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*Singapore Management University, ldzhang.2017@ckdba.smu.edu.sg*

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AN EST APPROACH TO ENTREPRENEURIAL EXIT  
IN CHINESE FAMILY BUSINESS: A CASE STUDY  
OF H COMPANY

ZHANG LIDIAN

SINGAPORE MANAGEMENT UNIVERSITY

2022

An EST Approach to Entrepreneurial Exit in Chinese Family  
Business: A Case Study of H Company

Zhang Lidian

Submitted to Lee Kong Chian School of Business in partial  
fulfillment of the requirements for the Degree of Doctor of  
Business Administration

**Dissertation Committee:**

TAN Hwee Hoon (Supervisor/Chair)  
Associate Professor of Organisational Behaviour & Human Resources  
Singapore Management University

Rui Zhu (Co-Supervisor)  
Professor of Marketing  
Cheung Kong Graduate School of Business

TSAI Ming-Hong  
Assistant Professor of Psychology  
Singapore Management University

SINGAPORE MANAGEMENT UNIVERSITY

2022

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I hereby declare that this DBA dissertation is my original work and it has been written by me in its entirety. I have duly acknowledged all the sources of information which have been used in this DBA dissertation.

This DBA dissertation has also not been submitted for any degree in any university previously.

張利鋤

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Zhang LiDian

19 Oct 2022

An EST Approach to Entrepreneurial Exit in Chinese Family Business: A  
Case Study of H Company

Zhang Lidian

**Abstract**

Previous entrepreneurial exit literature has mostly followed a feature-oriented logic by summarizing the impact of industry and company characteristics and entrepreneurs' personal traits on entrepreneurial exit decisions, disregarding the decision-making process of entrepreneurial exit and the role of key events in advancing the process. This thesis endeavors to explore the determining factors behind entrepreneurial exit decisions of family businesses and the dynamic decision-making process based on Event System Theory (EST) with a single-case study method and a feature-oriented and process-oriented approach.

This study has conducted an in-depth investigation into Company H, which possesses typical features of Chinese private family businesses. The findings are as follows: (1) Both exogenous and endogenous events affect entrepreneurial exit decisions through unfulfilled family expectations (family wealth expectation, family reputation expectation, family harmony expectation, and family succession expectation); (2) Industry characteristics (industry competition intensity, government regulation intensity and negative media coverage intensity) not only can affect entrepreneurial exit directly but may also act as moderating factors that mediate the impact of key events on entrepreneurial exit; and (3) Family characteristics (family wealth accumulation, degree of ownership concentration and degree of the next generation's

involvement) not only have a direct impact on entrepreneurial exit but may also exert moderating effects on the process from key events to family expectations to entrepreneurial exit. In addition, the study has also collected publicly available information from another private company that has experienced the same events during the same period in the industry and carried out a supplementary analysis based on the framework and methodology of EST to support the findings of the case study further.

The possible contributions of this study are as follows: (1) It contributes to the previous research on entrepreneurial exit by providing an in-depth analysis of how family businesses make entrepreneurial exit decisions in terms of event strength and event space with a new perspective of EST; (2) It examines entrepreneurial exit in the context of Chinese family businesses and focuses on how key events affect entrepreneurial exit through family expectations, which helps to shed light on the mechanism through which key events exert influence on founders' entrepreneurial exit decisions; and (3) It has integrated the process-oriented and feature-oriented paradigms by including industry characteristics and family characteristics as important situational conditions, thus setting boundary conditions for the process by which key events affect entrepreneurial exit. The practical implications of these findings are discussed.

**Keywords:** Family business; Entrepreneurial exit; Family succession; Event System Theory (EST)

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As a microcosm of millions of Chinese private family businesses, the case in my thesis has witnessed the booming growth of China's economy and society and benefited from the dividends of the development. Hopefully, this thesis can offer useful lessons for the entrepreneurship and sustainable growth of local businesses in China.

# **1. Introduction**

This chapter begins by examining the research background and then identifies the subject matter concerned after discussing the research questions and the significance of the study. It then introduces the research methodology, analytical approaches, and thesis structure.

## **1.1. Research Background**

### **1.1.1. Practical Background**

Family businesses, a hybrid of family and business, make up over two-thirds of all businesses worldwide, with a proportion of about 65% to 80% in the United States, 75% in the United Kingdom, 80% in Spain, and over 95% in Italy and the Middle East (Cromie, Montieth & Stephenson, 1995; Westhead & Cowling, 1997). According to the *Chinese Family Business Report 2011*, published by Family Business Research Group of the Chinese Private Economy Research Institute, 85.4% of private enterprises in China are family businesses. They have become a major driving force for China's steady economic growth. In addition, family businesses have made important contributions to generating wealth, providing jobs and boosting competition (Westhead & Cowling, 1997).

Keeping management control within the family and transferring ownership across generations to establish continuity are the ultimate goals that founders or founding families of family businesses relentlessly pursue. Family business succession appears particularly critical in China as it has a "family culture." Redding (1990) points out in *The Spirit of Chinese Capitalism* that the Chinese do not trust outsiders. This mistrust makes it difficult to transfer ownership and leads to the distinctive feature of family control of overseas Chinese companies even after several family members' successions. First-generation family

entrepreneurs who grew up in the early 1980s and 1990s are mostly in their sixties. Many of them are now considering entrepreneurial exit decisions, pondering whether to pass on the business to the next generation or to sell it. They are at a critical juncture where they are faced with making possible exit decisions. The successful succession of family businesses entails various considerations regarding succession regulation and plan, selection, and training of potential successors, career development of family members, and corporate governance after succession. It has become a heated topic attracting much attention from the academia and business community. Much of the current literature on family business succession in China pays particular attention to how first-generation entrepreneurs of family businesses make a smooth transition as well as succession decisions of “transferring to sons or daughters,” “transferring to the next generation of people outside the family” and “transferring to family members or someone capable.” It is worth noting that while the generational succession of family businesses is a preferred exit strategy for most entrepreneurs, selling the business is also an option mentioned by a relatively small number of scholars (DeTienne, 2010). Similar to the business life cycle, entrepreneurship goes through start-up, growth, maturity, and decline phases. In the early years of their careers, entrepreneurs possess the greatest potential. However, as enterprises evolve and entrepreneurs get older, the entrepreneurs’ cognitive ability and responsiveness gradually become less adaptable to the rapidly changing external environment (such as the emergence of new technologies, changes in consumer habits). As such, exiting from businesses has become one of the options for many entrepreneurs.

The past two decades or so, in particular, have witnessed tremendous

changes in China's society, economy, and culture, which in turn led to great shifts in the industries and markets in which enterprises are positioned. Facing the two daunting challenges of corporate strategic transformation and family succession at the same time, many family business founders have chosen to sell their businesses due to various considerations. For example, back in 2006, the founding family of Supor, a Chinese cookware giant, signed an equity cooperation framework agreement with France's Groupe SEB. Through an equity transfer agreement, private placement, and a partial tender offer, Groupe SEB obtained 61% of Supor's shares in the end, making it the de facto controlling shareholder of the company. According to PwC's *Global Family Business Survey 2014*, family businesses occupied 70 to 80% of China's 9.6 million private enterprises. Nearly 50% of them plan to sell their businesses or go public, and about a quarter hope to transfer ownership to the next generation. Entrepreneurial exit is a common phenomenon globally. Only less than half of the enterprises survive for more than five years after their establishment, and less than a third last for more than ten years (Alberti, 2013). In March 2016, it was reported that Kirchhofer, a Swiss family-owned jewelry and watch retailer, was looking to sell its family business. It had hired Credit Suisse, a Swiss investment bank, to carry out a business valuation. In Kirchhofer's finance head's words, the founder would probably leave the company after retiring. The examples above have shown that the entrepreneurial exit of family business founders has been a hot topic in the business community no matter in China or worldwide.

### **1.1.2. Theoretical Background**

Estrin et al. (2013) suggest that the entrepreneurial process includes an

entrepreneur's aspiration of creating a business and making it grow and his/her motivation to leave the business. However, much of the literature on entrepreneurship emphasizes start-up creation and scaling up issues, such as opportunity identification, opportunity initiation and exploitation, team building, and financing. Little attention has been paid to entrepreneurial exit (Detienne & Cardon, 2012; Detienne & Chirico, 2013; Wennberg, Wiklund, DeTienne, & Cardon, 2010). Entrepreneurial exit is quite common worldwide, with less than half of the enterprises surviving for more than five years after their creation and less than one-third lasting longer than ten years (Alberti & Pizzurno, 2013). Similar findings regarding entrepreneurial exit can be found across time and countries and in industrial economics and population ecology (Detienne & Chirico, 2013). Every entrepreneurial entry entails a potential entrepreneurial exit in the future. In other words, entrepreneurs will leave the business eventually. Only when that happens can the entrepreneurial journey be truly completed. The entrepreneurial process encompasses all stages, from creating a business to harvesting its value (Reynolds & White, 1997). The majority of previous research on the entrepreneurial process has dealt with the early stages of entrepreneurship and implied that the entrepreneurial process begins with the birth of the entrepreneur and ends with the creation of the new venture (Korunka, Frank, Lueger, & Mugler, 2003). However, much of the effort to create a new business depends on the ability to obtain the business value sometime in the future, and entrepreneurial exit is the critical point where the value can be harvested. Thus, entrepreneurship is more than just setting up a new business. It should be a complete process that includes business creation and entrepreneurial exit (DeTienne, 2010).

For DeTienne (2010), entrepreneurial exit means a process in which founders or founding teams leave the private enterprises they have built and exit, to a varying degree, from their enterprises' ownership and decision-making structure. Recent years have seen a growing body of research on entrepreneurial exit, with more researchers and practitioners recognizing that entrepreneurship includes establishing a business and exiting the venture. DeTienne and Cardon (2012) later propose three strategies for executing entrepreneurial exit: family succession, business sale, and business liquidation. Family succession allows family-specific knowledge to increase business value, yet it involves higher risks. Through family succession, the exiting entrepreneur can continue to obtain the economic value of the business and participate in the business matters. A business sale is less risky and easier to execute and has become particularly common in recent years, especially in the case of mergers and acquisitions where the accompanying corporate restructuring often results in a complete exit of the entrepreneur. Business liquidation is also a relatively simple strategy with lower risks where the entrepreneur closes the business and liquidates the assets. According to a comprehensive review of the literature by Wennberg and DeTienne (2014), previous studies on entrepreneurial exit can be classified into the following three categories, studies on the relationship between performance and exit, studies on exit decisions and feasible exit methods, and studies on the consequences of exit at the economic level and enterprise level. Furthermore, they have summarized the issues mentioned in other exit research and examined the importance of the exit process. In doing so, they argue that entrepreneurial exit is a complex process with uncertain outcomes.

In general, a number of Chinese and foreign scholars have offered



considerable theoretical and empirical investigations on the definition of entrepreneurial exit, types of exit, and motivations and outcomes of exit for more than three decades (DeTienne & Cardon, 2006, 2012; DeTienne, 2010; Lee & Lee, 2015; Lukeš & Zouhar, 2016). Yet, three theoretical issues/gaps remain to be addressed, and they are as follows:

**Firstly, how does the feature of dual governance of family businesses (that is, corporate governance and family governance) affect the exit decisions of the founders?**

With the study of entrepreneurship being increasingly integrated with that of family businesses in the international academia, family businesses are considered a form of entrepreneurship. However, regarding entrepreneurial exit research, there is still a lack of insight into how family businesses, as a hybrid of corporate governance and family governance, can affect the founders' decisions to leave the businesses. Sharma et al. (2003) have pointed out that a family business combines the rules of family culture and those of business and that a family is likely an unit where members are heterogeneous and do not share the same interests. Similarly, Rogoff (2003) regards "family as the oxygen that feeds the fire of entrepreneurship," claiming that "entrepreneurship does not take place in a vacuum. Just as fire is fed by oxygen, entrepreneurship is fed by the oxygen of [...] family." In other words, most family businesses take in the "oxygen" of material resources, financial resources, human resources, and even the educational background and values necessary for a successful business from the family from the very beginning of the business. It can be said that every family business entrepreneur is constantly under the influence of family, which permeates almost every stage of the entrepreneurial process, and the stage of

exit is no exception (Chrisman, Chua, Pearson, & Barnett, 2012). Therefore, the values, interests and preferences, and decision-making rules of family business founders cannot be ignored in the study of exit decisions, as these factors would affect the way and content of the entrepreneurial exit.

**Secondly, how do regulatory environments and key events affect the exit decisions of founders?**

Maintaining management control and transferring business ownership to the next generation are fundamental features of family businesses (Hsu, Wiklund, Anderson, & Coffey, 2016). However, more and more founders of family businesses in China have chosen to sell their businesses in recent years (He, Zhang, & Mei, 2013). Previous studies are insufficient to examine the above phenomenon as they only focus on the impact of internal corporate factors on family succession while overlooking the potential role of the external regulatory environments. External factors have an impact on the leaders' willingness to succession. According to Pfeffer and Salancik (1978), uncertainty and contingency factors of the business environment influence the allocation of power and control within an enterprise. That means unfavorable changes in the business environment can increase the risk of failure and result in greater business stress (Sharma, Chrisman, Pablo, & Chua, 2001). In countries undergoing transition, uncertainty caused by regulatory environments constitutes a key obstacle to the sustainable growth of family businesses. As for China, which is in a transition stage, external regulatory environments and certain external shocks are likely to be key factors shaping the entrepreneurial exit of family business founders. However, previous studies on entrepreneurship have not provided sufficient explanations on how regulatory environments and

external events affect the exit decisions of family business founders (Lv, He, & Ge, 2015).

**Thirdly, how can the process of the entrepreneurial exit of family business founders be described dynamically?**

Most research on the antecedents of entrepreneurial exit is carried out from a feature-oriented perspective by using an Inputs-Mediators-Outputs (IMO) model of entrepreneurial exit, highlighting the direct impact of founders' personality and entrepreneurial experience, firm characteristics, industrial environment, and other factors on entrepreneurial exit (Wennberg, Wiklund, DeTienne, & Cardon, 2010). In the same vein, many scholars have applied quantitative research methods to examine the impact of these key characteristics on entrepreneurial exit. For example, DeTienne and Cardon (2006) studied the impact of entrepreneurs' human capital on the selection of exit decisions. Caliendo et al. (2014) investigated the impact of entrepreneurs' personalities on exit from ventures. A feature-oriented approach to entrepreneurial exit has offered a valuable understanding of the causes and process. However, it fails to provide a dynamic picture of how the process of entrepreneurial exit works. For instance, how does event strength interact with the spatial and temporal processes through which events affect the entrepreneurial exit? Entrepreneurial exit is, in practice, a dynamic phenomenon in multiple forms. Thus, it can be explored from a process-oriented perspective as a dynamic process of how entrepreneurs end their businesses. It can also be analyzed from a feature-oriented perspective as a selection behavior focusing on factors and consequences. Combining these two perspectives to dynamically analyze the decision-making process of entrepreneurial exit will contribute to a

comprehensive analysis of the phenomenon of entrepreneurial exit for both academia and business.

## **1.2. Research Questions and Significance**

### **1.2.1. Research Questions**

The analysis of the research background above reveals the deficiencies of previous studies on the antecedents of entrepreneurial exit of family businesses. Thus, this study seeks to investigate the determining factors affecting exit decisions of family businesses and the dynamic process of making exit decisions from a feature-oriented and process-oriented perspective with an Event System Theory (EST) approach (Morgeson, Mitchell, & Liu, 2015) and a single case study method. Specifically, this thesis aims to answer the following three questions:

#### **(1) What influence do key events have on exit decisions of family businesses?**

In Allport's view, an event is composed of "entities" and occurs when different entities interact (1954). In an organization, the interaction between entities gives rise to a large number of events which can be broadly divided into two categories: spontaneous events, i.e., recurring events that are barely noticeable, and controlled events, i.e., perceptible events that trigger controlled information processing and have an impact on the organization. As mentioned earlier, most of the previous studies on the entrepreneurial exit of family businesses are based on a feature-oriented perspective focusing on the influence of corporate characteristics and entrepreneurs' characteristics on exit decisions without paying attention to whether or how external events affect exit decisions of family businesses. By exploring how external events affect exit decisions of

family businesses across time and space, this thesis hopes to provide a new perspective for scholars and practitioners to investigate the entrepreneurial exit of family businesses.

**(2) By what means do key events affect exit decisions of family businesses?**

Concerning controlled events, Morgeson et al. (2015) and Liu and Liu (2015) have proposed an Event System Theory (EST) for exploring the degree of the dynamic impact of events on organizations from the dimensions of event space, event time, and event strength. Claiming that EST focuses on how events attract attention, they explained how EST could provide a multi-level and dynamic account of an organization's internal phenomena affected by multiple events across time and space (Morgeson, Mitchell, & Liu, 2015). Specifically, in EST, events influence organizational behaviors after interacting with the external environments, and the influence can be measured in terms of novelty, disruption, and criticality of the events. In addition, events have temporal and spatial attributes, with the former consisting of timing, duration, and strength change and the latter comprising origin, dispersion, and proximity. Based on the EST, this thesis aims to examine how certain key events affect the expectations of family business founders as businesses grow from the dimensions of event strength, event space, and event time. As for Chinese family businesses, family expectations, according to Lv et al. (2019), encompasses four aspects, namely wealth expectation, reputation expectation, harmony expectation, and succession expectation. They are formed due to core family members living together for a long time and reaching the same goals at a lower cost through mutual communication and exchange. Family expectations are flexible and

dynamic.

### **(3) How do family and industry characteristics influence the interplay between events and entrepreneurial exit decisions?**

As entrepreneurial exit decisions of family business founders are shaped by internal and external factors, integrating feature-oriented, and process-oriented perspectives is needed to explain the complex decision-making process (Wennberg & DeTienne, 2014). As mentioned above, key events will shape the selection of entrepreneurial exit decisions by affecting the family expectations of family business founders. In this process, family and industry characteristics will be intertwined with events to jointly affect family expectations and even entrepreneurial exit decisions. That is, family characteristics and industry characteristics may be important boundary conditions in the event-expectation-exit process. Based on the company's characteristics in question, this thesis will focus on the family wealth accumulation, passion, the family's involvement, succession willingness of the next generation, and industry characteristics of industry competition intensity, industry regulation intensity, and industry growth potential.

#### **1.2.2 Research Significance**

The study contributes to entrepreneurial exit theories in the following three aspects:

**Firstly, based on EST, the thesis focuses on the key events that occur in the development of family businesses and interprets how founders of family businesses develop exit decisions from the new perspective of event strength, time, and space.** The study examines the key events in company development through secondary data collection and interviews to identify how key events

affect founders' exit decisions regarding event strength, time, and space. In so doing, it addresses the gap in entrepreneurial exit research regarding events. It helps to provide a comprehensive and in-depth understanding of the phenomenon and nature of entrepreneurial exit of Chinese family businesses for scholars and practitioners.

**Secondly, considering the context of Chinese family businesses, the thesis uses family expectations as an important psychological mechanism to help delineate how key events influence founders' entrepreneurial exit decisions.** Unlike other types of organizations, family businesses are a combination of “family” and “business,” and this unique nature means that family businesses are driven by not only economic interests but non-economic goals as well (Stockmans, Lybaert, & Voordeckers, 2010; Chua, Chrisman, & Sharma, 1999). Compared with Western family enterprises, non-economic goals tend to be more pronounced for Chinese family businesses. These goals range from maintaining family reputation to continuing the family line. Thus, the study considers family expectations and classifies them into wealth expectations, reputation expectations, harmony expectations, and succession expectations. It examines how key events affect family expectations, impacting entrepreneurial exit decisions. That being the case, the study helps to delineate further how events affect entrepreneurial exit and provide a new scenario for the application of EST.

