

Analysis of the Management System Innovation in Small and Medium Sized Family Enterprises of China

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Abstract

The family enterprise is one of the oldest forms of enterprise organization in the development of human history. In a way, the development of modern market economy equates the history of the evolution and collaborative of family enterprises. The growth of the family enterprises has now become a unique economic landscape in such a public ownership society in China. China is transitioning from a planned economy to a market economy, and the biggest change is actually the emergence of private enterprises groups. It's by arriving less much, by arrive infirmly strength has made them one of the most dynamic components in Chinese economy. They not only active in both the urban and rural markets, meet the needs of people's material and cultural life, ease the employment pressure, but also lay the important foundation of China's market-oriented reform and participation in international market competition. The general development of family enterprise and its great contribution to China's economy show that family enterprise as an ancient business system is still active and alive in the modern market economy. Nonetheless, it is not a perfect form of business organization compared with other organizational forms. Family enterprises, especially small and medium-sized family enterprises have also encountered some bottleneck and challenge in the development process, and the only way to get rid of the dilemma is the innovation of family enterprise management system. This paper at first expatiates on the concept of family enterprises, and then based on the study of its characteristics analyzes the present situation of Chinese family enterprise management system. Finally,

this paper will find out the existing problems and reasons in the innovation of management system for small and medium-sized family enterprises, in order to put forward effective countermeasures.

Key words: Family enterprise; Management system; Innovation

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INTRODUCTION

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Since the reform and opening up the family system enterprise is the organization form which the current our country privately operated enterprise generally uses. They have entered a new era with high scale, gradation and level. However, in the course of developing, many hindering factors have appeared in family business, and it encounters the bottleneck states of the evolution. Enterprise management system is an important part of enterprise system, which is to say, for the family business, the innovation of management system of enterprises is very important.
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1. OVERVIEW OF FAMILY ENTERPRISES

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Born in the eighteenth Century in Britain during the industrial revolution, the family business has been 200 years of history. In the early stage of the capitalism development, enterprises are private enterprises essentially. These companies are generally small and the products are single. In addition, the owners and managers of these companies tend to be the same person, this leads to a relatively simple business decision-making mechanism. By this mechanism, the owner of the

enterprise has final say, the single structure of this family business is also known as the “Employer’s Enterprises” or “Boss’ Enterprises”. The family enterprise is started from the Employer’s Enterprises, through the efforts and development constantly, and then become part of the market economy ultimately.

As the ceaseless development of reforming and opening, the family enterprises in our country show its vigor and vitality because of its special advantages from the beginning, and make great contribution to the development of our economy. However, with the economic globalization and the ever-deepening economic reform in our country, family enterprises, especially medium and small family enterprises, expose its disadvantage and insufficiency gradually, that restrict its further development. Many well-run family enterprises have been gradually disappearing in people’s vision, and others are being forced into layoffs, cutbacks and closures. The reason is that the management system and the management mode of family enterprises are not fit for the new situation. The management innovation capacity of most China’s small and medium sized family enterprise is limited, which makes the development of enterprises stalled. Therefore, enhancing the ability to adapt to the environment, strengthening the innovation of enterprise management system is the best way to avoid the decline and to chart out a sustainable future for family enterprises.

1.1 The Definition of Family Enterprises

Academic understanding about definition and characteristics of family enterprises is the donkey means one thing and the driver another. So far as it goes, there is no accurate definition in economic circles at home and abroad. The family businesses are jointly run by the founders and his family members, so some people think that the family enterprise refers to “Family members have some or all of the ownership of assets and may have all or part of the management rights of enterprises”. The family enterprise is also defined as “When a family or a few close alliance relationship with the family owns all or part of the ownership, and direct or indirect control right of the operation of enterprises, we say that the enterprises is the family business” by some other people.

