How Family Firms Avoid Performance Decline and Innovation Reduction During Succession in China: Case from New Hope Group

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Abstract. Based on the background of Chinese family firms entering the peak period of inheritance, the paper discusses how family firms can avoid performance decline and innovation reduction during succession. This paper analyzes the succession behavior of the New Hope Group, summarizes its succession behaviors as setting advanced and step-by-step planning for succession, establishing a co-chair to uphold the heir creatively, and emphasizing the successor's cultivation of the entrepreneurial spirit and sense of identity during the succession. The statement is approved by the stable financial performance, growing R&D investment, and achievements. The paper concludes that in the process of succession, family firms should complete the overall plan based on the firm's specific situation, cultivate high-quality heirs, and maintain a balanced internal power structure of the enterprise during the succession to maintain the sustainable development of the firm.

Keywords: Family Firms; Succession; New Hope Group; Performance and Innovation.

1. Introduction

The succession of a family firm is a long-term process, ranging from 3 to 5 years or even from 10 to 20 years [1]. Family firms account for a large proportion of China's listed companies, most of which started in the 1980s and 1990s, entering the peak period of succession recently. However, a large number of companies still have poor preparation. Family firms face the problem of high failure rates during succession globally. McKinsey's research shows that no more than half, about 30%, can successfully pass on family firms to the second generation. Only about 10% of the companies successfully continue to the third generation [2]. This process also affects financial performance; family firms in Hong Kong, Singapore, and Taiwan were used as samples, and it was found that intergenerational inheritance would reduce corporate value by 56%; the selection and cultivation of heirs are therefore crucial to the family business [3]. By analyzing the reasons for the successful succession of New Hope Group, the article aims to summarize the experience of successful inheritance and provide suggestions for Chinese family enterprises.

2. Literature review

In the succession process of Chinese family firms, a "pain period" may also exist to help the heir successfully transform the strategy and complete the succession, during which the short-term performance may suffer [4]. At the same time, to avoid high-risk investment activities during the succession, maintain a smooth firm transition, and ensure family control over the firm [5]. In the succession period, the level of R&D investment of the family firm will drop significantly [6]. The founder's behavior and the hire's background and experience will significantly impact the succession result. The successor's emotional commitment to the family firm and organizational identity are the keys to the success of the succession [7, 8]. The hire who highly identifies with the entrepreneurial philosophy and corporate values is more willing to develop the firm's main business. Besides, when the second-generation participant in the management of a family business, they will bring new ideas, innovative spirit, and management knowledge to the company, thus affecting the strategic choice of the company [9]. The hires with overseas experience and a more complex cultural background are more helpful in breaking the path dependence and the original development framework and creatively reorganizing and updating the corporate resources [10]. But at the same time, having been separated from the corporate environment for a long time left them at a disadvantage in recognizing his parents' entrepreneurial ideas and values and inheriting special social assets. The longer time in the company and the time in charge of the company can make up for the heirs' overseas training background. adverse consequences [11].

3. Case Description

3.1 Background information of the firm

The predecessor of New Hope Group was established in 1992. The founders were the Liu brothers. The group divided its business in 1995 and formed the New Hope Group, mainly engaged in feed. The company entered the development stage after 1995 and gradually grew into a leading company in the feed production industry. At the same time, it gradually entered the real estate, agricultural, and sideline products industries. In 2005, the company reached a cooperation agreement with the Shandong Liuhe Group and completed the final merger in 2011. New Hope has developed into one of China's largest comprehensive suppliers of meat, eggs, and milk today, ranking 326th in the Fortune Global 500 in 2022.

The founder of New Hope Group is Liu Yonghao, and his daughter Liu Chang is the company's heir. Liu Chang was born in 1980. She went to the United States to study in 1994, returned to China in 2002, and continued his studies at Peking University. She obtained an EMBA degree and entered the family business's inheritance stage. Liu Chang's management authority was further enhanced when co-chairmen finfish their term of office in 2016. The succession process of Liu Chang's family business has the characteristics of identity and the typicality of the inheritance process but also has apparent features and innovations.