**Thirdly, the thesis integrates process-oriented and feature-oriented paradigms by treating family and industry characteristics as important contextual conditions, thus setting boundary conditions for key events affecting entrepreneurial exit.** The study delves into important factors that

influence entrepreneurial exit decisions of the company in question, including family wealth accumulation, entrepreneurial passion, family involvement, succession willingness of the next generation, industry competition intensity, industry regulation intensity, and industry growth potential, to set boundary conditions for the process of “event-expectation-exit” concerning family characteristics and industry characteristics. In this way, it compensates for the inability of previous literature on entrepreneurial exits with a feature-oriented paradigm to explore the decision-making process of entrepreneurial exits. It offers detailed observational data for studying the process of entrepreneurial exits in the context of China.

The practical significance of this study is reflected in the following three aspects:

Firstly, with its marked impact on job creation and employment issues, entrepreneurial exit is an effective indicator of a country or region’s entrepreneurs’ confidence in economic development and serves as a barometer of the extent of economic activity. By analyzing the entrepreneurial exit of the founder of Company H, this study provides a window for scholars and practitioners to understand better the entrepreneurial exit of family businesses and calls for all sectors of society to pay attention to the ongoing phenomenon of entrepreneurial exit of family businesses in China.

Secondly, selecting entrepreneurial exit decisions is a complex process involving different internal and external factors. This study combines feature-oriented and process-oriented approaches to explore the entrepreneurial exit decisions of family business founders. The findings are relevant to the literature on entrepreneurship and the management and succession of family businesses



in China. As a typical case study, it can also help other Chinese family business leaders make scientific and rational decisions by thoroughly evaluating their own business, family, industry, and personal situations.

Thirdly, industry regulation and tighter government supervision, government service reform, and regulatory and institutional improvement play an important role in maintaining the entrepreneurial spirit of entrepreneurs, and it is at the core of reform where policymakers can provide institutional support for entrepreneurs in the process of institutional design. This thesis investigates how industry regulation, supervision and the social media environment affect entrepreneurial exit by analyzing the shock of key events in the company's development in question. It offers meaningful suggestions for the government's industry regulation and supervision and support policies to create an institutional mechanism conducive to entrepreneurship and business growth through sustaining the entrepreneurial spirit.

### **1.3. Research Methodology**

The nature of the research question largely determines the selection of a research method. Since this thesis aims to answer whether, how, and when key events affect entrepreneurial exit decisions, it employs the case study method, which is ideal for answering the questions of “what happened” and “why” (Yin, 1981). The exploratory case study method, in particular, helps to uncover the theoretical logic and laws behind a phenomenon (Huang et al., 2011). Moreover, this study focuses on a novel and unique phenomenon with little related research, so the case study method allows for theoretical construction based on the analysis of new phenomena emerging from management practices (Eisenhardt, 1989; Yin, 2003) without relying on previous literature or empirical evidence

(Eisenhardt & Graebner, 2007). Specifically, the empirical research methods adopted for this study are as follows:

(1) Literature Review

The literature review is the prerequisite and foundation of all scientific research. By collecting and analyzing relevant Chinese and Western literature, this study offers a systematic review of research models and their corresponding theoretical foundations regarding entrepreneurial exit, entrepreneurial passion, family succession, family involvement, family expectations, and EST. It then summarizes and analyzes previous studies' theoretical contributions and limitations to identify research gaps and significance. To be more specific, the study first collected literature on entrepreneurial exit and other related topics published in recent decades in top foreign management and entrepreneurship journals, including *Academy of Management Journal (AMJ)*, *Academy of Management Review (AMR)*, *Administrative Science Quarterly (ASQ)*, *Entrepreneurship Theory and Practice (ETP)*, *Journal of Business Venturing (JBV)* and *Family Business Review (FBR)* via foreign databases such as *Academic Research Library (ARL)*, *Proquest* and *EBSCO*. Secondly, it gathered the relevant literature published in high-level management journals in China, such as *Management World*, *Nankai Business Review*, and *Journal of Management Sciences in China*, via the *Chinese Academic Journal Network Publishing Database*. Based on the previous literature in China and the West, the thesis then developed its overall analytical framework and logic for addressing the aforementioned research questions.

(2) Theoretical Building

After the literature search, the study carried out a comparative analysis of

the theoretical foundations of previous studies, i.e., EST, socioemotional wealth theory, and expectancy theory. Building on relevant work, it then drew on the definitions of event variables, family expectation, and entrepreneurial exit to develop a logic of event-expectation-exit for the case study.

### (3) Case Study

The thesis employs a case study method as its primary methodology. The case study can be approached in two ways. First, it can be a divergent case study through investigation, research, analysis, and induction to create a new theoretical framework. Second, a case study can verify and revise a previously established theoretical frameworks or a new framework based on a literature review to deduce a new conclusion. Following the first manner, the thesis observes and analyzes the phenomena. After identifying the research questions and the case to be analyzed, it builds a new theoretical framework by drawing on relevant theories to explain and investigate the case in an all-around manner based on literature review and analysis. And it ends with a conclusion of the findings.

## **1.4. Thesis Structure**

This thesis follows a framework of “Research Questions Identification–Literature Review–Research Design and Case Description–Case Analysis–Discussion and Conclusion” based on the analysis above. The thesis has been organized in the following way.

Chapter 1 Introduction discusses the practical and theoretical background of entrepreneurial exit, puts forward the research questions, and clarifies the significance of the study. It discusses the study’s main content, analytical approaches, and thesis structure.

In Chapter 2, Literature Review, the author summarizes and analyzes relevant literature in sequence, including the definition of entrepreneurial exit and factors affecting entrepreneurial exit, the definition of the family business and other related studies, and the definition of family expectation and views and applications of EST.

In Chapter 3, Research Design and Case Description, the current research describes the case selection, data sources and criteria, and analysis process. Preliminary results of the analysis are presented in the section.

Chapter 4 presents the main findings of the case analysis. In this chapter, the author interprets the decision-making process of the founder of the company from the dimensions of event strength and space and in terms of the interaction of family characteristics and industry characteristics, respectively.

Chapter 5 investigates how the same events impacted another private company in the industry, i.e., Company M, based on secondary data collected. The findings can be used to verify and complement the findings of the case study of Company H above to some extent.

Chapter 6, Discussion and Conclusion, first summarizes the findings of the study, then discusses the theoretical significance and practical implications of the research, and finally points out the limitations of the study and implications for future research.

## **2. Literature Review**

This chapter first reviews the literature on entrepreneurial exit, including the definition, types, and antecedents of entrepreneurial exit. It then proceeds to give a brief overview of the definitions and connotations of family expectations before clarifying the meanings of family expectations used in this thesis. Finally, it gives an account of the content, concepts, measurement, and use of Event System Theory.

### **2.1. Previous Studies on Entrepreneurial Exit**

#### **2.1.1. Definition and Types of Entrepreneurial Exit**

Much of the research on entrepreneurship, organizations, and strategic management tends to view entrepreneurial exit as an entrepreneurial failure, which to some extent, has hindered the development of entrepreneurial exit studies. Hence, it appears particularly important to distinguish between entrepreneurial exit and entrepreneurial failure. Early entrepreneurship studies have mostly taken a utility maximization perspective and considered exit as a consequence of poor business performance, equating entrepreneurial exit with business failure (Jenkins & McKelvie, 2016). However, recent work has found that apart from economic factors, entrepreneurs may also voluntarily exit their businesses or exit the markets along with their businesses for non-economic reasons such as retirement and educational opportunities (Justo, DeTienne, & Sieger, 2015). Justo et al. (2015) divided entrepreneurial exit into two types, i.e., involuntary and voluntary in a business' economic distress. The latter results from personal issues and economic and career opportunities. In some cases, entrepreneurs would voluntarily exit their businesses to earn investment returns, retire from work, or pursue career opportunities even though their businesses

may not experience a decline in performance or even perform quite well. These cases tend to be seen as positive exits rather than failures. Thus, entrepreneurial exit from a start-up is not a sufficient condition for an entrepreneurial failure.

DeTienne (2010, p. 203) defined entrepreneurial exit as the process by which founders leave the companies they have created and notes that understanding exit is important because of the magnitude of its effects on the firm, the family, the industry, and the overall economy. Wennberg et al. (2010) further suggested that there are two different domains of entrepreneurial exit, namely exit of the company and exit of the owner(s), which have a different research focus. Therefore, it is necessary first to clarify which domain of entrepreneurial exit is being discussed in the study of entrepreneurial exit. The main focus of this thesis is voluntary exit decisions by founders of family businesses.

DeTienne et al. (2012) identified three exit decisions: stewardship-based, financial reward-based, and cessation-based strategies. A stewardship-based exit strategy refers to a strategy developed out of an “ongoing sense of obligation or duty to others” (Hernandez, 2012, p. 174) and generally provides for strong continuity and care of the firm and the family. Family succession—the process through which family owners transfer the ownership of their firms to one or more other family members, often the owners’ children – is a common stewardship-based exit strategy (DeTienne & Chirico, 2013). Though risky, family succession is a useful way to pass on the family’s unique knowledge to increase the value of the business. Besides, by adopting the strategy of family succession, entrepreneurs who have left their companies can continue benefiting from the economic values of their businesses and participate in business affairs.

A financial reward-based exit strategy is based upon the owners' highest potential returns, with initial public offerings (IPOs) and trade sales as two major forms of the strategy. A cessation-based exit strategy refers to (at some point in the future) disbanding a venture and liquidating its assets (DeTienne & Chirico 2013). For example, business liquidation, a common cessation-based exit strategy, is a low-risk and easy-to-execute strategy in which entrepreneurs dissolve the business and liquidate the assets.

According to He, Qiao and Lian's (2007) summary of the exit behaviors of Chinese entrepreneurs based on first-hand case studies, there are five types of exit behaviors: (1) complete exit from businesses where entrepreneurs leave their businesses completely with no direct interest in the companies; (2) exit as minority shareholders where entrepreneurs become minor shareholders and participate in business matters as shareholders with the right to dividends; (3) exit as regular employees, the most common phenomenon in state-owned enterprises in China, where entrepreneurs are involved in business activities as ordinary employees who are entitled to receive salaries and bonuses or entrepreneurs retire and no longer participate in the business activities due to their age and health; (4) exit as mentors for providing guidance on decision-making, where entrepreneurs adopt a relatively moderating strategy to gradually step down from business operation by assisting successors as management consultants and no longer participating in specific management matters; and (5) exit as behind-the-scenes proprietors, a moderating strategy adopted by incumbent entrepreneurs in the exit process, where unlike exiting the businesses as mentors offering "consultancy" on decision-making, entrepreneurs still have

a certain degree of control over the companies and engage in business operation behind the scenes by virtue of their authority.

In essence, based on the degree to which founders give up their control over the business operation and decision-making and the ownership of their companies, the five types mentioned above of exit behaviors can be further classified into gradual exit and radical exit. Gradual exit refers to the gradual reduction of founders' control over the businesses, manifested by the gradual demotions and reduction of executive power of the founders and their possible eventual exits from the enterprises. Examples of gradual exit include exiting as mentors for guiding decision-making and exiting behind-the-scenes proprietors. Radical exit happens when founders suddenly lose complete management and decision-making power and ownership of their companies, or in other words, they no longer hold any management positions in the companies as of some point and give up the complete ownership of their companies at one go (Mei, He, & Li, 2012). A review of the exit of family business founders in China revealed some meaningful phenomena and patterns. For example, Mao Lixiang, the founder of Fotile Group, gave up his position as General Manager to his son Mao Zhongqun, became Chairman of the Board, and gradually left the business by "handing over the division of product development in the first three years, handing over the marketing division in the next three years and transferring the ownership in the last three years (p. 221)." Another example would be Xu Zirong of Hengdian Group, who resigned as President but retained his position as Chairman of the Board, while his eldest son Xu Yong'an became President of Hengdian Group. The founder of Supor Group took another exit approach by



selling his stake in the company and giving up his management and decision-making power and ownership of the company.

### **2.1.2. Antecedents of Entrepreneurial Exit**

The entrepreneurial exit of businesses is a highly sophisticated management phenomenon that involves different exit models, such as entrepreneurial failure, diversification, management takeover, and planned exit decisions. Previous studies in economics, sociology, organization, and entrepreneurship have provided theoretical and empirical examinations of why entrepreneurial exit behavior occurs (Detienne & Cardon, 2012). Life-cycle theory, for example, suggests that companies encounter different challenges and opportunities at different periods of development and are required to adapt to changes in the current environment through transformation. Hence, founders whose expertise no longer meets the demands of the growth of their companies on the current scale would opt for an exit strategy. In addition, Wennberg et al. (2010) proposed an encompassing model that highlights the following factors for entrepreneurial exit: (1) environmental factors, such as macroeconomic conditions, industrial structure and competitiveness, culture and norms, and other institutions; (2) corporate factors, mainly including growth potential, financial performance, partners, employee status, etc.; and (3) entrepreneurs' characteristics, such as entrepreneurs' human capital (including industry experience, education, and previous entrepreneurial experience), demographic characteristics (including age, social network, family status), motivation and expectation (including external employment opportunities, shareholding ratio).

Previous research mainly focuses on establishing an entrepreneurial exit model from the perspectives of entrepreneurs, enterprises, and industries or the

macro environment. Entrepreneurs' human capital and demographic characteristics are widely used explanatory factors. The opportunity cost of entrepreneurship is affected by demographic characteristics (Carroll & Mosakowski, 1987), so entrepreneurs' race and gender may affect the choice of withdrawal. Taylor (1999) investigated the effect of entrepreneurs' daily lives on their decisions to exit and found that 4.3% of the male entrepreneurs exited due to "personal reasons," such as education or family, and up to 13.4% of the female entrepreneurs gave the same reasons. Although industry experience and education reduce the possibility of exit, entrepreneurial experience positively impacts exit, which means that experienced entrepreneurs tend to have better performance and are more inclined to exit and restart a business. DeTienne and Cardon (2006) studied 189 entrepreneurs in the electronic measurement and surgical equipment industries in the United States and found that older entrepreneurs have greater incentives to exit and that general human capital such as education and experience impact entrepreneurs' exit modes (sales, IPO, liquidation, etc.). In addition, the human capital and material capital that entrepreneurs have invested in the enterprises also affect their exit. For example, Boeker and Karichalil (2002) discovered that founder departure decreases with founder ownership, which echoes Bates (2002). In other words, the sunk cost induced by the founder's initial capital investment reduces the opportunity cost of engaging in other industries, which leads to his/her exit during the prime time of business. Besides, founder departure decreases with the power of insiders. Boeker and Karichalil (2002) indicated that founders with research and development backgrounds and/or chief executive positions are less likely to leave their businesses.

**The impact of corporate factors on entrepreneurial exit cannot be ignored.** For example, Mitchell (1994) found that founders of start-up firms with older age are more inclined to sell, but there is less possibility of business dissolution. Boeker and Karichalil (2002) found that founder departure increases with firm size. The uncontrollable external factors of businesses may also directly affect exit decisions. For example, research has found that businesses cannot keep up with disruptive technologies in mature and declining industries due to the dominant procedural and technological system, leading to founder departure.

**Corporate performance is closely related to entrepreneurial exit since the goal of companies is to maximize profits.** Although scholars consider the majority of entrepreneurial exits to result from poor firm performance (Coad, 2014), some entrepreneurs may choose to leave their businesses that perform pretty well (Jenkins & McKelvie, 2016; Wennberg, Wiklund, DeTienne, & Cardon, 2010). In addition to objective corporate performance, entrepreneurs' subjective perceptions of performance thresholds are also important. Entrepreneurs may delay their exit or fail to exit when their businesses are in trouble due to low-performance thresholds (Elfenbein, Knott, & Croson, 2017). When enterprises have difficulty accessing complementary specialized skills during the adolescent growth phase, entrepreneurs may exit despite good business performance because human capital is insufficient to support their businesses to sustain innovation and growth to reach expected performance thresholds (Siepel, Cowling, & Coad, 2017). An empirical study on founders of listed family businesses in China has further shown that founders are more likely to take a less risky gradual exit when the actual business performance is

below the desired level, whereas they are more likely to opt for a riskier and more aggressive exit when the actual business performance is better than expected (Lv, He, & Ge, 2015).

Moreover, **the resources invested in enterprises are closely related to the entrepreneurs' exit decisions and exit timing.** For example, the initial capital, human and technological resources put into the enterprise are positively related to the entrepreneur's choice of the initial public offering, initial capital is positively related to the strategic sale, and the percentage of ownership of initial capital is positively related to the strategy of selling to an individual (DeTienne & Cardon, 2008). Boeker and Karichalil (2002) have also shown that founder departure is positively associated with firm size and negatively associated with the founder's working in research and development or being the CEO and has a U-shaped relationship with firm growth rate. Furthermore, van Teeffelen and Uhlaner (2013) considered firm turnover, firm size, and independence from its owner's day-to-day operations as firm resources. They found that these firm resources have prompted entrepreneurs to favor a firm's sale over liquidation through an empirical study. As for the timing of exit, it has been found that the time and financial investments made before the firm gets into trouble delay the exit of the entrepreneur, while the number of employees in the size of the company drives the entrepreneur to exit as soon as possible (Yamakawa & Cardon, 2017). Meanwhile, studies have also shown that the number of employees is positively related to family succession, employee acquisition, or the sale to an individual and negatively associated with the exit decisions of liquidation and closure of the business (DeTienne, McKelvie, & Chandler, 2015; Leroy, Manigart, Meuleman, & Collewaert, 2015). Additionally, in a start-up,

the investor-entrepreneur relationship is an important factor in triggering entrepreneurial exit. Collewaert (2012) explored the impact of investor-entrepreneur conflicts on entrepreneurial exit. They discovered that entrepreneurs with more conflicts with angel investors about their tasks and goals showed greater intention to exit. Furthermore, their study indicated that unethical behaviors of each other perceived by investors and entrepreneurs can trigger conflicts between them and influence their selection of conflict management strategies and that escalating conflicts may lead to either investors or entrepreneurs being forced to leave the enterprises (Collewaert & Fassin, 2013).

**Family factors also have an impact on entrepreneurial exit.** Career and family are closely related for entrepreneurs, and family factors significantly impact entrepreneurial exit. For example, entrepreneurs whose parents are involved in entrepreneurship are less likely to exit their ventures due to business failure (Stam, Thurik, & Van der Zwan, 2010). Child-rearing reduces the likelihood of exit for male entrepreneurs (Wennberg, Wiklund, DeTienne, & Cardon, 2010; Rybczynski, 2015). However, the impact of child-rearing on female entrepreneurs' exit is controversial. Some research suggests no significant effect (Wennberg, Wiklund, DeTienne, & Cardon, 2010), and one study argues that the number of children is a determinant of their exit (Rybczynski, 2015). In addition, family resource is also an important factor influencing entrepreneurial exit. A study of immigrant entrepreneurs discovered that the resources obtained from being married to natives influence their exit behaviors (Bird & Wennberg, 2016). Hsu et al. (2016) focused on entrepreneurship-to-family enrichment and interference. They concluded that

mutual interference between family and entrepreneurship has strengthened entrepreneurs' exit intentions, with female entrepreneurs experiencing such interference having stronger exit intentions, while entrepreneurship-to-family enrichment has weakened entrepreneurs' exit intentions.

**Social and environmental factors also affect entrepreneurial exit to a certain extent.** The industry characteristics, regional conditions, and macro environment in which entrepreneurs and start-ups are located can impact entrepreneurial exit. Joonas (2010) noted that non-Western immigrants had a higher exit rate than native Swedes, partly due to the lower barriers to entry and higher exit rate in the retail restaurant industry where they worked. In terms of regional conditions, Haapanen and Tervo (2009) found that entrepreneurs in urban areas had a significantly lower exit rate in the first year of business than those in rural areas. In a qualitative study of small business owners in remote areas in Australia, Kotey (2016) suggested that regional barriers such as small markets, dependence on small-scale consumers, and poor infrastructure made it easier for entrepreneurs to adopt stewardship-based and cessation-based strategies compared to the financial reward-based strategy.