Family enterprises are still in developing at present; note that when discussing the connotation of family enterprises in China, we need to be put in the specific institutional and cultural environment to be considered. One is that our country is in socialism primary level, compared with Western countries, the external environment our family enterprises facing is not the same, so at the stage of development. The factor markets, credit environment and policy support which is needed for the development of family business is still at a low level. Two are that the Chinese unique traditional “family” culture affects our family enterprises in the form of organization and management mode choice to a large

extent. Understanding the objective system and cultural environment of our family business, we could have a rational understanding of the production and operation of the advantages and disadvantages of family enterprises in China.

1.2 Characteristics of Family Firms

In China, under the influence of traditional Chinese culture, family firms show a unique philosophical and operational mode, which is featured by following aspects:

1.2.1 Highly Concentrated Ownership and Management Right

In large part, the rise of family firm is started with the unification of ownership and management. In business start-up period, unified ownership and management of the enterprise make its operation highly efficient, which is reflected in all aspects of business decisions and corporate strategy. When the ownership and management of enterprises concentrated in one person’s hands, in decision-making, resource allocation is often more decisive, while each of the other important posts of enterprises also controlled by the family members, thus the prosperity of the family, which is the overall interest relationship between the family members, makes companies to obtain efficient operation.

1.2.2 Consistency Between Family Interests and Business Objectives

In the present stage, China’s small and medium sized family business is widely managed in family mode, i.e., family members owned the majority of the shares and jobs of the firm. Because of the consistency of the overall interests of the family, it is easier to reach consensus among the family members, family members know and trust for each other in higher degree than other forms of business, which makes the family business has more strong cohesion when compared with other forms of business. Because of the overlap of the relationship between family members and business, business interests shared by family members, while risk shouldered by the family members. Of course, in the process of enterprise development, family interests and business interests will inevitably conflict, but in the long run, family interests and corporate goals and interests are the consistent.

1.2.3 Relative Low Management Cost

Family business is based on the family blood and kinship relations, the development and growth of the family business is closely related to the vital interests of family members. Besides, with family members’ trust and cohesion, management costs declined significantly. Especially in the early days, compared to other forms of business, family businesses are often able to gather talent at a relatively low cost, and can work in unity, tirelessly. Thus, family business can not only complete the basic accumulation in a short period of time, but also enable enterprises to gain competitive advantage. Even in the

development period of enterprises, family loyalty and trust among the members of the enterprise can save a lot of oversight and constraints cost.

1.3 Definition of Small and Medium Sized Family Businesses

Same to the definition of the family business, there is no precise definition of small and medium sized family business in academia. The definition of “SMEs” is relative, changing with the development of the productive forces. To define small and medium sized family businesses, we generally take the “quality” and “quantity” two aspects into consideration.

From the point of the quality of the enterprise, small and medium family business is small scale family business, compared with large-scale family businesses. In foreign countries, when it comes to the size of the business scale, dominant in a specific field or not or the market share is a key criterion. From the point of the “quantity” of the enterprise, the number of employees, corporate capital, the total corporate assets, production capacity and sales of businesses are taken into account as indicators of “SME”. Because of different economic development and economic system, specific criteria are not the same between countries, China’s small and medium enterprises can be defined by the “provisional Regulations on the issuance of standards for SMEs”, promulgated by the former State Economic and Trade Commission, the former State Development Planning Commission, Ministry of Finance, the National Bureau of Statistics on February 19, 2003, which defined standards SMEs in different fields.

2. EXISTING PROBLEMS IN THE INNOVATION PROCESS OF SMALL AND MEDIUM-SIZED FAMILY ENTERPRISE MANAGEMENT SYSTEM IN CHINA

When an enterprise grows to a certain stage, especially to a certain size, the disadvantages resulting from the unique advantages endowed by the heaven that accompanies with family enterprises become increasingly visible, especially in the aspect of management system, as mainly seen in the followings:

2.1 Lack Scientific and Normative Decision-Making Mechanism

In China, the majority of small and medium-sized family enterprises adopt the patriarchy management mechanism, thus most management posts and important post are assumed by family members. Of course, such nepotistic management mechanism took on its unique advantages at the start-up stage of newly-built enterprises, but it’s unscientific. Under such patriarchy management system, all personnel at different levels are subject to the deployment by the supreme leader, thus unavoidably

giving rise to position setting specially designed for someone. Usually, the position setting in the enterprise will take no consideration of whether this job will be conducive to enterprise development, whether the candidate will be qualified and such. To put it simply, they just aim to put their relatives into the positions. Obviously, such action will not only bring obstacles to the long-term development of enterprise, but also furtherance different kinds of near-relative groups inside the enterprise, thus impeding the enterprise to carry out management activities in an objective manner.

Disadvantages in family enterprise are closely linked to its characteristics and the majority of family enterprise in China all are confronted with the same problem—imperfect decision-making mechanism. For example, after World War II, batches of family enterprises sprang up in Hong Kong and the rich, also the then entrepreneurs, have grown into their twilight years, followed by the emerging problems, like the inheritance of wealth and the subsequent running of the enterprise. Family enterprises by Li Jiacheng and the Guos in Hong Kong have more or less been influenced by the patriarchy management mode and thus haven’t jumped out of such traditional patriarchy-based management mode—sons taking over the enterprise from fathers.

2.2 Lack Sound Employment Mechanism

Modern enterprise management requires talents selection and introduction system where people are appointed by abilities. Talents selection system that welcomes fair competition can let the capable management talents give full play to him/her own advantages and make contributions to the development of enterprise. However, family enterprises is established on the basis of consanguinity ties, while the employment mechanism in enterprise usually depends on how close the relationship is; to some extent, to employ someone with consanguinity has almost become the management principle for all family enterprises. Due to the influence under similar growth environment and cultural edification, family members tend to be confined to the similar or even the same management mode ideologically, which poses a restriction of a large extent of the enterprise innovation development. In addition, relatively important management positions are mainly assumed by family members, thus the enterprise system cannot bind them in an effective manner, which poses strong impact on the cohesive force of enterprise. Moreover, in family enterprise management, it’s very hard for family members to identify with non-family members, not to mention putting them in important positions. Thereby, such exclusive psychology makes it hard for enterprises to introduce excellent management talents.

ANTA sports in Jinjiang, Fujian province is a typical family enterprise. When it comes to the development of family enterprise, Ding Shihao, CEO and chairman

of board of ANTA, pointed out the importance of family enterprise to privately-run enterprises plainly and directly, saying “to this day, I have been sharing with the employees that ANTA’s refulgence today is a result of the big contributions made by my two elder brothers.” The two brothers herein refer to his cousin and older brother. Although family members played a significant role in the start-up stage, overemphasis on the role of family members seems to warn non-family members not to approach, which becomes the wide relationship gap between the enterprise and professional manager.

2.3 Lack Perfect Enterprise Governance Mechanism

The unity of enterprise ownership and management authority renders efficient operation at the start-up stage, while, with its continuous development, the unity hereof will just impede its progress. Therefore, it’s an irresistible trend to separate them. However, different interest groups inside the enterprise and complicated relationships among family members always put the leaders in a dilemma while they’re coping with the interest relationship. Modern enterprise governance structure is about the specific structuring of enterprise systems and determines the goal and scheme of enterprise. Unfortunately, characteristics in itself hinder it from forming a good interest balance relationship among shareholders in the enterprises.

2.4 Lack Efficient Innovation Mechanism

Innovation is the soul of enterprise progress, and the innovation mechanism in enterprise is favorable for the enterprise to walk in the forefront of market all along and occupy an advantaged competitive position. In the practical development of enterprise, the imperfect innovation mechanism has always been the bottleneck that hinders its development; most small and medium-sized family enterprises grab market share simply by one or two products and accordingly few breakthroughs have been made on manufacturing technique or product performance in a long time, which will inevitably bring obstacles for their healthy development.

