human decision making, not what, where, or when, therefore, according to Kumar & Phrommathed

(2005), this research would like to use the qualitative research approach to develop logistical analysis to identify the research data and information, because this research will try to in-depth understand the phenomenon of Chinese nonfamily executive employment in Chinese family firms and try to find out the reasons that lead to such phenomenon.

Meanwhile, qualitative research often use focused sample rather than large size sample, in order to make in-depth understanding. Hence, when concerning qualitative data collection, the in-depth interview would be used to collect primary data, related to research objectives. Some Chinese family business owners and family members would be selected as interviewees. At the same time, the secondary data would be collected through desk research, in order to supplement the primary data. The collected data would be analysed by qualitative data analysis method accordingly.

1.4 Structure of thesis

Chapter 1 Introduction

The research background of this research would be firstly introduced. Then, the research aim and research objectives would be developed. Following research aim and objectives, the proposed research method and thesis structure would be identified.

Chapter 2 Theoretical framework

The theoretical part of the thesis consists of a number of subsections, in which the main issues and subareas related to the research aim are critically reviewed. Those subsections include scope and concept of the theories reviewed, characteristic of family business, corporate governance in family business, agency theory and other related theories, driving forces and constraining forces based on those theories, as well as the situation of Chinese family firms.

Chapter 3 Research method and data

In this chapter, the research philosophy would be evaluated firstly. Then, the research approach would be developed based on the nature of research objectives of the thesis. According to research philosophy and research approach, suitable data acquisition methods and data analysis methods are identified. Finally, the reliability of this research would be discussed.

Chapter 4 Results of this study

In this chapter, the finding of this research would be summarized and analysed in detail. Specifically, the key finding of this research would be highlighted.

Chapter 5 Discussion and conclusion

In this chapter, the thesis would like to discuss the main reasons behind the key finding of this research and try to evaluate the most suitable mode for Chinese family realizing management professionalization. Meanwhile, a conclusion of this thesis would include the research process of reaching objectives, limitation of the research, as well as implication for this research.

Chapter 2: Literature Review

2.1 Scope and concept

Since this research aims to find the influential factors that drive or constrain Chinese family firm business owner to employ nonfamily executives, the scope of this research would be limited within the framework of Chinese family business research on the issue of separate of ownership and nonfamily managers. Therefore, the research would cover a set of related concepts, including family business, ownership and corporate governance, nonfamily manager, as well as professional management (or professionalization). By the concept of 'family business', this thesis refers to the business that is “controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (Chua et al, 1999).

For ownership, this thesis used the definition from Jensen & Meckling (1976: 103), who defined ownership as 'possession of a decision right along with the right to alienate that right'. Meanwhile, Porta et al. (1999) summarized three elements of ownership, including controlling the company, residual claims, as well as selling the company. By the concept of 'corporate governance', Monks & Minow (1996) defined it as 'the relationship among various participants in determining the direction and performance of corporations'. Hence, the key elements in this concept are ownerships, the management, and the board of directors and the central task for corporate governance is to address the relationship between ownership and management.

By the concept of nonfamily management, Klein & Bell (2007) defined a nonfamily manager as a person who is neither a blood relative nor related to the owning family by marriage or adoption. Another key premise of nonfamily manager or executive is that such person takes a seat on the management board. Meanwhile, by the concept of professional management or management professionalization, Galambos (2010) defined it as 'hiring full-time, salaried professional manager, particularly with the delegation of managerial authority'. However, this term is multi-dimensional and relates to more core dimensions of family business such as formal training, meritocratic values, formalized structures, as well as independent directors.

2.2 Characteristic of family business

According to the definition of family business above, there are a number of unique characteristics that distinguish family business from non family business. Based on Poza (2007), those distinctive characteristics include the presence of the family; overlap among family, management, and ownership; the unique base of competitive advantage; and the owner's wish for continuity. Among those unique characteristics, the most notable characteristic of family business is the succession issue for family business' continuity. This issue was considered as the key strategic issue in relation to the future failure of family business, due to the succession across generation of owner-managers could significantly influence firm competitive advantage, family

harmony, and ownership return. Based on Lee et al (2003), the most probable risks for the continuity of family business are taxes and family discord, which could be resolved by good succession plans. Brockhaus (2004) pointed the succession planning divided into three parts: management, ownership, and taxes. Since the taxed issues were largely depended on lawyers and accountants, the main issues in family business succession planning are management and ownership succession. It is significant to know that the succession of management and ownership are not necessarily one and the same. However, sometimes, the owner of family business might find it is relatively simple to transfer ownership to his/her children but it is hard to find appropriate management succession from family candidates. Therefore, nonfamily managers might be considered and this issue would be reviewed in the following section.

Another key feature of family business is the overlap of family, management, and ownership. Based on system theory, the family firm is modeled as comprising the three overlapping, interacting, and interdependent subsystems of family, management, and ownership (Poza, 2007). The figure in Appendix 3 shows three subsystems have their own boundaries but they were interacted each other and must be integrated as a system to perform unified system functions. According to this theory, the family firm can be considered as a complicated and dynamic social system, where each subsystem makes reciprocal adjustments in order to fulfill better system integration. As a result, each subsystem has very strong impact on the other two subsystems and they always try to integrate as a unified system. However, this system would face great challenges because of change of business operating environment, for example new generation joins the firm, the retire of earlier family members, as well as the family firms grow up into a new development stage. Then the balance among three subsystems might be broken and the change in this system would be taken place along with new family members or nonfamily managers. Hence, three types of family businesses might be generated when one subsystem is over than other two subsystems: family-first business, management-first businesses and ownership-first businesses (Poza, 2007). At the same time, due to different goals and operating rules, three subsystems might blur the system boundaries among three subsystems. For example, the family operating principle was usually as the rule of the whole business operation. The blurred system boundary is a common phenomenon in many family business firms and lead to underachieving business performance than expectation.

The third key characteristic of family business is the unique base of competitive advantages. Based on resource-based view (RBV) theory, family firms enjoy a number of competitive advantages by examining the unique, specific, complex, and intangible resources of family firms. Habbershon & Williams (1999) argued that the role overlapping between manager and owner in family business usually results in several competitive advantages including decreased management cost, efficient decision making process, fast respond to market, and long term performance evaluation mechanism. Miller & Miller (2004) pointed that family firm could build good customer relationships due to family business could offer high quality product and customer service because of strong sense to build family reputation and ownership commitment. In addition, Sirmon & Hitt (2005) found that the competitive advantages of family firms were also largely depended on the intangible resource of family business: high family unity, commitment, structure stabilization, common shared value and belief, and high level of trust. However, not all researchers on family

firm's competitive advantage agreed that the resources in family business could lead to strong competitive advantage in the market. For example, Tagiuri & Davis (1996) argued the resources in family firms cannot be regarded as source of unique competitive advantages. Instead, the overlap between ownership and management might lead to serious issues including informal decision making system, low efficiency of human resource allocation, low level socialization, as well as informal management principle.

Among three distinct characteristics of family business firms, the overlap of family, management, and ownership are the most important characteristic of family business firm, which in turn influences other two key characteristics. Based on system theory, family firm is a complicated and dynamic social system. Within this social system, the family subsystem is believed to have strong influence on the ownership and management of family firms, while the other two subsystems interact with the whole system and are dependent as well. Issues, priorities, and problems will be defined differently by different members within family business firms (Poza, 2007). For example, an owner manager with 100 percent ownership of the company would view business very differently with other family members who don't own shares of the firm. Likewise, nonfamily managers would also different view because of the unique position of nonfamily employee within family business system. This phenomenon results in different types of family business firms according to the different view on business issues. Then, family business can be categorized as family-first family business, ownership-first family business, and management-first family business.

Family-first family business implies that a family business exists mainly for the objective of the whole family. This means the interest of the family will be in the first place of the business. According to Virton (1998), the most distinct feature of family-first family business is the nepotism, which leads to the employment within the firms will be mainly based on the applicant's relationship with the family and other key attributes of candidates such as skill and experience would be devalued or completely irrelevant. As a result, many experienced nonfamily managers with higher career goals are usually unwilling to participant into such type of family business. Similarly, family members would be paid equally or get nearly equal compensation regardless of their performance, responsibility, or overall contribution. Therefore, in family first family businesses, the balance and boundaries between three subsystems are usually absence. Family-first businesses are the most unlikely to choose nonfamily executives because the family believes nonfamily executive have not strong commitment to put the family first. In cases the family-first business have great difficulty for business continuity, they would like to sell the company rather than employing a nonfamily executive.

Ownership-first family business primarily concerns the return on capital and neglects the existence of the family business (Harjito & Singapurwoko, 2014). Therefore, investment time horizons and perceived risk are the most important things in ownership first family businesses. In a short time, ownership first family businesses can be operated effectively because of the pressure of family shareholders who are not participant into business or have little knowledge and experience of management and strategic decision making. However, the long term strategic vision usually disappears due to the demand of high returns in short term from some family shareholders. Rather than family-first family businesses which primary concerns family interest and

continuity, ownership-first family business might give up the continuity. Within ownership-first family business, managers who can bring higher short term returns are welcomed, although family managers, who know the weak business capabilities of family firms for creating high return on capital, might be the better manager to manage shareholder's long term interest. Sometimes, ownership-first family business might consider employing nonfamily managers who can bring high short term return on capital.

In management-first family businesses, business interest is prior to family interest or shareholder's short term return (Sharma & Irving, 2005). The performance of the firm will be evaluated based on the criteria of nonfamily firms, such as profit, assets return, or market share. From the perspective of human resource management, family employees and nonfamily employees are treated equally. The compensation of family employees and nonfamily employees is all based on the performance and responsibility. Family business continuity is not ensured due to the firm is considered as a productive asset (Poza, 2007). Within management-first family business, the leadership of the firm is usually held by nonfamily executive or family members who have business talent. Hence, this type of family business are the most likely to employ nonfamily executives. However, the management-first family businesses often have the conflict of interest between family, shareholder, and the management. This issue is often named as 'agency problem', which will be reviewed later. Through reviewing three types of family businesses, it is useful to help researchers to identify what types of family firms in the research and how the type of family business influence the decision making of employing nonfamily executive.

2.3 Corporate governance in family business

Based on the review on the characteristics of family business, one of the most distinctive features of family business is the overlap between ownership and management. The overlapping not only generated a number of competitive advantages for family firms but also issued great challenges in relation to the corporate governance in family businesses. Based on the definition of corporate governance, it concerns with the internal structure and rules of board of directors, the independent audit committee, and control of management (Barbolomeusz & Tanewski, 2006). Among those principles, the core issue of corporate governance is the relationship between ownership and management. From this perspective, there are three basic forms of corporate governance, namely managerial governance, alliance governance, and familial (or entrepreneurial) governance (Carney, 2005).

Managerial governance refers to the governance system is characterized through the separation of ownership and management. Hence, the managerially governed firms divide management and risk-taking factions. In managerially governed firms, the firms are usually managed by professional managers who sign fiduciary contract with owners. Those managers would be paid based on the performance of the firm. However, the management in managerially governed firms would face a number of constrains, rules, and procedures within a bureaucratic system of checks and balance. As a result, the decision making in managerial governed firms usually behaved a highly calculative or instrumental rationality (Carney, 2005). Meanwhile, managers in this form of corporate were usually criticized as low extra-contractual commitments

to the firms. Another form of corporate governance is alliance governance, which also separated management control from ownership but the management executives would be not subject to the same capital market scrutiny as those operating under managerial governance (Carney, 2005). Instead, the capital of such firms would be provided by its financial and industrial business alliances in various business forms. The contractual relations in this governance form are more enduring and recurring, with a reduce risk of opportunistic from partnerships.

The third popular form of corporate governance is family governance, which is widely adopted by family businesses or entrepreneurial businesses. The major point that distinguishes this form of corporate governance from managerial governance and alliance governance is the unification of ownership and management control (Bartbolomeusz & Tanewski, 2006). Generally, the absolute majority of share ensures the management control is concentrated in the hands of the owners. Sometimes, the special dual-class shares approach or cross-holdings also ensure the management control is concentrated in the hands of the owners with relatively lower equity ownership. Based on the effective management control, the firm's capability and assts were tightly associated with owner's business capability rather than the other parities such as external investors, bank, or business alliances. According to Carney (2005), there are three key characteristics of such family governance mode, namely parsimony, personalism, and particularism. With regard to parsimony, family firms usually prudently make strategic decision making due to such decisions would be tightly related to owner's personal money. According to Zahra & Sharma (2004), the overlapping of ownership and management decrease the risk for opportunism, endemic caused by ownership and management separation, as well as high cost on management employment and monitoring. In addition, family firms usually exhibited a strong motivation to ensure all resources are allocated sparingly and utilized intensively. As a result, the operating cost would be reduced indirectly.