3.2 The highlight of the succession

3.2.1 A complete authority building and power transfer process

Liu Yonghao has formulated a long-term inheritance plan. In 2003, Liu Chang entered the New Hope Enterprise and was deeply involved in the daily operation of the enterprise. After Liu Chang completed his EMBA studies, she joined the real estate sector as a project leader and entered the corporate decision-making level. In 2010, she was in charge of the group's business in Southeast Asia. In 2013, Liu Chang was elected as the new chairman of New Hope Group, while Liu Yonghao continued to serve as a director and stopped dealing with the daily affairs of the firm, handing over most of the decision-making power to Liu Chang. Liu Yonghao's succession planning for Liu Chang includes overseas study, corporate grass-roots and corporate decision-making practice, covering the entire succession cycle, helping Liu Chang gain a solid academic background, a broad horizon, and gradually build up her understanding of the business and authority within the company to avoid the internal friction and performance decline caused by the "airborne" successor. This cultivation process is synchronized with the transfer of corporate power between Liu Yonghao and Liu Chang. After Liu Chang served as chairman, Liu Yonghao gradually faded out of corporate strategy and business decision-making, avoiding the conflict of rights between the two generations and the factional strife within the company in the succession of the family firm.

3.2.2 Institutional innovation in the succession stage

After New Hope Group officially completed the power transfer in 2013, the internal power structure became more complicated. The former Shandong Liuhe members still occupy a large proportion of the board of directors, which makes Liu Chang more challenging to manage. At the same time, Liu Chang's business management experience was still relatively insufficient, unable to complete strategic reform singly. Liu Yonghao chose Chen Chunhua, a South China University of Technology professor, and Tao Xu, a former Shandong Liuhe, as co-chairmen, forming a management phenomenon in which the co-chairman system and the co-governance of father and daughter coexist. The former served as an independent director of several listed companies and as the president of Shandong Liuhe, while the latter worked in New Hope Group for many years. Both deeply understand the company and the industry and have a long-term strategic vision. More importantly, they have a high level of authority. They are trusted by both the company's founder and internal management personnel. They can ensure the company's stability, the total exposure of the heirs to the enterprise's business, and effective communication between the two generations of the enterprise's management team during the critical period of the handover of family firm power. This system played an essential role after Liu Chang took over.

3.2.3 Effective succession of entrepreneurship and strategic thinking

Entrepreneurship is crucial in the succession of a family business. The children of Chinese family entrepreneurs often have significantly better living conditions than their parents. They generally have a low willingness to inherit when faced with complex business management affairs.

The long-term cultivation of entrepreneurial spirit can properly avoid the negative impact of this problem in the enterprise inheritance period. During the inheritance process of New Hope Liuhe, Liu Yonghao arranged for Liu Chang to work in the advertising departments of other companies in the same industry, allowing Liu Chang to start his own business independently. After Liu Chang entered the New Hope Group, he started from the emerging sector and gradually cultivated his responsibility to the enterprise. Long-term words and deeds have played an excellent, motivating role. This long-term influence behavior can enhance the successor's willingness to inherit and cultivate necessary business ideas such as emphasis on innovation. On the other hand, strategic thinking is a good result of the cooperation of the company's founders, heirs, and management team. New Hope's operation after inheritance has maintained its strategic concept of attaching importance to innovation, Internet application, and overseas markets, thus laying an essential foundation for the enterprise's long-term development.

3.2 New Hope Group's development and innovation performance

3.3.1 Strategic change and the transfer of the business center

Enterprise strategic change often takes a long time and requires a higher level of knowledge and strategic vision of managers. In 2013, the Internet became an important productive force. Liu Yonghao quite promptly in the face of an unfamiliar strategic stage and entirely delegated power to give full play to Liu Chang's advantages as a young manager--knowledge and Internet thinking benefits. In 2013, the feed industry gradually matured, and the marginal profit decreased. At the same time, the trend of industrial integration began to appear. New Hope Group followed a comprehensive strategic change. The strategic axis of "leading products, service-driven, and global elites" was put forward, and the inefficient business segments were simplified and increased. Invest in the livestock breeding industry, launch the "Fuda Plan", build a professional technical team to provide value-added services for farms and dealers, build a supply chain financing platform, and deeply integrate the Internet and the breeding industry. Besides, the company promotes the slaughtering business of the firm to rely on dealers. The company's frozen products have been converted into fresh and cooked food products directly to terminal customers, promoting product upgrades and channel upgrades and continuing to launch the "Sanying Plan" for corporate talent pools in the future. The above series of strategic reform measures have been continued and deepened for a long time, which has promoted the transformation of New Hope from feed suppliers to suppliers of the whole industry chain, completed the in-depth integration and integration of the original three businesses, and significantly reduced the dependence on the traditional feed industry. More robust development efficiency, development potential, and anti-risk ability. Successors in a family business need to make strategic changes to establish their authority, but this is often not done early to avoid being seen as "rebellious". However, New Hope started the strategic transformation process after the succession was completed in 2013. Achieving this early change relies on a good succession route design to avoid conflicts of interest within the enterprise and make up for Liu Chang's lack of experience through institutional innovation.