3. REASON ANALYSES OF EXISTING PROBLEMS IN THE INNOVATION PROCESS OF SMALL AND MEDIUM-SIZED FAMILY ENTERPRISE MANAGEMENT SYSTEM IN CHINA

3.1 Influence of Chinese Traditional Culture

The differences between family enterprise and common enterprise lie in that the former is the unity of family and enterprise, thus family enterprise has not only the enterprise rules owned by general economic organizations, but also family rules blended from cultural and ethnic

organizations and, in the meantime, family has played a very important role in enterprises.

Due to the influence of Chinese traditional family system and culture, social trust is quite shakable. In Chinese society, the affinity among persons is like a self-centered concentric circle and familism and pan-familism are, in most cases, deemed as measurement criterions for social trust among persons, thus resulting in high trust inside the family and low trust towards non-relatives. The strong cohesion inside the family, along with the family culture, enables the members to go all out to work regardless of hardships at the start-up stage. Nonetheless, the traditional management system of family enterprise can adapt to the expanded enterprise.

3.2 Life Cycle of Family Enterprise Development

Enterprise life cycle theory regards the enterprise as an organic integrity with its own life cycle, and it holds that the natural law goes all long from its establishment, growth to decline. Likewise, family enterprise also has to experience the four stages, including start-up, growth stage, maturity, and then decline. Meanwhile, at different development stages, the principal contradiction facing enterprises also differs, thus the governance focus lies differently as well. The management system adopted by family enterprise of current stage revealed its unique advantages in the start-up stage and drove their establishment and development. Every coin has two sides. Likewise, it has also impeded enterprises’ further development. Thereby, we need to make persistent reform and innovation to the enterprise management system, so as to adapt to the development need by family enterprises at different stages.

3.3 Restrictions of Existing Law and Policy

China is currently in the economic transformation period, thus its political system and legal system still remain to be perfected while restrictions arising from such political and legal environment will persist for long and impact the governance of family enterprises. For example, protection over the private property right for family enterprises in China is insufficient, which brings heavy loss or even a failure now and then to family enterprises in its merging and reorganization process. Furthermore, the immaturity of managerial market and capital market at present has, to some extent, increased the cost on management system change in family enterprises.

4. COUNTERMEASURE OF THE INNOVATION OF MANAGEMENT SYSTEM OF SMALL AND MEDIUM FAMILY BUSINESSES

The Chinese family business, through its specific advantages, got brilliant achievement and made a great

contribution to the development of China's economy. But with the reform of the market economy and the deepening of globalization of the market economy, many weaknesses and problems exposed. To ensure that our family business will maintain its vigor and vitality and gain greater survival and development space in the new competitive economic environment, we must face up to its constantly exposed weaknesses, reform and improve its management system.

4.1 Establishing Property Relations

First, the property relations between members of this family business should be clearly defined. As to family business that started with investment of two or more families, the initial property rights of a firm should be clearly defined, according to the contribution of entrepreneurial beginning investors; incremental property should also be divided according to different positions, abilities and contributions. Second, achieve real diversification and socialization of ownership structure. In the beginning-period, the scope and scale of financing of family business are both limited, but with the development of enterprises, it becomes difficult to sustain further development of enterprises only relying on the strength of the family. Therefore, it is necessary to optimize the structure of property rights, absorb idle funds for the development of joint-stock society, and realize the diversification and socialization of shareholders as much as possible.

4.2 The Implementation of Scientific Management and Scientific Decision-Making

In the early stages of family business, consistency between personal interests and family members' interests can often improve the efficiency of business management and decision-making, but with the development and growth of enterprises, enterprises are faced with dramatic changes in environmental technology, information, and market and other aspects which may be beyond the knowledge and ability of individuals and family members, in which case, the implementation of scientific management and scientific decision-making becomes particularly important. Family businesses must reform "rule of man" and establish a scientific and democratic decision-making procedures and reasonable sound decision-making mechanism.