As for the macro environment, although it has been pointed out that a favorable economic situation in the year of graduation reduced the entrepreneurial exit rate of college graduates in the subsequent years (Beiler, 2017), Davidsson and Gordon (2016) came to an interesting conclusion in an empirical analysis that the macro-financial crisis did not have a direct impact on entrepreneurs in the early stages with most of them persisting in their businesses. Besides, Shirokova et al. (2015) found that characteristics of the regulatory environment perceived by founders, such as lack of protection of property rights

and dependence of business operations on ties with government officials, reduced the likelihood of founders' giving up their management power, while insecurity about contract law increased the likelihood of founders to exit.

In sum, previous work by scholars has explored the definition, types, and antecedents of entrepreneurial exit and its consequences. Based on the previous literature, this thesis provides an overview of the key studies in the entrepreneurial exit decision. Entrepreneurial exit, as an exit mode, is a highly intricate process with a significant difference in the levels of analysis and theoretical perspectives. It is thus extremely difficult to extrapolate a theoretical model of entrepreneurial exit in research (De Tierme 2010). The majority of the current work has approached entrepreneurial exit from a feature-oriented perspective, considering exit as a career choice and the decision-making behavior of entrepreneurs, focusing on the relationships between entrepreneurial exit-related variables. However, far too little attention has been paid to the influence mechanism of the entrepreneurial exit decision and its process.

## **2.2. Previous Studies on Family Expectations**

Research has mostly viewed entrepreneurial behaviors and family business as two separate research issues without considering the overlap or interplay. Few entrepreneurship scholars have addressed family influence on entrepreneurial processes and behaviors and Nordqvist and Melin (2010) stated that family business research and entrepreneurship research have been separate for far too. Recent work has suggested that integrating family factors and entrepreneurship would give rise to unique theoretical perspectives (e.g., Bird & Wennberg, 2016; Elfenbein, Knott, & Croson, 2017). In reality, many

entrepreneurs' original business purpose is closely linked to their families. The entrepreneurs' social networks, such as financial, human, and material capital are the main sources of their entrepreneurial opportunities and initial capital. Scholars have acknowledged family ties as the most powerful and effective relational capital. Hills et al. (1997) found that 50% of entrepreneurs identified their entrepreneurial opportunities through their social networks and the most effective relational capital was the entrepreneur's family background. Chrisman et al. (2002) conducted an empirical study implying that nearly 80% of start-ups exhibited the characteristics of a family business. A large body of literature has recognized the prevalence of collectivist culture in family firms (Bertrand, Johnson, Samphantharak, & Schoar, 2008; Iacobucci & Rosa, 2010; Khanna & Palepu, 2000). Consequently, it is important to investigate the impact of family on entrepreneurial exit. Studying family entrepreneurial activities in China appears even more meaningful considering the prevalent "family" culture and widespread collectivism in the family setting. An observation of entrepreneurial processes around the world also shows that the creation of most start-ups involves the participation of entrepreneurs' family members. Thus, family ties are undoubtedly a key source of entrepreneurship.

Exploring the behaviors and nature of family businesses provide some theoretical and practical implications for understanding entrepreneurial activities. Yet current literature on entrepreneurial activities of family businesses remains quite fragmented and scarce. There has also been an appeal by some scholars for the need for further theoretical and practical investigations into family entrepreneurship (McKelvie, McKenny, Lumpkin, & Short, 2014), with adequate consideration of family influence (Alsos, Carter, & Ljunggren,



2014) or family-centered entrepreneurial teams (Salvato & Corbetta, 2012; Habbershon & Pistrui, 2002). Family businesses play a vital role in the global economy (Astrachan & Shanker, 2003; Salvato & Corbetta, 2012) and are an important form of organization in China's private economy. Recently, researchers have suggested that to gain a deeper understanding of entrepreneurial behaviors in the family business context, more attention should be given to the intersection and interplay between entrepreneurial families, family businesses, and entrepreneurship (Randerson, Bettinelli, Fayolle, & Anderson, 2015). While some research has been carried out on the strategic decision-making of family entrepreneurs and the practice of strategic planning in the family business context (Nordqvist & Melin, 2010), most of these attempts have dealt with succession issues or sustainable growth of family businesses in a more general way, with only very few discussing the impact of controlling families on entrepreneurial activities.

In the meantime, there is also a relative paucity of studies exploring entrepreneurial behaviors in family business research (Chrisman, Steier, & Chua, 2006; Kellermanns & Eddleston, 2006), with only limited literature focusing on the impact of the family's management power on entrepreneurial orientation or entrepreneurial performance (Sciascia, Chirico, & Mazzola, 2010) and the role of family members' involvement in innovation investment (e.g., R&D expenses and the number of researchers) (Casillas, Moreno, & Barbero, 2010). A search of the literature revealed that very little is known about the exit of family business entrepreneurs, even though exit decisions are essential tools for family businesses to maintain their viability. Entrepreneurs' investment portfolios are highly meaningful in family business research because

entrepreneurs' investment strategies can diversify risks and help family businesses achieve desired growth. Other controlling families pursue their professional development (Carter & Ram, 2003). Family businesses are more likely to diversify their investments or have other strategic options available for pursuing market opportunities. However, there is still little scholarly understanding of entrepreneurial exit decisions for family businesses. As an interesting context for research in its own right, a family business has its unique nature as opposed to a non-family firm (Chrisman, Chua, & Steier, 2005; Chua, Chrisman, Steier, & Rau, 2012; Sharma, 2004) and its uniqueness can, in turn, affect the exit decisions of entrepreneurs.

Researchers have introduced concepts such as emotional value, property attachment, altruism, and family values, to explain the behaviors of family businesses that deviate from economic goals (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). But these studies seem fragmented and unsystematic since each concept can only reveal one aspect of family businesses' pursuit of non-economic goals. Given this, Gomez-Mejia et al. (2007) built on previous research and proposed an integrative concept of Socioemotional Wealth (SEW) to comprehensively explore the non-economic impact of families on the businesses they control.

According to Gomez-Mejia et al. (2007), SEW refers to the non-economic benefits that the family receives from the family business by its status as owner, decision-maker, and manager, including specifically the ability to exercise power, satisfying the needs of belonging, affection, and kinship, maintaining family values within the business over time, sustaining family control, preserving family social capital, fulfilling family obligations based on blood ties

and treating family members with altruism. Protecting SEW is closely related to the family's control of the business. Once the family loses control of the business, the SEW may be affected, weakening kinship among family members, the decline of family status, and failing to fulfill family expectations. Therefore, protecting the family's SEW has become one of the most important objectives for the family to control the business. SEW is a broad concept with multidimensional characteristics in its structure and connotations. For this reason, some attempts have been made to explore the classification of the dimensions of SEW. For example, Gomez-Mejia et al. (2011) contended that SEW consists of affection, cultural values, and altruism. However, Berrone et al. (2012) believed that the previous studies did not provide sufficient understanding of the dimensions of SEW. According to them, SEW comprises five dimensions: (i) family control and influence, (ii) identification of family members with the company, (iii) binding social ties, (iv) emotional attachment of family members, and (v) renewal of family bonds with the company through dynastic succession. Family control and influence refers to the family's direct or indirect influence on the management and strategic decisions of the company by appointing the Chairman of the Board, CEO, or other executives and transplanting their values by corporate ownership, social status, or personal charisma of the family members. Family members' identification with the company refers to the extent family members regard the company as an extension of the family because of the close relationship between the family and the company and the role the family plays in the family business and the internal management and external image of the company. Binding social ties is the extent to which the family extends its internal kinship-based reciprocal

relationship to non-family employees within the family business and non-family partners outside the business and even to the community in which the business is located, thus forming a close social network. Emotional attachment of family members refers to the extent to which family members see the business as a place to satisfy their emotional needs of belonging and intimacy. Their emotional attachment will increase as the business grows. Dynastic succession refers to the extent to which the family views the creation of the business as a long-term investment and hopes to pass on the business across generations.

Although SEW provides a theoretical basis for explaining family business heterogeneity and behavioral decisions, it is still biased as it only considers non-economic interests as the reference point for decision-making. Recent evidence suggests that paying too much attention to SEW gains at the expense of the company's financial performance can lead to business crises. Therefore, some scholars have examined the non-economic goals of family businesses from different perspectives. Zellweger, Nason, Nordqvist, and Brush (2013) have summarized the family-level non-economic goals, consisting of family harmony (Sharma & Manikutty, 2005), autonomy and control, cohesiveness and loyalty, pride, family name recognition and reputation (Zellweger & Nason, 2008). Chrisman et al. (2012) proposed three dimensions of family-centered noneconomic goals: harmony, social status, and recognition.

Lv et al. (2019) put forward the theoretical construct of "family expectations" to represent non-economic goals and aspirations in all aspects of family life rather than merely financial performance or other economic references, thereby incorporating economic and non-economic goals into the research framework of entrepreneurship. Family expectations are formed due to

core family members living together over time and communicating with each other to reach the same goals at a lower cost. They can vary in degree and are flexible and dynamic in nature. Lv et al. (2019) classified family expectations into four major types: (i) family wealth expectation, (ii) family reputation expectation, (iii) family harmony expectation, and (iv) family succession expectation, according to the findings of focus group interviews with 16 core members of entrepreneurial families, semi-structured in-depth interviews with 32 family entrepreneurs and questionnaire data analysis. Consistent with Lv et al.'s (2019) empirical study of Chinese family firms, family expectations in this thesis are categorized into four dimensions: family wealth expectation, family reputation expectation, family harmony expectation, and family succession expectation.

**Family wealth expectation.** While executives are perceived to pursue multiple goals such as profitability, sales, and corporate status, economic goals are generally regarded as the most important reference point in decision-making. Corporate profitability is a major determinant of the executive's salary, value in the marketplace, and career development. Based on the reasons above, executives tend to prioritize those reference points related to economic performance. Unlike their non-family business counterparts, family business executives are comparatively less concerned with remuneration and career development; economic goals still serve as an important reference point in the decision-making process of family businesses. That is because reaching economic goals is an important prerequisite for achieving non-economic ones. Therefore, family businesses still perceive the risk of business failure as a serious threat, or to be specific, when the business performance falls below the

desired level (Chrisman & Patel, 2012). Family-centered wealth needs to dictate the company's economic interests because business revenue is a major source of the controlling family's income. Since family wealth expectation is inextricably linked to business economic expectation, to some degree, family wealth expectation impacts business behavioral decisions.

**Family reputation expectation.** Family reputation is an important component of family expectations. Family members have an important role in building a corporate reputation because they usually have stronger incentives than non-family members to enhance the family business's reputation. A good reputation generates emotional wealth for the business and the family and improves the business's financial performance. Chrisman et al. (2012) considered family social status an important dimension of family-centered non-economic goals. Zellweger and Astrachan (2008) suggested that family social identity and status are valuable emotional resources for entrepreneurial families. Given that the family business itself is a combination of business and family, family reputation is one of the key elements in setting the goals of the family business. The controlling family tends to be more concerned about its reputation, which is supported by the recent research showing that maintaining a good reputation is an important SEW goal for family businesses (Zellweger & Astrachan, 2008). That reputation can also provide important emotional values for family members. Family business members are often motivated to improve their identity. Enhancing the reputation of both the family business and the family enables family members to improve their sense of identity and better define their values, as family business prestige helps them to have a better understanding of who they are and what they are doing (Haslam & Ellemers,

2005, p. 43).

**Family harmony expectation.** Family harmony has been defined as a pattern of family relationships in which family members care for and support each other and can come together in a crisis. Almost all families strive for family cohesion, support, and loyalty. Extensive studies have also established that family unity and harmony are the most important non-economic goals at the family level (Sorenson, Goodpaster, Hedberg, & Yu, 2009). Sharma and Manikutty (2005) believed that preserving family harmony, a sense of belonging, and a trusted relationship within the family are necessary for family businesses to retain their competitive advantage. As the most important dimension of family expectations, family unity and harmony can significantly reduce agency costs via open communication among family members to achieve more efficient business decision-making. Contrary to non-family firms, founding families' harmonious relationships play a crucial role in setting business goals (Astrachanand & Jaskiewicz, 2008). Many empirical studies have confirmed the impact of intra-family relationships on firms' behavioral decisions. For example, Brocldaads (2004) have shown that family ties between siblings can shape business succession decisions. Similarly, this thesis recognizes family unity and harmony as the most powerful pattern of family relationships critical for family business behavioral decisions and one of the key objectives of family businesses.

**Family succession expectation.** Generational succession concerns the growth of family businesses. There is no denying that family business leaders prefer to pass on the ownership to family members. The reason for family businesses' "transferring the ownership to family members instead of non-family members" to the influence of traditional Chinese culture, which is also

why “parents’ transferring the ownership to their children” remains to be the mainstream mode of succession in family businesses in China. According to previous study, the reason for a family enterprise to find its successor within the enterprise is the result of rational selection (Chrisman & Patel, 2012). Due to the heterogeneity of family enterprises, choosing family members as successors can effectively avoid risks and reduce agency costs. In addition, the selection of successors is vital for business continuity and inheritance. As Chu observed, most overseas Chinese companies prefer to choose the eldest son to take over the family businesses, which is closely intertwined with Chinese culture's influence. Therefore, the need for “succession within the family” and the prevailing practice of “succession by the eldest son” have determined the controlling family’s goal of “having a growing family.”

### **2.3. A Review of Event System Theory**

According to Morgeson et al. (2015, p. 520), events are defined in three ways. First, to separate events from entities’ responses, they define events as part of the environment or context external to the perceiver. Events may originate inside or outside the organization, but they constitute observable actions or circumstances (e.g., a hostile takeover attempt, a new competitor’s product, a machine failure, a new CEO). Internal psychological processes may lead to or reflect reactions to events, but they are not. Second, events are bounded in space and time (i.e., discrete) such that they have an identifiable temporal beginning and end and evolve in a specific setting. They also represent some discontinuity, thereby possessing a nonroutine character. Events break people out of established routines and their automatic cognitive processing (Morgeson, 2005), and they command our attention (Mowday & Sutton, 1993).



Third, events can result from the actions of a single entity on another entity or can occur when the actions of multiple different entities converge. Thus, an event occurs between entities, represented by their interaction (Weick, 1987). Organizations are dynamic, hierarchically structured entities. Such dynamism is reflected in significant events at every organizational level. Despite this fact, there has been relatively little discussion about how events become meaningful and how they impact organizations across space and time. Hence, they address this gap by developing an Event System (EST).

Morgeson et al. (2015) proposed that an event has three dimensions in EST. The first is event strength (novelty, disruption, and criticality). Novelty reflects how an event differs from current and past behaviors, features, and events and is, therefore, a new or unexpected phenomenon. Examples of novel events would include new members joining a work team, a competing company designing a new product, or the 9/11 tragedy. When events are novel, entities are usually ill-prepared with a set of rules or procedures to respond effectively; novel events require entities to change or create new behaviors, features, and events to respond to the event.

Disruption reflects a disruption of organizational ability, work disruption, or the amount or degree of change in usual coping methods or working methods (Morgeson, 2005). Organizational examples include a major conflict between business units and a major change in a project's deadlines. Disruptive events break entities out of their conventional thinking and response mode and compel them to change.

Criticality reflects the degree to which an event is important, essential, or a priority to the organization's long-term success (Morgeson & DeRue, 2006).

Organizational examples include the bankruptcy of a key supplier or the unexpected death of a CEO. When events become more critical, new behaviors, features, and events will be more likely to emerge. When events become more critical, new behaviors, features, and events will be more likely to emerge; in contrast, entities may not even pay attention or react to them when they are not critical.

The second dimension is event space (where an event originates, and its effects spread through an organization). The third dimension is event time (when an event occurs, how long an event remains impactful, and the evolution of event strength).

According to the relationship between events and entities, EST classifies events as endogenous and exogenous, analyzes events' dynamics, and holds that the effect of the interplay between events and external environments on organizational phenomenon depends on novelty, disruption, and criticality. Meanwhile, to display dynamics and interplay with the environment, EST believes that when its event strength is certain, how much an event will have an impact on the outcome depends on such important factors as event timing, duration, origin, proximity and dispersion (the industry, company or individual levels), as shown in Table 1. Therefore, EST believes that event strength, time and space, and their influences on different individuals, groups, and organizations should be considered in the study of events.

Table 1: Dimensions of Event Characteristics and Their Definitions in EST

Characteristic	Dimension	Definition
Event strength	Novelty	The extent to which an event is different or varies from current and past behaviors, features, and events.
	Disruption	Disruptions and upheaval an event brings to the usual activities of an entity.

	Criticality	The degree to which an event is important, essential, or a priority to an entity.
Event time	Timing	The satisfaction of entity developmental needs caused by an event.
	Duration	The period of time for which an event lasts.
	Strength change	The change in the overall strength of events over time.
Event space	Origin	The hierarchical level at which an event occurs.
	Dispersion	The hierarchical level at which an event remains.
	Proximity	The spatial distance between the occurrence of an event and the entity in the organization.

Source: Morgeson et al., 2015; Liu & Liu, 2015 (adapted by the author)

EST bridges feature-oriented and process-oriented theories by offering an integrative framework that consists of quantifiable events that exist uniquely in space and time and exist within the flow of other entities and events that form a process over time. Events break people from established routines and automatic cognitive processing (Morgeson, 2005). EST provides a more systematic picture of the impact of events across space (within or among various hierarchies), over time (event development and evolution), and in terms of their strength to offer a more holistic and comprehensive explanation for the evolution of event.

Currently, EST has been applied at the organizational level and individual level. There are many case studies at the organizational level and even at a more macro level. For instance, Tilcsik and Marquis (2013) used EST to study the impact of major events on the charity of enterprises in the community; Madhavan et al. (1998) analyzed the impact of industrial events on the relationship between enterprises in the industry; Wang and Du (2016) conducted an event-path analysis of events that occurred in the interaction between a typical latecomer and foreign enterprises in the past 40 years to explore how a latecomer with dual-dependence resources can follow the “outside-in” logic;

Beeler et al. (2017) studied the changes in sales organizations through event analysis; Bruyaka et al. (2017) observed the impact of negative events on the selection of alliance partners; and studied the mechanism of crowded trampling accidents in public places and its risk assessment using EST.

The number of EST studies at the individual level is also increasing. For example, Morgeson (2005) and Morgeson and DeRue (2006) used the event analysis to study leadership; Zellmer-Bruhn (2003) studied emergencies and knowledge absorption in teams; Bacharach and Bamberger (2007) studied post-911 emotional problems of firefighters; Koopmann et al. (2016) studied the impact of incidents at work on employee well-being. Johnson and Johnson (2017) studied the impact of event characteristics on the credibility of recommendations and their adoption.

Based on the above literature, EST has become the main theoretical basis for analyzing the impact of special events on business management. It will also provide a scientific analytical framework for this thesis to dissect the entrepreneurial exit decisions of family business founders.

#### **2.4. Summary**

This chapter has reviewed the literature on the definition, types, and antecedents of entrepreneurial exit, the definitions and dimensions of family expectations, and the content and application of EST. Besides, it has identified the gaps in previous research and offered insights for future work, which provides a logical basis for later case studies.

### **3. Research Design and Case Description**

This chapter first illustrates the general logic of the case study method and how it could be applied to the thesis. It then gives an overview of the company to be studied, i.e., Company H and explains its relevance to the study. Last but not least, it gives an account of the research design and process of data collection regarding a summary of key events of Company H, interviews and secondary data collection, and key events identification, measurement, and coding.