With regards to personalism, the unification of ownership and management in family firms also enhance the authority of the people who is both the owner and manager of the firm (Chrisman et al, 2006). As a result, the management in family governed firm would face very limited internal bureaucratic constraints that help them to free from the management restrictions in other forms of corporate governance. Meanwhile, owner-managers would also be less in control of external factors associate with accountability, disclosure, or transparency. Actually, the high personal authority in family firms ensures the development of family firm could be subject to the family or owner's own vision onto the business. With regards to particularism, this characteristic was built on the personalization of authority and sources from the trend of the owner-managers to consider the firm as 'our business' (Carney, 2005). Family ownership right usually permits the family to interfere in the issues of the family firm to instead other nonfamily employee's decision, through particularistic standard of their selecting. For example, owner-managers of family business might be free to donate their money for the noneconomic purpose.

Due to the unique characteristics of family governance, this form of corporate governance could generate both business constraint and competitive advantages. According to Carney (2005), the unification of ownership and management generate a capital constraint and a managerial constraint, which was considered as source of competitive disadvantage under the context of managerial governance or alliance

governance. The capital constraint refers to the capability of family firms to acquire financial resources in the capital market while the managerial constraint means family owned firms usually have weak capability on managing large-scale and technologically complex industry (Carney, 1998). The popular managerial prescription for those constraints of family business is to utilize professionalize management in the firms. However, because the top managers in family business are usually chose, monitored, disciplined, and paid by the criterion of family ties instead of management expertise or business performance, meanwhile family firms were unlikely to motivate nonfamily managers with stock options (Schulze et al, 2001), family enterprises usually are less likely to recruit high quality nonfamily managers as managerial or alliance governed companies. Despite capital constraint and managerial constraint, family governed firms could generate a number of competitive advantages as well. Based on the review in section 2.2, such competitive advantages could included: decreased management cost, efficient decision making process, fast respond to market, and long term performance evaluation mechanism, and other advantages, which were related to high family unity, commitment, structure stabilization, common shared value and belief, and high level of trust. Based on the features of family governed firms, an agency theory was usually used to be a leading paradigm for exploring problems of family governance. And the next section would review and discuss agency theory and other related theories.

2.4 Agency theory and family governance

Based on the basis of the separation of ownership and management control, agency theory was considered as one of the most popular theoretical frameworks to explore many related issues in corporate governance. Within agency theoretical framework, the owners of the firms are seen as 'principals' and the managers are considered as 'agents'. According to the agreement in the contract, the agents usually make decisions and implement the decisions, and then both principals and agent share the results (Ross, 1973). Agency theory then was developed as key tool to explore the potential issues of the relationship between owner and agent and how various approaches of contracting and organizing influence the result of such relationship. From Chua et al. (2009), agency theory primarily deal with two basic issues that might happen in agency relationships. One is the problems about the goal issue between the owner and managers and how to evaluate what the managers actually did. Another is the problem about the different attitude of risk sharing between owners and managers and hence might take different choices for decision and implementation. Contractual relations were the basis of the firm based on the agency theory. The nature of the written and unwritten contracts within the firms usually identity two important contents: the nature of residual claims and the decision process among agents (Kyriakopoulos, 2000). Initially, there was an alignment of interest between owners and agents for congruent goals. But based on the research of Jensen and Meckling (1976), managers might be 'self-utility maximizers', who pursue objectives attractive to them even at the expense of shareholders or owners value. Therefore, if the agents in an agency relationship are self-utility maximizers, those agents would not always be on the behalf of the best benefit of the owners, and then the agency costs would be happened. Jensen & Meckling (1976) categorized the agency costs into three basic forms: monitoring expenditures, bonding expenditures, and residual loss. Monitoring cost refers to the costs are used to monitor agent business operation behaviours in order to

decrease the possibility of the deviant behaviour of agents. The bonding costs were generated by the managers to protect the owner's benefits. For example, the bonding activities might be the contractual limitations on the manager's decision making power. Meanwhile, the residual loss related to the results of not optimal management decision making, from the view of owners.

The agency theory was widely applied in the researches of corporate governance since this theory can identify the agency relationship in a firm and where parties usually have deviating benefits. For family governance mode, the agency theory was also frequently used to identify the issues on the ownership structure of family business, relationship between ownership and performance, shareholder roles, owner-managers and non family managers, and family firm's management problems in relation to agency issues (Daily & Dollinger, 1992). The primary argument from those researches was that the overlapping of owner and managers within family firms created the natural alignment for business goal and risk taking. As a result, from the perspective of agency theory, family member executives or managers in family firms dramatically decrease the agency costs that are needed for monitoring, incentives, as well as sanctions, and therefore owner-managers would outperform nonfamily managers who are at arm's length from owners. Based on this notion, a number of researches such as Anderson and Reeb (2003) have promoted the advantages of having owner-manager in family business.

Although agency theory could offer a robust framework to understand corporate governance and related issues in family business, the traditional finding of the agency theory has surrounded controversial point of views. For example, Miller et al (2014) pointed that some literature of advancing behavioural agency theory argued that owner executives are usually motivated by non-financial, socioemotional wealth objectives, such as preserving family control even that might sacrifice firm profitability. At the same time, nonfamily executives might not be sensitive to socioemotional wealth and are less tied emotionally to other family members. Meanwhile, Schulze et al (2003) also pointed family governed firms was one of the most costly forms of corporate governance because of the altruism of owner-managers, which could result in increased agency costs sourcing from own-manager's incapability to manage conflict among different principals, owner-managers, and nonfamily managers. Poza (2007) concluded the agency cost was raised from different sources when the firms were managed by owner-managers, including CEO's capability to hold out; preference for low business risk; lack of career motivation for nonfamily employees; lack of evaluation of firm performance as well as family members' performance; as well as avoidance of strategic planning which would potentially lead to the conflict among family members. As a result, it is hard to identify whether a family governed firm should employ nonfamily executives from the perspective of agency theory, some researchers advocate the advantage of unification between ownership and management while other researchers use this theory to support the opposite point of view. Beginning with agency theory and other related theories, the motivational factors and constrained factors of employing nonfamily executives in family firms are discussed in the next section.

2.5 The drivers and constraints of employing nonfamily executives in family firms

The option between a family manager and non-family manager is a vital issue for the ownerships of family firms (Stewart & Hitt, 2012). While plenty of significant researches have been devoted to the topic of family business succession, few related literatures examined the topic of selection between a family executive and a nonfamily executive (professional managers). Recently, some researchers studied the selection of nonfamily managers from the perspective of firm performance. For example, Lin & Hu (2007) conducted research on the relationship between firm performance and selection of nonfamily CEO. However, they didn't find the obvious linkage between better performance and choosing nonfamily managers. Instead, they found family firms with high managerial skills preferred to employ nonfamily executive to improve firm performance, especially when those firms have weak cash-flow rights and control. On the contrary, family firms with few requirements in managerial skills and more desires on entrepreneurship are more likely to use a family manager. Similarly, Smith and Amoako-Adu (1999) explored the factors that influenced family firms to employ nonfamily executives, from the perspective of ownership characteristic and firm performance. And they found the performance of those family firms was largely depending on the nonfamily manager's background and operational characteristic rather than the employment of nonfamily managers itself. Many family businesses are still managed by the owners or family members while the other family firms have handed over managing responsibility to nonfamily executives. Therefore, selecting a nonfamily executive was not a necessity for family firms, but was determined by a number of motivational factors as well as constrains.

2.5.1 Drivers of choosing nonfamily executive

The decision to employ nonfamily executive can be caused by a series of reasons such as the state of the family or by the family business itself. Based on the literature review for the corporate governance in family business, there were two main constraints for family governed firms: capital constraint and managerial constraint. According to Carney (2005), concentrated ownership in family firm reduced the chance of bidding by other agents, as a result impose a capital constraint that blocks the firm's further development. Although the capital constraint has been greatly eased since 1990s due to bank mediated credit became more readily available, this issue still became the primary challenge for the development of majority of family firms. In addition, the overlap of ownership and management usually cause managerial constraint: owner managers usually lack of enough management capabilities on operation management, marketing, finance, or human resource, which were considered as the necessary skill to operate a business for survival (Dyer, 1989). Those challenges on capital and management became more urgent when family firm became larger size or confront broader market scope. Therefore, family firms faced such constraints usually employed nonfamily members or trained family members. Based on Stewart & Hitt, (2012), employing of nonfamily executives was the simplest way to deal with both capital constraint and managerial constraint. Sheehy (2005) argued family firms which employed nonfamily managers usually benefits from a high-performance work systems, which included performance based payment, well

planned training and development, job enrichment, employee empowerment, as well as professionalizing human resource practices. Meanwhile, the functionalists for nonfamily managers argued that those nonfamily executives have strong managerial skill and experience on different business functions such as marketing, finance, and strategy formulation in order to deal with complicated and competitive business environment Ainsworth & Cox (2003). Besides, nonfamily managers also could help family firms to overcome capital constraint through dealing better terms and conditions with banks, higher possibility to raise private equity, and greater chances to acquire capital in public equity markets (Stewart & Hitt, 2012).

Based on Klein & Bell (2007), another common reason of employing nonfamily executive was due to the family firm's problem of having no successor in general or no family member who is willing, qualified, or accepted. Lack of qualified successor always leads to that family firms experience an especially hard time because they usually select executives from a small pool of relatives. Such small pool limited the possibility of finding high qualified management talents. This challenge became more serious when an incumbent CEO died unexpectedly and next generation family members are too young and inexperienced for this role, or when an incumbent CEO wishes to retire and no one in the next generation has enough management capability to handle it. The selection of nonfamily executives not only removes the restrictions of small pool of executive selection and broaden the selection scope of high quality management talent, but also lessen the challenge of having to balance the socio-emotional wealth objectives of family owners with the commercial requirements of the business (Miller & Miller, 2013). Besides, employing nonfamily managers also provide enough buffer-time to prepare for family member leadership succession through additional training and work experiences in the future before they have strong capable to mantle of leadership in family firms. Hence, in this case, nonfamily executives could bridge two family generations together in order to perhaps prepare a number of the next generation as a potential future family manager or in order to help business through a serious crisis.

Finally, the nonfamily executives were employed in order to avoid interpersonal conflicts and problems in the family owned firm (Klein & Bell, 2007). And nonfamily executives could become a neutral solution to balance the conflict among different family owners and to decrease unconscious entrenchment within family firms (Carney et al. 2011). Therefore, a number of nonfamily managers were employed in some family firms, in which only nonfamily executives were permitted to perform the management function. In addition, family firm shareholders then do not only want to avoid interpersonal conflicts and establish a de-familiarized executive team for formal mode of management and decision making process, but also expect to make a strategic change for family firms. According to Dyer (1989), employing nonfamily executives could change the norms and values of business operation in family firms. The value and norms in family firms such as unconditional love or dedication usually conflicted with business purpose for profit maximization and production efficiency. Bringing nonfamily management executives whose pursuit organizational efficiency and higher profits would change greatly for family firm's lack of concern with profitability and efficiency. Sometimes due to various reasons, owner managers or family shareholders are reluctant to conduct such change within organisation, and then nonfamily managers could become the best candidates to lead such dramatic changes in family firms. Based on McConaughy (2000), the larger sized and more

complicated family firms, the greater strategic change for a higher level of management capability and professionalized knowledge are demanded.

