A Study related to the management problems of family-owned enterprises in China

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Abstract: With the rapid development of social economy, family-owned enterprises play a key role, but its management methods still have many flaws. For example, the continuation of the first generation and the second generation cannot be well connected, and the management mechanism is rigid and restricts talents. With development, each department of the enterprise still lacks a communication mechanism for its own affairs, lacks a good corporate culture, and a series of problems such as an imperfect financial system. This article summarizes the concept and status quo of family business in China based on the research and investigation of the management mode of Chinese family business, and gives solutions to management loopholes, so as to help family business to develop faster and in a highly competitive market. Get a firm foothold in the middle. Improving the defects of family business so that the economy of family business can be better continued, thus driving the rapid development of China's economy.

1. Introduction

The so-called corporate management refers to a management method implemented by the state on some public institutions based on the principle of independent economic accounting. The implementation of this management method reflects the requirement of using economic methods to manage the business, and is conducive to the strengthening of business accounting, tapping potential, increasing revenue and reducing expenditure, and providing a certain amount of income for the country. Family management is a management mode that combines ownership and management rights. Its main feature is that most of the positions in the corporate governance structure of the board of directors, the board of supervisors, the managers and the important subordinate departments of the company are composed of people with a certain blood relationship. People serve. Family management has become the only option for the initial capital accumulation of private enterprises, and it has also played an important role in smoothly passing through the difficult entrepreneurial period of private enterprises. Today, family businesses are still the mainstream form of business. About 85% of private companies in China are family businesses, and they account for 36% of listed companies. After the founding of New China, after further studies in socialism, public-private partnerships made capitalist commerce slowly disappear, and family businesses sprouted. Most family businesses are a process from scratch, and are mostly led by men with excellent management experience. The goal of family businesses is also very obvious—the pursuit of maximizing family interests. The development of family business in contemporary China mainly includes the following stages: The first stage: 1978-1992. In 1978, 140,000 urban self-employed businessmen nationwide sold their family businesses as the first
step in the development of Chinese family businesses. A group of urban self-employed households and rural professional households who could not enter the enterprises and institutions within the system began to find their own way out and knocked on the door to wealth in their survival. The second stage: 1992-1997. In 1992, Deng Xiaoping's Southern Talk was published; in the same year, the 14th National Congress of the Communist Party of China was held, and the family business entered a period of rapid development. As far as family businesses at this stage are concerned, they basically adopt a single ownership structure, that is, the property rights of the business belong to a certain individual or a certain family. And its financial management mode is only divided into two types, the centralized financial management mode and the decentralized financial management mode are respectively adapted to small enterprises and medium-sized enterprises. At present, the development of family businesses can be summarized as follows: 1. The distribution of family businesses has strong regional characteristics: most family businesses are concentrated in the eastern coastal areas, accounting for about 56% of family businesses. 2. The family business is still in the preliminary stage of development: China's family business has only been in operation for about ten years, and more than half of the family business was established after 2001. Therefore, the family business has obvious characteristics of the embryonic stage of the business. 3. The scale of family businesses is still dominated by small and medium-sized enterprises: According to surveys and studies, 69.92% of family businesses in China employ less than 100 employees and most of the businesses' sales revenue is less than 50 million yuan. However, there are many family-owned enterprises in our country that have achieved greater success. For example: 1. Rong Zhijian’s CITIC Rong family, the flour king, the cotton yarn king, the red capitalist, and the richest man in China. For a hundred years, the Rong family has never lacked such a trump card title. They galloped horizontally in the market, leading the way, and gradually won them a higher right to speak in politics. This is particularly reflected in the second-generation head Rong Yiren. 2. The Chinese richest man Li Ka-shing's Cheung Kong Holdings, Hutchison Whampoa, Cheung Kong Infrastructure, etc., have a total market value of 500 billion Hong Kong dollars, which is a model of family business. 3. Evergrande Group, founded by Xu Jiayin, is a Fortune 500 enterprise group integrating real estate, finance, health, tourism and sports, with total assets of trillions, annual sales of more than 400 billion, and more than 80,000 employees. It solves employment More than 1.3 million people, with more than 500 real estate projects in more than 180 cities across the country, has become the world's first real estate company.