#### **3.1. The Case Study Method**

As a common qualitative research method, case studies are particularly useful in answering “what” and “how” questions (Yin, 2013). The case study method follows an inductive logic and offers an effective way of conducting an in-depth examination of complex and specific issues in a real-life setting to discover potential theoretical contributions therein. Specifically, this thesis adopts a single-case design. Compared with empirical research methods based on large samples of data and multiple-case designs, the core strength of single-case design is that it allows for a more focused analysis due to more abundant, detailed, and in-depth information obtained, thus moving researchers closer to the goal of theory building. Besides, single-case designs enable researchers to observe and investigate those extreme scientific phenomena that previously could not be approached. The interference of non-research factors with the research issue in a specific context can be excluded to ensure an explanatory conclusion.

In contrast with empirical research, the main purpose of the case study methodology is not to verify a theory but to build one (Eisenhardt, 1989). The method can be employed to investigate issues (1) that are difficult to define; (2)

that are inherent in processes and difficult to observe; and (3) to which previous theories no longer apply. Apart from the issues illustrated above, the single-case study design has a clear advantage in examining new phenomena and dynamic processes in depth. Since verifying a theory is not the main goal of the case study methodology, this thesis uses theoretical sampling (Eisenhardt, 1989), a sampling method where cases are selected based on academic needs. As for selecting the cases, Pettigrew (1990) argued that a single-case design could be used to study extreme or unique cases, while Yin (2009) suggested selecting those scientific phenomena that could not be observed and analyzed before as cases. Flyvbjerg (2005) was more specific, stating that paradigmatic cases should be selected. In positivist quantitative research, the logic of data sampling is based on the statistical sampling of large samples (such as random sampling or stratified sampling). By contrast, case studies as a qualitative research method mainly employ theoretical sampling (Eisenhardt, 1989). “Theoretical sampling simply means that cases are selected because they are particularly suitable for illuminating and extending relationships and logic among constructs. Again, just as laboratory experiments are not randomly sampled from a population of experiments, but rather, chosen for the likelihood that they will offer theoretical insight [...]” (Eisenhardt & Graebner, 2007: 27). The selected cases are either critical (Yin, 2013) enough to challenge or verify previous theories, extreme (Yin, 2010) enough to help build new theoretical models or extend old theories, or typical (Yin, 2010) enough to lead to generalized conclusions. In short, cases are not selected randomly but are purposefully chosen for theory building.

### **3.2. Case Description**

Company H’s predecessor is AQ Food Factory, founded in 1983 by six

brothers of the Zhang family who worked together and were in charge of different divisions of the business since its establishment. When the reform and opening-up policy was implemented in China, AQ Food Factory seized the opportunity and won over many consumers with its unique and authentic technique of making traditional preserved fruits and built a customer base for its products. In the meantime, it improved the old products and developed new ones by bringing in talents and domestic and foreign advanced production equipment. After much effort, it became the first company in the food industry to develop a number of celebrated products, such as “Jiu Zhi Chenpi” (dried tangerine peel), “Guang Ao Mei” (a type of dried plum), “Jia Ying Zi” (a type of dried plum) and “Xi Mei” (a type of dried plum), thus making a name for its brand in the domestic market. In 1988, the company took the lead in carrying out the shareholding system reform by dividing the shares evenly into six portions among the Zhang brothers and renamed itself Company H.

In 1995, the domestic preserved fruits market began to cool down. When many enterprises were hesitating about which way to go, Company H saw a sharp increase in sales of its new generation of cereals and became a well-known brand of cereals in China. The company’s management then decided to shift the focus of product development to cereals. As the market for cereals continued to expand, its cereals quickly became a leading brand in the industry. Not content with the cereal market’s success, the management made great efforts to launch new products. In 1996, Company H tried to produce milk powder. In 1997 when its production began to stabilize with the success of soy milk powder, it started manufacturing infant formula. After spending huge sums of money on introducing world-leading production equipment in the same year, it managed

to develop more than ten series of nutritional milk powder products tailored to the needs of different age groups for nutrition.

After years of development, it has built seven subsidiaries and five domestic production bases with over 5,000 direct employees and more than 40,000 salespeople and professional sales assistants. Committed to developing and producing nutritional products, it has gradually formed a production system with infant formula as its main product. Among all the formula brands owned by the company, “Company H” was honored as a Famous Trademark of Guangdong in 2000 and a Well-Known Trademark of China in 2004. In 2007, it ranked first in China with a multi-brand strategy, accounting for 15.7% of the total infant formula, beating the three foreign milk powder rivals (Dumex, Mead Johnson, and Wyeth Nutrition) that had occupied a total of 40% of the market share<sup>1</sup>. This was the first time a Chinese milk powder brand surpassed foreign brands in sales.

In 2008, the domestic industry took a heavy toll due to the Chinese tainted milk scandal, which caused poor performance of the whole industry, and Company H was not spared either. Meanwhile, to tighten quality oversight of the domestic milk powder industry and restore public confidence in domestically made milk powder, the relevant authorities issued the Opinions on Further Strengthening the Quality and Safety of Infant Formula, requiring infant formula manufacturers to possess self-built and self-controlled milk supply factories and forbade the import of infant formula in bulk packaging for repackaging. The new rules further increased pressure on the production and operation of all milk powder manufacturers.

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<sup>1</sup> The above information is obtained from the company’s internal report.



After the 2008 scandal, the sales of foreign milk powder brands increased dramatically in China, especially in the high-end market. Foreign brands began to utilize e-commerce platforms to seize second and third-tier cities. In contrast, domestic companies, including Company H, suffered from sluggish sales growth. Confronted with the blow of imported milk powder and fierce competition, domestic companies had a difficult time. Company H responded to the challenge by bringing in strategic investment despite all these pressures. On September 20, 2009, the Carlyle Group offered a fund of RMB 650 million to Company H through Carlyle Asia Partners (CAP), acquiring 17.33% of the stake in the company, while Shanghai Fosun High-Tech (Group) Co., Ltd. provided an investment of RMB 250 million through Fosun Purun and obtained 6% of shares. At the same time, the Zhang family contributed RMB 250 million to Company H<sup>2</sup>. At this point, Carlyle and Fosun became the second and third largest shareholders, respectively, behind the Zhang family. Company H's ability to withstand risks was further strengthened with these strategic investments. It then took a number of measures to stimulate growth, including building foreign bases of milk supply, improving quality inspection and testing, forming a third-party committee for quality and safety, and expanding the market. Through these measures, Company H was back on track again and made a successful stock market debut on November 1, 2010, in Hong Kong.

On June 18, 2013, Mengniu Dairy issued a tender offer to all shareholders of Company H. It obtained irrevocable commitments from the Zhang family, the controlling shareholder, and CA Dairy Holdings, the second-largest shareholder and a wholly-owned subsidiary of Carlyle Asia Partners, who

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<sup>2</sup> <https://business.sohu.com/20090921/n266867563.shtml>.

promised to sell a combined total of approximately 75.3% of their shares in Company H. Mengniu offered two options to the shareholders: HK\$3.50 in cash per share; or HK\$2.82 in cash per share and 0.681 per share in Mengniu International, an unlisted Mengniu-backed holding company specifically set up for the purchase and holding of Company H’s shares<sup>3</sup>. The Zhang family, the controlling shareholder, chose the shares-and-cash combined offer. Mengniu International, a subsidiary of Mengniu, would acquire 1,826 million shares in Company H at HK\$5,152 million and 1,244 million Mengniu International. CA Dairy chose the first option and sold 854 million shares to Mengniu International for HK\$2,987 million. The shareholders of Mengniu voted through the purchase in a meeting held on July 16, 2013. It was completed on August 13, with Mengniu obtaining 89.82% of the total issued share capital and 3,196.7 million shares in Company H. After that, the Zhang family gradually withdrew from the management of Company H. On January 7, 2015, a CEO Handover Ceremony was held at its headquarters in Guangzhou. The new CEO took office officially as he took over his predecessor’s flag. This marked the end of the gradual exit of the Zhang brothers, the founding family of Company H. The company’s history is outlined in Table 2.

Table 2: The History of Company H

Time	Key Event
August 1983	AQ Food Factory, the predecessor of Company H, was established.
1985	Company H registered the first trademark of “Mai Ke Jing,” began producing instant coffee, and made the first TV commercial in the city of Shenyang that went on air on Liaoning TV.
1988	Company H won the China Golden Cup Award of Health Food for its “Jiu Zhi Chenpi” and “Guang Ao Mei” products and became the exclusive supplier for the 11th Asian Games.
1992	Guangdong H Food Co., Ltd. was founded, making it the

<sup>3</sup> <https://finance.sina.com.cn/focus/mnsgysl/>.

	first enterprise in Chaozhou to bear the name of “Guangdong” province.
1995 to 1997	The company began manufacturing adult milk powder and infant formula, thus embarking on the journey of professional research, development, production, and sales of milk powder.
November 2004	One of the company’s brands was honored as a Well-Known Trademark of China.
Jan. 2005	The company was recognized as one of the Top Ten Influential Brands in China’s Dairy Industry in 2014.
Jan. 2008	The company’s CEO was elected as a representative of the National People’s Congress of China.
June 2008	The brand was included in China’s 500 Most Valuable Brands for the fifth time in a row, with its brand value growing to RMB4.126 billion.
June 2009	Wang Yang, the then member of the Central Political Bureau of the CPC and Party Secretary of Guangdong Province, and Huang Huahua, Governor of Guangdong Province, visited the company’s headquarters.
Sep. 2009	The company entered into strategic partnerships with the Carlyle Group and Fosun Group.
Nov. 2010	H International Holdings Limited was successfully listed in Hong Kong.
June 2013	Mengniu Dairy’s acquisition integration of Company H created the synergy between industry leaders.
January 2015	Company H held a CEO handover ceremony at its headquarters in Guangzhou. The new CEO took over the company’s flag from his predecessor and officially took office.

In terms of its entrepreneurial journey and distribution of corporate control, Company H is a typical “brotherhood business” that represents the typical current operating model of millions of private family businesses in China. As first-generation entrepreneurs approach their sixties, they would have no choice but to consider potential exit decisions. Hence, by selecting the Zhang family and Company H as a typical case, this thesis investigates how key events affect family expectations, shaping exit decisions (such as family succession and business sale) from the perspective of EST.

### 3.3. Data Collection

According to Robert Yin (1981), one of the key aspects of data collection in the case study methodology is using multiple sources of evidence. The reason is that multiple sources can complement each other after being cross-checked

and thus enhance the validity of the case studies. Following this, the data collected in this thesis are from semi-structured interviews and supplementary sources, including official reports, media materials, and business research reports. The information can be cross-checked, and the case study's validity can be ensured through data triangulation.

(1) Semi-structured interviews<sup>4</sup>. The research team has followed the growth of Company H over many years and has visited and attended many of its events. To present the process of and reasons behind the founding family's entrepreneurial exit, we have interviewed eleven individuals; Company H's former chairman, CEO, members of the Zhang family, and former senior management team multiple times. The interviews range from 0.5 to 2 hours and have been collected and compiled into transcripts of more than 100,000 words to form empirical evidence. The details of these interviews are summarized in Table 3 and Table 4.

Table 3: Data Collection: Interviews with the Former Management of Company H

	Interviewee	Type of Interview	Purpose of Interview	Number of Interviews	Duration
1	A brother in the Zhang family (FM1)	Unstructured	To learn about the Zhang brothers' entrepreneurial journey and the business history	3	360 mins
		Semi-structured	To learn about the process of selling the family's stake, the reasons behind it, and key events	1	120 mins
2	A brother in the	Semi-	To learn about the	1	110

<sup>4</sup> According to the case study method (Yin, 1989), researchers can interview multiple subjects through semi-structured interviews in order to obtain data from different sources and cross-validate these data. This allows the researchers to gain a detailed and objective understanding of the cases and interpretation of the events as much as possible. However, in the present case study, the researchers first conducted unstructured interviews with some of the senior management in an attempt to avoid making subjective assumptions, and to learn about the company's history and events from various perspectives, such as the company's brand, technology and market, critical turning points, key events and details of these events.

	Zhang family (FM2)	structured	process of selling the family's stake, the reasons behind it, and key events		mins
3	A brother in the Zhang family (FM3)	Semi-structured	To learn about the process of selling the family's stake, the reasons behind it, and key events	1	100 mins
4	Former executive (FE1)	Unstructured	To learn about the Zhang brothers' entrepreneurial journey and the business history.	4	480 mins
		Semi-structured	To learn about the process of selling the family's stake, the reasons behind it, and key events	1	120 mins
5	Former executive (FE2)	Semi-structured	To learn about the process of selling the family's stake, the reasons behind it, and key events	1	110 mins
6	Former executive (FE3)	Semi-structured	To learn about the process of selling the family's stake, the reasons behind it, and key events	1	90 mins
7	Former executive (FE4)	Semi-structured	To learn about the process of selling the family's stake, the reasons behind it, and key events	1	130 mins
8	Former executive (FE5)	Semi-structured	To learn about the process of selling the family's stake, the reasons behind it, and key events	1	120 mins
9	Former executive (FE6)	Semi-structured	To learn about the process of selling the family's stake, the reasons behind it, and key events	1	90 mins
10	Former executive (FE7)	Semi-structured	To learn about the process of selling the family's stake, the reasons behind it, and key events	1	100 mins
11	Former executive (FE8)	Semi-structured	To learn about the process of selling the family's stake, the reasons behind it, and key events	1	90 mins

Table 4: Semi-Structured Interview Design

Characteristics	Dimension	Definition	Interview Question
Event Strength	Novelty	the extent to which an event is different or varies from current and past behaviors, features, and events;	How was this event different from other events in the company's history?
	Disruption	disruptions and upheaval an event brings to the usual activities of an entity;	At what level did the event affect the company's operation?
	Criticality	the degree to which an event is important, essential, or a priority to an entity;	How did the company respond to the event? And how effective was the response?
Event Time	Timing	the satisfaction of entity developmental needs caused by an event;	What was the background of the event? How was the development of the industry at that time?
	Duration	the period for which an event lasts;	How long did the event last?
	Strength Change	the change in the overall strength of events over time;	Did the extent of the event's effects wane over time?
Event Space	Origin	the hierarchical level at which an event occurs;	What aspects of the company's operation were affected by the event?
	Dispersion	the hierarchical level at which an event remains;	Did the event affect the business philosophy of the senior management, and if yes, how?
	Proximity	the spatial distance between the occurrence of an event and the entity in the organization;	Did the event have a direct impact on the company's operation?

In each interview, there were at least one interviewer and two assistants who recorded the content of the interview. Before the interview, the research team explained the purpose and process of the interview to the interviewee and promised that the content of the interview would be used for the research only and would not have any adverse effects on the interviewee. After reading the interview instructions and other materials, the interviewee signed the informed consent documents. The interview was recorded with his or her consent. After the interview, the researchers who participated in the interview organized the recordings and wrote up case reports for the follow-up study. In addition to formal interviews, the author also regularly met with senior management members for informal interviews.

(2) Documentation. The research team collected in-house documents (Company H Newsletter), annual reports, business research reports, press releases, and relevant journals and books. It used these official documents to cross-check the data and information from different sources to better understand Company H's entrepreneurial journey and summarize the key events that have affected the exit of the founding family.

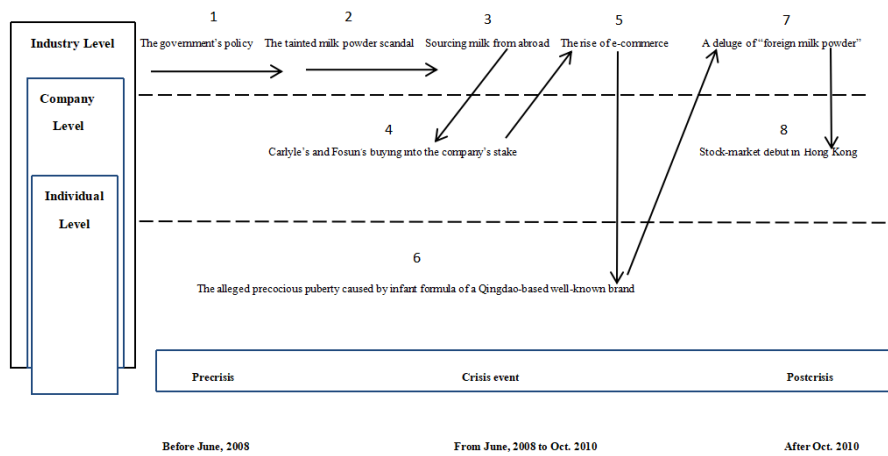
(3) Authoritative media reports. We gathered news reports published by major authoritative media on the growth, merger and acquisition integration, Initial Public Offering (IPO), and equity sale of Company H to seek additional evidence to verify the information collected from the two sources mentioned above.

### **3.4. Key Events Identification, Measurement, and Coding**

Firstly, we identified the key events that might have prompted the founding family to exit the business. It should be noted that the year 2008 was significant as this year, the National Development and Reform Commission of China (NDRC) publicly encouraged mergers and acquisitions among dairy companies, and the tainted milk scandal led to dramatic changes in the dairy industry. The Zhang family responded by introducing strategic investments, building overseas bases for milk supply, and improving its testing capability to get the company back on track, which paved its stock-market debut in 2010. Later in 2013, the Zhang brothers chose to sell their shares and exit the business. Following this industrial and corporate development timeline, the thesis looked at the key events from 2008 to 2013, when the Zhang family sold their shares. Secondary data and interviews were utilized to identify the key events that might have

affected the founding family's decision to sell the business (see Figure 1)<sup>5</sup>.

Figure 1: Key events of Company H<sup>6</sup>



Key Event 1 (KE1): In June 2008, the NDRC of China announced its industrial policy for the dairy industry, which explicitly encouraged mergers and acquisitions. After the policy was released, the NDRC held a meeting with large dairy enterprises, including Company H, to promote the policy. The meeting

<sup>5</sup> Following the procedures of the case study method, after collecting and organizing first- and second-hand data, we sorted out the major events in the history of H Company, and analyzed the possible impact of these events. Then, we designed relevant interview questions for the semi-structure interviews and invited the founding family members and former management of H Company to be our interviewees. We aimed to understand the origin, development and evolution of the idea of entrepreneurial exit through these interviews. After cross-checking the data from multiple sources, we found that the founding family first came up with the idea of taking business exit in 2008, right after the NDRC's announcement of the industrial policy that explicitly promoted mergers and acquisitions among dairy enterprises, and the outbreak of the tainted milk powder scandal. It was not until in 2013 that the founders finally chose to exit the business by selling their stake. Therefore, we set a time range for the study starting from 2008 and ending at 2013, and later identified eight key events that had significant impact on the company's development during this period according to interview results. After making a summary of the eight events, we discussed them with the founding family and former management for reconfirmation. We only proceeded to the next step of the analysis when agreement was reached on the selection of the key events.

<sup>6</sup> In this study, we distinguish between industry, company and individual levels depending on the scope of impact of an event. Events classified under the industry level are those with a significant impact on the whole industry, including government regulatory policies and the evolution of e-commerce. Events classified under the company level are those that affect the operation of H Company, including the introduction of external capital and listing of the company. Events classified under the individual level refer to other events that have an influence on the mentality of founders. Three researchers who participated in the interviews measured the scope of impact of the events independently based on the above criteria. Their results were then collected and discussed openly if there were disagreements.



clearly stated that it would “proactively encourage enterprises to form market-oriented enterprises of appropriate scale through mergers and acquisitions to cultivate a number of backbone enterprises with annual sales revenue of more than 2 billion yuan”.

Key Event 2 (KE2): In September 2008, the tainted milk powder scandal hit the dairy industry. The incident started when many babies who had consumed infant formula produced by the Sanlu Group were diagnosed with kidney stones, and melamine was later detected in their formula. A nationwide inspection of the dairy industry followed, involving almost all major dairy companies, and melamine was discovered in the milk powder produced by a number of factories, including 22 dairy companies.