3.3.2 Significant innovation achievements and stable performance

New Hope Group has emphasized the spirit of innovation since its establishment. As shown in table 1, after 2013, the company's investment in innovation has been even more substantial than before, presented as the significant growth of patent and R&D expenditure. The technical achievements of the firm won the National Science and Technology Progress Award in both 2014 and 2018, respectively. The company's innovation strength has been improved, and the achievements cover the entire agricultural and animal husbandry industry chain, forming a solid foundation for the firm to expand its profit space and consolidate industrial competitiveness.

Table 1. New Hope Group innovation investment (Data source: Ifind)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
R&D investment (hundred million)	0.68	0.68	0.65	0.79	0.74	0.79	0.95	1.74	2.67	2.92
R & D personnel (%)	--	--	--	0.85	0.73	0.74	0.75	1.01	1.31	1.49
Number of new patents	4	2	1	--	83	74	65	142	251	55
Number of new invention patents	3	1	--	--	33	37	23	42	76	29

In terms of financial performance (as shown in table 2), the slight decline in revenue in 2013 is due to many shutdowns of inefficient factories. Still, the revenue was stable and recovered slowly later. The company achieves revenue growth and stable profit levels under cyclical fluctuations in the industry and sudden epidemics, and the net profit margin has also maintained growth. In addition to the severe impact of African swine fever in 2021, the company has performed well, showing good growth.

Table 2. Financial performance of New Hope Group (Data source: Ifind)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	732.38	693.95	700.12	615.20	608.80	625.67	690.63	820.51	1,098.25	1,262.62
Net profit	21.94	24.91	26.13	29.60	31.32	29.32	27.22	61.81	58.48	-95.03
Net profit rate	3.00%	3.59%	3.73%	4.81%	5.14%	4.69%	3.94%	7.53%	5.32%	-7.53%

4. Conclusion

According to the actual situation of the enterprise, plan the succession plan. The founder of New Hope Group designed the succession plan based on the exact condition of the firm. Since Liu Chang returned to China in 2002, he has helped Liu Chang to develop a career route from the outside to the inside of the company and from the grassroots to the management so that the heirs can accumulate before officially entering the decision-making level. Total experience in building a sense of identity with the family business. At the same time, considering New Hope's early merger and acquisition events, arrange the co-chairman as the assistant of the successor. This plan makes up for the lack of experience of the successor and avoids the issue of factional friction within the firm. In the succession of a family firm, founders may face many problems, such as the choice of a multi-child family, the low willingness of children to inherit, and internal management and governance of the family business. It is necessary to design the succession plan and entirely innovate to ensure that the enterprise can pass the inheritance period smoothly.

Balance the internal power structure of the firm to ensure smooth operation. A balanced power structure is an essential guarantee for a stable firm succession. In the succession process of New Hope Group, the co-chairman system balances the power structure between Liu Chang and corporate executives. It avoids the occurrence of errors in the operation of the company due to Liu Chang's lack of qualifications. At the same time, after Liu Yonghao stepped down as chairman, he no longer participated in the specific operation of the company and only served as a director. His power has been completely transferred, avoiding the conflict of power and governance chaos caused by the founder's continuous control after his retirement. Compared with senior employees and founders, the heirs in a family firm have a natural authority weakness. In the process of succession, institutional arrangements and the decentralization of the founders are needed to help the heirs build their authority and balance the power structure within the firm.

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