2. The definition and analysis of family enterprise management in China

2.1 The definition of Family enterprise management

Family enterprise management is mainly composed of family members. It is a management model in which management and ownership are controlled without interference from others. Also, the offspring's equity is determined by consanguinity. American scholar Kelin Gekelsey believes, "it is not to see whether the enterprise is named after the family, or whether several relatives are in the top leadership of the enterprise, but to see whether there is a family owns all, generally who owns the stock and how much."[4]

2.2 The background of Chinese Family Business Managers

Most of the managers of family businesses have worked in the party and government organs, and even more than 50% of them have worked at section-level or above. For example, Country Garden founder Yang Guoqiang is a former member of the 12th and 13th Chinese People's Political Consultative Conference. And Xu Jiayin, boss of Evergrande Group, is a member of the Standing Committee of the 12th CPPCC National Committee. Hence, these people have a lot of management experience and a lot of connections.

2.3 The core of family business

The core of management in a family business is usually the elders, And the hierarchy depends on kinship. Just like the ancient Chinese court. So family businesses have a better sense of decision-
making and dedication than other types of businesses because it is not only they have a great manager, but it also attributes to bound by blood ties, they trust each other more and have a common goal, so that when they make decisions, they will not disagree with the strategy due to different benefit.[6]

2.4 The history of the family business

Chinese family business is the oldest organization in China and even in the world. The royal family is also an example of the family business. Tang Dynasty Li family, Qing Dynasty Aisin Gioro family and so on. Also, Family enterprises are also the mainstay of the Chinese economy and the main form of private enterprises, such as Midea Company, BYD Company. In the past, the total output value of family businesses accounts for more than 50% of the total output value of the Loess Plateau, the poorest part of China's agricultural society for Shanxi merchants. Until now, since China's reform and opening up, family enterprises play a more and more important role. In 1988, more than 10 million private enterprises owned more than 200,000 family enterprises, employing 24.8 million workers[7].

3. Analysis of problems in Chinese family enterprise management

3.1 The continuity of the first and second generations is not well connected

In the development history of Chinese family-based management, the continuation of the business has been flawed due to the second generation of founders and their unwillingness to take over and lack of relevant experience. <The 2020 China Family Business White Paper[8] surveyed nearly 30 family business members and found that up to 30% of family members do not want to participate in the family business and want to start their own business. With the rapid development and progress of the times, the new generation has a more open and independent mind, they do not agree with the development direction or business methods of the previous generation, however, they prefer to innovate and develop their own business rather than take over their parents’ arrangement or participate in the family business. For example, Sicong Wang, the son of Jianlin Wang who was the chairman of the Wanda Group, is known as the “national husband”, and is one of the most famous second-generation rich people in China. After returning from studying abroad and receiving some financial assistance from his family, he started his own business in the entertainment and investment industries. Moreover, because of the implementation of China's family planning policy, during the first-entrepreneur generation, late marriage was practiced and fewer children were born, which led to the majority of this entrepreneur generation having only one child. With the reform and opening up in 1978, there was a boom in studying abroad in China. Therefore, they are also more willing to send their children abroad for further education and invest a lot of money to pamper and care for their children. However, the previous generation's obsessive pursuit of top-notch education for their children and the satisfaction of their children's material needs has neglected the spiritual development of their children and their future plans in their family business. The excellent conditions allow the second generation to pursue materialistic pursuits excessively so that they do not cherish the wealth left by the previous generation. When the first generation is old and close to retirement age, the family management enterprise will consider the succession problem, and find that the ability of the second generation is lacking, then the continuation of the family enterprise has become a problem.

3.2 The management mechanism is rigid, talent development constraints

In Chinese family business management enterprises, market enterprise mechanism construction, hiring system, and enterprise incentive mechanism are not perfect. “The limitations of family management on the development of private enterprises are reflected in the hiring mechanism that tends to be cronyism, not wise hiring.”[9] First of all, most family-managed enterprises adopt a blood relationship and family-centered hiring system. When recruiting, the background of the candidate is more important than the ability, at the same time, the family members occupy the majority of the employees. “The essence of the market economy is the competition for talent.”[10] This one-sided human resource management of enterprises has led to an unfair selection system for enterprises. In the long run, this unfairness will lead to less bordering of the enterprise with the society and less influx of
talents. Because of the similarity of thinking ways within the family, this prevents the company from being inspired to innovate, which leads to a departure from the social progress and depletion of talent, which can cause great challenges and constraints to the long-term development of the company. For example, the family company "Shenyang Feilong", looking back at the development of it, except for the strict recruitment of marketing talents from the society in 1992, there was no planning of the talent structure [11]. A large number of people were recruited taking into account the family and associates, which led to the slow decline of the company from one of the top pharmaceutical and healthcare companies in China.