2.5.2 Constraints of choosing nonfamily executive

Although there are a number of benefits that drive some family firm shareholders to employ nonfamily executives, other family firms would very carefully evaluate whether employ nonfamily executives because those nonfamily executives are not always outperform than family member managers and bring benefits all the time. Based on the Agency theory, in order to maintain the operation of agency control mechanisms, agency cost, which consists of all related cost on activities and operating system designed to ensure the alignment between actions of managers and interests of ownership, would be dramatically increased when employed a nonfamily executives (Chrisman et al. 2013). If the owners or family members involved in firm management, the agency cost might be dramatically decreased because the aligned goals of firm's ownership and agents, which are typically one and the same. However, according to Klein & Bell (2007), nonfamily executives might behave in opportunistic ways as their interests are not necessarily aligned with those of the primary owners. As a result, the agency cost cannot be saved due to high demand for formal supervision of agents and for elaborate governance mechanisms. At the same time, family owner executive often receives less salary and fewer payment based incentives than do nonfamily executives. In order to attract high quality management talent, family firms as well as other governance type firms would offer competitive salary and additional financial incentives according to performance based contract. From the survey of McConaughy (2000), the nonfamily compensation practices have arisen greatly over the past decades and the difference between family executives and nonfamily executives' compensation has become much larger. Therefore, high related cost has become the primary constraint for family firms to employ nonfamily executives.

Another constraint of employing a nonfamily executive was the conflict between family firm owner and nonfamily executive on the objective and views on the firm (Block, 2011). Schein (1983) argued that owners and nonfamily managers behaved very differently for analysing problems, viewing authority, and internal relationship. For example, during the decision making process, family firm owners or entrepreneur often make decision according to their own instinct but nonfamily managers often make decision logically and rationally depend on business environment, analysis, as well as experience. And owner managers usually like to make personal interactions with employees and others, while nonfamily managers likes to make impersonal interactions with employees and related people. Moreover, Miller et al. (2014) believed, in family firms, the socioemotional wealth priorities of family members, such as keeping family control of firm, avoiding risk, and succession, might overweigh financial objectives, which generate great conflict with nonfamily manager's financial objectives. The conflict between underlying value of family (owner) and the value of nonfamily managers usually results in further organisational problems such as employee uncertainty and confusion, dragging decision making, and unclear strategic goal (Dyer, 1989).

Besides the conflict between family and nonfamily managers, other scholars further explored the constraints from the family firm's internal perspective. Chua et al. (2003)

argued that the interpersonal relationship within family firms was a constraint for employing nonfamily executives. Meanwhile, family members who take important role in family business management might contradict the introducing of nonfamily executives due to the losing of authority and business career. In addition, Eddleston et al. (2010) believed lack of trust was a major constraint to introduce new nonfamily executives. Since the assets of family firms are shared by family members, they would highly concern with the security of capital. They might trust the executives from family members to control and allocate their capital but few of them would trust managers from external sources. Similarly, family owners or family shareholders also tightly controlled vital intangible assets of firms such as patent, marketing network, as well as finance & accounting. Lack of trust usually failed to motivate the nonfamily managers and block the formal business operation of nonfamily managers.

2.6 Family firms in China

2.6.1 Characteristic of Chinese family firm

The Chinese family firms share a number of mutual characteristics in terms of management. First, according to Wah (2001), in Chinese society, the family is the center of all relationship due to the influence of traditional Confucianism. This traditional cultural value and norms are usually considered as main factor that determines the organisational and managerial practices in Chinese business activities. Based on Wong (1985), a typical model of family firm that developed by Milton. Barnett was named familism, which divided into three key aspects: nepotism, paternalism, and family ownership. In such typical family business model, almost all important positions were occupied by family members. Other slightly less important positions were also occupied or reserved by family relatives or friends who were close, trusted, and have worked for the firms for a long period of time. Those family members who held the key positions in the firms were always considered as honorary family members (Wah, 2001) in order to keep family member's tenure and loyalty. The leadership style in such family firms was typical authoritarian and the leaders in the family firms were also leader or founder of the family group. Due to strong family responsibility, leaders in family firms not only take a paternalistic management style, but also need to use a more pragmatic way to ensure the survival and development of the family firms. Meanwhile, it is an obsession that the Chinese family firms should be controlled and maintained by the family. It is deep-rooted in Chinese that the assets should be passed down from generation to generation (Weidenbaum, 1996). In a Chinese family firms with 'familism' management type, other distinguished management characteristics were generated: highly centralised decision making, low organisational structure, paternalistic leadership, strong collectivism and group spirit, higher concern on family management and ownership (Wah, 2001).

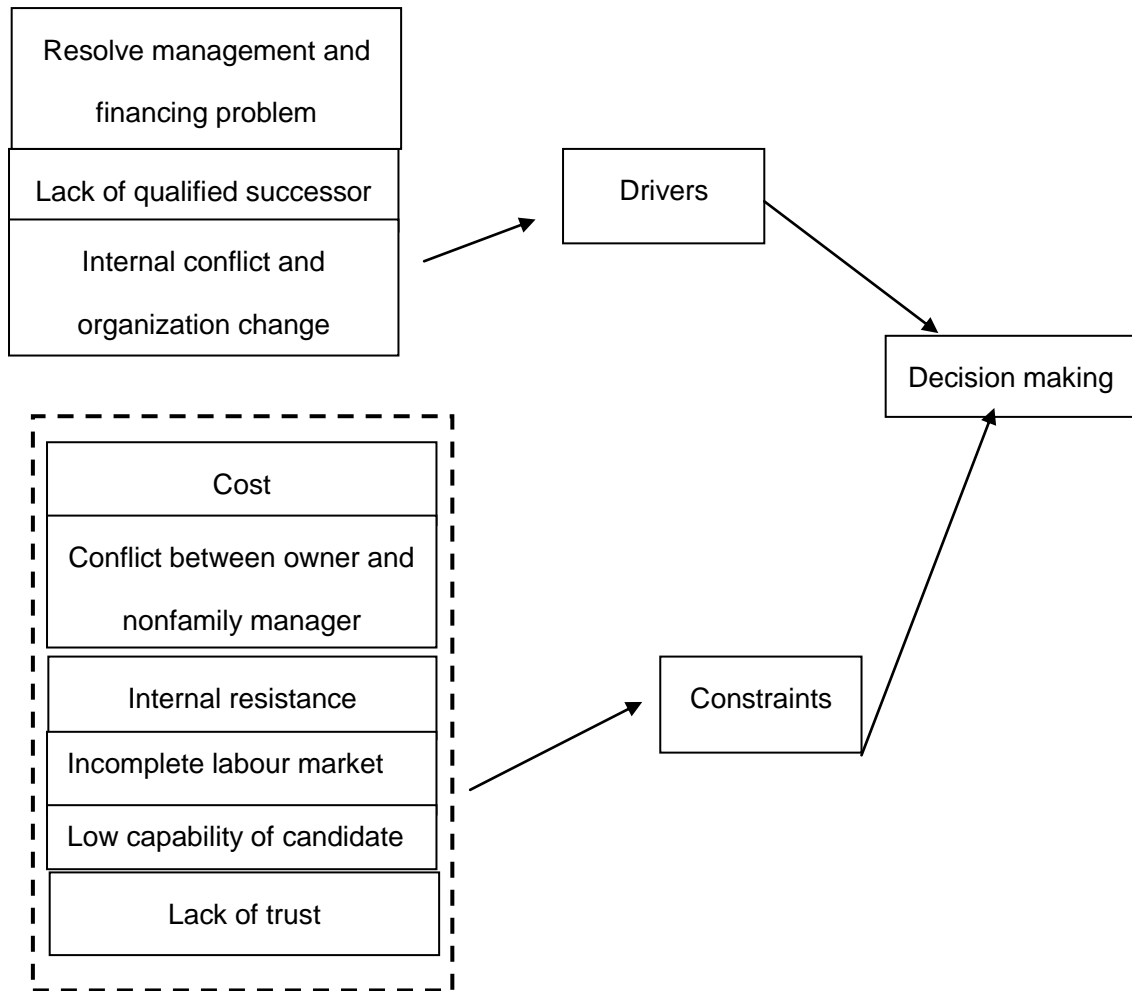
2.6.2 Nonfamily executives in Chinese family firm

There are a number of researches on the issues of nonfamily executives in Chinese family firm. Majorities of those researches focus on the constraints of employing a nonfamily executive. Meng (2012) focused on the issue of Chinese labour market for nonfamily managers (or professional managers) and found the market was incomplete and low efficiency to establish a platform for the relationship between family firms

and nonfamily managers. Kim & Gao (2010) focused on the research of the qualification of Chinese nonfamily managers and argued that the low management capability and professionalism of nonfamily managers was main reason of why many Chinese family firms gave up employing a nonfamily executive. While Ye (2011) pointed that lack of trust was the main reason for the low employment rate of nonfamily executive in Chinese family firms. The research believed that Chinese family firms were tightly organized based on mutual trust within family members but the family members usually lack of trust for nonfamily managers because of fear of loss on ownership, capital, or authorities. Other researchers such as Cai et al. (2013) believed the constraint of employment of nonfamily executive was mainly due to owners of family firms were reluctant to make higher payment to nonfamily managers from their own wealth and the poor incentive plan also failed to attract more nonfamily managers. Although there are plenty of researches on the employment of nonfamily managers in Chinese family firms, those researches mainly focused on the constraints of employing nonfamily executives from single perspective such as trust, payment, or labour market. Few of them make a comprehensive research on all relevant influential factors that impact on the choosing nonfamily executives. Hence, based on the literature review, this thesis focuses on the research of all relevant influential factors of employing nonfamily executive in Chinese family firms, including both driving factors and constraint factors.

2.7 Conceptual model development

According to the section 2.5 and 2.6, it can conclude that a number of influential factors that might affect the decision making of employing nonfamily executives. There are three basic drivers of employing nonfamily executives: solving capital and managerial constraint of the firm, lack of qualified successor, avoid of interpersonal conflict and make organisation change. While several key potential constraints were identified in literature review, including high cost of employing nonfamily managers, the conflict between owner and nonfamily managers, family firm's internal resistance, incomplete Chinese labour market, poor capability, and low trust. Therefore, a conceptual model on 'influential factors of employing nonfamily executives in Chinese family firms' could be developed as:



The research would be conducted through this conceptual model, as well as exploring new influential factor.

Chapter 3: Methodology

Based on section 1.2, the research aim of this thesis was to explore what critical factors influence Chinese family firms to employ nonfamily executives, from both motivation perspective and constrain perspective. From this research rationale and purpose, the selected methodology would be justified in this Chapter. In detail, the research paradigm, research approach, as well as research method would be selected and evaluated. Following this, this chapter would like to choose and evaluate how the research data would be gathered and what type of data analysis method would be used to analyze the collected data. In addition, this chapter would also discuss the limitation of this research design and ethic consideration of this research.

3.1 Research philosophy

According to Bryman & Bell (2007), selecting a right research philosophy is the first step of any academic research due to research philosophy determines the nature of the research, how to choose research strategy, what type of data needs to be collected, and how academic researchers interpret research aim and objectives. According to Saunders et al., (2009), there were two basic types of research philosophy, namely positivism philosophy and phenomenology philosophy. Saunders et al (2009: 144) defined positivism philosophy as 'the philosophical stance of the natural scientist, which entails working with an observable social reality and the end product, can be law-like generalisations similar to those in the physical and natural science'. From this notion, the research would focus on building and testifying causal relationship among different variables through building casual formula or connection those variables to be deductive or integrated theory. Hence, the general research paradigm guided by positivism philosophy usually preferred to develop hypotheses from existing theories and testify those hypotheses through quantitative data from large samples. At the same time, phenomenology philosophy refers to qualitative research paradigm that discovered the details of the situation to understand its reality, or perhaps the hidden rationale supporting it (Yin, 2003). Basically, the research guided by phenomenology philosophy focused on what and how of the research issues, with data collection from small-scale research sample that aimed to evaluate the nature of research issue and obtain correct understanding of the context where the issue happened. Sanuders et al., (2009) has summarized the primary characteristics of both positivism and phenomenological philosophy, which were exhibited in below table 3.1.

Table 3.1 Primary characteristics of Positivism and Phenomenological Philosophy

	Positivism philosophy	Phenomenological philosophy
Researcher should	Focus on facts	Focus on meanings
	Look for causality and fundamental laws	Try to understand what is happening
	Reduce phenomenon to simplest	Look at the totality of each

	elements	situation
	Formulate hypotheses and then test them	Develop ideas through induction from data
Preferred methods include	Operational concepts so that can be measured	Using multiple methods to establish different views of phenomena
	Taking large samples	Small samples investigated in depth or over time

Source from: Saunders *et al.* (2009)

From table 3.1, research guided by different philosophy would achieve different goals under different research process. Based on the research aim and objectives of this research, this research would like to identify the critical factors influence Chinese family firms to employ nonfamily executives, from both motivation perspective and constrain perspective. Both stimulus and constrains factors would be identified and evaluated. Identifying and evaluating those forces need to understand what is happening when Chinese family firms employed nonfamily executive and the nature of such decision making, and the overall situations would be considered critically. Meanwhile, it is hard to acquire any findings on above influential factors from simple variables testing of large scale sample. Instead, the research finding would be developed through induction from collected data or information. Therefore, based on table 3.1, this research would like use phenomenological philosophy to guide the whole research process, which would build different views of phenomena from small sized sample investigation in depth.