Key Event 3 (KE3): After 2008, Company H gradually shifted its milk sourcing overseas and ceased sourcing milk for the Heilongjiang and Shanxi milk supply factories that it had established. Mainly from New Zealand, imported milk was used instead for its entire infant formula production line. And it began building a factory in New Zealand.

Key Event 4 (KE4): On September 20, 2009, the Carlyle Group invested RMB650 million in Company H through Carlyle Asia Partners (CAP), acquiring a 17.33% stake. Shanghai Fosun High-Tech (Group) Co., Ltd. offered a fund of RMB250 million to Company H through its Fosun Purun and obtained 6% of Company H’s shares. At the same time, the Zhang family contributed RMB250 million to Company H. At this point, Carlyle and Fosun became the second and third largest shareholders, respectively, behind the Zhang Family. The partnership with Carlyle and Fosun took the corporate management of Company H to a higher level, strengthened the company’s product development,

and helped the company build a world-class quality control system.

Key Event 5 (KE5): Since 2009, e-commerce has risen in China. The rapid growth of e-commerce has overturned the previous sales model of offline distributors in the dairy industry, making e-commerce a new development pole/growth pole, or a new driving force of development. This has posed a new challenge to the traditional sales model and those enterprises that resort to it to reach consumers. In response to the changes in the market, Company H made corresponding adjustments and set up an e-commerce department responsible for advertising the brand on e-commerce platforms with a large number of users. It even developed an APP called “HH Baby” to deal with the market and consumer environment changes.

Key Event 6 (KE6): The milk powder of a well-known brand based in Qingdao, Shandong Province, was alleged to have caused precocious puberty in August 2010. According to some media, three baby girls in Wuhan were suspected of having developed precocious puberty after consuming products of a well-known brand based in Qingdao, Shandong Province. This led to continuous reports and an extensive inspection of the industry. The incident brought further damage to the industry’s reputation.

Key Event 7 (KE7): Since 2009, a deluge of “foreign milk powder” labeled as “original package” and “100% imported milk” had poured into the market, dealing a great blow to the recovery of the Chinese dairy industry. However, according to China Central Television’s *Focus Interview*, of more than 100 “foreign brands” sold through formal sales channels in China, over 80% were private label products manufactured by local factories.

Key Event 8 (KE8): On October 20, 2010, Company H announced its IPO

launch plans on the Hong Kong Stock Exchange, offering 644 million new shares consisting of 90% of international placing shares and 10% of Hong Kong public offering shares. The offer price ranged from HK\$ 3.55 to HK\$ 4.8 per share, with final pricing of HK\$ 4.2. On November 1, Company H was officially listed on the Main Board of the Hong Kong Stock Exchange, raising HK\$ 2.7 billion.

Secondly, we drew on Morgeson et al.'s (2015) and Liu and Liu's (2015) methodology for measuring key events. According to EST, events can be divided into endogenous and exogenous events<sup>7</sup> depending on the interplay between events and relevant entities. They can be measured by the three-dimensional model of time, space, and strength to help examine and predict the events' changes. In line with the studies of Morgeson et al. (2015) and Liu and Liu (2015), this thesis measured event strength in terms of novelty, disruption, and criticality, with +++ indicating "strong," ++ indicating "moderate," and + indicating "weak," and event space in terms of industry level, organization level, and individual level represented respectively by +++, ++ and +. The measurement of event strength and space was conducted in two steps: firstly, three researchers completed the coding analysis by judging the event strength and space of key events above independently; and secondly, the results were

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<sup>7</sup> According to Morgeson et al. (2015), endogenous events are those self-initiated by a company, while exogenous ones refer to those that are passively received and not controlled by the company. Among the eight key events that affect the entrepreneurial exit of H Company, some are identified as endogenous events, such as introducing external capital and going public in Hong Kong. The others are exogenous, including the 2008 tainted milk powder scandal and escalation of government regulation, among other things. We first classified the eight key events into different categories according to their nature, and only took further investigation when we reached agreement on the categorization in our discussions with the founding family and former management. Categorization of endogenous and exogenous events allows for a clearer demonstration of how the company reacted proactively or passively received different events, and how these two types of events worked together to lead to the exit decision.

checked and compared, and those inconsistent ones were discussed until agreement was reached<sup>8</sup>.

Finally, we sorted, summarized, and coded key events that have affected the entrepreneurial exit of the founding family of Company H, as detailed in Tables 5.

Table 5: Summary of Key Events Affecting the Entrepreneurial Exit of the Founding Family of Company H

Event Code	Event Type		Event Description	Event Strength			Event Space
	Endogenous Event	Exogenous Event		Novelty	Disruption	Criticality	
KE1		√	The NDRC published an industrial policy for the dairy industry, encouraging mergers and acquisitions.	+++	+	+	+++
KE2		√	The tainted milk powder scandal took a heavy toll on the dairy industry.	++	+++	+	+++
KE3	√		Company H gradually shifted its milk sourcing overseas, stopped sourcing locally for self-owned factories in China, and improved production lines and testing standards.	++	+	+	++
KE4	√		Company H entered into a strategic partnership with Carlyle and Fosun.	+++	+	++	++
KE5	√		Company H made adjustments in response to the	+++	++	+	+++

<sup>8</sup> The rating process consisted of two rounds. In the first round, the raters rated the events independently without communicating with each other or knowing each other's rating. In the second round when there were different ratings for the same event, the raters explained their reasons and used the documented interview data to support their ratings. The discussion went on until all of them reached an agreement on the rating.

Event Code	Event Type		Event Description	Event Strength			Event Space
	Endogenous Event	Exogenous Event		Novelty	Disruption	Criticality	
			challenge facing the traditional sales models with the rise of e-commerce.				
KE6		√	The alleged precocious puberty caused by infant formula of a well-known brand based in Qingdao, Shandong Province, further damaged the dairy industry's reputation.	+	+	+	+
KE7		√	Since 2009, a deluge of off-brand "foreign milk powder" had poured into the Chinese market, causing major disruptions to the industry.	+	+	+	+++
KE8	√		Company H was officially listed on the Main Board of the Hong Kong Stock Exchange.	+++	++	+++	++

## **4. Major Findings**

The previous chapter has summarized the research methodology and data collection of the study and identified, measured, and coded the key events that have influenced the entrepreneurial exit of the founding family of Company H. Considering the scarcity of previous literature on the factors and psychological mechanisms behind entrepreneurial exit decisions; the single-case approach is particularly valuable for investigating issues and causes in new subject areas (Eisenhardt, 1989). This thesis is an exploratory single-case study that aims to identify key elements and how they exert influence, based on the principle of “analytical induction” from case to theory (Yin, 2003). This chapter examines how key events affect the entrepreneurial exit intention of founding families through family expectations by taking a closer look at the coding results of key events. Furthermore, it also analyzes the moderating effects of factors related to industry and family and entrepreneurs’ personal traits on how key events affect entrepreneurial exit to identify the boundary conditions for the key events to come into play.

### **4.1. Effects of Key Events on Entrepreneurial Exit Intention**

The occurrence and dispersion of exogenous and company-level and endogenous factors lead to family business founders' stronger entrepreneurial exit intention. Firstly, in business operation, exogenous events significantly impact entrepreneurs’ perceptions of institutions, coping strategies, and intention of staying in business through their event strength. This phenomenon is evident in several events of Company H, and KE1 is a good example of event novelty and disruption. As discussed above, the NDRC announced an industrial policy for the dairy industry that explicitly encouraged mergers and acquisitions

among dairy enterprises by stating that it would “proactively encourage enterprises to form market-oriented enterprises of appropriate scale through mergers and acquisitions to cultivate a number of backbone enterprises with annual sales revenue of more than 2 billion yuan”. This industrial policy and appeal was a strong “signal” sent by industry regulators with far-reaching implications for the dairy industry. It significantly impacted private family business owners’ perceptions as an exogenous event. As the founder of Company H (FM1) explained in an interview, “The NDRC’s policy had a huge impact on our thinking. The author thought that it would limit the growth of private dairy enterprises because those capable of undertaking mergers are mostly state-owned enterprises.” A former senior executive of Company H (FE1) also expressed similar concerns in an interview, saying that “The NDRC’s policy might prompt the bosses to think about the future direction of their companies, namely whether they should continue to operate or be acquired by large- and medium-sized state-owned enterprises.”

Another example would be the KE2 which dealt a major blow to the entrepreneur’s expectations of staying in business through novelty, disruption, and criticality. The dairy industry crisis triggered by the tainted milk powder scandal spread quickly. It had a tremendous impact on the reputation of domestically-made milk powder and domestic dairy companies in China. For one thing, dairy companies, including Company H, were ordered to suspend production for inspection and product testing after the scandal broke. After production resumed, Company H had to restock the market within a short period, causing immense pressure on production. Apart from handling the returns and exchanges from supermarkets to appease the market, the company had to

allocate funds and workforce and bring in more advanced testing equipment to improve testing in all aspects to the extent that its testing standards were even stricter than the national ones. As mentioned by the entrepreneur (FM1) in an interview, “It was the most exhausting year, and we were under great pressure both physically and psychologically. We had done beyond national standards, be it hardware or software, but people from outside still misunderstood us. For Company H back then, sales were booming, and we were already in the top three in the industry. We didn’t want any quality problems with our products because that was no good for a well-known brand.” Moreover, dealing with the returns and exchanges from supermarkets and other market-related issues placed an additional financial burden on the company in the short run. This key event undid domestic milk powder companies’ leading position in the market and planted the seeds for the subsequent outbreak of various trust crises for domestically-made milk powder in China (such as KE6 and KE7). Affected by the KE2, Company H lost its preeminence in the milk powder sector, and the Chinese milk powder market landscape experienced a readjustment. As it responded to the event that had a knock-on effect, the owners of Company H realized that merging into another more powerful company would possibly enable a longer life for the brand after considering the future of the industry and company in the long run. Thus, the event led to a stronger exit intention of the founding family.

In addition to negative exogenous events, endogenous events of the company have also influenced entrepreneurial exit intention. For example, in the case of KE3, to improve product quality control, Company H took a series of measures to ensure stable product quality, including upgrading product



testing standards, sourcing milk overseas, and planning overseas investment in the factory building. In an interview, a former executive (FE4) noted that “Although we have taken many measures to ensure the stability of product quality, all of them came with a cost. Measures like overseas milk sourcing and setting up a factory abroad increased our production, finance, and management costs and thus reduced profit margins.” After that, a series of events followed, including Carlyle’s and Fosun’s buying into the company’s stake and the subsequent stock-market debut in Hong Kong. These events, though endogenous, made the founding family of Company H fully aware of the functions of the capital market and led to some subtle changes within the family regarding continuing the business, thanks to the push from external capital partners. Thus, driven by a range of endogenous and negative exogenous events, the business owners would reanalyze the industry environment and the future of their businesses, affecting their entrepreneurial exit intention.

**Finding #1:** Exogenous and endogenous events will affect the entrepreneurial exit intention of family business founders.

#### **4.2. Key Events, Family Expectations, and Entrepreneurial Exit Intention**

Family expectations are another important factor that cannot be overlooked in investigating the process of how exogenous and endogenous events affect the founding family’s intention to exit the business, especially when the family-centered entrepreneurial team takes control of the business (Corbetta & Salvato, 2012; Habbershon & Pistrui, 2002). As a hybrid of family and business, family businesses are incorporated with family expectations (family wealth, reputation, harmony, and succession) and corporate governance. The founding family’s

intention of staying in business will be directly affected if family expectations are not fulfilled.

**First, key events will impact the founding family's wealth expectation.**

Family businesses would perceive the risk of business failure as a severe threat when business performance falls below the desired level (Chrisman & Patel, 2012). Family-centered wealth needs to determine that businesses are oriented towards economic interests in that business revenue is the major source of family income. Family wealth expectation is inextricably linked to the expectation of business economic interests. The extent to which family wealth expectation is met can shape company behaviors and decisions. Just as one of the founding family members (FM2) said in an interview, "The stake of Company H was evenly divided among the six brothers, so the family's wealth was highly concentrated in this big ship. If something wrong happened to this ship, the family's wealth would be greatly affected". This is confirmed implicitly by a former executive (FE2) who believed that "Overall, Company H had been growing steadily. Yet, no business is still immune from new changes in the market. Take e-commerce as an example, which has been developing rapidly since 2009. Since our company was mainly based on traditional sales channels, the whole company, including the departments of marketing and sales, planning and brand planning, and even the boss, had carried out market research and held meetings for discussions intensively and around the clock. There was an urgent need for the company to adapt to this round of market adjustment to maintain business growth. That working experience of high pressure made everyone resonate with the phrase that starting a business was no easy task and keeping it growing was even harder." Their efforts were paid off, as confirmed

by public information. For example, its sales during Tmall's Double 11 shopping festival as an instance. The company's transaction volume has grown from 52 million yuan in 2009 to 36.2 billion yuan in 2013, a 700-fold increase in just five years. According to Pfeffer and Salancik (1978), uncertainty and contingency factors in the business environment can affect the configuration of power and control within a company. In countries undergoing transition, the uncertainty brought about by the market environment forms a key impediment to the sustained growth of family businesses. As for China, a country in transition, the market system, and some external shocks have become the key factors behind the entrepreneurial exit of family business founders.

**Second, key events will impact the founding family's reputation expectation.** In family business, family members have an important role in building a family reputation. A good reputation generates emotional wealth for the business and the family and improves the business's financial performance. Concerning family reputation, some of the products of Company H were affected by the tainted milk powder scandal and the later alleged precocious puberty caused by the infant formula of a well-known brand based in Qingdao, Shandong Province (KE6). Some ill-informed consumers only believed in what they saw in those attention-grabbing media reports. As accusations and attacks against Chinese milk powder companies continued to increase, even the leaders of these companies were subject to criticism. A senior executive interviewed (FE6) felt aggrieved at the situation, arguing that "Our company has spent huge sums of money on milk sourcing, but some milk was mixed with something not required for testing according to the national standards. We tested all the items listed for testing food and dairy products for our milk according to the national

standards, but we didn't find the problem. Companies were also victims of the incident. But at that time, the state, the media, and consumers blamed the companies involved without reflecting on the deficiencies in the regulation, safety standards, emergency response, and other related aspects. That was a bitter disappointment." Thus, in the case of Company H, Zhang family's reputation was damaged largely by the key events mentioned above.

**Third, key events will impact the founding family's harmony and succession expectation.** Specifically, family harmony has been defined as a pattern of family relationships in which family members care for and support each other and can come together in a crisis (Sharma & Manikutty, 2005). Almost all families strive for family cohesion, support, and loyalty. Extensive studies have also established that family unity and harmony are the most important non-economic goals at the family level (Sorenson, Goodpaster, Hedberg, and Yu, 2009). Moreover, the need for "succession within the family" and the prevailing practice of "succession by the eldest son" in Chinese family business have determined the controlling family's goal of "having a growing family." Due to a deeper understanding of the uncertainty of the milk powder industry in its handling of these events, the Zhang family gradually formed a consensus on encouraging the next generation to start their businesses and reached a tacit agreement on providing more funds to support them. After the IPO, the founding family began to think seriously about the distribution of control of the company and the sale of the company's shares, propelled by the offer of external potential capital partners seeking cooperation. To maintain family harmony, the Zhang brothers eventually agreed that they would sell all the family's shares in the company together as a unified whole after a long

period of discussion. Lastly, in terms of family succession expectations, it is indisputable that Chinese family business leaders are more inclined to pass on their businesses to family members. However, this was not the case for Company H, whose shares were equally split among the brothers. Many of the brothers' children were underage, and the rest who were grown-ups already had their plans for career development with little intention of taking over the family's business.

Taken together, the analysis above shows that key events affect the founding family's expectations of wealth, reputation, harmony, and succession. The failure to meet and fulfill these expectations will directly impact the founding family's intention of exiting the business. The following finding can thus be made:

**Finding #2:** Exogenous and endogenous events indirectly affect the entrepreneurial exit intention of family business founders through family expectations<sup>9</sup>.

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<sup>9</sup> There may be multiple mechanisms through which events affect entrepreneurial exit, but this thesis only focuses on one of them, namely, family expectations. The major reasons for selecting family expectations for investigation are as follows: The case studied in this thesis is a private family business with typical entrepreneurial characteristics of family businesses. All six brothers participated in the business operation, so there was a high degree of family involvement. As such, the company's entrepreneurial exit is subject to the influence of family-related factors. And family expectations reflect a family's expectations of family wealth, reputation, harmony and succession and are important factors affecting entrepreneurial exit decisions (Lv et al., 2019). Either exogenous or endogenous events may have different levels of effects on these expectations. This was confirmed in the interviews. For example, the tainted milk powder scandal has prompted a shift in the family's succession expectation from nurturing a successor for the family business to expecting the next generation to work in other industries, such as investment and the Internet. This shift in expectation has accelerated the entrepreneurial exit of the founding family. Therefore, we believe that the changes in family expectations brought about by different events can be considered as one of the important mechanisms to explain entrepreneurial exit. Of course, it is not the only mechanism, and other mechanisms may exist, and this is something that can be further explored in future studies.

### **4.3. The Role of Industry Characteristics in the Process by Which Key Events Affect Entrepreneurial Exit**

Industry characteristics are moderating variables that cannot be ignored in the process. Key events affect the founding family's expectations (wealth expectations, reputation expectations, harmony expectations, and family succession expectations). Based on first- and second-hand data collected, this thesis classifies industry characteristics into three key factors, i.e., industry competition intensity, government regulation intensity, and negative media coverage intensity<sup>10</sup>.

**Industry competition intensity.** As mentioned earlier (Finding #2), this thesis argues that key events will affect entrepreneurs' intention to exit their businesses through family expectations. In light of this, the study further suggests that industry competition intensity is an important boundary condition that have an influence on the process by which key events affect entrepreneurial exit through family expectations. To be specific, negative key events would affect, to varying degrees, different types of family expectations (such as family wealth, family harmony and family succession) of family business founders, which would in turn make the founders more inclined to exit their businesses. This is more likely to be the case especially when the industry in which the

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<sup>10</sup> The thesis makes a distinction between events and characteristics. According to EST theory, an event generally incorporates both characteristics and processes. For example, an event can be described in terms of event strength, duration, dispersion and so on. Therefore, events are treated as the antecedents of entrepreneurial exit in this study. "Characteristics" are used to describe a stable state of affairs and do not involve processes. For example, industry competition intensity, government regulation intensity, and negative media coverage intensity are all characteristics for describing the external environment rather than processes. Therefore, this thesis treats these external characteristics as moderating variables to explore their moderating effects on the process by which events affect entrepreneurial exit through family expectations. In other words, it explores whether events have stronger or weaker impact on entrepreneurial exit through family expectations when the external characteristics are in different levels of intensity.

family business is located is more competitive. That is because industry competition intensity not only determines the profitability of business operation, but also affects the entrepreneur's mindset of holding on his/her business. The negative impact of external events coupled with the intensification of industry competition would undoubtedly result in a faster decline in family expectations and a greater tendency for the founding family to exit the business. On the contrary, a less competitive industry may mean more profits and less difficulty in running the business. At this point, even if the business is hit by a negative external event, there would be a slower decline in family expectations of family members and less inclination to exit the business on the part of the founders.

