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Research on Practical Dilemmas and Paths of Intergenerational Succession in Family Enterprises

Ying Guo *, Yan Jiang

Chengdu University, Chengdu 610000, China

Abstract: Family enterprises serve as a vital pillar of China's private economy. As a great number of first-generation entrepreneurs nationwide step into retirement, countless family firms have arrived at a critical stage for intergenerational transfer of power and assets. Intergenerational succession is not merely the handover of equity and management rights, but a comprehensive transmission of tangible assets, social connections and core corporate culture. Currently, these enterprises are trapped in prominent obstacles including inadequate advance planning, ambiguous property rights, trust deficits between families and professional managers, as well as inflexible succession modes. This paper sorts out such universal dilemmas and proposes operable countermeasures from enterprises, families, government and society to facilitate stable handover and long-term sustainable development of family businesses.

Keywords: Family Enterprises; Intergenerational Succession; Management Right.

1. Introduction

Since the reform and opening-up, numerous domestic family enterprises have flourished by seizing market opportunities. Provinces such as Jiangsu and Zhejiang have long ranked among the top in China in terms of the number of family enterprises, which play a prominent role in absorbing employment and boosting local economy. After decades of operation, the first-generation entrepreneurs have gradually entered old age, making intergenerational succession an unavoidable practical issue for most family enterprises. The post-80s and post-90s second generations have become the main succession group. They boast higher educational attainment and proficiency in digital operation, yet hold markedly different views on business operation and risk perception compared with their industrialist parents. Many enterprises have encountered equity disputes, performance decline and brain drain due to hasty succession arrangements.

Compared with mature family enterprises in foreign countries, intergenerational succession in China started relatively late. Most domestic enterprises have long been governed by the founder's personal authority without standardized long-term succession and governance mechanisms. Based on the operational realities of small, medium and large family enterprises in China, this paper systematically sorts out universal dilemmas in succession, categorizes and disassembles relevant problems, and puts forward hierarchically adaptive and practical optimization paths covering enterprises, families, government and social sectors, offering solid support for the smooth intergenerational transition of family enterprises.

2. Main Dilemmas of Intergenerational Succession in Family Enterprises

(1) Lack of Long-term Succession Planning

Over half of China's family firms lack systematic plans for successor training and power transition. Aging founders hold top management posts long-term, leaving the second generation only routine auxiliary work with no chance to run independent projects or oversee full business chains, hence no structured growth path. Two core causes drive this issue. First, founders resist handing over power emotionally. Having built businesses from scratch, they doubt their heirs' capabilities and constantly delay succession. Second, many young generations dislike traditional real industries and pursue separate careers. Without backup successors, handover keeps being postponed [1].

In terms of succession timing and content, most enterprises initiate handovers passively amid falling revenue and capital pressure, with few making advance arrangements during periods of business expansion and stable cash flow. Meanwhile, succession content is structurally unbalanced: enterprises only focus on transferring tangible assets such as factories, equity and cash, while ignoring the transmission of intangible social capital including customer resources, industrial reputation and entrepreneurial spirit. Once the founder suffers sudden health emergencies, the enterprise will face an immediate power vacuum. Family members may compete for equity, senior founding staff may act independently, disrupting normal business order and causing dual losses to family wealth and corporate operation.

(2) Improper Selection and Cultivation of Successors

The kinship-first logic of candidate selection leads to mismatched successors. When picking successors, enterprises prioritize blood ties over candidates' willingness to operate and comprehensive capabilities. Some family descendants are forced to take over corporate management responsibilities despite insufficient industrial experience and management thinking. Moreover, enterprises lack systematic cultivation systems. Successors rarely receive practical training through multi-post rotation or external industrial experience, resulting in widespread weaknesses in market judgment, risk control and overall coordination.

Daily operation of enterprises is highly dependent on the founder's personal prestige and industrial connections. The second generation, with shorter professional experience and insufficient internal influence, faces tremendous resistance when promoting digital transformation and organizational optimization reforms. Most successors take over the business merely out of family obligations rather than personal entrepreneurial enthusiasm, lacking intrinsic motivation and awareness of long-term strategic planning.

(3) Complicated Property Right Relations

Most domestic family enterprises originated from small workshops jointly run by couples or siblings. In the initial stage, operators focused on production and market expansion without clarifying the registration of equity, real estate, intellectual property and other assets. As enterprises expand in scale and asset value grows, hidden problems arising from ambiguous initial property rights are amplified, forming the biggest hidden danger in intergenerational asset division.