3.2 The purpose of the research

According to Bryman & Bell (2007), the research could be classified based on four different types of purpose of the research, namely exploratory research, descriptive research, explanatory research, and predictive research. Descriptive research was adopted to find out 'an accurate profile of persons, events or situations' (Robson, 2002: 59). This is the most fundamental research approach to clarify your understanding of a problem. Meanwhile, the explanatory research was usually to find explanations for a specific situation or problem, and to identify probable causal relationships. Based on Saunders *et al.* (2009), explanatory research was particularly useful to establish relationship and exhibit how and why. For this research, both descriptive approach and explanation approach would be adopted because this research purposes to understand what are happening during the process of employing nonfamily executive in Chinese family business and try to build the relationship between influential factors and final decision making in order to explain how and why. In detail, the descriptive research will develop a understanding on which factors could influence the employment of nonfamily executive in Chinese family firms, and the explanatory research would like to identify and evaluate how and why those influential factors

could influence the employment of nonfamily executives in Chinese family firms. The combination of descriptive studies and explanatory studies was usually known as 'descripto-explanatory studies' (Saunders et al., 2009).

3.3 Research strategy

Based on Yin (2003), there are five basic kinds of research strategies, namely experiment, survey, archival analysis, history, and case study. Saunders et al., (2009) believed that each of strategies could be used for exploratory, descriptive, or explanatory studies. However, what is the most important was not the label that is attached to a particular strategy, but whether it will enable researchers to answer the particular research questions and meet the research aims and objectives. Hence, the selection of research strategies should be guided by the nature of research questions and objectives, the extent of knowledge, resources available, as well as philosophical underpinnings (Saunders et al., 2009). Yin (2003) developed three types of measurement to classify the differences among five research strategies and table 3.2 would show how those research strategies are different each other.

Table 3.2 Classification criterion of research strategies

Research Method	Form of research question	Requires control over behavioural events	Focuses on contemporary events
Experiment	How , why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	No
History	How , why	No	No
Case study	How , why	No	Yes

Source from: Yin (2003)

Based on the classification criterion in Table 3.2, the research strategies of this research would be identified. First, since this research would focus on the contemporary issue of nonfamily executive in Chinese family firms, the archival analysis and history research would be firstly excluded. Meanwhile, this research would try to understand the real implication behind the issue of nonfamily executive in Chinese family firms rather than control respondent's behaviour; therefore, the experiment research strategy would be excluded as well. Survey and case study research strategies would be suitable for this study. However, this research aims to

comprehensively understand all related influential factors that motivate or limit Chinese family firms to employ nonfamily executives. The case study research strategies which focus on the research on one or several number of firms might not reflect all those influential factors. That is, case study cannot answer the research questions from the perspective of how many or how much. Therefore, this study would like to use survey research strategy, which focuses on contemporary issues (employment of nonfamily executives in Chinese family firms), wouldn't require respondent behavioural control, and answers 'what' and 'how many' questions (what factors influence Chinese family firms to employ nonfamily executives and how many those factors).

3.4 Data acquisition

3.4.1 Secondary Data Acquisition

For any academic researches, it is necessary to collect secondary data before conducting a primary research (Bryman & Bell, 2007), since secondary data not only provides supplemental data or information, such as industrial trend or company financial report, for primary research but also offers relevant theories from academic publication as the theoretical basis of the research. According to Saunders et al., (2009), secondary data could include documentary data, survey data, as well as data from multiple sources. Hence, from the research aim and objectives, the secondary research would be conducted in order to provide theoretical basis and supplemental data & information for primary research. There are a number of ways to collect secondary data and in this research the secondary data collection would be through university library retrieval and online database. Through university library retrieval, any data & information related to family firm governance, nonfamily executive employment, as well as Chinese family firms would be searched and collected from book, journal article, magazine, newspaper, and other publication. Similarly, online database enable this research to find more secondary data & information based on the research aim and objective. Several online databases would be highlighted in this research, Ebsco, ScienceDirect, Wiley Online Library, SAGE online, as well as Springer. Meanwhile, a Chinese online database cnki.net, which could provide abundant Chinese academic research articles, conference papers, newspaper, yearbook, as well as statistics reports, would be used for searching for data & information related to Chinese family firms and Chinese nonfamily executives.

3.4.2 Primary Data Acquisition

Based on the selection of research strategy in section 3.3, this research would like to use survey research strategy. Only secondary data collection would not completely meet the research aim and objective. Hence, the primary data acquisition would be conducted to obtain data and information directly from Chinese family firms' owners or family members. According to Saunders et al., (2009), there are a number of data

acquisition approaches to gather primary data, such as focus group, observation, interview, and questionnaire. Using which primary data acquisition method was largely depended on the research philosophy and research strategy. Questionnaire survey and interview are the most frequently used primary data collection method survey research strategy. According to Bryman & Bell (2007), questionnaire data collection method was usually adopted to collect quantitative data, which consisted of numerical data from a large size sample, meanwhile, interview was particularly used to collect the story behind the respondent's experiences and try to understand the actual thinking of the respondents. Hence, questionnaire data collection method was usually used in a quantitative research while interview data collection method was usually used in a qualitative research. Based on the analysis in Section 3.1, this research would be guided by phenomenological philosophy, which would build different views of phenomena from small sized sample investigation in depth. Thus, this research would use interview data collection method to collect primary data.

According to Saunders et al., (2009), there were three basic kinds of interview, namely the structured interviews, unstructured interviews, as well as semi-structured interviews. In structured interview, the interview questions would be strictly followed by designed standardization outline and interviewees would respond the interview questions only. Meanwhile, unstructured interview could be considered as a free style interview without formulated question and standardized procedure. Semi-structured interview combine the characteristic of structured and unstructured interview. This type includes standardized question outline but allows interviewees to respond more freely. Since this research aims to find out the influential factors of employment of nonfamily executives in Chinese family firms and evaluate the nature behind those factors, the semi-structured interview would be used, in which the standardized question outline was developed from literature review and the open question would help researcher to collect more information about implication behind. Therefore, the interview question in this research would be designed based on the conceptual model in Chapter 2, on the topic of 'the drivers and constraints of employing nonfamily executives in family firms' and 'nonfamily executives in Chinese family firms'. From the literature reviews, the interview questions would be designed in term of several key potential drivers, including purpose of solving capital and managerial constraint of the firm, lack of qualified successor, avoid of interpersonal conflict and make organisation change. While the interview questions would be also designed in term of several key potential constraints, including high cost of employing nonfamily managers, the conflict between owner and nonfamily managers, family firm's internal resistance, incompletely Chinese labour market, poor capability, and low trust. Thus, the detail of interview questions would be available in Appendix 1.

The sample of interview would be selected from either (1) primary owners of Chinese family firms; (2) family members of Chinese family firms; or (3) nonfamily managers in Chinese family firms. Based on this criterion, fifteen to twenty respondents would be selected as interviewees of this research. These interviewees will be obtained through snowballing method (Saunders et al., 2009). That means three interviewees

would be firstly selected through researcher family's relationship. And these three interviewees would offer other interviewees from their own social relationship network for this interview. All related research information would be delivered to interviewees and they should agree this interview before research conducting. The detailed information related to ethic issue would be discussed in the following section. At the same time, it is hard to develop face to face interview because of limited time, long distance, as well as travel cost for passing through different countries and China internal regions. Instead, a telephone interview would be used, which could offer potential advantages associated with high speed of data collection, lower cost, as well as convenient access (Saunders et al., 2009). Once those potential interviewees accept the interview request, the telephone interview would conduct during the spare time of interviewees. Based on the whole schedule of this research, the interview would be lasted from 10th to 20th June 2014 and each interview might take 20 to 30 minutes. The conversation in the whole interview process would be kept in recorder and the key finding would be exhibited in the next Chapter.

3.5 Data analysis methods

There are two basic data analysis methods: quantitative data analysis and qualitative data analysis method. Using which type of method mainly depends on the type of data collected. Since the primary research method is interview, hence, the qualitative data would be collected. As a result, the qualitative data analysis method would be used in this research. According to Saunders et al., (2009), there are three basic type of qualitative analysis: summarising of meanings, categorisation of meaning, and narrative of meaning. Similarly, Collis & Hussey (2009) summarized several typical qualitative data analysis method, namely thematic analysis, categorisation, content analysis, narrative analysis, and discourse analysis. Since this research would collect data from semi-structured interview, which was structured by formalized questions, the thematic analysis method would be used in this research. The thematic analysis was the most frequently used qualitative data analysis method. In the data analysis process of research, six steps of analysis would be developed to analyze and categorize the data collected from each respondent: familiarization with data, creating codes, looking for theme, evaluating theme, identifying theme, and summarizing the meaning. Based on this analysis method, the answer of each question from different respondents would be critically analyzed and categorized, in order to find out whether those potential influential factors could make effect on the decision making of employing nonfamily managers in Chinese family firms.

3.6 Reliability and Validity

According to Bryman (2006), reliability is defined as the extent to which research data collection techniques or analysis procedures will yield consistent findings. Three important criteria could be used to evaluate the reliability of the research, including 1.

The measures yield the same results on other occasions, 2. Similar observations can be reached by other observers, and 3. There is transparency in how sense was made from the raw data. Three evaluation criteria will relate four types of errors or bias: participant error, participant bias, observer error, and observer bias (Saunders et al., 2009). In order to increase the reliability, this study tries to deduce four types of error or bias based on the following arrangements.

First, this study would use telephone interview to reduce participant error. This implies that each interview could be appointed in advance. The interview will take place during a neutral time when interviewees finish his/her work in the weekday evening. Hence, during the interview, interviewees would not be pushed by current work and are not too relax. Meanwhile, there is no time limitation of interview duration. Second, in order to reduce participant bias, the result of interview would be totally anonymous. Although the researcher knows the name, occupation, and company of interviewees, that information would be kept confidentially. Interviewees would be informed before interview. Third, a high level of structure to the interview will reduce the observer error. This telephone interview is semi-structured. Most of this interview questions are structured (Appendix 1) and only two questions allow interviewee to answer freely. Forth, this study would follow standardized qualitative data analysis process to lessen possible observer bias.

Validity refers to 'whether the findings are really about what they appear to be about' (Saunders et al., 2009: 157). In order to ensure the validity, this study design the interview questions based on the finding of previous studies. Marjory of previous studies are conducted within 10 years and some of studies are conducted under the context of Chinese family businesses. The main findings of those previous studies such as Stewart & Hitt, (2012) Klein & Bell (2007), and Carney et al. (2011) help this study to design questions about what factors motivate Chinese family businesses to employ nonfamily executives. Meanwhile, the findings of Chrisman et al. (2013), Block (2011), Meng (2012), and Cai et al. (2013) help this study to design interview questions about what factors block Chinese family businesses to employ nonfamily executives. In addition, this study also uses a deductive approach for qualitative data analysis, which would use the theoretical propositions as a means to design and analyse the research data.

3.7 Ethics consideration

According to Saunders et al. (2009), the research ethic means the appropriateness of the researcher's behaviour during the process of research. In order to ensure an ethical research, several procedures were designed and implemented:

a. Before starting the interview, all interviewees would receive the consent form of this research, which introduce all related information and potential result of this research. Only when interviewees accept this consent form, the interview could be

started. Meanwhile, interviewees could terminate the interview with any reasons.

b. The interview would not involve any sensitive information that relate to privacy, criminal issue, or business secrete. And this interview would not access to the minority.

c. All information collected from the interview would be kept confidentially and only used in this research. Only researchers and the University could access the data and information. Once the research project finish, the data would be destroyed.