Industry competition is one of the most crucial external factors in business operation that directly determines the industry's potential, the profit level of companies, and the difficulty of business operation. Company H is in the dairy products industry. As a country with a large population, China has an extremely strong demand for dairy products, which has given rise to a large number of dairy companies. Since the 1990s, there has been explosive growth in the national demand for dairy products, and hundreds of dairy companies have been established. Domestic dairy giants such as Yili Dairy, Mengniu Dairy, Bright Dairy, Yashili, Sanlu, and Syrutra occupied the majority of the market share in China. Besides, hundreds of small and medium-sized dairy enterprises around the country made the industry highly competitive. We argue that the more intense the industry competition, the more pronounced the impact of the key events that a company has experienced on family expectations. In other words, intense industry competition magnifies the impact of endogenous or exogenous events. Returning now to the case of KE1, where the NDRC encouraged

mergers and acquisitions of dairy companies. Given such a competitive landscape, private entrepreneurs likely understood this policy as the government promoting “Guojin Mintui” or “the state-owned enterprises advance while the private sector retreats” in the dairy industry. It would then have a negative impact on family expectations and strengthen the founding family’s intention of exiting the business. Events KE2, KE6, and KE7 also show that due to intensive competition in the industry, once a company was caught in a negative event, its market share would be quickly taken over by other brands. Competing with state-owned dairy enterprises that are endowed with strong national credibility, private dairy companies would have a tougher time and would find it much more difficult to recover their market share if they were involved in milk powder safety scandals. In addition to domestic dairy giants, foreign dairy corporations such as Nestle, Mead Johnson, Abbott, and Dumex, who entered the Chinese market quite early, also took a certain market share. What’s worse, the deluge of “foreign brands” of milk powder pouring into China since 2009 led to an additional rapid increase in the market share of foreign brands. Such a shift in the market competition of the industry further placed Chinese companies at a disadvantage as they were still suffering from the aftermath of the 2008 tainted milk powder scandal. As a former executive (FE5) put it in an interview, “The market competition of the industry has witnessed dramatic changes since 2008, with foreign brands capturing the consumer market at tremendous speed. For the domestic milk powder companies, they had to restore the confidence of the milk powder industry in China and compete with foreign brands at the same time. You can imagine how stressful we were to run the business. We were very



lucky to recover and get back on track within a short period. Even some of the best companies failed to make it through at that time.”

Since 2009, the increasing demand for buying milk powder overseas through daigou or unofficial personal shoppers has given rise to many off-brand “foreign milk powder” (KE7). Preliminary statistics in a news report on China.org.cn on January 12, 2012, indicated that on Taobao.com alone, there were more than 20 brands labeled as “foreign” milk powder, and most of them were from Europe and Australia. This did not even include the statistics of many professional baby product websites and huge offline sales outlets. According to an investigation by *Focus Interview*<sup>11</sup> broadcasted on China’s CCTV-1, more than 80% of over 100 “foreign brands” are sold through formal sales channels where local enterprises manufacture private label products. The program explicitly stated, “Due to unclear legal requirements and lack of supervision, consumers cannot identify whether the so-called foreign milk powder is indeed produced overseas or not.” When the *Focus Interview* reporter typed “register a trademark in New Zealand” into the search engine, nearly 3 million search results appeared immediately. The reporter contacted a trademark agency in a residential area along Beijing’s West Third Ring Road at an online phone number. The staff replied that a New Zealand trademark could be registered by simply paying 5,100 yuan. This phenomenon, which began in 2009, led to the later introduction of the Chinese infant formula registration system. The disorder of market competition had a negative effect on the sound and sustainable development of the industry back then.

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<sup>11</sup> Here is the webpage of the news report on China News. [https://www.chinanews.com.cn/cj/2012/01-12/3600150\\_2.shtml](https://www.chinanews.com.cn/cj/2012/01-12/3600150_2.shtml).

Based on the above analysis, the finding can be summarized as follows:

**Finding #3:** Intense industry competition will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, the more intense the industry competition, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.

**Government regulation intensity.** Finding #3 indicates how industry competition can have effects on the process by which events affect entrepreneurial exit through family expectations, while Finding #4 here is about how government regulation intensity can have effects on the process by which events affect entrepreneurial exit through family expectations. In other words, the stronger the government regulation, the more likely this process is to occur. It is worth noting that regulation intensity here refers to excessive government regulation of the industry, such as unduly high barriers to entry, differential treatments, excessive on-site inspections, etc.

In addition to industry competition intensity, government regulation intensity is another important boundary condition that has an influence on the process by which key events affect entrepreneurial exit through family expectations. In specific, the government's regulatory policies for an industry and its regulation intensity play a crucial role in the growth of the industry. On the one hand, the government regulates the industry through various policies and regulations, which promotes the sound and orderly development of the industry. On the other hand, the intensity of government regulation and implementation of policies inevitably have a profound impact on the perceptions of the entrepreneurial community in the industry.

As an important regulator of any industry, the government's regulatory policies and regulation intensity play a vital role in developing the industry. In the first place, the government regulates the industry through various policies and regulations, promoting the sector's healthy and orderly development. In addition, the government's regulation intensity and implementation of policies inevitably impact the perceptions of the entrepreneurial community in the industry. The dairy industry where Company H is in has experienced rapid growth in the early 1990s. At first, a growing number of small workshops that did not meet food safety requirements caused great damage to the industry's reputation. But it was gradually put in order as the government reinforced its regulation, which led to the rapid growth of the dairy industry to some extent. Company H grew into such a big business by benefiting from the booming industry. And as the competition in the industry was heating up, the government further strengthened its regulation and supervision through higher industry entry thresholds, improved testing standards, and more detailed rules about the milk sources of milk powder companies. Although tightened regulation is beneficial to the development of the industry, it increases the difficulty of running businesses at the same time. As noted by an interviewed former executive (FE6), "The regulation became more and more stringent after 2008. While we have run our business according to the law and various standards issued by the government, we found it more and more difficult to operate with all these policies, testing standards, and inspections in all their forms in place". Especially when the NDRC released a clear signal to promote mergers and acquisitions in the industry, the entrepreneurial community felt they were under greater pressure. The impact of the key event on family expectations was

thereby intensified, which affected the founding family's intention to continue the business in the end. Building on this, the following finding can be made:

**Finding #4:** Government regulation intensity will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, the more intense the government regulation intensity, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.

**Negative media coverage intensity.** On top of industry competition intensity and government regulation intensity, negative media coverage intensity is also an important boundary condition that influences the process by which key events affect entrepreneurial exit through family expectations. To be specific, the media plays an essential role in overseeing the regulated development of the industry and the sustainable operation of companies as a significant external monitoring party. The media can influence consumers' confidence in a company's products and investors' confidence in their investments and governmental and corporate behaviors. They can have positive supervisory effects on corporate governance. Nonetheless, the monitoring power of the media needs to be viewed critically. Excessive negative media coverage of an industry will have an indelible impact on entrepreneurs' confidence in sustaining their businesses and even on the sound development of the whole industry.

More specifically, if a negative event is coupled with extensive negative media coverage, especially hearsay or irresponsible reports, the entrepreneurs' family expectations (on wealth, reputation, etc.) will be heavily affected, thus leading to entrepreneurial exit. However, when the media are more responsible

in their reports and base them on truths instead of using negative reports blindly to attract attention, family expectations would be less affected by the negative event, and the entrepreneurs' inclination to sustain their businesses would not decline that fast either.

As a significant external monitoring party, the media plays an essential role in overseeing the regulated development of the industry and the sustainable operation of companies. Specifically, the media can influence consumers' confidence in a company's products and investors' confidence in their investments and governmental and corporate behaviors. They can have positive supervisory effects on corporate governance. Nonetheless, the monitoring power of the media needs to be viewed critically. Some irresponsible media blindly chase after the influence and timeliness of their reports by basing them on hearsay and embellishing them to the neglect of the truth. These reports can cause long-lasting damage to the proper operation of the companies. Even opportunistic media exploit their power to extort money from companies, causing great trouble to the companies' crisis management and affecting the entrepreneurs' intention to continue their businesses. Even opportunistic media exploit their power to extort money from companies, causing great trouble to the companies' crisis management and affecting the entrepreneurs' intention to continue their businesses. For example, in the case of KE6, false and negative media reports dampened the entrepreneur's (FM1 and FM2) motivation to do business. A former executive (FE1) interviewed pointed out that even though the authority has intervened and confirmed the innocence of the well-known brand based in Qingdao, Shandong Province, regarding the alleged premature puberty caused by consuming the brand's infant formula, the incident has

caused tremendous consequences for the brand. Some unscrupulous media took advantage of the incident and tried to spread its influence to the whole industry, putting each practitioner under great mental pressure. Moreover, negative media reports of the industry would result in entrepreneurs' negative perceptions of the regulatory environment. As the former CEO (FM1) said, "Conscience matters greatly to the food industry, and we have always been dedicated to upholding our principles. But sometimes, some irresponsible media release fake and baseless news that can be extremely damaging to a company. For example, the company in Qingdao was completely ruined by a series of inaccurate reports." This suggests that negative media coverage intensity plays an important role in how key events affect the entrepreneurial exit intention through family expectations. The more intense the negative media coverage in the industry, the greater and more profound the impact caused by the key event on family expectations and even the entrepreneurial exit intention. In light of this, the following finding can be summarized:

**Finding #5:** Negative media coverage intensity will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, the more intense the negative media coverage intensity, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.

#### **4.4. The Role of Family Characteristics in the Process by Which Key Events Affect Entrepreneurial Exit**

Family characteristics are also an important moderating variable in how key events affect the founding family's expectations (family wealth, family reputation, family harmony, and family succession) and, in turn, influence the

entrepreneurial exit intention. Based on first- and second-hand data obtained, this thesis categorizes family characteristics into family wealth accumulation, degree of ownership concentration, and the next generation's involvement.

**Family wealth accumulation** According to Kuratko, Hornsby, and Naffziger (1997), entrepreneurial motivation can be divided into four categories: (i) extrinsic rewards (such as income and wealth), (ii) intrinsic rewards (such as recognition, challenges, and personal growth), (iii) independence/autonomy (such as personal security and self-employment) and (iv) family security (future security for family members or a family business that can be passed on).

Family wealth accumulation is an intrinsic driver for family businesses to sustain (Kuratko, Hornsby, & Naffziger, 1997). Family wealth accumulation, as a boundary condition, cannot be overlooked in the exploration of how key events influence the entrepreneurial exit through family expectations. As a company grows bigger, the founding family would be less motivated to continue their business if their entrepreneurial motivation (e.g., family wealth accumulation) is already satisfied. In this case, the occurrence of a negative event would lead to a faster decline in family expectations, making entrepreneurial exit more likely to happen. In contrast, when the family wealth accumulation is not satisfied, the founding family would still have stronger motivation to continue their business in order to reach their goal even though the company is hit by a negative external event. At this point, there would be a slower decline in family expectations and less inclination to exit the business for the founders accordingly. The process by which key events indirectly affect the entrepreneurial exit intention through family expectations varies under different level of family wealth accumulation.

Take Company H as an instance. Several family members (FM1, FM2 and FM3) of the company mentioned in the interviews that “At first, the most important reason for my father and his brothers to start their own business was that they had to support the big family. That’s their main motivation for starting the business. The region of Chaoshan has had a long tradition of doing business since ancient times. Besides, the government began to implement the reform and opening-up policy and encouraged the development of the private economy. We thought it was good to start a business in the traditional industry. So, the six brothers joined Company H one after another and were in charge of different divisions.” Some of the executives (FE2, FE4 and FE7) interviewed also noted that “The Zhang family and their company have achieved great success since the IPO in 2010. They have already reached their goal of wealth creation and capital accumulation. They started to think about cashing out some of their shares in the listed company to do something they wanted to do, such as making investments. Since their children grew up successively and they had plans to start businesses, concentrating most of the family wealth on Company H no longer met its needs for future development”. The example above shows that different level of family wealth accumulation can affect entrepreneurs’ attitudes towards the impact of key events. In the case of Company H, the founding family started their business to support the big family. They already achieved financial freedom due to the company’s growth and IPO. Thus, when key events hit their business, their psychological need to run the company to meet the family’s expectations diminished, and their determination to continue the business declined. In line with this, the thesis reports the following finding:



**Finding #6:** Family wealth accumulation will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, the higher family wealth accumulation, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.

**Degree of family ownership concentration.** In examining the process by which key events affect entrepreneurial exit through family expectations, one cannot neglect the effects of the shareholding structure of a family business, which may indicate whether there is a unity of opinion among family members. The family business's shareholding structure, often representing the balance of power among family shareholders, is an important boundary condition affecting business and entrepreneurial decisions. The equal sharing of ownership with the absence of an absolute controlling shareholder can result in higher coordination and communication costs among shareholders. When an external event occurs, the company would suffer greater impact in that its shareholders might not share the same interests. The event would then have negative effects on family expectations (e.g., family harmony expectation), which would in turn make the founding family more inclined to exit their business.

Company H in the study is a brotherhood venture with its shares equally divided among the six brothers instead of being held by a dominant shareholder. The brothers were in charge of different business divisions, such as marketing, production, finance, media, and public relations, thus forming a balance of power among the shareholders. On the one hand, this shareholding structure has promoted cooperation among the brothers, with each involved in the business operation with the ownership mindset and working together to develop and

grow the business. As the company continued to expand, the brothers also shared the benefits derived from the wealth of the company's growth. On the other hand, the concentrated family ownership and equal division of equity among the brothers have created some difficulties for the company's operation and strategic decisions.

A former executive interviewed (FE1) said, "In general, the company's overall operation was relatively efficient, but sometimes some issues and decisions might go through lengthy discussions. Since everyone had different perspectives and expertise, different views and issues would be raised. Such discussions were helpful to ensure the correctness of the decisions, but sometimes they could be inefficient as well". The equal sharing of ownership did cause some difficulties. After its IPO, its steady growth prompted several potential capital partners to seek cooperation with the Zhang family. However, some of the brothers showed less willingness to continue the business. In the interviews, some of the founders (FM1 and FM2) noted, "In the 1990s, we brothers shifted our business from cereal to adult milk powder and infant formula to meet market demand. We developed Company H to this big step by step<sup>12</sup>. Then after 2008, we regained the market and went public in Hong Kong. It was not easy for us to go to where we were then" and "After our IPO in Hong Kong in 2010, we grew steadily in the market. As a result of our good performance, some potential capital partners came to seek cooperation. At that time, the company had strong growth momentum with its overseas self-built milk base in good operation, the market back in order, industry thresholds being

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<sup>12</sup> Before the 2008 tainted milk scandal broke, H Company's annual sales target was 6 billion, and its sales performance basically stayed on track to meet that target.

raised, and government regulation. We believed that there would be another wave of development in the industry. But we were conflicted about where to go. We founded the company, and after all these things, we finally had the right timing again. But on the other hand, we were getting older and not as energetic as we were when we first started the business. Moreover, our children had their plans and showed little interest in taking over the business. We finally decided that if we were going to quit, we would have to quit together. And in any case, the family would continue to hold the shares of Company H.” To date, after Mengniu completed its acquisition of Company H in 2013, the Zhang family is still the second and third largest shareholder of Company H. However, they gave up their control of the company as the majority shareholder. In summary, we argue that starting from the NDRC’s encouraging mergers and acquisitions in 2008, various endogenous and exogenous events have affected family expectations of the founding family. Yet the concentrated family ownership and six brothers’ equal division of equity of Company H have reinforced the impact of key events on the entrepreneurial exit decisions, which ultimately prompted the Zhang brothers to opt for selling their equity and stepping back from its operation. In line with this, the following finding can be made:

Finding #7: Family ownership concentration will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, when there is no majority shareholder and the ownership is equally shared, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.

**Degree of the next generation’s involvement.** The degree of the next generation’s involvement refers to the proportion and degree of the next

generation's involvement in the operation of the family business when they work side by side with first-generation founders. As family business is a complex system where family and business are intertwined, the degree of the next generation's involvement will, to a certain extent, affect the strategic decision and exit decisions of the family business. According to the Socioemotional Wealth Theory (SEW) (Gomez-Mejia et al., 2007, 2011), SEW is the non-financial benefits that the family derives from the family business by its status as the owner, decision-maker, and manager, such as the ability to exercise power, satisfy the need for belonging, emotion, and kinship, preserve family values within the business over time, maintain family control, retain family social capital, fulfill family obligations based on blood ties or treat family members with altruism. The protection of socioemotional wealth is closely related to the family's control over the company. Once the family loses control over the business, its socioemotional wealth may weaken kinship among family members, cause a decline in family status, and fail to meet family expectations. Therefore, protecting the family's socio-emotional wealth becomes one of the important objectives for the family to control the company. In line with socio-emotional wealth theory, we argue that the degree of the next generation's involvement in the family business impacts the process of entrepreneurial exit.

In the case of Company H, because the Zhang brothers started the business at an early age, most of their children were still relatively younger when Company H expanded<sup>13</sup>. Only one brother's son participated in Company H's operation. According to a former executive (FE5) in an interview, "When the

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<sup>13</sup> Except for one second-generation family member of the Zhang family who has joined the company and was involved in part of the business, the rest of the second-generation family members were still students under 20 years old.

business of Company H was booming, the bosses' children were still young. Some were studying abroad with little understanding of the business. The child involved in the business operation didn't make it into the senior management team because the Zhang brothers were still young and in their prime." "Perhaps it was because the brothers' children did not engage in the business that the bosses did not bother to consider passing on the business to their children when they decided to sell their stakes." Thus, the following finding can be summarized:

Finding #8: Next generation's involvement will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, when there is a low degree of the next generation's involvement, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.

A summary of the conclusions and findings in this chapter is detailed in Table 6. It should be noted that industry characteristics (industry competition intensity, government regulation intensity, and industry growth potential) and family characteristics (family wealth accumulation, degree of ownership concentration, and degree of the next generation's involvement) not only have moderating effects on the process by which key events affect entrepreneurial exit decisions but also may have a direct impact on the selection of entrepreneurial strategies<sup>14</sup>. For example, when founders perceive an increased

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<sup>14</sup> This study makes a distinction between two types of variables, namely "events" and "external environmental characteristics". According to EST, events generally involves both characteristics and processes of events. For example, an event is described in terms of event strength, duration, dispersion, etc. Thus, events are considered as the antecedents that have an influence on entrepreneurial exit in this thesis. Examples of such events include the tainted milk powder scandal and the introduction of strategic investment. External environmental characteristics" are used to describe a stable state of affairs with no emphasis on processes. For example, industry competition intensity, government regulation intensity,

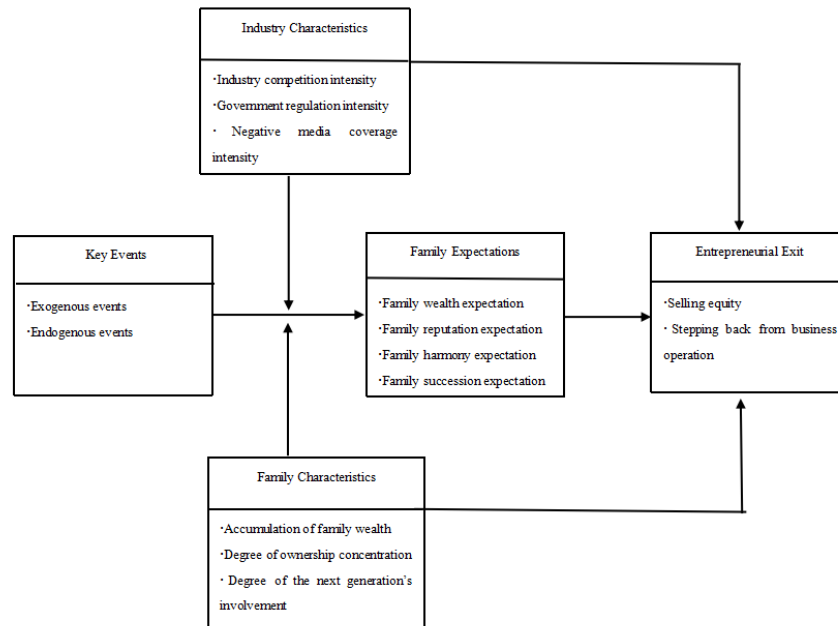
level of competition in the industry, their willingness to stay in business decreases, prompting them to leave. Based on the propositions presented above and the possible direct effects of industry and family characteristics, the process by which key events affect the entrepreneurial exit intention is refined and presented in Figure 2.