Upon entering the succession stage, statutory inheritance rules often conflict with the founder's private will. Siblings and two generations of family members may engage in fierce conflicts over equity distribution, income allocation and asset disposal. Some internal family disputes even end up in litigation, severely destabilizing corporate equity structures. In addition, family affairs and corporate operation are completely intertwined. Disputes over family property and conflicts of interest among relatives can directly interfere with major business decisions. Most family members hold the misconception that equity ownership equals full management authority, leading to high integration of ownership and management rights, aggravating internal management friction and reducing overall operational efficiency.

(4) Prominent Intergenerational Conflicts

Fundamental differences in growth backgrounds, educational experience and business horizons between the first and second generations generate irreconcilable operational divergences. Relying on offline personal networks for development, the first-generation entrepreneurs prioritize stable short-term cash flow and adopt conservative risk attitudes. Growing up in the digital economy era, the second generation excels in online operation and digital transformation, attaching greater importance to long-term strategic layout and technological innovation. The two groups frequently clash over business expansion, personnel management and investment decisions.

Conceptual conflicts trigger two adverse consequences: First, intangible social capital accumulated by founders over decades, including government-enterprise connections and upstream and downstream cooperative relations, cannot be smoothly transferred. Partners rely heavily on the founder's personal credibility, requiring a long cycle for the second generation to rebuild market trust and resulting in a break in core corporate resources. Second, two opposing factions emerge within the enterprise. Veteran founding staff resist innovative reforms, raising internal communication costs and lowering policy implementation efficiency.

(5) Trust Crisis with Professional Managers

The model of "family shareholding plus professional manager operation" represents the mainstream direction of modernized succession, yet two-way trust crises severely hinder its implementation. From the perspective of family enterprises, China's unified credit evaluation system for professional managers remains imperfect. Enterprises struggle to fully assess practitioners' professional ethics and fear leakage of core customer resources and commercial secrets. Meanwhile, deeply entrenched centralized family management thinking allows relatives to frequently intervene in daily operation, limiting the room for professional management teams to make decisions and execute plans [2].

From the perspective of professional managers, ambiguous division of power and responsibility in family enterprises permits arbitrary intervention by family members in business processes, making it difficult to implement complete operational plans. Long-term incentive mechanisms such as equity incentives and project revenue sharing are absent, weakening practitioners' sense of belonging and causing high talent turnover rates. Furthermore, the overall incentive system of enterprises is simplistic, lacking long-term binding mechanisms for grassroots and middle-level employees, and dampening the enthusiasm for innovation and operation across the workforce.

(6) Single Succession Model

At present, most family enterprises rigidly adhere to the hereditary model of "sons inheriting fathers' business", failing to flexibly adjust succession paths according to their scale, development stage and governance maturity. Operational risks are highly concentrated on family descendants. In terms of external supporting environment, multiple shortcomings exist in supporting guarantee systems: On the policy front, there is a lack of special fiscal, tax and credit support for intergenerational succession of families, with high costs for equity transfer and family trust establishment. On the social service front, supply of professional training platforms for new-generation successors and standardized matching channels for professional managers is insufficient. On the legal service front, inclusive legal services covering equity planning, family charter drafting and inheritance dispute mediation for small and medium-sized family enterprises have low penetration, leaving insufficient legal safeguards against various risks in the succession process.

3. Practical Paths to Optimize Intergenerational Succession of Family Enterprises

(1) Enterprise Level

Formulate Long-term Succession Plans.

Enterprises shall launch a complete 5–10 year succession plan when founders reach around 50 years old, advancing handovers in three orderly phases: grassroots training, joint management by two generations, and full power delegation.

Phase 1: Arrange successors to rotate across full business chains including production, sales, finance and supply chain to fully grasp underlying business logic. Phase 2: Implement dual-person joint management: the founder serves as chairman to control major strategies, while the second generation acts as general manager to coordinate daily operation. Major investments and cooperation projects require joint decisions by both parties, alongside regular transfer of intangible resources such as personal connections and channels. Phase 3: The founder withdraws from daily operation, retaining only the position of board advisor to act as a mentor for corporate spirit.