Moreover, in Chinese family-managed companies, core and important positions are usually held by family members, which limits the incentive system of the company, because it is difficult for ordinary employees to get promotions in positions or status due to their excellent ability or outstanding contribution. It is difficult to achieve promotions for ordinary employees due to the specificity of corporate planning and distribution of rights in family-managed companies, and it is difficult for them to serve in core positions or to grow as shareholders. Those positions are often held and inherited by the heirs of the family, or by blood-related people whom the family considers trustworthy. Therefore, the motivation system of these companies for ordinary employees can only be expressed through money, like raising salary, to express satisfaction and encouragement to employees. However, the promotion of position means the improvement of power and status. Although the promotion is not as obvious as the temporary effect of salary increase, the promotion as a kind of incentive system can greatly improve the satisfaction of the old employees who are more important to the company. This difficulty in promoting employees and the unfairness of this environment also leads to a lazy mentality of employees, the lack of motivation, and inefficiency of ordinary employees, which reduces the performance and innovation of the company.

3.3 The various departments of the enterprise have their own policy, there is a lack of effective communication mechanism

In Chinese family-managed companies, the complexity of internal interpersonal relationships and the lack of communication mechanisms hinder the progress of the company. Different departments of the company are under the responsibility of different family members of the same generation, who share the common goal of inheritance, or higher power. In the management life of a family-managed company, the leaders of each department tend to be more concerned with their own power status than with cooperation and win-win cooperation, and, as each department competes for performance, each department tends not to accept interference from other departments in order to defend and centralize the rights of its own department. This has led to a lack of cooperation and a lack of timely communication between the departments of the company due to infighting, which has led to a lack of cooperation and twists and turns between the departments. And, in family businesses, relationship maintenance is seen as important. The intimacy of relationships plays a decisive role in the inheritance or distribution of rights in Chinese family businesses, so the managers of each department are busy tending to all kinds of complex interpersonal relationships, and also because of such interpersonal relationships, emotional relationships, and some kind of profit relationships they have built up, which can easily create a dilemma. This leads to poor work development, which in the long run leads to stagnation in the company's business.

3.4 Lack of scientific restraint mechanism and good corporate culture

Chinese family-managed companies often lack clear and well-defined disciplinary mechanisms. Rules and regulations often do not work for relatives or family members of leaders in high positions of power. When they violate company rules and regulations, companies are unable to deal with them equally due to emotional interference and the intricacies of interpersonal relationships, as well as the unclear distribution of control and management rights in family businesses, which leaves hidden dangers and problems for internal management. For example, in 2020, the Maotai incident has received much attention, according to the Qiaobao News Network, “Maotai more than ten executives have fallen one after another, family-style corruption highlights the management of chaos.”[12] Yuan
Renguo was reported to “engage in family-style corruption, a number of his relatives promoted to the century Ho in Yuan Renguo's help in the violation of the Maotai wine business.” The Moutai Group's dealers and producers are seeking personal gain because the enterprise does not have clear control and a good and fair common mechanism, leading to the sublimation of this incident. Further, the enterprise does not have a good restraint mechanism, leading it to treat people of different statuses differently, thus establishing a bad and negative corporate culture. In the long run, the stability and future of the company will be affected. In an interview with Zheng Fengtian in the 42nd issue (2011.12.8) of Phoenix's “Free Talk: The More We Talk, the Freer We Talk”, he mentions that “everyone recognizes money, and when we get really rich, there is no way to control it, and we don't believe in anything when we have money.”[13] Although Wu Renbao, the leader of Huaxi Village, insisted on wanting to spread his ideas throughout the village but referring to the development of the enterprise, everyone became rich, which also led to the fact that everyone did not work together to adhere to the corporate culture, thus causing the enterprise to slowly go into decline later.