Chapter 4. Analysis and finding

In order to explore the key influential factors on Chinese family firms' decision making of employing non-family executives, the telephone interview has been implemented from 20 June 2014 to 5 July 2014. Because of the difference of interviewees, the telephone interview in this research can be categorized with two different groups: owners or shareholders of Chinese family firms and non-family managers in Chinese family firms. The detail information of the interviewees is available in Appendix 2. According to the interview questions in Appendix 1, all interviewees have issued their standpoint on the influential factors on employing of nonfamily executives in Chinese family firms, based on their own experiences and thought. The respondent's answer in the telephone interview could be divided into two groups: driving factors and constraint factors.

4.1 Driving factors

When asking interviewees who are owners or shareholders of the family firms 'do you have plan for employing a nonfamily executive to manage your firm', eight interviewees from total 12 owners or shareholders exhibited their strong intention to employ nonfamily executives or they have employed nonfamily executives . Almost all those eight interviewees admitted that there were some reasons that motivated them to employ nonfamily executives. First, six interviewees who are the owners or shareholders of Chinese family firms considered that lack of managerial capability or financial capability of owner-manager was the primary reason that drove them to find a nonfamily executive who had experienced capability on management. Based on the answer of Respondent 3 (R3 in Appendix 2), there were a number of managerial issues in his firm that needed to be solved urgently:

.....There are a number of management issues that directly threaten the performance of my company. For example, the firm faced more customers because of the increase of market share in local market. Previously, I personally managed customer relationship and designed marketing activities of the firms, through a number of simple marketing methods such as periodically contact with customers, prices changes, or some special promotions. In the initial period, I can maintain a good customer relationship with core customers and they seem to satisfy with our product and service. However, with the expanding of customer base, the firm has to meet various types of customers who have different preferences and demand on my firm and product. The traditional marketing approach doesn't work effectively as before and I cannot find better ways to manage market and customer.....another key issue of the company is high employee turnover rate. In the last year, the turnover rate has reached over 30%. I have to pay more money to employment agency for new staff recruitment. I don't know why my employees have low satisfaction and how to solve this problem...Hence, I want to find an experienced management talent to deal with those issues.....

From the interview answer of R3, it can be concluded that lack of managerial

capability in the field of marketing and human resource management was the main constraint for R3's firm development. R3 as an owner-manager didn't have specific knowledge and experience on such issues within more complex market situation and organizational structure. Therefore, the incapability on marketing and human resource management motivates this owner-manager to employ nonfamily managers who have strong capability and experience on marketing and human resource management.

Similarly, Respondent 4 (R4) who is owner-manager of a fruit store chain faces same issue on company management and strategic planning. According to the feedback answer of R4:

.....What dramatically bother me is my firm's daily operation management and strategic planning for store expanding. Every day, I worry about the decision on right amount and varieties of purchase order, how to allocate new purchase to different stores, how to ensure to supply stock-out fruit in time, and deal with huge amount of inventories.....although my firm provide training for salesgirls, some customers still complain about my firm's service.....and I always made wrong decision to open new store in a wrong area.....I need find a experienced manager to help me to effectively manage the whole operation and make reasonable strategic development plan.....

Obviously, R4 was troubled by the issues in operation management and strategic direction development. Without professional knowledge and experience in such field, it is impossible for an owner-manager to manage company's daily operation in effective way. Except self-development and learning, the most appropriate alternative approach is to find professional manager to help the company's operation. Some interviewees have the same viewpoint that lack of managerial capability is the major force to employ a nonfamily executive. Meanwhile, two interviewees, R7 and R10 who are the shareholders of Chinese family firm, believe the main reason for their firms to employ nonfamily executive lies in nonfamily manager's strong capability on accessing and acquiring finance resource. According to R7,

.....financing support and net cash flow is vital for our business. Once there is problem of cash flow, the survival of the business will face great challenge. However, in our company, few of shareholders including main owner understand the preference of banks or financial institutions and why investors decision to invest. In addition, obtaining financial support from bank or investors needs special relationship. We called this relationship as 'Guanxi' or 'Renmai'. We would concern with employing nonfamily managers who have strong capability on fanatical arising in priority order.....

Besides the primary driving force of lacking of managerial or financing capacity, some interviewees also argued that lack of qualified successor was another driving factor for employing nonfamily managers. According to R1, an owner-manager of manufacturing company on industrial dust catcher, he cannot find suitable successor in his family or relatives and therefore he plans to promote a chief technician in his company as general manager when he will retire in the future.

.....I only have one son and my son isn't interested in running a manufacturing business at all. Although he is graduated from Tianjin University and studied marketing for more than four years, he still prefers to open an online sport shoes store

rather than leaning the knowledge my dust catcher and how to manage the company.....It is also hard to find suitable young relatives to succeed me in the future.....

Although most of the second-generation in Chinese family firm has received better education from college or university, those second-generation might learn about how to manage the firm, develop new market, or deal with competition, however, what they have learned usually might not be specific enough to deal with the complex situation of practical management. In addition, some second-generations lose interest in entrepreneurship like their fathers. Hence, R1, R2, and R6 believe they have to find suitable replacement from nonfamily employees or external professionals in order to solve the crisis of having no qualified successor temporarily or no second-generation who is willing to or takes interest in this position. Hence, for those interviewees, employing nonfamily executives might be either an interim solution which bridge two family generations in order to prepare some second-generations as potential owner-manager in the future or a final solution to deal with the serious crisis of no successor.

There is no interviewee admits that their family firms employ nonfamily executive in order to solve internal conflict and make an organization change. They believe the internal conflict in the family firms could be effectively solved inside of the family and the leader in the family has enough authority to manage the relationship among family members. Hence, there is no need to employ external executives to balance the internal conflict or make an organization change. According to R11,

.....maintaining harmony in the family is the primary goal for the whole members of my family. I respect all the option from my family members. We make the decision together. But once the decision has been made, everyone should obey the decision and anyone who conflicts with the family will receive punishment or isolation from the family.....

Similarly, R2 believes the internal conflict within family should be solved in the family. It is unnecessary to employ a nonfamily executive to ease the conflict between different family members. On the contrary, employing a nonfamily executive might intensify the conflict within the family. According to R2,

.....the family interest is the prior to any individual interest in the company. The company would do the best to balance the interest of each family member. All family members share the same value and objective. However, if there is conflict between family member, we would immediately arrange meeting to solve this issue and would not allow this issue to happen again.....

At the same time, few owners or shareholders from Chinese family businesses consider to employ nonfamily executive to make an organisational change. They are cautious about this issue and believe the current family businesses do not need dramatic change. Only when the businesses face great problems that threat the survival of the business, they might consider making an organisational change. According to R5,

.....we are small business and we are used to maintain the traditional business

mode.....making an organizational change means my restaurant needs to target new strategic position and everything would be changed.....I cannot take this risk.....If our restaurant face vital situation, I might employ a experienced manager to make a change.....

When asking interviewees who are nonfamily managers in the family firms 'What are the reasons that family firms make decision for employing you to manage the company?', the answer from those interviewees is similar with the answer from interviews who are owner-managers or shareholders of Chinese family firms. Based on the interview answer, the primary reason that influences Chinese family firms to employ those nonfamily managers is the lacking of managerial or financial arising capability in the family firms. And those Chinese family firms want to employ nonfamily professionals to help the company to deal with managerial and financial constraints. Meanwhile, some of interviewees who are nonfamily managers believe another duty of them is to help family firms to train potential family member successors. And when potential successors have enough capability to manage the company, those nonfamily managers might be replaced by the new successors from the family. In addition, none of those interviewees believe that Chinese family firms employ them in order to solve the conflict and balance different forces in the family. According to R14,

.....I think the primary reason that motivates my boss to employ me as manager of the company is to help the company to deal with the crisis in the field of market development, human resource management, as well as operation management. At the same time, son of owner is appointed as manager assistant to learn how manage company and make decision. I think he might replace me in five years.....for a nonfamily member, it is impossible for me to get involve into the family affair or balance family members. If I do this, I think I would be fired sooner.....

When asking interviewees about the question 'Are there other factors that motivate your/their decision making?', both owners and nonfamily managers in the Chinese family firms believe there is no other apparent driving force that influences Chinese family firm to employ nonfamily executives. Therefore, from the interview answer, there are two key driving forces that motivate Chinese family firms to employ nonfamily executive: deal with managerial or financial arising crisis, and lack of qualified successor. It is also notable that, in this interview, owners, who have strong intention to employ nonfamily executive, and interviewees who are nonfamily managers are all from either larger sized family firms or family firms with more complex organizational structure and operation process. The owners who have less intention to employ nonfamily executives are usually from smaller sized family firm or simple family business. For example, R4, who has strong intention to employ nonfamily professionals, owned a fruit store chain, which has more than 200 employees and complex operation process, including purchase order, warehousing, delivery, product scheduling, daily accounting, as well as sales management.

4.2 Constraint factors

When asking interviewees who are owners or shareholders of the family firms 'What are the constraint factors that block you make decision for employing nonfamily

executive? and 'which factors influence you most and why', different interviewees have their own arguments on the constraint factors. First, several interviewees, who have less intention to employ nonfamily executives, believe high cost is the main constraint that blocks them to employ a nonfamily executive. From those interviewees, it is not worthwhile to employ a nonfamily executive for their firm because of potential higher agency cost. On the one hand, those interviewees have not troubled by managerial and capital crisis or lack of successor. On the other hand, they don't believe the benefit of employing a nonfamily manager would overweight the total expenditure on employing a nonfamily manager. According to R5,

.....my restaurant is a small business and I have enough experience and time to manage my restaurant. I have confidence to do this because, from my own viewpoint, the secret of making money for a small restaurant is to provide tasty food with reasonable price to satisfy local favor.....if I employ a nonfamily executive to manage my restaurant, I need additional pay 5000-6000 RMB per month, which account for a certain proportion of my net profit..... I also worry about how nonfamily executive spend my money and the potential duty consumption.....

Similarly, R9, an owner manager of real estate agency, believed employing a nonfamily executive in the sector of real estate was really expensive such as high salary and monitoring, and the company needed to pay additional incentive payment in relation to performance in order to ensure the interests alignment between nonfamily executives and shareholders. According to R9:

.....Employing a nonfamily executive will cost me a lot including high salary, performance related bonus, additional administrative consumption, as well as external auditor cost.....the most important is that I believe I can do better than other nonfamily executives on my current position. I have over 15 years work experience on real estate.....

At the same time, other interviewees, who have less intention on employing nonfamily executive, all considered high related cost of nonfamily executive was the most important constraint factors that influenced their decision making. There is a common thing for those interviewees of owner manager or shareholders of family firm. Their firms are all small sized firms with relatively simple business operation process. Such firms usually cannot afford the cost related to employing nonfamily executive and those firms are relatively easy to manage and operate. Meanwhile, owner managers usually have adequate managerial or capital arising capability to manage the business.

The other interviewees who are willing to employ nonfamily managers also seriously concern a number of issues if employing nonfamily managers. They considered high agency cost will influence their decision making on employing nonfamily executives. But majority of them believe, if necessary, they would pay more money to employ nonfamily managers and it would be worthwhile to do this. Instead of concerning cost issue, they more concern with the problem of 'trust' and the qualification of nonfamily managers. Mutual trust was usually considered as main characteristic of family firms in their governance and this characteristic shapes strong family bonds. Meanwhile, long term family internal relationship also breeds trust in return. However, strong internal trust within family can lead to a number of weaknesses, including blind faith,

amoral familism, and inevitable exclusivity. In this research, two thirds of interviewees of owner managers or shareholders of family firms considered 'trust' was the most important factor that prevented them from employing nonfamily executives. They are usually anxious for giving managerial authority to nonfamily members. They don't easily trust nonfamily members, even for long-term subordinates. They would think twice about employing nonfamily executives because they don't know whether nonfamily executives could fulfill their obligations or not. They also worry about the security of their asset as well as ownership of the firm. Although some interviewees have employed nonfamily executives, they have limited the authority of nonfamily executives in order to lower the potential risk. According to R7, who is owner of fitness club and has already employed a nonfamily general manager from Hongkong, believed:

.....at first, I planned to employ a nonfamily manager of fitness club business because I am not a professional in the field of fitness. I need to select a trustworthy professional to manage my business which has been invested more than 10 million RMB. It's very high risk if employ a wrong person.....however, I cannot find a trustworthy manager from local market after a number of interviews. Some managers fail to meet my expectation on management and business running. Some managers cannot give me confidence to trust them. So I hadn't employed a nonfamily manager until one of my best friends recommended a professional fitness manager from Hongkong to me.....After carefully evaluating this candidate, I decided to employ this nonfamily professional but at first I didn't grant him with high level of authority.....