Enterprises should prioritize launching succession during upward cycles of revenue growth and market expansion to avoid passive handovers triggered by sudden health crises. Meanwhile, a reserve pool of multiple candidates shall be established. If direct descendants have no willingness to take over, internal backbones and external professional managers shall be cultivated as alternatives in advance. Standardized written handover procedures shall be formulated to reduce subjective decision-making by founders. Beyond transferring tangible assets such as factories and equity, regular sharing of entrepreneurial experience, risk control ideas and corporate culture shall be carried out to make up for deficiencies in the soft inheritance of entrepreneurial spirit and industrial resources.

Clarify Boundaries of Property Rights.

Comprehensively sort out ambiguous equity left over from the initial partnership stage, complete confirmation and registration of all assets, and strictly implement the separation system of ownership, management right and income right [3]. Clarify that family shareholders are only entitled to dividend income, and all management positions shall be filled through competency-based competition to correct the misconception that equity ownership equals management authority.

Introduce family trusts to integrate corporate equity, real estate, intellectual property and other core family assets. Agree in writing in advance on the dividend ratio and voting rights of family members to prevent excessive equity splitting and division of family operating assets arising from inheritance by multiple children. Set up an independent family council to separately discuss and dispose of family affairs including equity distribution, relative employment and internal interest disputes, establishing a regular mediation mechanism for family conflicts to isolate family contradictions from major corporate operational decisions.

Improve Hierarchical Incentive and Restraint Mechanisms.

Build a long-term hierarchical incentive system: Grassroots employees: basic salary + performance bonus + annual dividend; Middle managers and core professional managers: equity incentives, excess project revenue sharing and long-service rewards, linking personal income with medium and long-term corporate performance; For family descendants who take over passively, grant independent decision-making power over separate projects and special growth resources to boost their initiative in operation.

Establish clear power and responsibility restraint systems, formulate standardized authorization lists for professional managers to define hierarchical approval authority for personnel, finance and business. Require unified signing of confidentiality agreements and non-compete clauses, and build professional manager employment archives relying on third-party credit platforms to reduce moral risks. Fully promote the mixed governance model of "family shareholding plus professional managers": families reserve core strategic decision-making power over equity transfer and large-scale investment, while entrusting professional management teams to operate specialized sectors including market expansion, financial control and human resources, balancing family asset control and professional management advantages.

(2) Family Level

Build a Tiered Diversified Successor Cultivation System.

Restructure the evaluation criteria for selecting successors, taking operational willingness, professional competence, industrial vision and overall leadership as core assessment indicators, with blood ties as a secondary reference. The reserve talent pool covers immediate and collateral family members, internal corporate backbones and external outstanding management talents, abandoning traditional selection concepts such as gender and seniority bias. For family children lacking management competence or succession willingness, only grant asset income rights without assigning any management positions.

Adopt a dual internal and external training path: Internally, arrange successors to practice frontline work and independently operate complete subdivisional projects with one-on-one guidance from senior executives; Externally, send them to benchmark enterprises in the industry for 2–3 years to systematically study digital management and modern corporate operation systems.

Two approaches shall be adopted simultaneously to establish the second generation's management authority: on the one hand, gain recognition from veteran staff and grassroots employees through independent operational achievements; on the other hand, improve modern institutional systems including the board of directors and performance appraisal to replace the founder's personal prestige with institutional authority. Formulate supporting settlement plans for founding veterans, setting up honorary advisor positions and special retirement dividends to balance veterans' emotional demands and the second generation's management authority, lowering internal resistance to reforms.

Resolve Intergenerational Divergences in Operational Concepts.

Organize regular family business seminars and corporate strategy exchange meetings to build an equal two-way communication platform, fully guaranteeing opportunities for the second generation to express ideas on digital innovation and organizational reform. Meanwhile, the first-generation founders share practical experience in entrepreneurial risk control, offline channel maintenance and government-enterprise resource docking, enabling mutual learning and complementary strengths between two generations.

Founders shall take the initiative to transform their roles from full corporate leaders to long-term strategic consultants, appropriately accommodating innovative attempts such as digital transformation and organizational restructuring. The second generation shall proactively learn experience in traditional real industry operation and risk bottom-line control, integrate old and new operational ideas and weaken conflicts in strategic cognition. Formulate a unified long-term development consensus for the family, balance emotional demands of the family and market-oriented rationality of corporate operation, reduce frequent adjustments to corporate strategies, and facilitate the smooth transfer of government-enterprise and upstream-downstream social capital to successors.

(3) Government and Social Level

Strengthen Policy Support by the Government.