Table 6 : A Summary of the Findings

	Finding
1	Exogenous and endogenous events will affect the entrepreneurial exit intention of family business founders.
2	Exogenous and endogenous events indirectly affect the entrepreneurial exit intention of family business founders through family expectations.
3	Intense industry competition will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, the more intense the industry competition, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.
4	Government regulation intensity will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, the more intense the government regulation intensity, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.
5	Negative media coverage intensity will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, the more intense the negative media coverage intensity, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.
6	Family wealth accumulation will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, the higher accumulation of family wealth, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.
7	Family ownership concentration will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, when there is no majority shareholder and the ownership is equally shared, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.
8	Next generation's involvement will influence the indirect effect of key events on entrepreneurial exit intention through family expectations. Specifically, when there is a low degree of the next generation's involvement, the more pronounced the impact of the key events on entrepreneurial exit intention through family expectations.

and negative media coverage intensity are all characteristics that describe the external environment instead of processes. Therefore, these external factors are treated as moderating variables in this study to examine their moderating effects on the process by which key event affect entrepreneurial exit through family expectations. In other words, the study explores whether events have stronger or weaker impact on entrepreneurial exit through family expectations when the external characteristics are in different levels of intensity. Apart from being the moderators, the environmental characteristics mentioned above may also be one of the antecedents that affect entrepreneurial exit decisions. For example, industry competition and government regulation intensity can directly affect business operators' decisions to stay in business. However, this is not the focus of our discussion of the model in this study. So, there are only arrows representing direct impact in this model.

Figure 2: The Mechanism of How Key Events Affect the Entrepreneurial Exit Intention



## **5. A Supplementary Case Analysis**

The previous chapter examined in detail how key events affect the founding family's entrepreneurial exit intention through family expectations, identified the moderating effects of industry and family characteristics and entrepreneurs' personal traits on the process by which key events affect entrepreneurial exit, and concluded with the construction of a model of how key events come to influence the entrepreneurial exit intention with a case study of Company H. As discussed earlier, the single-case approach allows researchers to get closer towards the goal of theory building by obtaining more abundant, detailed and in-depth information and conducting more focused analyses (Berg, 2001; Siggelkow, 2007). Besides, it provides researchers with the opportunity to observe and analyze the scientific phenomena that could not be studied previously, and the observation and analysis of extreme phenomena help to exclude the interference of non-research factors on the research issues in typical contexts. However, in adopting the EST to study how key events affect entrepreneurial exit intention, one cannot overlook that even the same key event may be interpreted oppositely by different companies and their leaders and senior management teams. This chapter investigates how the same events impacted another private company in the industry, i.e., Company M, based on secondary data collected. The findings can be used to verify and complement the findings of the case study of Company H above to some extent.

### **5.1. An Introduction to the Supplementary Case**

Company M, founded in 1999 in Inner Mongolia Autonomous Region and headquartered here, is one of the top eight global dairy companies. Listed in Hong Kong in 2004, it is a constituent of the Hang Seng Index, Hang Seng



China Enterprises Index, and Hang Seng Corporate Sustainability Index. Currently, its largest strategic shareholder is COFCO Corporation Limited.

Company M is committed to providing nutritious, healthy, and delicious dairy products to Chinese and global consumers with a rich product portfolio ranging from liquid milk, ice cream, milk powder and cheese, and renowned brands. It has a leading market share in premium pure milk, low-temperature yogurt, premium fresh milk, and cheese. In addition to mainland China, Company M's products have been sold in more than ten countries and regions in Southeast Asia, Oceania, North America, and other regions. In 2020, the company's revenue reached 76 billion yuan with a net profit of 3.5 billion yuan.

Company M has built 41 production bases in China and a number of overseas production bases in New Zealand, Indonesia, and Australia. It has set up 68 plants worldwide with a combined annual production capacity of over 10 million tons. It has also made strategic investments in three large livestock groups to integrate high-quality resources. It has partnered with more than 1,000 dairy farms in China with an average milk collection of over 18,000 tons per day, and all of its raw milk comes from large-scale and intensified dairy farms. At the same time, Company M is keen on reaching out to overseas high-quality milk suppliers and has raw milk processors and organic baby food vendors in Australia<sup>15</sup>.

The founder of Company M worked in another company in the same industry in Inner Mongolia before he set up his own business. He started his career as a bottle washer and was promoted to workshop director, factory manager, and production and operation vice president. In 1999, he left the

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<sup>15</sup> The above information is obtained from the company's official website.

company and founded Company M. In terms of its business model, Company M chose to cooperate with dairy farmers and used a huge distribution network to promote its products nationwide. That, combined with powerful advertising, helped Company M grow by leaps and bounds. With its IPO in 2004, it became the Second Largest Dairy Brand in China. It took its founder only eight years to raise the company's sales from 40 million yuan in 1999 to 21.318 billion yuan in 2007, surpassing another industry giant's sales of 19.360 billion yuan for the first time in the same period. As the first dairy company in China to exceed 20 billion yuan in revenue, Company M became the new king of the Chinese dairy industry. Since then, it has continued to soar. After breaking the 30 billion sales record, it has become the top dairy company in China for four consecutive years.

## **5.2. A Summary of Key Events in the Industry**

Company M's legendary growth came to a halt in 2008 when the tainted milk powder scandal broke, and the sensitive word of melamine quickly swept through the whole industry. Unfortunately, the melamine was also detected in the infant formula produced by Company M, which dealt a huge blow to the company that had maintained phenomenal growth before the incident. The sudden risk of the industry put the company's cash flow under tremendous pressure due to its rapid development in such a short time. As shown in its 2008 annual report, the company lost 950 million yuan. Compared with its net profit of 940 million yuan in 2007, it suffered a 201% plunge in net profit, the first annual loss since its listing. According to public information released by the company, the crisis caused its capital shortfall to reach 3 billion yuan. Its share price dropped sharply from HK\$20 per share in September to near HK\$6 per share.

After its stock price fell, Company M faced the risk of being acquired by foreign investors. As early as mid-2008, right before the outbreak of the tainted milk powder scandal, the NDRC announced an industrial policy for the dairy industry that explicitly fostered mergers and acquisitions among dairy companies. In the words of NDRC, it would “proactively encourage enterprises to form market-oriented enterprises of appropriate scale through mergers and acquisitions to cultivate a number of backbone enterprises with annual sales revenue of more than 2 billion yuan”. This appeal was a strong “signal” sent by the industry regulator and had a profound impact on the dairy industry and the company’s solution to the crisis.

On July 7, 2009, thanks to the efforts of the company’s founder, COFCO and Houpu Investment became the company’s largest shareholders after contributing HK\$6.1 billion to acquire 20.03% of the company’s shares. After the acquisition, COFCO held three non-executive directorships on Company M’s board of directors, while Houpu Investment took one non-executive directorship. After its takeover by COFCO, the company showed fair performance, reversing from losses to profits in 2009 and achieving robust growth in 2010 with a profit of 1.454 billion yuan. Meanwhile, it sped up its pace of outbound mergers and acquisitions. In 2010, it acquired a 51% stake in a well-known dairy based in Shijiazhuang, Hebei Province, greatly expanding its yogurt production capacity. In 2013, it acquired a well-known dairy company in Guangdong for approximately HK\$11.4 billion, the largest in China’s dairy industry. In addition to that, it increased its shareholding in a ranching company in Ma’anshan, Anhui Province, and became its largest shareholder. In the same year, it merged into the yogurt business of a French dairy giant in China, with

the latter becoming a strategic shareholder. In 2014, Company M, together with its holding company, a leading dairy company in Guangdong, acquired all the shares of a renowned infant milk powder brand in China from its parent company, a French dairy giant, for 150 million euros. In 2017, it increased its stake in a ranching company in Ma'anshan, Anhui Province, and eventually held a 57.9% stake to secure a high-quality raw milk supply.

Two months after COFCO's acquisition, the founder of Company M resigned as President and became Chairman of the Board. At the same time, the President of COFCO replaced him as the president of Company M. According to an official statement from the company, the change in the position of the founder was a strategic step for the company, as the founder would be responsible for higher-level strategic planning in the future. President of COFCO's succession would facilitate Company M and COFCO. Less than two years after the position change, Company M issued another announcement on June 11, 2011, stating that the founder would resign as Chairman of the Board and be replaced by the then COFCO's Chairman. Meanwhile, the founder would devote himself mainly to charity work but would retain his position as a non-executive director of Company M. With these two changes in position, the founder gradually stepped away from the core management and operation of the company, with COFCO taking a more decisive role in the business operation instead.

In 2011, Company M was caught up in a "tainted milk" scandal where its products were tested for excessive aflatoxin M1. The incident received much media attention. By this time, the founder had already resigned as Chairman. Yet, due to the company's failure to catch up with other dairy giants in the

industry in sales performance, the founder returned to the company in September 2016 as a Member of the Strategy and Development Committee. On the evening of November 30, 2021, Company M announced changes to its directors on the Hong Kong Stock Exchange. The founder resigned as a non-executive director of the company and Member of the Strategy and Development Committee with effect from December 1 because of his retirement and intention to devote more time to charity work. After stepping down as a non-executive director, the founder has officially left Company M, marking his entrepreneurial exit<sup>16</sup>.

### **5.3. The Coding of Key Events**

As with the approach used to analyze Company H, this section draws on the research methodology of EST by Morgeson et al. (2015) and Liu and Liu (2015) to measure the aforementioned key events that have influenced the entrepreneurial exit of the founder of Company M. The EST divides events into endogenous and exogenous events depending on the different interplay between events and related entities and quantifies events through a three-dimensional system of time, space and strength to examine and predict the changes brought about by these events. In line with the studies of Morgeson et al. (2015) and Liu and Liu (2015), this thesis investigates event strength in terms of novelty,

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<sup>16</sup> M Company was selected as an additional case for the following reasons. Firstly, the key events that the thesis deals with mainly occurred in or after the year of 2008. During that time, as private companies, M Company and H Company shared much in common with each other in terms of business model, corporate conditions, and product type. Therefore, M Company is an appropriate case for the comparison of different companies experiencing the same events in the industry. Secondly, considering the availability of data, it is easier to obtain secondary public information on M Company as it is a listed firm. By adding this additional case, the thesis can address the questions of “whether companies experiencing the same series of events would make the same decisions or not and why”, as well as ensures the external validity of the theoretical model and propositions developed in this thesis.

disruption, and criticality with +++ indicating strong, ++, moderate +, weak, and identifies event space as industry level, organization level or individual level represented respectively by +++, ++ and +. The measurement of event strength and event space was carried out in two steps: firstly, three researchers completed the coding analysis and determined the event strength and event space of the key events independently; and secondly, the coding results were checked and compared, and the inconsistent ones were then discussed until a consensus was reached. Finally, key events that had influenced the entrepreneurial exit of the founder of Company M were sorted, summarized, and coded, as shown in Table 7.

Table 7: A Summary of Key Events Affecting the Entrepreneurial Exit of the Founder of Company M

Event Code	Event Type		Event Description	Event Strength			Event Space
	Endogenous Event	Exogenous Event		Novelty	Disruption	Criticality	
KE1		√	In 2008, the NDRC released its industrial policy for the dairy industry, which explicitly encouraged mergers and acquisitions.	+++	+	+	+++
KE2		√	In 2008, the Chinese tainted milk powder scandal broke, dealing a major blow to the dairy industry.	++	+++	+	+++
KE3	√		COFCO and Houpu Investment acquired a 20.03% stake in	+++	+	++	++

			Company M and became the company's largest shareholders.				
KE4		√	In 2011, Company M's products were detected with excessive levels of aflatoxin M1, which triggered extensive media coverage.	+++	++	+++	++

#### 5.4. Major Findings<sup>17</sup>

Finding 1: Industry- and company-level exogenous and endogenous events can trigger an entrepreneurial exit.

Consistent with the findings of the case study of Company H, exogenous and endogenous events have prompted the entrepreneurial exit of Company M. Firstly, take the KE1 as an example, where the NDRC issued an industrial policy for the dairy industry that explicitly promoted mergers and acquisitions among dairy enterprises by stating that it would “proactively encourage enterprises to

<sup>17</sup> As regards endogenous and exogenous events, M Company has taken some of the same actions as those of H Company, such as upgrading production lines, sourcing milk elsewhere, improving testing standards, bringing in external strategic investment due to its financial crisis, and the founder's selling the business in the end. Yet what makes M Company different is that it went public in 2004 which was long before the tainted milk scandal broke out, and it is not a family business. That is why M Company may differ from H Company in terms of strategic choices. For example, the founding family of H Company has chosen to retain a portion of the equity to become the third largest shareholder. It should also be noted that we selected M Company as a comparison because it has experienced the same external events in the same industry during the same period of time, in an attempt to support the findings obtained from the case study of H Company by analyzing the impact of exogenous and endogenous events on M Company. However, there were quite a number of other firms in the same period in the dairy industry, and some of them may have made very different decisions from Company H and Company M based on different strategic choices and analysis. This is one of the limitations of the current case study which has been discussed in Limitations and Suggestions for Future Research section.

form market-oriented enterprises of appropriate scale through mergers and acquisitions to cultivate a number of backbone enterprises with annual sales revenue of more than 2 billion yuan “. Such a strong “signal” sent by the industry regulator has had a significant impact on the perception and decision-making of the founder of Company M. Due to the lack of interview data involving the founder or original senior management team for the analysis of the key event’s impact on the founder, it is impossible to know exactly by what means and through what pathway the key event came into play. However, the influence of the key event can be observed in Company M’s subsequent solution to the crisis, i.e., reaching out to COFCO for help.

Similar to the analysis of Company H, KE2 had a significant impact on Company M’s operation through its novelty, disruption, and criticality. According to publicly available information, Company M lost 950 million yuan in 2008 with a 201% plunge in net profit. What’s worse, the crisis left it with a capital shortfall of 3 billion yuan and a falling stock price, which dropped from HK\$20 per share in September to around HK\$6 per share. This key event ended the company’s phenomenal growth for many years and forced it into trouble. At this moment, the founder had to seek help from external capital partners and turned his eyes to large and well-capitalized state-owned enterprises driven by the national industrial policy then.

In addition to negative exogenous events, the company’s endogenous events also impacted its entrepreneurial exit. In the case of KE3, Company M sought help from outside to get through the crisis. In 2009, COFCO and Houpu Investment acquired a 20.03% stake in Company M’s and became its largest shareholder. Concurrent with the change in equity, the founder resigned as



President and was replaced by the President of COFCO. Later, the founder made a gradual entrepreneurial exit by steering away from the core management and operation of the company step by step. Similar to the study of Company H, the above analysis shows that a series of endogenous and negative exogenous events can directly impact entrepreneurial exit.

Finding 2: Industry characteristics (industry competition intensity, government regulation intensity, and negative media coverage intensity) can impact how key events affect entrepreneurial exit.

In line with the findings of the case study of Company H, industry characteristics serve as moderating variables that cannot be neglected in the process by which key events affect entrepreneurial exit. Similarly, this thesis classifies industry characteristics into three key factors of industry competition intensity, government regulation intensity, and negative media coverage intensity, based on secondary data collected regarding Company M. Not only are these three factors likely to have a direct impact on entrepreneurial exit but may also influence the process from key events to entrepreneurial exit.

In terms of industry competition intensity, the dairy industry has seen the rise of hundreds of dairy companies. In addition to Company M, dairy giants including Yili Dairy, Bright Dairy, Yashili, Sanlu, and Syutra took up most of the Chinese market share. Moreover, several hundred small- and medium-sized dairy companies around the country, making the industry highly competitive. Meanwhile, these domestic brands faced competition from a number of foreign rivals, such as Nestle, who entered the Chinese dairy market quite early. We argue that the more intense the competition in the industry, the more pronounced the impact of key events on the entrepreneurial exit of companies involved in

these events. In other words, intense industry competition magnifies the impact of either endogenous or exogenous events. In the case of KE2, the tainted milk powder scandal, and KE3, the highly competitive dairy industry, required the senior management team to be responsible for the crises. The change in shareholding structure hastened the entrepreneurial exit.

Regarding government regulation intensity, the dairy industry faces the highest intensity of government regulation related to public health. It has been subject to intensive regulation and numerous policies with extensive impact, especially after the tainted milk powder scandal. To be specific, the government set higher entry thresholds for the industry, improved testing standards, and imposed detailed rules on the milk sources of milk powder enterprises. To a certain extent, the enhanced regulation of the industry facilitated the healthy and orderly development of the industry. However, it became increasingly difficult for dairy companies to operate their businesses. Frequent changes in standards also left operators at a loss. In the case of KE3 regarding Company M, the COFCO's acquisition after the outbreak of the crisis, for one thing, reflected how the key event caused the founder's entrepreneurial exit and, for another, revealed the government's stronger control over the dairy industry by expanding the presence of state-owned enterprises and promoting mergers and acquisitions in the industry. It is argued that government regulation intensity can impact the process by which key events affect entrepreneurial exit.

Concerning negative media coverage intensity, negative media coverage affects consumers' confidence in a company's products, investors' confidence in making investments, and government and corporate behaviors. It may even trigger a serious crisis or even a company's bankruptcy. The dairy industry is

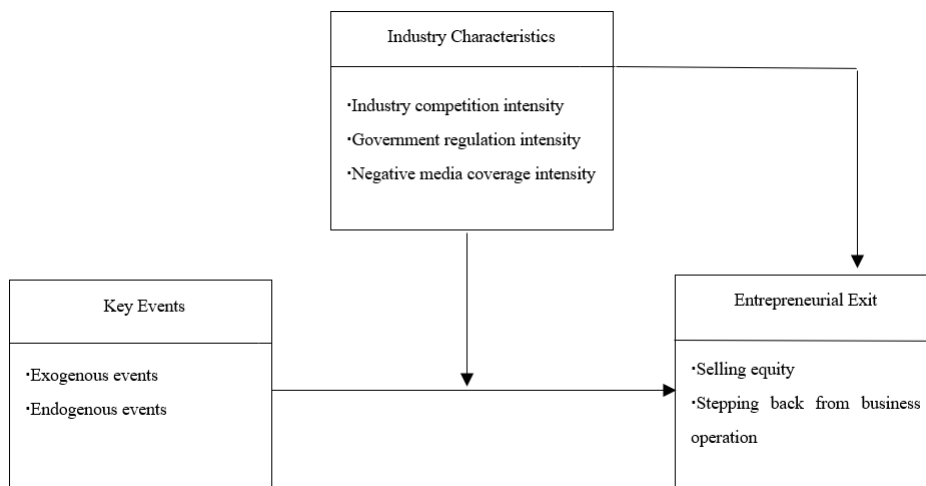
one of the industries with the highest intensity of media coverage in China. This is partly due to its relevance to public health and the frequent crises occurring in this industry. In the case of KE4, massive reports of aflatoxin-tainted milk affected Company M's marketing, product image, and business operation. Undoubtedly the company was responsible for the "aflatoxin" incident no matter where the problem originated. As the then Chairman of COFCO said, "Although it was a small amount and did not cause any harm, still Company M should take responsibility for the use of moldy feed. Even trivial things can lead to big problems and generate public concern. We need to reflect on this matter. The COFCO will handle this matter with great, great caution." He noted that food safety was a matter of real public interests and what the COFCO and Company M needed to make good products and explain things well. After COFCO took over Company M, the founder gradually stepped out of the company's core management. Though he made a comeback for a short time, he left the company and thus completed his entrepreneurial exit process. Despite the lack of primary data such as interviews, it is not difficult to infer that massive negative reports about the industry have also influenced this process of entrepreneurial exit. Higher intensity of negative reports can lead to more negative perceptions of the industry environment by entrepreneurs who consider it harder to operate their businesses. Senior management would have to keep a close eye on product safety, be cautious in what they say and do, and walk on thin ice.