In addition, R1 believe nonfamily executives might harm the interest of the family and few family members would suggest employing nonfamily executives. This also reflects the lower trust on external human resource when concerning for company authority, family incomes, or security of assets.

Besides low degree of trust for nonfamily members, some interviewees, who are owners or shareholders of Chinese family firms, also believe the constraint that influences their decision on employing nonfamily executive is because it is hard to find qualified nonfamily professional manager in the labor market. According to R4,

.....I have always looking for a professional manager to help me to manage the business. My firms have posted position demand on the well-known HR service online providers such as 51JOB and Zhaopin.com. Meanwhile, I also commissioned professional head-hunting companies to help me find suitable candidates.....however, I cannot find a suitable one.....some of them have good managerial experience on manufacturing or hospitality but they don't familiar with retailing business; some candidates are coming from retailing sector but I don't believe they can manage my company well.....some candidates have good qualification in retailing management but they are not local people and ask for additional subsidy for settlement.....until now, I keep looking for suitable person to replace me.....

Meanwhile, according to R6, the professional managers in the market would prefer to work in foreign companies, joint-venture companies, state-owned companies or public companies. Those companies can provide good reputation, high income, flexible platform, or stable job position. So few nonfamily professional likes to work in a typical family firm, in which the managerial authority is limited to a great extent.

Some nonfamily professionals even choose to start a new business of their own rather than working for family firm. From this point of view, the lack of qualified candidates is partly due to the weak capability of available candidates. But it also largely due to the distrust of family owner or shareholders, which make nonfamily managers feel restrict and inflexible. At the same time, the lack of qualified nonfamily professional in the labor market for selection would lower the trust of family firms on nonfamily executive in return. Therefore, from the perspective of family owner and shareholders, the trust issue and lack of qualified candidates are believed as the most important constraint factors and two factors also are interacted each other.

During the interview, very few interviewees of owner manager or shareholders believe 'the conflict with nonfamily managers' and 'family internal resistance' would be the main constraint factors that influence the family firm decision making on employing nonfamily executives. From their point of view, the performance based contract would align the interest of nonfamily executive with the interest of families. That's means, what nonfamily executive obtains will largely depend on the performance of family firms. In the initial stage, nonfamily executives would also have limited managerial authority, which can help nonfamily executives to avoid the conflict with the families. Meanwhile, interviewees of owners or shareholders considered there would be less family internal resistance if the family decides to employ a nonfamily executive. Those family owners and shareholders would consider family members first when the firms need to change a new management executive due to various reasons. Only when there is no qualified successor in the family or no family member is willing to accept this position, the family firm would start to find nonfamily candidates. As a result, the decision of employing a nonfamily executive would not face the internal resistance in the family since there is a consensus among family members that the firm needs to employ nonfamily executive. In addition, all interviewees of family firm owners or shareholders have no idea about labor market. They pointed they just felt it was hard to find a suitable candidate but they didn't know the situation of nonfamily professionals in the labor market.

When asking interviewees who are nonfamily managers in the family firms 'What are the reasons that block family firms from employing nonfamily managers to manage the company?', the answer from those interviewees is slightly different with the answer from interviews who are owner-managers or shareholders of Chinese family firms. From those interviewees, trust and incomplete labor market were believed as the most important issues that influenced Chinese family firms to employ nonfamily executive. Because of low trust toward nonfamily members in family firm, nonfamily professionals usually find work opportunities in other types of business firms such as foreign company or mixed ownership company, in which management professionals could obtain authority on management without high level of restriction. In addition, the incomplete and low efficiency labor market destroys the balance between demand and supply. On the one hand, family firms believe it is hard to find qualified and suitable nonfamily professionals in the market. On the other hand, nonfamily professional points that the labor market fails to establish an appropriate platform that can offer comprehensive information, evaluation of previous performance, classification, and strict supervision. According to R16,

.....I have participated in many interviews from family firms.....I failed to satisfy the demand of employer was mainly due to they were not familiar with me. They don't

know what I am good at and they don't have confidence to employ me..... The market and agency cannot deliver useful information more than just providing contact clue.....

At the same time, some nonfamily managers believe related cost and the capability of nonfamily managers can also influence the decision making. But they don't believe two factors are decisive factors since the related cost could be negotiated during contract signing and the capability of candidate cannot be evaluated during recruitment process. In addition, the interviewees don't consider 'conflict between owner and nonfamily manager' and 'internal resistance' would be constraint factors in the stage of recruitment. However, 'conflict between owner and nonfamily manager' and 'internal resistance' would be probably happened when nonfamily managers have worked for the family firm.

In conclusion, from the perspective of family owners or shareholders, the constraint factors would be cost, lack of trust, as well as few qualified nonfamily candidate, among which related cost and lack of trust would greatest influence decision makers. From the perspective of nonfamily managers, the constraint factors would be cost, lack of trust, labor market, and few qualified candidate. And they believe lack of trust and low efficiency of labor market will influence the most. The Table 4.1 could summarize the main finding of this study.

The most important driving factors	Solving capital or managerial problems	R3 R4 R7 R8 R9 R10 R11 R12 R13 R14 R15
	Lack of qualified successor	R1 R2 R5 R6 R16
	Solving internal conflict	
	Making organisational change	
	The others	
The most important constraint factors	High cost	R2 R5 R9 R12
	Conflict with nonfamily managers	
	Family firm's inside resistance	
	Low efficiency of labour market	R14 R16
	Lack of mutual trust	R1 R7 R8 R10 R11 R13 R15
	Lack of qualified nonfamily candidate	R3 R4 R6
	The others	

Table 4.1 Summary of finding

Chapter 5. Discussion

According to the key finding in Chapter 4, this research has identified both driving factors and constraint factors for Chinese family firms to employ nonfamily executives. The driving factors are lack of managerial capability or financial capability and lack of qualified successor. The constraint factors are cost, lack of trust, labor market, and few qualified candidate. Comparing with the important factors, including both driving factors and constraint factors, that influence family firms to employ nonfamily executives in the Chapter of literature review, most of those key factors are in accordance with the previous studies. However, some key influential factors are not found in this research. First, solving internal conflict and make an organization change are not considered as key driving factors that motivate Chinese family firms to employ nonfamily executive, by both Chinese family firm's owners and nonfamily managers. Second, conflict with nonfamily managers and internal resistance are not considered as key constraint factors that prevent Chinese family firms from employing nonfamily executive, by both Chinese family firm's owners and nonfamily managers. Since the conceptual framework of this research is developed on the basis of previous studies, which are usually based on the researches of Western family business context, the key findings of this research are partly consistent with the previous studies but the others are not, which reflects the difference between Western business context and Chinese business context. This chapter would like to discuss the reasons behind the research finding.

According to the findings of this research, driving factors, including lack of managerial capability or financial capability and lack of qualified successor, are considered as key influential factors motivate Chinese family firm to employ nonfamily managers. Those two factors, ranked by the importance for motivate Chinese family firm's decision making, are managerial capability or financial capability and lack of qualified successor. First, lack of managerial capability or financial capability is considered as the most important driving factor. This can be interpreted by the research of Dyer (1989), Carney (2005), Stewart & Hitt (2012), and Ainsworth & Cox (2003) from the literature review. According to Carney (2005), the unification of ownership and management generate a capital constraint and a managerial constraint, which was considered as source of competitive disadvantage under the context of managerial governance or alliance governance. Since the overlap of ownership and management in most of Chinese family firms (Tsai et al, 2006), those family firms would face great challenges if those owner-managers is incapable of acquiring required financial resources in the capital market or dealing with various business issues during business operation. According to the research finding, this challenge becomes more serious if the Chinese family firms become large-scale or are in technologically complex business sector. For example, in this research, R4 who is an owner of fruit shore chain face great challenge on managerial capability for managing more than 200 employees and complex operation process. Once those Chinese family firms face serious managerial or financial issues, employing of nonfamily executives was the simplest way to deal with both capital constraint and managerial constraint (Stewart & Hitt, 2012). Therefore, lack of managerial capability or financial capability has become the most important driving factors that motivate Chinese family firms to employ nonfamily executives. The other researches such as Liang et al (2013) and Yu (2001) also support this finding. In Liang et al (2013)

research, a large sample of firms in China, which were selected from the 18 industries classified by the Chinese Statistics Bureau, were investigated and they found owner's involvement in management had an inverted-U-shaped relationship with the performance of family firms and the likelihood of internationalization. At the same time, according to Li (2006) who conducted a survey on informal financing of family firms in China, Guanxi, as a Chinese family based social network, can make great impact on the access to financial resources necessary to the operation of a family firm in China. Nonfamily candidates who have good Guanxi of accessing to financial resources are welcomed in this research.

Besides lack of managerial capability or financial capability, lack of qualified successor is another main driving factor that motivate Chinese family firm to employ nonfamily executives. This can be interpreted by the research of Klein & Bell (2007) and Miller & Miller (2013). According to Klein & Bell (2007), when current own-managers of family firms face replacement issues due to retire, disease, or lack of capability, they probably cannot find a qualified successor from a small pool of family members. The limited number of candidates in such small pool lowers the possibility of obtaining high qualified management talents. In this research, some owner-managers admitted that, before they retire, they want to find a suitable successor in next generation. But those next generations either are too young to have sufficient management experience and capability or have no interest to accept this position. Therefore, employing nonfamily executives greatly eases the high pressure of no qualified successor. However, the usual concerned issue of family firms is the succession issue for family business' continuity. This issue becomes more critical in Chinese family firms, in which family continuity is the core value of the firms (Chung & Yuen, 2003). The families often worried about the loss of ownership when the firms face serious crisis. Based on Miller & Miller (2013), employing nonfamily managers also provide enough buffer-time to prepare for family member leadership succession through additional training and work experiences in the future. Therefore, in this research, some respondents who are nonfamily managers in Chinese family firms believe another key duty of those nonfamily managers is to bridge two family generations together in order to perhaps prepare a number of the next generation as a potential future family manager or in order to help business through a serious crisis.

In addition, lack of qualified successor also could be explained by China's particular policy on controlling the growth of population. Since 1970s, China government started to implement 'China family planning' policy, which only allows one family having one child in order to control the growth of population and reduce the fertility rates. If breaking this rule, the family will get rigorous punishment. As a result, majority of Chinese families since 1970s are one child family, regardless what job of the parents. Hence, in this interview, those family business owners, who usually age from 35 to 60, only have one child. This dramatically influences the possibility for selecting a qualified and prospective successor from the next generation. Therefore, it can be asserted that 'China family planning' policy might be one possible reason for the lack of qualified successor.

However, in this research, solve internal conflict and make an organization change are not considered as key driving force that motivate Chinese family firm to employ nonfamily executives. This research finding is much different with the argument of Carney et al (2011) and Dyer (1989), which believes that nonfamily executives could

become a neutral solution to balance the conflict among different family shareholders and a key force to strategically change the norms and values of family firms. Based on the interviewees who are nonfamily managers of family firms, they usually don't involve into the family internal affairs or relationship conflict. They think if they get involved deeply, they might be soon fired because the family members might consider the risk of loss of ownerships or company authorities. One of the major reasons is some specific characteristics of Chinese family firms. According to Fan (1998), a typical Chinese family business is characterized as paternalism, high level of centralized decision making, loyalty, as well as obedience to the family leader or owner-manager. Those characteristics are much different with that in Western family firms, in which participative management and decision making delegation are encouraged. As a result, within Chinese family firms, the family internal affairs as well as business issues are always solved within family. Once the family members reach a consensus, the family leader or owner-manager would make decision on those issues and all family members should behave obedience to the decisions made by family leader or owner-manager. Such collectivist orientation and paternalism would significantly mediate and negotiate the relationship within family and impact their behavior pattern. From the interview, some family firms could be considered as family-first family businesses. Hence, the primary goal of this type of family business is family interest. Hence, once there is conflict within the family, this would relate to core value of the family firm and this would not allow the participation of external people. In addition, according to Wah (2001), a Chinese family leader usually possesses great self-confidence and continuously instills high expectation and confidence in his followers. The leader would believe he/she and this family have confidence of dealing with family internal affairs and organisational change. As a consequence, nonfamily family executives are not needed for solving internal conflict and make organizational change.