3.5 An inadequate financial system makes it difficult for enterprises to raise funds

The difficulty of financing Chinese family-owned enterprises is reflected in indirect financings, such as bank loans, and direct financing, such as going public. The limitations and deviations of the internal audit of Chinese family-managed enterprises lead to the imperfection of the work and the difficulty of the work. As in many family-managed enterprises, all the rights are in the hands of the leaders, and the internal audit hinders the smooth operation of the work, many leaders will think that the audit work hinders their own rights. Over time, the status of the audit work in the company is pulled lower and lower, because of the family management's "centralized" characteristics, the strength and power of the audit department are weakened, this greatly affects the company's financial system completion. Then, in the finance of corporate, the results of the audit determine the judgment of investment banks or financial institutions, and the lack of internal audit capability does not allow the outside world to understand the real situation of the company, thus affecting the evaluation of the company by investment banks and other institutions, which leads to difficulties in corporate finance. Moreover, authenticity and legality are paramount in the financial management of family businesses. This leads to limiting the scope of auditing to the financial sector and ignoring factors such as price reasonableness [14]. In addition to this, the system where the financial unit is not sound in a family-managed business, because ultimately all the finances belong to one family, so the perfection of financial management is not taken seriously. Such loopholes in the system can easily lead to "loopholes" and pose a great threat to the longevity and security of the company. In the process of going public, the stability of the company is important. However, in Chinese family-managed companies, there is a great deal of uncertainty about stability caused by those problems.

4. Solutions to management problems of chinese family enterprises

4.1 Cultivating financial management concepts from an early age

1) Strengthening family education:
At present, many families in China believe that there is no need to provide financial guidance during the child’s childhood, and do not limit the children’s expenditures. This will cause children to grow up without knowing the difficulties of making money, but only knowing to blindly ask for it from the parents.[15] Over time, the children will develop the habit of relying on their parents. The correct approach should be to obtain pocket money by doing housework, so that children recognize that it is hard to earn money since their childhood, and help set up saving accounts for children in order to cultivate their saving awareness and financial management skills, and encourage children to try different types of financial products and experience the joy of earning money.[16]

2) Leading children to invest:
When the child is clear about the meaning of investment and is willing to participate in it, parents can provide help for the child to get started. Children who are just beginning to deal with financial management may be very inexperienced and even unclear about the definition of various indicators
for financial derivatives. Therefore, parents should patiently explain the definition of various investment indicators to their children. In the early stage, specifically, they can instruct their children to invest in relatively reliable projects, so that children can enjoy the fun of making money in investment. When the children are familiar with the operating mechanism, parents can ask their children to use their pocket money to set up an investing account and encourage children to weigh the pros and cons independently and gain happiness and lessons from it.[17]

4.2 According to the current development trend, the second generation of entrepreneurs change the corporate mechanism to avoid the management of all family members to provide employment for social workers

The family business is in the early stage of establishing family relatives as positions. Most companies believe that as long as the business operator can trust their inner family members. Such a method is the employing mechanism of family enterprise management. Although it can reduce the cost and increase the efficiency of the whole company, it greatly restricts the development of the enterprise. Because the selection mechanism is only limited to the small circle of family and close relatives, which often leads to the shortage of workforce and cannot form a suitable enterprise management mechanism.[18] Therefore, with the development of family-owned enterprises, such problems will be gradually amplified. Therefore, enterprise operators must break the shackles of traditional concepts to break through the siege of family management. The second generation will hire professional managers from the market and set up an agency system. There are two things we need to do. First of all, the second generation should open the door and accept talents. The operators selected from the market should not be limited by identity, occupation, region, and other conditions. Only in this way can the company's operating efficiency be improved so that elite talents with strength in society can flood into the company. Secondly, business operators can marketize the enterprise and separate the ownership and management rights. For example, some International Family businesses in Europe can maintain their industry by socializing property rights.[19] The internal members of the family only join the board of directors to give up control over the company gradually, and the family can only control the shares necessary for holding the company. After separating equity and management rights, management rights are separate from the professional management talents, namely experienced managers hired to manage the enterprise. A board of directors composed of family members can make important decisions, and family members cannot overstep the board of directors and interfere with the management of the general manager.[20] Another important paving task for family enterprises in introducing professional management is to construct a modern enterprise property right system. To a large extent, the enterprise's vitality comes from excellent property rights relations. The property right structure of the family enterprise managed by the family is single, which cannot adapt to the requirements of the rapid expansion of production and operation. Therefore, the family enterprise should gradually establish the modern property rights system, including clear property rights, tradable property rights, diversified property rights structure, and rationalization. Enterprises can gather individual capital through capital combination, holding, equity participation, and other forms to establish a clear and reasonable modern enterprise property rights system, paving the way for family enterprises to move forward to large companies.