The impact of key events in the supplementary case study is shown in Figure 3 based on the above findings. It should be noted that family expectations were not taken into account in this analysis of the mechanism of impact since Company M was a private business with little family involvement before the COFCO's acquisition.

Figure 3: Impact of Key Events and Industry Characteristics on Entrepreneurial Exit

### 5.5. Discussion and Conclusion

The previous chapter is a case study of Company H, which collected a large amount of first- and second-hand information involving Company H, conducted



in-depth interviews, and reached conclusions based on triangulation. However, the single-case approach could be flawed, such as explaining whether the same event occurring in the industry might have the same impact on other companies in the same sector. Given this, this thesis selected Company M, another large private company in the industry, as an additional case and tested the impact of key events and industry characteristics on entrepreneurial exit indirectly by applying the same theory, namely EST, to examine secondary public information to supplement further and validate the findings regarding Company

H. It can be concluded from the results of the additional case study that (1) both endogenous and exogenous key events have a direct impact on entrepreneurial exit, and (2) industry characteristics (industry competition intensity, government regulation intensity and negative media coverage intensity) can have an impact on the process by which key events affect entrepreneurial exit. The above two findings also, to some extent, validate the findings of the case study of Company H, thus providing additional evidence for the thesis.

Nevertheless, it should be noted that due to various constraints, it is difficult to conduct direct interviews with the founder of the original senior management team of the supplementary case to collect sufficient primary data. As a result, the findings are limited in depth and fail to address issues such as the psychological mechanism of entrepreneurial exit. Moreover, even though a key event may affect many companies in the industry, only one private company was selected as the case considering the company's data availability and nature. Those excluded from the study may offer different insights into the impact pathway and psychological mechanism. This is one of the disadvantages beyond the scope of the case study method. In future investigations, it might be possible to design questionnaires to study events based on quantitative research methods to make up for this shortcoming and better reveal the influencing factors behind entrepreneurial exit and its process.

## 6. Discussion and Conclusion

This chapter summarizes the main conclusions of the case study and offers an in-depth discussion of these conclusions based on the studies of entrepreneurial exit and family business. It then clarifies the study's theoretical significance and practical implications and finally explains its limitations and future research directions.

### 6.1. Conclusion

This thesis has explored the internal mechanism through which key events affect entrepreneurial exit decisions by using an exploratory case study approach and reviewing the key events occurring in the development of Company H from 2008 to 2013. It has been found that key events prompt entrepreneurial exit when family expectations are not fulfilled and have revealed the important role of industry and family characteristics in this process (see Figure 4-1). The three major conclusions of the study are as follows:

**Firstly, both exogenous and endogenous events affect entrepreneurial exit decisions through unfulfilled family expectations (wealth expectations, reputation expectations, harmony expectations, and succession expectations).** For one thing, the occurrence of exogenous events implies increased uncertainty in the business environment. As event strength changes across space, the events may affect the founding family's original expectations, such as creating family wealth, maintaining the family reputation and harmony among family members, and passing on the business to the next generation by continuing the business. For another, when an exogenous event happens, it does not mean that the company accepts it and sits in its hands. Instead, it tends to take stock of the situation and use internal and external resources to initiate an

endogenous event. For example, after domestically-made milk powder suffered a credibility crisis, the company proactively improved dairy testing standards, upgraded production equipment, and built factories overseas. However, it should be noted that endogenous events, though self-initiated, would cause tremendous costs on the part of entrepreneurs, such as a huge amount of capital, time, or effort, and may end up affecting the fulfillment of family expectations and resulting in the entrepreneurial exit.

**Secondly, industry characteristics (industry competition intensity, government regulation intensity, and negative media coverage intensity) can affect entrepreneurial exit directly and may also act as moderating factors that mediate the impact of key events on entrepreneurial exit.**

Entrepreneurs tend to have a stronger intention to leave their businesses when there are higher industry competition, government regulation, and negative media coverage. In addition, industry characteristics also amplify the effects of key events on entrepreneurial exit. In other words, key events can have a greater impact on entrepreneurial exit indirectly through family expectations when industry competition, government regulation, and negative media coverage are intense. The analysis of Company H in this thesis has demonstrated that industry characteristics profoundly impact entrepreneurs' perceptions of the regulatory environment and their intention to continue staying in business. The finding is consistent with previous studies emphasizing the importance of the regulatory environment for the entrepreneurial exit.

However, it should be noted that the present case study has primarily focused on a series of negative events occurring in the dairy industry after the 2008 tainted milk powder scandal and their impact. It, therefore, demonstrates

only one aspect of how key events affect entrepreneurial exit in an industry-specific context. In different industries or at different stages of development of an industry, industry characteristics (such as industry competition intensity, government regulation intensity, and negative media coverage intensity) may have different mechanisms for moderating the process from key events to entrepreneurial exit. Take the new energy automobile industry, for example. Although there is a high degree of competition in the industry and frequent negative reports about new energy cars (related to brake failure, falsification of mileage data, etc.), these industry factors have not necessarily contributed to the process by which key events affect the entrepreneurial exit. Thus, when applying the EST framework to the study of entrepreneurial exit, it is important to discuss in detail the nature of the event, industry context, and degree of competition in the industry to arrive at more instructive conclusions.

**Finally, family characteristics (family wealth accumulation, degree of ownership concentration, and degree of the next generation's involvement) directly impact entrepreneurial exit. They may also exert moderating effects on the process, from key events to family expectations to entrepreneurial exit.** In other words, when the founding family's entrepreneurial motivation is to pursue wealth, they are more likely to leave the business once the goal is reached. They are also more prone to exit the business when family ownership is concentrated, and the equity is equally divided among the brothers due to higher coordination costs among them. And they are more liable to leave the business instead of passing the ownership to the next generation when the next generation is less involved in its business operation. Besides, family characteristics may serve as boundary conditions for key events



influencing the entrepreneurial exit process. When a family business whose entrepreneurial motivation is wealth seeking has lower ownership concentration and the next generation's involvement in its business operation, key events are more likely to impact family expectations and thus prompt the founding family to decide to leave the business. This finding is again in line with previous entrepreneurship literature highlighting family influence.

It is important to note that the directions of the moderating effects of family characteristics (family wealth accumulation, degree of family ownership concentration, and degree of the next generation's involvement) identified in the current case study are not universal across industries or family businesses in different situations. For instance, in some family-controlled listed companies, the concentration of ownership allows for more efficient decision-making and stronger family control so that negative key events may not necessarily affect their entrepreneurial exit intention. Hence, future work must consider several factors, including industry, event type, and family governance features, closely analyzing the occurrence of entrepreneurial exit of family businesses and its mechanism.

In addition, to further test the robustness of the findings based on Company H, the secondary data of another large private company in the industry was collected and analyzed with an EST approach. Likewise, the findings have also confirmed the direct impact of exogenous and endogenous events on entrepreneurial exit and the direct and moderating effects of industry characteristics.

## **6.2. Theoretical Significance and Practical Implications**

The theoretical contributions of the current study are as follows.

**Firstly, this thesis contributes to the previous research on entrepreneurial exit by providing an in-depth analysis of how family businesses make entrepreneurial exit decisions regarding event strength and space with a new perspective of EST.** Much of the current entrepreneurial exit research tends to be feature-oriented, focusing on the impact of certain characteristics of companies or founders (such as age, experience, personality, etc.) on their entrepreneurial exit decisions in disregard of the decision-making process of their entrepreneurial exit. While this approach helps understand what factors play a role in entrepreneurial exit, it fails to reveal the formation mechanism behind entrepreneurial exit decisions. This thesis has investigated how key events affect founders' exit decisions regarding event strength and event space, analyzing the key events occurring in the company's development in question based on secondary data and interviews. This makes up for the lack of attention to events and the formation mechanism in entrepreneurial exit research, thus expanding the research on entrepreneurial exit.

**Secondly, this thesis examines entrepreneurial exit in Chinese family businesses. It focuses on how key events affect entrepreneurial exit through family expectations, which helps shed light on how key events influence founders' entrepreneurial exit decisions.** Previous studies on entrepreneurial exit and family businesses generally go in separate tracks, neglecting the complex interaction. This thesis has integrated the entrepreneurial exit with family businesses through a case study of the entrepreneurial exit of the founders of a private family business to explore how key events indirectly influence entrepreneurial exit through family expectations (family wealth expectation, family reputation expectation, family harmony expectation, and

family succession expectation). As a result, it provides a deeper insight into how key events affect entrepreneurial exit and contributes to the research on the entrepreneurial exit of Chinese family businesses.

**Thirdly, this thesis has integrated the process-oriented and feature-oriented paradigms by including industry characteristics (industry competition intensity, government regulation intensity, and negative media coverage intensity) and family characteristics (family wealth accumulation, degree of ownership concentration, and degree of the next generation's involvement) as important situational conditions, thus setting boundary conditions for the process by which key events affect entrepreneurial exit.**

The decision to exit the business results from the interplay between internal and external factors. Investigating this matter either with a process-oriented perspective or a feature-oriented perspective can only reveal the tip of the iceberg. This thesis has identified the intricate influence of internal and external factors through an in-depth case study and found that industry and family characteristics can directly impact founders' exit decisions and may play a role in the process from events to expectations to entrepreneurial exit. This approach compensates for previous literature on entrepreneurial exit based on the feature-oriented paradigm to explore the formation process of entrepreneurial exit. Moreover, it provides concrete observational samples for studying the formation process of entrepreneurial exit in a Chinese context.

The practical implications of this study are mainly in the following three aspects.

**Firstly, as private enterprises are a vital driving force for China's economic and social development, the government must pay attention to**

**the entrepreneurial exit phenomenon of private family businesses and strive to identify and eliminate institutional factors that are detrimental to entrepreneurs' continued operation.** The entrepreneurial exit of private family businesses effectively reflects entrepreneurs' confidence in the economic development of a country or region. It serves as a barometer of economic dynamism. As for the reasons for entrepreneurial exit, there is no denying that some entrepreneurs choose to leave their businesses for personal reasons. Yet the government needs to pay attention to what factors related to industry and policies may affect the confidence and determination of private entrepreneurs to sustain their business, such as excessive industry regulation, rapidly changing policies and regulations, and a backward business environment. As a typical Chinese private family business, Company H in this study provides a window for the business community on the entrepreneurial exit of family businesses and helps to call for every sector of the society to pay attention to the ongoing phenomenon of entrepreneurial exit by Chinese family businesses.

**Secondly, given that making entrepreneurial exit decisions is a complex process involving the interaction of different internal and external factors, the case of Company H offers a valuable lesson for Chinese private family businesses in the strategic transition and succession stage in making appropriate exit decisions for their enterprises.** Many private family businesses in China are undergoing strategic transition and succession. Many first-generation family business leaders who are considering leaving their businesses are inevitably tasked with the challenge of selecting an entrepreneurial exit strategy. This thesis has combined feature-oriented and process-oriented paradigms to analyze the entrepreneurial exit decisions of

family business founders. Its findings can offer insights into entrepreneurship literature and the management and succession of Chinese family businesses. Moreover, since the case selected is fairly typical, it helps other Chinese family business leaders to have an in-depth analysis of their own business, family, industry, and personal situations before making scientific and rational decisions.

**Thirdly, the government should improve industry regulation and media environment, eliminate uncertainties of the regulatory environment as perceived by entrepreneurs and establish an internationalized, law-based, and market-oriented business environment to strengthen entrepreneurs' determination to continue their businesses and encourage them to achieve the sustainable development of their companies with entrepreneurial spirits.** This thesis has shown that government should be sensitive to changes in industry regulations and create an external environment conducive to the sustainable development of enterprises after an analysis of how factors of industry regulation and media environment can affect entrepreneurial exit with a focus on the impact of key events occurring in the development of the company in question. The government should also improve the media environment by punishing those unscrupulous media that release inaccurate information and creating a sound media environment for enterprises. Moreover, the government should upgrade industrial regulation and create an environment conducive to the sustainable growth of enterprises, so that entrepreneurs can have high expectations of stable policies and perceive less uncertainties of the regulatory environment. This ultimately helps build an institutional mechanism favorable for starting and growing a business and encourages entrepreneurs to

carry their entrepreneurial spirits<sup>18</sup>.

### **6.3. Limitations and Suggestions for Future Research**

The present study is limited in certain aspects and needs to be further explored.

Firstly, the longitudinal case study of a single enterprise, though particularly useful for theory building, cannot guarantee the generalizability of its conclusions. Although a process model by which key events affect entrepreneurial exit has been constructed based on the exit process of Company H, whether the findings drawn from the single case study can explain the practice of other enterprises remains to be tested. Further work can be done by adopting a quantitative research method or, to be more specific, designing a scale based on EST and collecting a large sample of enterprises to analyze and evaluate the findings of this study statistically. This will help to identify the constraints of the process model better.

Secondly, the case selected, i.e., Company H, is a private family-owned business in the dairy industry founded in the Chaoshan region of Guangdong with distinctive local features and unique culture. Future research should be undertaken to explore other types of enterprises (such as state-owned enterprises or foreign enterprises) in the same industry or enterprises founded in other regions (such as Zhejiang, Jiangsu, etc.) to carry out a comparative study to enhance the significance of the research results for the whole industry or enterprises in different regions. While another large private enterprise in the same period has been investigated as a supplementary case for verification, this

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<sup>18</sup> There are policy implications-not sure if the government will take all these into account given the nature of the government in China.

thesis only analyzed secondary public information due to various constraints, making it difficult further to examine the company's psychological mechanism behind the entrepreneurial exit.

Thirdly, the study is concerned with the influence mechanism of key events on entrepreneurial exit and involves the "process" of several cases. However, the interviewees' accounts of these events are mainly retrospective and not in a clear chronological order, making concept abstraction and theory construction less process-based. Moreover, since the entrepreneurial exit of Company H occurred in 2013, there may be some errors in the reminiscent accounts of the interviewees after all these years. Future work can be carried out, focusing on the more detailed "process of events" of other typical companies to analyze the mechanism of key events.

Fourthly, although this study explores the impact of endogenous and exogenous events on entrepreneurial exit through a case study of H Company, it was unable to accurately specify and compare the degree of the impact of different events due to the nature of qualitative research method. Thus, the findings of this study are limited in depth and practical relevance. Future investigations can be conducted by employing quantitative research methods to identify the degree of impact of different events and construct models to collect large samples for validation in order to further analyze the degree of the impact of events".

Fifthly, in the case of M Company, the decision-makers and persons in the know are the founder and former senior management team. As it has been 14 years from 2008 to now, things have changed in such a long span of time. The founder has already exited the business and M Company is a COFCO holding

company now. The founder and former senior management worried that corporate secrets may be touched on in interviews, thus affecting the current operation of M Company. So, we were unable to conduct interviews with the founder and former senior management of M Company despite all our efforts. Therefore, we can only rely on secondary information and data from publicly available sources and verify these data from multiple perspectives in this study. Furthermore, although M Company is privately owned, it is not a family business. That's one of its differences from H Company. Therefore, the additional case study primarily discusses the impact of key events on M Company without touching upon the issue of family expectations.

Last but not least, although a variety of people were interviewed from different perspectives to cross-check the information and ensure the reliability of the evidence, the data were mainly collected through interviews and from secondary sources with a lack of statistical analysis of historical archives. In addition, the thesis did not adopt a quantitative approach to allow interviewees to measure core constructs such as event strength and family expectations due to a limited interview sample, which might also lead to biased results. Future work needs to strengthen the search and validation of objective data and include more empirical evidence.



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## **Appendix A Interview Outline**

The interviewee signs the informed consent document after being informed of the purpose and procedures of the study. Then the researcher starts recording the interview.

1. The interviewee's name, time of joining and leaving Company H and position held.

2. The interviewee reflects on his/her engagement in the entrepreneurial journey of the Zhang brothers, the division of business operation, the decision-making pattern of the brothers, and first-generation's and second-generation's involvement in business operation.

3. When did the interviewee learn about Company H's plan to sell its business? How did he/she view the sale of Company H? How was the business performance of Company H before the sale?

4. What factors and events affected the Zhang family's decision to sell their stake?

5. The interviewee evaluates and recalls the impact (event strength, event time, and event space) of the following events on the founding family's decision to sell the business.

(1) In June 2008, the NDRC of China announced its industrial policy for the dairy industry, which explicitly encouraged mergers and acquisitions. After the policy was released, the NDRC held a meeting with large dairy enterprises, including Company H, to promote the policy. The meeting clearly stated that it would "proactively encourage enterprises to form market-oriented enterprises of appropriate scale through mergers and acquisitions to cultivate a number of backbone enterprises with annual sales revenue of more than 2 billion yuan".

(2) In September 2008, the tainted milk powder scandal hit the dairy industry. The incident started when many babies who had consumed infant formula produced by the Sanlu Group were diagnosed with kidney stones, and melamine was later detected in their formula. A nationwide inspection of the dairy industry followed, involving almost all major dairy companies, and melamine was discovered in the milk powder produced by a number of factories, including 22 dairy companies.

(3) After the tainted milk powder scandal in 2008, most domestic milk powder enterprises were confronted with the impact of consumer protection lawsuits. For example, there were numerous class action lawsuits and individual cases against Sanlu, and other enterprises concerned were also affected. After 2008, Company H gradually shifted its milk sourcing overseas and ceased sourcing milk for the Heilongjiang and Shanxi milk supply factories that it had established. Mainly from New Zealand, imported milk was used instead for its entire infant formula production line. And it began building a factory in New Zealand.

(4) On September 20, 2009, the Carlyle Group invested RMB650 million in Company H through Carlyle Asia Partners (CAP), acquiring a 17.33% stake. Shanghai Fosun High-Tech (Group) Co., Ltd. offered a fund of RMB250 million to Company H through its Fosun Purun and obtained 6% of Company H's shares. At the same time, the Zhang family contributed RMB250 million to Company H.

(5) Since 2009, e-commerce has risen in China. It has even become a new development pole in commerce, reaching consumers of all products amazingly rapidly. This has posed a new challenge to the traditional sales model and those

enterprises that resort to it to reach consumers.

(6) The milk powder of a well-known brand based in Qingdao, Shandong Province, was alleged to have caused precocious puberty in August 2010. According to some media, three baby girls in Wuhan were suspected of having developed precocious puberty after consuming the brand's products. This led to an extensive inspection of the whole industry and brought further damage to domestically made milk powder reputation, which affected all domestic milk powder brands, including Company H.

(7) Since 2009, a deluge of “foreign milk powder” labeled as “original package” and “100% imported milk” had poured into the market, which caused severe disorder in the dairy industry and markets and eventually gave rise to the introduction of the infant formula registration system. According to China Central Television’s *Focus Interview*, of more than 100 “foreign brands” sold through formal sales channels in China, over 80% were private label products manufactured by local factories.

(8) On October 20, 2010, Company H announced its IPO launch plans on the Hong Kong Stock Exchange, offering 644 million new shares consisting of 90% of international placing shares and 10% of Hong Kong public offering shares. The offer price ranged from HK\$ 3.55 to HK\$ 4.8 per share, with final pricing of HK\$ 4.2. Twenty-five percent of the money raised would be used to expand the milk powder and nutritional food production lines, 25% would be used to acquire upstream milk sources and milk powder companies, and another 25% would be used to scale up and promote the original brand and other brands it owned, and 7.5% would be used for research enhancement. On November 1, Company H was officially listed on the Main Board of the Hong Kong Stock

Exchange, raising HK\$ 2.7 billion.

Note: The impact on other companies in the dairy industry during the same period and the subsequent development

6. After the abovementioned incidents, what measures were taken by the government, industry associations, and other organizations? Were there any supportive measures?

7. Apart from the events mentioned above, were there any other events that might affect the founding family's decision to sell the business? What about the perception of the regulatory environment, judgment of the industry's prospects for growth, or the company's business performance?

8. Why didn't the Zhang brothers of Company H consider passing the ownership to the next generation? Was there any succession training plan before the sale?