Although interviewees of both family firm owner-managers and nonfamily managers believe no other driving force can motivate the employment of nonfamily executives, according to the result of this research, there is indeed a hidden driving factor that indirectly motivates Chinese family firms to employ nonfamily executives. Based on the research results, it is obvious that the size and complexity of the family business can make indirect influence on the decision making of nonfamily executives employment. There is a tendency that the larger size and the more complexity of the business, the more likely to employ a nonfamily executive. This research finding is in accordance with Klein's (2000) argument that the larger and more complex the family business, the more executives with a higher level of professionalism and external knowledge are required. Hence, the size and complexity of Chinese family firms might be another key driving factor that impact decision making on employing nonfamily executives. Since this research doesn't focus on the influence of size and complexity on nonfamily manager's employment, this topic should be developed in the future studies.

According to the findings of this research, constraint factors, including cost, lack of trust, labor market, and few qualified candidate. Those constraint factors ranked by the importance for influencing Chinese family firm's decision making, are lack of trust, high related cost, low efficiency of labor market, and few qualified candidate.

First, lack of trust is considered as the most important constraint factor, by interviewees of both owner-managers and nonfamily managers. This research finding can be interpreted by the argument of Ye (2011) from the literature review, which pointed that lack of trust was the main reason for the low employment rate of nonfamily executive in Chinese family firms. According to Ye's (2011), Wong (1993), and Tsang (2001) viewpoint, the relationship within Chinese family firms are tightly formed by high level of mutual trust among family members, however, nonfamily members in the family firms usually cannot get such high level of trust from owner-managers or family members, due to the fear of loss on ownership, capital, or authorities. This phenomenon can be further explained by Fukuyama (1995), who believes the culture of trust as the source of spontaneous sociability and the culture of trust can be divided into low-trust culture and high-trust culture. Oriented from Hall's (1976) high context culture and low context culture, Fukuyama (1995) developed two unorthodox cultural grouping of high-trust societies and low-trust societies. The U.S., Germany, and Japan are typical high-trust societies, while Italy, France, Korea, and China are typical low-trust societies. Fukuyama (1995) believes Chinese intense familism is the main reason for low-trust culture in China. Within such low-trust society, high level of mutual trust only exists among family ties. From this notion, it cannot be hard to understand why lack of trust has become the primary constraint factor that influence the decision making on employing nonfamily executive in Chinese family firms.

Besides lack of trust, high related cost is another main constraint factor that influences Chinese family firm to employ nonfamily executives. This research finding is consistent with the studies of Chrisman et al. (2013), Klein & Bell (2007), and McConaughy (2000), which believe high related cost has become main constraint for employing nonfamily executives. According to Klein & Bell (2007), the cost on employing nonfamily executives is usually high due to high demand for formal supervision of agents and for elaborate governance mechanisms. At the same time, the compensation for attracting high qualified management talent is increasingly high year by year within current business environment. Therefore, some owner-managers of small family firms are reluctant to pay much money to employ a nonfamily manager because they believe it is not worthwhile. This key finding can be further interpreted by the agency theory and the characteristic of family firms. According to Jensen and Meckling (1976), agents sometimes are 'self-utility maximizers' who achieve objectives attractive to them even at the cost of shareholders or owner's interest. Hence, high related agency cost might be happened such as high compensation, monitoring expenditures, bonding expenditures, and residual loss, in order to avoid those agents are not on the behalf of the best benefit of the shareholders. On the contrary, one of the main characteristic of family business is the overlap of family, management, and ownership. From system theory, the family firm is modeled as comprising the three overlapping, interacting, and interdependent subsystems of family, management, and ownership (Poza, 2007). The family member executives or managers in family firms will dramatically decrease the agency costs that are needed for monitoring, incentives, as well as sanctions, and therefore owner-managers would outperform nonfamily managers who are at arm's length from owners. As a result, most of interviewees believe that it is worthwhile to use own-managers or family

member executives rather than employing a nonfamily managers with high related cost.

In addition, low efficient labor market and less qualified candidate are also considered as constraint factors by some own-managers and most of nonfamily managers in the interview process. This research finding is consistent with the research of Meng (2012) and Kim & Gao (2010). According to Meng (2012), Chinese labour market was incomplete and low efficient to establish a platform for the interaction between family firms and nonfamily managers. At the same time, Kim & Gao (2010) argued that the low management capability and professionalism of nonfamily managers was main reason of why many Chinese family firms gave up employing a nonfamily executive. Therefore, some owner-managers express that they cannot find a suitable nonfamily candidate in the labor market although they have searched through various ways, while most of nonfamily managers believe the current labor market offers very few job opportunities and lack of qualified nonfamily managers in the market leads to the low confidence of family firms to find suitable candidate. This phenomenon can be further explained by the history of China economic development. Before 1980s, there is no private firm and human resource market in China due to the central planned economy mode. Since the economic reform from 1980s, a more market-oriented labor market has been developed accompanying with the increasing significance of private sector and the downsizing of state-owned enterprises (SOEs). Despite the fast growth of China labor market, there are still a number of key challenges faced by China's labor market in recent years since the short development time of this labor market. According to survey of IMF (2007), the challenges of China's labor market mainly include unclear labor standard, incomplete social insurance mechanisms, restriction of labor mobility among different regions, unemployment rate, weak education and training, as well as poor information system. Among those challenges, restriction of labor mobility, weak training and development, and poor information system lead to inefficient labor market and less of qualified nonfamily managers. For example, the household registration system (Hukou) has seriously limited the labor mobility among different cities or from rural areas to urban area. In most of large cities in China, migrants can get local Hukou, which can ensure migrant's full social welfare and work-related insurance, only through investment or purchasing local housing property.

However, in this research, internal resistance and conflict between owner and nonfamily manager are not considered as key constraint forces that influence Chinese family firm to employ nonfamily executives. This research finding is much different with the argument of Block (2011), Schein (1983), and Chua et al. (2003). According to Schein (1983), owners and nonfamily managers would have very different ways to analyse problem, regard authority, and deal with internal relationship. But in the research, few owners and nonfamily managers believe they would face serious conflict each other. In addition, although Chua et al (2003) believe introducing nonfamily managers would cause strong resistance from other family members, the research finds low level of internal resistance within the family. One of the major reasons of the differences is due to the influence of cultural context within Chinese family firms. According to Wah (2001), Chinese cultural values are often seen as an important factor in determining Chinese business organisational and managerial practices. Particularly, Confucianism forms collective human relationship within Chinese family firm, with a high sense of cohesiveness within the same hierarchy, in order to create

environment of harmony and friendship. This relationship leads to subordinates' (include family members) public expression of different views or overt self-interest should be kept to lowest level (Wah, 2001). In addition, Chinese family firms strongly focus on hierarchical order (Wah, 2001). Hence, the paternalistic leader in the family has incontrovertible authority in the firm. These two characteristics of family firms result in low level internal resistance and low possibility of the conflict between owner and nonfamily manager, when the family firms want to employ nonfamily executives. However, the conflict and internal resistance will gradually emerge after the employment of nonfamily executives.

Although interviewees of both family firm owner-managers and nonfamily managers believe no other driving force can prevent from employing of nonfamily executives, according to the result of this research, there is indeed a hidden constraint factor that indirectly prevents Chinese family firms from employing nonfamily executives. This interview doesn't directly measure the type of the family businesses of interviewees. But from the interview answer of those interviewees, it can be predicted the type of the family businesses. Based on the interview answer, family firms, which consider family interest as primary business goal, are usually reluctant to employ nonfamily executives. They believe nonfamily executives are trustless and might damage the interests of the family. They also believe it is worthless to employ nonfamily executive with higher compensation and monitoring cost. Only when the firms face vital problems such as survival or no suitable successor, they might consider employing a nonfamily executive. This implied that family-first family businesses might be reluctant to employ nonfamily executive. At the same time, some larger family businesses, which have more number of family or nonfamily shareholders, have a tendency that they would like to employ nonfamily executive for short term business return for example solving the current managerial or financing problems. This type of family businesses considers shareholder's business return as the goal of the firm. Hence, it implies that ownership-first family businesses have willingness to employ nonfamily executives if nonfamily executives can bring short term business return for the shareholders. The influence of the type of family businesses on employing nonfamily executives in this research is in accordance with the argument of Poza (2007) and Harjito & Singapurwoko (2014), who also consider family-first family businesses are unwilling to employ nonfamily executives and ownership-first family businesses do business based on the principle of 'shareholder return first'. However, very few family businesses in this research want to employ nonfamily managers from the reason of making organizational change. This reflects the needs for professionalization of those family businesses are not voluntary. Employing nonfamily executives are usually for solving short term problems. None of those businesses want to make a strategic change for long term business growth. Even some family businesses have hired nonfamily executives, the authority of nonfamily executives are greatly limited by the family. It can be concluded that there is no management-first firms in this interview.

Chapter 6 Conclusion, limitation, and implication

6.1 Conclusion

Family business is the most fundamental business mode in any economies in the world. The high failure rate of family business forces owners of family business to conduct management professionalization for their business. There are two ways to conduct management professionalization: one is to train and foster family members and another is to directly employ nonfamily executives. The later approach is the simple but high effective way to help family business to establish more formal style of management and decision making. However, during the process of introducing of nonfamily executives, many issues will be occurred. Plenty of studies focus on the research of influential factors of employing nonfamily executives. According to those studies, there are three driving factors that motivate family firms to employ nonfamily executives, including lack of managerial and financial capability, lack of qualified successor, and solving internal conflict and make organizational change. While the constraint factors include high related cost, conflict with nonfamily managers, internal resistance, low efficient labor market, lack of trust, and few qualified nonfamily candidate. Meanwhile, the situation in China family business is much more complex and Chinese family firms were significantly influenced by Chinese traditional culture and shared common characteristics. It is doubtful whether above influential factors can make similar impact on Chinese family firms. Based on the background of those researches, this research aims to find out both driving factors and constraint factors that influence Chinese family firms to employ nonfamily executives.

In order to achieve this research aim, this research collects key data and information from 16 respondents from Chinese family firms through telephone interview. According to the results of information collected in the interview, the main finding of this research can be summarized as:

- a. Lack of managerial and financial capability and lack of qualified successor are considered by interviewees as main driving factors that motivate Chinese family firms to employ nonfamily executives. Among these two factors, lack of managerial and financial capability is believed as the most significant driving factor. However, solving internal conflict and make organizational change are not considered as key driving factors by interviewees.
- b. High related cost, low efficient labor market, lack of trust, and few qualified nonfamily candidate are considered by interviewees as main constraint factors that hesitate Chinese family firms to employ nonfamily executives. Among these factors, lack of trust is believed as the most important constraint factor. However, conflict between owners and nonfamily managers and internal resistance are not considered as key constraint forces by interviewees.

Based on the research findings, a number of influential factors drawn from the literature review have been proved as key influential factors within the context of Chinese family firms. Those research findings are in accordance with the previous

studies on the topic of influential factors of employing nonfamily executives. The theories on family firms and the influence of Chinese business context can better interpret the reasons behind those key findings. For example, lack of trust is believed as the most important constraint factor. This is due to China is a low-trust society and high level of mutual trust is only exist within family ties. However, some factors drawn from literature review are not considered as key influential factors by the interviewees. This is because Chinese family firms were significantly influenced by Chinese traditional culture and shared common characteristics. For example, collective human relationship within Chinese family firm leads to subordinates' (include family members) public expression of different views or overt self-interest should be kept to lowest level. At the same time, the paternalistic leader in the family usually has absolute authority in the firm. Once the family leader makes the decision, the internal resistance toward the decision will be kept to lowest level.

Besides above findings, this study also finds some hidden influential factors that affect Chinese family businesses to employ nonfamily executive. Based on the research results, it is obvious that the size and complexity of the family business can make indirect influence on the decision making of nonfamily executives employment. There is a tendency that the larger size and the more complexity of the business, the more likely to employ a nonfamily executive. At the same time, the type of the family businesses might influence the decision of employing nonfamily executives in Chinese family businesses. The research finds that family-first family businesses are usually reluctant to employ nonfamily executives due to they believe nonfamily executive might damage the family interests from the perspectives of family authority, return, and assets. Ownership-first family businesses are usually forced to employ nonfamily executives because they want to those executives to solve business problems and bring higher business return in short term. However, management-first family businesses are not found in this research and none of family businesses voluntarily employ nonfamily executives for the purpose of strategic change and long term plan. It is worthwhile to explore the influence of firm size and complexity and the type of family businesses on the decision making of employing nonfamily executive within Chinese family businesses in future studies.