Scientific management requires companies not only to pay attention to scientific method and art of the management, but also the respect, care, development and value realization for enterprise members; scientific decision-making requires managers equipped with scientific thinking, using scientific methods and technology to conduct business decisions. To implement scientific management and scientific decision-making, Family businesses must escape from the "family" circle, truly consider the sake of business interests, and take

demands of business members into consideration more in the process of management and communication, distribution and allocation of human resources.

4.3 The Establishment of a Standardized Management System

Practice has proved that only comprehensive, complete, viable management system can improve enterprise management level. In view of the widespread workshop management of the current family business, which with unscientific internal division, unclear responsibilities, human rule of "the boss have the final say", to gain sustainable development, family business must establish a standardized formal management system.

The so-called formal management system is an enterprise system that clearly constraints all members of the business with no distinction between family and non-family members. In addition, the establishment of an enterprise management system should gain consistency with the whole enterprise and the development target, promoting sustainable development while enterprise management is evidence-based.

Standardized management system, is to avoid the current most prominent situation of the family businesses. That is, the thorough execution of enterprise management system. Family members mustn't execute management system arbitrarily or even be inconstant in policy. Only if family business management system is regulated, the management system can truly guide enterprise running.

4.4 Reform Mechanism of Talent Introduction and Competition

In China, traditional close relative group-based management mechanisms increasingly hampered the introduction of talent; internal phenomenon of position allocation for a specific person also restricts competition among the internal talent.

Therefore, family businesses must reform introduce mechanism of talent introduction and competition. First, establish a scientific mechanism to introduce talent. Talent should share equal competitive opportunity whether he/she is a family member or not. Companies should select talent who understands and good at management; second, establish a mechanism of internal competition for talent, companies should treat internal staff equally and form a pattern of competition for talent within the company as far as possible. Only through this a corporate culture of healthy competition can be formed, promoting the growth of the family business.

4.5 Reduce the Conflict Caused by Cultural

An important characteristic of family enterprises is that its management system is deeply influenced by traditional culture. Family enterprises should strengthen the harmony of different cultures from a strategic height, reduce conflict caused by cultural, make the flexible culture and rigid management promote each other and optimize the

development. Management effect is the embodiment of harmonious culture, which is particularly remarkable in a family enterprise influenced by family culture and other culture. Therefore, when the management effect of family enterprises is poorer and there are some problems about the arrangement of the enterprise in the management system, it is required to improve the enterprise management effect through a cultural change, drive the remarkable family enterprise culture by the excellent cultural tradition and promote the innovation of family enterprise management system.

CONCLUSION

Since reform and opening up, family business, the main body in the private economy, continues to grow stronger and become the important force to influence and promote the development of our economy and society. Family firms have high adaptability and viability, its development shows its tenacious vitality, but most family businesses start to face development bottleneck and family business management system development and innovation is needed urgently, with the development of social economy. Based on the analysis of our country family enterprise with ownership rights and management rights concentrated highly, the consistent goal and interests needed by family and enterprise, the relatively low management costs, on the basis of the above three characteristics, the article summarizes the present situation of the development and the present situation of the management system innovation of small and medium-sized family enterprises in China and points out the present problems existing in the management system of family firms in China. Main problems are the following several aspects: the first is the lack of scientific decision-making mechanism, the second is the lack of a sound mechanism of choosing and employing persons, the third is the lack of perfect corporate governance mechanism, the fourth is the lack of effective innovation mechanism. The cause of our country small and medium-sized family businesses governance issues, this paper will summarize as: first, influenced by Chinese traditional culture, second, the family enterprises

due to its own development life cycle, third, the restrictive function of China's current policy and law.

Based on the above analysis of the small and medium-sized family enterprises in our country, finally, the paper puts forward the countermeasures and suggestions of the problems of our country small and medium-sized family enterprise management system innovation: First, establish the property right relations; second, implement scientific management and scientific decision-making; third, establish a standardized management system; fourth, reform the talents introduction and competition mechanism; fifth, reduce conflicts caused by cultural.

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