Optimize the business environment for succession and introduce differentiated fiscal and tax support policies: implement tax reductions and deferred tax payment for equity gifting, family trust establishment and corporate asset transfer to cut capital costs of intergenerational asset transfer; issue special subsidies for training new-generation successors and corporate digital transformation projects to ease capital pressure during succession.

Improve supporting financial services: guide commercial banks to launch special low-interest loans for family enterprise succession, simplify loan application and approval procedures, and allocate funds to core operational inputs during succession including equipment renewal and market expansion. Cooperate with trust and securities institutions to provide one-stop integrated services covering family wealth planning and equity risk isolation, resolving conflicts over equity and asset allocation through market-oriented financial tools.

Expand inclusive legal service channels: All-China Federation of Industry and Commerce, small and medium-sized enterprise service centers and judicial bureaus shall jointly set up long-term public welfare consulting windows, providing free services including equity structure planning, family charter drafting and inheritance dispute mediation.

Industry Associations Build Diversified Public Service Platforms.

Rely on local chambers of commerce and entrepreneur federations to build growth carriers for new-generation entrepreneurs. Regularly launch advanced training courses for second-generation successors and industrial think tank exchange activities, organizing field visits to benchmark family enterprises at home and abroad. Implement a mentor-apprentice paired training model, inviting senior first-generation entrepreneurs to share hands-on operational experience and long-term network maintenance skills one-on-one.

Build standardized supply-demand matching platforms for professional managers, establish a regional unified talent database recording practitioners' employment resumes, operational performance and credit evaluation files, and hold regular talent matching fairs to eliminate information asymmetry between enterprises and management talents and alleviate two-way trust conflicts.

Deepen Industry-University-Research Integration.

Economic management departments of local universities shall set up characteristic courses on family enterprises, design systematic teaching content focusing on intergenerational succession and modern family governance, and launch short-term practical training courses for enterprise founders and successors, combining real domestic enterprise cases for teaching seminars [4].

Promote the joint construction of practical training platforms by universities and enterprises: universities cooperate with high-quality regional family enterprises to build practical bases, organizing new-generation successors to conduct immersive learning across full business chains. Establish expert think tanks in universities to provide free public welfare consulting services covering succession planning and internal governance optimization for micro, small and medium-sized enterprises. Carry out layered and classified industrial research: university research teams conduct field visits by industry type and enterprise scale, sort out typical successful and failed succession cases to form special research reports, providing theoretical basis and data support for the government to optimize supporting policies and enterprises to adjust handover plans.

(4) Select Adaptive Succession Models Based on Enterprise Scale

Micro and Small Enterprises: Limited operational scale and imperfect internal management systems. Prioritize recruiting family members with operational willingness and practical capabilities to take over management power, while establishing basic standardized financial and personnel systems to guarantee operational stability during handover.

Growing Medium-sized Enterprises: Expanding business scope and rising demand for professional management. Adopt the mixed co-governance model of family shareholding plus professional managers, thoroughly separate ownership and management rights, and establish a board of directors to check and balance centralized family management.

Mature Large Enterprises: Sound internal governance systems and cross-regional diversified operations. Deepen the separation of ownership and management rights. Families only retain controlling equity and voting rights over major matters, while introducing external independent directors and professional management teams to take full charge of daily operation.

4. Conclusion

Intergenerational succession is pivotal for family enterprises to sustain long-term growth. Chinese family businesses confront intertwined challenges in handover: insufficient succession planning, unclear property rights, trust rifts between families and professional managers, and inadequate external support. Succession is not merely a transfer of equity and posts, but a systematic restructuring of physical assets, management systems, entrepreneurial spirit and industrial resources.

Smooth handovers demand joint efforts of enterprises, families, government and society. Enterprises should establish modern corporate systems, advance long-term succession plans, separate ownership, management and income rights, and optimize tiered incentives and restrictions. Families ought to abandon kinship-centered recruitment, develop tiered successors, maintain regular cross-generational communication, and inherit both tangible assets and corporate culture. The government shall launch targeted fiscal, tax and financial policies; industry associations build exchange platforms; universities offer intellectual support via industry-university cooperation.

In the long term, the model of "family shareholding with professional management" will prevail. Freeing themselves from patriarchal personal governance and balancing family feelings and market rules, family firms can overcome succession hurdles, stabilize employment, fuel innovation, bolster the real economy and drive sustained high-quality development of private enterprises.

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