6.2 Limitations and future research

Despite this research has found both driving factors and constraints factors that influence Chinese family firm to employ nonfamily executives, there are still some main limitations for this research. Firstly, this research is mainly based on some previous studies, which have been reviewed in the literature review. But those previous studies are usually selected based on similar theoretical background such as system theory and agency theory. At the same time, those previous studies are researched under Western business cultural context. There must be ignorance on some crucial theories or research findings for literature review and conceptual framework development. In addition, there is only a few literatures toward the influence of Chinese culture has been critically reviewed and applied to the research.

Secondly, this research doesn't use probability sampling techniques but use non-probability sampling techniques (snowball sampling in this research). Although the interviewees in this research are selected from different industries, they are all

coming from the same geographical region where business context will be much different with other places in China. The use of non-probability sampling techniques can help this study to easily access the research sample and better understanding the implication about the phenomenon of employing nonfamily executive in Chinese family businesses. However, non-probability sample fails to be representative of the whole population. The findings in this study might be biased, due to homogeneous sample when using snowball sampling. The numbers of interviewees are only 16 respondents. The small amount of sample in this qualitative research hardly ensure the reliability of research finding to cover the issues in all Chinese family firms, without the support of quantitative data collected from large sized samples. That means the research finding in this research will lack of generalization.

Third, although this research has indicated that there might be correlation between family firm's size and industrial complexity, the research questions are not related to this issue at all. This shows that the impact of firm's size and complexity are not considered when evaluating the influential factors in the research. In addition, some key cultural characteristics in Chinese family firms, which have been found significant influence on organizational behavior in Chinese family firms, are not seriously concerned. Therefore, future research can look more deeply into the influence of the context of Chinese family firm, including both external factors and internal factors. It is also encouraged that the future researches could explore how nonfamily managers could integrate with the family and become essential part, as the consequence of socialization process. In addition, the future research also could use quantitative research to test this research finding with data collected through using probability samples.

6.3 Research implication

This research has a number of implications from the perspective of theory and research. The concepts and researches of family firm, corporate governance, agency theory, and characteristics of Chinese family firms enhance the understanding the background of employing nonfamily executives in family business. The main findings basically support the previous research's influential factors on employing nonfamily executives. They also extend previous studies' insights that some influential factors might be not took effect under particular cultural and organizational context. Our research suggests that when considering the influential factors of employing nonfamily executives in China, researchers could go beyond the traditional views and try to explore more influential factors from the perspective of both external environment and organizational environment of Chinese family firms. For example, the organisation size and complexity or the type of family businesses should be considered when studying the influencing factors of employing nonfamily executives in Chinese family businesses.

This research also tries to contribute to the growing research literature on the integration of Chinese culture and family businesses. The influence of traditional culture and social context in this research indicate culture being central for the understanding and theorizing of family business. One of the primary features of the Chinese family businesses is the interrelation among family, owner manager's entrepreneurship, and management. With the growth of the family firms, the family

firms might face great challenges from the perspectives of management, financing, or market competition. Hence, it is critical that how to maintain the entrepreneurship, flexibility, and ownership of family while still being professionally managed. This means the future studies might focus on how to separate management from family without any significant damage of family interest and entrepreneurship. If the interests of the family and the non-family executive are in the alignment, strong culture influences such as familism and low level of trust can be further avoided when considering employing nonfamily executives in Chinese family businesses. But it is still a problem that how to achieve this interest alignment, through formal or informal contracts, tie of human relationship, or reward of share? Obviously, the topic of nonfamily executives in Chinese family business firms is a promising aspect of academic study. This research can be a pathfinder stone for the further study to make a deeper insight of this issue.

This research also has practical implication. This research might help owners, nonfamily managers, or recruiters to pay more attention to the influential factors of employing nonfamily executive during the process of selecting nonfamily executives. From the perspective of demand side (family firms owner or recruiters), this research finding would help them to identify whether they need employ a nonfamily executive, what the main driver to motivate them, and whether it is worthwhile to employ nonfamily executive comparing with constraint factors. At the same time, the findings of this study also help family business owners to know the factors that prevent them from employing nonfamily executives. Hence, they can effectively evaluate the benefits and potential risks, and make more rational decision toward employing nonfamily executives. From the perspective of nonfamily managers, this research would help them to avoid the effect of constraint factors and select the right family firms. For example, nonfamily managers can avoid some family-first family businesses when they find new jobs due to those businesses are usually reluctant to hire nonfamily executives at last, although they have strong intention to hire. In addition, this research might help Chinese family firms to establish an effective way to select the right nonfamily executives and form corresponding organizational mechanism to neutralize the negative effect of employing nonfamily executives. For example, if the firm believes lack of trust is the main constraint of employing nonfamily executives, this firm can select nonfamily candidate from the current employees who have worked for this company for a long period, or select from other sources of familiar people such as cloth friend or distant relatives.

This would relate to the issue of corporate governance. If Chinese family businesses employ nonfamily executives, a high efficiency of corporate governance is needed. According to Tsai et al. (2006), the efficiency of corporate governance depends on organisational structures. Here, one type of organisational structure is highly recommended for Chinese family businesses when they want to employ nonfamily executives. Cheng et al. (2000) developed an organisational structure model which consists of three levels, based on some successful cases of Taiwanese family businesses. The first level is ownership and decision making level, including owners, family members, as well as a limited number of 'trusted followers'. People in this level own the family business and take the responsibility for strategic decision making from long term perspective. The second level is management level, including top management executives and middle managers. People in this level take the responsibility of business operation and daily management. The people in this level

are carefully selected from family or owners' trusted subordinates, according to the managerial capability and degree of closeness with family. Those nonfamily subordinates are considered by family as peripheral members of the family. Very few family members can be found at this level. The third level is formed by ordinary employees. Those ordinary employees are recruited from external sources and they don't have close relationship with the family. They are considered by family as 'stranger' or 'outsider'. This organisational structure not only achieves the management professionalization but also maintain the key characteristics of Chinese family businesses under the influence of Chinese culture, such as familism, Guanxi (social relationship), or paternalism. As a result, this structural model can operates the family business under the influence of paternalism or familism but it also relies on institutional culture which advocates rule, fairness, and performance. Hence, this model might be good solution for Chinese family businesses to overcome the constraints such as lack of trust and high agency cost when considering employing nonfamily executives. However, whether this model takes effect depend on the result of practices or further studies on this topic.

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Appendix 1 Interview questions

1. What type of your firm?

您公司属于哪个行业？

2. How many employees are in your firm?

您的公司有多少个员工？

3. What's your role in the firm: actual owner, family members (shareholder), or non-manager?

您是公司的：实际所有人，家族成员（普通股东），或者非家族管理者？

Interview questions for owner and family members

4. Do you have planned for employing (or already employed) a nonfamily executive to manage your firm?

你打算(或已经雇佣)雇佣非家族成员来管理您的公司吗？

5. What are the driving factors that motivate you make decision for employing nonfamily executive? To solve capital or managerial problems, lack of qualified successor, or solve internal conflict and make an organization change.

那些因素促使你决定雇佣非家族成员管理公司？解决管理或资金的问题，缺乏合适的继承人，还是解决公司内部冲突进行公司变革。

6. Which factor influence you the most and why?

那个因素是最重要的，为什么？

7. Are there other factors that motivate your decision making?

有没有其他原因促使你雇佣非家族管理人员？

8. What are the constraint factors that block you make decision for employing nonfamily executive? Cost, conflict with nonfamily managers, internal resistance, labour market, lack of trust, or few qualified nonfamily candidate.

那些因素阻止你的决定来雇佣非家族成员管理公司？成本，同非家族管理者的冲突，内部反抗，劳动力市场，缺乏信任，或者候选者能力问题。

9. Which factor influence you the most and why?

那个因素是最重要的，为什么？

10. Are there other factors that block your decision making?

有没有其他原因阻止你雇佣非家族管理人员？

Interview questions for nonfamily executives

11. What are the reasons that family firms make decision for employing you to manage the company? To solve capital or managerial problems, lack of qualified successor, or solve internal conflict and make an organization change.

那些原因让家族企业来雇用你管理公司？解决管理或资金的问题，缺乏合适的继承人，还是解决公司内部冲突进行公司变革。

12. Which factor influence you the most and why?

那个原因是最重要的，为什么？

13. Are there other factors that motivate their decision making?

有没有其他原因促使他们的决定？

14. Based on your previous experience, what are reasons that result family firm not to employing nonfamily executive? Cost, conflict with nonfamily managers, internal resistance, labour market, lack of trust, or few qualified nonfamily candidate.

根据你以往的经验，那些原因会让家族企业放弃雇佣非家族管理者？成本，同非家族管理者的冲突，内部反抗，劳动力市场，缺乏信任，或者候选者能力问题。

15. Which factor influence you the most and why?

那个因素是最重要的，为什么？

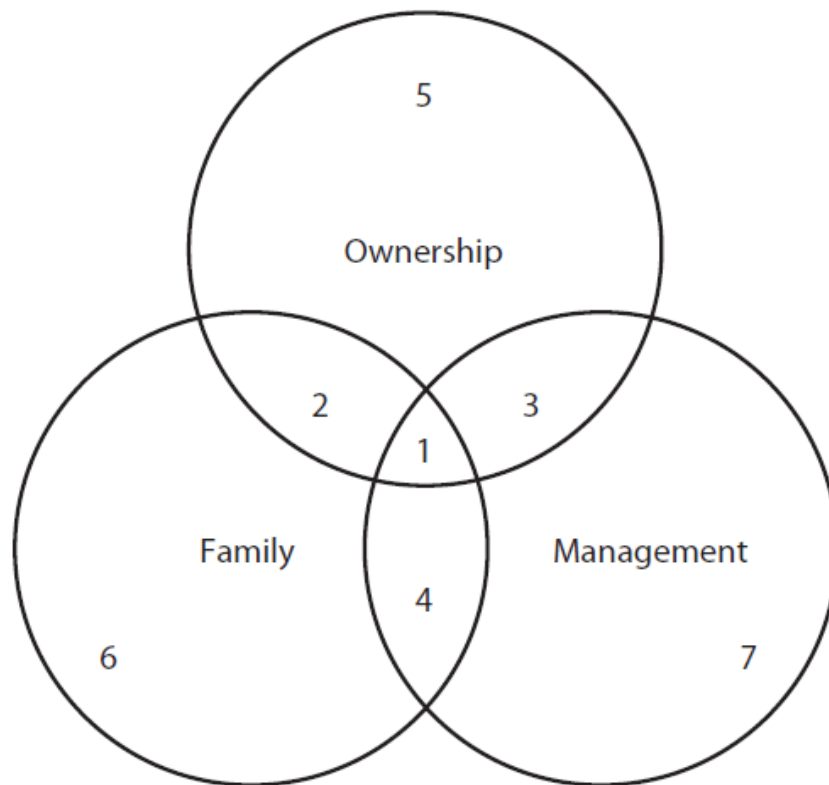
16. Are there other reasons that block the decision making?

有没有其他原因阻止家族企业雇佣非家族管理人员？

Appendix 2 Interviewee profile

Respondent	Type of family firm	Amount of employee	Role in family firm	Plan to employ nonfamily manager
R1	Plant dust cleaner manufacturer	45	Owner	Yes
R2	Clothes retailer	12	Owner	Yes
R3	Electronic manufacturer	350	Owner	Yes
R4	Fruit chains	230	owner	Yes
R5	Restaurant	27	Owner	No
R6	Cleaning service	Over 600	Owner	Yes
R7	Brake block manufacturer	Over 700	Family shareholder	Yes
R8	Printing	82	Family shareholder	Yes
R9	Real estate sales	Over 120	Owner	No
R10	Conveyor manufacturer	Over 200	Family shareholder	Yes
R11	Restaurant	56	Family shareholder	Yes
R12	Auto repair	13	Family shareholder	No
R13	Garment factory	Over 300	Nonfamily manager	
R14	Toy factory	Over 400	Nonfamily manager	
R15	Construction company	Over 1200	Nonfamily manager	
R16	Private kindergarten	43	Nonfamily manager	

Appendix 3 The systems theory model of family business



Source from: Poza (2007)