4.3 Each department of the enterprise is independent and lacks effective communication mechanisms: internal fighting, competition for assets, too much emphasis on relationship maintenance.

At present, for family enterprises, the so-called "power succession" is the top priority. Achieving a smooth transition of power and guiding the healthy development of family enterprises after succession is also a problem.[21] Many family business founders have the wrong view that the business can only grow under his leadership and that no one can take their place. Finally, it is only because of age and health that people have no choice but to consider the issue of power succession. The hidden trouble of property rights distribution in the family business also drives family children to fight for inheritance.[22] In the current situation that the market of professional managers in China is not
standardized, the first choice of private enterprises in China is family succession. Only a few enlightened business owners will hire experienced managers from outside to take over the business they have worked hard to create.

The family business should establish and perfect the power coordination mechanism. As mentioned above, the board of directors formed by family members is a more convincing way to hold family meetings to discuss succession issues. Some executives or employees who are not in the family's interests should also be invited to attend family meetings. The power transfer of family business is not just a "family matter," but an important decision concerning the future of the enterprise.[23] The meeting should be presided over by the entrepreneur of the family business. First, a preliminary plan is discussed and determined, that is, the selection of the successor preferred above. Then, the goal is supplemented and improved with other members in the meeting of family representatives until it is finally determined and declared effective so that the business operator can inherit the family assets to the next successor in a logical way. When family meetings discuss the inheritance of family businesses, the plan should reflect fairness and stakeholders’ interests. Because the power transfer of family enterprises will not only cause shock within the family but also affect the employees, other stakeholders of the enterprise, and society. At the same time, the behavior of family members and the tendency of employees and their associates will have both positive and negative impacts on the power transfer of enterprises, so the decision-making of power succession must be fully considered and properly handled.

4.4 Fairness, rewards, punishments, and correcting bad habits

In an enterprise, a fair and equitable management system is very important. It can not only eliminate potential crises but also make workers be more willing to contribute to the enterprise and improve their efficiency.[24] In daily management, managers must clarify the scope of power and work standards of the management, and be fair, just, and open when making judgments, and strive to persuade others with morals. Public praise and rewards for those who perform well, severely deal with those who violate the rules, strictly follow the corporate judgment standards, and do not favor anyone. Even for family members, we must adhere to resolute and fair standards, strictly audit, and resolutely maintain a fair and just atmosphere.

4.5 Establishing advanced financial management concepts and expanding financing channels

Financial management is a part of corporate management and plays an extremely important role in corporate operations. At the same time, a good financial management mechanism can greatly improve corporate production efficiency and maintain the stability of corporate capital chains.[25] In the process of business development, sufficient funds are needed to maintain operations. If the family business falls into a financial crisis, it will be difficult to maintain operations. As family businesses have been passed down from generation to generation, the financial management system has become rigid, leading to a series of problems such as financing difficulties and rigid financial systems. Family businesses should know how to make good use of people, recruit talented people, attract talented employees, promote the advancement of financial concepts, and enrich the power of the enterprise. In addition, in response to financing issues, financing channels should also be broadened, and financing should not be limited to family members. Attract investment groups in society, absorb diversified investments, and update financial management concepts

5. Conclusion

Nowadays, Family enterprises in China are developing at a high speed. The scale of enterprises and the number of employees is huge. Some famous family enterprises even maintain a number of records. In these findings, we have made an in-depth study of the background and importance of family enterprises in China, as well as the drawbacks emerging from the development of family enterprises and the management of enterprises. There are many problems in the family business, like the succession of the first generation and the second generation, the rigidity of enterprise management
mechanism, the lack of close contact between various departments, the lack of enterprise problems, and the financing difficulties caused by the unscientific financial system. From these problems, we get some solutions. For example, cultivate the concept of financial management, conform to the development trend, look at problems objectively, reward and punishment clearly and comb the concept of financial management, and expand financing channels. We maintain that it is very useful to be referred for the leaders and executives of the family business.

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